Last Friday’s USDA report was read, digested and traded then forgotten in an almost record period of time, which for many lasted less than five minutes. The contents were pretty much as anticipated or expected, market reaction was minimal and life continued almost uninterrupted.

The real focus of the marketplace right now continues to be weather related. Heat and dryness are the buzzwords, will it rain or won’t it rain, and so it goes on. Markets have seen some return of volatility on the back of weather vacillations and it seems we are destined to dance the Hokey Cokey for some while yet.

Minneapolis wheat has been one of the most volatile markets with prices climbing significantly higher to $6.45¾ before falling back to $6.09¾ (July ’17 contract) in just three sessions, which is a move of more than 5%. The resultant chart formation is a bearish key reversal, which suggests that a market “top” has been formed, however in the light of current weather we would suggest caution over this technical indicator right now. Traded volumes in this contract rose sharply as interest centred upon the potential shortfall in the higher protein wheat contract. The point we are attempting to illustrate is that initial dryness and reports of part of the crop dying back sparked the sharp rally, only to be tempered by decent rainfall in the Dakotas, which to be fair is probably too little and too late to rescue the majority of the damage done.

We have to also be aware of weather conditions in other parts of the wheat producing world; France remains questionable with heat and dry conditions, Spain’s cereal crops have suffered similarly and it seems Australia and Russia too are likely to see output downgrades due to lack of precipitation.

Corn too has seen the impact of weather upon prices with similar volatility. European and Ukraine crops are approaching stress and latest crop condition reports in the US showed a single point decline to 67% good/excellent, well below last year’s 75% and the five-year average of 71%. There is no doubt that rainfall across all of these regions is required if the crop is to achieve its potential. A further point, which we alluded to last week, is that the potential for the US crop is likely below optimum given the poor planting conditions, varied planting dates across the cornbelt, “ponding” and hard pan formation that is leaving the crop less than best placed in its early development and now having to contend with weather stresses.

That said, there remains the much discussed and written about global stock levels in both wheat and corn that have to date kept a pretty solid lid on price upside. Referring back to the latest USDA figures, global corn end stocks were forecast to fall around a million mt month on month in 2017/18 whilst wheat end stocks saw a close to three million mt increase. However the year on year comparison sees corn stocks 30 million lower and wheat some five million higher, which represents a net 25 million mt decline in combined global corn and wheat stock, a not insignificant volume when we have almost become used to year on year stock growth. Little wonder that we have seen volatility levels starting to rise!

Perhaps the one area that seems to fly in the face of all of the above is the continued fund net short position, which remains large by any standard of measurement and must be testing the resolve of managers. Maybe they know something that we do not!

All things considered, we continue to believe that the argument for lower prices hold less credibility that the argument for higher levels at this time. Consequently we reiterate our closing remarks from last week, we are “cautiously looking for prices to advance although we do not anticipate upside being huge at this time.”