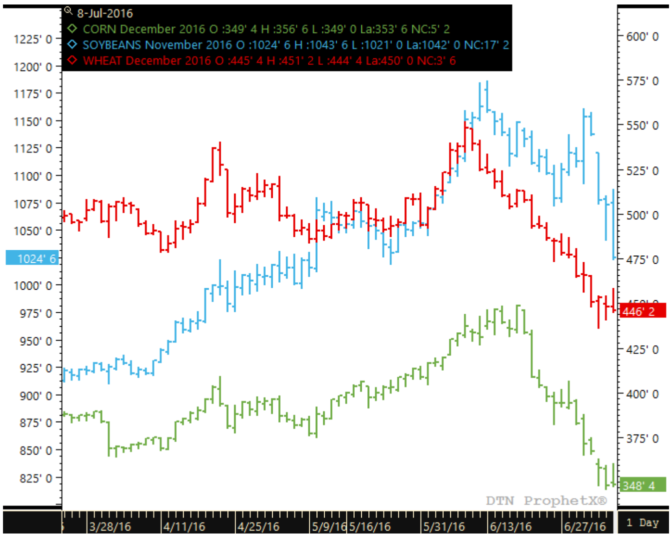
What a difference a few weeks make! Since our last update we have seen the USDA's latest Grain Stocks and Acreage Reports that was released on 30 June, the UK population voted to leave the European Union, and grain harvests have started to roll in the N Hemisphere. Maybe the latter point is of least significance but the UK vote rocked the world with currency and equity markets in turmoil in the immediate post-vote period. Whilst equity markets have rebounded, currencies have not and £Stg has slid over 20 cents (13.8%) vs. US$ and almost 4 €uro cents (just over 3%) vs. the €uro. The resultant relative strength of the US$ has undoubtedly pressured commodity prices.

We feel it worth detailing the extent of the recent price moves given their significance:



Corn (basis Dec '16 futures) has fallen 49 cents/bu (9.9%) since 23 June, and $1.06/bu (19.35%) since the 8 June high.
Wheat (basis Dec '16 futures) has fallen 52 cents/bu (13.07%) since 23 June, and $1.01/bu (25.39%) since the 17 June high.
Soybeans (basis Nov '16 futures) have fallen $1.01/bu (8.99%) since 23 June, and $1.61/bu (14.37%) since the 19 June high.

Clearly we are looking at some major price changes, and these in themselves are of significance. The technical trading picture takes on a new perspective and triggers actions, which has been evident as the funds have had to re-evaluate their (significant sized) positions and adjust accordingly. The large net long positions in corn and soybeans that have been a recent feature are in the process of some unwinding, by how much remains to be seen, and tonight's CFTC report will make interesting reading. It does seem however that the funds are still clinging on to some thoughts of a La Niña event, although it seems that if it does materialise its impact upon the 2016 corn and soybean crops will be somewhat limited. What is perhaps more significant is the day to day and week to week precipitation and temperatures across the key crop areas. Reaction to variations in weather forecasts remains reasonably volatile and it is clear that whilst crops look in good condition right now, the market believes there is still time for adverse weather to change that. In truth, assuming the current forecast is close to being right, there is not much time left for major damage to be done to the US corn crop, but rainfall in August is critical for soybean production. We are not totally out of the woods just yet!

One of the consequences of lower prices, particularly in soybeans, is the reemergence of export interest from (not unexpectedly) China. Similarly, corn's lower prices are attracting higher ethanol grind as producer margins remain elevated and ethanol stocks build. The upshot will likely be an increase in soybean export volumes and corn grind in coming USDA releases with a corresponding reduction in end stocks.

Surprise news from Brazil's CONAB came in the form of a reduced corn output figure at 69.14 million mt, which is down a shade over 7 million mt month on month. Winter corn output was cut to 43.05 million mt from 50 million a month ago. By way of comparison, Int'l FC Stone put the winter corn crop at 47.3 million mt. Soybean output was also reduced, although not as dramatically, to 95.3 million mt from 95.6 million last month. The impact of reduced corn output will doubtless fall into global trade and could well temper the current lower price trend to some degree. The beneficiaries, in the form of transfer of corn exports, will likely be US, Argentina, Ukraine, and to some degree wheat exporters.

Russian cash wheat prices continue to peg global levels as they remain low, \$166/mt through to September, and they look well placed to pick up any early Egyptian tender business that could emerge in coming weeks. On that point, the Egyptian authorities appear to have confirmed their acceptance of ergot contamination up to 0.05%, which could ease concerns and make offers somewhat more forthcoming, and increase competition at the same time!

In summary, we have seen a large decline in prices in recent weeks and this has changed the technical picture although the fundamental picture remains non-bullish, and possibly bearish. However, markets are technically oversold and potentially due some correction although it feels as if this is not yet the right time. Markets are, and will remain, subject to high volatility on weather forecast variations and one lesson at the forefront of our mind right now is that we ignore the power of fund money flows at our peril.