

Perhaps the biggest feature in markets this week has been a return to increased volatility; corn moving over 14 cents, wheat over 25 cents and soybeans a massive 65 cents (all basis front month futures contracts). More noteworthy is that these moves, whilst large, have not been definitive price direction changes, more market reaction in a knee-jerk fashion to fresh input. The “whip-saw” nature of the moves has clearly rattled the market and there is little confidence at this time that such volatility is over. The market, right now, is not one for the faint of heart.

The drivers for recent moves have included tariff imposition news by both US and China in what we recently described as “tit for tat” moves. The US steel and aluminium tariff announcement was met by a long list of Chinese retaliatory measures including ethanol, and the initial market reaction was probably panic, followed by a more measured response when it was realised that actual imposition would be implemented in late May or early June, at the earliest (if at all?).

More significant news input, which rattled the market, came as we approached the Easter holiday weekend and the NASS Grain Stocks and Prospective Planting report was released. An unexpected reduction in planned US corn and soybean acreage sent the markets in a bullish move higher, despite March 1 stock levels being reported at record levels. Soybean plantings were forecast at 1.1 million acres lower whilst corn area saw a 2.1 million acre reduction (both year on year). Consequently, if the report’s corn and soybean acres are correct, weather and growing conditions will become much more important if output is to remain adequate. A week on from the report’s release, the market has digested the news and focus returns, once again, to weather forecasts and likely US growing conditions as we approach the new crop planting period.

There has been something of a reversal of recent S American weather pattern insofar as the major forecasting models are predicting additional rainfall in central Argentina, which if realised, will give widespread soakings across the wheat belt. This may slow harvest but will generally be welcomed. Contrastingly, very little rain is forecast for southern Brazil where almost 45% of the safrinha corn crop is grown. Pre-pollination rainfall is generally required to see the crop through the pollination period and pave the way for yield. Further rains are required in central Brazil if corn yields are to be maintained. At this point, the drier conditions in Brazil are not expected to be permanent.

This week’s US Drought Monitor also showed a slight expansion in exceptional drought conditions across OK and CO, and still little to no rain is offered to the western Plains into the latter part of April. We highlight recent season crop yields (soybean and corn), which have offered some surprises to the upside in the face of some growing season dryness, but started the season with reasonable soil and subsoil moisture levels. Currently, this season is not starting with the same soil moisture profile and needs to be watched closely.

In summary, we continue to believe that volatility will remain until such time as trade disputes ease, and that appears to be some way off right now. In addition the importance of S American weather remains high for both harvest and safrinha corn production, and we are entering the US planting season where weather conditions are perhaps more finely balanced than has been the case in recent years. Our inclination remains that downside has a much more limited potential than upside, and as such we would prefer to trade this market from a cautiously long position as and when opportunities arise.