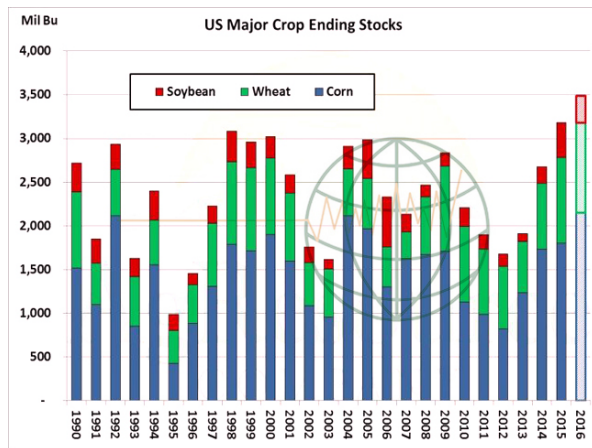


The USDA's May WASDE, which frequently produces a volatile trading session,



offered mixed news, depending on the market. Grain updates were outright bearish; soy complex updates were bullish, and soybeans will be highly sensitive to US weather forecasts in the weeks ahead. The broad picture, however, is one of adequate supply. The graphic on the left left features combined corn, soybean and wheat stocks, and record stocks (3.5 billion bu) are forecast in 2016/17. Recall that corn historically acts as a weight on

soybeans in bearish grain markets, and we question just how much soybeans can advance in the face of \$3.00 corn in mid/late summer.

Jeckle and Hyde Chicago Markets? The May USDA Crop report held very different and difficult data to digest from a collective perspective. The grain data was rather bearish while the soy complex data was bullish. Of course, the fund money came a-blazing at the complex, with over 24,000 contracts of fund buying in soybeans, and only slightly less in soy products, to push both to sharp daily gains. The near-limit gains in soy dragged the grains higher despite bearish fundamentals. Chicago is now well versed in 2016 S American crop sizes, with the Brazilian soybean crop at 99 million mt and Argentina's at 56.5 million mt. Combined, both were down some 3.5 million from April. We doubt that there will be any additional large reductions. CONAB and USDA have often disagreed in recent years. The US and world grain balance sheets were decidedly bearish and downright disappointing. World 2016/17 wheat stocks are record large and global trade did not improve despite lower prices. US wheat stocks are expected to rise to their largest levels since 1987, despite US seeding being at its lowest level since the mid-1960s. We estimate that 2016/17 US wheat stocks will surpass 1.1 billion bu and that wheat will soon have to become priced as a feed grain. US 2016/17 corn stocks will exceed 2,100 million bu, with WASDE likely overstating feed/residual and ethanol demand. We could argue that based on research for demand cuts, that 2016/17 US corn end stocks could surpass 2.4 billion bu, which would argue for December corn to drop below \$3.00 at harvest. Due to recent S American soy crop losses, the market needs to buy an extra 1-2 million acres of US soybean seeding. The soybean/corn ratio at 2.75:1 should be accomplishing this feat. The signal is for US farmers to seed beans.

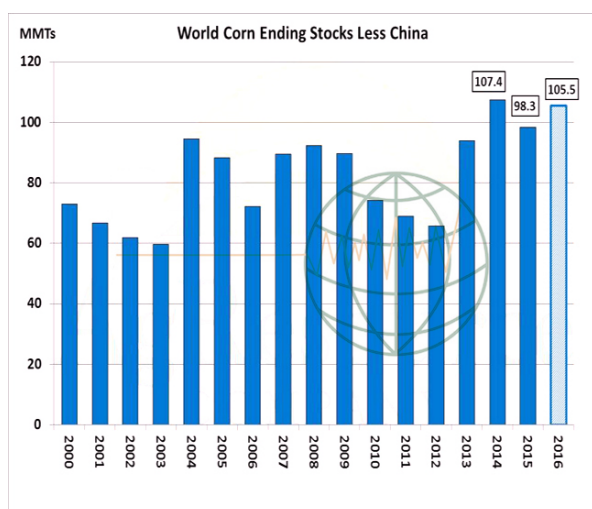
The US corn balance sheet lacked any meaningful surprises! Old crop corn exports were raised 75 million bu amid reduced availability in Brazil and slow harvest in Argentina. Old crop US corn stocks were lowered 59 million to 1,803. The new crop balance sheet fell into place as expected for this early date, though we view the USDA's 2016/17 demand forecasts as optimistic. Assuming

**** US Corn Supply/Demand Balance:**
----- Mills of Acres/Bushels -----

	USDA 2015/16	USDA 2016/17	Estimate 2015/16	Estimate 2016/17
Planted	88	93.6	88	93.6
Harvested	80.7	85.9	80.7	85.6
Yield	168.4	168	168.4	168.6
Production	13,601	14,430	13,601	14,440
Carryin	1,731	1,803	1,731	1,827
Imports	55	40	55	40
T Supply	15,387	16,273	15,387	16,307
Feed/Resid	5,250	5,550	5,250	5,450
Indus/Seed	1,360	1,370	1,360	1,350
Ethanol	5,250	5,300	5,250	5,275
Exports	1,725	1,900	1,700	1,750
Total Use	13,585	14,120	13,560	13,825
End Stocks	1,803	2,153	1,827	2,482
Price	\$3.60	\$3.35	\$3.60	\$3.05

requires adverse weather, which is not foreseen at this time.

