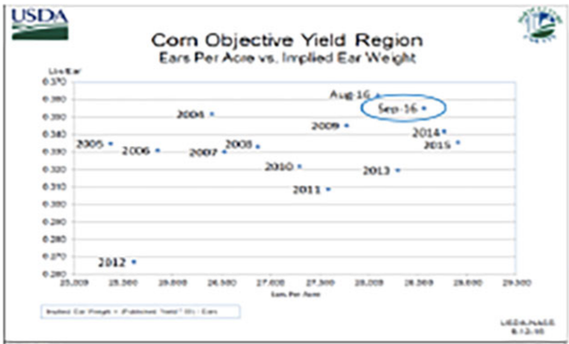
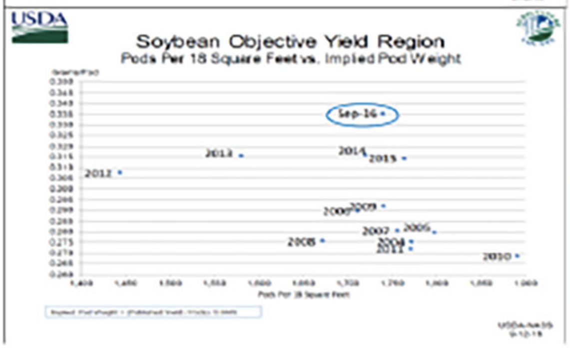




The charts alongside show the results of the USDA's objective day. In corn, ear counts increased slightly from August, but were still below last year, and so the increased yield was a function of the plant's ability to add weight under very favorable crop ratings. Ear counts always decline as the season progresses and our view is that the September corn yield is likely within +/- 2 bushels/acre of where the final yield will be. In soybeans, pod counts were just below last year, and typically pod counts tend to increase in upcoming reports. With that in mind and with favorable late season weather, the odds favor better soybean yield estimates later in the year. With good harvest weather, the US soybean yield could be another 0.5-1 bushels/acre larger as soybean pods fill out.

The USDA only barely changed the US corn balance sheet, which was considered a touch bearish. NASS's updated US corn yield was put roughly 2 bushels/acre above the trade's average guess at 174.8, vs. 175.1 in August, while end stocks also exceeded expectations modestly. Feed/residual was lowered slightly to account for the smaller crop, but otherwise US corn demand was left alone. Dec corn fell slightly, but even following the recent recovery the trade is already leaning heavily short, which was the major difference between the corn and soybean markets on report day. We have again (cautiously) adopted NASS's yield outlook, but objective data in October will be critical to finding new seasonal lows in corn futures. NASS's ear weight forecast remains a record, while plant population is down on the year, and even a modest downward adjustment in ear weight could trigger another 2-3 bu cut in yield, and a 150-250 million cut in production and end

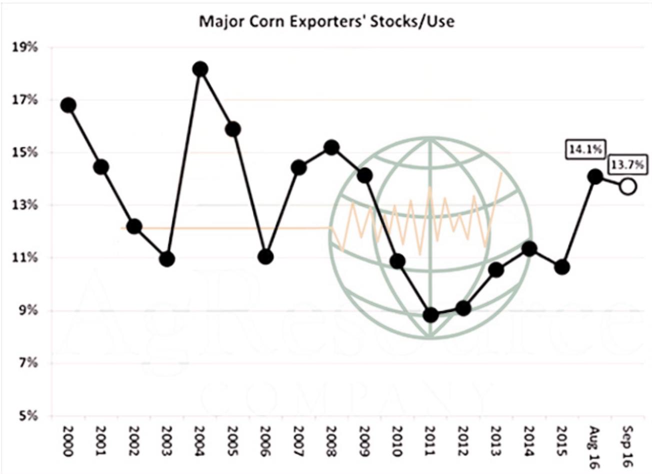
US Corn Supply & Demand:

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

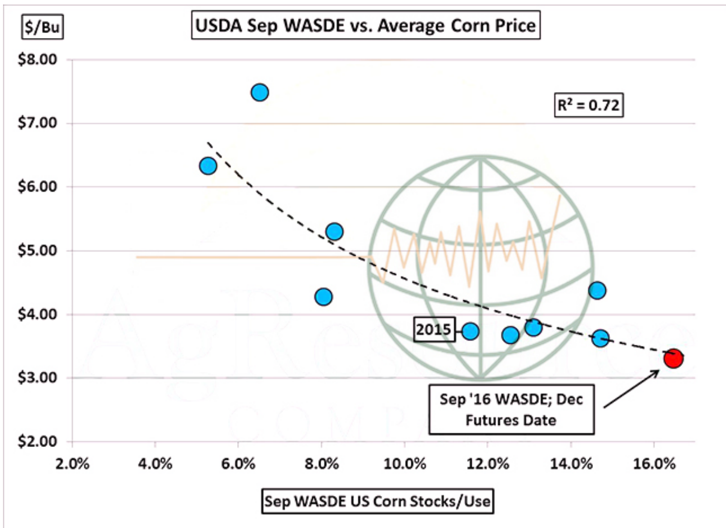
	USDA 2015/16	USDA 2016/17	Estimate 2015/16	Estimate 2016/17
Planted	88.0	94.1	88.0	94.1
Harvested	80.7	86.6	80.7	86.6
Yield	168.4	174.4	168.4	174.4
Production	13,601	15,093	13,601	15,093
Carryin	1,731	1,716	1,731	1,766
Imports	65	50	65	50
Total Supply	15,397	16,859	15,397	16,910
Feed/Residual	5,200	5,650	5,150	5,600
Industrial/Seed	1,367	1,375	1,367	1,375
Ethanol	5,200	5,275	5,200	5,275
Exports	1,915	2,175	1,915	2,175
Total Use	13,682	14,475	13,682	14,425
End Stocks	1,716	2,384	1,766	2,485
Price	$3.60	$3.20	$3.60	$3.10

