

## This Week in Agriculture:

USDA Supply and Demand Update: February 9, 2016

- Historically the February supply and demand update tends to be one of the more boring reports. With January's report holding so much updated information and the South American crop still weeks away from full blown harvest progress many adjustments in February are of a mild nature and today was no different. From an expectation versus actual number standpoint though one could say today's report had a bit of a bearish twist to it as all numbers came in slightly above pre-report estimates.
- The USDA made several tweaks to the corn supply and demand outlook. The first adjustment made was to expected imports. The recent spread in values has prompted some in the Southeastern feed market to bring corn in from South America versus railing it in from the Midwest. Because of this the USDA again bumped their anticipated import projections from last month. At 50 million bushels imports are 10 million bushels higher than last month and 18 million bushel higher than last year.
- On the usage side of things the USDA lowered exports 50 million bushels as many traders were expecting due to the slow pace thus far this year. A 25 million bushel increase in corn used for ethanol helped to partially offset this increase. In the end overall old crop carryout expectations came in at 1.837 billion bushels, higher than the average analyst estimate of 1.809 billion, but within the range of guesses.
- The USDA made little in the way of overall changes to the global corn outlook, lowering global carryout by 0.13 mmt (5 million bushels). At 208.81 million metric tonnes (8.2 billion bushels) overall carryout came in slightly above pre-report expectations and 2.63 million metric tonnes higher than last year. Change-wise increases in Brazil and Argentina production were offset by an increase in Chinese domestic feed use and subsequent adjustment to carryout. It's interesting to note though that only hours after today's 1.4 mmt increase in Argentina corn production estimates the USDA attaché in the country lowered their outlook because of recent dry conditions.
- Changes to the USDA's domestic soybean outlook were minimal at best. With the slow start to this year's crush pace and the USDA anticipating record crush many traders were expecting an adjustment lower in that usage category. The USDA agreed, lowering their crush outlook by 10 million bushels from last month. This decrease in crush increased old crop ending stocks by the same amount. At 450 million bushels soybean carryout came in 5 million bushels higher than the average pre-report estimate and 10 million bushels higher than last month's expectations.
- Globally the USDA expects a slight increase in old crop ending stocks versus what they estimated last month. At 80.42 million metric tonnes ((2.95 billion bushels) ending stocks came in 1.45 mmt higher than pre-report estimates and 1.14 mmt higher than last month's estimate. Much of this adjustment came from an expected 1.5 mmt production increase in Argentina, up to 58.5 mmt. Brazil crop expectations were left unchanged at 100 million metric tonnes.
- Wheat ending stocks continued to grow both domestically and globally today as well, a cut to export expectations increased domestic wheat carryout 25 million bushels from last month. At 966 million bushels wheat ending stocks came in 19 million bushels higher than pre-report expectations and the largest we've seen since the 2009/10 crop year. Globally we saw wheat stocks climb to another record high, up 6.83 mmt from last month due to a drop in expected Chinese usage.

With outside economic factors continuing to pressure energies and other outside markets today's response to the USDA numbers was actually quite minimal-especially given we saw what could be viewed as a somewhat bearish report. In the end corn and wheat were down a penny, while beans managed to gain a penny. Overall we are now on the lower end of the recent range with a test of November post-report lows not out of the question—especially if crude and other outside markets do not seem to find footing any time soon. At the same time a retest of recent range highs cannot be ruled out either. I do not say this to talk out of both sides of my mouth, but simply to point out that our recent range is somewhat tight and the market feels comfortable at this point in time with what we already know. The lack of new and exciting headlines will likely allow us to languish around current levels until we really start to focus on new crop production and get a better handle on actual yield reports out of South America.

**My advice remains the same, take advantage of any bursts in futures values, keeping the current range in mind. Also be aware of what your local market structure is looking like and what you are up against when it comes to short term movement. Here in Michigan many growers will be working overtime to ship grain ahead of weight restrictions due to the mild winter we've seen. This could have a weakening impact when it comes to basis, be aware of this if you know you have bushels to move before the county road commission has its way. As always don't hesitate to give us a call if you have any questions, we're here to help!**

**All the Best!**

**Angie Setzer**

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