

Another week comes to a close; another USDA crop report comes and goes, S American harvests continue, US plantings struggle onwards and weather issues begin to impact crop potential. There is perhaps more to consider this week than we have had in the last month or two.

The latest USDA crop report showed us the first forecast year on year drop in global corn and soybean stocks for a few years. 2017/18 soybean end stocks were forecast at 88.81 million mt, below 2016/17's updated 90.14 million and 2017/18 corn end stocks at 196.27 million mt were forecast sharply lower than 2016/17's (again month on month updated) 223.9 million. Wheat, on the other hand, saw 2016/17 end stocks similarly updated from April's estimate but also 2017/18 saw a close to 3 million mt increase. However, Chinese stocks (recall they are an "island" market with no significant exports and minimal imports) were increased around 17 million mt, which implies lower stocks elsewhere in the world in keeping with corn and soybeans. Market reaction to the report was muted, almost imperceptible, and perhaps best describes the significance of the data. It should not be forgotten that it is still very early in the season and plenty of time for figures to change.

S American harvests continue with latest reports indicating that Argentine corn and soybean progress is all but in line with average following adverse earlier conditions. Brazil's CONAB has upgraded their corn harvest estimate from April to 92.8 million mt, a 1.4 million increase, and a significant 26 million year on year increase. This would be a record, but is, interestingly, behind the USDA's latest 96 million mt forecast. The key point is that Brazil's exportable surplus of corn will grow, and they will most likely do their utmost to ensure that this is achieved and price will be key. Domestic prices have fallen to multi-month lows and fob offers remain competitive. There is some concern for the safrinha corn crop, which has seen some stresses associated with dryness in C and S Brazil.

CONAB's soybean crop forecast raised few eyebrows with their close to 3 million increase over April's figure to 113 million mt. This is some 10 million mt over the initial October estimates and is a direct consequence of better than anticipated yields due to close to ideal weather conditions.

US weather conditions continue wet with some areas showing the wettest April in over 20 years. Combined with cool temperatures we see soil moisture levels at their highest levels in a similar period. Any further rains will start to raise concerns over output. Meanwhile, concern is already elevated over fungal disease levels in wheat crops, which have endured the wet weather. A more favourable couple of weeks are forecast, and this will doubtless be welcomed by producers.

In Europe we have had the opposite with dry conditions being experienced since late March. Some parts of the UK have been totally without rain in the last three weeks and there are concerns, particularly on lighter soils, that we

are already seeing yield loss. Forecast rain will be welcomed by growers, their only questions being how much will they get and will it last long enough to replenish soil moisture deficits sufficiently to improve harvest prospects. Meanwhile, UK feed wheat futures (November '17 contract) set new highs.

Overall we seem to be at a potentially pivotal point from a price perspective. Prices have been in a steady downtrend for some years as bearish trends have prevailed, largely due to beneficial global crop output and growing stockpiles. We have witnessed the recent growth in fund net short positions, which we have commented on in recent weeks and prices seem reluctant to decline significantly from current levels. Our view is that there appears more upside risk than downside risk at this time. That said, we will need to see the current weather threat level maintain or increase sufficient for funds to cover or reverse their positions if prices are to alter the current trend lower. There is doubtless an increase in upside risk and protection in the form of call options could well prove worthy of consideration.