It seems that this week has seen us return to the price trend pattern that has prevailed for much of 2021, and that is onward and upward. New crop (Dec '21) Chicago corn has pushed higher to fresh highs as has Nov '21 soybeans and Dec '21 Chicago wheat. European new crop wheat has not made fresh highs (yet?) although that remains a distinct possibility in coming days or weeks.

We continue to focus on what appears to continue to point towards a shrinking Brazilian corn crop amid enduring dry conditions. In almost unprecedented circumstances we have heard of growers abandoning corn, ploughing the fields and replanting with wheat in an effort to grow some sort of crop that will yield a harvest and some form of income. Latest forecast weather shows limited, if any, rainfall in C Brazil until May 21 and it is fast becoming too late for that to materially impact the overall harvest. Indeed, some are discussing a crop as low as low as 91 million mt, our view is that this could well reduce before final output is known. In a world with already tight feed grain stocks this is not what is wanted.

The Argentine corn harvest is progressing, albeit slower than average, with the crop reported to be 23% gathered compared to an average 32%. However, Reuters this week reported that water levels in Argentina's main export river, the Parana, are less than a metre in places limiting vessel's loading ability. This necessitates "topping off" at additional cost, estimated at between $12-20/mt, as well as adding time to the export process.

Looking forward it is becoming more important for northern hemisphere crops to perform at or above trend yield and produce bumper crops if yet further stock tightness is to be avoided. Yet at this time, this is far from a given. Some key US growing regions are in need of moisture, Great Lakes and parts of the Plains for example, although it remains too early to draw any long-term conclusion on what the complete season might bring. In addition, there has been some concern expressed over dry conditions in Europe although recent and near-term forecast rainfall will doubtless be beneficial. Whilst it still looks like EU output will bounce back from last year, we are still staring at a tight carryout stock level amid growing demands and harvest needs to be both timely and bountiful.

Russian interior wheat prices have steadily increased over the last month and it would be a surprise to us if the export tax was to be removed any time soon unless there is evidence of a large crop in the making. As with corn, the 2021 northern hemisphere wheat crop needs to perform if global supplies are going to be able to keep up with global demand.

We continue to stare at a heavily overbought market with funds holding large net long positions. Both of these factors would normally suggest that extreme caution should be necessary, and clearly this remains a sensible stance. However, the fundamental situation continues to suggest that prices need to remain firm, arguably they need to increase in order to stifle the growing demand trend in order to restore some sense of balance between tight supply and growing demand. For that reason we continue to believe that price dips offer opportunities to top up and/or add to cover and we favour a long position for the foreseeable future.