stocks.

Overall, the USDA's changes in September were unexciting, and the question remains whether the August report was the most bearish of the season? In its world balance sheet, the USDA cut old crop Brazilian production to better match CONAB's latest estimate, but also raised new crop Brazilian production amid a favorable corn/bean ratio in Brazil. Chinese corn imports were raised from 1 to 3 million mt as better private demand is expected, corn auctions have not had the bearish effect on Chinese prices that was desired. Black Sea production and exports were left unchanged. Global corn end stocks are pegged at 219.5 million mt, down just 1 million from August but still record high. Notice in the graphic that total major exporters' stocks/use tightened just a bit, but no market changing data was included.



All told, a bullish corn outlook is not advised, but our work suggests market risk will likely be more balanced through to the end of harvest. The graphic below charts US corn stocks/use in the Sep WASDE, vs. the average price of December futures from September until expiration. Corn supplies are more than abundant, but the market has largely accounted for this and funds maintain a sizeable short position, particularly for early September. As evidenced in recent year, seasonal highs in big crop years are often scored in the second half of the market year, and rarely are highs posted at all in September/October. We should be mindful that even large S American new crops will not be fully available until next June/July. Exports and final US corn ear weight will be critical longer term. Both the bulls and bears will struggle for leverage into NASS's October report.

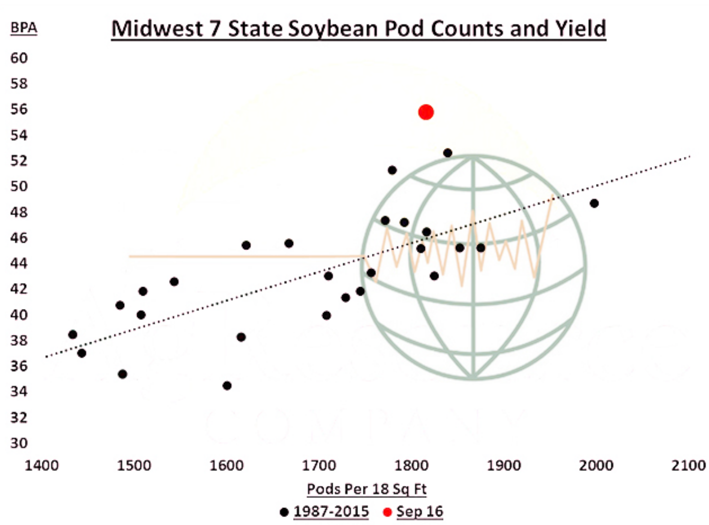


The September Crop Production and WASDE reports offered both bullish and bearish surprises, but ultimately it was a big jump in the soybean yield and crop size that directed prices for the day. The bullish surprise was the larger than expected increase in 2015/16 demand and smaller than expected stocks figure. 2015/16 exports were raised by 60 million bu, and stocks were lowered by a like amount to 195 million bu or 33 million under the average estimate. The bearish surprise was in the 2016/17 yield, which was 1.2 bushels/acre over the average estimate and outside the range of expectations. The additional production more than offset the lower carry in. The 2016/17 crush estimate increased 10 million bu to 1,950 million, and exports were increased 35 million bu to 1,985 million. Even with larger demand figures, new crop stocks increased by 35 million bu to 365 million.

