

Tuesday of this week saw the latest release from the USDA, which was (in our view) slightly more bullish than bearish. The report held a surprise in that soybean yield was cut from 51.5 bushels/acre to 51.2 when it is probably fair to say most were expecting an increased yield figure. Soybean ending stocks were still up 20 million bushels thanks to a cut in exports but that was not as much as the market was expecting. Countering this, corn yield grew 0.5 bushels/acre to a record 177.0 but despite this, increases in both ethanol grind and exports saw an overall slight decline in year-end stocks. The US wheat balance sheet held minor changes with minimal consequence. Global balance sheets saw a small reduction (790,000 mt) in soybean end stocks, a 2.68 million mt increase in corn stocks and a 1.38 million mt reduction in wheat stocks. The impact of the report was that soybean prices took a sharp uplift with corn and wheat following, and the gains have been sustained as the week progressed.

Where next? We would argue (and have done for some while) that wheat remains bullish on the basis of tight and tightening stock levels of the major exporters and also in the face of what looks like expanding demand from key importers and emergence of relatively new demand amid reports of reduced crops in some Mid-East regions. The USDA's global import volume was increased by 3 million to a record 201.1 million mt. If we extrapolate Russian export probability in the face of their export tax, which continues to soar ever higher, we see the USDA's Russian export volumes as overstated, and we believe their EU export figure of 37.2 million mt to be unacceptably high. These two figures in isolation would point us towards a shift in trade patterns as well as suggesting higher prices will be required to initiate this. We would also suggest that a watchful eye be kept on Australian output to ensure it meets expectations, the projected crop is required to offset the losses experienced in Canada and any failure to do this will likely trigger a further bullish move.

We continue to hold questions on the US corn balance sheet with our focus on two areas, ethanol grin and exports. Looking at ethanol, weekly production figures remain robust with no real increase in stock levels. Any uplift in either domestic or export ethanol demand would draw further corn away from the US balance sheet. Similarly, feed demand in the global marketplace remains robust and the potential for increased export volume would also trigger further tightness and stock reduction. Longer-term, we should not ignore the impact of fertiliser price increases, which could well impact the corn/soybean planting ratio going forward, with the corn the acreage loser. Our view therefore is longer-term more bullish than bearish towards corn.

One counterpoint is just a reminder that the fertilizer issue is something that will eventually have to be dealt with in the spring, but do not underestimate the willingness of a US farmer flush with cash from an exceptionally profitable year to plant corn, despite the profitability/price ratios. Meanwhile whilst global feed demand remains strong, we continue to see US export sales and shipments lag. Moving forward, the 26 million mt China corn import goal the USDA has set has not been purchased. We have been hearing that the Chinese have been buying some corn from the Ukraine, but no additional purchases have been made from the US.

Soybeans have a less bullish story, indeed might even be deemed bearish right now, the yield cut was accompanied by a cut in US export volume which could be argued to be too low. We reported on the early start to the Brazilian soybean season and that it is very possible that Brazil's export season could well be equally early, reducing the US's soybean export window. Also, the slowdown in Chinese purchasing could drop through into an overall reduction in full year export volume if it continues.

S American weather and US demand volumes are the figures to watch for in coming weeks, they will be a key determinant of prices and direction. It should be noted that the Argentine corn crop is being planted and whilst weather has improved in the last couple of weeks, we are looking at an increased probability of a drought inducing La Niña weather pattern in the December to March time frame, which is a key period in the crop cycle and critical to yield and output.

If not already obvious, we are friendly towards the grains, particularly wheat and have a more neutral view on soybeans until such time as China shows up as a buyer again or S American weather conditions suggest otherwise.