

This week has seen the release of the latest WASDE report from the USDA and perhaps the biggest surprise came in the form of the increase in US corn exports in the 2017/18 season by 175 million bu, which coupled with a 50 million bu increase in corn grind leaves a record large US demand figure at 14,820 million bu. Clearly this places pressure firmly upon the current year's Argentine crop, which we know is already pressured, amid a robust global economy. Growing corn demand, not only for ethanol but also for livestock feed, also puts pressure upon US acres, yield and output, and the mechanism to attract essential acres will have to come from price. Our view is that corn is the bullish story right now, and that is without any significant weather input.

Our view remains consistent that we have not yet seen the full impact of weather on S American, specifically Argentine, crop output, and future WASDE and CONAB data will reflect further losses adding to price pressures. Combined Argentine and Brazilian corn production for 2017/18 was estimated at 130.5 million mt, which is 3.5 million down month on month, and perhaps more significantly, 9 million down year on year with prospects not improving at this time. The outlook for US corn is also far from clear right now with extreme drought conditions in place across TX, OK, KS and CO, states that accounted for around 10% of US production in 2016/17. Clearly pressure is on corn at this time.

Soybean data was less supportive with the market falling upon data release although it was close to unchanged at the close. Reduced exports (35 million bu) and increased crush (10 million bu) left end stocks enlarged by 25 million. Combined S American output was cut 6 million mt with Argentine production 7 million down month on month, which was pretty much in line with trade expectations. It should be pointed out that in the last three short crops (2008/9, 2010/11 and 2011/12) the USDA's figures did not fully reflect drought impact upon the crop until June at the earliest, will this be repeated this season? BAGE reported the Argentine soybean crop as 79% poor or very poor, a 3% jump week on week, and with soil moisture profiles clearly well below optimum there remains further crop stress in the offing.

Wheat data was viewed as slightly bearish with an uptick in global stocks. However, the corn data should be sufficient to provide some price support and prevent the bears from running away with the market although we should not lose sight of abundant global stocks and limited threats in either Europe or Black Sea growing regions at this time.

In summary, we see limited price downside although it would be fair to suggest that markets are currently in an overbought state at this time. Price corrections lower would seem to us to provide opportunities to catch up on purchases rather than change of trend to be followed.