Chicago grain and soybean prices rallied on an unexpected decline in US 2015 corn and soybean production. US 2015 corn production fell 53 million bu while US soybean production dropped 51 million bu. Both softened the impact of reduced US export demand on their respective balance sheets, and 2016 US winter wheat seedings were down 2.86 million acres from 2015 – with at least 2/3 of these acres likely to be seeded to summer row crops. A further rise in 2016 US corn, soybean and sorghum acres is feared which actually elevated 2016/17 stock estimates and new crop bearishness. The USDA January report did not alter sluggish demand trends; 2015/16 combined world wheat, corn and soybean trade is forecast by WASDE to be 20 million mt below last year, and total US wheat, corn and soybean demand is forecast to be down 236 million bu to 19,264 million! 2015/16 US wheat exports are forecast to be at the lowest level since 1971 - and could fall further. Combined world corn, soybean and wheat end stocks are projected to rise to a record large 520.3 million mt, up 23.4 million from last year's record. The world is awash in grain with world wheat and soybean stocks both record large. The problem is that world trade demand is in decline amid all of this supply and low prices. The fear is that world grain demand is more inelastic. The market was braced for a bearish January report and funds covered a portion of their shorts in a kneejerk reaction. However, unless there is a dramatic change in the value of the US$ or renewed confidence in China's economy, we doubt that any Chicago short covering rally can be sustained.

Sep-Nov US Corn Supply & Demand

Crop Year	Sep 1 Stocks	Imports	Productio n	Total Supply	Food/Indu strial	Feed & Residual	Exports	Total Use	Dec 1 Stocks
2009/10	1,673	1	13,092	14,766	1,382	2,015	467	3,864	10,902
2010/11	1,708	5	12,447	14,160	1,582	2,067	454	4,103	10,057
2011/12	1,128	4	12,360	13,492	1,612	1,826	406	3,844	9,647
2012/13	989	35	10,780	11,804	1,468	2,082	221	3,771	8,033
2013/14	821	15	13,829	14,665	1,550	2,312	350	4,212	10,453
2014/15	1,232	5	14,216	15,543	1,613	2,226	401	4,241	11,211
2015/16	1,731	7	13,601	15,339	1,630	2,194	303	4,127	11,212

Dec 1st US corn stocks totaled 11,212 million bu, right at the trade's average guess. The number was obtained through reduced production, but also weaker than expected quarterly feed/residual use. NASS in its final estimate lowered US yield 0.9 bushels/acre to 168.4, and lowered production 53 million tons 13,601 million. We calculate Sep-Nov feed use at 2,194 million, down 32 million (1%) from a year ago, and notice in the table that total Sep-Nov demand is down 114 million from last year and the lowest since 2012. Quarterly stocks/use is pegged at 2.72, the largest since 2009. The market was caught a bit off guard by a reduction in total US corn supplies, but the stocks data is hardly bullish. Demand remains the primary issue and weak energy markets and favorable S American weather will weigh on follow-through buying in coming months.

US Corn Supply/Demand Balance

Million acres/Bushels

	USDA 2014/15	USDA 2015/16	Estimate 2015/16	Estimate 2016/17
Planted	90.6	88.0	88.0	92.5
Harvested	83.1	80.7	80.7	84.6
Yield	171.0	168.4	168.4	169.6
Production	14,216	13,601	13,601	14,353
Carryin	1,232	1,731	1,731	1,910
Imports	32	40	42	37
Tot Supply	15,479	15,372	15,375	16,300
Feed/Resid	5,315	5,300	5,250	5,375
Indus/Seed	1,359	1,370	1,365	1,350
Ethanol	5,209	5,200	5,200	5,200
Exports	1,864	1,700	1,650	1,750
Total Use	13,748	13,570	13,465	13,675
End Stocks	1,731	1,802	1,910	2,625
Price	$3.70	$3.60	$3.50	$2.90

In its annual balance sheet, the USDA lowered 2015 production, but also lowered exports 50 million bu. Ending stocks were boosted a net

17 million bu to 1,802 million, and still we expect further cuts to consumption in the months ahead. Amid ongoing weak sales and shipments (and sizeable sales and shipments from S America), we project US exports down another 50 million bu at 1,650 million. USDA's feed use forecast is still 50 million bu too high in our view, and importantly, NASS's winter wheat seeding forecast is down 2.9 million acres, with acres down a million across the main Corn Belt and Delta. Most of these acres will be seeded to corn in the spring. Our new crop balance sheet illustrates what's expected of US end stocks with normal weather and a lack of export demand growth. Note, too, that futures-based ethanol margins are down to just cents/gallon following another new low in gasoline prices. Amid lacking demand, rallies hinge upon adverse N Hemisphere weather in 2016.

