

The US Labor Day holiday delayed start to the week saw markets in Chicago jump sharply higher in a move that left a bullish open gap in soybeans, a bullish outside day chart formation in corn and a more steady follow up in wheat. Subsequent trade has been somewhat more subdued although the early week gains have, by and large, been maintained throughout the week.

The lack of strong follow through may be something to take note of as the bulls fail to take a convincing lead and drive prices higher still. The issues facing markets include the active hurricane season in which Harvey, Irma, Jose and Katia follow one another in quick succession. It is probably fair to suggest that crop issues are more restricted to cotton, sugar cane and citrus rather than the crops we usually concern ourselves with in this report. However, the market is watching the associated damage and impact with concern. The impact from the crude oil refining perspective is not to be underestimated and recent crude price gains have the potential to support other commodities.

The latest UN FAO (Food and Agriculture Organisation) data shows a hike in world grain production and stocks in 2017/18. The Russian crop is the key driver of the uplift, and once again the debate continues on the ability (or otherwise) of their ability to export the increased surplus. This is in contrast to a recent survey of analysts showing an expectation that next week's USDA report will show a drop in US corn yield of some 2.4 bushels/acre to 165.5 bushels/acre. Regardless, the UN report is a good reminder that regardless of prominent issues, such as US corn and soybean yield, global supplies are at least adequate, if not as abundant as has been the case in previous years.

In Europe, the long awaited announcement that tariffs on EU imports of Argentine biodiesel was released. By late September the tariff will drop from 22.0 – 25.7% to 4.5 – 8.1% in line with last year's WTO ruling on unfair export subsidies by Argentina. This news, together with a stronger Euro on the back of improved European growth forecasts, pressured Paris rapeseed futures. The stronger Euro makes the region less competitive in both grain and oilseed export markets going forwards, and this point has not been lost on Paris futures, which failed to match their Chicago counterparts' move higher.

EU wheat quality remains something of a question despite the improved output prospects; 149 million mt vs. 144 million mt last year and a longer-term average of just under 143 million. Late cold conditions in France and Germany, where some 40% of the bloc's crop is produced, and prolonged dry conditions in Spain and Italy as well as a wet July and August in N Europe could well have provided a more bullish environment than has actually been the case. Five weeks of market lows in Paris appear to have been driven by the previously mentioned Russian crop and all that goes with it. Only time will tell as to whether the Russian volume will overhang the market in the longer term. One thing is, in our view, for certain, and that is the fact that higher grade milling wheat will command a more elevated premium to feed grades than has been the case in recent times.

Eyes are on next week's USDA report, which seems unlikely to turn the tide of abundant global stocks, particularly in wheat, although the corn and soybean yield numbers will probably attract most attention. We continue to see upside price risk as more likely than downside at this time.