

The USDA's December release has come and gone with little in the way of surprise save for a sharp increase in soybean oil for biodiesel. The data showed a month on month increase of 500 million lbs to 7,500 million, which is 1,300 million lbs above last year. If correct, and we would not shed doubt on this, the outlook is for soybean oil to make gains likely at the expense of meal. Combined global corn, wheat and soybean stocks saw a month on month increase but were a shade lower than a year ago, although we would remind that there remains no suggestion of shortage. The USDA did recognize the increase in wheat production featured in the latest StatsCan report but did not adjust Australian production, which traders are assuming is more likely under 20 million mt as opposed the reported 21.5 million mt.

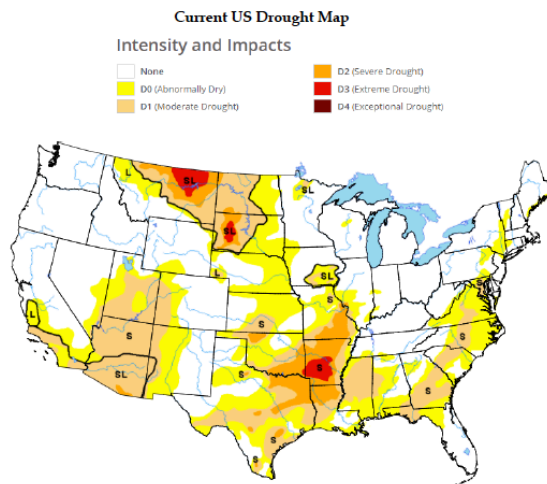
Aside from the above there is little else in the report upon which to comment and we continue to focus upon developments in S American weather conditions and their influence upon prices in coming months.

In a departure from our usual report we are looking at the three main crops from a more fundamental perspective, and to that end we would suggest that at this point in the year, corn prices receive their main price driving influence from S American weather and prospects. The likelihood of going through a season without some form of "scare" is remote, and weather premium will ebb and flow inline with such scares. Historically, in La Niña years we have seen Argentina as the trigger for surprises, and it feels as if this year will also be the case given dry conditions extending closer and closer to the more critical growth phases of the crop. Any weather stresses that develop post mid-December will likely attract more attention than has so far been the case hence our earlier suggestion that this is our main watch point. Currently, weather models are pointing to improved conditions in Argentina through to the end of the year, albeit still a deficit in moisture for the last 60 days. Analog years for this flavour of La Niña would suggest drier condition in parts of Brazil and perhaps parts of northern Argentina developing in January and February. This would be a critical time and area affecting the safrinha corn crop and leads us to our favoured stance of an anticipated a rally in prices on the back of this.

Soybeans follow a similar pattern to the corn weather scenario outlined above. Demand patterns continue unabated and should S American continue dry we would anticipate weather premium to be added. The trade patterns in S America show Brazil as sellers whilst Argentina's farmer tends to hoard stocks in an endeavor to hedge against Peso devaluation. Consequently, S American stocks tend to be held in Argentina, and any question marks over their crop would point prices higher. In addition, Argentina is primarily a seller of processed soybeans, oil and meal, and any weather issue would likely see a more pronounced upward move in these markets.

Wheat is different from corn and soybeans in so far as relatively little is grown in S America with the main winter wheat crop being grown in the northern hemisphere. The impact of winterkill in Russia, Black Sea, Europe and US

from mid-December onwards is a highly relevant issue for seasonal price trends. Winters in the northern hemisphere in La Niña years can see cold air masses across the dormant crops, and with dry conditions across much of these areas there is a chance of limited insulating snow cover, which may potentially increase winterkill risks.



One further risk affecting all three crops is the drought affecting across central US, which potentially limits subsoil moisture for wheat emerging from dormancy as well as early season corn and soybean plantings.

In summary, we currently have (and have had for some while) relatively low prices in corn, wheat and soybeans as well as relatively large net short positions held by the funds. Should S American weather continue dry in a developing La Niña the stage could be set for fireworks in what we may look back upon as a “perfect storm” scenario.