US Quarterly Soybean Stock/Use Estimates

	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Estimate 2015/16
Carryin	205	138	151	215	169	141	92	191
Production	2,967	3,359	3,329	3,093	3,042	3,358	3,927	3,930
Imports	3	3	4	3	4	7	8	7
Tot Supply	3,175	3,500	3,484	3,311	3,216	3,506	4,027	4,127
September-November Demand								
Crush	420	446	443	412	452	446	439	471
Exports	387	536	622	425	618	676	812	792
Total Use	807	982	1065	837	1070	1122	1251	1265
Quarterly Residu	92	180	141	104	179	230	248	150
Dec 1 Stocks	2,275	2,339	2,278	2,370	1,966	2,154	2,528	2,715

December 1st quarterly soybean stocks were reported at 2,715 million bu, right at the average trade estimate, but 187 million bu (7%) more than a year ago, and a record large December stocks figure. US Sept-Nov exports were 792 million bu with crush of 471 million. The first quarter residual of 150 million bu was 40% less than a year ago and the lowest 1st quarter residual since 2011. This makes sense, as the US shipment rate was well under a year ago and so with fewer beans in transit, NASS was able to better account for the new crop harvest. There will be little debate as whether NASS correctly assessed the 2015 US soy crop.

US Soybean Supply/Demand Balance

Million acres/Bushels

	USDA 2014/15	USDA 2015/16	Estimate 2015/16	Estimate 2016/17
Planted	83.3	82.7	82.7	83.5
Harvested	82.6	81.8	81.8	82.5
Yield	47.5	48.0	48.0	46.5
Production	3,927	3,930	3,930	3,841
Carryin	92	191	191	535
Imports	33	30	35	35
Tot Supply	4,052	4,150	4,155	4,410
Crush	1,873	1,890	1,860	1,895
Exports	1,843	1,690	1,625	1,725
Seed	96	92	94	90
Residual	49	39	41	50
Total Use	3,862	3,711	3,620	3,760
End Stocks	191	440	535	650
Price	$10.10	$8.80	$8.60	$7.65

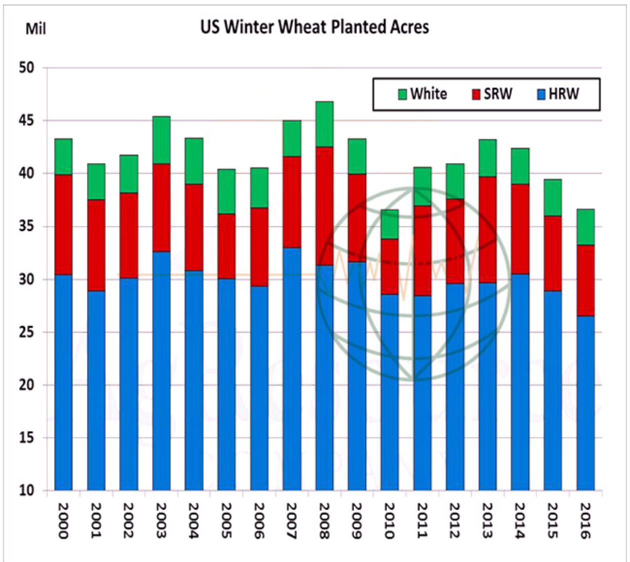
NASS reduced planted acreage by 0.5 million acres and harvest acreage was lowered by 0.6 million. The largest changes in acres were noted in MO (- 140,000 acres) and IL (-110,000 acres). NASS lowered yield estimates in 18 states, raised yields in 5 states, and yields were unchanged from November in 6 states. Total soybean production was lowered by 51 million bu. In the annual balance sheet, the USDA left the crush estimate unchanged, while exports were lowered by 25 million bu. The season average price range forecast was reduced a touch on each side of the range, to $8.05-9.55. Our view is that exports are likely overstated due to large S American crops, while weakening crush margins will slow the US crush rate. Soybeans rallied after the report release, and our view is that this is a selling opportunity.

