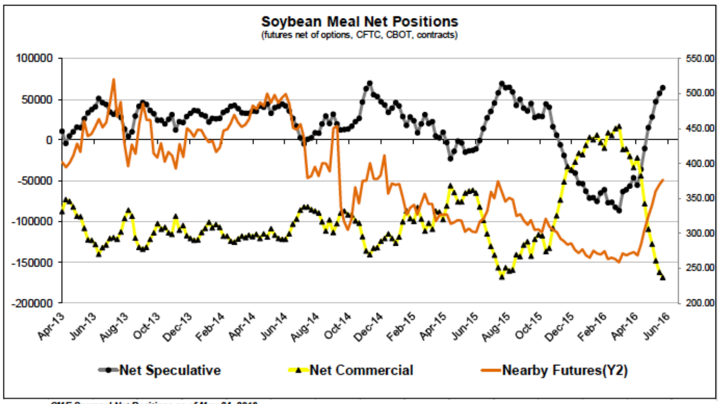
We started writing a short list of superlatives to describe the action in Chicago soybeans this week but decided to scrap it in favour of a simple, single, word – ASTONISHING! Fundamentally the market in soybeans should not be displaying such strength amid current global stock levels, the now known S American harvest outlook, US plantings, early crop prospects and weather outlook. However, as ever the market is correct and no matter how much we believe otherwise we must not lose sight of this fact.

Thursday saw front month Chicago soybeans move over 4% higher and reach levels not seen in the last two years. Meal also moved higher, by some 5% triggering end user covering amid fears of even higher levels. Clearly there are issues afoot but it is is the overall strength that surprises.

Triggers include the Argentine crop downgrade as a consequence of wet weather leading to both crop losses and crop quality downgrades. We talked of the latter last week, and overall output in Argentina is being put as low as 52 million mt, down from a previously estimated 60 million. Given the situation in rain struck Argentina, it will largely be up to the US to fill the gaps left behind and this is the key to what has kick-started prices higher. In such a market there is little doubt that even a minor weather issue in the US will see prices gather yet more volatility and spike upwards. That said, short to mid-term US weather looks to be non-threatening, and should realistically be described more accurately as favourable. However, the funds, who are estimated to be holding a record net long position in soybeans, will be reluctant to give up their position until such time as they are more certain that weather threats to the US crop are all but non-existent. Recall that it was only on 1st March this year that the funds were holding a record net short position in soybeans, the swing to record long (if confirmed in next week's CFTC report) has taken only 14 short weeks – how time flies!



CME Soymeal Net Positions as of May 24, 2016

To offset what appear to be Argentine woes, their soybean crop remains a non-disaster by historic standards. Brazilian output looks set to be at, or close to, record levels depending upon the source of data; regardless, it is still big. Clearly the issue lies with both perceptions of size as well as the physical quality issues in Argentine and consequent impact upon meal protein content (see last week's commentary).

Doubtless current prices will see a potential for acreage expansion if conditions allow, not only in the US but also in S America when the time comes. It is now all down to US weather in coming weeks and how it allows the crop to develop and grow. Increased price volatility seems almost inevitable given previous comments and the summer months will be very interesting to watch and see how markets play out.

Away from soybeans and products the grain markets in corn and wheat, seem almost tame by comparison. New crop corn remains at the upper end of its recent, upward sloping, price trend and current weather forecasts that show no threatening heat or drought left little impetus in the market to mimic soybean prices. There remains an issue in (yet again) Argentina as the weather continues to conspire against a rapid completion of harvest, now estimated by BAGE at 30% complete, which is behind both expectation and historic averages. The issue for corn now appears to be mid-June and beyond weather, heat and precipitation levels will be the ultimate determinant of the US crop. Of note is that China is planning to once again hold an auction of state corn reserves today (Friday) although the volume available is 3.4 million mt, significantly more than originally anticipated.

Wheat is being impacted by its agri-cousins and it would be naïve to expect otherwise, but Chicago new crop prices are hovering in the middle of the 2016 price trading range. European and Black Sea feed wheat is starting to replace corn in animal diets around the world. Undoubtedly funds are easing their net short positions somewhat, lifting futures but global fob prices remain sluggish at best. The latest input to global wheat is focusing upon parts of Europe where recent significant rains have led to significant flooding although it is far too early to begin to suggest any serious crop damage and/or losses. The Russian and Black Sea crop outlook remains good and harvest is only just around the corner. In our view wheat, in isolation, remains a market in which the bears have the upper hand. However, the impact of corn upon wheat cannot be ignored due to the competing nature of both grains in feed markets but we view the combined global supply position to be (at the very least) adequate amid sluggish demand right now.

This week has largely been all about soybeans and meal markets, and this will doubtless flow into the coming weeks. Money flows and the funds' appetite for even larger positions (or otherwise) will need to be watched very closely. In addition, US weather conditions and whether or not rainfall is forecast into the latter part of June and July, will also play a big part in future price direction, as it will likely influence fund activity one way or another. We are doubtless in the most exciting and volatile period that the agri markets have seen for some considerable period of time.