2016/17 world grain (corn/wheat) and soybean end stocks are record large at 557 million mt. This is up 50 million mt from last year or nearly 10%. As we have stated many times in recent months; “The world is awash with grain” Yet, following four years of price decline in Chicago markets with the price of grain being just above decade lows, the bearish rub on the market appears to have worn down. Fund traders would much rather buy than sell Chicago futures until large S American crop sizes can be confirmed in February or March. Traders well remember that the big market gains of 2016 came from March into June amid an unexpected rally that was fueled by a 10-12 million mt fall in S American soybean and a fall of 26-29 million mt of corn production. The message is that in the middle of January, much of the important growing season lies ahead and there are weather issues with dryness across NE Brazil and Argentina, which seems to be split by excessive rains across the north and acute dryness across the south.

The January USDA Crop Report trimmed 2016 US corn/soybean production via modest yield and harvested acreage adjustments. The US production cuts more than offset reductions in US corn and wheat feed/residual use. Diminished US 2016/17 US corn and soybean end stocks are supportive to valuations. US 2017 all wheat harvested acreage is forecast at 40 million acres, the second lowest since 1900, some 117 years ago. Yet, based on the abundance of wheat across the Black Sea, US 2017/18 wheat end stocks are only going to fall a modest 100 million bu. This will not entice a bull market and points out the new world order in wheat and the ongoing decline in the US export profile.

Sep-Nov US Corn Supply and Demand:

Crop Year	Sep 1 Stocks	Imports	Production	Total Supply	Food / Industrial	Feed / Residual	Exports	Total Use	Dec 1 Stocks
	------------	------------	------------	Millions of Bushels	------------	------------	------------		
10/11	1,708	5	12,447	14,160	1,582	2,067	454	4,103	10,057
11/12	1,128	4	12,360	13,492	1,612	1,826	406	3,844	9,647
12/13	989	35	10,780	11,804	1,468	2,082	221	3,771	8,033
13/14	821	15	13,829	14,665	1,550	2,312	350	4,212	10,453
14/15	1,232	5	14,216	15,453	1,615	2,225	401	4,241	11,211
15/16	1,731	13	13,601	15,345	1,631	2,175	301	4,107	11,238
Est 16/17	1,737	12	15,148	16,897	1,693	2,269	551	4,513	12,384

Dec 1 US corn stocks totaled 12,384 million bu, 1,146 million (10%) above a year ago, but right at the trade expectations. However, NASS did lower their US corn yield from 175.3 to 174.6 bushels/acre, for a 78 million bu reduction in production. Sep-Nov corn consumption was disappointing. Q1 feed/residual use is calculated at 2,269 million bu (a record), but only up 4% from a year ago. WASDE had forecast that US 2016/17 feed/residual use would be up 8%! As such, WASDE lowered its annual 2016/17 feed use 50 million bu. It remains our belief that this total is 50-125 million bu too high. Dec 1 corn stocks are viewed as neutral, and there is little chance that 2016/17 stocks drop below 2.2 billion bu without adverse weather in S America in the next 45-90 days that would fuel greater export demand. Spot Chicago futures fair value is estimated at $3.30-

3.75/bu.

The long term US corn outlook also lacks a compelling story! US winter wheat seeding at 32.4 million acres, the lowest since 1909, is down 3.8 million from 2015/16. 2 million of the 3.8 million lost winter wheat acres are located across; AL, IN, KS, MI, NE, the Dakotas and WI. Additional acres will likely be sown to feed grains (corn, sorghum) in 2017. We have therefore increased 2017 US corn seeding estimate by 1 million acres.

