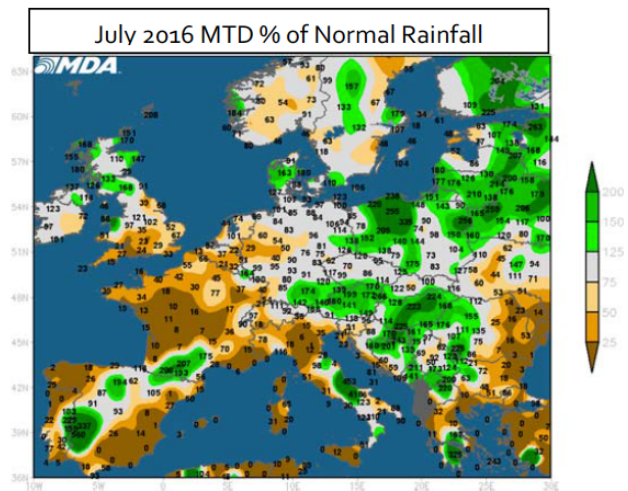


We have seen another interesting week with markets retaining a degree of volatility but, for once, seeing the grains, corn and wheat, displaying a divergent price trend. Corn, and for that matter soybeans too, have trended lower on less threat from the weather, whilst wheat has at last found some price support. EU values in the Paris MATIF market surged sharply higher on Thursday as EU output expectation was

trimmed and quality fears grew. There are questions over whether or not much of the French crop will meet export specifications, although it remains too early to become overly pessimistic. Euro prices moved up by €7.25/mt as some suggest that the European crop could be as much as 15 million mt behind last year. In addition, further support for wheat prices came from better than anticipated US exports that were reported at the higher end of trade expectations. The counter to higher wheat prices in the longer term remains Russian output and competitiveness in export tenders as well as the more general global feed grains supply position, which remains more than comfortable at this time, suggesting prices may struggle to make significant and lasting gains.



Soybean and corn prices remain lower amid further fund selling led, in the main, by weather forecasts that suggest favourable crop development conditions will remain into August. By that time corn pollination will be all but complete and soybeans will be looking for crop making precipitation. The latest crop condition report, effective week ending 17 July, shows 76% of corn to be rated good/excellent, which compares with 69% last year with ten and twenty year averages at 64% and 65% respectively. Soybeans rated good/excellent are at 71%, vs. 62% last year whilst ten and twenty year averages are both at 61%. It is difficult to describe either crop in any way other than in glowing terms at this time; clearly there is room for change but we should only view, and trade, what we see right now.

The debate over El Niño and La Niña continues with the latest data suggesting that we are now experiencing La Niña conditions, although not strongly. Expectation is for the condition to last into mid-2017, which could impact next season's US planting and early crop emergence and development given the usually accepted heat and dryness that accompanies La Niña. Current estimates are for a weak La Niña rather than a real crop damaging and significant yield reducing situation although the ENSO models should be watched closely for any change in that position. Late season precipitation should also be watched closely as a guide to residual soil moisture levels, which will assist/hinder planting and development depending

upon the surplus or deficit position. The timing may be more influential to S American production with a drier bias to outlooks for some of the more prominent growing areas of Brazil, but that crop is not going to be planted until this autumn/winter. When all said and done, we should retain focus upon the 2016 harvest before fretting over 2017 plantings too early.

In summary, it feels as if price risk to the downside is now somewhat limited for grains, as fund holdings are more modest than has been the case in recent weeks. Additionally, global pricing seems to be adjusting a touch towards a more favourable US competitive situation that will benefit their export position, potentially adding support. Finally, the latest EU wheat price move would suggest a shift towards non-EU supplies in the global market is under way which would also suggest that downside is becoming limited. That said, we would not wish to be described as overtly bullish, there appears little in the way of major crop threat right now and stock levels remain comfortable from a global perspective, certainly not at levels that would require price driven rationing.