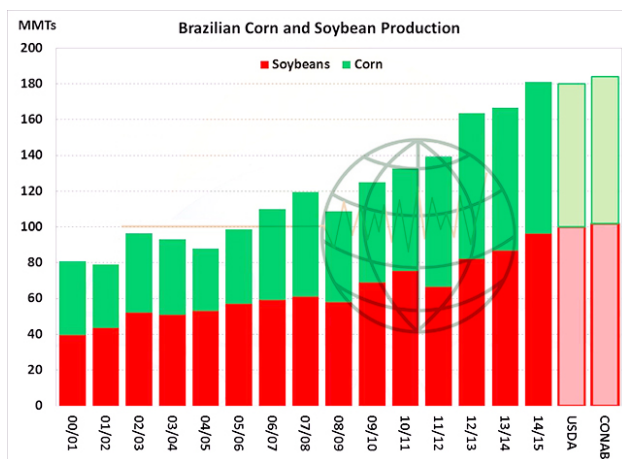
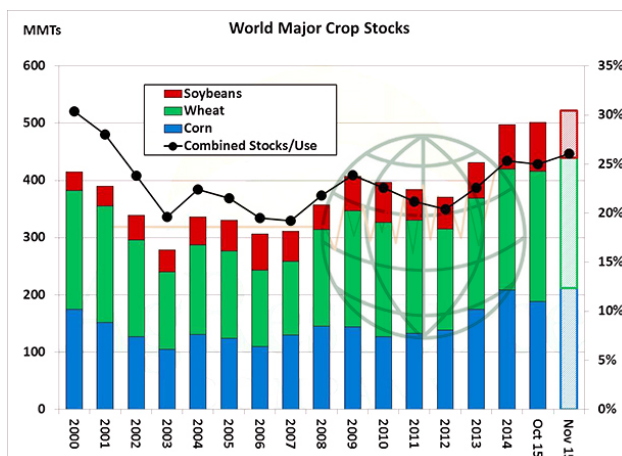




Brazil's CONAB released their November crop report just ahead of the USDA on Tuesday. Whilst it is still early in the season, CONAB increased their soybean crop estimate by 1 million mt to a record large 102 million, while the corn production estimate was reduced by 1.2 million mt to 82 million. The USDA projects slightly lower production totals, but the message from both crop-forecasting agencies is the same:

competition for world corn and soybean exports will remain strong in 2016.

The USDA's November supply and demand estimates were bearish across the board. Broadly, US wheat, corn and soybean stocks were raised by more than



expected, and combined major crop stocks across the world are record high at 522 million mt. Much of this monthly adjustment is due to lower revisions to Chinese corn feed consumption, but this only serves to point out China's issue with burdensome feed grain stocks levels. The USDA also cut US sorghum exports sharply (105 million bu, or 24%), as it expects growth in Chinese demand to be limited. We are not overly bearish

at current prices, but this report is a reminder that even modest short covering rallies could become a selling opportunity. South American weather, Argentina's coming presidential election and the pace of weekly US export sales will be the markets' drivers in the weeks ahead.

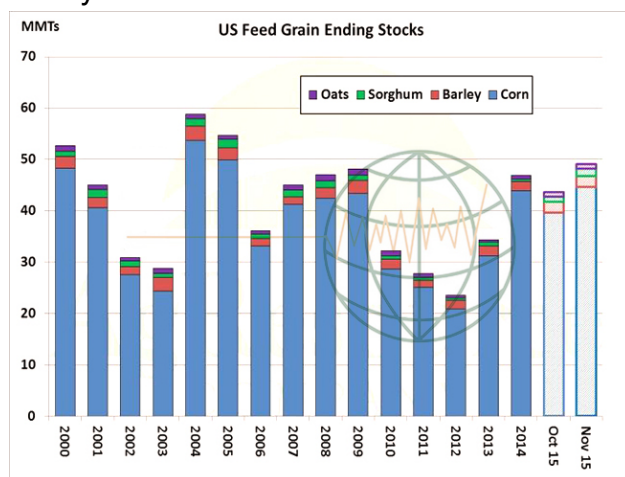
NASS surprised the trade with a much larger than anticipated corn yield hike. National yield was pegged at 169.3 bushels/acre, up 1.3 from October and down just 1.7 from last year's record, which was largely the driving factor behind yesterday's market weakness. However, the USDA also did some interesting things to the total US feed grain balance sheet. Sorghum exports were slashed amid weaker projected Chinese demand, and the decline in sorghum prices is expected to shift biofuel demand from corn to other feed grains. As such, the USDA lowered its corn-ethanol estimate to 5,175 million bu, and of course exports were lowered 50 million bu amid the terrible pace of sales and shipments to date. Our work suggests additional cuts in exports are needed

