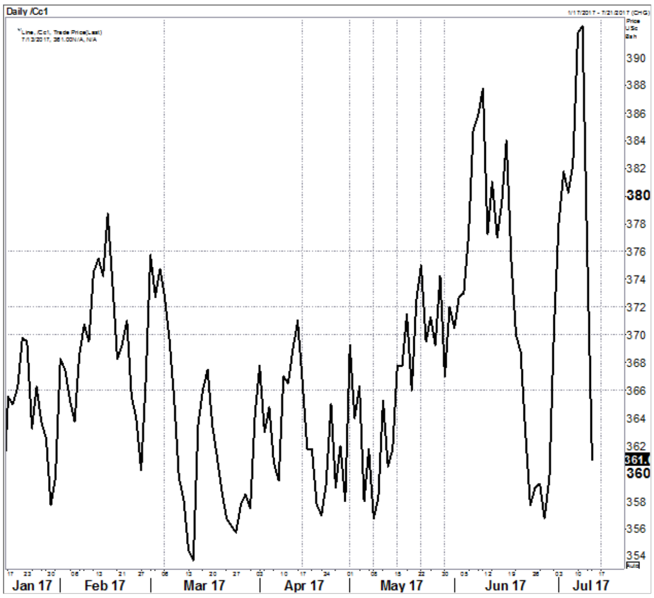
What goes up must come down is an old adage, and this week has proved this to be very true. Chicago corn, wheat and soybeans have done something of an about turn from their recent charge higher dropping like a stone on Thursday.

We referred to increased volatility last week, yet this weeks figures truly demonstrate quite how volatile prices have been. Wheat (Dec ’17) saw the biggest gain, 26 June low to 5 July high was a move of $1.06/bu or 21.8%, before falling back $0.59¾/bu or 10.1% on 13 July. Soybeans (Nov ’17) moved from a 23 June low to a 12 July high in a $1.37¾/bu move of 15.2% before giving back 5.6% or $0.58¼/bu the following day. Corn, not to be outdone (Dec ’17) rose from 23 June to 11 July by $0.41¾ or 11.2% only to shed $0.34/bu or 8.2% by 13 July.



Clearly these are not markets for either the nervous or faint of heart, money is being made and lost, and in significant quantities! The bulk of the move in Chicago corn (chart alongside) was in four trading days, two days up and two days down. What then has been the key determinant of this latest move lower, and perhaps more important, is it a lasting change of trend? We have reported the move higher in recent times, on the back of N Hemisphere (specifically US) hot and dry conditions, and the impact this will likely have upon yields and ultimate output. It should be noted that this has not changed, we have seen a move to cooler temperatures, which traders took into account, but there is little doubt that precipitation remains below normal and rainfall is needed to maintain crop potential. More specifically, the second week of the forecast has changed to cooler and wetter for much of the US Cornbelt. The extreme western areas will remain dry. It is likely the US will have to cope with warm/dry conditions into August.

If weather conditions and forecasts have not been the key driver of this week’s lower price levels, albeit they may have been a trigger, perhaps the USDA’s latest crop report was the culprit. On the face of it the report was bearish grains and somewhat supportive to soybeans yet we have to keep in mind that ultimately yield will determine price direction, and this will in turn be driven by weather conditions. The USDA yields are derived from models with no adjustment for current conditions, therefore they should not have been a surprise. Reality, in our opinion is a corn yield between 165 and 167. Trendline soybean yields (48) are currently still intact. The yields provided by USDA in the August report will be derived from a massive survey and field observations. The period between now and end of August will be key, July makes corn and August makes soybeans according to farming lore.

The USDA figures showed month on month growth in US 2017/18 end stocks of corn and wheat and a decline in soybean end stocks. Global month on month 2017/18 end stocks of corn and soybeans were forecast to grow whilst wheat end stocks saw a small decline. The year on year changes show US soybean end stocks growing whilst both corn and wheat end stocks fall; the global year on year position shows a small decline in soybean stocks, a small gain in wheat stocks and a larger decline in corn stocks. We believe actual world corn stocks to be around 180 million mt vs. the current USDA figure of 200 million mt, and last year at 227 million. On the face of it the market moves on Thursday were not, in our opinion, justified purely on the USDA's latest figures.

Our view continues to be that volatility will remain high until such time as we can see a definite and settled weather pattern that can be relied upon to make (or break) crop yields more certain. In addition, at this time, it seems that the market was in an extreme overbought situation and in need of correction; this has happened although to a much greater extent than we would have imagined or anticipated. Whether we see a follow through lower to any great extent, or not, remains to be seen, but we would consider these lower prices to represent excellent value and we would prefer to be long rather than short at this time.

We are taking a two week break and our next update will be on 4 August.