US Corn Supply & Demand

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

	USDA 15/16	USDA 16/17	Estimate 16/17	Estimate 17/18
Planted	88.0	94.5	94.5	92.3
Harvested	80.7	86.8	86.8	84.4
Yield	168.4	174.6	174.6	170.8
Production	13,602	15,148	15,148	14,401
Carryin	1,731	1,737	1,737	2,380
Imports	67	55	55	50
Total Supply	15,401	16,940	16,940	16,831
Feed/Residual	5,131	5,600	5,550	5,475
Industrial/Seed	1,429	1,435	1,435	1,466
Ethanol	5,206	5,325	5,350	5,375
Exports	1,898	2,225	2,225	1,925
Total Use	13,664	14,585	14,560	14,241
End Stocks	1,737	2,355	2,380	2,591
Price	$3.61	$3.35	$3.40	$3.10

Assuming normal abandonment and trend yield, 2017/18 US corn production will again exceed total use and stocks will continue to build. Thus, it's left to adverse weather in the US, China or Black Sea to sustain any rally. This has been the theme for some years now, demand is not growing as fast as production; price direction into late 2017 will be entirely a function of weather. We maintains a neutral outlook into March when N Hemisphere seedings will be better known. Harvest lows in 2017 could drop below $3.00 on storage shortages and a requirement to rebuild US export demand.

US Quarterly Soybean Stocks / Use Estimate

------------------------ Millions of Bushels ------------------------

	2009	2010	2011	2012	2013	2014	2015	2016
Beginning Stocks	138	151	215	169	141	92	191	197
Production	3,359	3,329	3,093	3,042	3,358	3,927	3,926	4,307
Imports	3	4	3	4	7	8	6	5
Total Supply	3,500	3,484	3,311	3,216	3,506	4,027	4,123	4,509
Sep-Oct Demand:								
Crush	446	443	412	452	446	439	471	485
Exports	536	622	425	626	676	813	791	932
Total Use	982	1,065	837	1,078	1,122	1,252	1,262	1,417
Quarterly Residual	180	141	104	171	230	247	147	197
Dec 1 Stocks	2,339	2,278	2,370	1,966	2,154	2,528	2,714	2,895

December 1st US quarterly soybean stocks were reported at 2,895 million bu, up 7% from a year ago, the largest on record. However, NASS's count of soybean supplies was below expectations due to slightly smaller than expected crop size and larger than expected residual use. Soybean futures rallied at the report release and finished 25-29 cents higher. Total Q1 US soybean use was up 205 million bu (15%) from a year ago at 1,614 million bu, with exports up 141 million bu while crush increased 14 million bu. The quarterly residual was 50 million bu over a year ago, suggesting a potential for a further crop size reduction.

US Soybean Supply / Demand Balance	USDA 2017/17	USDA* 2017/18	Estimate 2016/17	Estimate 2017/18
Planted	83.4	85.5	83.4	86.7
Harvested	82.7	84.6	82.7	85.8
Yield	52.1	47.9	52.1	47.9
Production	4,307	4,050	4,607	4,110
Beg Stocks	197	480	197	450
Imports	30	30	27	30
Total Supply	4,528	4,560	4,530	4,589
Crush	1,930	1,935	1,930	1,950
Exports	2,050	2,100	2,025	1,900
Seed/Resid	128	130	125	120
Total Use	4,108	4,165	4,080	3,970
End Stocks	420	396	450	619
Price	$9.50	$9.35	$9.35	$7.45

* Baseline Estimates

Aside from changes in production, the January WASDE featured virtually no other changes to the old crop balance sheet. Residual was increased by 1 million bu, and the only other change was realised in the season average price forecast. With another month gone, the USDA was able to narrow their price range forecast, taking 20 cents off the top and adding 30 to the bottom, for a range of $9-10.00 ($9.50 average cash). Changes to world soybean supply/demand estimates were nearly as uneventful as the US balance sheet. World supplies were lower on the smaller US crop, and the USDA did not make any changes to S American estimates. Chinese crush and imports were also held unchanged. Going forward, changes to the crush/export forecast will hinge on S American crop size. The Argentine crop progress will need to be be closely monitored.

Sep-Nov US Wheat Supply and Demand

Crop Year	Sep 1 Stocks	Imports	Total Supply	Food	Feed / Residual	Seed	Exports	Total Use	Dec 1 Stocks
		Millions of Bushels							
10/11	2,450	24	2,473	242	-63	52	310	541	1,933
11/12	2,147	32	2,179	244	-17	52	237	516	1,663
12/13	2,105	33	2,137	247	-32	55	197	467	1,671
13/14	1,870	48	1,918	249	-168	53	309	443	1,475
14/15	1,907	35	1,942	248	-93	49	208	411	1,530
15/16	2,097	27	2,124	249	-108	45	192	378	1,746
Est 16/17	2,545	31	2,576	250	-32	44	241	503	2,073

