

There is little doubt that this week's key talking point has to be the steep decline in Chicago corn and soybean futures. Their charts now display a number of open "gaps", which have resulted from accelerated fund selling as nervousness kicks in over the potential for a US/China trade war. Trade news culminated today as the Trump Administration has already approved \$50 billion of US tariffs as the market waits for the official breakdown and the subsequent retaliatory measures by China that are doubtless to follow. The market's biggest concern is China could impose a 25% import tax on US soybeans, which would likely leave a large hole in US bean exports to China. The volume would doubtless be filled to a large extent by S America and US beans would find other homes but the trade remains nervous and as we all know, uncertainty is something markets dislike intensely.

Front month soybean futures have now fallen more than \$1.40/bu (13%) in three weeks whilst corn (again front month) futures have shed close to \$0.50/bu (12%) over the same period. Front month Chicago wheat has also lost around \$0.50/bu (10%) in the same time frame. It will be interesting to note quite how much length the funds have shed, although the latest figures to be published tomorrow will only give the picture up to Tuesday, and our information suggests selling has continued beyond that time frame. Interestingly, wheat in both Paris and London has seen a decline but nothing like that seen in the US (3% and 2% respectively). Our view on the UK market is that significant weakness is unlikely and dips, no matter how small, represent opportunities to top up any gaps in cover or to extend forward coverage where appropriate.

Remaining with politically driven matters for a moment, it seems that President Trump's meeting with the N Korean leader in Singapore earlier this week was a resounding success with both seemingly becoming "best of friends" with a clear pathway marked out for further discussion, co-operation and lasting relationships. Quite how long this remains will be interesting to see, which is perhaps us putting on our cynical cap at this time, but regardless it has to be said that we have witnessed something of an historic move as the two former arch-enemies move closer together.

The two issues of China and N Korea have somewhat eclipsed the latest WASDE report, which was released on Tuesday. The data was bullish as 2018/19 US corn, soybean and wheat end stock forecasts fell by a combined figure close to 4 million mt. Stronger old crop demand was one driver and stronger 2017/18 corn exports, the best in ten years, also contributed as did record large third quarter US soybean demand. Russian wheat output in 2018/19 was cut to 68.5 million mt compared with the prior estimate and 85 million mt in 2017/18. The cut was largely based upon a 1.0 million hectare acreage reduction in spring wheat although there was some account taken of a potential yield reduction due to abnormally dry conditions. Our belief is that the ongoing drought will lead to further reductions of larger magnitude and weather will need to take precedence in our analysis. The upshot as we see it is that there will likely be a reduction in Russian exportable volumes, maybe in the region of 10-14 million mt, which will provide opportunities to other exporters, a relative novelty given what has been the picture this year.

However, despite the bullish report, Chicago markets took it on the chin and continued to decline almost without pausing for breath as traders decided they wanted to be out of

positions before Friday's potential bombshell on tariffs. We await the news with some degree of interest, mainly because we believe that soybeans in particular have priced in (probably very fully) the impact of tariffs and retaliation, and if there is no imposition of such a tariff we could well see soybean prices surge higher as tariff price protection is withdrawn and traders return to looking at more bullish global fundamentals. Doubtless, there will continue to be some market caution remaining in place until the political and trade arena is more fully understood and accepted, and only then will prices more realistically reflect market the fundamentals of supply, demand, weather and the like.

We hesitate to fully support any large position, one way or the other, in such a turbulent arena, but continue to favour wheat markets as the potential upside leader, specifically higher quality specification wheat, in what appears to be developing as a tighter supply position than originally anticipated. We are (eagerly) looking forward to some easing in political drivers, which are impossible to predict and therefore trade, and a return to more traditional fundamental analysis before too long.