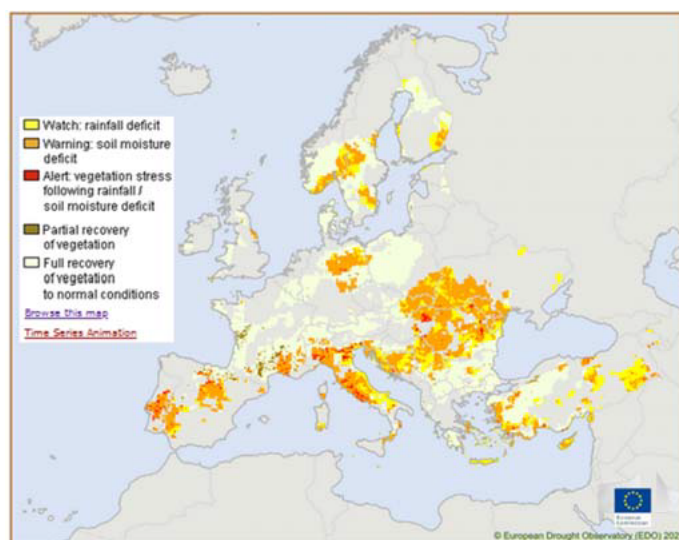


We return to another holiday shortened week (US 4th July Independence Day) and would note that history often shows that this marks a market low. After the last few weeks of markets being battered by fund selling in a major risk-off pattern probably triggered by global recession fears, yesterday (Thursday) showed a spark of recovery as corn, soybeans, and wheat all turned higher. Is this going to be the proverbial “dead cat” bounce? Only time will tell if we have seen a “bottom” and a return to higher prices or if the uptick is just that and lower levels resume.

Our latest concerns centre on EU crop prospects given current and forecast weather conditions. Latest data shows drought across much of the region with weather forecasts suggesting little change in the coming two weeks, which is impacting corn and spring wheat crops in particular. If forecasts verify and dryness continues adversely impacting yield and output this will only exacerbate the already tight balance sheets that have already been tightened by the ongoing Ukraine war as the EU has become the supplied of choice (or default).



EU corn imports are broadly now limited to Brazil as GMO regulations effectively prohibit US supplies and if local feed supplies become tight this could place a significant (15 million mt plus) upon Brazilian sources. This is not a bearish picture.

World wheat markets have jumped on the back of growing concerns over Ukrainian crop plantings going forward as well as news of India restricting flour exports. Ukraine's winter wheat plantings are forecast to fall by at least 20% as farmer profitability plummets (falling domestic prices as freight costs soar and lack of export markets). A similar pattern is also forecast for spring planting of corn. Further support has been gained from a stronger Euro, close to parity with the US\$, which will grow demand for EU supplies. If this is the case, the likely impact is rising EU prices, which is a repeat of the timing and pattern seen last year.

Corn prices appear to be adding in a degree of weather premium as weather forecasts suggest a period of dryness is approaching once again. The spot cash market continues to maintain a strong premium to new crop, which places a high burden on weather forecasts to provide supportive crop production conditions. Failure of these to materialise will doubtless see a return of higher prices.

Fund liquidation in soybeans appears to be complete, and as the queue of sellers slows prices stabilise and start to rise, or so the markets suggested yesterday. Global vegoils have led the way with UE rapeseed oil among the first to attract buying interest and this has spilled over into Chicago bean oil. The EU (and global) rapeseed oil balance sheet is tight and the crop in both EU and Canada is still by no means a given just yet. Hot and dry conditions in Europe as well as below average crop condition in Canada are reason enough to keep concerns elevated.

Our recent questioning of our long held bullish stance was the correct thing to do, but with prices having fallen to current levels we remain friendly to markets.