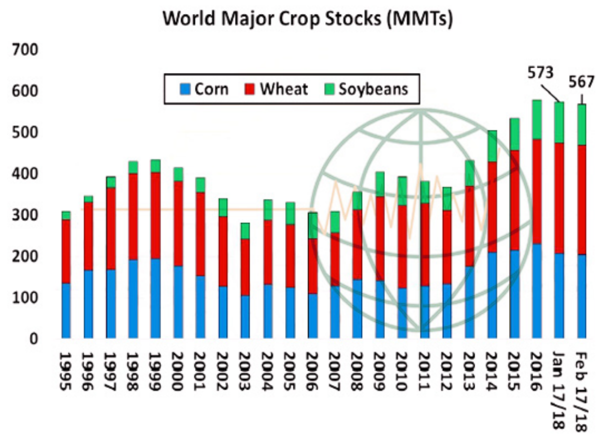
The USDA's February WASDE report was full of new data, which is unusual, and the market's reaction today seemed to make clear weather is, and will be center stage for some time. On the margin, today's updates to corn were bullish (larger exports), while updates to wheat and soy (lower exports) were bearish. But overall, major world crop stocks were cut some 6 million mt from the January report, and amid ongoing drought in Argentina, and less than expected safrinha corn acreage in Brazil, further cuts lie ahead. The Feb WASDE, like so many before it, again confirmed that nearby supplies are more than abundant, but since 2016 global stocks have retreated just a bit. Particularly as La Niña is forecast to linger into late spring, weather in 2018 will grab more attention than it has in recent years.



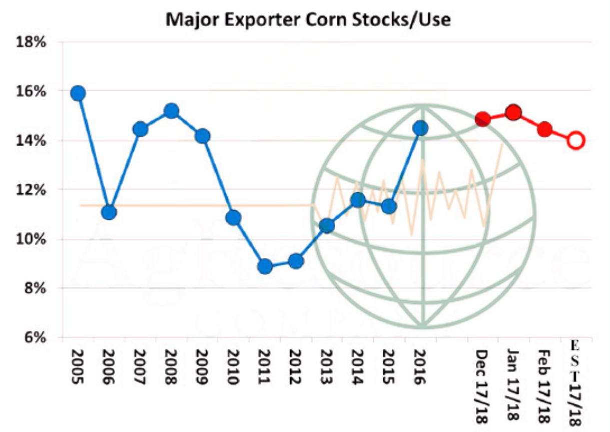
The USDA for the first time in several months provided a bullish shock to the corn market via higher exports. It's been clear that the USDA's forecast was a bit too low, particularly amid falling S American crop size, but the Feb WASDE featured a 125 million bu hike to projected US exports, which was more than expected, and further upward revisions are probable without ideal weather in Central Brazil in April and May. US Gulf corn is still by the world's cheapest feedgrain for delivery into early summer. CONAB lowered its forecast for the Brazilian safrinha crop, the USDA is likely to follow, and the USDA's Argentine crop estimates is viewed as some 2-4 million mt too high still. US acreage cuts are probable this spring, and assuming trend yield end stocks fall to 2,000 million bu. This is not overly bullish, but does suggest the structural bear market is over.

US Corn Supply & Demand

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

	USDA 2016/17	USDA 2017/18	Estimate 2017/18	Estimate 2018/19
Planted	94.0	90.2	90.2	88.5
Harvested	86.7	82.7	82.7	81.1
Yield	174.6	176.6	176.6	173.0
Production	15,148	14,604	14,604	14,040
Carryin	1,731	2,293	2,293	2,375
Imports	57	50	50	50
Total Supply	16,942	16,947	16,947	16,465
Feed/Resid	5,467	5,550	5,525	5,450
Indus/Seed	1,450	1,470	1,470	1,475
Ethanol	5,439	5,525	5,525	5,590
Exports	2,293	2,050	2,050	1,950
Total Use	14,649	14,595	14,570	14,465
End Stocks	2,293	2,352	2,375	2,000
Price	$3.36	$3.30	$3.30	$3.70

The US is now projected to account for 34% of total world trade, vs. 32% in a month ago. Should the USDA follow CONAB in its March report, work indicates that the US's share of world trade could reach 35-36%, at which point 2017/18 exports will range between 2,100-2,150 million bu. The boost in US exports, along with the cut to Argentine production, pulled major exporter stocks/use, a major determiner of world prices, down to 14.4%, vs. 15.1% previously, and using even deeper cuts to Argentina's crop size we estimate major exporter stocks/use at 13.9%. Until it can be confirmed that safrinha yields in Brazil are at or above trend (sometime in early summer) we view downside risk as being severely limited.



