

We concluded last week's report with the following, "...*immediately post-report there will be the room for fireworks!*", and how correct this proved to be. Perhaps the biggest surprise came from the 2 bushels/acre uplift in US corn yield to 168.8 bushels/acre. The range of trade expectation was 160.4 to 167.5 with an average of 164.5. Little wonder the release caused the market to move limit lower although closing the session off its lows. In soybeans the report also raised yield although by only 0.9 bushels/acre to 46.9. This was again above trade estimates that ranged from 43.2 to 45.7 with an average of 44.7 bushels/acre, and we saw another limit move lower.

US Corn Supply and Demand

US Soybean Supply and Demand						15/16 USDA Estimates				
						12/13	13/14	14/15	July	August
Millions of Acres						97.3	95.4	90.6	88.9	88.9
Millions of Bushels						87.4	87.5	83.1	81.1	81.1
Area Planted						90%	92%	92%	91%	91%
Area Harvested						123.1	158.1	171.0	166.8	168.8
Percent Harvested						98.9	921	1,232	1,779	1,772
Yield Per Harvested Acre						10,755	13,829	14,216	13,530	13,686
Beginning Stocks						160	36	30	25	30
Production						11,904	14,886	15,477	15,334	15,488
Imports						4,315	5,030	5,300	5,275	5,300
Total Supply						1,172	1,172	1,232	1,232	1,232
Crushings						6,038	6,503	6,555	6,585	6,625
Exports						4,641	5,134	5,200	5,225	5,250
Residual						10,353	11,534	11,855	11,860	11,925
Total Demand						730	1,629	1,850	1,875	1,890
Ending Stocks						11,083	13,454	13,705	13,735	13,775
Average Farm Price						821	1,232	1,772	1,599	1,713
Stocks to Usage						7.41%	9.16%	12.93%	11.64%	12.44%
Carry-Out Months of Supply						0.89	1.10	1.55	1.40	1.49
USDA Estimates						\$6.89	\$4.46	\$3.65 - \$3.75	\$3.45	\$4.05

Aside from yield, the other significant numbers that caused the market to plunge were US end stocks in both corn and soybeans which grew to 1,713 and 470 million bu respectively. World end stocks in corn were forecast to grow 5.14 million mt to 195.09 million mt whilst global soybean stocks were forecast to decline almost 5 million mt. Wheat data was similarly upbeat from a supply perspective with growth in both US and global end stocks. World output continues to grow faster than consumption, which is almost static according to the latest figures.

It is difficult, if not impossible, to see anything other than a bearish outlook from the report that clearly provided "fireworks" as we suggested. Post-report day saw some market consolidation as prices recovered, albeit slightly, and the markets now appear to be digesting the issues. It feels very much as if we have now reduced, if not completely removed, much of the previously perceived supply risks that were underpinning prices. However, as always the way forward is never certain; August weather is crucial to both corn and soybean yields and it would be wrong to suggest that the USDA's latest data leaves yields without risk. There have been dry conditions in key US growing regions, and if these are not relieved soon by good rainfall, there will be cause to downgrade yields in those areas. Conversely, if we see second half August rains pick up, and this is by no means a given according to latest forecasts, we could well see yield data improve. The key here is that weather in the coming two to four weeks is crucial for yield.

Away from the USDA's figures other news appears to scant. Perhaps the most significant issue this week comes from China, which cut its currency reference rate for the third straight day on Thursday. The initial surprise

currency devaluation caused global financial markets to become unsettled and fears of a “currency war” have grown as other countries feel pressured to devalue. This inevitably raises questions over the health and standing of the world’s second largest economy, where we have seen growth slow down for some months. There is a suggestion that the move is designed to make Chinese exports cheaper in a bid to boost the flagging economy, which many believe to be the engine of global growth (or lack thereof). The moves so far this week equate to around 4% vs. the US\$, and as Chinese exports become cheaper, US exports become more expensive from a Chinese perspective. The possible impact on soybean sales, which are already significantly behind last year, should not be ignored.

Keeping to the same part of the world, there were widespread reports that the Chinese government will announce lower corn subsidies for Chinese farmers next month. Specifically, the current 2,220-2,300 RMB per ton subsidy is headed for a 9% reduction to 1,900-2,100 RMB. This was expected and should not affect corn plantings next year.

In other news out of China, the Chinese CQG is testing the waters on new rules and regulations for grain and oilseed imports. The new requirements include documenting the name of the exporter and the name of the producer, both of which are difficult at best, if not impossible. It has been suggested that this is more of a means to regulate the flow of imports, implementing the requirements (or rejecting cargos without the requirements) or relaxing them depending on immediate needs.

Hot on the heels of rapidly falling grain prices we saw Egypt’s GASC step into the wheat tender market once again, this time for 21-30 September shipment, and with the added proviso of a 13% moisture cap, which is of more significance to EU (read French) exporters. They picked up 175,000 mt at an average C&F price of \$194.74, some \$4.00/mt below their last foray into the market earlier in the month when the psychologically important \$200/mt level was breached for the first time in ages. Ukraine picked up 115,000 mt and Russia the balance of 60,000 mt. This week’s business, once again, highlights the desire of traders to secure sales, the FOB levels reflect what looks like a \$5-10/mt discount to previously quoted replacement levels.

This week’s US export figures could hardly be described as exciting, wheat figures reached around half of the prior week’s level whilst new crop corn at 20 million bu was the best of the season to date. New crop soybean sales at 26 million bu were well down from a week ago and compare with 43 million bu at the same time last year. These figures may well be considered depressing from a US exporter’s perspective!

Brussels has issued weekly wheat export certificates amounting to 390,395 mt, which brings the season total to 2,488,255 mt. The season to date total is 524,278 mt (26.69%) ahead of last year.

Stratégie Grains has updated EU 2015 soft wheat output to 144 million mt, a 3.1 million mt increase month on month although it is around 4% down year on year. Barley was forecast 1 million mt higher at 58.8 million mt, which is down 3% year on year whilst corn at 59.6 million mt was 7.1 million mt down month on month and 21% down on last year's record 75.7 million mt level. Alongside EU output, Russia's Institute for Agricultural Market Studies (*IKAR*), forecast their wheat crop higher at 59.5-60.5 million mt, which is a jump from their previous estimate of 58 million mt.

To wrap up, we have jumped the August data hurdle and seen markets re-align lower. Weather in coming weeks is now key to whether these lower levels persist or gradually creep higher on concerns over drying US soils. We will be keeping a very close watch on weather forecasts and any significant changes as these will be the main driver of prices in the shorter term.