

The last couple of weeks have seen markets change direction from the long-established bull, which was supported by some extremely compelling arguments. So much so that markets took off into an extreme over bought position added to which fund positions pushed into huge net long territory leaving markets vulnerable to correction. The question now must be whether or not we have seen the highs and trends are now established into bear mode. As always, it is simple to ask the question but not so simple to answer.

It feels like the markets are probing for a low point at this time, with some of the chart technicals supporting this view. Dec '21 Chicago corn has made a 61.8% retracement from the run up to early May highs, which is a significant Fibonacci level for those who follow such analysis. Wednesday's price action saw the market bounce higher off this level and move higher subsequently. Nov '21 soybeans have similarly "bounced" off a 38.2% retracement, not as significant as corn but a pattern that holds credibility. Dec '21 Chicago wheat has hit a 50% Fibonacci retracement but has not seen the same reversal as corn and soybeans. It is interesting that both London and Paris wheat markets have also seen a 61.8% retracement, which seems to be providing support – right now.

It is also worth noting that the extremely overbought position across all our markets has now changed into an oversold situation and has potential to add support. Markets are still in a short-term downtrend despite the above, and we would look for clear evidence before declaring the run lower to be over.

From a more fundamental perspective, we still see China as a bullish market input with their seemingly insatiable appetite for corn, whether that be US, Brazilian or Ukrainian in origin. It has been suggested that China will have secured 15 million mt of world corn by the end of this month, a record level for any month and most of this activity has taken place in a ten-day period over the price break. Clearly the latest drop in prices has triggered significant buying interest, old and new crop, and the volume of US exports (if all sales commitments are shipped) will doubtless pressure carryout stock levels. Added to corn export news is the ongoing profitability seen in US ethanol production, potentially adding to demand and further pressuring supplies.

The key point we are trying to get across is that despite recent price action, corn markets appear to have an underlying fundamentally bullish story, which has yet to be verified and recorded in prices. We would suggest that any northern hemisphere weather related corn stresses that point to a reduction in yield could well prove explosive from a price perspective. Mother Nature must play her part this season without a doubt.

Headline news in wheat markets includes what seems to be a big Kansas crop relieving any suggestions of tightness in US supplies. However, feed demand remains strong and cash basis levels firm as consumption growth absorbs the additional supplies. Global cash prices remain similarly firm, EU markets will not have to look far to find strong export demand this summer given relatively firm corn prices and Russia's current modest price premium and export tax position. We are also hearing suggestions that Russian wheat growing regions are experiencing ongoing soil moisture losses, forecast to continue another 10-14 days, which should be closely monitored.

Our previously bullish outlook has obviously taken something of a battering this last fortnight, but we see the current price break as a good opportunity to take additional new crop cover and extend it forward as well as filling in any of the gaps in old crop. Weather news is likely to dominate prices in the near-term, and we anticipate an increase in market volatility. We would not advocate knee-jerk reactions to daily price swings, rather look for a trend pattern and follow the old adage, "The Trend Is Your Friend".