

This week saw the release of the USDA's latest WASDE report, which gave little in the way of surprise, as is so often the case in its April update. US corn, wheat and soybean end stocks all remain substantial and the market appears to have digested any Argentine losses, which are now priced in. The market's focus now seems to be the ongoing issue of global trade disputes, which we discussed last week, weather and growing conditions in the northern hemisphere and, more recently, geo-political tensions as the Russia/Syria vs. what seems like the rest of the civilized world situation hovers close to armed conflict. Whilst such an issue is not directly linked to agri-commodity prices, there will undoubtedly be some impact and this should not be ignored.

The USDA, as expected, continue to reduce S American corn output with a month on month drop of 5.5 million mt leaving southern hemisphere output (including S Africa) some 19 million mt down year on year. Brazilian rainfall needs to be watched closely to ensure safrinha output is not compromised further, dryness in February and March, should it persist into May or June, could see a further downgrade in output hence the cautionary note.

Soybean figures in the report showed a 7 million mt drop in Argentine production, to 40 million mt, and makes a 16 million decline from initial estimates at the start of the year. Doubtless there will be further revisions to the estimates and our money would be on further declines rather than any upside adjustments. The big picture for global soybeans is one of a reduced Argentine crop, China/US trade disputes and a cold, wet start to the US growing season although current prices may well encourage more acres than initially estimated, which would alleviate some of the (minor) concerns that are currently surfacing.

Wheat stocks from a global perspective are not a concern, end stocks were elevated to another record level at 271 million mt. This has been a trend for some months, yet cash prices have remained underpinned by dry conditions in the US. However, we do see more downside risk with such stock levels and unless we see some supply disruption our inclination is towards trading wheat from the short side as and when opportunities arise. One positive snippet of news appeared from Stratégie Grains who report low incidence of winterkill in Baltic States, the first such notification. Whether this is repeated in other key wheat producing areas of Russia and Black Sea remains to be seen, but our belief at this time is that winterkill should not be a major issue this season, time will prove us right – or not.

The formal announcement by Vivergo Fuels that their bio-ethanol plant is to reopen after a four-month shutdown has impacted cash wheat premiums in an already tight supply season. Their one million mt plus annual demand will add further pressure to the domestic market, which is starting to see imports as an economically viable proposition, particularly in the north of the country. AHDB recently reported that feed wheat premiums (above futures) stood close to £4.00/mt above levels trading just five months earlier.

Our view remains in that volatility will remain, particularly in light of trade related disputes, potential for shots to be fired in the Syrian situation and ongoing uncertainty over northern hemisphere weather conditions. Currently, prices are elevated and we are reluctant to chase them higher despite a “gut feeling” that there is upside remaining. It feels as if it is becoming time to return to our uncomfortable perch on the fence once again until such time as more certainty becomes obvious.