

Markets have continued to track higher, and significantly so once again this week. The upward trajectory has been almost astonishing in its acceleration and is a track we have not seen in a very long time. All the major markets, corn soybeans and wheat (both sides of the “pond”) have followed in unison.

One of the major triggers for such a price leap has been the US cash market where basis bids have increased significantly as processors attempt to buy physical stock, seemingly with mixed results. This has led to the cash premium over futures (basis) to rise. This has in turn left short holders nervous as first notice day (30 April) for front month futures contracts approaches and a scramble to cover those short positions ensued. The limited selling by growers could well be due to simply having nothing to sell or possibly because they are actively engaged in field work. Regardless, there is a distinct possibility that the holders of long futures contracts will simply continue to hold their contract and take delivery. Either way this situation is a classic squeeze on the shorts, which looks as if it is not quite over yet.



The tight US old crop stock position added to ongoing dry conditions in Brazil affecting the safrinha corn crop are a major part of the story. Forecasts continue to suggest that the already stressed second crop will have to endure further dryness for the coming two weeks. Six weeks of dry conditions are causing visible crop stress as afternoon heat is seeing “leaf-roll”, a classic stress indicator. Added to S American weather problems, northern Europe, northern US Plains and Canadian Prairie weather conditions are far from conducive to crop production levels that are necessary to rebuild already tight stock levels.

The big picture here is that a cut of maybe 10-15 million mt in the Brazilian corn crop, which is not a given yet but is a distinct possibility given recent and forecast weather conditions, is a significant cut in global feed grain stocks. With Chinese pig production rising and their consequent feed import requirement the global balance sheets are tightening. Should dry conditions persist and trim yields in Europe as well as the US and Canada we could well be looking at even higher prices for an even longer period of time.

The Argentine corn harvest is reported to be 17% complete this week compared to 35% last year, and traditionally pauses for a period as the soybean harvest takes priority. This does little to ease short-term corn supplies to the tightening market.

Latest figures add to the already known EU old crop wheat stock tightness, an end stock figure of 10.1 million mt is the latest estimate and reflects less than a month’s usage. This places pressure not only on summer weather and yields but also the need for a timely harvest. Rising prices have and will continue to attempt to restrict usage and exports until such time as there is more certainty over likely yield and overall output.

Our view remains firmly bullish across all three major crops, corn, wheat and soybeans and spills into the wider feedgrain markets. As things stand right now, our analysis suggests

that the global picture suggests a strong and growing need for at least two good crop years to replenish stock levels. Volatility appears as if it will remain higher than normal for the foreseeable future.