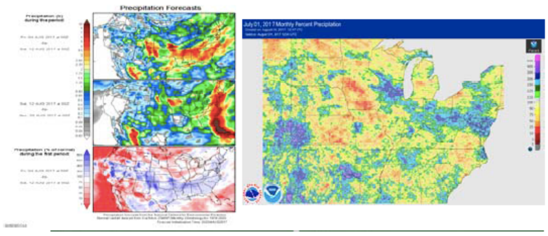
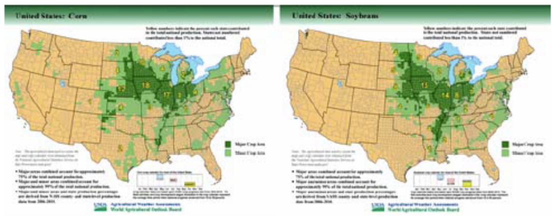
Our return from a couple of weeks break has shown corn, wheat and soybean markets sharply lower in something of a departure from recent uptrends. Weather has been the key market mover for some time now, and whilst hot and dry conditions were responsible for uptrends as concern over yield and output were the primary focus, we are now seeing cooler conditions and some precipitation taking the edge off trader's concern and risk premium being eroded.





However, are we going to see trend yields in corn, wheat and soybeans in upcoming US harvests? As ever, we ask the tough to answer questions! Corn crops are being given an estimated 162-166 bushels/acre yield, which will likely see current price levels, or just below, as fair value. July, as we know, is the key month for making, or breaking, US corn yields, and the question remains as to whether earlier heat and dry conditions have damaged prospects more than currently estimated. It is questionable if the change in weather has been enough to reverse the trend of four consecutive weeks with lower crop ratings.

Soybeans are somewhat different from corn in so far as they are able to compensate in later development for early stresses, and current weather conditions and forecasts appear more favourable than they were in July. Consequently, the prospect for yield and output currently appears to be somewhat more optimistic, but despite significantly cooler conditions, many critical producing areas are still left wanting for more rain. To complicate matters, weather for the second half of August is not only of growing importance as accumulations appear to be below normal for the first half of the month, but forecast scenarios are more numerous than normal.

Wheat crops are presenting a different picture from either corn or soybeans; in this case it is the higher quality grades that are looking to be more scarce from a supply perspective. The US spring crop woes have been well documented, and on top of that we are seeing EU rains slowing and degrading higher protein wheat harvests. The corollary of this is that we are likely to see the feed grade supply increase as milling grades are downgraded. Consequently we would anticipate a widening of the milling premium as consumers begin to chase higher protein supplies in coming months.

Next week, on Thursday, we will see the USDA's latest crop report and this has traders paring back positions and taking risk off the table. Focus remains on northern hemisphere crop supplies which is likely to be the case for the next 30-60 days before focus will turn back to the demand side of the balance sheet. As a result we have seen some fund position liquidation and it is estimated that they hold a pretty flat position in soybeans and products, which will be confirmed (or otherwise) in tonight's CTFT report. The last three or four weeks have seen the funds long in corn, wheat and soybeans having previously been short, and sizably so, for some months; a clear example of the dilemma and volatility that has hit markets in recent times.

We do not anticipate an immediate end to the current weather related market volatility, but something of a reduction in the extremes would not come as a surprise. From an historical perspective we are fast approaching the point in the season where we make seasonal low prices, and it is from this standpoint that we reach our conclusion, which is that we see downside price risk more limited than upside risk. From that perspective we would much prefer to hold a long than a short position.