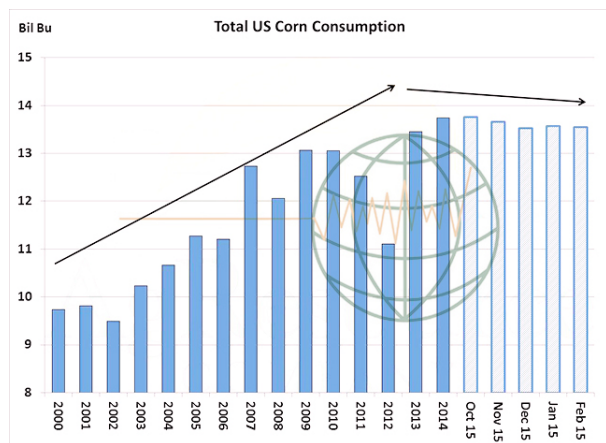


February USDA crop reports rarely hold any big market surprises, and the 2016 report did not disappoint! The WASDE data confirmed that US demand continues to ebb lower. WASDE cut US 2015/16 corn exports by 50 million bu, US wheat exports by 25 million bu, and the US soybean crush rate by 10 million bu. Curtailed demand trends are never bullish, and this is especially the case when S America is preparing to harvest record, or near record, large crops. The reaction of the market was not overt, but the supply surplus will likely limit rallies. Combined world corn, soybean and wheat stocks were pegged by WASDE at a record large 528 million mt, up 30 million from last year's record. The world is awash in grain and world wheat stocks at 239 million mt are overbearing. It is the abundance of world wheat that will cap any rally in corn or other feed grains. Our concern is that the Russian, European, Chinese and US winter wheat crops will exit dormancy in their best condition in years. World combined corn, wheat and soybean trade is expected to be down 18 million mt from the 2014/15 crop year as China tries to slow feed grain imports and world end users are disinterested, to say the least, in forward coverage in wheat. This means producers laden with supply will be looking to sell cash wheat/corn on any modest rally. S American farmers will be more aggressive sellers of their new harvest amid ongoing currency weakness. Although the February USDA report was not a surprise, the data reconfirmed bearish price trends that are likely to persist into late winter or spring. Only adverse N Hemisphere weather can alter prevailing trends. Research argues for a slow grind lower into late March and April.

US Corn Supply/Demand Balance					It was not a very exciting USDA crop report, but WASDE highlighted ongoing changes being made to the world trade matrix. The USDA also recognised favorable S American growing weather, and that weak currencies will contribute to production, further reducing the potential for a boost in US export demand. US corn ethanol use was hiked 25 million bu, but this was more than offset by a 50 million bu cut in exports. US corn exports of 1,650 million bu is
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	
Carry In	1,232	1,731	1,731	1,960	
Imports	32	50	42	37	
Total supply	15,479	15,382	15,375	16,350	
Feed/Residual	5,315	5,300	5,250	5,375	
Indus/Seed	1,359	1,370	1,365	1,350	
Ethanol	5,209	5,225	5,200	5,200	
Exports	1,864	1,650	1,600	1,700	
Total Use	13,748	13,545	13,415	13,625	
End Stocks	1,731	1,837	1,960	2,725	
Price	\$3.70	\$3.60	\$3.50	\$2.85	

better in line with pace of sales and shipments to date, but additional cuts lie in the offing without a dramatic improvement in weekly US corn sales in the next few months. S America's new crop corn crop will hit the global market in April and May. US corn imports were raised 10 million bu. The USDA's average farm price was left unchanged at \$3.60, which argues for spot futures range of \$3.40-3.80.