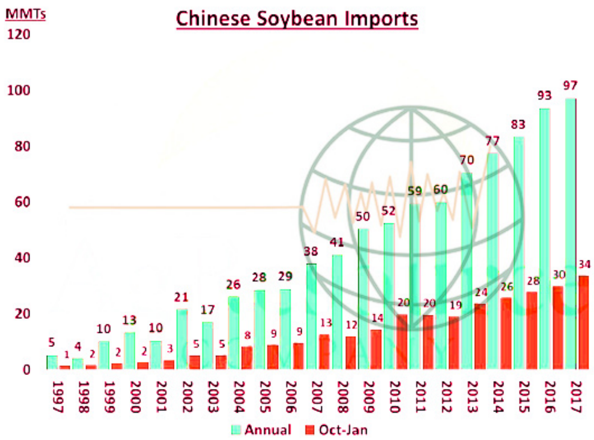
Soybeans closed 4-5 cents higher following a rather bearish WASDE update. The USDA's latest balance sheet estimates showed a 60 million bu cut to the annual export forecast, which was then added directly to the bottom line carryout estimate. US soybean end stocks were projected at 530 million bu, or nearly 38 million bu over expectations. A quick price break at the report release found good demand, as the soymeal market held gains and rallied $5-6/ton on continued concerns for the Argentine crops. The USDA lowered their crop forecast by 2 million mt to 54 million tons, while the Buenos Aires Grain Exchange cut their crop estimate by 1 million to 50 million mt. The afternoon EU weather model forecast showed that most of the soybean belt will see less than 1" of rain over the next 10 days. 90 day rainfall totals in the key states of Buenos Aires, Santa Fe, and Cordoba are currently 50-60% of normal.

US Soybean Supply/Demand

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

	USDA 2017/18	Baseline 2018/19	Estimate 2017/18	Estimate 2018/19
Planted	90.1	91.0	90.2	89.5
Harvested	89.5	90.1	89.5	88.6
Yield	49.1	48.4	49.1	48.4
Production	4,392	4,360	4,392	4,285
Carryin	302	530	302	525
Imports	25	25	25	25
Total Supply	4,718	4,915	4,718	4,835
Crush	1,950	1,970	1,960	1,980
Exports	2,100	2,325	2,100	2,125
Seed	106		103	100
Residual	33	140	32	30
Total Use	4,188	4,435	4,195	4,235
End Stocks	530	480	525	600
Price	$9.30	$9.40	$9.20	$9.05

The preliminary Chinese trade data released on Thursday showed a record large January import figure of 9.48 million mt, down slightly from December but still a record large figure for the month. This puts cumulative soybean imports for the year at 34 million mt, 4 million ahead of last year and also a record large import pace. Soymeal stocks have increased since November, which has pressured crush margins in recent weeks. However, much of this weakness in margins is seasonal. The USDA left their annual import forecast unchanged at 97 million mt, and the current pace continues to support that forecast. The Chinese New Year starts next Friday, which is expected to slow both cash and Chicago business. However, based on current import and crush rates, there is no reason today to disagree with the USDA's forecasts.



Ahead of the USDA's WASDE report, the Brazilian government's crop forecasting agency CONAB, released their February crop report. CONAB's assessment of the crop showed a slight increase in both area and yield, and the crop size increased from 110.4 million mt to 111.6, while the USDA increased their own estimate by 2 million to 112 million mt. The track record of CONAB's February crop estimates is rather mixed. In the last 11 years, CONAB has underestimated total area 100% of the time, though accuracy in the production forecast has largely been determined by yield changes. In the last decade, the February production estimate has been too high in 5 years by an average of 3%, and too low in 6 years by an average of 4%. Last year marked the largest miss on record, when CONAB underestimated both yield and production by more than 7%. Our view is that CONAB is probably much closer this year, and at this time we agree with their crop size forecast of 112 million mt.

US Wheat Supply & Demand

--------- Mils of Acres/Bushels ----------	USDA 2016/17	USDA 2017/18	Estimate 2017/18	Estimate 2018/19
Planted	50.2	46.0	46.0	46.6
Harvested	43.9	37.6	37.6	40.8
Yield	52.7	46.3	46.3	47.9
Production	2,309	1,741	1,741	1,955
Carryin	976	1,181	1,181	1,009
Imports	118	155	155	125
Total Supply	3,402	3,076	3,076	3,090
Food	949	955	955	960
Seed	61	62	62	65
Feed/Resid	157	100	100	150
Exports	1,055	950	950	975
Total Use	2,222	2,067	2,067	2,150
End Stocks	1,181	1,009	1,009	940
Price	$4.89	$4.60	$4.60	$4.75

The USDA's change to the US wheat balance was bearish. US exports were lowered to 950 million bu, which was only partially offset by higher food use, and wheat end stocks are again projected above 1,000 million bu. We have no major disagreement with this forecast, but focus in the weeks ahead will be more on new crop balance sheet changes, rather than abundant old crop stocks. The table assumes normal abandonment and trend yield. If these materialise the US will again be forced to compete with cheaper Black Sea supplies, which is not bearish. Without improvement in soil moisture by mid-April, a national wheat yield closer to 43-44 is most probable, in which case US end stocks fall to 750-775 million bu. Competition for exports then may not be necessary. N Hemisphere weather is key over the next 90 days.

The world wheat market remains stagnant, with global and major exporter stocks/use generally unchanged from the USDA's January report. Old crop stocks worldwide are more than adequate, and the USDA was right in cutting US exports. It will take a rather expansive weather problem to change the structure of the wheat market, but we do note that assuming trend yield Russia's crop in 2018/19 will be closer to 72-73 million mt, vs. a record 85 in 2017, and massive yield is required to fully replenish Australia's balance sheet next year. The point is that N Hemisphere weather this spring will be a bit more important than in recent years. Monitoring the duration of this year's La Niña is priority number one.