

This Week in Agriculture:

News That Could Make a Difference: January 11, 2013

- **There was a slew of information released by the USDA this morning with world and domestic supply and demand numbers, December 1st stocks, Winter Wheat seedings and final 2012 production all coming out midday. Today's much anticipated batch of USDA reports was bullish for corn and wheat and relatively neutral to slightly bearish for soybeans. Overall for the week old crop corn finished 30 cents higher, old crop beans were up 8 and new crop wheat was up 7.**
- **Corn production numbers were the only slightly negative number for the complex, with production coming in 154 million bushels higher than pre-report estimates. The production increase came in a yield increase of 1.1 bu per acre. The yield increase more than offset the 326,000 acre reduction in harvested acreage, increasing total production by 55 million bushels from last month's estimate and bringing total production to 10.78 billion bushels.**
- **The most important aspect to this morning's report was December 1st stock numbers. Dec 1 stocks are important because they give us a peak into actual production numbers as well as feed demand. This morning's numbers came in 200 million bushel lower than pre-report estimates. The fact that stocks were lower than anticipated tells us one of two things is occurring: either production was lower than previously thought, or feed demand is higher than expected.**
- **The USDA took the lower than anticipated stocks number as a sign feed usage was much larger than previously estimated. As we've pointed out in previous reports overall livestock numbers were right around last year's levels, making it difficult to believe we could possibly see a 400 million bushel reduction in feed usage. Because of the lower stocks the USDA was basically forced to increase feed demand by 300 mbu.**
- **As expected the USDA lowered corn exports by about 200 million bushels. Overall the slight increase in production and cut to exports was more than offset by the 300 million bushel increase to feed demand. Ahead of the report traders were expecting ending stocks to stick right around the 650 million bushel number released last month, this month's carryout came in at 602 mbu.**
- **Of interest, here in Michigan our corn managed to yield an average of 133 bushel per acre, down 20 bpa from last year. We managed to out-yield Illinois, Indiana and Missouri and were in shouting distance of Iowa's 137 bpa. Stocks-wise we're much lower than last year (as expected) with on-farm stocks down 45 million bushels and commercial stocks down nearly 10 million bushels.**
- **Soybean numbers came in as expected. December 1st stocks came in slightly below pre-report estimates indicating the largest ever first quarter usage. Production was increased by way of a 0.3 bushel to the acre yield increase and a harvested acreage increase of 400,000 acres, raising total production by 44 mbu. Domestic usage was raised by 39 mbu leading to a 5 mbu increase to carryout, which was right in line with pre-report estimates.**
- **Some traders question if the USDA remains too light on their export projection, especially after leaving it unchanged this month. It's likely though it will take a continued pattern of export sales and shipments into the spring to make traders feel better. Brazil's logistical capabilities are less than ideal, leading some to question whether or not they will be able to handle China's needs on their own.**
- **Here in Michigan we were able to increase our soy production from last year by 210 million bushels overall. We had a state-wide yield of 43 bushel per acre. This was in line with Illinois and Indiana yields thanks to some late season rains. Stocks however are significantly lower than last year with on farm stocks down 5.7 mbu and commercial stocks 6 million bushels lower.**
- **Wheat numbers came in bullish as well with all wheat carryout coming in 27 million bushels below pre-report estimate. The reduction in carryout came in the form of increased feed usage based on indicated disappearance in December 1st stocks numbers.**

- Exports for Soft Red Wheat were increased, resulting in a 47 million bushel reduction in SRW ending stocks. At this point Chicago Wheat is the lowest priced wheat in the world and we're one of the few countries with exportable quantities available. Things could continue to get interesting on the wheat side of things, especially if the wheat-corn spread continues to shrink as it has recently.
- South American production numbers came in relatively close to expectations. Brazilian soybean production was increased by 1.5 mmt (55.11 mbu), but Argentina production was lowered by 1 mmt (36.74 mbu), basically offsetting each other.
- South American corn numbers will need to be closely monitored though as the USDA increased Argentina corn production estimates by a half a million metric ton up to 28 mmt (1.1 bbu) and Brazil's production estimates were up a million metric ton (39.37). The Argentina numbers will be the ones to watch the closest as many private estimates out of Argentina have been closer to 22-23 mmt, a 197-236 mbu difference in overall production. Stay tuned.

Now that we're past this obstacle it's likely traders will not be as fearful of risk as they have been. There are still a lot of unanswered questions, but we're getting closer to having a "feel" for where this market needs to go in the short term. Keep in mind though quick math indicates we could swing from a 600 million bushel corn carryout this year to a 3 billion bushel plus number next year with a 150 bushel per acre yield on 98 million acres. Brazil's decent crop is likely to limit most radical moves in beans, but the unknown is what keeps things fun. Opportunities are still readily available and now's the best time to take a look at target orders for both old and new crop. Give us a call with any questions, we're here to help!

All the Best!
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