US corn and wheat futures continued to make declines this week whilst soybeans have made something of a recovery from the recent lows. Wheat futures in both Paris and London have also continued lower although Thursday trade saw something of an uptick, but this is no evidence yet of a reversal of trend. There are some who believe we have seen a “bottom” in the grains’ decline although we would look for further evidence to substantiate this right now, and seasonal trends would support this view.

The fundamentals in wheat remain much as previously, the crop in Russia and Black Sea regions appears to be growing ever larger, and hitting record output. Growers there have every reason to appear happy, as their profitability remains high, and this will likely lead to another increase in planted area next season. However, there will most probably be a reverse position seen in the US as farm profitability remains depressed, and a further reduction in acres seems on the cards.

Despite burgeoning Russian and Black Sea wheat output, and its current price pressuring impact, we are somewhat reserved about its real market impact. The ability of exports to rise and match output is, in our opinion, somewhat more of a challenge until substantial infrastructure investment is made. At this time we believe export capacity will be a limiting factor, and Russia will end up with growing end stocks. This has the potential to become an issue if our view on increased plantings comes to fruition in the 2017/18 season; high output on top of high opening stocks. Do Russia and its neighbours really want to become the world’s wheat store going forward? We will leave that question unanswered.

The decline in Chicago corn futures and appreciation of the Brazilian Real has had a disastrous impact upon Brazilian growers. Their latest crop is being sold at low cash prices, levels unseen in many years, and the current thinking is that this will see reduced plantings in the coming season; at least for the first crop. The fundamentals of supply and demand will doubtless influence growers’ decisions and a potential switch to soybean acres appears in the offing.

This week saw the IGC (International Grains Council) publish its latest monthly global forecasts in which we saw total 2017/18 grains production increase month on month by 12 million mt with wheat accounting for 10 million and barley 4 million. The Black Sea and Russian crops were the biggest contributor, offset by smaller EU and Chinese projections. However, the big picture shows a year on year decline in production of some 80 million mt, a not insignificant figure, but one that has been well headlined for a while. Grain consumption was forecast to grow, and global end stocks show the first decline in five years.

Our conclusion remains, somewhat tediously, that we see limited price downside with a potential for sharp price gains if circumstances change. To counter this, there is still plenty of room for funds to add to their short positions if they wish, and this could see a continuation of the current trend lower. However, value from an historic perspective does exist at current prices, and we are seeing buyers beginning to see this as an opportunity to extend forward cover. Producers are reluctant to sell at current price levels, and a combination of these two factors suggests to us that we could be at, or close to, a seasonal bottom in the market. We would not be advising a bearish stance here.