

This Week in Agriculture

USDA Supply and Demand Report Update: December 9, 2015

- Historically speaking the December USDA Supply and Demand update is the most boring of the bunch. Its timing with harvest completed across much of the countryside and only a month before the big flow of information that comes from Quarterly Stocks and the final production numbers in January means the USDA leaves much of the information unchanged from November. Today's report was no different.
- On the corn side of things the USDA once again increased overall ending stocks, up 25 million bushels from last month's projections to 1.785 billion bushels. Traders were expecting a minimal increase of around 8 million bushels.
- The biggest adjustment was seen in a 50 million bushel reduction in exports. As has been discussed thoroughly so far this year, corn exports continue to lag significantly, so today's adjustment-while aggressive for a December report-was not entirely unexpected. The cut to exports was partially offset by a 25 million bushel increase in ethanol usage (those of you keeping score at home will recall the USDA just lowered ethanol usage 75 mbu last month) due to continued strong production pace and decent demand.
- Lower beginning stocks in Brazil and reduced production in South Africa offset the slight increase in U.S. ending stocks resulting in a slightly lower global ending stocks picture. At 211.85 million metric tonnes (8.34 billion bushels) projections came in slightly lower than pre-report expectations, but still show a 144 million bushel increase in overall global ending stocks from a year ago.
- Domestic soybean projections were left completely unchanged from last month at 465 million bushels, 3 million bushels higher than the average pre-report estimate. The USDA did make some adjustments to soy oil demand, but not enough to prompt them to increase crush. The steady export pace seen thus far allowed export projections to remain unchanged as well.
- Global adjustments were minimal, coming in 0.28 million metric tonnes (10 million bushels) lower than last month's projections. At 82.58 mmt (3 billion bushels) global ending stocks are still expected to come in 180.8 million bushels higher than last year. It is interesting to note that some dryness issues in the Central and Northern areas of Brazil, combined with too much moisture in some Southern areas are causing private analysts to lower their production estimates slightly. The USDA chose to ignore these adjustments, leaving their Brazilian production outlook at a record large 100 million metric tonne.
- Also interesting, they only increased their Argentinean soybean export projections by a half a million metric tonne (18 million bushels.) Possibly indicating the rush of soybeans many traders have been expecting due to the recent presidential election may not be quite as swift as some had previously thought.
- Wheat continues to struggle when it comes to USDA projections. While domestic numbers were left unchanged from last month at 911 mbu, coming in 7 million bushels lower than pre-report estimates. The only changes made to domestic numbers were seen in export projection swaps between Hard Red Spring (exports +10 million) and Hard Red Winter (exports -10 million) varieties, global numbers were increased once again.
- Globally we saw an increase in ending stocks due to an increase in production out of Canada and the European Union. Another increase in beginning stocks throughout the world was credited for the slight increase as well. At 229.86 million metric tonnes (a whopping 8.5 billion bushels) projections were nearly 3 million metric tonnes higher than pre-report estimates and nearly 18 million metric tonnes (661 million bushels) higher than a year ago. It is interesting to note that though that while the USDA took Stats Canada's recent projected increase in production to heart, they chose to ignore the recent production decrease projected by the Australian government.

In the end traders ended up paying more attention to moves lower in the dollar and outside markets than they did today's numbers allowing corn and soybeans to close basically unchanged, while wheat was able to close 8 higher.

Traders will begin to focus on next month's Quarterly Stocks report as well as their estimates on final production. There is some uncertainty out there when it comes to actual production numbers and what we're seeing in the cash market. Last year we saw the USDA lower their lofty production estimates after lower than expected stocks were confirmed. While I wouldn't hold my breath on this happening again, the market has a short memory and will likely keep this in mind. The recent weakness in the dollar, combined with potential moves by the Fed in the next couple weeks will be monitored closely as well.

In the meantime local basis values continue to show some strength, though many buyers in Michigan specifically seem to have the bulk of their December needs covered and are now looking forward to January. If you have bushels you need to move do not be hesitant to take advantage of some of these historically strong basis levels if they're available in your neck of the woods. Don't forget to core your bins and ensure proper air flow as well. Warmer than normal temperatures can wreak havoc on grain in the bin and the only thing worse than already cheap grain is spoiled cheap grain. Until next week don't hesitate to give us a call with any questions, we're here to help!

All the Best!

Angie Setzer

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