

## This Week in Agriculture:

### USDA Quarterly Stocks and Small Grains Report Summary: September 30, 2014

- Initial reaction looking at today's updated USDA figures was the report was bullish to soybeans, but somewhat bearish for corn and wheat. As expected though, even numbers that supported price in soys were trumped by the idea of an easily record crop coming our way.
- As mentioned in last week's report, what makes today's numbers somewhat special is they give us a final indication of what our old crop ending stocks were as of September 1<sup>st</sup> for both corn and soybeans. This will be the number the USDA uses as carryin when it comes to determining where we are at from a total supply standpoint ahead of this fall's harvest.
- Today the USDA put their final corn carryout at 1.24 billion bushels. This was nearly 60 million bushels higher than their projection used in the September supply and demand outlook and around that same amount higher than the average pre-report estimate. At 1.24 billion bushels stocks as of September 1 were nearly 50% higher than they were last year at this time.
- Of the increase, the bulk of bushels are being held on the farm. According to today's figures on-farm corn supplies are up 68% from last year, with commercial holdings up 42%. In a by state breakdown, it is easy to see where rail issues and logistics are causing trouble with movement in the Northern Belt. North Dakota, South Dakota and Minnesota are holding on to 42, 33 and 61 million bushels more corn than they were a year ago.
- The head scratcher award goes to Iowa, where they are holding on to 64 million bushels more than they last year. While Illinois was the only major corn producing state to actually have less corn on hand than they had last year, with a 12 million bushel reduction in overall supplies.
- Here in Michigan we have 18 million bushels more available than last year, nearly double last year's carryout. Of that increase there is 11.8 million bushels more in the hands of commercials, and 6.6 million bushels more on the farm. After an active September of shipping corn into Ontario and a delayed start to harvest it would be interesting to see where we are actually sitting supply-wise versus what the USDA projects, but unfortunately, the numbers are what they are.
- Today's soybean numbers held some of the most interesting September developments I have seen in awhile. The USDA pegged old crop carryout at 92 million bushels. The lowest carryout we have seen *in print* in decades. 92 million bushels was 34 million bushels lower than the pre-report estimate and 49 million bushels lower than the September number released just a couple of weeks ago.
- As we've discussed, lower than anticipated ending stocks generally indicates higher than anticipated demand, or lower than expected supply. Just to make things interesting though the USDA adjusted soybean production for 2013 69 million bushels *higher*. The adjustment higher in production combined with an adjustment lower in carryout would indicate either we have a demand or supply swing of nearly 118 million bushels. Most traders believe this will appear in the October S and D update as either positive residual usage or lower than expected imports from South America.
- From a stocks by position standpoint, we are down nearly 49 million bushels from last year. Of those bushels 21 million were remaining on the farm with just 70.6 million bushels in the hands of commercials. Here in Michigan the USDA actually feels there is an increase in supplies over a year ago of just over 136,000 bushels. With basis values trading at \$4.00 over paid in some locations for old crop beans it would be interesting to see how many bushels made their way to the market ahead of harvest.
- Wheat can't catch a break. Ahead of today's report traders were expecting all wheat class stocks to come in around 1.88 billion as of September 1. Today the USDA put that number at 2.035 billion bushels. The bulk of the increase likely came from a further increase in Spring Wheat production, with a 12% increase from last year. Winter wheat production came in lower overall.

- Here in Michigan we saw a substantial drop in overall production due to a drop in yield combined with an historical drop in harvested acreage versus what was planted. The 8.2 million bushel drop in statewide production would give reason to the sharp increase in basis seen not long after harvest wrapped up.
- The most interesting development to watch when it comes to the continuation of larger than expected wheat stocks is just how much of that wheat will be milling quality and how much will have to work its way through the feed pipeline. A solid increase in white wheat production in Idaho does the market no good if the bulk of it is sprouted and unusable. Unfortunately that will take awhile to play out and will likely do so more in basis and spreads before it impacts actual futures values.

At the end of the day—as expected, the trade turned its attention back to large yield reports and the looming big crop coming our way. While today’s numbers were interesting (mainly just on the soybean side of things) it’s going to take a lot more to turn our attention away from the bearish points and towards anything that remotely looks bullish. In my opinion it could be the January stocks report before we see anything exciting enough to sustain a rally. Long story short, we’re going to be walking through mud for awhile.

On the positive side of things the slow start to harvest and the depressed futures prices are providing basis opportunities for deferred sales as well as some quick ship opportunities. Make sure to keep in touch with your buyer and be realistic when it comes to target orders. In the meantime don’t hesitate to give us a call with any questions. We’re here to help!

All the Best!

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