

The latest Commitment of Traders report showed another week of fund selling, specifically in soybean and corn markets. The fund position across all major agricultural commodities stands at a net short of some 414,000 contracts, which is the third largest short position on record according to our Information (largest net short position and second largest were in Q2 and Q3 2019). The point being that such a sizeable position leads to significant risk should a change of heart take place, and short covering occurs. The combined size of purchase orders would likely overwhelm the volume of available sellers and cause markets to jump higher, possibly significantly. That said, there appears little sign that the funds are unhappy with their current position or size of position, as evidenced by the continued selling patterns displayed this week.

However, when combined with the risks that we outlined last week relating to ongoing war/conflict in Ukraine and Middle East regions, we continue to urge caution and consider taking advantage of current price levels to add to and/or extend forward coverage.

A week ago, we saw the latest USDA report, which contained surprise corn and soybean yield estimates, the largest January report increase in many years. This saw markets run with the bearish surprise as would be expected, and this has spilled over into this week after the US extended weekend break. Other report data was so-so, maybe the variance between the USDA's Brazilian corn estimate and CONAB's is noteworthy. The USDA's 127 million mt compares with CONAB's latest estimate at 118 million is significant and should not be ignored. Our lean is more towards Brazil's figure, and we would anticipate further USDA reductions in coming months. Global soybean output was unchanged although we continue to look for further cuts to Brazilian output over time. Global wheat output rose slightly with Russia and Ukraine each showing a million mt increase. However, we can foresee some issues with freezing temperatures in northern Europe and parts of Russia and Black Sea regions impacting yield as well as extreme wet conditions in the UK and northern Europe having a potential for yield reduction. We will have to await springtime and assess crop condition as it comes out of dormancy before drawing any firm conclusions.

Away from the report we once again look to N Africa for some directional clues from this significant wheat importing region. Stock levels continue to fall, reaching their lowest in around 15 years, the USDA putting 2023/24 end stocks at some 10.6 million mt. Stock levels have been in the 15 to 16 million mt region between 2023 and 2019. Stock to use levels are tight to say the least and import volumes would seem to us likely to grow. 2023/24 will see North Africa import close to 30 million mt (a record volume) without any stock build and increased rainfall is needed across much of the region if the 2024 harvest is to reach its full potential and reverse the current trend of tightening supplies and growing import requirements. A large part of the region is struggling in its third year of drought although recent forecasts show some degree of relief, but more is needed, and soon. This situation places a burden upon Europe, Black Sea, and southern Russian crops to perform well.

We have seen a recent burst of activity in global wheat trade with Egypt securing 360,000 mt, Tunisia 200,000 mt, Jordan 120,000 mt and Bangladesh tendering for 50,000 mt. Last week saw Algeria and Japan also in the market. It seems that the recent decline in prices has seen buyers emerging as value becomes apparent and historically short bought positions are being filled.

We continue to see value in current prices as previously mentioned and would be very hesitant to hold or recommend short positions in the current climate. It will be a while before our local wheat markets can offer better clues as to harvests and we continue to

wait and see what US corn and soybean plantings hold. Both matters have the potential to influence price direction for the coming season.