

This Week in Agriculture

USDA Report Summary: January 12, 2016

- The USDA released a boatload of information today, giving us quarterly stocks, crop production, wheat seedings and updated supply and demand information to name a few. At a glance the numbers released were somewhat of a mixed bag as well, with some numbers considered bearish and others considered bullish. Overall however, judging by market reaction the fact that nothing came out ridiculously negative was supportive to price and we finished higher across the board as a result.
- Starting with corn numbers the biggest piece of information that came out today to catch the trade off guard was a reduction in overall production. Quarterly stocks came in 25 million bushels below pre-report estimates, this combined with the fact that first quarter disappearance was in line with expectations enough to keep feed demand unchanged indicated a reduction in overall production would be necessary. As a result the USDA lowered yield estimates by 0.9 bushel to the acre nationally, with a slight increase in planted area offsetting a portion of the yield loss.
- This 53 million bushel reduction in production was carried over into supply and demand estimates, but was offset by a 50 million bushel reduction in exports. With the incredibly slow pace to exports this reduction in expectations did not come as a surprise. The USDA also lowered anticipated demand for sweeteners while increasing import projections by 10 million bushels. When all was said and done the USDA raised estimated ending stocks by 17 million bushels from last month, with traders expecting the number to stay unchanged.
- Perhaps the most interesting piece in today's dump of information came from the quarterly stocks numbers. It seems since harvest the only thing we have been hearing about is how undersold the farmer is and how many bushels he was holding (some going so far as to call it hoarding), today's numbers disagreed actually showing on farm corn stocks are down 258 million bushels from year ago, with commercial holdings up by that same amount.
- When looking at a by-state breakdown of stocks it is easy to see the haves and have nots we have been talking about all year. The biggest increases in stocks from a year ago were seen in Iowa (+140 mbu), Minnesota (+149 mbu) and Nebraska (+99 mbu). While the biggest decreases were seen in Indiana (-161 mbu), Illinois (-78 mbu), Missouri (-81 mbu) and Ohio (-55 mbu). Here in Michigan December 1st stocks are down 6 million bushels from a year ago, of that on farm holdings are down 30 mbu, with commercial holdings up 24 million.
- Lower than expected global corn stocks helped to support prices with total stocks coming in 3.57 mmt (141.8 mbu) lower than trade expectations and 2.91 mmt (116 mbu) lower than last month. Those cuts were contributed to a cut in Brazilian ending stocks due to lower beginning stocks and slightly higher exports, as well as a reduction in Chinese production and imports. The continued drought in South Africa has cut 4 mmt from production estimates there, but the USDA is slow to increase import estimates at this point. What continues to be most interesting in overall global corn supply figures is the fact that China accounts for 54% of the world's total corn holdings overall.
- Similar to corn lower than anticipated quarterly stocks prompted the USDA to lower production estimates. A 0.3 bushel per acre reduction in yield as well as a 400,000 acre cut in harvested area dropped overall production by 51 million bushels from last month. This drop was partially offset by a 25 million bushel reduction in exports, but still resulted in a 25 million bushel cut to ending stocks, traders were expecting a 3 million bushel increase.
- Unlike corn however slower exports and larger beginning stocks versus the year prior resulted in a 187 million bushel increase in December 1st stocks from a year ago. Of that increase on farm stocks are up 91.5 million bushels, with commercial holdings up 95.5 million. The haves vs have nots are nowhere near as prevalent with increases seen in Illinois (+58 mbu), Iowa (+48 mbu), Minnesota (+46 mbu) and South Dakota (+28 mbu). Drops were seen in Missouri (-15 mbu) Indiana (-4 mbu) and Ohio (-2 mbu). Here in Michigan, though production was up 12 million bushels stocks were down 476,000 bushels from a year ago.
- Though the USDA left Brazilian production estimates unchanged they anticipate total global stocks will be 3.3 mmt (121 mbu) lower than estimated a month ago, traders were expecting the estimate to remain relatively unchanged. Of the reduction Argentina ending stocks are expected to be lower due to an increase in domestic

crush as well as a slight increase in anticipated exports. China ending stocks are also expected to be lower due to lower beginning stocks and an increase in domestic crush as well.

- What's most interesting when it comes to global ending stock projections is just how many beans remain at the end of the crop year in Brazil and Argentina. Brazil is expected to have 709.5 million bushels left over at the end of the year with Argentina holding on to just over a billion bushels.
- The only saving grace for wheat today was much lower than anticipated winter wheat seedings. Ahead of today's report traders were expecting winter wheat seedings to come in around 39.32 million acres, down only slight from a year ago. The USDA begged to differ, stating they believe 36.6 million acres of winter wheat was sown this past fall. Hard Red Wheat acres saw the biggest decline in actual plantings versus expectations coming in 2.3 million acres below expectations, while increases to acres in the Northern Soft Red Wheat Belt offset declining acres in the South keeping the decline limited to 367,000 acres from a year ago. Here in Michigan the USDA believes we saw a year to year planted acreage increase of 70,000 acres.
- On the supply and demand side the USDA lowered anticipated imports slightly, surprisingly left export expectations unchanged, but lowered overall domestic usage expectations by 36 million bushel. This reduction in domestic demand though offset by the lighter import projections resulted in a 30 million bushel increase in carryout, traders were expecting an 8 million bushel increase overall.
- Globally huge stocks got huger (you can't even call these big) with overall global carryout coming in 2.2 mmt (81 mbu) higher than last month's estimate. At 232.04 mmt (8.53 billion bushels) global ending stocks are expected to be record high, surpassing last year's record high ending stocks by nearly 10%. Of course the fact that China is holding on to 38% of the world's wheat carryout could skew things slightly, but overall supplies at this point are burdensome nonetheless.

When all was said and done the market breathed a sigh of relief that today's release could not be considered a bearish nightmare overall and moved higher, led by soybeans with lower acreage and a fund short allowing wheat to rally as well. Corn closed a few cents higher, but well off its high of the day as traders look expectantly to what we can expect from the Brazilian second crop as well as wait for any sign of life on the export side of things.

Today's numbers weren't necessarily a game changer, but the fact that we have tested recent range lows the last couple of weeks without trading down another leg could help to get a bit of a short covering bounce going in the short term. Basis values remain reasonably strong-especially in the areas mentioned with lower stocks, taking advantage of that strength as well as any strength in the futures market is advised. Also keep in mind the massive increase in soybean stocks; please don't become complacent when it comes to pulling the trigger there. Basis values aren't likely to firm much more than recent highs and futures will struggle to break out of the top side of their range as well.

In the end today's numbers were helpful when it comes to removing some of the horrible stigma attached to grains, but did little to completely change the picture in the short term overall. Remain aware of this as you make marketing decisions for both old and new crop in the coming weeks. As always, don't hesitate to give us a call if you have any questions, we're here to help!

All the Best!

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