

US and UK military forces combine to launch strikes on Houthi bases in Yemen after warnings to cease attacks on shipping in the Red Sea are ignored. The Houthis are a widespread Yemeni terrorist group, supported by Iran in a similar manner to Hamas in Gaza and Hezbollah in Lebanon. The attacks on Red Sea shipping are supposedly focussed on vessels heading to and from Israel but appear to involve other transits as well. UK Prime Minister, Rishi Sunak, said that Houthi attacks could not go unanswered, and that Britain had taken limited, necessary, and proportionate action in self-defence. Houthis warned that the attacks would not go unanswered.

As if ongoing war, approaching the start of its third year in Ukraine, and continuing battles in Gaza were not enough, we are now looking at a third battle zone in the northern hemisphere. The main purpose of reporting such events here is to note the additional costs of routing vessels elsewhere in order to avoid the Red Sea and Suez Canal. The simplest route is around the Cape of Good Hope which takes considerably more time and fuel, both equating to significant cost increases.

Freight from Taiwan to Holland, a much-used route, via the Suez Canal is a voyage of some 10,000 nautical miles taking around 15 to 16 days at a typical steaming speed. The alternative via the Cape of Good Hope is 13,500 nautical miles and 34 days duration. In addition to direct increases in freight rates there are also increases in freight insurance costs. There are reported jumps in container rates by as much as 250% in just a few weeks, at a time when the economy is still recovering from Covid related delays and cost implications.

Currently, agricultural markets are not reacting in a material way, global energy prices have remained similarly calm. We would expect to see the energy markets react before agricultural commodities but as yet there appears to be limited price impact. However, in a market where prices continue to remain relatively subdued despite the weather risks that have been around for some while and crop losses in S America are yet to be fully quantified, we see the building Middle East situation as an additional risk to the upside.

Today (Friday) marks the release of the latest USDA report immediately prior to the US Martin Luther King Jr long weekend holiday in which markets are closed. Any surprises in the USDA's data could well uncover fireworks as traders move ahead of the extended weekend market closure. That said, we are not anticipating major changes, probably the biggest will be a reduction in US planted wheat area.

Brazil's CONAB have this week reduced their latest soybean and corn output forecasts with soybeans reduced month on month by 5 million mt to 155.2 million and corn down 900,000 mt to 117.6 million mt. Despite the cut, the soybean crop would be a record if it is reached, last year's output was 154.6 million mt. Many are anticipating further cuts in Brazilian crop output following less than favourable weather conditions, the range of estimates for soybeans is from a very low 130 million to an upper end of 155 million mt. Our current view is at the sub 150 million level.

We have the view that risk levels have moved up a notch and that current and recent prices have represented good value for some while. We have repeatedly commented that our belief is that downside in prices is more limited than upside, and we would consider this viewpoint to be more relevant today than has been the situation for a while.