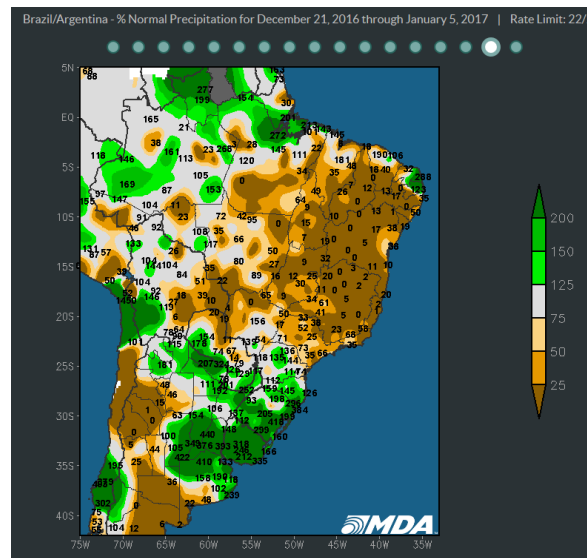


It is interesting to note that upon our return from the Christmas and New Year holiday season the markets have a somewhat different feel to them. We have, on numerous occasions, in the latter weeks of 2016 suggested that the weather in S America would be pivotal in determining future market direction, and it is indeed that very issue that now appears to be coming into play as we start 2017.

Whilst it may yet be early days, as weather patterns are not fixed in stone, we are beginning to feel somewhat more friendly towards both soybeans and corn, a first for some considerable period of time! Wheat is not out on its own either; fund rebalancing and poor production margins and reducing acres point towards limited downside if not an outright upward trend.

The weather patterns in S America are less than beneficial to soybean and corn crops with a drier trend persisting in NE Brazilian growing regions although there is some, maybe temporary, relief in the current forecast. In Argentina we are looking at a wetter pattern with suggestions that soybean acres will be lost due to excessive rainfall. The absolute area is not yet known but estimates range from 400,000 to a million ha, which would result in 1.5 to 3 million mt reduction in overall output. A mid-point estimate would probably be prudent at this time.

We all know that January and February are critical months as far as S American crop development is concerned and dry conditions at this time would have negative consequences. The longer range weather forecasts show little meaningful precipitation across NE Brazil in the two to four week period, little has been said about heat, which can also add to crop stress and add to any drought related damage.



In Argentina, the last ten to fourteen days have shown as much as 200-300% of normal rainfall has fallen across the key soybean and corn production regions. What is more, the forecast contains further rain in the coming ten to fourteen days. Localised and low level flooding is evident and the big questions will be how much area will remain unplanted or have planting delays resulting in yield loss, and also how will weather develop in the late January and February period.

To that end we have to take a pragmatic view and, at this time, put paid to our long-help neutral stance “on the fence”, which will doubtless be a relief to many! Next week, on Thursday, the USDA release their latest WASDE figures and it will be interesting to see what stance, if any, they take on S

American output, and what impact that has upon market prices and direction. At this point, there may not be enough new information for the USDA to make significant changes to S American production, but the market expectations could be the stronger factor here. There are a lot of moving parts to the reports that are to be published on 12 January, often causing increased volatility leading up to their release.

Focus has rightly been on soybeans and corn since we returned from the Christmas break, however wheat markets have also seen movement with Mar '17 Chicago prices hitting levels not seen since late November. Higher levels have not been confined to Chicago either, global cash prices are similarly higher with the EU seeing a €2-4/mt hike. There are concerns over Ukraine crops in the coming days with temperatures forecast to drop as low as minus 20°C with snow cover described as inadequate to provide an adequate insulating blanket. Losses from winterkill are a year on year feature in the region, the question being whether losses are above or below normal, as ever it is far too early to make that call.

To counter the seemingly overwhelming bad news (from a crop development perspective) it has to be mentioned that global wheat stocks remain at multi year high levels in many of the world's key growing regions and supply is not a major concern even if we see production issues this season. To that end, there has to be a limit to price upside and moves will be driven possibly more by sentiment than fact.

In both soybeans and corn the next six weeks weather will be critical to total yield and output, and we cannot over-emphasise the need to watch this closely. Until we have some better handle on S American yield we would prefer to stay on the cautiously long side of this market. Welcome back!