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Wheat Flags

Influence on wheat prices

Potential US Corn Acreage Increase



Improving Growing Conditions in US



Continued Dryness in Brazil



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Markets have been on the backfoot since last week's USDA report with a high degree of volatility and some violent price moves with sharp losses in CBOT.

A lack of fresh bullish data from the report helped to trigger long liquidation and a selloff in markets that were becoming technically overbought. Also, part of the drop came on news that a bridge located in Memphis under which all Mississippi barge traffic must pass on its way to the US Gulf grain elevators might have to close for repairs, possibly for months. This, however, was quickly resolved but selling pressure remained with US weather generally improving and even some rains forecasted for the dry northern plain's states.

Despite the fact that we still have the US growing season to come, at current levels markets have already fully priced in pretty much everything that's bullish and when longs want to take profits (or limit their losses) there are few takers, with resulting moves amplified by computer-driven selling.

The big shadow hanging over the market is US corn acres and the extent to which these will increase above the level used since the March acreage report. There are three good reasons to think these will expand significantly; the size of last year's prevented plantings, the high pace of the current year's plantings and the high price that farmers can sell their corn. There are reports circulating that some analysts are using an additional 6m acres over and above the USDA number. This implies a carryout closer to 2.5 billion bushels, not the 1.5 billion used in last week's report. This kind of carryout is associated more with corn at \$4 rather than the current \$5.40. Sobering that December corn has now lost 100 cents per bushel since its highs only just over a week ago.

Generally favourable US conditions enabled planting to progress at a good pace with corn at 80% done versus 68% on the five-year average, soyabeans are 61% complete versus 37% 5Y average whilst spring wheat is 85% planted versus 71% 5YA.

The US Wheat Quality Council HRW Tour is currently underway with scouts making their annual three-day tour of Kansas. Yesterday's results are weighing on wheat markets today with a projected yield in the northern portion of the state at 59.2 BPA which is way above the 5 yr average of 41.9 BPA from the same area.

Improved EU weather has also led to ideas of better crop prospects with the European grain trade association Cocal increasing their soft wheat production estimate by 4.3Mmt from the previous forecast.

Whilst the markets have had a bad few days, it's difficult to tell if this is the start of a downtrend and the corn story is perceived to be over or if it's just a correction before prices move higher again.

The dryness issues in Brazil remain and we still have some time to go before crops in other countries are harvested. Markets are consolidating and need something fresh to drive them.

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