

This Week in Agriculture

USDA Supply and Demand Report Update: November 10th, 2015

- Bucking the trend of recent months traders came into today's USDA supply and demand update expecting bearish numbers. The expectation of increasing yields and rising carryouts was apparently not unfounded, as the USDA rose ending stock expectations across the board. With many numbers coming in above already lofty expectations.
- On the corn side of things traders were anticipating corn yields to come in around 168.4 bushel per acre, up 0.4 bushels from last month. The USDA disagreed, raising yields to 169.3 bushel per acre, up 1.3 from last month and near the high end of pre-report estimates. On a by state basis the big increases came for Iowa (+6 bpa), Minnesota (+3 bpa) and Nebraska (+3 bpa), while small decreases were seen in Illinois (-2 bpa), Missouri (-4 bpa) and Ohio (-2 bpa). Michigan's yield forecast was left unchanged at 167 bpa, up 6 bushels from last year.
- With the increase in yield and unchanged acreage overall production came in 99 million bushels higher than October's forecast and 75 million bushels higher than the average pre-report estimate. The increase in production was also coupled with some less than desirable demand adjustments. As expected exports were cut by 50 million bushels due to the slow start in shipments and in sales, as well as the continued uncompetitive nature of our prices due to an increasingly strong dollar.
- The 75 million bushel reduction in corn projected to be used for ethanol did catch some traders off guard though as production numbers reported weekly have been strong. However, the USDA contributed this reduction to an increase in available milo supplies working their way into ethanol production across the Southern Plains. A more plentiful milo (sorghum for us Northerners) crop and less than desirable exports have made for more availability at cheaper values.
- Thankfully feed demand expectations were increased slightly helping to offset the decrease in overall demand by 25 million bushels. In the end it wasn't enough though and overall corn carryout increased by 199 million bushels from last month up to 1.76 billion bushels, coming in 163 million bushels higher than the average pre-report estimate and 58 million bushels higher than the highest pre-report estimate.
- Globally things didn't get much better as a record setting revision to Chinese usage created an 18.83 mmt (741 million bushel) increase in the country's beginning stocks. With production left unchanged-though some feel overall Chinese production could drop up to 20 mmt below current estimates due to a late season drought there-and a further decrease in corn feed projections the country's ending stocks are expected to come in 23.83 mmt higher than the USDA's October estimate. The Chinese increase was only partially offset by a 5.5 mmt (216 mbu) decrease in Brazilian ending stocks, this combined with our domestic ending stock increase pushed global ending stocks for corn up to 211.91 mmt (8.3 billion bushels), coming in 24.08 mmt higher than last month and 23.48 mmt (924 mbu) higher than pre-report expectations.
- Soybeans didn't fare much better than corn, though their increase in overall ending stocks seemed a bit easier to bear. Production-wise, similar to corn, we saw a big jump in overall yields. The USDA believes this year's national average yield came in at 48.3 bpa, up 1.1 bushels per acre from last month's estimate and 0.8 bpa higher than the average pre-report estimate.
- On a by state basis the usual suspects saw an increase with Iowa and Minnesota seeing a 3 and 2 bushel per acre increase in production added respectively. On the surprise side of things we saw the USDA bump Missouri's yield 2 bushels from last month, up to 43 bpa—a high side estimate considering much of the crop was planted during the traditional 2nd crop time period. Here in Michigan the USDA believes overall soybean yield came in at 48 bushels per acre, also up 2 bushels from last month and 5.5 bushels higher than last year's crop.
- While increases in overall demand slightly helped offset the 93 million bushel increase in production, the 10 mbu increase in crush, 40 mbu increase in exports and 3 mbu increase in residual usage were not

enough. In the end soybean carryout increased 40 million bushels from October to 465 million bushels and came in 29 million bushels higher than the average pre-report guess.

- Global adjustments were a bit more supportive than what we saw in corn. Chinese imports are expected to increase 1.5 mmt from last month's estimates and just over 2 mmt from last year. This increase in demand from China combined with increased domestic usage in both Brazil and Argentina helped to offset the increase in U.S. ending stocks and helped to push overall global ending stocks 2.28 mmt (83.8 mbu) lower than forecast last month, and 2.5 mmt below pre-report estimates.
- Like its cousin corn wheat continues to be the whipping boy when it comes to slow export pace and an overall lack of love from the USDA. Coming into today's report traders were expecting a slight cut to exports due to the slower than expected pace as we work our way deep into the 2nd quarter of the marketing year. The USDA did not disappoint, cutting exports 50 million bushels from last month and 54 million bushels from last year. This lack of demand was not offset by any other adjustments and went straight to the bottom line. At 911 million bushels wheat ending stocks came in 34 mbu higher than the average pre-report estimate.
- From a by class standpoint Hard Red Wheat saw the biggest cut to demand with both Hard Red Winter and Hard Red Spring seeing a 25 and 20 million bushel increase in carryout overall. White wheat supply and demand remained unchanged, while Soft Red Wheat saw a 5 million bushel increase in expected carryout.
- On the global side of things a cut in production in both Australia and Russia combined with a slight increase in global usage helped to lower global ending stock estimates to 227.3 mmt (8.4 billion bushels), 1.19 mmt lower than last month's estimate and slightly lower than what traders were expecting ahead of today's report.

When the dust settled prices were lower, but the lack of a collapse in the face of today's numbers was somewhat....comforting? At the very least the lack of a complete and total sell off shows that some of what we saw today had already been factored in by traders and that perhaps we're close to the short term lows. While I'm not one to even begin to attempt to call a bottom, I would say the only encouraging thing about today's move is low prices are the only thing that can fix low prices. At this point the likelihood of seeing a continued increase in global supplies is beginning to slow, while at the same time demand should continue to be supported at these lower values.

Traders will now turn their attention to South American weather while in the meantime watching demand indications out of the corner of their eye. Of course the strength in the dollar will continue to act as a headwind for corn and wheat, but recent strength in buying interest for short-term soybean movement and the quick pace of shipments will need to be watched. In the meantime basis values remain incredibly strong for those of us in the Eastern Corn Belt, with some allowing for relatively decent cash values even in the face of falling futures. Keep this in mind, especially for those of you with better than expected production. Of course, as always, don't hesitate to call us with any questions. We're here to help!

All the Best!
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