World Corn Supply and Demand

(million metric tons) November Report	13/14	14/15	USDA 15/16 Estimates October	USDA 15/16 Estimates November
Beginning Stocks	132.90	174.88	196.03	208.21
Production	991.43	1008.79	972.60	974.87
Imports	123.94	121.70	123.31	123.51
Total Supply	1248.27	1305.37	1291.94	1306.59
Feed	570.34	582.78	602.49	596.17
Total Domestic	949.46	975.46	980.79	971.16
Exports	131.10	135.75	121.93	119.26
Total Demand	1073.40	1097.16	1104.10	1094.67
Ending Stocks	174.88	208.21	187.83	211.91
Ending Stocks less China	*93.56*	*107.72*	*97.22*	*97.47*
Stocks to Usage	16.96%	20.26%	16.89%	18.97%

USDA Estimates

China Corn Supply and Demand

(million metric tons) November Report	13/14	14/15	USDA 15/16 Estimates October	USDA 15/16 Estimates November	IAG 2015/16
Beginning Stocks	67.57	81.32	81.66	100.49	100.49
Production	218.49	215.67	225.00	225.00	230.00
Imports	3.28	5.52	3.00	3.00	3.00
Total Supply	289.34	302.51	309.66	328.49	333.49
Feed	150.00	140.00	157.00	150.00	155.00
Total Domestic	208.00	202.00	219.00	214.00	218.00
Exports	0.02	0.01	0.05	0.05	0.05
Total Demand	208.02	202.01	219.05	214.05	218.05
Ending Stocks	81.32	100.49	90.61	114.44	115.44
Stocks to Usage	39.09%	49.75%	41.36%	53.46%	

USDA Estimates

Historical Revisions		13/14	14/15	15/16
Area Harvested		-	-	-
Beginning Stocks		-	4.00	18.83
Production		-	-	-
Imports		-	(0.18)	-
Total Supply		-	3.82	18.83
Exports		-	(0.01)	-
Feed and Residual		(4.00)	(17.00)	(7.00)
FSI Consumption		-	2.00	2.00
Total Consumption		(4.00)	(15.00)	(5.00)
Ending Stocks		4.00	18.83	23.83

Indicates month-month changes not related to series revision

Aside from the USDA's latest iteration of data we have had little in the way of fresh news to stimulate either our mind or the markets, consequently we will focus upon what was contained within Tuesday's report.

It has long been known that the USDA has a propensity to surprise on occasion, and Tuesday was such an occasion! Aside from the usual and largely anticipated changes (more on them later) the USDA saw fit to revise China's historical corn feed consumption significantly lower. As a result, Chinese corn end stocks for 2014/15 were revised higher to 100.49 million mt, an increase from October of 18.33 million mt. Clearly this follows through into 2015/16 where end stocks of 114.44 million mt were forecast, a staggering increase of 23.83 million mt! The impact upon global end stocks was to see a 24 million mt jump month on month with (in addition to Chinese movements) a jump in US stock of 5 million mt, offset by a similar decline in Brazilian stocks due to their rapid export pace. Global ending stocks of corn outside of China were up just 250k mt, which means the availability of corn to the world has not ultimately changed. We have known about the excess stocks in China (albeit not to the tune of over 114 million mt) and the world has been talking about the possibility of China revising their corn policy, which would undoubtedly be bearish if they made their stock available to the world, but today these revisions are only emotionally bearish because this new stock is not available to the global marketplace, nor does it exclude China as a world buyer because they weren't buying anything anyway! Aside from how the world perceives when and if China will revise their policy, we find this change is really a footnote for now.

Nov 10, 2015 Balance Sheet Historical Revisions	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Area Harvested	-	-	-	-	-	-	-	-	-	0.30
Beginning Stocks	-	(0.50)	(2.00)	(2.00)	(3.50)	(4.00)	(5.00)	(5.00)	(5.00)	(7.00)
Production	-	-	-	-	-	-	-	-	-	1.50
Imports	-	-	-	-	-	-	-	-	-	-
Total Supply	-	(0.50)	(2.00)	(2.00)	(3.50)	(4.00)	(5.00)	(5.00)	(5.00)	(5.50)
Exports	-	-	-	-	-	-	-	-	2.00	-
Feed and Residual	0.50	1.50	-	1.50	0.50	1.00	-	-	-	-
FSI Consumption	-	-	-	-	-	-	-	-	-	-
Total Consumption	0.50	1.50	-	1.50	0.50	1.00	-	-	-	-
Ending Stocks	(0.50)	(2.00)	(2.00)	(3.50)	(4.00)	(5.00)	(5.00)	(5.00)	(7.00)	(5.50)

