

Markets continued their slide lower this week before taking a pause and bouncing upwards on Thursday. Does this mean we have put a trading “bottom” in place? As ever, this question will only be answered in the fullness of time, but our inclination is that a “bottom” is due (perhaps overdue) and we are hopeful that the answer will be positive. Consequently, we hope that our last few weeks suggestions to add to and extend cover have been heeded and value has been extracted from the significant price discounts seen.

Why should we feel (hope) that markets are due to make a return to higher levels? Our main thoughts focus on corn, which has been something of a directional leader, and the fundamental picture remains broadly unchanged from before the recent downturn in prices. US old crop supplies are tight and Chinese demand seems to continue unabated, which when considered in the light of the potentially restricted crop makes for a tightened US and global balance sheet. Added to this we see not only ongoing US corn shipments to China being executed, i.e., no sign of cancellations or switching old crop to new crop (despite rumours to the contrary), but also strong physical demand from the profitable ethanol production sector. This demand is reported to being met with either a reluctant farm supply or simply a poor physical availability picture, which is pressuring cash prices and basis levels to the upside. This picture could well see a similar “squeeze” on July options and futures contracts as was the case in the May contract when prices surged as shorts scrambled to cover positions in a relatively tight sellers’ market.

Another week of larger than expected old crop corn export sales figures added to support, there were 73 million bu reported for the week to May 20 leaving a mere 60 million bu per week required to hit the USDA’s full year forecast. One final corn fundamental input comes from low and freezing temperatures across the E Dakotas leading to some risk premium being added to prices just for good measure, although the cold spike will likely have very little impact on final yields. Looking forward, the biggest influence will likely come from US growing weather and forecasts point to warmer conditions, but question marks still exist over whether rainfall across northern regions will be sufficient and timely in a season that has started with relatively dry and drying soil moisture profile. Also, we must reiterate that July weather is far more important than June weather for US corn production.

Global wheat markets have followed corn’s lead higher and this, if it is a trend, will doubtless continue. Eastern European and Black Sea region vegetative health reports suggest the comparison with last year to be slightly poorer. The recent break lower in prices has, unsurprisingly, uncovered end user demand, and we anticipate this picture building to record levels in the coming season amid Covid recovery. As a consequence, it becomes essential that trend or above trend yields are achieved in the northern hemisphere to allow stocks to rebuild and move away from current tight levels. Given June’s critical input as far as yield and output determination is concerned, we are still some way from being assured of a much-needed bumper crop, and therefore some risk premium is warranted. Any suggestion of a hiccup in production will doubtless be rewarded with a sharp upward spike in prices.

Our view leans towards bullish and we continue to believe that recent price dips have offered a real opportunity for those with gaps in their cover. Supplies continue to look tight in old crop markets and the weather has to cooperate for the remainder of this season if the new crop harvest is going to replenish the pipeline.