

This week's USDA report held little in the way of surprise and the weather forecasters have added much needed rainfall into the picture, which is allowing some of the included weather premium to erode.

The USDA report saw global end stocks in soybeans cut by 6.8 million mt, corn by 2.38 million whilst wheat stocks were forecast to rise by 1.77 million mt. The changes were seen by the markets as very much in line with expectations and the news was absorbed with little fuss. Global soybean production was cut by a little over 9 million mt, with Argentina down 3 million and Brazil 5 million (unsurprisingly); corn global production was a touch under 2 million mt lower with a mixture of individual countries, notably Ukraine up 2 million, Brazil down 3 million and Argentina down 500,000 mt. Wheat production numbers were materially unchanged.

Markets appear to be continuing to digest the USDA's numbers, which is quite unusual but could well be a reflective pause whilst awaiting the arrival of forecast S American rain next week. For a change the major forecasting models appear to be in good agreement and there is a projected 1-2" of rain scheduled to fall across N Argentina and parts of Cordoba and Santa Fe in a 6-10-day window. How much and where rain falls will be key to price determination next week, and how the size of the Argentine crop is perceived by the trade will doubtless be the subject of speculation.

One thing is for sure, and that is that current weather in Argentina is not fully crop supportive with temperatures hovering in the mid-100's, which cannot be undone going forward. The Rosario Grain Exchange's latest crop projection has reduced the Argentine corn crop to 48 million mt, below the USDA's 54 million and the soybean crop to 40 million mt when the USDA stands at 46.5 million. Rosario's projections are supposedly based upon dry conditions so far this season coupled with the current heat, both of which are crop limiting. If we had to take one side or the other, we would place a bet on further output reductions coming from the USDA in future reports. The likely outcome is for reduced Argentine corn exports and soybean crush volumes, which would place additional pressures on other origins (USA, Ukraine).

As an additional point, RGE rated the Argentine corn crop as just 23% good/excellent compared with 40% a week ago and 60% at year end. Their early planted crop is clearly suffering, and the big question will be by quite how much it can recover as and when the forecast rain falls.

Longer-term weather conditions in S America suggest that whilst the current La Niña pattern may have reached a peak, its tail and ongoing impact could extend for some months yet. The impact, if this proves a correct forecast, would be for ongoing dryness and warmth into early summertime.

Wheat news, aside from corn and soybean related weakness, is limited. Weather related position liquidation is evident, and our only input of note is the Iraq purchase of Australian origin supplies. Vegetative health weakness is very evident across much of N Africa with crops in Algeria and Morocco looking substantially worse than those of last year. Should this result in reduced crop output, which seems to be very likely, then import requirements will rise as we have previously suggested adding to global balance sheet tightness. Something to watch in coming months perhaps.

Our current view contains some surprise at quite how much prices have retraced from recent highs, and these present levels should represent good value to those in need of

additional cover. We remain cautiously friendly, largely based upon what we see as the ongoing S American weather related situation.