Global corn production in 2016/17 is estimated 1,011 million mt, the second largest on record and global stocks will be near unchanged, also near record. Chinese stocks will fall slightly amid a slight contraction in acreage and reduced imports, and so world stocks less China are projected to rise 7 million mt. Major



normal abandonment and yield of 168 bushels/acre, US corn production in 2016 will be record large at 14.4 billion bu, and despite projected record consumption, 2016/17 US corn end stocks will exceed 2,150 million bu. Seasonal lows at harvest are projected at \$2.80-3.10 basis December. Our new crop export forecast is lower than USDA's as world trade is expected to retreat amid reduced EU imports and greater Ukraine exports. For corn to justify a rally above \$4.00 December

exporters stocks will rise, and non-US major exporters stocks will rise. Even Brazil, despite recent heat and dryness, is forecast to hold an exportable surplus of 25-26 million mt, which will be available by Jul/Aug. The USDA, like much of the trade, also expects record production in Argentina next year amid recent changes in government policy. The outlook remains bearish without adverse weather, and steep competition for world market share, and competition from abundant

wheat supplies, will continue to cap rallies at \$3.90-4.00, basis spot. Corn's outlook is fairly simple, and remains dominated by large surpluses in major exporting countries.

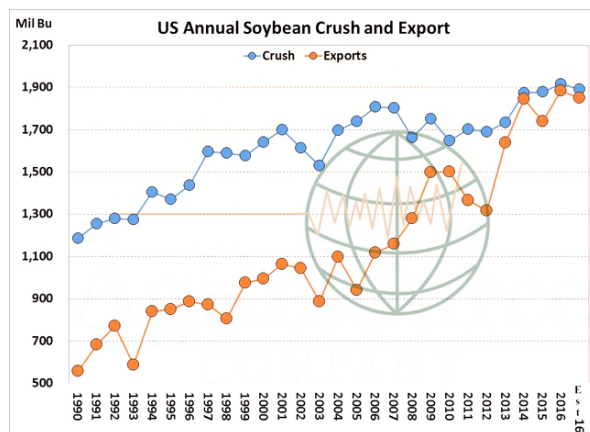
The May WASDE report was viewed as bullish by the trade for both old and new crop soybean prices, as the USDA's crush and export projections were much stronger than expected and soybean stocks were thus well under expectations. In the old crop balance sheet, the USDA increased the annual crush forecast by 10 million bu to a record large 1,880 million bu. Chicago soy crush spreads for this summer are holding well over average, and at this time are not offering a reason to slow crush rates, though basis remains at a four year low. Old crop exports increased by 35 million bu to 1,740, or the largest export forecast since last July. The additional 45 million bu of demand lowered stocks by a like

**** US Soybean Supply/Demand Balance:**
----- Mills of Acres/Bushels -----

	USDA 2015/16	USDA 2016/17	Estimate 2015/16	Estimate 2016/17
Planted	82.7	82.2	82.7	82.2
Harvested	81.8	81.4	81.8	81.3
Yield	48	46.7	48	46.7
Production	3,929	3,800	3,929	3,800
Carryin	191	400	191	425
Imports	30	30	30	35
T Supply	4,150	4,230	4,150	4,260
Crush	1,880	1,915	1,870	1,890
Exports	1,740	1,885	1,725	1,850
Seed	95	95	96	95
Residual	34	30	34	35
Total Use	3,750	3,925	3,725	3,870
End Stocks	400	305	425	390
Price	\$8.85	\$9.10	\$8.85	\$8.55

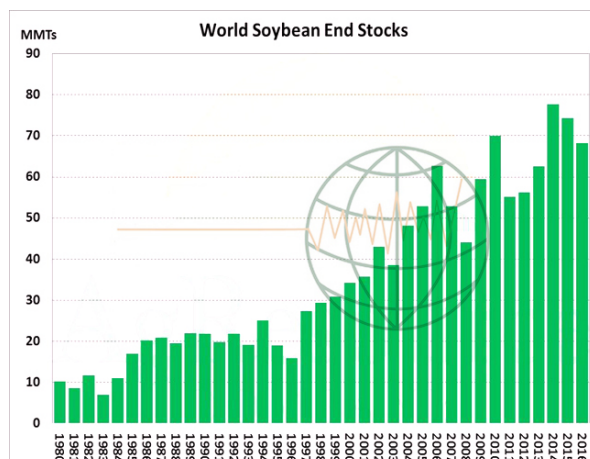
amount to 400 million bu. The season average price forecast of \$8.85 was ten cents higher than a month ago. We doubt that old crop crush or exports will reach the USDA forecast, and project year-end stocks of 425 million bu.

