

This Week in Agriculture:
News That Could Make a Difference: August 5, 2016

- **The negative narrative surrounding global economic weakness and large supply expectations continue to weigh heavy on the market. When the closing bell rang at the end of the week we saw December corn down 8, November soybeans down 28 with December wheat up 2.**
- **As the bulk of the critical portions of the growing season draw to a close with overall crop conditions still strong traders seem to be in a game of leap frog jumping over each other to publish the highest overall yield estimate for both corn and soybeans. History indicates current crop conditions of 76% good to excellent in corn and 72% good to excellent in soybeans will likely result in higher final yields than current projections. In fact the USDA has increased their August yield estimate every year we've seen ratings this high by an average of 3 bushel per acre.**
- **A 3 bushel per acre increase in corn yields with no adjustment to demand would put carryout up to 2.3 billion bushels lifting the stocks to use ratio to an over a decade long high. At this point it seems as though the trade has absorbed a 171 yield with many talking even higher expectations when all is said and done.**
- **While the USDA does not tend to increase soybean yields in August due to there being so many unknowns in overall production traders are still thinking a potential increase is in the cards. Many anticipate the crop to come in nearly 2 bushel to the acre higher than current USDA estimates, taking carryout from the currently projected 290 million bushels up to over 450 million bushels.**
- **Of course even in years of large supply demand remains key to the overall ending stocks outlook. It is interesting to see China and other buyers in buying soybeans 8 days in a row. With nearly 120 million bushels sold over the last week it is easy to believe the potential is there for further demand increases down the road. However the bearish sentiment surrounding the market combined with some large open old crop sale bushels that have not shipped yet has some traders expecting some old crop export sales to be cancelled.**
- **Continuing with the negative market sentiment theme many are ignoring the recent strong export sales pace and instead focusing on the limited domestic demand for Chinese government reserve soybeans and corn. Recent government auctions have seen less than stellar buying by end users. However considering stocks being offered are from the 2012/13 crop year one must wonder if the lack of interest is due to price or because of poor quality.**
- **Another interesting demand tidbit that bears watching is what is taking place currently in Brazil. With the country's second crop corn coming in even lower than recent low estimates many believe Brazil will yet again run out of corn either late this year or early next. While Argentina is likely to step in and ship many of the bushels needed into Brazil the idea is there that the country may need 40-50 million bushels of US corn in the first half of the marketing year to keep supplies in the pipeline. The increase in unexpected imports combined with the lack of exportable supplies has reshaped the supply and demand outlook globally.**
- **The global outlook for wheat is a bit less bearish than it was a month ago (though that's not saying much). Production issues in France have taken nearly 450 million bushels off of last year's record production numbers dropping it to levels not seen since 2003. Germany and Poland are battling weather issues as well, but traders feel at this point reports of solid production in Russia may help to offset some of those losses.**
- **Production estimates out of China will have to be watched closely as we move through the rest of the year. Record setting flooding has inundated portions of the country killing hundreds, costing billions of dollars in property damage and hitting several million acres of farmland. While it is likely the USDA could ignore these issues in the next report the country's need for steady supplies of food and grain will make it difficult to hide any shortfalls in the months ahead.**

The USDA will release their updated supply and demand outlook next Friday leaving traders to duke it out for the time being. With extremely bearish expectations going into the report one must wonder how bearish the actual numbers will have to be to see a continuation to the downside. In the meantime though it wouldn't be a surprise to not only see continued volatility ahead of next Friday but a push to new lows in corn and possible losses in the bean complex cannot be ruled out. While it is likely the market will eventually digest the large numbers being thrown about and decide to trade on demand and other factors it could be quite some time before the shift takes place. If you are not prepared or able to wait due to space constraints or cash flow you will be much further ahead to get a plan in place for old crop and harvest time bushels sooner than later. As always don't hesitate to give us a call if you have any questions. We're here to help!

All the Best!

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