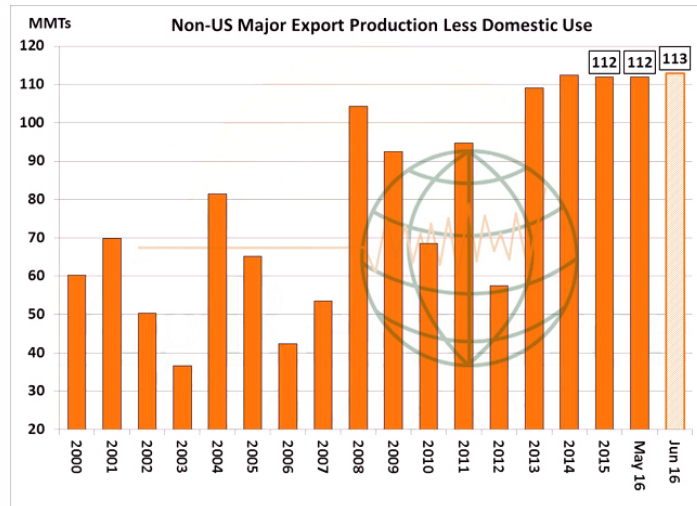


The June WASDE report offered something for everyone. Old and new crop soybean stocks were reported under the average trade estimates, as were old and new crop corn stocks. The new crop wheat production forecast was 3% over the average trade estimate and 100 million bu over the May WASDE. CBOT grain futures have adjusted to tighter US/World corn and soy balance sheets, and reached initial upside technical targets this week. Corn futures finished the day in the red while soy futures settled well under the



reactionary high. And while balance sheets have tightened up in the last 60 days, both US corn and soybean stocks will remain historically large, and massive wheat supplies will offset some corn weather risk moving forward. Market focus in the coming weeks will slowly turn towards the end of month Quarterly Grain Stocks and Acreage

reports, but will also be driven by near term weather forecasts. Without excessive heat/dryness in July, highs are likely in the next few weeks, particularly corn. We should also keep in mind that the rally will only serve to boost non-US production, with planting to begin in S America in September. Corn and wheat prices in Argentina just this week posted new record highs, and producers will no doubt respond with enlarged planted area.

The USDA tightened the US corn balance sheet slightly via higher projected exports. This was the right move using export sales pace analysis, though

**** US Corn Supply & Demand ****
 ----- Mils of Acres/Bushels -----

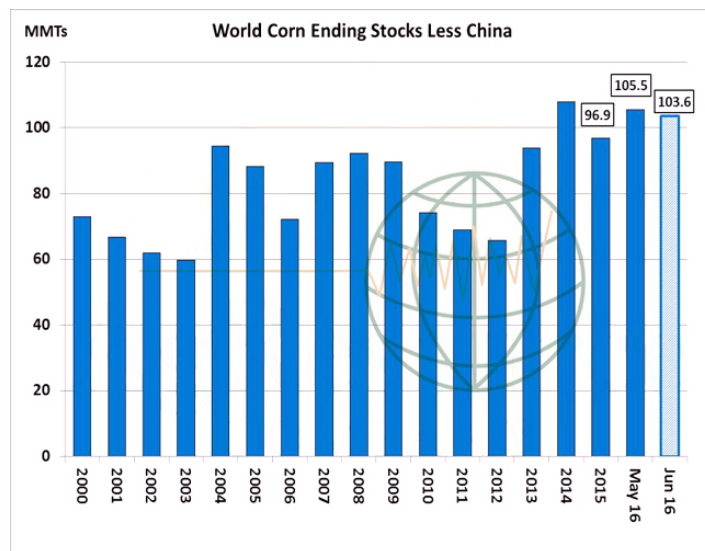
	USDA 2015/16	USDA 2016/17	Estimate 2015/16	Estimate 2016/17
Planted	88.0	93.6	88.0	93.9
Harvested	80.7	85.9	80.7	86.2
Yield	168.4	168.0	168.4	168.6
Production	13,601	14,430	13,601	14,530
Carryin	1,731	1,708	1,731	1,732
Imports	60	40	60	43
T Supply	15,392	16,178	15,392	16,305
Feed/Resid	5,250	5,550	5,250	5,475
Indus/Seed	1,360	1,370	1,360	1,350
Ethanol	5,250	5,300	5,250	5,275
Exports	1,825	1,950	1,800	1,875
Total Use	13,685	14,170	13,660	13,975
End Stocks	1,708	2,008	1,732	2,330
Price	\$3.70	\$3.50	\$3.60	\$3.20

USDA's feed/residual is likely too high, and so end stocks are still projected

the change was largely expected. And with midday weather models still including soaking rainfall (2-4") across much of the Corn Belt next week, Dec corn ended a bit lower. It seems correct to boost US exports for old and new crop positions, and we have no major disagreements with the USDA. However, some 0.5 million acres are likely to be found in NASS's report later this month,

well above 2.0 billion bu. July weather is unknowable at this time, but without major changes to the USDA's balance sheet, research suggests that Dec corn holds some \$0.75-\$1.00 of weather premium currently. This premium will be increasingly scrutinised as operational weather models begin to peak into July in the next two or three weeks.

