We are clearly in a weather market at the present time with Argentina hitting the headlines again this week as dry conditions continue to pile stresses onto the corn and soybean crops. Current weather forecasts have some disagreement, and as such, leave confidence levels lower than we may like, but it seems t he coming ten day period will be almost completely dry in the principle crop producing regions. Added to the lack of precipitation we have the added problem of subsoil moisture deficit, which leaves grower's concerns very real. The upshot is that Argentine ratings for the majority of crops right now are poor or very poor and the outlook is not bright. BAGE reported 56% of the soybean crop to be poor or very poor compared with 20% only a month ago, 11% was rated good and none was rated excellent. They (somewhat surprisingly in our view) stuck to their 50 million mt soybean crop output estimate. The Argentine corn crop was also rated 58% poor or very poor.

As if woes in Argentina were not enough, weather forecasts for central US regions with little, if any, precipitation projected for the coming two weeks; unlike the Delta, Southeast and E Midwest which is forecast to receive heavy rains. The latest NOAA outlook suggests a continued, although weak, La Niña pattern lasting form the remainder of the winter, which some other forecasters project to last into early summer. Regardless of the rights and wrongs of the La Niña pattern debate, it seems that the Plains are likely to remain dry and warm. The main issue in this is the fact that we appear to be heading into a Plains planting season in which soil moisture levels will be at their lowest for a number of years and any lasting dry weather pattern will leave crops struggling. Clearly forecasts change and it is very early to be pointing at "doom and gloom" but we make the point that weather and the forecasts are wore the watching - closely.

This week has seen prices firmer, mostly on dry Argentine weather, and soybean meal prices led the way, reaching 19 month highs. The meal market has reacted first mainly because Argentina is a major processor of soybeans, and exports more meal as opposed soybeans. Consequently any decline in soybean output will pressure crush and meal export availability, which has paved the way higher.

Wheat markets have followed higher with NOAA's forecast adding to stronger sentiment. However, away from the US, we have seen a slowdown in Russian export pace as a consequence of sub-optimal conditions particularly in the Black Sea. It seems we may well have come to the tail end of an excellent export season, and Russian on offers now appear to be inching higher. It is not only Russia that has issues, Canada too has extreme conditions with deep snow and very cold temperatures, which are hampering logistics. The global scene is taking a slight deviation from its previous rosy export scenario. Despite all of this we continue to wonder at the ongoing fund short position, estimated at around 80,000 contracts, as this remains close to a record level for this time of year.

Closer to home we continue to see EU wheat exports continue to languish largely due to strong Russian competition on the back of their excellent harvest and an extended weather window that has aided export opportunity as well as a stronger €uro. Since mid-December only 2.6 million mt of wheat has been exported, the lowest volume since 2011/12. The season to the end of January saw 12.2 million mt of soft wheat exports, some 2.8 million below last year and the lowest since 2012/13. The EU Commission forecast is for a 2017/18 export total of 25.5 million mt which will require a weekly export volume in the order of 650,000 mt. This is a figure achieved twice in the last five years, and this season looks a pretty tall order. Current export pace, if maintained, would leave the season total at 20.8 million mt, which would be the lowest since 2012/13. If exports match the five year average for the remainder of the season we could expect a season total export volume of 23.7 million mt. Either way, EU wheat export volumes are pressured this season and this would seem destined to drop into end stocks/2018 opening stocks.

Weather, weather and more weather remains the order of the day right now. A close eye needs to be kept upon forecasts and any changes they might bring to pressured Argentine crops as well as changes that may impact the upcoming US planting season. Fund activity remains an issue to watch in case of significant change with all that it entails. Our stance remains firmly non-bearish with a preference to the long side buying dips asa and when they materialise.

We are taking a break for the next two weeks and plan to be back in print 9 March.