US Corn Supply/Demand

	Millions of Acres/Bushels		
	USDA	USDA	Estimate
	2014/15	2015/16	2015/16
Planted	90.6	88.4	88.4
Harvested	83.1	80.7	80.7
Yield	171.0	169.3	169.3
Production	14,216	13,654	13,654
Carry In	1,232	1,731	1,731
Imports	32	30	30
Total Supply	15,479	15,415	15,415
Feed/Residual	5,315	5,300	5,250
Industrial/Seed	1,359	1,380	1,365
Ethanol	5,209	5,175	5,150
Exports	1,864	1,800	1,700
Total Use	13,748	13,655	13,465
End Stocks	1,731	1,760	1,950
Price Indication	\$3.70	\$3.65	\$3.55

without adverse S American weather through the winter months, and barring this, US end stocks will be approaching 2 billion bu. Importantly, the USDA now projects US corn stocks to be higher than the previous year, marking this the third year of stock-building.

US sorghum stocks in 2015/16 were raised 16 million bu (40%) to 58 million, barley stocks were raised 1 million to 96 million, and along with higher corn



stocks total US feed grain stocks are now projected at a 10 year high. We note that feed grains are readily substitutable, as evidenced by today's biofuel adjustments in corn and sorghum balance sheets, and it will simply take time to work through this year's surplus, particularly amid ample non-US supplies. 2015/16 global corn stocks were raised 25 million mt, which is mostly a function of reduced feed use in China (the

USDA adjusted its Chinese feed demand from 2013-2015), though major exporters' ending stocks in 2015/16 are still abundant at 59 million mt. The USDA also finally recognised that Brazil will dominate world trade in the months ahead, with Brazilian exports raised 2 million mt to a record 31 million. Note, too, that total global trade in 2015/16 was lowered slightly from October to 119 million mt. We look for a seasonal low to be formed at around \$3.50-3.60 basis Dec '15 futures, but a lasting bullish trend requires adverse S American weather.

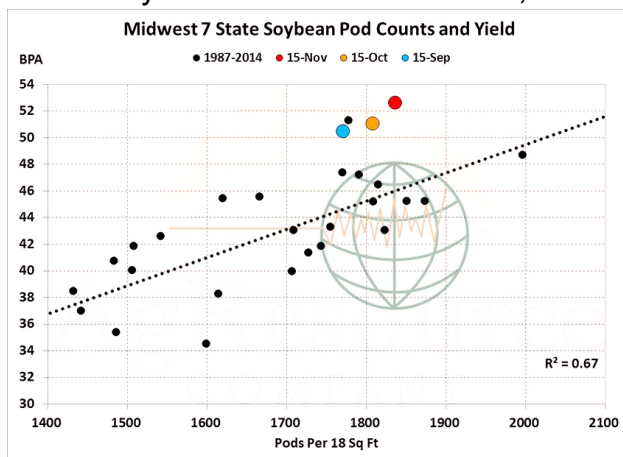
Soybean futures were weaker ahead of the November crop report and losses were extended following release, with most contracts dropping to new lows. The report was viewed as bearish as the November yield and production figures were well above expectations. The national soybean yield was increased by 1.1 bushels/acre to 48.3 bushels/acre, adding 93 million bu to the US soybean production total. With additional supply available and still historically strong

US Soybean Supply/Demand

	Millions of Acres/Bushels			
	USDA 2014/15	USDA 2015/16	Estimate 2015/16	Estimate 2016/17
Planted	83.3	83.2	83.2	82.5
Harvested	82.6	82.4	82.4	81.6
Yield	47.5	48.3	48.3	46.5
Production	3,927	3,981	3,981	3,793
Carry In	92	191	191	558
Imports	33	30	30	33
Total Supply	4,052	4,203	4,203	4,384
Crush	1,873	1,890	1,875	1,895
Exports	1,843	1,715	1,625	1,690
Seed	97	92	90	90
Residual	48	41	55	50
Total Use	3,861	3,738	3,645	3,725
End Stocks	191	425	558	659
Price Indication	\$10.10	\$9.15	\$8.35	\$7.85