Brazilian corn production was cut 3.5 million mt to 77.5 million. Brazilian exports were lowered a million, which was given to the US, but otherwise the global balance sheet still includes large surpluses. Major exporter stocks/use is expected to expand on the year, while stocks less China are down just 2 million mt from the USDA's May report. The loss of Brazil's crop, and slow



harvest progress in Argentina, will continue to support near term export demand. But longer term, we maintain that competition for global trade will be steep beginning in August, and the risk of a US/global corn shortage is low, or at least requires 2012 drought-like conditions through the remainder of summer. CME corn priced in Argentine pesos this week has reached a new

record high. Argentine production next spring may be well above the USDA's 34 million mt. Higher prices will continue to spur elevated non-US production.

Soybean futures rallied at the report release as increased demand and lower old crop stocks exceeded expectations. The USDA acknowledged strong

**** US Soybean Supply/Demand Balance ****

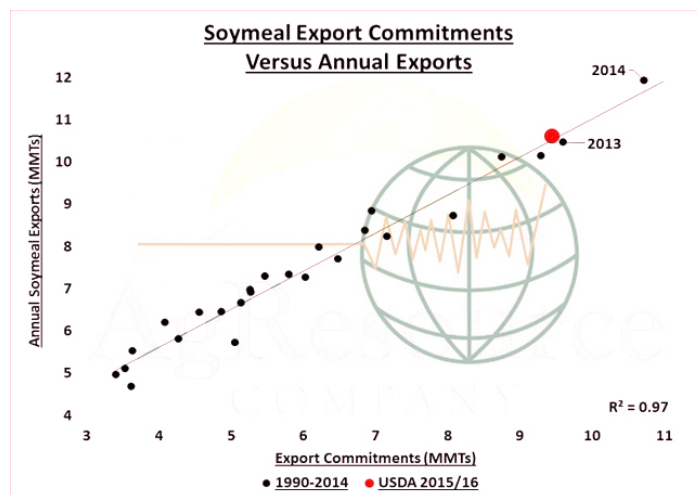
----- Mils of Acres/Bushels -----

	USDA 2015/16	USDA 2016/17	Estimate 2015/16	Estimate 2016/17
Planted	82.7	82.2	82.7	84.4
Harvested	81.8	81.4	81.8	83.6
Yield	48.0	46.7	48.0	46.7
Production	3,929	3,800	3,929	3,905
Carryin	191	370	191	390
Imports	30	30	30	35
T Supply	4,150	4,200	4,150	4,330
Crush	1,890	1,915	1,880	1,890
Exports	1,760	1,900	1,750	1,925
Seed	95	95	96	95
Residual	34	30	34	35
Total Use	3,780	3,940	3,760	3,945
End Stocks	370	260	390	385
Price	\$8.85	\$9.50	\$8.85	\$8.75

soybean crush margins and increased their estimate for crush by 10 million bu to 1,890 million bu. With strong margins and available supply, it is logical that processing rates remain strong through the summer. Exports were increased by 20 million bu to 1,760 million. Brazil and Argentina are both thought to be nearly sold out, and the US has been

able to pick up some late season sales. The additional 30 million bu of demand pulled the stocks estimate under 400 million bu for the first time, to 370 million. Changes to new crop estimates were the lower carry in and a 15 million bu bump in crush to 1,900 million bu. Old crop stocks were lowered by 45 million bu to 260 million, and the season average price forecast increased \$0.40 to \$9.50.

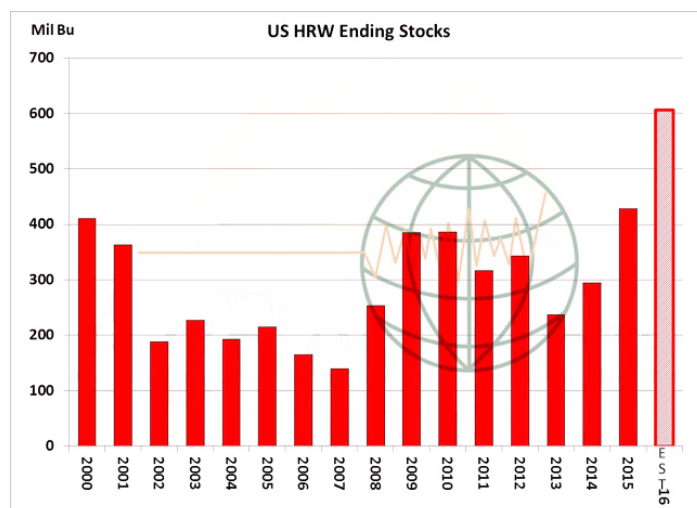
In the soy product markets, old crop meal and oil production increased on the larger crush figure to 44.6 million short tons, or just under last year's record. Soybean exports were bumped up 200,000 tons to 11.7 million, with the USDA citing the pace of export commitments within the commentary. The chart plots the pace of commitments through early June against annual exports, and shows that the USDA forecast is quite reasonable. The old crop meal price forecast increased by \$25/ton to \$335. Soybean oil production was also increased, and the only other change in the old crop balance sheet was in exports, which were increased by 100 million lbs to 2.2 billion. No



