

## **This Week in Agriculture:**

**USDA Supply and Demand Report Summary: May 12, 2015**

- **The USDA gave us our first insight into what they are expecting for new crop supply and demand projections as well as adjustments to their old crop outlook in today's report. Ahead of the report many traders were expecting numbers to be bearish across the board, with higher carryout estimates expected for everything but old crop beans. When the numbers came out there were few surprises, but several adjustments were made that could have further implications as we move ahead.**
- **On the corn side of things traders were expecting an increase to old crop ending stocks from last month, with a slight reduction year to year in new crop carryout. While both ideas came to fruition the adjustment higher to old crop carryout was not as high as expected, leaving new crop ending stocks slightly below pre-report estimates as well.**
- **When looking at the usage breakdown in old crop corn the USDA expects a 48 million bushel reduction in their Food, Seed and Industrial outlook compared to last month. This reduction was somewhat surprising considering it went without explanation and was done without touching ethanol usage. Many traders were expecting a decrease in feed usage however, so the cut did little harm to market psychology.**
- **Recent strength in export pace and a slight fall back in the dollar allowed the USDA to increase their export outlook by 25 million bushels. With those adjustments the USDA increased their old crop ending stocks outlook by 24 million bushels to 1.851 billion bushels, 13 million bushels below the average pre-report estimate.**
- **The new crop outlook is what had many traders concerned coming into today. As of Sunday night the USDA put corn planting progress at 75% complete, nearly 20% ahead of the 5 year average and 20% ahead of last year's pace. Historically the USDA has increased their May yield projections in years where planting progress is well ahead of average. The USDA put the halt to that trend however, stating in today's report, "The trend yield is not adjusted for this year's rapid planting pace as more than 90 percent of yield variability is determined by July weather."**
- **In the end the USDA projects a 166.8 bpa yield (the 2<sup>nd</sup> highest ever) on 81.7 million acres harvested (the 89 million acres planted has a general perception of around 91.7% harvested for grain), with a total production outlook of 13.63 billion bushels, down 586 million bushels from last year. On top of this slight decrease in production the USDA is anticipating a 138 million bushel increase in total usage, made up with a 50 mbu increase in feed usage, a 13 mbu increase in Food, Seed and Industrial usage and a 75 mbu increase in export expectations.**
- **When all was said and done the USDA put their first new crop carryout estimate at 1.746 billion bushels. Down 105 million bushels from this year, and only 6 million bushels less than the average pre-report estimate.**
- **Global numbers for corn could be viewed as bearish for old crop, coming in over 70 million bushels higher than pre-report estimates and surprisingly bearish for new crop, coming in nearly 368 million bushels higher than expected—the bulk of which came out of Chinese carryout estimates. The USDA estimates Chinese corn production will come in at 228 million metric tonnes, nearly a half a billion bushels higher than 2014 production.**
- **Soybean's had to take the good with the very bad today as a reduction in old crop carryout projections was more than trumped by a large increase in new crop ending stocks and gains in global numbers. Ahead of today's report traders were anticipating a 10 million bushel decrease to old crop carryout as export sales have already exceeded the last USDA export projection. The USDA agreed with trader sentiment, but also felt a 10 million bushel increase to crush was necessary. At 350 million bushels carryout is still nearly 3 times higher than a year ago, but down significantly from earlier estimates.**
- **New crop was where the real shock came from as the USDA came in 57 million bushels higher than the average pre-report estimate at 500 million bushels. The bulk of the increase in carryout comes from a huge**

increase in carryin (old crop ending stocks) of 258 million bushels. From a production standpoint the USDA is anticipating a 46 bpa yield on 83.7 million acres harvested. At 3.85 billion bushels production would be 119 million bushels lower than a year ago.

- From a demand perspective lower Chinese import projections combined with a sizeable increase in Brazilian new crop production estimates prompted the USDA to lower their export expectations by 25 million bushels. This decrease was nearly entirely offset by a 20 million bushel increase in crush. In the end though the decrease in demand combined with the increase in carryin pushed new crop ending stocks to near record high levels.
- Global numbers were interesting in soys with the USDA adjusting Argentina carryout from the 2013-14 crop year 107 million bushel lower. This adjustment carried into the 2014-15 projection lowering global old crop carryout by 147 million bushels from last month. Looking ahead to next year though global carryout is expected to gain nearly 11 mmt or 392 million bushels if crop production estimates are realized.
- Wheat yet again was the winner of the not-so coveted “Kick me when I’m down” award today, with both old and new crop carryout estimates coming in above pre-report estimates. Though all-wheat production numbers came in slightly lower than anticipated old crop carryout came in 16 million bushels higher than expectations, with new crop carryout 43 million bushels higher.
- A continued reduction in old crop exports combined with an increase in imports was what caused the increase in old crop carryout. While an increase in both domestic usage and exports was not enough to offset the increase in production the USDA is anticipating.
- Globally things continue to look bad for wheat with another increase to already astronomically high global ending stock projections for both old and new crop. Though the crop is a long way from being in the bin the USDA estimate of 203.32 mmt or 7.5 billion bushels of wheat leftover globally at the end of next year will definitely act as a wet blanket to any rallies until a true weather issue develops.
- From a reliability standpoint the USDA tends to underestimate wheat carryout figures in their May report both globally and domestically. In corn they tend to overestimate US carryout, but underestimate the global outlook. Perhaps most interesting is over the last 34 years the USDA has overestimated domestic soybean carryout 71% of the time, while managing to split global numbers.

Now that the initial projections are out of the way traders will have an idea of the parameters we are working with as we move ahead. As the USDA stated in their corn outlook, though the crop has went in relatively decently (ahead of recent rains in many locations) the true potential is achieved in July for corn and August for soybeans. While we have a long way to go before it’s all in the bin, it’s important to remember what we are looking at not only from a domestic perspective, but from a global one as well. Surplus stocks make it that much more difficult to really ignite a weather rally, especially in a market outlook as negative as the one we’re currently experiencing. Keep this in mind when putting target orders into place. In the meantime, don’t hesitate to call with any questions, we’re here to help!

All the Best!  
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