Our focus remains on trade and we expect a demand-driven bear market to



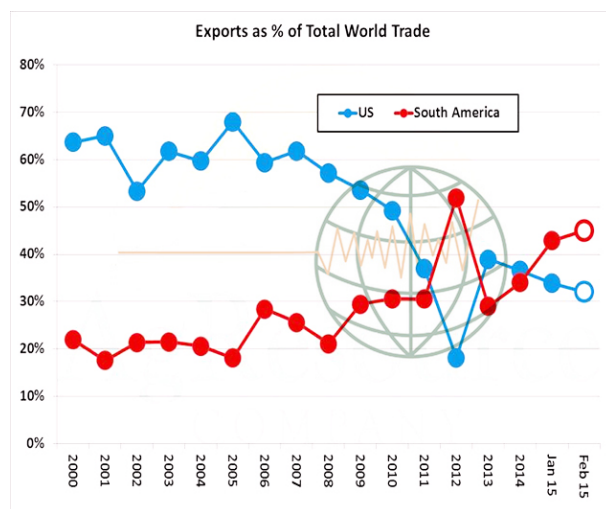
continue into the growing season. The graphic alongside displays total US corn consumption since 2000, with 2015/16 adjustments since October highlighted. Corn use plateaued in 2014, and the USDA has been steadily reducing US consumption throughout 2015/16. Total US corn consumption is now projected at 13,545 million bu, down 200 million from the October WASDE, and 200 million below last year.

Domestic use will stay flat in the years ahead,

and so export demand is needed to trigger a more bullish demand landscape.

USDA elevated the 2016 S American corn crop based on high prices in domestic currencies (and thus higher seedings) and favorable weather. S American corn exports will be robust beginning in April and will persist into early 2017. US corn will have to compete.

Argentine and Brazilian corn production were raised a combined 3.9 million mt to



111 million, just 1 million mt shy of the previous year's record. Global corn trade was also hiked 2.7 million mt, but the US's share of world trade continues to erode as evidenced in the graphic left. Total world corn stocks were left unchanged at a record 209 million mt. The trade will debate US weather conditions and yield beginning in late spring, but the primary issue is that US corn trade is being curtailed amid competitive pricing in South America and the Black Sea. Moreover, the global wheat

market is also competing with corn for world feed consumption. A drought in a major N Hemisphere exporting country is needed to revitalise US corn exports. The USDA's updated US stocks/use forecast of 13.8% suggests a spring bottom of \$3.20-3.40 and rallies above \$3.80 will be difficult to sustain. The abundance of world wheat tells end users that there is no rush to add to forward coverage. We would argue that December corn will be capped on any rally to \$4.00.

Soybeans traded on both sides of unchanged following the WASDE report release,

US Soybean Supply/Demand Balance

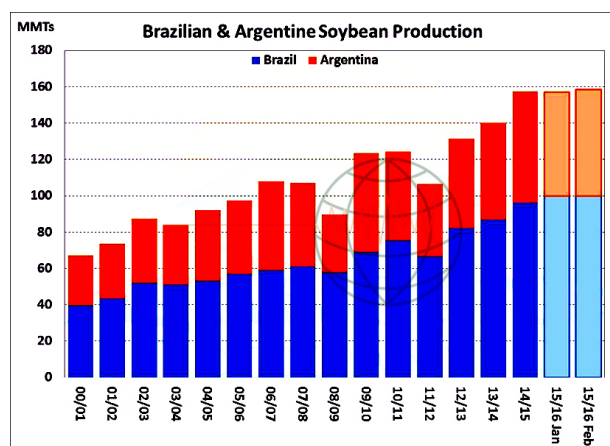
Million Acres/Bushels

	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
Carry In	92	191	191	535
Imports	33	30	35	35
Total supply	4,052	4,150	4,155	4,410
Crush	1,873	1,880	1,860	1,875
Exports	1,843	1,690	1,625	1,725
Seed	96	92	94	90
Residual	49	39	41	50
Total Use	3,862	3,701	3,620	3,740
End Stocks	191	450	535	670
Price	\$10.10	\$8.80	\$8.60	\$7.75

but ultimately finished near unchanged. Changes to the USDA's balance sheet estimates were generally in line with what the trade had been expecting, but continue to lean bearish as US soybean stocks are projected at a 9-year high. The USDA did not alter their export forecast, which was held at 1,690 million bu, while crush was lowered by 10 million bu to 1,880 million, and the ending stocks projection increased by

the same amount to 450 million bu. The season average price forecast was also held unchanged at \$8.05-9.55. We hold to a view that the USDA is likely overestimating annual exports and crush, and that larger stocks can be expected. Bearish price trends will continue with spring lows likely to be set at \$8.20.