Sep-Nov US Wheat Supply & Demand

Million Bushels

Crop Year	Sep 1 Stocks	Imports	Total Supply	Food	Feed & Residual	Seed	Exports	Total Use	Dec 1 Stocks
2009/10	2,209	24	2,234	237	-83	45	252	451	1,782
2010/11	2,450	24	2,473	242	-63	52	310	541	1,933
2011/12	2,147	32	2,179	244	-17	52	237	516	1,663
2012/13	2,105	33	2,137	247	-32	55	197	467	1,671
2013/14	1,870	48	1,918	249	-168	53	309	443	1,475
2014/15	1,907	34	1,941	248	-93	49	208	412	1,530
2015/16	2,097	23	2,120	250	-111	49	194	382	1,738

US all wheat stocks on December 1st totaled 1,735 million bu, well above trade guesses, and so again the USDA has overestimated feed consumption. Assuming imports of 23 million bu, we calculate Sep-Nov feed/residual use at a negative 111 million bu, which prompted the USDA to lower its annual feed estimate within its balance sheet. Notice in the table above that Dec 1 stocks are at the higher end of recent years, while total Sep-Nov disappearance at just 382 million bu is the lowest on record. Total Jun-Nov US wheat consumption is the second lowest on record at 1,117 million bu. NASS shocked the trade with a winter wheat seeding forecast of 36.6 million acres, down 2.9 million from last year and the lowest since 2010. This places more importance on spring weather, but is not overly bullish amid abysmal demand.



Most of the decline in winter wheat seeding centers on the Southern and Central Plains, with HRW acreage pegged at 26.5 million vs. 28.9 million in 2014/15. SRW acres are estimated at 6.7 million vs. 7.1 million a year ago. Winter white wheat acres are estimated at 3.43 million bu, unchanged on last year. Producers have responded to exceptionally weak cash wheat prices, with basis in many locations some $.30-.50/bu below KC futures. However, it's premature to assume sharply lower production amid favorable soil moisture across the Plains, and an ongoing dominance of El Niño projected into early summer. Note that assuming trend yield and average abandonment, US winter wheat production in 2016/17 can be expected at 1,330 million, down just 40 million from last year. Our first stab at new by-class balance still indicates a large surplus of HRW (425-450 million bu), tightening SRW stocks (140-150 million), and unchanged white wheat stocks. The bearish story is unchanged.

US Wheat Supply/Demand Balance

Million acres/Bushels

	USDA 2014/15	USDA 2015/16	Estimate 2015/16	Estimate 2016/17
Planted	56.8	54.6	54.6	52.0
Harvested	46.4	47.1	47.1	44.1
Yield	43.7	43.6	43.6	46.2
Production	2,026	2,052	2,052	2,038
Carryin	590	752	752	970
Imports	149	120	121	155
Tot Supply	2,766	2,924	2,925	3,163
Food	958	967	970	975
Seed	81	66	66	75
Feed/Residual	120	150	144	145
Exports	854	800	775	850
Total Use	2,014	1,983	1,955	2,045
End Stocks	752	941	970	1,118
Price	$5.99	$5.00	$4.95	$4.25

In the USDA's annual US wheat balance sheet, feed use was lowered 30 million bu amid disappointing figures in the last two quarterly stocks report. No other changes were made, and US wheat ending stocks were lifted to 941 million bu. We would expect exports to be lowered another 25 million bu by the final count, and feed use is modestly overstated. Despite the drop in winter acreage, new crop stocks are projected in excess of 1,000 million bu without a substantial improvement in export demand.

We reiterate that the US wheat market is in a demand-led bearish trend. US production will be secondary to its share of world trade. Importantly, the USDA raised Black Sea production and exports in its January WASDE release. Total world wheat stocks were raised 2 million mt to 232 million – a new record. The world wheat market is unmoved!