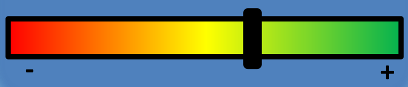
02/10/2020

Wheat Flags

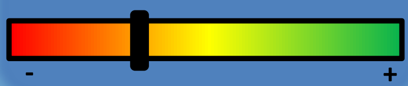
Influence on wheat prices

Dryness in Russia



USDA Report: Tighter US Stocks

Covid-19 Second Wave Fears



Markets have been extremely volatile this week with some big movements in futures.

Monday started with US markets opening 6 cents lower due to an increasing number of Covid-19 lockdowns and a general lack of demand or fresh news before turning round and rallying later in the day to close 6 cents higher. UK markets, however, were held back from making the same gains as Sterling firmed on Brexit trade deal hopes and tested 1.11 against the Euro.

As we moved through the week, markets were further supported with news of Chinese buying coming back and a rumour that up to 7 cargoes of French wheat were purchased. On Wednesday, all eyes were fixed to the USDA report. Prior to the report expectations were relatively benign, with few expecting any real fireworks. However, as the report was released that’s exactly what we got with CBOT Corn ending 14c higher, beans 30c up and wheat was driven to the verge of limit up – trading 28c or £8/t to highs that were last seen in late Jan.

The move was a result of unexpected changes to old crop US stocks which were heavily reduced and a US wheat crop number which was well below trade estimates. Corn was one of the biggest drivers with a downward revision in June stocks to 1.995 billion bushels compared to the average trade guess 2.25 billion. Most of the change was blamed on a previous overstatement of old crop stocks held on farm by 204 million bushels. Whether this was an error or a Covid-related delay in collecting the data is not clear. Whatever the reason, it prompted a massive fund buying spree which tied in with the month and quarter end.

Once the dust had settled, however, markets quickly eroded the gains with losses over Thursday and Friday after the USDA report rally had been overdone. Markets were also swayed by a risk off sell down in financial markets.

One of the biggest things to keep an eye on over the next few weeks is the weather in Russia. Current dry conditions and no rain in the forecast are leading to concerns that plantings will be lower than anticipated which could eventually lead to export restrictions next season. There is still plenty of time left for planting to be done and the weather can change very quickly so for the moment this is just something to monitor.

Looking forward, it is likely that further lockdowns and demand reduction will be closely monitored by the trade as well as the ongoing dryness in Russia. Not to mention the fund’s long futures position which they may look to unwind as we move through the final quarter of 2020. In the UK, Sterling volatility will be a big driver of prices as news of any Brexit trade related developments emerge.