

Wheat has featured in our thoughts this week, sufficiently for us to take the unusual step of issuing an update to clients yesterday (Thursday), which we reproduce here as follows:

Wheat prices have recovered (or are starting to recover) from multi-week declines, is it a “dead cat” bounce, or something else? Russia is reported to be saying it will only agree to extend the Black Sea export corridor if its own exports are unblocked. This has been a common pre-negotiation theme previously but might just signal a hardening of the Russian position. The latest round of economic sanctions included restrictions on banks that have cleared Russian grain transactions, and sanctions were placed on a shipper that is important in trade out of the Sea of Azov.



As N Hemisphere’s winter wheat crops break dormancy, all is not well. Canadian wheat growing conditions are less than favourable with soil moisture levels well below last year and potentially restricting output although there remains time for this situation to change. In addition, Argentine wheat exports are lagging well behind the pace needed to meet the USDA’s latest forecast. Lastly, it has been noted that the prospect that El Niño “could” threaten the Australian crop. A more bullish outlook is currently in place for wheat as net fund Chicago wheat positions exceed 100,000 contracts and there is much to be decided in Black Sea trade and production. We would add that the actual fund positions are not fully known as the CFTC reporting is still behind about 3-4 weeks so this could be even bigger.

Today, (Friday) we would note that another factor in recent wheat purchasing has been what we would describe as “value picking”. With prices at multi-month lows it is hard to ignore absolute price and particularly with some issues previously mentioned, buyers seem more willing to take cover. We have heard that one of Australia’s largest grain merchants has forecast their 2023 wheat crop at 25 million mt, well below the current record crop of 38 million. If El Niño conditions build and become severe this could harm the crop still further to a sub-20 million figure.

S American weather conditions continue to point towards ongoing heat and dryness in Argentina, which will only add to already stressed crops and little, if any, way for recovery prior to final harvest. Brazilian safrinha conditions remain favourable into late month, which will be important if overall S American output is to remain adequate. There is some concern surrounding the safrinha crop as it is being planted behind schedule.

Global vegetable oil markets remain firm with palm having gained some 9% in a month. With US soybean oil very much in demand from a domestic bio diesel perspective, which seems likely to restrict exportable volumes, we are of the opinion therefore that price trends remain upwards for the foreseeable future.

Next week sees the latest USDA report, released on Wednesday, which is likely to trigger some “risk off” and position squaring prior to release. However, this could well be followed, post-report, with increased activity and all that goes with it. We would not be at all surprised to see an uptick in volatility later next week.

With Black Sea grain corridor uncertainty, Argentine weather concerns, growing US bio diesel demand and some concern over N Hemisphere weather patterns the picture has become slightly more biased towards the suggestion that prices have formed a seasonal bottom. Whether this is the case, or not, will become clearer in coming weeks.