

## This Week in Agriculture:

USDA Report Supply and Demand Report Summary: August 12, 2014

- The USDA released updated supply and demand numbers this afternoon, finally giving the market some fresh yield updates and demand outlooks to go on as we move into the final stretch towards harvest. While domestic numbers were bullish, or somewhat supportive to price, global numbers remain more than adequate, keeping a lid on excitement at this point.
- Going into today's report farmers and traders were expecting the worst when it came to USDA yield numbers. As we mentioned in last week's newsletter good crop ratings and decent weather conditions had many private analysts expecting a nationwide average yield of 170 bushel per acre or more. The USDA projects yield to come in around 167.4 bushels to the acre-2.5 bushels per acre below the average trade estimate, and below the lowest pre-report trade guess.
- Here in Michigan the USDA expects a 161 bushel per acre yield, well above last year's 155. With an expected 10,000 acre decrease in harvested acreage the USDA is anticipating a state-wide crop that's nearly 12 million bushels larger than last year. The increase in carryover may make for limited harvest space if this yield outlook is realized—however based on current conditions throughout the state, I wonder if a 6 bpa increase in yield may be a touch too aggressive.
- With the expected jump in corn yields many traders were expecting new crop ending stocks to come in above 2 billion bushels. The USDA has a slightly different outlook as we head towards harvest. An expected increase in old crop bushels used for ethanol (45 mbu increase) and exports (20 mbu increase), pulled old crop ending stocks down to 1.18 billion bushels—lower than the lowest pre-report estimate. The reduction in old crop stocks carried over into new crop, keeping us below that magic 2 billion bushel number.
- Looking at new crop corn demand, the USDA raised their usage outlook by 100 million bushels from last month. The increase came from a 50 million bushel increase in corn feeding projections, and a 25 million bushel increase in both ethanol and export outlooks as we move ahead. The reduction in old crop carryover, combined with the increase in new crop demand helped to offset the bulk of the 172 million bushel production increase.
- Global numbers weren't quite as supportive, however. While overall global ending stocks came in below the average pre-report estimate, we are still looking at hefty supplies worldwide. One piece to watch of course will be the continued dry weather we're seeing in China and how that will impact their projected record crop as we move ahead.
- On the soybean side of things, it's a bit too early to take today's yield numbers as gospel as predicting yields in soybeans at this point is more of a guessing game than exact science. At 45.4 bushels to the acre today's yield estimate comes in slightly higher than the 45.2 bpa projected last month and slightly below the 45.6 bushel per acre average trade guess.
- Here in Michigan the USDA is anticipating a 44 bushel per acre yield, in line with last year. The 400,000 acre increase in harvested estimates from a year ago would give us 17.6 million bushels more soybeans state-wide than what we saw last harvest.
- Old crop soybean carryout was left unchanged, but we saw a further increase to the ever-amazing negative residual usage number released in last month's report. A residual usage number of negative 94 million bushels basically indicates that last year's crop was much larger than the USDA had estimated previously. The increase in negative residual helped to offset a 5 million bushel reduction in expected imports and a 25 million bushel increase in export expectations, leaving old crop carryout at 140 million bushels.
- On the new crop side of things the only change was a bump in overall production based on the slight yield increase. At 430 million bushels new crop carryout came in 16 million bushels higher than the average trade guess, and 290 million bushels higher than we will see at the end of this marketing year.

- From a global perspective carryout estimates came in relatively close to pre-report estimates. At 85.62 million metric tonnes though, we are looking at an overall global supply carryout number 675.28 million bushels higher than we saw in the 13-14 crop year. With low corn prices pushing the South American farmer towards soybeans many in the trade believe we could see this number increase further without a weather issue of some kind developing.
- As for wheat, overall numbers came in relatively close to pre-report estimates, with a slight increase to domestic carryout from last month. The biggest surprise seemed to come in the increase in Hard Red Winter Wheat production and a seemingly reluctant approach to increasing Spring Wheat production at this point in time.
- Here in Michigan a reduction in acreage and a slight reduction in yields from a year ago has overall production estimates down 7.8 million bushels from last year. This reduction in production took place throughout the Soft Red Wheat Belt, with overall production coming in 99 million bushels lower than the 2013 crop.
- According to the USDA a 190 million bushel reduction in perceived demand for Soft Red Wheat will more than offset lower production. However, with export sales nearly half of current projections only 2 months into the marketing year demand for SRW will be key to watch as we move ahead.

At the close we saw December corn finish close to a penny higher, November soybeans were down 14, with September wheat down 8 cents. Now that today's report is out of the way it will be interesting to see if traders will begin to feel comfortable with a smaller than assumed corn crop, or if they will continue to insist the crop is bigger than what the USDA indicated today.

Traders will continue to watch weather closely as there are still some areas of the Corn Belt that could use a solid rain to finish both corn and soybeans. The "F" word is being tossed about as well as some private weather forecasts indicate another cold weather snap could take place around the same time as the full moon in September. Of course all bets would be off if we were to see a frost develop in the Northern Corn Belt—but remember, hope is not a marketing strategy. In the meantime give us a call with any questions, we're here to help!

All the Best!  
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