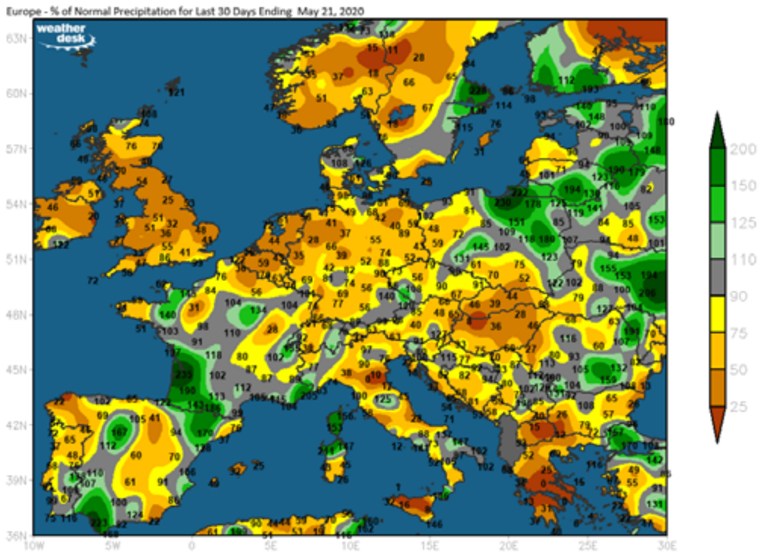
Covid-19 remains the main headline grabber – again, but we potentially have a new signpost for price direction this week. Midweek saw the Russian Ag Ministry downgrade 2020/21 cereal output expectations. A cut of 5.3 million mt to 120 million from earlier forecasts. Ongoing dry conditions across a number of regions has impacted yield and, if the new forecast is realised, the coming harvest will be below last year by around 1.2 million mt. It is not only Russia that is feeling the effect of dry weather, Black Sea and EU growing areas are similarly impacted. Here in the UK we have seen the whole country receive well below average rainfall in April and May, and what is more, the outlook for the remainder of May is not much better. Soaking rains are forecast across parts of Southern Ukraine and Russia, which if received, should mitigate some of the negative impacts.




The market has taken this news of N Hemisphere supply tightening by adding in some weather premium with futures markets making gains although not completely holding on to them. Key to future price direction will be what Mother Nature can deliver in terms of precipitation in the coming four or five weeks. Any lasting drought, particularly in Russia, would likely point towards a more bullish wheat scenario than we have seen for some considerable period of time.

Corn, on the other hand, has not suffered similar fortunes; ethanol prices have dipped (spot) and weather patterns have not challenged US crops. There appears little on the weather forecast horizon to suggest that the US crop will be drought stressed and given such a picture the markets face limited bullish input. Indeed, the picture would be described as bearish other than the fact that funds are significantly short, estimated at close to 240,000 contracts, and the market is susceptible to a short covering rally should any adverse news be forthcoming. Consequently, we describe ourselves as “cautiously bearish” rather than “outright bearish”.

The soybean market is once again struggling with concerns over Chinese demand, or lack thereof. Ongoing political tension exists between the US and China. The US Senate has passed a bill preventing Chinese companies from being listed on US exchanges.  Many are asking whether or not China will fill its Phase One Trade Deal commitments. Traders are, as a consequence, somewhat nervous of long soybean positions and this is reflecting in prices.

In summary, we could well be a pivotal point in wheat markets with the possibility that we have seen a season low this week. Corn, on the other hand has a limited demand story and a potentially abundant supply story, pointing towards a less optimistic picture. Soybeans are, once again, subservient to the political climate, which as we have previously suggested, makes it incredibly difficult to predict with any degree of confidence, hence our decision to side-line for the time being.