This week has been marked by something of a turnaround in the fortunes of the wheat markets. Chicago May futures made a low on Monday, pushing higher into Thursday before closing off the day's high. Overall, the contract reached close to 34 cent gains, close to 8% over a four-day period, the strongest performance for a very long time. Chicago was not alone, Matif May futures made gains of over 4% with London following with gains of 3.8%.

Monday saw spot Kansas City wheat futures testing the 2017 levels, which were set amid a scenario where major exporter stock to use levels were at a seven-year high of 18%. Today those levels are closer to 14.5%, in other words much tighter today than 2017 yet prices were similar. This leaves a fundamental question to be answered. Also, on Monday it was estimated that combined Kansas and Chicago wheat fund positions amounted to a net short of 120,000. Such a short position, and historically it is a big net position, leaves markets vulnerable to a short covering bounce.

Tuesday saw a key technical reversal in the charts amid big volume trade. There appeared to be more optimism that the US and China were closer to signing a deal, which if formally agreed has potential to add $30 billion to US agri trade with China. This volume and its impact should not be underestimated. Hence the change of heart by some funds and their reduction in net short which will only be reported in a week as CFTC data is only reported on a Friday with data effective to the prior Tuesday.

Regardless, prices have pushed higher and sellers have become somewhat reluctant to come forward. French FOB offers, such as they are, have gained the equivalent of $10/mt in four days evidencing the pickup in demand that is materialising in EU markets.

Clearly, we are looking at a point in time, and this week has seen activity in the markets, which needs to verify. In other words, we have to see progress towards the long-awaited US/China agreement, which will further encourage prices. One word of caution has to be pointed out, and that is the positions of both Presidents; President Trump will likely want to adopt a "they need us more than we need them" stance, which could lead him to step back from agreement at a late stage in order to get what he wants. Similarly, President Xi will not want to be seen to be "giving in" to the mighty US, and his stance in negotiation could well put up obstacles to agreement. However, it seems that both parties need to resolve the dispute and move towards settlement, which is what traders appear to be pricing in this week.

Back to the suggested $30 billion additional US trade with China, it would create a $50 billion total business with soybeans likely to top the list with corn (and DDG's) and wheat also likely to be well represented. To put $50 billion into perspective, it is a mere 39% of China's total annual agri imports. S America will bemoan a settlement as their windfall this year will seem to be just that and historical bean and corn volumes could well be something they miss out on too.

The week was clearly led by wheat prices, with Chicago leading the way, soybeans and corn were not immune to making gains with May soybeans gaining a mere 1/6% and corn a shade under 3%. The market sentiment needs to retain momentum if the gains are to hold and built upon and this needs positive news to come from negotiations; watch this one closely. Weather has taken more of a back seat this week but remains a key price determinant going forward as the N Hemisphere enters the new growing season. We are already picking up on suggestions of warm and dry conditions forecast to prevail over S Russia and Black Sea regions although it is still early days.

We hold on to our belief that downside holds very limited potential, particularly in the grains; and would even be so bold as to suggest that a "bottom" was formed in Chicago wheat on Monday.