

This Week In Agriculture

USDA Supply and Demand Report Update: October 9, 2015

- The much awaited USDA supply and demand update came with little in the way of surprises today. After testing and failing at recent highs and nothing surprising out of the USDA the corn market lost 9 cents in today's trade losing 7 cents for the week. A lack of extreme bearishness opened the door for bean buyers, allowing them to close up 11 cents for the week. Wheat took a page out of corn's playbook, failing at recent highs and finishing the week down 5.
- Ahead of today's report traders were anticipating overall production to decline through a combination of yield and harvested acreage decreases in corn. With increased reports of variability throughout the Corn Belt many traders were expecting a further .4 bushel to the acre decrease in yields, with a 300,000 acre decline in harvested area. The USDA lowered harvested acreage a bit more than expected with a 400,000 acre cut, but increased yields from last month's estimate a half a bushel to the acre. This brought overall production to 13.555 billion bushels, down 30 million bushels from last month, but 50 mbu higher than pre-report estimates.
- From a state by state standpoint it is easy to see where wet conditions prevailed throughout the spring and into the summer, limiting overall production potential. The biggest production gain took place in Minnesota, with a year to year increase of 248 million bushels, while Iowa and Nebraska saw a 48 million and 53 million bushel increase in production respectively.
- The biggest decrease was seen in Illinois, with production down 395 million bushels from last year's record crop. Other big decreases came in Indiana with a production drop of 236 million bushels and Ohio with a 72 million bushel drop. Here in Michigan the USDA expects corn production to fall 14 million bushels from a year ago, due to lower planted acreage.
- On the demand side the USDA left usage unchanged making last month's 1 million bushel ending stocks reduction and this month's production decrease the only changes to the overall matrix. In the end carryout was reduced to 1.561 billion bushels, down 31 million bushels from last month, but up slightly from the pre-report trade estimate of 1.534 billion bushels.
- Soybeans saw more in the way of supply and demand changes. Almost entirely in line with pre-report estimates the USDA increased yield 0.1 bushel per acre from last month, however we saw a larger acreage decrease than traders were anticipating, down just over 1.1 million acres from last month. Overall production came in 20 million bushels lower than the pre-report estimate.
- State by state we saw a very similar pattern in production that we saw in corn. The big gainers year over year were seen in Iowa (22 mbu), Michigan (7 mbu), Nebraska (3 mbu) and Minnesota, where an incredible 62 million bushel increase in production is expected. Decreases were seen in Illinois (-43 mbu), Indiana (-17 mbu), Ohio (-7 mbu) and Missouri, where a huge cut in planted acres resulted in a 70 million bushel production decline from a year ago.
- The cut in production combined with last week's reduction in old crop ending stocks dropped overall soybean supplies 66 million bushels from last month's report. The total supply cut combined with a 10 million bushel increase in estimated crushing was partially offset by a 50 million bushel cut in expected exports. In the end after all adjustments carryout came in at 425 million bushels, down 50 million bushels from last month, but 11 million bushels higher than the pre-report trade guess.
- Wheat continues to struggle when it comes to catching a break, with last week's production decline nearly offset by a reduction in feed and residual use as well as export demand. Overall ending stocks are projected to come in at 861 million bushels, down 14 million bushels from last month, but 42 million bushels higher than the pre-report trade estimate.
- In a by class breakdown carryout adjustments showed a continued increase in expected Hard Red Wheat carryout, up 27 million bushels from last month, while Soft Red Wheat ending stocks were down 29

million bushels, with Soft White Wheat carryout expected to be down 19 million bushels from last month's USDA estimate as well.

- Globally the USDA increased wheat ending stock expectations once again, up 1.93 million metric tonnes from last month, primarily based on production increases in Australia. With a recent turn in weather some question whether this increase is too much too soon; however considering global carryout is anticipated to come in at 8.4 billion bushels a 37 million bushel adjustment is minor overall.

The big increases in supplies combined with significant old crop stocks still sitting in bins from a year ago have made for some troubling harvest logistics in some locations. One co-op in Southern Minnesota made waves this week by going to contract only on soybeans and explaining that there may be trouble handling the corn crop coming at them. This appears to be an isolated issue though, with some areas reporting increasing basis levels as harvest wraps up with a less than full pipeline. Of course this is a continuation of the haves and have nots we've been seeing for most of the year and will be very area specific as we move ahead.

At this point for us in the Eastern Belt we are still seeing opportunities develop from a cash standpoint for those of you who have bushels to move in the short-term. Today's somewhat limited reaction to what could be considered a bearish report across the board (outside of corn, which sold off into the close) would show that traders have grown somewhat tired with the bearish narrative. At this point it looks as though pricing levels are suitable for what we know at this point and that it will take something new to break us out of our current range. From a trade standpoint using the upper end of the range as a pricing target is not a bad idea. In the meantime, give us a call with any questions, we're here to help!

All the Best!

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