Minimal changes were made to the 2015/16 world balance sheet, with larger carry



in and production more than offsetting slight increases in world demand. Global soybean stocks (as of October 1) are projected at a record large 80.42 million mt. The February WASDE increased the estimate for the Argentine soybean crop by 1.5 million mt to 58.5 million mt, on a slight increase in the national yield. Argentine exports were held unchanged at a six-year high of 11.8 million mt, while crush was projected at a record large 43.5 million mt. No changes were made

to the Brazilian balance sheet, with production holding at a record large 100 million mt, and exports estimated at a record 57 million mt. October 1st soybean stocks were estimated to be similar to last year at 19.3 million mt, which means that Brazil will likely steal away export business from the US at the start of the US new crop year.

US wheat ending stocks were raised 25 million bu amid a similar cut in exports.

US Wheat Supply/Demand Balance

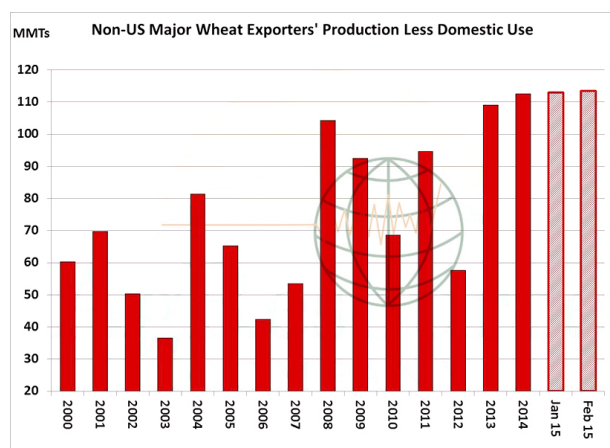
Million Acres/Bushels

	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	2,037
Carry In	590	752	752	980
Imports	149	120	121	132
Total supply	2,766	2,924	2,925	3,150
Food	958	967	970	975
Seed	81	66	66	75
Feed/Residual	120	150	144	145
Exports	854	775	765	825
Total Use	2,014	1,958	1,945	2,020
End Stocks	752	966	980	1,130
Price	\$5.99	\$5.00	\$4.95	\$4.15

This was largely expected amid the pace of sales and shipments to date, and also the recent surge in Gulf premiums to other origins. The remainder of the balance sheet was left untouched, but we anticipate further cuts to exports and further boosts to end stocks. The USDA's export forecast is within range, but our work continues to point toward a final number

of 765 million bu, which is simply the sum of all captive markets, non-traditional demand is zero. US winter wheat condition ratings and longer-term climate forecasts offer no real threat, and amid carryover supplies of 980 million bu, end stocks in 2016/17, all things remaining as they currently appear, will exceed 1,000 million, perhaps substantially so. Already wheat markets in Europe and the Black Sea are trading near parity with corn. We fear the goal of the US market is the same going forward with a harvest low estimated at \$4.00 for a bottom during the gut slot of the 2016 harvest.

The sheer size of the global wheat surplus almost mandates wheat and corn



trading at parity. World wheat stocks were increased another 7 million mt, mostly due to multi-year revisions to China, and global wheat stocks have now been raised in seven of the last nine WASDE releases, and in three straight reports, surpluses keep getting bigger, which is in large part why the market has yet to find a lasting bottom. Major exporters' balance sheets also continue to loosen. The graphic alongside displays non-US exporters' production less domestic use,

and currently the non-US surplus rests at a record large 113 million mt. This

surplus is likely to grow with normal N Hemisphere weather in April/May, and the wheat market's goal for the foreseeable future is to encourage enlarged demand and reduced world acreage.