changes were made to the biodiesel demand figure, which reflects the USDA's expectation for strong biofuel demand into the end of the crop year. Soybean futures jumped at the report release, but were well under the highs at the close, with new crop price hitting several technical targets. The market has adjusted to tighter US/World balance

sheets, and a further rally needs to be driven by adverse summer weather. Markets will now ebb and flow according realised daily rainfall and weather model updates.

Wheat updates in the June WASDE are bearish. US winter wheat production



was raised 80 million bu to 1,507 million, up 137 million from last year. Compared to NASS's May release, massive yield boosts (4-6 bushels/acre) are noted across CO, KS, MT and OR, and yield was only lowered across the mid-South, MI and MD. Total US wheat production is likely to be revised further amid favourable

conditions across the N Plains through late June, but the story is the ongoing bulge in HRW stocks. NASS estimated HRW production at 938 million, and even assuming a 10% hike in total HRW consumption in 2016/17, we project HRW stocks to reach 600 million bu, an all-time high. Stocks/use is pegged at an incredible 80%, also a record. Obviously the goal is to boost feed consumption and curtail next year's acreage. KC futures' premium to corn is expected to erode further, and may even reach parity!

The full balance US wheat balance sheet is below. The USDA raised feed use 30 million bu, raised exports 25 million bu, but still ending stocks were boosted 20 million to 1,050 million. We view the USDA's export forecast as overstated. Note that major importers will face the same financing difficulties

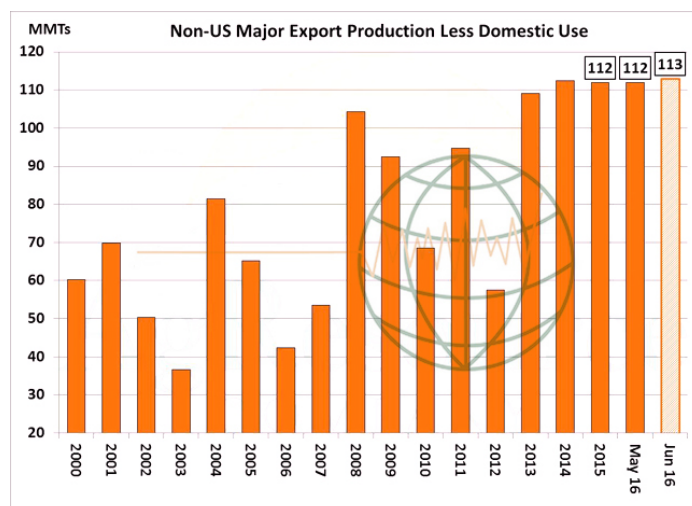
**** US Wheat Supply & Demand ****
----- Mils of Acres/Bushels -----

	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	43.5
Yield	43.6	48.5	43.6	48.3
Production	2,052	2,077	2,052	2,100
Carryin	752	980	752	996
Imports	117	125	117	129
T Supply	2,921	3,182	2,921	3,225
Food	960	963	960	965
Seed	66	69	66	65
Feed/Resid	140	200	124	200
Exports	775	900	775	825
Total Use	1,941	2,132	1,925	2,055
End Stocks	980	1,050	996	1,170
Price	\$4.90	\$4.00	\$4.90	\$4.35

they did in 2015/16, and larger surpluses across the Black Sea region will limit improvement in the US's share of global trade. Some export growth is expected, but not enough to keep US end stocks from reaching nearly 1.2 billion bu. Assuming trend spring/durum yields, US wheat production is forecast to exceed domestic use by 870 million bu, and so the goal moving forward is to boost wheat's share in feed

rations and somehow compete with Black Sea & EU exports for Aug-Nov export demand. Note that the sheer size of US/world wheat supplies will take some burden off corn yield, and July weather uncertainty.

The global wheat balance sheet also loosened relative to the USDA's May



estimates. Global end stocks were raised 500,000 mt to 257.8 million mt, a new record. EU and Russian production was hiked a combined 2 million mt, and major exporter surpluses continue to grow. The graphic attached displays major exporter production outside the US less domestic use. A record 113 million mt surplus will

be available, and this underscores the need for EU/Black Sea exporters to stay aggressive in selling wheat into Asia, the Middle-East and N Africa. Egypt's next tender is expected to begin the next leg down in global fob prices, and we maintain that a lasting bottom in the wheat market won't be scored until Jul/Aug at \$4.20-4.40, basis spot CME. EU wheat on Monday will likely be offered at \$186-188/mt, vs. Gulf wheat at \$210-212.