Markets have adopted a weaker tone as we approach the end of the week and prices in Chicago, specifically corn and soybeans fall below their significant 50 and 100 day moving average levels. Once prices breach such technical levels fund algos trigger and selling ensues, which has the knock-on impact of pushing prices further down.

There is very much a feeling of “risk-off” as the US Central Bank clearly signals an easing in its financial support as well as improved unemployment numbers and the 2% inflation target being hit for the second consecutive month.

It might be expected that ongoing Chinese purchases of US soybeans would provide support, but despite almost daily sales announcements markets have eased lower, which should encourage further Chinese purchasing.

Midweek saw Egypt’s GASC secure a further 180,000 mt of wheat from Romania and Ukraine for mid-October shipment. Reported average prices were $296.65/mt basis FOB, which is a full $35 plus over the last tender just a couple of weeks ago, and a six year high price. Only five offers were received once again, and the lowest Russian price was $21/mt over the lowest Romanian offer. To add to Egyptian woes, freight prices continue to rise adding to landed prices, reported freight costs are around $2.70/mt up from two weeks ago. To put prices into perspective from a global viewpoint, Egyptian payment terms are 180 days, which equates to around $4 to $5/mt. Finally, it should not be overlooked that this latest business has been transacted at $87/mt over and above a tender around this time a year ago.

Despite evidence of Chicago weakness as we approach the end of the week, we should not lose sight of the decline in Russian wheat output and higher protein wheat scarcity in W Europe. Milling wheat premiums are gaining and outpacing feed values, which is a trend that we see as likely to continue. Ongoing dry conditions (drought) in W Russia has led to suggestions that their government could well become yet more aggressive in their export restriction policy; we have heard reports that the Russian corn crop could even be as low as 11-12 million mt as a result of the dryness.

Russian wheat exporters will struggle amid rising domestic prices and as export taxes are elevated based on FOB levels. This places the onus onto others to take up where Russia leaves off, which will likely stretch the balance sheets in Ukraine, Romania, and EU. Argentine dryness is becoming a worrying new input with July-August rainfall projected at a mere 30% of normal. Australian crop improvements are encouraging but unlikely to offset Russian and Argentine shortfalls.

The Pro Farmer US crop tour has largely confirmed the USDA’s August corn and soybean crop estimates, and this has doubtless given some confidence to fund managers although forecast precipitation will have to materialise if further crop condition deterioration and yield loss is to be avoided.

The current easing in price is, in our opinion, an excellent opportunity to add to and extend cover, we are yet to be convince that we are witnessing a longer lasting bearish trend.