

Not long ago we opened our commentary with the expression, “what goes up, must come down”, and now we have to add, “and back up again”. Chicago Dec ’23 corn has made up around 50% of its recent decline, Nov ’23 soybeans have made new highs and held onto most of them and Dec ’23 wheat has almost equalled its late June high. We have previously highlighted that volatility would be a significant feature this season and this has proved a reality.

One of the key market movers this week has been the official closure of the Black Sea grain export corridor, which we suggested last week could well be the case. Monday saw Russian announcements that the deal ceased to be valid as some parts of the agreement had not been fulfilled. Those unfulfilled parts were mainly obstacles to Russian food and fertiliser exports from a financial perspective. Clearly, sanctions have had their desired effect but have led to an end to the deal in its original form. Russia did add that they would reconsider reopening the corridor if it saw “concrete results” but not on promises alone. Interestingly, markets reacted to the upside although many anticipated the Russian action. Fact over rumour seemed to be the order of the day on this occasion.

On the other side of the coin Monday’s crop condition data saw the proportion of the soybean crop rated good/excellent increase 4% week on week to 55%. Whilst the increase was expected it still leaves the crop well below the long-term average of 61%. Corn condition also improved but by 2% to 57% good/excellent which compares with 64% at the same time last year. The spring wheat crop improved by 3% week on week to 51% good/excellent, which is well below last year’s 71%. Clearly, recent rains have been beneficial, as reflected in improved crop condition, and much welcomed by growers and bears alike, but the question remains as to whether it was enough, sufficiently widespread, and whether it will be followed up by further regular precipitation.

Weather forecasts point towards increasing temperatures although the longer-term suggests that this has a limited duration. However, soil moisture losses will be likely in the coming couple of weeks. The NOAA long-range forecast suggests what looks to be almost ideal conditions, which would produce considerable soybean yield savings if realised. Obviously, confidence in long-range forecasts has to be tempered but there remains room for optimism.

Returning to the issues of global food security fears, which have been stoked by Russia’s ending of the grain export corridor, further concern has been added by India’s latest announcement that they are to ban non-basmati rice exports. Russia’s actions have already pushed up wheat and corn prices, India’s move has just added another peg under food/feed grain prices. India’s announcement has been driven by the need to lower their rapidly rising domestic price levels and secure their own supplies for home consumption. India has been the world’s largest rice exporter accounting for 40% of global exports with Thailand and Vietnam following in second and third place. The sheer volume of traditional Indian exports will be all but impossible to source elsewhere and this will switch demand to alternatives, including wheat and corn. Hopes for a much-needed end to surging food price inflation seem to have been struck a blow.

Russian attacks on Ukrainian infrastructure, port, and rail, is not a bearish sign. That said, Ukrainian crop volumes are well down on pre-invasion levels, and alternate routes to markets via land rather than sea will continue to be of importance. As another blow, Ukraine is said to be considering ships in the Black Sea as potential threats, and as such their security and ability to move freely is now somewhat restricted. The ongoing low level of non-Russian wheat exporter stock is a worry, particularly if weather continues to jeopardise output in Australia, Canada, and Argentina.

Our stance remains friendly, we see volatility increasing rather than decreasing, we believe that recent price lows will be seasonal lows and price risk is now more to the upside than has been the case in recent weeks. Weather risks remain real, geo-political tensions are very high and food security concerns have ramped up a notch. Now is not the time to be short bought.