This week has seen continued market volatility and an abundance of selling, which has resulted in prices that are considerably lower than has been the case for some time. It would appear that Chicago in particular has a smaller than usual volume of standing market orders either above or below and fund volumes, which are huge, are pushing the market more than might be expected "normally". It could be argued that the volatility and market trading volumes are both greater than fundamental analysis would support. However, as we often say, the market is the market, and we have to try and make sense of it and work with it.

We have discussed with some growers how they feel current price action reflects upon their crop expectations, and the almost universal response has been surprise. The most common response has been one of surprise given the growers observation of crop stress as a response to heat and dryness. The Dakotas, Minnesota, Wisconsin, Michigan and Iowa are the States most adversely impacted. That said, the key difference this week from last is that the weather forecasts contain much needed rainfall and a reduction in some of the heat extremes, which will relieve some of the current crop stresses and could well see a stabilisation of crop condition. We were anticipating a reduction in the proportion of the crop rated as good/excellent (and still are), but ratings going forward in the weeks into early July may tell a different story. We will be watching the latest figures with interest as this will point the way to some degree on ongoing price direction.

What is clear though is that the forecast rain must fall and that the amount must be significant and widespread otherwise we will only see some temporary relief. What is interesting is that although the various weather models contain rain in the coming 5 to 10-day period, they all differ in terms of volume and actual location. While meteorologists try to contend with the bias of each individual model, traders are picking and choosing their forecast and trading accordingly, which is likely creating some of the current high level of volatility.

The Plains and western Midwest will continue to see high temperatures and dryness until the forecast relief arrives after the weekend. The pattern then suggests cooler temperatures and widespread rains of anywhere from 100% – 175% of normal for the two-week outlook (wetter East). We are starting to see model solutions as to what the first week in July may look like, and it is generally encouraging for production. The question is, is this enough and what will follow. However, the change is both needed and welcome, and will it become a longer-term change in trend. The longer-term outlooks point to both above normal temperatures as well as an equal chance of both above and below normal rains, which is not hugely helpful at this time!

Actual market activity has seen the soybean complex substantially lower, led by oil which has seen two consecutive limit down moves. Focus will continue to be on biofuels and whether or not the President Biden administration will grant waivers to smaller refineries. Our view is that soybean oil prices have moved almost too far down given the demand for biodiesel and current prices will merely encourage still greater consumption in this sector.

Corn prices have similarly seen limit losses on the back of unexpected morning rains Thursday in Iowa combined with forecast rains and a major switch to risk-off mode. The recent loading of weather premium is being reversed, and the needed rain must materialise if prices are to remain and continue at these lower numbers. Wheat prices have followed corn lower, and this has sparked some interest amongst major importers. Harvest is gearing up in the US southern Plains and early indications have been encouraging. What has not changed is the ongoing hot and dry conditions that are covering Central and Volga growing regions in Russia, which are forecast to remain in place for the next ten days.

Our take on the market as it stands right now is that price action has been extreme based upon coming forecasts that are not in full agreement at this time. Yes, they contain needed rain and an easing in damaging heat, but this has to materialise and persist into July for US corn and August for soybean crops to flourish. What has not changed is the ongoing need, and we do not hold back on that statement, for trend to above trend yields to be achieved if current extremely tight stock levels are to be relieved. Without this forecast weather change we would anticipate a rapid return to higher prices and a need for demand rationing. On the other hand, if the weather pattern establishes the cooler wetter trend, we could well be looking at a bumper US harvest and a step in the right direction for global stock rebuild. Make no mistake, this is a pivotal period and is all about weather.