

This Week in Agriculture:
Updated USDA Supply and Demand Numbers July 12, 2016

- After last week's surprising increase in corn acres and larger than expected quarterly stocks traders were hesitant coming into today's report. However that hesitancy was unnecessary as none of today's numbers came in much higher than anticipated. At first glance when looking at numbers versus pre-report expectations you could say both old and new crop corn were bullish while soybeans and wheat were neutral.
- With quarterly stock numbers coming in much above expectations traders fully believed old crop corn ending stocks would have to be raised. The USDA disagreed with this sentiment lowering old crop ending stocks slightly from last month's estimate. At 1.701 billion bushels ending stocks are still large, but came in over 100 million bushels lower than the pre-report estimate and 7 million bushels smaller than the USDA's June estimate.
- While cuts were made to expected ethanol and feed usage a 75 million bushel increase in export demand allowed for the adjustment lower. Another interesting tidbit to today's figures was an adjustment higher in corn used for seed for the last 20 years. The USDA feels that higher populations planted resulted in false seed usage figures since 1995.
- The adjustment lower in old crop carryout continued through into the new crop matrix. Of course with the 500,000 acre adjustment higher in last week's acreage figure the 110 million bushel increase in supply more than offset the slight increase in starting bushels. A 50 million bushel cut to feed and residual use from last month was added back in to today's supply numbers as was a 25 million bushel cut to ethanol usage. Those 2 cuts were more than offset by a 100 million bushel increase in exports. Overall new crop ending stocks came in at a large 2.081 billion bushels, but were still over 200 million bushels lower than pre-report estimates.
- Globally the USDA followed CONAB's cue from last week cutting the Brazilian corn crop outlook by 7.5 mmt (295 mbu) from last month. While a 1 mmt increase in corn production for Argentina helped a bit the 2 countries are still only expected to have around 274 million bushels between the 2 of them or around 16% of our overall ending stocks. New crop global ending stocks did come in higher than expected though with the accounted for increase in the US and an estimated 2.1 mmt (83 mbu) increase in Chinese ending stocks.
- Compared to corn adjustments soybeans were pretty boring with both old and new crop ending stocks coming in relatively close to pre-report estimates. Ahead of today traders were expecting old crop soybeans to come in around 352 million bushels, they came in at 350. An increase in expected exports more than offset the cut in residual usage prompting the 20 million bushel cut from last month. New crop demand adjustments were seen with an increase in both crush and exports. Ahead of today's report traders were expecting new crop soybeans to come in around 287 million bushels, they came in at 290.
- Global soybean ending stocks came in relatively close to expectations as well at 72.17 mmt vs 71.53 mmt expected but down from last month's 72.29 mmt estimate. New crop global carryout figures came in relatively close to trader estimates as well.
- Today's report gave us our first by-class supply and demand breakdown as well as an updated by state breakdown on winter wheat production. Overall wheat production numbers came in higher than expected at 1.63 billion bushels thanks to a record high national average yield. Hard Red Winter Wheat production took the biggest jump up 257 million bushels from last year. The biggest jumps in production were seen in Kansas up 132 million bushels from last year and Oklahoma up 33 million. Here in Michigan production is expected to come in nearly 8 million bushels higher than last year.
- Supply and demand wise ending stocks came in right around levels expected due to a 100 million bushel increase in feed usage and a small increase in exports offsetting the slightly surprising increase in production. At 1.105 billion bushels wheat carryout is still at its highest level since 1988/89.

- **Global ending stocks came in lower than expected thanks to a cut in Chinese ending stocks. A significant increase in domestic usage there dropped ending stock expectations 5.5 mmt (150 million bushels) from last month. Small cuts elsewhere had new crop wheat carryout come in at 253.7 mmt vs expectations of 258.82 mmt and last month's 257.84 mmt. Still massively huge it is nice to see global stock estimates back away from setting a new record high.**

Approximately 5 minutes after today's report traders switched their focus to weather. Extended forecasts continue to point towards potentially record setting heat entering the Western Corn Belt at the beginning of next week. While much of the country's corn has avoided pollinating in extreme heat in the eyes of traders at least the idea of kernels filling during a heat wave as well as the impact it will have on soybeans as they also enter their critical period could cause traders to reevaluate their thoughts regarding the need for a risk premium. An already volatile trade is likely to see an increase in volatility. In the meantime keep in mind what you have left to sell and what kind of realistic values you are looking for. While the need for a risk premium may come into play the overall reasonable domestic and global supply level will also keep sellers looking for places to enter. Give us a call with any questions we're here to help!

**All the Best!
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