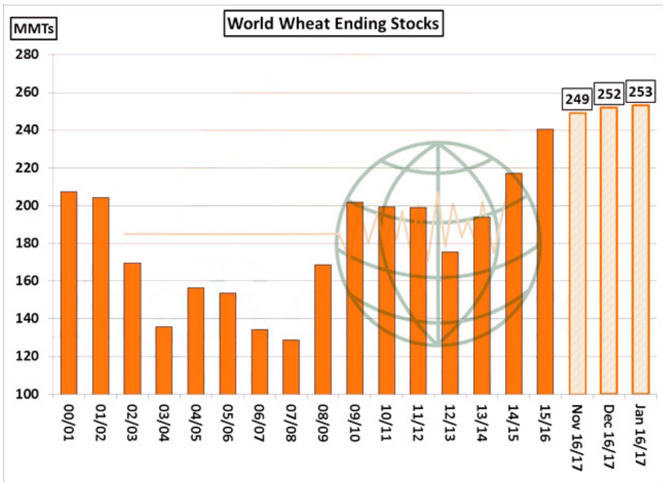
December 1st US wheat stocks were put at 2,073 million bu, up 327 million bu (19%) from last year, the highest since 1987. Like corn, Sep-Nov feed/residual disappearance has been disappointing. Through the first half of the crop year, total US wheat feed/residual use rests at 234 million bu, up just 23% from a year ago. The USDA lowered annual feed use to 225 million bu, but this is still 50% above last year and likely still too high. USDA also raised US 2016/17 US wheat end stocks to 1,186 million bu. Even amid this year's improvement in exports, US 2016/17 wheat end stocks are unlikely to fall below 1,100

US Wheat Supply & Demand

Mils of Acres/Bushels	USDA 15/16	USDA 16/17	Estimate 16/17	Estimate 17/18
Planted	55.0	50.2	50.2	47.0
Harvested	47.3	43.9	43.9	40.0
Yield	43.6	52.6	52.6	47.1
Production	2,062	2,310	2,310	1,865
Carryin	752	976	976	1,160
Imports	113	125	125	130
Total Supply	2,927	3,410	3,410	3,175
Food	957	963	965	975
Seed	67	61	60	60
Feed/Residual	152	225	225	140
Exports	775	975	1,000	925
Total Use	1,952	2,224	2,250	2,100
End Stocks	976	1,186	1,160	1,075
Price	$4.89	$3.70	$3.75	$3.30

million. Oversupply will continue to cap rallies without widespread adverse weather in Europe or the Black Sea this spring and summer. Near record low US wheat seeding will not, in isolation, produce a lasting rally.

NASS did provide something of a shock via its new crop winter wheat seedings figure. Winter wheat acres are estimated at 32.4 million acres, down 3.8 million from last year, the lowest since 1909. The bulk of the decline occurred across the HRW Belt. However, even near record low acreage, the lack of export demand growth implies US wheat stocks will remain burdensomely high with normal weather. Assuming trend yield, US end stocks in 2017/18 are pegged at 1,075 million bu, with stocks/use estimated at a lofty 51%, vs. 53% in 2016/17, more than double the stock/use ratio of 2013/14. The issue is that carryover supplies will offer a massive buffer against any yield issues across the S & C Plains. Even US HRW stocks in 2017/18, assuming trend yield, are pegged at 500 million bu. It will simply take time to draw down US stocks.



We also point out that 2016/17 world supplies continue to grow. The USDA in the January WASDE raised production in Argentina, the EU and the Black Sea a combined 1.5 million mt to 752.7 million mt, a new record. Global demand was raised only fractionally, and global wheat stocks were hiked yet again to a new record, which has been a common theme of monthly USDA reports since 2015. Like in the US, record old crop stocks become record new crop beginning supplies and a sizeable yield loss is needed to normalise the S&D balance. Climate work suggests that weather in Europe and Russia needs watching closely this spring and summer, but until adverse weather strikes, rallies in wheat will struggle and be limited to 20-30 cent fund short covering episodes. July Chicago wheat above $4.75 is overvalued!