The much awaited and anticipated August USDA crop report has been released, digested and, as anticipated, contained some surprises to say the least. We have to say that we were surprised at some of the content, particularly in the wake of the hottest and driest conditions endured by the central US crop growing regions since 2012. Clearly we are at an early stage in the USDA reporting progress and there is time for revision in upcoming releases.

The surprise of the report came in the guise of a US national corn yield of 169.5 bushels/acre, equal to the 30-year trend line, which was above all the trade estimates, even the most extreme upper end. By calculation the corn ear weight checks in at the third or fourth highest level on record; and this is in the face of the previously mentioned hot and dry conditions. It is our belief that the national yield figure will have to be revised lower in future reports.

Soybeans, as well as corn, were also the subject of surprises. The increase in yield to 49.4 bushels/acre was unexpected to say the least. That said, there remains more time in which the soybean crop can improve although recent and forecast weather does not look, to us, as if it justifies such a lofty yield, which is only 3.1 bu behind last year's crop. Among the overall balance sheet changes the ultimate end result is an increase in 2017/18 USDA forecast end stocks to 475 million bu, a surprising jump from the 2016/17 figure of 370 million bu. Perhaps, when looking at the details, the biggest surprise comes in the fact that yield in Illinois is only one bushels/acre down; information from on the ground suggests that this is an unlikely level in the extreme.

Wheat production in the US was reduced some 21 million bu and unsurprisingly imports were set to rise 10 million to compensate somewhat. A small cut in end stocks to 933 million bu was the net result. However, the spring wheat abandonment figure at just 3.7% looks woefully short of the mark and we would anticipate further increases in this number going forward. Black Sea and Russian wheat crop output was increased, Black Sea more than we would have expected and Russia to a record 77.5 million mt. As we have previously suggested, Russian export capabilities will be tested if any meaningful increases are to be realised, and we doubt if this will be the case leading to growth in end stock levels.

Overall the report was deemed bearish with markets dipping sharply on the day. Nov '17 soybeans reached a low of $9.38/bu, a level not seen since the end of June, and some of the old chart gaps have now been filled. Dec '17 corn plummeted to $3.70/bu; last September (2016) was the last time the markets traded here. Dec '17 wheat hit a low of $4.67/bu, mid-June '17's level. Technically the charts look extremely oversold and ripe for a correction but the markets has to come to terms with the contents of the latest report and price levels have to adjust. Whilst we are always reluctant to critique or criticize USDA figures, on this occasion we have to admit to being somewhat flummoxed and struggling to believe what we have seen.

As a consequence we are running with our heart at this time and are not bearish but believe that excellent value lies in current pricing, the downside risk vs. upside reward looks, to us, to represent an excellent trading opportunity from a long holder's perspective.