

We appear to be witnessing something of a turnaround in price trends this week as markets move somewhat higher for a change. Out of the big three, corn, wheat and soybeans, it is soybeans that have taken the lead in the push higher whilst corn and wheat have made more measured progress. Unfortunately, at this time, these positive moves in Chicago have not translated into corresponding gains in either MATIF or LIFFE wheat.

There are a number of potential “triggers” for higher prices, and arguably the main one is weather related, as we have perhaps hinted in previous updates. S American weather conditions are creating a platform for additional weather premium, specifically dryness in Argentina, which looks as if it likely to continue and possibly intensify in the coming fortnight. The two key weather forecasting models appear in good agreement with minimal rain forecast to fall across N Argentina in the next ten days and light and scattered showers across the rest of Argentina. Key crop growing regions in the country are lacking forecast rain into early February with a build up of heat adding to crop stress. Importantly, the Argentine corn crop pollination period is coinciding with the hot and dry forecast, and this is clearly not ideal for ultimate yield. Current forecasts point to Argentine heat lasting into March.

Heavy rains are forecast to reach N Brazil and last into mid February with 8-12 inches possible in Mato Grosso and Goias, both key crop-growing areas. This will doubtless slow the progress of harvest and could give rise to some quality issues in already mature soybeans as well as delay safrinha corn planting..

Weather forecasts in the US point to continuing lack of rainfall across key crop growing areas aside from the E Midwest. The Plains and E Midwest is already dry, and appears to be getting dryer, and this will need to change materially before spring sowing operations get under way if crop establishment is to be favourable.

Aside from weather, and its headline grab this week, we continue to see weakness in the US\$, which has impacted general commodity prices, and may just be starting to influence agricultural commodities. The Chinese Yuan has reached a three-year high vs. US\$. US President Trump has this week announced in Davos that the strong US economy should help dollar recovery, but this has yet to materialise. At the current time major interest is focused upon emerging nations and their growth potential whilst the EU and US with their individual political turmoil appear to be overshadowed, and this is reflecting in exchange rates.

The last “trigger” to comment upon has to be the ongoing fund short position, which has been at or close to record levels, and net short in case that needed pointing out. With such large positions comes the danger of a change of heart as we have often mentioned. In addition, with prices edging higher in the grains, corn and wheat, and making a more marked move higher in soybeans, we have the potential for the funds to review their (now

stale and lossmaking?) short position and cover. With such a potentially large buyer in the market place we are struggling to see who would be a willing seller, certainly farmers in both North and South America appeared reluctant at lower levels, and may squeeze prices higher.

Our earlier view that prices had bottomed and that downside was limited now appears to be justified. We are looking for further upside in coming weeks.