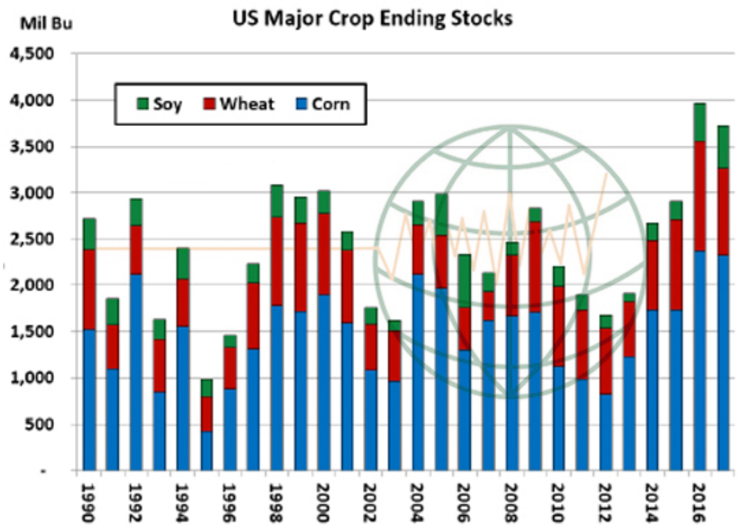
The surprise of the USDA March Crop Report was US corn demand. WASDE was willing to raise 2017/18 US corn exports by 175 million bu and the ethanol grind by 50 million. US 2017/18 corn demand is forecast at a record large 14,820 million bu, which underscores the importance of the Argentine crop and amid a booming world economy. The chart below reflects that the US has sizeable major row crop ending stocks. What is so different this year is the loss of crop in Argentina and the ongoing build of world grain/oilseed demand. It is the record demand for feed that implies that the US will have to produce another record or near record yield to pressure grain or soy prices. Until then, the downside price risk in Chicago is modest, and the price of corn will likely gain on wheat/soy to encourage farmers to plant more acres. The new crop soy/corn ratio has narrowed to 2.55:1, and should decline further. Corn is the bull grain story with a weather scare potentially pushing Dec to $4.50.



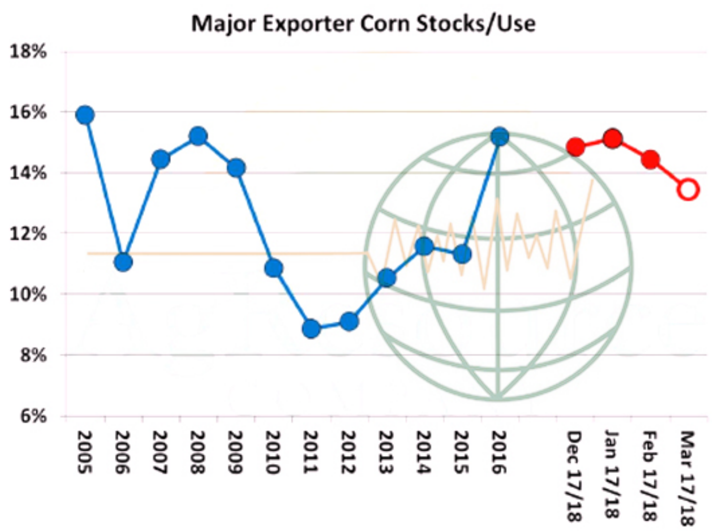
The USDA's again provided a bullish spark to the corn market via enlarged exports, which were raised a hefty 175 million bu from its February report, and importantly the USDA's export forecast is still likely too low amid further crop loss expected in S America and amid the US's favourable position in the world feedgrain market. Gulf basis has rallied to meet Argentine offers, but US origin corn still holds a sizeable discount to feed wheat and barley, and Brazilian corn exports won't begin in earnest until late summer. Weekly export sales totalled a thee-week high 73 million bu. Recall

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	89.0
Harvested	86.7	82.7	82.7	81.6
Yield	174.6	176.6	176.6	174.0
Production	15,148	14,604	14,604	14,200
Carryin	1,731	2,293	2,293	2,177
Imports	57	50	50	50
Total Supply	16,942	16,947	16,947	16,427
Feed/Resid	5,467	5,550	5,525	5,425
Indus/Seed	1,450	1,470	1,470	1,490
Ethanol	5,439	5,575	5,575	5,565
Exports	2,293	2,225	2,200	2,050
Total Use	14,649	14,820	14,770	14,590
End Stocks	2,293	2,127	2,177	1,837
Price	$3.36	$3.35	$3.50	$3.95

US corn end stocks were pegged at 2.5 billion bu in the USDA's November report. Now old crop stocks are projected near 2.0 billion bu, which implied new crop stocks falling to 1.7- 1.8 billion. The US corn balance sheet has tightened quickly, and above-trend new crop yields are needed to pull spot futures below $3.60-3.70 this summer. The price risk in corn is up.

