

This Week in Agriculture:

USDA Supply and Demand Report Summary: October 12, 2016

- The USDA released their updated supply and demand estimates today giving us further insight into their domestic production estimate as well as what they're expecting to take place globally in the year ahead. At first glance the domestic ending stocks numbers looked supportive to price for corn, soybeans and wheat, while global numbers could be considered supportive for corn and wheat and negative to price for soys.
- Coming into today's report traders were expecting the USDA to continue their recent trend of lowering corn yields with the pre-report estimate coming in at 173.5 bushel per acre versus last month's estimate of 174.4. The USDA agreed taking yield per acre down to 173.4 bushel. A slight 200,000 acre increase in harvested acreage offset a portion of the yield decline, with overall production down 36 million bushels from last month.
- The lower production combined with higher expected exports to reduce carryout 63 million bushels from last month's estimate. At 2.32 billion bushels corn carryout is still considered extremely large, but came in 39 million bushels lower than the average pre-report estimate and 330 million bushels lower than the high range of guesses.
- Global corn carryout came in 104 million bushels lower than last month's projections and 59 million bushels lower than pre-report expectations. Adjustments to US carryout as outlined and a slight reduction in Argentina's ending stocks were behind the move lower. It's interesting to note Argentina's expected carryout will come in around 83.5 million bushels or less than 4% of our expected ending stocks.
- Soybean production was what had traders most concerned coming into today's report. Expectations grew ahead of today's projections with some concerned the USDA would come out with a per acre estimate as large as 55 bushels, while others worried FSA information indicated more soybean acres were planted than USDA estimates showed. In the end the USDA agreed a yield increase was needed, but came in more subdued adjusting the yield 0.8 bushel per acre higher than last month's estimate. With a 51.4 bpa yield and unchanged acreage overall production was up 68 million bushels.
- The strong early export pace combined with cheap available supplies encouraged the USDA to increase exports 40 million bushels from last month, helping to offset a bit of the production increase. In the end soybean carryout is expected to come in at 395 million bushels, 30 million bushels higher than last month's estimate, but 18 million bushels below the pre-report estimate.
- Global ending stocks were bearish in soybeans, with the USDA 191 million bushels higher than last month's estimate, and 150 million bushels higher than the pre-report estimate. Increases in US production combined with expected production increases in both Argentina and Brazil were behind the growth in ending stocks. It is important to point out that though this information is negative to price at first glance the South American production season is just getting underway.
- Wheat supplies remain burdensome, but the recent trend of global ending stock estimates getting smaller each month continues. Domestically, we saw production lowered slightly with an increase in exports as the positive adjustments to the balance sheet, the fact that the USDA lowered expected feed use by 70 million bushels offset those adjustments though, resulting in a 38 million bushel increase in overall carryout, traders were expecting carryout to come in 53 million bushels higher.
- In the by-class breakdown we see the higher carryout expectations for Hard and Soft Red Winter Wheat, with poor weather and quality lowering the Hard Red Spring carryout 41 million bushels from last month's projections. White wheat carryout is expected to come in 8 million bushels lower than last month.
- Interesting to see corn yield in Michigan is expected to average around 155 bushel per acre, that's down 2 bushels from last month and 7 bushels per acre lower than last year. Overall corn production is expected to come in 540,000 bushels lower than last year. State soybean yields are expected to come in at 47 bushels per

acre, unchanged from last month and down 2 bushels from a year ago. Total soybean production for the state is thought to be 750,000 bushels lower than last year.

The initial rally after the report's release found headwind with a strong US dollar and ideas that any chance of a bullish unknown surfacing in the short-term is limited. As a result we saw corn, soys and wheat all down hard at the end of the day. For now the bulk of our hurdles are out of the way and we'll continue to monitor actual harvest reports and weather conditions in South America. Locally soybean basis levels have been weak due to a full pipeline in our Toledo market that is spilling over into local values. It's likely we will see some of this pressure alleviate with the arrival of a boat or two, but if harvest continues at a strong pace like we've seen recently it is unlikely things will improve significantly in the short-term. In the meantime if you have any questions don't hesitate to give us a call we're here to help!

All the Best!

Angie Setzer

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