

Markets have this week leaked lower on limited news. Chicago Dec '23 wheat has approached, but not so far reached, the Mid-July lows and remains some way off the late May "bottom", which so far looks as if it will be a season low. Paris and London futures have followed an almost mirror like pattern to Chicago. Dec '23 Chicago corn has dropped continuously from the "mini" high on 24 July with supportive news largely absent. Nov '23 soybeans have remained in a tighter range than corn and wheat although continue lower across the week so far.

Weather continues to dominate markets and there is hope that the wide coverage of heat and dryness will end this week, but this does leave major questions over what impact any ongoing drought and the dry season will have on yield and overall output. The US drought monitor continues to show 57% of the corn area and 51% of the soybean are remaining under drought although these areas have shrunk week on week from 59% and 53% respectively. Our guess is that this season's weather will prevent record or close to record yields in either corn or soybeans but the July rainfall that has arrived will doubtless have avoided a disastrous major loss of yield. We understand that there remains an extremely variable pattern of soil moisture levels, probably as a consequence of patchy rather than widespread rains. This will, in turn, likely show up in a wide variation in yields as harvest uncovers the reality of the season.

Weather premium has been removed from markets in a fairly rapid fashion with the funds either reducing long positions or adding to their shorts. We would question the markets acceptance of weather now being a non-issue and it is our belief that crop damage has been done, the question being, "How much?" Also, the markets are much more than purely US weather, dry conditions and drought in both Canada and Argentina remain a threat and developing dryness in Australia should not be ignored, particularly in wheat markets. We fully expect the forthcoming USDA release to contain a cut, possibly sizeable, to major exporter production. On the demand side of the balance sheet equation, we see demand increasing, specifically from India where it is suggested that they are looking to secure close to 10 million mt of Russian wheat, which would normally be sold elsewhere. N African buyers are also expected to be buying bigger volumes than in previous years due to reduced local harvests.

The corn market is awaiting some certainty over US yield and output (unsurprisingly) but we continue to see support emanating from the ongoing Black Sea issues which we do not see coming to an end any time soon. The forecast El Niño weather pattern, if it develops into a full El Niño, will pressure S American production, particularly Brazilian supplies. Our view is that the longer-term outlook is providing a more bullish than bearish scenario. We also understand that current corn prices look undervalued when compared to crude oil levels, which would suggest that positive ethanol producer margins will encourage production and increase corn disappearance in turn providing support.

Our general view remains friendly but as the old saying goes, "Don't stand in front of a moving train." The markets are in decline right now, but this is unlikely to last in our opinion. We would await signs that they are turning and use that as a trigger to extend forward coverage.