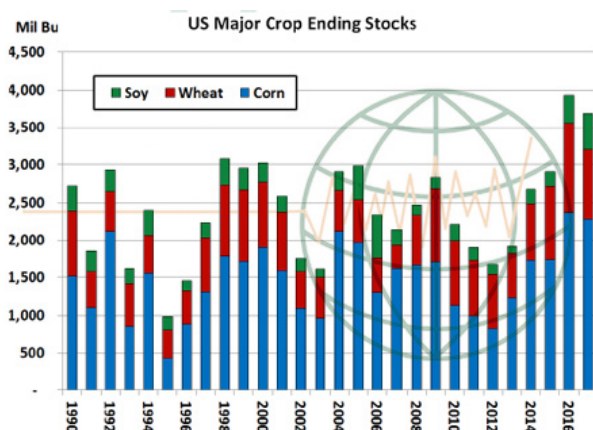


The hottest/driest Central US summer since 2012 did not seem to have much impact on US corn/soybean yields according to the August NASS crop report. 2017 US wheat production had already declined due to US farmers seeding their lowest acres since 1909 and the dire drought, which cut US spring wheat yields by 25%. Now, the debate centres on the impact of Central US summer growing weather on 2017 US corn ear weights and soybean pod weights. The graphic below plots US corn, soybean and wheat stocks (including WASDE August forecast for 2017). Notice that the 2017/18 US major grain stocks



decline is modest, with supplies the 2nd largest since 1990. We disagree with NASS US corn/soybean yield forecasts. Our view would be that the final 2017 US corn yield falls to 166 bushels/acre with soybeans below 47 bushels/acre. The August Crop Report is only the start of the crop assessment process. Ear and pod weights are too high (in our opinion) and need to be revised lower in coming NASS estimates.

NASS shocked the trade with a national US corn yield of 169.5 bushels/acre, which matches exactly the 30-year linear trend and also exceeded even the highest of all trade guesses. Implied ear weight is pegged at just under 0.35lb,

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

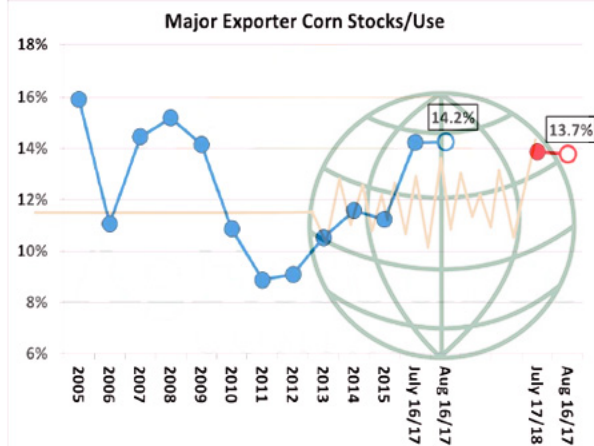
	USDA 2016/17	USDA 2017/18	Estimate 2016/17	Estimate 2017/18
Planted	94.0	90.9	94.0	90.9
Harvested	86.7	83.5	86.7	83.0
Yield	174.6	169.5	174.6	166.0
Production	15,148	14,153	15,148	13,775
Carryin	1,737	2,370	1,737	2,345
Imports	55	50	55	50
Total Supply	16,940	16,573	16,940	16,170
Feed/Resid	5,425	5,450	5,425	5,375
Indus/Seed	1,470	1,500	1,470	1,489
Ethanol	5,450	5,500	5,450	5,525
Exports	2,225	1,850	2,250	1,725
Total Use	14,570	14,300	14,595	14,060
End Stocks	2,370	2,273	2,345	2,110
Price	\$3.35	\$3.30	\$3.35	\$3.60

which if realised will be the third largest on record. This high ear weight is occurring despite an expansive drought and the warmest June/July across the Plains and W Midwest since 2012. We have chosen to keep our yield estimate at 166 bushels/acre based on field surveys and condition ratings. We note that objective field measurements will account for a larger share of the surveys going forward. Changes to US corn yield

lie ahead as many by-state estimates are suspect, again in our opinion. As such, it is back to watching crop conditions and weather. It is a US corn ear weight that is nearly 0.35 and just behind last year that is very doubtful.

