Supply vs. Demand - The Battle Ahead

Last week saw a range of bearish stories emerge as Russia made noises about ending their ban on wheat exports with their crop starting to emerge from winter in reportedly good condition. This was followed up by a note from Goldman Sachs, to their investors holding long positions in a "basket" of commodities, that they felt there was an interim top in place and this was an opportunity to take profits. This caused a sell-off amongst non-commercial traders as they reduced long positions.

There were other bearish concerns regarding the strength of the demand side of the equation. China, again, posted higher growth figures than expected, triggering further fiscal tightening as the government battles inflationary pressures. The euro zone was plunged back into frenzy around the sovereign debt crisis over fears of a potential default from Greece. The Irish growth forecasts were also downgraded as the new government there tried to re-negotiate the terms of the EU bailout to no avail. All in all, the fear is that strong commodity prices may stall the fragile global recovery through demand destruction.

That said, the supply side is equally fragile, with adverse weather seen slowing planting in the US Corn Belt and dry weather in the south western plains reducing wheat production. SovEcon Russian analysts have, this morning, said that any export ban won't be lifted till July and the wheat crop in Russia will be more like 75-80mmt rather than the Kremlins optimistic 80-90mmt (domestic usage is 70mmt). The dry spring looks set to continue across Europe and this is threatening some spring crops now. There is very wet weather in Saskatchewan which is likely to delay spring planting and so pushing crops into time frames where damage can occur due to increased risk of weather damage.