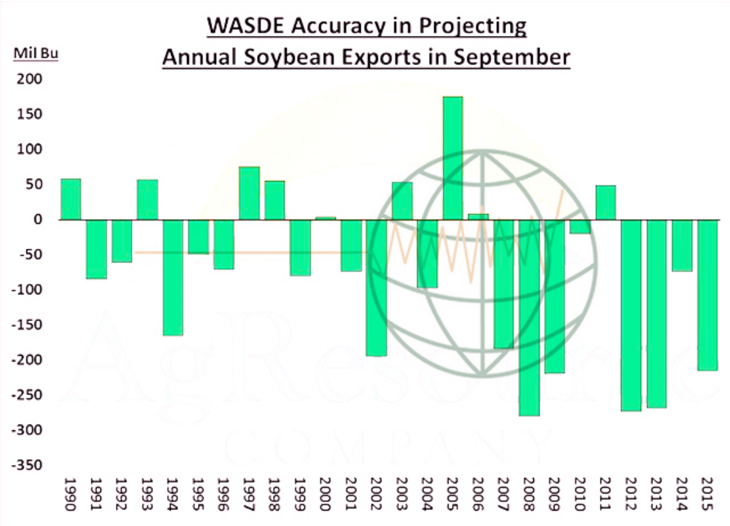
US Soybean Supply & Demand:
---------- Mils of Acres/Bushels ----------

	USDA 2015/16	USDA 2016/17	Estimate 2015/16	Estimate 2016/17
Planted	82.7	83.7	82.7	83.7
Harvested	81.8	83.0	81.8	83.0
Yield	48.0	50.6	48.0	50.6
Production	3,929	4,201	3,929	4,200
Carryin	191	195	191	195
Imports	25	30	25	30
Total Supply	4,145	4,426	4,145	4,426
Crush	1,900	1,950	1,900	1,950
Exports	1,940	1,985	1,940	1,985
Seed	97	95	97	95
Residual	12	31	12	30
Total Use	3,949	4,061	3,949	4,060
End Stocks	195	365	195	365
Price	$8.95	$9.05	$8.95	$8.85

NASS raised their estimate of the US soybean yield by 1.7 bushels/acre from the August estimate, to a record large 50.6 bushels/acre. This was the largest September increase since 2006, and the second largest September increase on record. Yields were raised in 13 states, lowered in 7 states, and unchanged in 8 states, but worth noting is that every yield increased in all of the objective states. Above trend yields were estimated in all states except PA and TX, while record yields were projected in 19 states. Yields in IL and KS were each raised by 4 bushels/acre, while the IN and KY yields increased 3 bu. Initial pod counts were down slightly from a year ago, while the implied pod weights were up 11% and also record large. With record yields and huge implied pod weights, the importance of the October report is increased to see if actual harvest data confirms September estimates.



Aside from crop yields, perhaps one of the most hotly debated topics in the soybean trade has been the outlook for exports. The 2015/16 projections steadily increased in recent months as world demand was shifted back to the US following smaller than expected S American crops. With large available supplies, the USDA is penciling in even larger exports for the year ahead. New crop export commitments are currently 40% larger than a year ago and the second largest on record, while the USDA projects annual exports will be up 45 million bu at 1,985. The chart plots the accuracy of the September WASDE export projections. Since 1990, the September estimate has been too low in 17 years (65%) and too high in 9 years (35%). Most recently, the September estimate has been too low in 8 of the last 9 years. At this time, we see no reason to strongly disagree with the USDA's export forecast, as we expect a record shipment pace to continue through to January, while exports in the last half of the year will be largely determined by S American crop sizes.



The US wheat balance sheet was, as expected, left completely untouched. NASS will published its quarterly stocks and small grains summary at the end of the month, which will better define consumption rates and also offer a final US wheat production estimate. However, things have changed enough in the global cash market that we have hiked US wheat exports to 975 million bu, vs. 925 million previously, and for the first time in months our US end stocks figure is below USDA's. As of now, standard protein HRW is within $7/mt of comparable Russian origin, and is otherwise the cheapest wheat of the major exporting countries. Russian exporters have

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

	USDA 2014/15	USDA 2015/16	USDA 2016/17	Estimate 2016/17
Planted	56.8	54.6	50.8	50.8
Harvested	46.4	47.1	44.1	44.1
Yield	43.7	43.6	52.6	52.6
Production	2,026	2,052	2,321	2,321
Carryin	590	752	981	981
Imports	149	113	115	115
Total Supply	2,766	2,917	3,417	3,417
Food	958	957	968	965
Seed	79	68	69	65
Feed/Residual	122	135	330	325
Exports	854	775	950	975
Total Use	2,014	1,936	2,317	2,330
End Stocks	752	981	1,100	1,087
Price	$5.99	$4.89	$3.60	$3.55

been rather aggressive in recent days, but amid a still rising domestic cash market (interior prices in S Russia are quoted near parity with fob offers), Russian offers are expected to rise through the autumn.

A neutral outlook is advised for the remainder of the year, but we would remain willing sellers of strong rallies. Global wheat stocks were lowered 3.7 million mt to a still record 249 million mt on higher domestic feed use and trade, and despite a net boost in total world production worth 1.4 million mt. Assuming a slight decline in global area, and trend yield, trade and total use, end stocks in 2017/18 are likely to stay near 245-247 million mt, keeping export competition for world market share rather steep. It's left to widespread and highly adverse weather across the Northern Hemisphere to change this trend. Work further suggests fair value in world cash markets at $170-195/mt through much of the remainder of 2016, which in turn implies a range in spot Chicago wheat futures of $4.00-4.50/bu.