The USDA raised Brazilian production to 98.5 million mt (a similar change was made by CONAB this morning), but Ukrainian production was left unchanged at a near record 28.5 million mt (despite extreme heat/dryness during July and early August). Overall, the structure of the global corn market changed very little and a modest reduction in world and major exporter stocks/use is due in

2017/18. Assuming our US production estimates, along with a modest decline in Ukraine's harvest, we estimate major exporter stocks/use in 2017 at 12.5 to



12.9%. As such, harvest lows are pegged at \$3.50-3.60, basis Dec (compared to \$3.15 Dec a year ago), which should be scored in August. Thereafter, a normal seasonal rally argues for an upside target of \$3.85-3.90. Then, it is on to monitoring S American prospects beginning in Nov/Dec. Longer term, Brazil needs to produce another sizeable crop to pull the market below \$3.50. A neutral price trend is most probable.

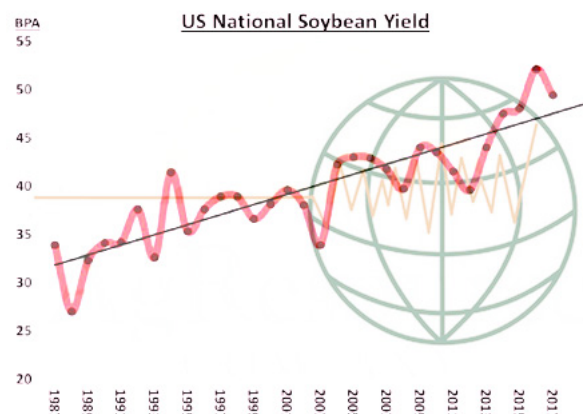
The August Crop Production and WASDE reports offered a number of surprises for soybeans, but in the end it was the unexpected increase in the national soybean yield that gripped the market's attention and took prices sharply lower.

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

	USDA 2016/17	USDA 2017/18	Estimate 2016/17	Estimate 2017/18
Planted	83.4	89.5	83.4	89.5
Harvested	82.7	88.7	82.7	88.5
Yield	52.1	49.4	52.1	47.0
Production	4,307	4,381	4,307	4,160
Carryin	197	370	197	375
Imports	25	25	27	25
Total Supply	4,528	4,777	4,530	4,560
Crush	1,890	1,940	1,900	1,950
Exports	2,150	2,225	2,150	2,150
Seed	104	101	104	101
Residual	14	35	0	29
Total Use	4,158	4,301	4,155	4,231
End Stocks	370	475	375	330
Price	\$9.50	\$9.30	\$9.55	\$9.35

In old crop, US soybean crush was lowered Bu 10 million bu to 1,890 million and exports were increased by 50 million bu to 2,150, and old crop stocks fell by 40 million bu to 370 million. In the new crop balance sheet, yield increased by 1.4 bushels/acre to 49.4 bushels, increasing total production by 121 million bu. New crop crush was lowered by 10 million bu to 1,940 million, while new crop exports increased 75 million bu. With all the changes to both old and new crop

demand and new crop supply, 2017/18 stocks increased by 15 million bu to 475 million. We note that with a trend yield, stocks would have been 350 million bu, and with a 47 bushels/acre yield, stocks would have slipped to 263 million bu.

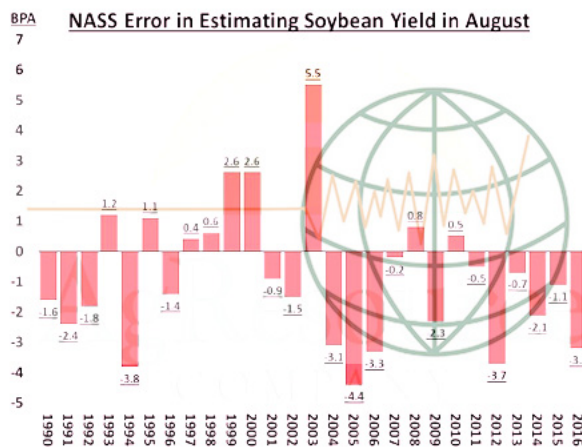


No objective NASS measurements were offered, but it had to use a pod weight close to the 2016 record.

NASS estimated a national soybean yield of 49.4 bushels/acre, 3.1 bushels/acre less than last year's crop, but 0.5 bushels/acre larger than last year's August estimate. It was also the largest August yield forecast from NASS, and if realised, this year would be the 4th

consecutive year of above trend yields. Since 1970, four consecutive above trend yields has occurred just one other time: 1989-1993. In the E Cornbelt, yields were lower than 2016 in every state except Pennsylvania. The largest increase from last year was in PA (+7 bushels/acre), and the largest decline was in WI (-7 bushels/acre). Not surprisingly, the largest state yield declines were in the W Cornbelt, with ND and SD yields were down 8.5 bushels/acre each from a year ago and the KS yield was off 7 bushels/acre. The IA yield estimate was off 4.5 bushels/acre from last year at 56 bushels/acre. Of the 29 states that NASS offered yield estimates for, there were just 2 states, ND and SD, that were below their 30-year linear trends. The IL soybean yield was down just 1 bushels/acre, which is just shocking.

