As the week draws to a close we have to admit to feeling somewhat disheartened at the overnight news that the unthinkable (at least from our perspective) has in fact become thinkable. We are, of course referring to the US/China trade war that had dragged on, and on, almost as long (it seems) as our own Brexit debacle. Yes, the Trump Administration has in fact increased tariffs on $200 billion of Chinese goods from 10% to 25% leaving global financial markets, and in their wake ag markets, braced for a full-blown trade war between the world's two largest economies. Last minute talks in Washington between Chinese vice premier Liu He and US trade representative Robert Lighthizer failed to salvage months of talks on a deal and at 12.01am tarrifs were raised. China's ministry of commerce said in a statement just after the deadline: "The Chinese side deeply regrets that it will have to take necessary countermeasures," adding that "high-level economic and trade consultations" were underway. "It is hoped that the US and the Chinese side will work together to resolve existing problems through cooperation and consultation," it said.

The increased tariffs apply only to goods leaving China after the deadline and will go into effect only once shipments reach the US, leaving room for negotiations. The White House said the two sides will resume talks on Friday amid hopes that a deal can be reached. However, markets now face the prospect of a damaging trade war which many fear could destabilise the already slowing global economy and escalate tensions between the two superpowers over flashpoints such as the South China Sea and industrial espionage.

Financial markets reacted in a mixed fashion, particularly in Asia where there were gains and losses on the news, currencies were mildly, if at all, impacted and crude oil slipped in price marginally. Indeed, these reactions were minimal when compared with the reaction in Chicago markets, specifically corn and soybeans. Soybeans slipped to fresh contract lows with spot futures (albeit in delivery) dropping below $8.00/bu for the first time since December 2008, which was at the peak of the last financial crisis. New crop corn plunged to match contract lows on Thursday in advance of the midnight deadline in anticipation of the news and amid fears for forward export volumes, specifically ethanol and DDGs. Wheat futures followed corn and soybeans but not to the same extent.

Clearly, the outlook for soybeans, corn and to some extent wheat, all appears to hinge upon a trade deal or an all-out trade war. It could be added that from a corn perspective, the next two weeks could see the US farmer, who is already struggling with weather driven planting delays, placing acres into the prevent plant programme. If this was the case, and a trade deal was reached, say in the second half of June, after the optimal planting window with several million acres unseeded, market reaction could be very interesting indeed. Prices are without doubt cheap, but markets appear to have only one point of focus right now, and that is the US/China situation.

Interestingly, little was made of the latest CONAB forecasts, which saw Brazilian soybean output increased half a million mt from April to 114.3 million mt whilst total Brazilian corn was elevated 1.2 million mt to 95.3 million. Their corn forecast was below market expectation and close to the latest USDA number, which is due for update in today's WASDE report. These latest CONAB numbers suggest that total S American corn supplies are growing rather than reducing, and latest weather looks favourable for the key safrinha crop in southern regions of Brazil.

The weather-stricken US farmer, suffering planting delays as mentioned earlier, looks to get some reprieve with a five or six day planting window, in which we will doubtless see some serious acres seeded, before the forecast changes once again with a return to wetter conditions. Whilst groundwater supplies do not appear to be an issue going forward, late planting, flooding and general poor early crop conditions are far from ideal. Lasting warm and dry conditions do not yet seem on the horizon.

US/China talks and bearish WASDE expectations dominate the market, and this update, and sentiment is clearly lower at this time. Will a deal be struck; will the US farmer get corn planted and weather become more favourable and will global trade patterns return to a more "normal" rhythm? All impossible to answer questions but a reasonable point, in our opinion, at which to end this update.