

Have we seen the season lows? This is the question we have been most asked in the last 24 hours, in the wake of what appears to be the most significant change of direction in some considerable period of time. As ever, this is not a question that has a simple one-word answer but it is worth spending some time considering the facts.

Soybean futures rallied on the back of strong export demand figures and consequent short covering. Additionally, the StatsCan crop report did not hold any bearish surprises, which further supported prices. Corn prices rallied strongly, indeed it seems that we witnessed Thursday's trade as the largest single day gain in many months, as farm selling slowed in old crop supplies and fund short covering emerged. A direct comparison with last season shows September futures hitting \$3.10/bu in the face of a crop estimated to be significantly larger than this year's predicted output. The resulting chart pattern is that of a bullish key reversal, something to watch closely in coming days. Both EU and US wheat futures markets followed higher as did the corresponding cash price levels. The wheat most likely to be impacted remains the higher quality sector as StatsCan estimated the Canadian durum crop at 3.9 million mt, half that of last year and the lowest in seven years. Italian dry conditions and some quality question marks in N Europe lead us to conclude that supplies of higher quality wheat will be tighter than has been the case for some years, and prices will likely reflect this by trending higher.

Returning to our opening comments, there is little doubt that we have seen grain and soybean markets in an extremely oversold position for some time. This in itself is relatively unimportant, but it does leave the market vulnerable to sharp correction if and when circumstances allow. In addition, the funds have followed the market lower, contributing to the oversold position, and as of last week's CFTC report the funds were net short in wheat, corn and also soybeans for the first time since the end of June. Tonight's data will only bring us information up to last Tuesday; we expect the funds to have added to the short positions, only reversing a small portion yesterday. We would not be surprised if the current position showed some movement back towards net longs once again.

There remains the long-standing issue of global stock levels, which have been high and growing for some years as a consequence of almost universally beneficial climatic conditions across the entire globe. We are seeing a change in this pattern with the first reduction in global stock levels likely this season, and this is not the only point we would make. It should be remembered that Chinese stocks are, from a practical perspective, not part of global availability although they can influence import requirements and are thus important from that view. This year, we are seeing a record, or close to record grain harvest in Russia and Black Sea regions, but as with China, we question the availability of these supplies to global trade due to the inability of the region to fully export their surpluses.

Aside from China, Russia and Black Sea, and their stocks, we have still to resolve questions over the upcoming US harvest in corn and soybeans. The September USDA report will be upon us before long, but we are not holding our breath awaiting surprises, and our longer held view remains that the August yield and output data was possibly overstated. We may well have to look to October's report for some more certainty in that regard, and reports from on the ground continue to leave us happy with our view.

It would be remiss to omit the latest Egyptian GASC wheat tender in which they secured 235,000 mt, mostly from Russia and one cargo from Ukraine at their lowest price since January. In the season to date Egypt has secured 2.91 million mt with the lion's share (67%) from Russia, with 21% from Romania, 10% from Ukraine and the balancing 2% from France.

This Egyptian demand and slowing farmer selling does appear to be firming Russian cash wheat prices, and we are hearing of growing export delays. EU cash wheat levels are also firming as traders' reluctance to sell higher grade supplies grows in the face of reported low quality samples. The EU grower is also "shutting up shop" in the face of recent low prices, which are showing losses.

Our conclusion is that we are at a seasonally pivotal position as far as prices and price direction is concerned. We favour a long position, as we have stated for some while, although we do not see prices regaining their July highs at this time. However, if some fresh news inputs emerge this position could well change.