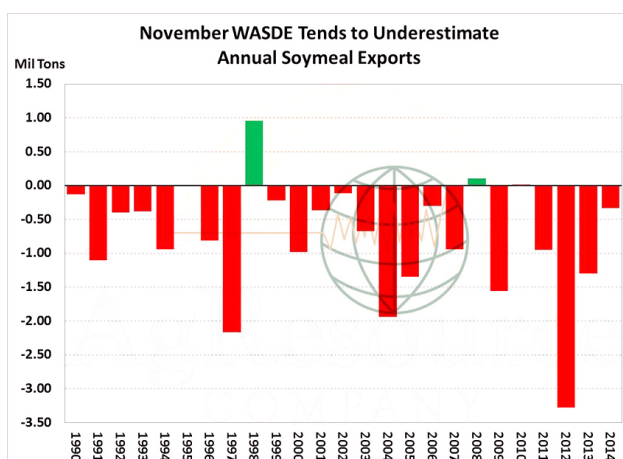
crush margins the USDA increased the estimate for US soybean crush by 10 million bu to 1,890 million. The strong early year export shipment pace was acknowledged by a 10 million bu increase in exports, to 1,715 million bu. The annual residual was raised by 3 million bu to 41 million and annual stocks increased by 40 million bu to 465 million. The annual price range forecast was lowered to \$8.15- 9.65, acknowledging supply driven bearish price trends in the upcoming year ahead.

NASS estimated a US soybean yield of 48.3 bushels/acre, up 0.8 bushels/acre from last year and 1.1 from October, and also record large. Compared to last



month on a state by state basis, soybean yields increased by 3 bushels/acre in IA, KY, and TN, and were up 2 bushels/acre in the states of: IL, MI, MN, MO, and WI. Yield declines were limited to the states of AR, NJ, SC, and VA, but had limited impact on total US production. Record yields were noted in 10 states, the MN yield of 50 bushels/acre exceeding the previous record by 5 bushels/acre.

The chart to the left plots pod counts in the seven states of IL, IN, IA, MN, MO, NE, and OH. The objective seven state soybean yield was up 1.6 bushels/acre at a record 52.6 bushels/acre. Combined pod counts in those states were up 1.6% from October. There is a tendency for big crops to get bigger, and modest gains could again be realised in January.



In the soy product balance sheets, supplies of both soymeal and soybean oil increased due to the larger crush total. 2014/15 soybean oil stocks were also raised by 200 million lbs to a three year high of 1,820 million lbs. Imports were slightly lowered whilst domestic disappearance was cut by 200 million lbs. Biodiesel demand was held steady

at 5,200 million lbs and year end 2015/16 stocks were lifted by 230 million lbs to a four year high of 2,295 million lbs. 2014/15 bean meal stocks were cut by 40,000 tons to 260,000. Annual production increased by 240,000 tons to 44.9 million tons, and domestic use was left unchanged. Annual exports were projected 200,000 tons over October at 11.85 million tons, but still 1.3 million tons under last year. Commitments are well under a year ago, but still the second largest on record, while the chart shows a very strong tendency for the November WASDE to underestimate annual soymeal exports.

The USDA lowered its projected US wheat exports 50 million bu to 800 million, which is in better alignment with sales and shipments through nearly the first

	US Wheat Supply/Demand Millions of Acres/Bushels			
	USDA 2014/15	USDA 2015/16	Estimate 2015/16	Estimate 2016/17
Planted	56.8	54.6	54.6	55.0
Harvested	46.4	47.1	47.1	46.6
Yield	43.7	43.6	43.6	46.2
Production	2,026	2,052	2,052	2,153
Carry In	590	753	753	935
Imports	149	125	125	155
Total Supply	2,765	2,930	2,930	3,243
Food	958	967	970	974
Seed	81	72	75	74
Feed/Residual	120	180	150	145
Exports	854	800	800	975
Total Use	2,013	2,019	1,995	2,168
End Stocks	753	911	935	1,075
Price Indication	\$5.99	\$5.00	\$4.95	\$4.05

half of the crop year. Note that there are so far no controls expected on Black Sea wheat shipments in the months ahead, unlike a year ago. Otherwise, the US wheat balance sheet was left alone, with stocks boosted 50 million bu to 911 million. We view the USDA's projected feed disappearance as slightly too high, but finally the USDA has reconciled its export forecast with what's been happening in global cash markets. Of note, HRW ending stocks are projected to

balloon to 426 million bu, vs. 295 million a year ago, with HRS stocks pegged at 259 million, both are multi-year highs. As such, Chicago futures should continue to gain on other classes, particularly in new crop positions. Notice that, with normal weather, US end stocks continue to build.

US wheat will continue in a demand-driven bear market unless lasting adverse weather impacts N Hemisphere production next spring. The graphic to the left is



key, and shows that the US has been losing world market share steadily in recent decades. The USDA's balance sheet as it stands now indicates that the US will account for just 14% of global trade – which is the lowest on record. EU wheat production was raised 2 million mt, which more than offset a 0.5 million mt reduction in Russia. Australian production was lowered 1 million mt amid poor late-season weather,

but major exporter surpluses will remain historically large. Major exporters will

continue to fight for export demand, which will keep rallies in the US limited to short covering events. Global fob prices this afternoon are quoted at levels comparable to \$4.60-4.80, basis spot Chicago.