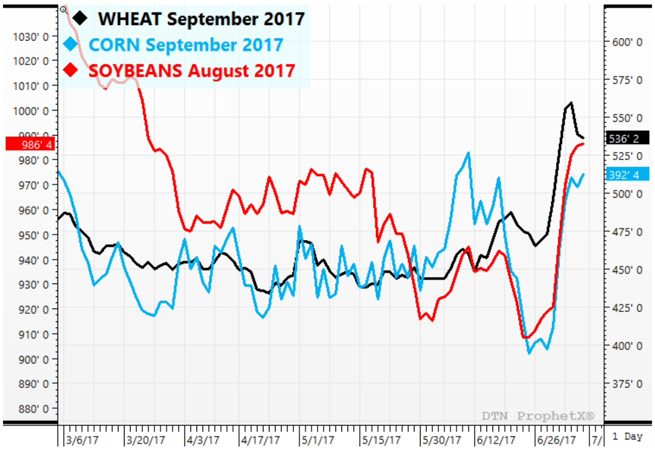
This has been a holiday-shortened week with US markets closed due to the 4th July celebrations. Regardless of the holiday, markets have shown some vigour this week again with wheat leading the way. The new crop Dec ’17 chart looks impressive to say the least but Thursday saw some much needed profit taking and losses in an extremely overbought situation. From a technical perspective there is a proliferation of gaps that were created as the market romped higher, and market lore says that these will be filled by lower prices, however, the key driver of recent higher prices has not disappeared yet. Central US weather remains less than favourable and forecasts into the next ten days offer little in the way of respite. Our view is that we have not yet seen the top in wheat markets, global cash supplies are firm, particularly European and Black Sea.



That said, global stocks remain adequate to start 2017/18 despite expected global stock draw down for all major crops this year. Similarly for corn, supplies are adequate with the S Hemisphere harvest hitting record levels. Why then are we seeing such price explosion to the upside? Clearly the big picture of global stock adequacy is one thing, but delving deeper into the specifics reveals the tightening supply situation in higher protein wheat, particularly in the US, which we have reported previously. It was largely this issue that triggered higher prices in Minneapolis futures, which then spilled over into Chicago wheat, corn and to some extent soybeans.

Will higher prices remain, or even go higher? Our simplistic view is that this is more likely than prices returning to their former lower levels for a couple of reasons. First, N Hemisphere weather conditions leave some concerns for crop development although it should be noted that we are not facing a disaster by any stretch of the imagination. Second, we have been in an extended period of low and lowering prices for around four years, and such situations do not continue for ever, reduced wheat plantings in the US are a clear reaction by growers to this. Last, and perhaps controversially, the trade actually wants price direction and trend to change. We will leave readers to ponder that thought.

Next week, on Wednesday, the USDA will publish a fresh round of global production and usage estimates. This report will focus on wheat with farmer surveys and test plot measurements including other spring wheats than Durum for the first time this year. The USDA will publish their initial Wheat by Class supply and demand tables for this season and the primary focus will be on high quality wheat production. Revisions are also expected for some of the major wheat producing regions. Global expected output is expected to decline. For corn and soybeans, the USDA will still use their trend line yields and will incorporate the latest data on acreage, which means the market will likely discount the production figures for the US. Other expected revisions include an increase in corn production for Brazil and possibly a decline in production in China.

In the news we have seen Egypt return to the market once again with a further wheat tender in which 410,000 mt was purchased, 350,000 mt from Russia and 60,000 mt from Romania. The price reported was some $6.00/mt above the last tender, which is a reflection of rising global cash prices. Total purchases by Egypt's GASC so far this season are now above a million mt.

Other news, weather aside, remains scant and our conclusion this week is that whilst we may be seeing a dip in prices at present this is presenting an opportunity to top up cover for those who need it. We believe that prices, particularly cereals, have further upside at this time.