

In the week immediately leading up to the latest USDA data release we have seen grains, corn and wheat trending sideways in choppy trading whilst soybeans continued lower in a market driven both by fundamental and technical considerations. Quite what the report will bring remains to be seen and we will not be drawn by speculation, preferring to await the facts although it is fair to say that many are anticipating increased US corn and soybean acres with all that will bring with it. Whether this will be the case, or not, is (for now) a closely guarded piece of information.

Fund activity has again leaned bearish with an estimate suggesting that they are near record short for wheat, short corn, neutral soybeans, and shrinking their long in soybean meal. Whilst it is fair to say that this position ties in with the non-bullish fundamentals, as we wrote in recent weeks, the growing short position could be viewed as potentially explosive should any bullish news materialise, for example a non-bearish, or worse, a bullish USDA report. Clearly the market has digested and priced in the size of the current S American corn and soybean crops and their impact upon global supplies, and is awaiting more specific news on new crop US acres, weather and not forgetting the size and condition of the Brazilian safrinha corn crop.

With May '17 soybeans hitting mid-October price levels at \$9.63/bu we have to consider where price support now rests, and it has to be said that last summer's \$9.37/bu level is looking vulnerable. However, before we get too carried away (despite our ongoing non-bullish stance) the potential for a "buy the news" Friday is high unless we do actually see a bearish report. The market set-up in soybeans is ripe for a bounce; it is technically very oversold, it is trading well below key moving averages, the funds have dumped much of their long position, prices are historically low, and a USDA report released today, need we add more!

Closer to home, here in Europe, we saw the Commission's latest crop forecast showing wheat yields rising sharply from last season as winter crops emerge with minimal frost damage and they stated "prospects for the new season are promising." This was despite extreme cold across large parts of C and E Europe at the start of the year. Recent rains in France and N Europe is alleviating what has been a growing soil moisture deficit during the dry December and January period, although crops appear to have not been adversely impacted. Russian crops were reported to be in similarly good condition with minimal winterkill, and Ukraine weather in the coming few weeks will determine their crop status going forward.

The key data from the EC was an EU soft wheat yield of 6.02 mt/ha, up 7.7% year on year and 3.0% above the five-year average. France's wheat output is expected to rebound from last year's poor performance with a 35% hike in yield. Reassuringly, the EU report is in general good agreement with Stratégie Grains' latest estimates, which we reported recently. In a world already well stocked with feed grains this news is unlikely to provide solace to those of a bullish persuasion.

We await today's data release with interest.