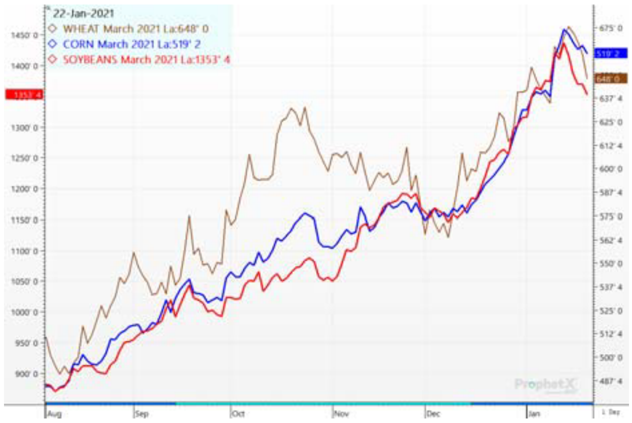
This week has been notable by the correction seen in Chicago markets, which has been replicated to some degree in European wheat. Looking briefly at Chicago corn, wheat and soybean price history, we see a well-defined upward price trend that started in August and has only briefly between then and now paused its upward momentum. This trend is one of the best directional trends we have seen for some time, and has been well supported from both the supply side as well as demand. Most trends gather support from either supply or demand, but when both kick in the trend becomes better defined, and in this case longer lasting.



Is the trend over? A key question, and not easy to answer with 100% certainty. Our current thoughts are that we have not yet seen the markets make their highs yet and this week's price action is, in our opinion, a correction not a reversal of trend.

Supportive factors remain in play, S America has had a dry season, which cannot be undone or overlooked and we wait to see if their yields and harvests match up to the latest USDA forecasts. To be fair, the latest weather forecasts suggest that C Argentina will receive needed rain in the coming week; whether it is sufficient to boost crop prospects remains to be seen. On the other hand, C and N Brazil appear to be trending drier over the same period, and longer-term outlooks suggest below normal rains, which will not be helpful if realised. The Brazilian safrinha corn crop, which is traditionally planted in March, will need to be monitored closely. What we do know at this point is that prices support aggressive planting of second crop corn and even potentially second crop beans, despite the added risk.The point is that S American weather remains a risk to the market, and that risk is more to the upside at this time.

Remaining with weather for a moment, the La Niña weather pattern would indicate that drier than normal conditions would be likely into spring, which should be monitored from a US crop planting perspective. It is too early to be suggesting that drought conditions or anything like that are on the cards, but keeping a watchful eye on conditions could be worthwhile.

The Russian Government's export tax continues to be a market influence with suggestions that February 15 will see a €25/mt imposition rising to €50/mt a month later. No formal export cap is in place (yet), and the market has paused for breath whilst trying to digest the information. The likely impact will be reductions in Russian wheat export volumes, pushing demand to EU a as well as further afield to the US. Likely EU end stock levels could well be at low, possibly record low, levels. A timely harvest will be essential this year. Dips in price will, in our view, be limited in size and duration amid supply tightness and ongoing demand.

US soybean export volumes remain strong as we have previously reported, and it seems clear that this week's easing in price has attracted still further buying interest, which is probably not what the balance sheet needs. The point here is that with continued demand on price dips, and demand rationing needed with a potential S American supply issue, upside potential appears greater than downside. We see the market currently sitting at solid price support levels with the next move higher to target $16/bu as previously reported.

The Argentine corn crop has improved with recent rain, 28% was rated good/excellent this week compared with 19% last week although still well below 59% last year. The size of their final crop will be determined by coming weather and some believe the USDA's 47.5 million mt forecast is somewhat optimistic and that 44-45 million mt is possible. Given such a scenario, this places a larger degree of importance on the Brazilian safrinha crop mentioned above. Overall, we see risks pointing more towards higher than lower prices.

All in all, we remain friendly to markets and continue our "buy the dips" mentality believing that topping up and/or extending forward cover will pay dividends in the longer term. There is an old trader's adage along the lines of, "A bull market always lets you in", and this could well be that moment.