

This has proved to be something of a manic week with Chicago grain prices taking something of a beating in the aftermath of the September USDA reports. The two major, market influencing, inputs were the high (some say shockingly so) corn yield figure and the uplift in Russian wheat output. US corn ear and soybean pod weights were both reported at record levels, although these clearly need to be validated with real harvest data in the fullness of time. From a wheat perspective we continue to put our focus on global stock levels which, excluding China, are now significantly lower after production fell some 29 million mt.

With US soybean yields projected higher once again and no firm end to the US's trade dispute with China, we are looking at end stocks of 845 million bu, which is potentially a burdensome level. The issue is not confined to the US alone, global end stocks were pegged at 108.26 million mt compared with 94.74 million last year. A possibly more relevant number is global soybean stocks, less China, which grew 6 million mt month on month but still sit around 23 million below last season, and 38 million below the 2016 "top". The significance of US trade with China should not be underestimated, and news that the US has invited China to further, higher level, talks is encouraging and softened market bearishness on report day.

US corn yield carried with it a record implied ear weight of some 0.36 plus lbs with production elevated by 223 million bu despite a year on year reduction in acres. Increases in both old and new crop exports as well as an uplift in new crop feed and ethanol grind leaves end stocks at 1.774 billion bu, which should not be a burden. The only potential blight on the corn horizon is coming rains, which might impact the forthcoming harvest, but this is by no means certain at this time but needs watching. The next step in the evolution of the supply side of the market is the US harvest (which is in the early stages) followed by planting in South America but as of yet, there are no widespread problems to report.

The wheat data contained a 3.5 million mt increase in FSU production based upon improved weather conditions, which improved the winter crop harvest and a better outlook for the spring wheat crop. If such improvements materialise the earlier suggestions of an export cap or restrictions of some type will likely be dropped or delayed. Wheat crops in Australia and Canada were similarly reduced by a combined 3 million mt.

Global wheat end stocks at 261.29 million mt are a shade over 13 million below last year; global corn stocks are also down year on year, a drop of just over 37 million mt, which leaves the combined year on year drop in the two main feed grains a combined 50 million mt. This figure should not be ignored amid growing consumption trends.

It is doubtless that from a technical perspective we have seen some major "damage" done to chart patterns, which will have contributed to the price direction seen this week. Quite how much fund liquidation has occurred will not be seen until next week's CFTC report (Friday data is only to the preceding Tuesday) but it has certainly shaken some length out of the market.

In summary, we have no argument with the report (neither should we) but it feels as if prices have reacted more strongly than we would have anticipated given global stocks.

With that in mind, we continue to believe that price downside has limited potential and that prices are at or close to “bargain basement” levels.