

This Week in Agriculture:

News That Could Make a Difference: July 13, 2012

- **The markets remained volatile but strong this week as the once in 24 years drought continues to take place throughout a good portion of the Corn Belt. Overall for the week old crop corn was up 47 cents, while new was up 49. Old crop soybeans were 29 cents higher, with new gaining 47. Recently harvested wheat was up 40, while next July wheat was up 15.**
- **Monday night's crop progress report showed continued deterioration of crop quality as expected, with only 40% of the nation's crop thought to be in good to excellent condition. This week's big loser in crop conditions was Iowa, where the amount of corn rated good to excellent fell 16% from last week.**
- **Indiana and Missouri continue to experience the worst when it comes to crop ratings. In Indiana only 12% of the corn crop is considered to be in good to excellent condition, with an astounding 59% of the crop poor to very poor. Missouri only has 12% of their crop in good to excellent condition as well, while the Illinois crop has 19% rated good to excellent. Here in Michigan, the USDA believes 33% of our crop is in good to excellent condition, 26% is fair, while 41% is poor to very poor.**
- **As for soybeans the USDA sees 40% of the crop in good to excellent condition. Missouri and Indiana have 13-14% of their crop considered good to excellent respectfully. Here in Michigan the USDA sees 34% of our soybean crop in good to excellent condition, 26% in fair condition, and 40% of the crop poor to very poor.**
- **On Wednesday the USDA released their much anticipated supply and demand projections, surprising the trade with an aggressive stance towards drought induced yield loss. Prior to this month's report the USDA had been hesitant to adjust yields too much from the June to July reports. This month though the USDA dropped its anticipated corn yield by 20 bushels to the acre and lowered expected harvested acreage by 200,000 acres. This dropped total anticipated production by 1.8 billion bushels.**
- **Higher market prices are already working to ration demand. The 1.8 billion bushel reduction in production was offset by what the USDA sees as a 1 billion bushel reduction in demand. The biggest reduction in demand came in feed usage, where the USDA believes we'll see a 650 million bushel cut to demand due to much higher prices than first anticipated. They expect exports to be down by around 300 million, while ethanol demand is thought to be 100 million bushels lower than last projected.**
- **All of these adjustments resulted in an ending stocks reduction of just under 700 million bushels from last month. The USDA now sees corn carryout at 1.2 billion bushels, versus the 1.8 bbu forecast last month.**
- **Many are already questioning what they view as an optimistic outlook on harvested acres. In past drought years we've seen 2-3 million acres of abandonment throughout the growing season. If yield potential were to continue to drop and abandonment were to increase things could get much tighter than the 1.2 billion bushel carryout outlook the USDA is currently using.**
- **The USDA took an aggressive attitude towards reducing soybean yield expectations as well, lowering yield 3.4 bushels and harvested acres 800,000 acres from last month's forecast. A 150 million bushel reduction to demand helped to offset the majority of the production drop, but ending stocks are still forecast at a historically tight 130 million bushels to the acre.**
- **Traders however are easily spooked and after an initial bullish reaction to the USDA report word spread the USDA was going to make an announcement led the market to fall sharply. The announcement had nothing to do with the ethanol mandate as feared, but was instead regarding the drought situation and what emergency action is going to be taken. They also stated they had no current plans to do anything with ethanol mandates at the time. The market was quick to correct itself on Thursday.**

At this point weather will continue to be the driving factor as yield estimates continue to shrink. Extended forecasts are calling for above normal temperatures throughout the Corn Belt with above normal rainfall expected in the far Eastern Belt and Great Lakes through the 27th of this month. It will be interesting going forward as

traders grapple with what we're dealing with production-wise and demand-wise as we proceed. Give us a call with any questions, we're here to help!

**All the Best!
Angie Maguire
Citizens LLC**

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