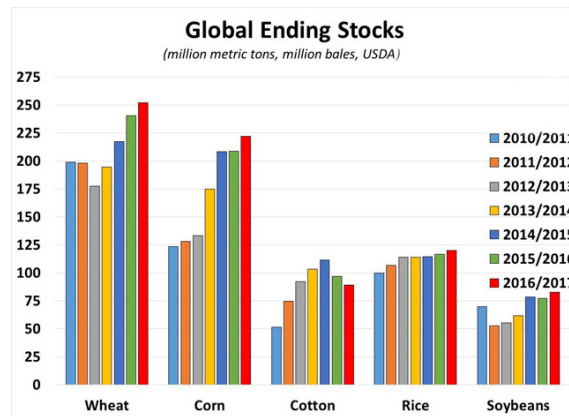


Another week passes by and we are fast approaching the end of 2016, a year that has been largely dominated by range bound, sideways price action, at least in the second half of the year. There seems little on the horizon that is likely to change this in the short to medium term.

We have over recent months talked of the “big crop” vs. “big demand”



scenario that has been in position since before the US harvest even began, and it is largely this picture that has driven our markets. The grains, corn and wheat, have been more impacted by the sideways price action than has been the case in soybeans; the last 8-10 weeks have seen soybean prices rise somewhat when compared with the mid to late summer period.

Why should soybean markets have acted differently from the grains? As ever we seem to ask almost impossible questions but it feels as if the key in this one lies largely with Chinese demand, which continues to remain robust to say the least. However, the other side of the story, “big crop”, is not in question and as a consequence we have to suggest that recent higher prices are not potentially a long term trend change, merely a shorter term “blip”.

The main caveat to this is that we are factoring in trend yields and weather into new crop S American crops and that we will not see a catastrophic, crop damaging, event in one of the key global growing regions. That said, even if we do see an issue that limits global corn, wheat or soybean production, there remains an adequate global stockpile to cover at least one season’s problem. The main point remaining to be stated is that should we see more than one growing region affected, or a multiple season effect then all bets are off and prices are likely to return to levels not seen for some years.

Why then, if stocks are adequate and crops are not currently under threat, are prices not declining still further? This may be simpler, on the face of it, to answer! Current, and indeed recent, prices are at multi-year lows, and both growers and speculators are reluctant if not downright afraid of making sales at historically low prices. As such, this is providing support to prices preventing them from falling substantially. In addition, there may well be something in the point that speculative short position holders have become impatient or even bored with positions that look to be “correct” from a fundamental perspective but continue to fail to deliver their anticipated profits. As a consequence there is a suggestion that shorts are certainly not adding to positions and, as we know, without sellers a market will not go down!

A further, and more recent, factor is that the recent S American weather forecasts have contained a threat of dryness, which added price premium into markets, particularly soybeans. The more recent forecasts are discounting dryness to some degree and the weather premium has eroded a touch although it has not disappeared altogether.

When all said and done, the “helicopter view” of markets has to suggest that there is little current fundamental crop risk, and as such, bullishness is limited. On the other hand, there is little room for significant upside in crop output when utilizing trend yield and weather; hence it could be argued that bearishness is also similarly limited. Assuming crop demand also remains “on trend”, the other side of the equation leaves markets in their current balanced state.

What is needed to see a significant and lasting move away from the sideways price direction is a damaging weather event or similar supply side issue. S American conditions look favourable into early 2017, and we now have to look back to N Hemisphere weather where the only real potential for a problem would lie in significant crop winter kill if there is inadequate snow cover and freezing conditions. It should be stated that this is not currently the case, we are merely suggesting where to focus the attention when looking for lasting price move triggers.

Meanwhile we look forward to continued market lethargy and range bound price action into year-end and early 2017.