The chart reflects the historical accuracy of NASS's soybean yield estimates in the August report. Since 1990, the August estimate has been too low in 18 years



(67%) by an average of 2.1

bushels/acre, and has been too high

in 9 years (35%), by an average of

1.7 bushels/acre. The largest

overestimate occurred in 2003 when

the August yield was too high by 5.5

bushels/acre, and the greatest

underestimate occurred in 2005

when NASS was too low by 4.4

bushels/acre. In 2003, NASS started

to pick up on the mistake in the

September report and lowered the

estimate by 3 bushels/acre, followed

by another 2.4 bu reduction in the October report. Note in the chart, that the

August yield estimate has been too low now for an unprecedented six

consecutive years, which leaves us wondering if this could be the year that the

streak is broken.

US wheat production was lowered 21 million, imports were raised 10 million, food use was lowered 5, and so end stocks were cut a modest 5 million bu to

	US Wheat Supply & Demand:			
	----- Mils of Acres/Bushels -----			
	USDA 2016/17	USDA 2017/18	Estimate 2016/17	Estimate 2017/18
Planted	50.2	45.7	50.2	45.7
Harvested	43.9	38.1	43.9	37.7
Yield	52.6	45.6	52.6	45.6
Production	2,310	1,739	2,310	1,720
Carryin	976	1,184	976	1,184
Imports	118	150	117	140
Total Supply	3,403	3,074	3,402	3,045
Food	949	950	949	955
Seed	61	66	61	66
Feed/Resid	154	150	154	140
Exports	1,055	975	1,055	1,000
Total Use	2,219	2,141	2,219	2,160
End Stocks	1,184	933	1,184	885
Price	\$3.89	\$4.80	\$3.89	\$4.85

933 million. Changes to US wheat

supply and demand were rather

boring, but our work does suggest

additional cuts to production and

stocks lie ahead. NASS left spring

wheat harvested area unchanged,

opting to wait on certified acreage

data, but NASS's current spring

wheat abandonment figure rests at

just 3.7%, which is much too low.

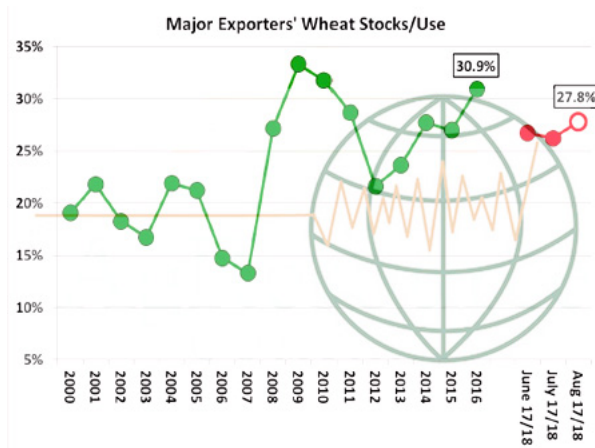
We peg spring wheat abandonment

at 7%, which will lower the crop

another 20 million bu. Imports, too,

are likely overstated as there is just no incentive currently to boost imports, and Canada's crop potential continues to erode amid intensifying drought there. By class, it remains that HRW and SRW will be more than abundant, but all other classes will be tightening more noticeably in 2017. Chicago futures' discount to KC and Minneapolis will likely widen further.

The highlight in the USDA's wheat data was the massive increase in the Black Sea harvest. An upward revision in Russia was expected, but the USDA raised Russia's wheat crop a full 5.5 million mt to a record 77.5 million mt. Much of this



will spill into Russian end stocks, as logistical issues will cap exports at 30-31 million mt. This move alone pushed major exporter wheat/stocks to 27.8%, vs. 26.2% in July, and which is viewed as bearish on the margin. However, EU cash markets today are steady to higher (again), and Gulf wheat is still the world's cheapest, and US HRW is offered for Sep delivery slightly below Russian origin and some \$15/mt below comparable German wheat.

World wheat stocks are more than adequate, but improved US export demand will likely be found at current prices. Like in recent years, the Black Sea market should find a bottom within the next week. Russian export logistics remain the key.