

We return after a couple of weeks absence to markets that appear to have listened to our pre-absence suggestions that fund short covering was a risk and that prices could well trend higher. This has, to some extent, been the case although there is no certainty that this will continue to be so. It seems that we have a number of different driving forces, and for once we are looking away from the various political arenas for those key drivers; although politics and all that goes with it cannot be totally ignored.

Weather, weather and more weather are the main forces in play at present, which will doubtless come as no surprise. Continued wet weather and wet soils have hampered US planting, particularly corn, which is now well past its optimal planting date across the whole country. Quite how much is planted will be revealed in coming reports but progress to June 2 stood at 67%, a jump on the prior week's 58% but well behind the ten-year average of 95%. Better weather, by which we mean drier, has presented a planting window which will doubtless allow further seeding to take place this week, quite how much remains to be seen. Regardless, this will be the slowest corn planting season on record. In addition, the proportion of the crop that is late planted will have to struggle in less than ideal conditions. Wet and cold soils together with potential for "capping" as well as the lateness itself will leave the crop under pressure from the get go, and yield will be pressured if not potentially already stunted, more so if the season's weather conditions do not improve.

It is far too early in the season to be putting concrete numbers on yield and output but the market is talking down yield from the USDA's initial estimates. Our view at this time continues to support reduced output and a tightening in the US corn balance sheet, which (if logic follows through) will see minimal downside price risk, and we favour a long position with potential reward to follow in time.

As we have previously suggested, corn and wheat have a strong correlation as far as prices are concerned, and this season is no exception. As well as the drag from corn we are looking at elevated concern over wheat supplies in Russia and Canadian Prairies as dry conditions continue. There is a window in the forecast in which rains could fall across Black Sea regions but S Russia and E Ukraine look to stay dry and warm, and these are key winter wheat producing regions. Canada looks to receive little respite in the period to mid-June and soil moisture profiles are already tight suggesting stresses on the crop are mounting and that yields are under pressure. This could be somewhat offset by improved conditions across much of Europe, including shower activity in the UK.

One further pressure, which is not being widely discussed (yet) is that lower US corn output could well see a switch into feeding wheat with HRW being substituted into livestock diets. This type of ingredient switching is commonplace within Europe but less common in the US and could impact balance sheets in both corn and wheat in the coming season. This could be an interesting point to watch as time moves on.

In marked contrast to the grains, corn and wheat, soybeans continue to struggle in comparison. Yes, there was a similar price uptick, but the big picture does not seem to show the same supportiveness that applies to the grains. The funds continue to hold a sizeable net short position and there appears to be some justification for this as weather conditions turn towards a more bearish influence. Lost corn acres offer an opportunity for soybean planting, with the crop more resilient to later planting as well as offering a greater weather tolerance. Pressure also remains in place from large S American crops as well as the ongoing US/China trade war that shows little sign of resolution in the short term. As supporting evidence, US new crop soybean sales to China stand at 56 million bu vs. 234 million just a year ago, the slowest pace in almost fifteen years. Global soybean, and overall oilseed, supplies remain abundant, and described by many as oversupplied, and as such it is tough to take a bullish stance.

Our outlook therefore is friendly to the grains, corn and wheat, and less so towards soybeans. We await further weather related developments and publication of actual planting data.