

This Week In Agriculture

USDA Supply and Demand Report Update: July 10, 2015

- The USDA gave us their updated supply and demand outlook today, with numbers for old crop corn and soybeans coming in lower than expected, while new crop numbers came in slightly above pre-report expectations. Wheat carryout came in slightly lower than pre-report estimates, thanks to a somewhat surprising increase in export expectations.
- After last week's quarterly stocks numbers showed less corn on hand than expected we knew coming into today a reduction in old crop ending stocks was likely. The USDA did not disappoint, dropping old crop carryout and subsequent new crop carryin by 97 million bushels to 1.78 billion bushels. They credit increased usage in all three major sectors for the drop.
- Last week's adjustment to new crop harvested acreage showed up in today's report as well, with a 100 million bushel drop in production. Contrary to what some traders were expecting, but in line with historical adjustments, the USDA left new crop corn yield estimates unchanged from last month. They did however reduce both feed and export usage expectations by 25 million bushels each respectively. This reduction in usage for feed and exports was partially offset by an increase in expected corn used for ethanol.
- When the dust settled new crop corn ending stocks came in 172 million bushels lower than last month. A 1.599 billion bushel carryout was 59 million bushels higher than the average pre-report estimate, but well inside the range of expectations.
- With crop estimates growing out of Brazil, significant production expectations out of the Ukraine and Russia, but issues developing in the EU traders were uncertain what to expect from a global ending stocks standpoint. The USDA acknowledged the Brazil crop increasing production by 2 mmt, but also increasing exports rather substantially, pushing ending stocks there down slightly. A reduction in the European crop was slightly offset by a potential increase in the Chinese crop size (no surprise there), but global ending stocks overall fell for both old and new crop. Coming in below pre-report expectations for both crop years.
- Similar to corn, a reduction in old crop soybean ending stocks was expected as we came into today due to lower than expected quarterly stocks in last week's report. The USDA did not disappoint, and actually lowered old crop soybean carryout potential further than what most traders had anticipated, down 75 million bushels from last month at 255 million bushels. An increase in seed and residual, crush and export usage was credited for the decline in overall inventory.
- This reduction was carried into the new crop supply and demand outlook, where it was partially offset by an increase in production from last month. Similar to corn the USDA took into account acreage changes from their June 30th report, but did not change their overall yield expectations. A slight increase of 10 million bushels to new crop crush helped to take new crop ending stocks down 50 million bushels from last month to 425 million bushels, while traders were anticipating a 105 million bushel reduction.
- Global soybean numbers came in along pre-report estimates with a 74 million bushel reduction to old crop global ending stocks and a 52 million bushel reduction to new. A reduction in Argentinean ending stocks due to a recent heavier pace of exports into China was the only real change outside of the US adjustments.
- Domestic wheat ending stocks came in slightly lower than expected due to a 25 million bushel increase in export expectations. With the recent strength in the dollar and reduced exportable qualities we have seen US export offers trading over a dollar a bushel higher than our nearest competitor. Dry weather in Europe and Canada as well as cuts to ending stocks in Australia could eventually push business our way again. A reduction in domestic usage in today's numbers though could leave room for a shift in demand (ie: less exports, more domestic usage) without a real change to carryout.
- The biggest surprise overall in today's report came from global wheat stocks. A reduction in projected Chinese feed usage and subsequent increase in ending stocks of 630 million bushels pushed global wheat

ending stocks to a record high 219.81 million metric tons (over 8 billion bushels). Of course quality becomes the million dollar question when it comes to Chinese wheat stocks. But the shock of the number helped to outweigh much of the excitement over less than expected domestic ending stocks.

When the dust settled today we saw corn up 5, beans up 6 and wheat down 3. After shaking off some pretty scary news out of China at the start of the week, and questions over the global economy overall we saw corn finish the week 6 higher, while beans were down 8 and wheat was down 11.

As I mentioned the lack of adjustments to yield estimates in today's report is not out of line when it comes to the USDA. This allowed traders to shake off higher than expected new crop ending stock estimates because they anticipate changes to take place in the August report. As we work into next week Monday night's crop progress numbers are going to be heavily scrutinized. Right now a lot of what we're seeing is good crops are getting better, while bad crops are getting worse. Yield reductions are likely, and in soys Monday night's planting progress showed at least 3.4 million acres still unplanted.

With the issues that we're seeing across the Corn Belt it is easy to see why corn has rallied nearly 80 cents, beans are up over a dollar and wheat has added over a dollar in the last month as well. Production losses are real, but at the same time the questions surrounding just how much good crop there is versus bad and what kind of real impacts we see from too much rain remain. It is likely we will see the market continue in a choppy to higher range as rain continues to impact our wettest areas. It is important to remember though that global developments make this a much larger market than what we saw even 5 years ago, and just because we've brought our floor up doesn't mean we've removed our ceiling. Continue to take advantage of the opportunities the market is giving you, and remember you can't go broke making money. Until next week, have a great weekend and stay safe!

All the Best!

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