In the new crop balance sheet, acreage, yield, and production estimates were generally known, and so it was old crop carry in and new crop demand that resulted in surprises. Ahead of the report, the average trade estimate for new



crop stocks was at 425 million bu while the actual USDA figure was 120 million bu (29%) under the average guess, at 305 million bu. Based on declining S American crops, the USDA expects the US will recover some of the export business that was lost last year, as Brazil exported significant tonnages beyond the US harvest. Exports were pegged at 1,885 million bu, while the US crush was estimated to be record large, at

1,915 million bu. While we do not strongly disagree with the USDA, we are hesitant to project record demand this early in the season and have held our export forecast at 1,850 million bu and crush at 1,890 million bu.



The old crop world soybean balance sheet tightened slightly from last month, with global production lowered by 4.4 million mt, while global demand increased by 2.4 million mt. Argentine production was lowered by 2.5 million to 56.5 million mt, and just above the Buenos Aires Grain Exchange estimate. The Brazilian crop was lowered by 1 million to 99 million mt versus the

CONAB estimate that were released earlier in the day at 97 million mt. Old crop Chinese imports and crush were unchanged from April, with imports at 83 million mt and crush at 81.8 million mt. In the new crop balance sheet, the USDA estimated that Brazil would produce a record 103 million mt crop in 2016/17, while Argentine output was set at 57 million mt. Chinese imports were projected to increase by 4 million mt to a record large 87 million and next year's crush total was projected at 87 million mt. Total world demand was projected to increase by nearly 10 million to a record large 328 million mt and world Oct 1, 2017 soybean stocks were estimated to decline 6 million to 68.2 million mt.

The USDA's new crop wheat balance is, as expected, bearish. NASS's winter wheat production was surprisingly large at 1,427 million bu (vs. a trade guess of

**** US Wheat Supply/Demand Balance:**
----- Mils of Acres/Bushels -----

	USDA 2015/16	USDA 2016/17	Estimate 2015/16	Estimate 2016/17
Planted	54.6	49.6	54.6	49.6
Harvested	47.1	42.8	47.1	42.8
Yield	43.6	46.7	43.6	46.7
Production	2,052	1,998	2,052	1,998
Carryin	752	978	752	985
Imports	120	130	121	130
T Supply	2,924	3,106	2,925	3,113
Food	960	963	970	965
Seed	66	69	66	65
Feed/Resid	140	170	124	125
Exports	780	875	780	825
Total Use	1,946	2,077	1,940	1,980
End Stocks	978	1,029	985	1,133
Price	\$4.90	\$4.10	\$4.90	\$4.15

1,380), but end stocks were fully expected above 1,000 million. Total wheat production was set at 1,998 million, down just 54 million bu, despite a 4.3 million plunge in harvested area. Total consumption is estimated at 2,077 million. End stocks are pegged at 1,029 million. We view the USDA's export forecast as some 50 million bu too high, and huge surpluses projected across Europe and Russia. Basically, the USDA seems a bit ambitious in projecting the USDA to boost its

share of world exports despite ongoing non-competitive fob offers. Both the USDA's and our estimated balance sheets paint a bearish picture, and barring adverse weather in the S Hemisphere in Sep/Oct, new contract lows are likely forthcoming in late spring/early summer.

Much of our longer-term wheat analysis centers on the global market, as well as major exporters outside the US.



World stocks are projected to reach 258 million mt in 2016/17, a new record, and amid favorable growing conditions across the US, Europe, Black Sea and mid-East we have no reason to disagree. In fact, US production may be understated by 2-3 million mt, further adding to stocks. Major exporters (EU, Black Sea, Argentina, Australia, Canada and the US) stocks in 2016/17 are projected to rise 3 million to 78 million mt, and

non-US major exporters stocks will reach 50 million mt, up 1 million. Oddly, the USDA projects Russian exports to be unchanged in 1206/17, despite production

initially estimated at 63 million mt, up 2 million on the year. We doubt Russia will aim to build stocks, and competition for market share will persist. EU/Black Sea cash prices will lead the market lower in the weeks and months ahead. Somehow the market has to further contract word acreage and encourage higher global feed consumption.