Rising, or potentially rising, prices were the main topic of our report last week, and rightly so in the light of then weather concerns. It is probably fair to suggest that the underlying fundamental weather, particularly in EU and Black Sea regions is little changed week on week. However, events in Brazil seem to have overtaken the weather headlines this week.

Soybean futures in Chicago broke to the downside on Thursday, and sharply so, and this dragged the grains, corn and wheat lower. Front month futures (July ’17) tested but did not break key support prices at $9.45/bu, and new crop (Nov ’17) came within a cent of recent lows. The price reversal of recent uplifts was on the back of a reported corruption charge against Brazilian President Temer, which it is feared may lead to his removal in coming weeks. This left the Brazilian currency significantly (around 8%) weaker on the day, back at December ’16 levels vs. US$. The future of Brazil’s leadership is, once again, uncertain, and we all know that markets hate uncertainty!

The weaker Real is providing a platform for higher cash prices, particularly for soybeans in Brazil, and this is in turn prompting farmer selling, which has left futures markets pressured lower. The upswing in Brazilian farmer selling in Brazil is leading the funds into further Chicago futures sales, hence Thursday’s gap lower as prices dived.

Remaining in S America, Argentina’s BAGE estimated their soybean harvest at 75% complete, somewhat better than last year’s 61% although weather is expected to return to cooler than average and wetter in the coming week, which likely will not see pace pick up. Corn harvest, on the other hand remains behind average at 33% complete, and it is likely growers will focus more on soybean harvest in the next week or so.

Egypt’s GASC returned to the market with a late season tender, booking 5 cargos totaling 215,000 million mt. Although the cheapest offer CIF was Romanian, two of the cargos were US origin. The last two offers were Russian and Ukrainian. GASC raised protein requirements by ½% to 12.5%, basically undermining French offers. While this was no major surprise, it was interesting to see US prices competitive for the first (and perhaps last) time this season.

This week saw Stratégie Grains update their latest EU crop estimates and, unsurprisingly, we saw a month on month downgrade in European grain output due to weather conditions that have been cold and dry. Overall grain output was cut 3.6 million mt to 301.6 million, which it should be noted, is still a 4.5 million mt year on year jump. EU soft wheat was cut 1.1 million mt to 142.7 milion, and it should be pointed out that Stratégie Grains left the door open for further revisions dependent upon growing conditions going forward. Barley output was cut more substantially to 59.6 million mt, a 1.7 million downgrade, a multi-year low.

These output reductions in the world's largest wheat and barley producing bloc will doubtless bring to the fore the potential pressure on global stocks, particularly in barley, which the USDA sees at a 34 year low in 2017/18. However, we all know how resilient and resourceful the livestock sector can be when pressured, and feed grain substitution will likely be a feature in the coming season.

Interestingly, and significantly, the German farm co-operative Deutsche Raiffeisenverband (DRV), also cut its domestic grain output forecast adding credibility to Stratégie Grains' figures. German area reduction as well as yield reduction were reported as the main reasons for the 1.24 million mt drop in overall grain output forecast.

As we end this week we note that volatility seems to be returning to agri markets once again. The "big crop" vs. "big demand" scenario remains largely intact; although we are starting to see some cracks emerge in the "big crop" side of the equation. Whether or not this will continue and price trends reverse their long standing decline remains to be seen, but our thoughts this week are that downside in prices appears to hold less potential than upside. As ever, time will prove us right – or wrong!