<u>This Week in Agriculture:</u>

USDA Supply and Demand Report Summary: May 10th, 2016

- **Ahead of today many traders were expecting USDA numbers to hold potentially bearish information, especially considering the strong jump in prospective corn plantings as well as the recent run up in beans prices. The USDA disagreed though coming in with lower carryout figures than expected for soybeans and corn in both old and new crop.**

- **On the corn side traders have been hard pressed to find what they consider a strong bullish story. As we've discussed in the past the slow start to exports this year has been troubling to many. However the recent pace in sales and shipments combined with the lower crop outlook for Brazil prompted the USDA to increase their export expectations for old crop corn by 75 million bushels from last month. This increase was partially offset by a somewhat questionable 5 million bushel increase in expected imports as well as a minor 11 million bushel cut in feed, seed and industrial usage (in the non-ethanol category).**

- **The adjustments made were enough to bring old crop carryout down 59 million bushels to 1.803 billion bushels, 38 million bushels below the average pre-report estimate.**

- **This adjustment to old crop carryout carried forward into our new crop supply and demand set up. With the large jump in acres outlined in the March 31st prospective plantings report at 168 bushel per acre yield the USDA is projecting a record corn crop for the coming year. The record production combined with large old crop carryout has them also projecting a record large amount of available supplies at the start of the crop year as well—though the logistics of this (meaning the ebb and flow of actual harvest pace vs usage etc.) is suspect. At face value this could be viewed as negative, however a significant increase in expected demand helped to alleviate some of that pressure bringing new crop carryout in below pre-report estimates.**

- **The new crop corn demand outlook is stout, with big increases expected in all 3 demand categories. The USDA increased expected feed usage 300 million bushels, food/seed/industrial usage 60 million bushels—50 million of which coming from increased ethanol grind and exports by 75 million bushels. This expected demand increase of 535 million bushels chewed through much of the perceived production gains giving us a new crop ending stocks estimate of 2.153 billion bushels, nearly 150 million bushels below the pre-report trade estimate.**

- **On the global side of things we saw old crop carryout come in a bit higher than expected due to a slightly larger than anticipated Brazil crop as well as some slight adjustments higher to carryout for major importers as well as Argentina. New crop global carryout came in 178 million bushels below pre-report estimates however due to aggressive cuts to both Chinese production and carryout.**

- **Coming into today many traders were hard pressed to figure out what could be considered a bullish report for soybeans in the face of the recent run up in price we've experienced. Of course with lower than expected prospective plantings and a bit more in the way of recent demand thanks to cuts in both Argentina and Brazilian soy production estimates many traders were expecting reasonable cuts to old crop carryout to carry over into the new crop supply and demand outlook.**

- **The USDA agreed old crop demand was higher increasing their crush outlook 10 million bushels thanks to the recent rapid pace of soyoil and meal sales. They also raised their export estimate 35 million bushels due to the before mentioned South American production cuts and moves in currency conversion rates. The increase in demand helped to bring old crop carryout down to 400 million bushels, 25 million bushels lower than the pre-report estimate.**

- **On the new crop side the USDA was aggressive in their projected new crop demand outlook, increasing year to year crush expectations by 35 million bushels and exports 145 million. With their track record of being light on expected demand increases this move was somewhat unexpected. The lower than anticipated old crop carryout combined with higher than expected demand dropped new crop carryout down to 305 million bushels, 100 million bushels lower than the average pre-report estimate.**

- **The adjustments lower to US carryout carried over into our global outlook bringing those numbers in below pre-report estimates as well. Cuts to Brazil production (though not as aggressive as some were expecting) as well as a reduction in Argentina's crop dropped old crop world soybean ending stocks to 68.21 mmt, 184 million bushels lower than pre-report expectations. New crop carryout estimates are expected higher with production increases anticipated for both Brazil and Argentina, but still came in nearly 75 million bushels lower than pre-report estimates.**
- **Wheat continues to struggle with burdensome supplies growing larger by the month it seems. Old crop carryout was raised slightly but managed to come in 3 million bushels lower than the pre-report estimate thanks to a creative and somewhat questionable increase in old crop wheat exports. On the new crop side of things the USDA is expecting the largest carryout since the 1987/88 crop year and the lowest mid-range price for wheat in over 11 years.**
- **Globally stocks continue to grow thanks to huge production expectations and somewhat limited demand growth. While old crop carryout came in within the range of pre-report expectations new crop carryout came in above the high end of the range of estimates and over 500 million bushels higher than the average pre-report estimate. Of course the crop is far from in the bin, but the thought of having over 9 billion bushels of wheat left in the world at the end of the crop year next year shows just how steep of a hill wheat has to climb to achieve a reasonable and sustained rally.**

Now that the first look into new crop expectations is out of the way traders will begin to focus on weather. At this point rapid planting in much of the Western Corn Belt has pushed the national corn planting pace up to 64% planted, behind last year's 69% planted pace but ahead of the 5 year average of 50% complete. Soybean plantings are 23% complete, also slightly behind last year but ahead of the 16% 5 year average. With wetter than normal conditions expected throughout much of the Corn Belt the next couple of weeks and price ratio changes between corn and beans some traders are wondering just how many acres could be switched out of corn and into beans. In addition to weather predictions it is likely we will see traders heavily scrutinize demand numbers as the aggressive pace at which the USDA raised new crop numbers is unusual to say the least.

At this point the market continues to provide opportunities to lock in profit on soybeans with efforts being made to give you something worthwhile to sell on corn. While it is hard to get aggressive when the market is already well outpacing pricing expectations in soybeans especially please remember to keep your breakeven in mind and take advantage of locking in profit when you can. Corn will likely continue to stay supported as it is lacking a weather premium for the most part, but will likely be limited if wheat continues to struggle. As always don't hesitate to call us with any questions, we're here to help.

All the Best!
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