This week has seen a sharp reversal of declines seen in the previous two as traders react to what was received as bullish (corn and soybeans) USDA Quarterly Grain Stocks & Annual Acreage Reports released Wednesday.

June 1 Stocks in million bu

	2019/20	Trade Est	Actual
Corn	5,003	4,130	4,112
Soybeans	1,381	773	767
Wheat	1,028	861	844

US Plantings in million acres

	2019/20	March	Trade Est	June
Corn	90.8	91.1	93.8	92.7
Soybeans	83.1	87.6	89.0	87.6
Wheat	44.3	46.1	45.9	46.7

While grain stocks fell short of the average trade guess, the numbers were within the range of market expectations. Post report markets pushed up to limit gains on stocks data despite modest increases in corn and wheat seedings. Corn stocks were reported as 18 million bu below trade expectations with soybeans 6 million below and wheat 17 million under expectations. The corn stock figure would be the lowest in 8 years and soybeans the lowest in 6 years.

Increased acres, on the face of it, are good news but June data fell short of trade expectations. If we dig a bit deeper and look where the gains are, then some of the shine comes off the good news. The Dakotas saw the biggest gains year on year with N Dakota up over 15% and S Dakota 8% up. As we have previously discussed, the Dakotas are slap bang in the hot and dry region and prospects for yield are less than optimal at this time, negating the increased acreage to some degree depending upon weather conditions going forward over the remainder of the growing season. Ultimately, the market was expecting about 4 million acres to be added to corn and soybeans collectively and only got 1.5 million, all of which was in corn. This means that balance sheets remain tight for corn and basically ‘unbalance-able’ in soybeans without a good yield. This just adds more pressure on US crops to perform and the market is going to reflect that going into the critical months of July and August.

Looking at weather forecasts, specifically the major GFS, EU, and Canadian models, there is agreement between them increasing our confidence in their validity, and the key theme is ongoing drying despite some localised showers across the already dry Central Plains and W Midwest. In addition, heat is forecast to build in Plains to Nebraska and the Dakotas but it is either too early in the Dakotas to threaten pollination or will not get hot enough to cause concerns in Iowa and Minnesota. It seems that rains of an inch or more will be restricted to Delta, Tennessee, Kentucky, Indiana and Ohio. Drying soil conditions going into corn pollination are far from ideal and only meaningful rainfall can prevent yield cuts in the already dry growing regions. This will be watched closely as Iowa and Minnesota precipitation in the month of July is critical to US yield performance, even so much as outweighing all of the crop in the Dakotas. (Seriously, you can offset a 25% total loss in the Dakotas with just a 10 bushels per acre gain (5%) in Iowa and Minnesota). Longer term forecasts still make the Iowa/South Dakota border the battleground for the ‘haves’ and ‘have nots’ for precipitation going forward.

Thursday’s trade saw a degree of post report profit taking, which is not surprising, particularly ahead of a three-day, US Independence Holiday weekend when markets are closed on Monday. Traders will return on Tuesday having watched weather forecasts closely over the weekend as well as having a close eye open for the July 12 USDA report and any surprises that may come with it. There remains little doubt that volatility levels will remain elevated.

Our view remains on the side of the bulls, we have not mentioned demand patterns so far in this update, but there is no sign of any easing in global demand whilst old crop supply tightness HAS to be relieved by coming harvests. In our opinion, we have seen a supply issue in S America and there is potential for this to be replicated in the US and Canada. Southern Russia, Black Sea and EU wheat crops are starting harvest, as expectations of improved yield circulate. Freight cost and availability is trimming movement of newly harvested grain limiting price moves but on a positive note there is some easing in physical availability.

Taking everything into consideration, we see price risk remaining to the upside and weather, weather and more weather will drive direction for some time to come. Wishing all our readers a safe and happy Independence Day!