

It would be wrong to not start this week's update with some form of comment upon the USDA's latest release; so to not disappoint, it was deemed bearish upon publication and markets reacted accordingly by trading lower, and sharply so although by the end of Tuesday's session, whilst still lower, closing prices were well off the lows of the day. Subsequent trading through to Thursday has seen all of Tuesday's losses wiped out in soybeans and wheat although corn prices have remained stubbornly subdued.

The guts of the report were that corn and soybean yields were higher than trade expectation, corn at 169.9 bushels/acre vs. 169.5 previously and soybean yield was upped from the August estimate by ½ bu to 49.9 bushels/acre. Other points in the report included a (possibly premature as seeding is currently rain delayed) increase in Argentine corn production of 2 million mt. Russian wheat output was, as expected, increased although the 3½ million mt jump to a new record 81 million was perhaps less than was originally anticipated.

Current thinking is that something south of 85 million mt would be more realistic given harvest yield information currently to hand. Both EU and Australian wheat output was also reduced somewhat, although our thoughts are that Australian output could well be reduced even

Wheat .Russia (in millions)						
Source	a) PS&D					
Market_Year	2013	2014	2015	2016	2017	
Attribute_Description	September 2017	September 2017	September 2017	September 2017	August 2017	September 2017
Area Harvested	23.40	23.60	25.60	27.00	26.80	26.80
Yield	2.20	2.50	2.40	2.70	2.90	3.00
Beginning Stocks	4.90	5.20	6.30	5.60	10.80	10.80
Production	52.10	59.10	61.00	72.50	77.50	81.00
Imports	0.90	0.30	0.80	0.50	0.50	0.50
Total Supply	57.90	64.60	68.20	78.60	88.80	92.30
Feed Dom. Consump...	12.50	13.00	14.00	17.00	19.00	20.00
FSI Consumption	21.60	22.50	23.00	23.00	23.00	23.00
Domestic Consumpti...	34.10	35.50	37.00	40.00	42.00	43.00
Exports	18.60	22.80	25.50	27.80	31.50	32.50
Total Demand	52.70	58.30	62.50	67.80	73.50	75.50
Ending Stocks	5.20	6.30	5.60	10.80	15.30	16.80
Stocks to Usage	0.10	0.11	0.09	0.16	0.21	0.22
Production min Usage	-0.60	0.80	-1.50	4.70	4.00	5.50
Carry-Out Months of...	1.20	1.30	1.10	1.90	2.50	2.70

further on account of on-going dry conditions. In Argentina the reverse is true, it is wet conditions according to the BAGE that are contributing to reducing crop prospects. Regardless, there is little doubt that Black Sea supplies will be the sustaining supply in the coming season, assuming that Russian logistics are able to cope. Longer term, it feels very much as if Russia has turned something of a corner in terms of agronomy and reaching higher yield levels than previously experienced. They need to now invest, both heavily and speedily, to build an infrastructure that permits the surplus supplies to reach their global trading partners, or be forever forced into storing such surpluses.

Our take on the report is that we are still reading some corn and soybean yield numbers that look (to us) improbable. If we consider the US growing season, factual information, a large proportion of the Midwest and Plains has received significantly less rain than normal since the start of June. It could be argued, and we are in this camp, that rain is necessary to produce a crop! Such a departure from normal rain volumes argues strongly against a trend or above yield. However, we are only a small fish in the sea, and await actual data from combines at harvest to prove us either right or wrong, but meanwhile hang on to our convictions. Initial soybean yield data picked up from IL and IA is far from impressive, although it remains early days yet. Yields some 4 to 11 bushels/acre below last year have been reported with both small beans and fewer four bean pods stated as the reason for such reduced yields. Remember, this is not a national picture; this will emerge as harvest expands, and we should keep a watchful eye on actual harvest reports.

Closer to our home, in Europe, we saw France's AgriMer upgrade their wheat crop to 37.8 million mt, almost 10 million above last year's poor output. They will, as a consequence, be searching for some serious volume non-EU export markets, something

of a challenge given the huge crop in Russia and its neighbours. French farmer “hoarding” has been suggested at current prices, but this cannot continue indefinitely, and the crop will have to come to market at some time, the questions being when and at what price. Russia’s current season exports have reached almost 10 million mt vs. the UU’s 3.1 million; perhaps the message is clear.

In the UK, the £Stg has strengthened on the back of suggestions that an interest rate rise is now more likely than not, and wheat prices have slipped relative to EU levels. March and May 2018 (London vs.Paris) futures prices have seen a narrowing to below £7/mt, a drop of around £5/mt from not very long ago. The UK will likely be a net wheat importer as current output of around 14.3 million mt will be less than current usage forecasts, which are somewhere over 15 million mt at present. UK prices will need to be attractive in order to attract supplies, presumably accounting for the narrowing differential between London and Paris futures.

In summary, our old mantra that downside appears more limited than upside remains intact, even despite the USDA’s attempted intervention. That said we do not see an immediate explosion of prices to the upside, maybe a steady climb if and when US yield data permits.