There is rarely a dull moment in markets right now! Volatility remains high as the weather forecasts change on a regular basis. Forecasts have ranged from extremes of heat, which pushed prices higher, to less heat causing prices to fall. Clearly trading US weather right now is a game for the brave or the foolish! Corn and soybeans are the key crops in discussion with wheat very much a follower. Pollination of the US corn crop is under way and soybeans are still in the process of developing and approaching their key water demand period. The market is focusing very much on soybeans because the US balance sheet is tighter that that of corn and much more susceptible to any yield reduction or losses that may follow a hot or dry period in August.

Global soybean demand is centered upon the US right now as S American supplies are all but committed, any US crop losses would lead buyers (China) to chase supplies and prices higher, which is currently the market's fear it seems. We appear to be staring at a true weather market for the next few weeks into mid-August.

World Corn Supply and Demand

(million metric tons) July Report	14/15	June 15/16	July 15/16	USDA 16/17 Estimates June	July
Beginning Stocks	175.74	208.41	208.51	206.45	206.90
Production	1013.56	966.37	959.79	1011.77	1010.74
Imports	124.92	133.29	134.56	127.15	126.55
Total Supply	1314.22	1308.07	1302.86	1345.37	1344.19
Feed	585.64	601.62	598.18	622.83	618.51
Total Domestic	964.04	968.33	961.40	1007.11	1002.43
Exports	141.67	120.62	119.38	133.13	133.37
Total Demand	1088.97	1101.62	1095.96	1134.26	1128.98
Ending Stocks	208.51	206.45	206.90	205.12	208.39
Ending Stocks less China	*108.05*	*96.93*	*96.28*	*103.62*	*104.78*
Stocks to Usage	20.69%	17.59%	17.49%	18.61%	19.06%

USDA Estimates

Away from immediate weather issues, we saw the USDA's latest update released on Tuesday, which did provide some market "ripples". Typically we would expect little in the way of market disrupting input from the July report, and the main issue this time was the 6.6 million mt reduction in global old crop corn stocks from the June report number. This was driven by a 7.5 million mt reduction in Brazil production, which was at the low end of trade expectation and pushed prices higher. As a result and perhaps the biggest take away message from the report was the potential for improvement in US export prospects as a consequence of Brazilian crop losses and US competitiveness improving once again. While the nearly 2 million mt increase in US old crop exports may be under contention by a number of analysts, the market still rallied off the report. However, global ending stocks were actually up 0.45 million mt as a function of lower usage, both feed and non-feed, somewhat tempering the bullishness of the report.

It is probably also fair to suggest that a lack of any further bearish input from the report left the market with an excuse to buy. Yields in corn and soybeans were unchanged month on month in the absence of damaging June and early July weather although forthcoming conditions will be more important.

Wheat continues to remain the poor cousin to soybeans and corn in so far as global supplies remain elevated despite a small reduction in EU output as a result of disappointing early harvest results. These were more than offset by improved prospects in not only the US but also Australia, Canada, FSU-12 and Argentina. Indeed, these major exporters' output was increased by 8.6 million mt month on month to a record 250 million mt whilst their stocks to use ratios were unchanged at historically high levels. Clearly N Hemisphere wheat harvests are under way and not yet known in total, and to this end it feels as if price pressure remains in wheat.

The first Egyptian tender of the season showed just how competitive sellers are willing to be with the 180,000 mt purchase concluded at $173.00/mt, which was close to $20.00/mt below the final purchase of last season. Volumes offered were significantly increased over the back end of last season presumably on the back of Egypt's announcement that they will accept shipments with up to 0.05% ergot contamination, which was a concern and resulted in a number of rejections including a recent US cargo.

In conclusion, we appear to be destined to remain in a highly volatile market as far as corn and soybeans are concerned for the next few weeks until such time as the potential for weather damage has passed and US crop prospects can be better assessed. As previously mentioned, wheat will likely remain a passenger to corn despite its own abundant supply and demand balance sheet.