Indicates month-month changes not related to series revision

In an unrelated move, the USDA made some significant revisions to the historical Brazilian corn balance sheet. The changes were fairly consistent, revising feed usage down most years from 2006/07 to 2011/12. The result was a 5 million mt reduction in stocks going forward which translated into 5 million mt less stock in the current 2015/16 season. This would be fundamentally bullish, as Brazil doesn't have the reserves we thought they had to draw upon if there were a problem in the world. However, the Brazilians have actually been living with smaller stocks for a number of years so does it really affect the availability of world grain? We think not.

On a more substantial note, there were yield increases in US corn and soybeans. Corn was elevated to 169.3 bushels/acre, an increase of 1.3 bushels/acre whilst soybean yield was boosted 1.1 bushels/acre to 48.3 (record large). Whilst increases were largely anticipated, it was perhaps the size of the increase that surprised. Reductions were noted in corn exports and corn used for ethanol while increased US crush and soybean exports were featured. We have, on a number of previous occasions, suggested that a focus on “grains” as a whole, rather than individual varieties (corn, wheat etc.) is becoming a more important in analysing markets. This report highlights this very point; there was a sizeable cut in 2015/16 US exports of sorghum of 105 million bu to 325 million, offset by a similar increase in domestic usage (feed and possibly ethanol) leaving a modest increase in end stocks. The point being made is that with increased sorghum availability, it is likely to cannibalise corn consumption to some degree in feed and/or ethanol production. The other likely longer-term shift in global trade dynamics suggested by the report is the potential reduction in (feed) grain imports by China amid their larger than previously forecast stockpiles. Their position as a potential exporter of grains, corn in particular, is not thought to have significantly changed in view of the strategic significance of corn in their economy.

The report saw (at last) a reduction in US wheat exports of some 50 million bu perhaps more realistically reflecting true export pace, now down about 18% on both sales and shipments, and we are about halfway through the season. This was added straight back onto the end stocks, which were forecast at 911 million bu. EU wheat output was increased by 2 million mt to 157.27 million mt (Stratégie Grains’ latest 149.82 million mt), with exports running ½ million mt higher at 33.5 million mt (2014/15 USDA exports 35.4 million mt). We doubt this estimate is reachable! The volume required to be exported in the remaining 34 weeks to hit the USDA’s latest forecast is just over 25 million mt, which equates to 738,000 mt per week and the biggest week of exports so far this season stands at 663,556 mt. Given slow global import demand and strong competition from Russia and Ukraine in particular, playing catch up looks like a very tall order! It is still much easier to feed the wheat internally as a replacement for missing corn and that is what we expect will happen.

Overall, the report should be viewed as bearish, whilst global soybean stocks are forecast just over 2 million mt lower month on month they are still over 5 million mt higher year on year. Global corn stocks at 211.91 million mt are 24 million mt higher month on month and almost 4 million mt higher year on year. Wheat stocks are just over a million mt lower month on month but just over 15.5 million mt higher year on year. There is nothing to suggest that there is any shortage in the big three global crops at this time.

Aside from the USDA report and our (somewhat lengthy) commentary, it is worth noting that Egypt has made two forays into the wheat tender market this week, on consecutive days, both for 11-20 December shipment. Their first dip into the market saw them secure 115,000 mt with Russia picking up 60,000 mt and Ukraine the balance. The average price paid was $210.41 basis C&F. There was a substantial volume of French wheat offered, but it was once again overlooked on price grounds. Wednesday saw the second tender and a further 120,000 mt was awarded split equally between Russia and France at an average price of $211.63.mt. It will be interesting to watch the next few tenders to see whether there is a shift in momentum towards French wheat, or whether Russia will maintain its aggressive pricing.

Winter planting in the N Hemisphere appears to have progressed well despite some earlier fears of dryness in E Europe and parts of the Black Sea region, which are easing with recent forecasts. S America, specifically Brazil, appears to be progressing with early planting and crop development, again with what has been described as non-threatening weather. The conclusion we draw at this time is that market focus will be on S American weather and its impact upon their soybean and corn crops for the 2016 harvest. Right now we still view fundamentals as bearish, however prices are currently attractive from an historic point of view and consumers are being attracted to take cover whilst producers are reluctant to sell. Given this standoff it is difficult to fully support either the bulls or the bears and right now we are sitting comfortably “on the fence”!