This Week in Agriculture:

USDA Supply and Demand Report Update: August 10, 2012

- **The USDA released its updated supply and demand estimates this morning using their first survey based yield estimates of the year. The report was relatively benign in the fact that all numbers came in within the range of traders' pre-report estimates.**

- **Ahead of this morning's report traders were expecting the USDA to peg corn yields at 126 bushels to the acre or so, with a range of 117.6-134 bpa. The USDA believes the nationwide corn yield will come in around 123.4 bushels to the acre, the lowest average yield in over 17 years. State by state you can see where the hot and dry conditions ravaged corn production. The USDA anticipates Illinois corn yield will come in around 116 bpa, 41 bushels to the acre below last year. Iowa yield is pegged at 141, versus 172 last year. Indiana saw the largest year to year yield decline, down 46 bushel to the acre from last year at 100 bpa.**

- **Here in Michigan the USDA anticipates a total production loss of 74 million bushels from last year. They anticipate our corn yield here in the state to come in around 114 bpa versus last year's 153 bpa yield.**

- **The most active discussion ahead of the report was how the USDA was going to handle their harvested acreage projection. In 1988 we saw 15% of corn acres taken out of grain production, whether through abandonment or for silage. As mentioned in last week's newsletter most experts feel the increase in insured acres could contribute to an even larger rate of abandonment due to revenue guarantees.**

- **At this point the USDA anticipates 10% of corn acres planted will not come to the market as grain-most traders feel this number is far too low. Some experts feel we'll see the harvested acre number drop at least another 2 million acres as we move towards harvest; possibly taking another 246 mln bushels off our production estimate.**

- **The USDA believes higher prices are doing their job when it comes to rationing demand. Old crop corn carryout numbers were increased due to a projected reduction in exports, ethanol usage, feed usage and an increase in imports. Old crop carryout was raised 118 million bushels from last month's estimate, helping only slightly to offset the massive production loss seen. New crop demands has been cut as well with new crop demand projected an incredible 1.5 billion (yes, with a B) lower than last month's estimate.**

- **This 1.5 bln bushel drop in demand came in the form of a 725 mbu reduction in feed usage, a 470 mbu reduction in industrial use (400 mln of that in ethanol reduction alone) and a 300 mbu cut in projected exports. A slight increase in projected imports was added into this morning's balance sheet as well. Overall with the cuts in production and demand the USDA anticipates next year's carryout will fall to around 650 million bushels. An astounding 1.2 billion bushels lower than the USDA's initial May projection.**

- **The USDA put their projected on farm price range estimate for corn at a record high $7.50 to $8.90.**

- **Soybean production came in slightly below the average pre-report trade estimate at 2.692 bln bushels of total production versus the average trade estimate of 2.786 bbu. Nationwide average yield was pegged at 36.1 bpa versus the pre-report average estimate of 37.2 bpa.**

- **Similar to corn we saw the largest yield drops take place in Indiana, Illinois and Iowa, with the biggest drop projected in Nebraska where the USDA anticipates a 10.5 bushel to the acre drop in yield from last year. Here in Michigan the USDA anticipates we'll produce 13.7 mln bushels less beans than a year ago with a state-wide average yield of 36 bpa versus last year's 44 bpa.**

- **Also similar to corn the USDA dropped anticipated new crop soybean demand by 360 mln bushels, most of which came out of reduced exports. Many traders are already calling the USDA's adjustment to demand "unrealistic," especially with the loss of South American production and the already aggressive new crop soybean export program.**

- **New crop soybean carryout came in right in line with trader's pre-report expectations at 115 mln bushels. The USDA projects the average on-farm soybean price range will run $15.00-$17.00.**
- **There wasn't much build-up in regard to wheat as most traders have a solid feel for what's been harvested and not enough interest in next year's crop to matter just yet. Total wheat production was raised 44 mln bushels from last month's estimate due to higher than anticipated yields.**
- **Here in Michigan the USDA believes a reduction in wheat planted acres more than offset a 2 bpa yield increase over last year. They feel overall production was down just over 11 million bushels. They estimate the statewide yield for wheat came in around 74 bushels to the acre.**

Trader reaction to today's report was more "buy the rumor, sell the fact" than anything. Corn set new record highs before succumbing to selling pressure and falling off. Corn will continue to face pressure as the food vs fuel debate continues to heat up. Livestock feeders are struggling and several members of Congress have proposed cutting the ethanol blending mandate in the hopes it would reduce corn prices. World groups are starting to pay attention as well with the FAO and the UN mentioning high grain and food costs this week as well. The market's job is to go high enough to ration demand, and at this point according to the USDA we're beginning to see some rationing. Weather will continue to be important, but as we move ahead, especially with corn and wheat outside market moves may have more to do with direction than they have recently. Don't hesitate to call if you have any questions, we're likely to see increased volatility as we move towards harvest; early yield numbers are all over the board. Until next week, have a great weekend and stay safe!

All the Best!
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