Combined Argentine/Brazilian production is pegged at 130.5 million mt, down 3.5 from February and down 9 million mt from a year ago. Work suggests the USDA's Argentine forecast is still high by some 3-6 million mt, and even its Brazilian forecast is coming under scrutiny. The USDA estimates Brazil's total crop at 94.5 million mt while CONAB since late 2017 has been steadily reducing acreage, and as of this morning estimates the crop there at 87.3 million mt, down a full 10.5 million from last year. Additional export demand is on its way to the US. Major exporter stocks/use, perhaps the biggest driver of price discovery, has fallen to 13%, vs. 14% in Feb and 15% in 2016/17. Further declines lie in the offing and, overall, the market's burden lies with the bears, at least into early summer as extreme drought is firmly established across TD, OK, KS and CO. These states accounted for nearly 10% of US corn production in 2016/17.



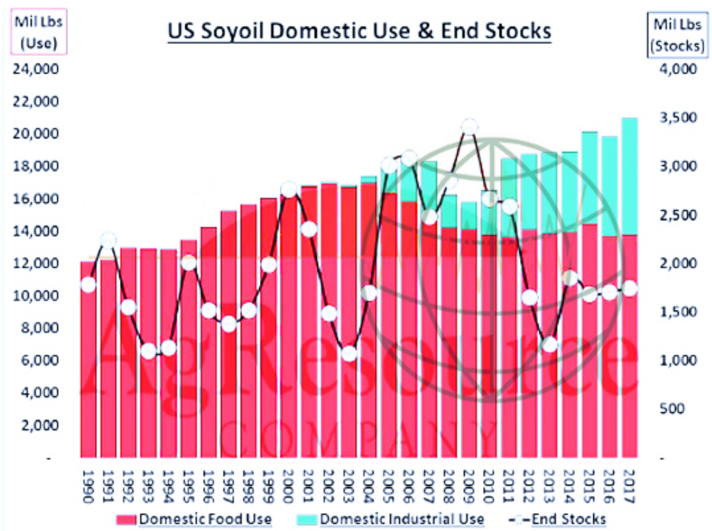
The March WASDE report is typically not a much of an event, but following a strong rally through February, the latest report garnered a more volatile response. Soybean futures fell at the release due to reduced exports and larger ending stocks figures, but were back near unchanged at the close. The USDA raised their US crush estimate by 10 million bu to 1,960 million, and lowered the export forecast by 35 million bu to 2,065 million. Ending stocks increased by 25 million bu to 555 million bu, and the range for the season average price narrowed modestly, to $9-9.60/bu, the midpoint of

US Soybean Supply & Demand

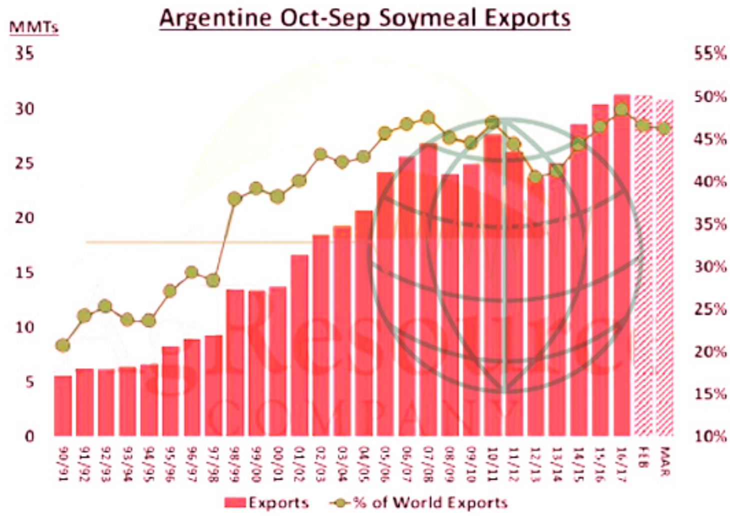
	USDA 2017/18	Outlook 2018/19	Estimate 2017/18	Estimate 2018/19
	---------- Mils of Acres/Bushels ----------			
Planted	90.1	90.0	90.1	90.5
Harvested	89.5	89.1	89.5	89.5
Yield	49.1	48.5	49.1	45.5
Production	4,392	4,320	4,392	4,345
Carryin	302	555	302	600
Imports	25	25	25	25
Total Supply	4,718	4,900	4,718	4,970
Crush	1,960	4,980	1,960	1,980
Exports	2,065	2,300	2,025	2,125
Seed	106		103	100
Residual	33	135	32	30
Total Use	4,163	4,415	4,120	4,235
End Stocks	555	485	600	600
Price	$9.30	$9.25	$9.20	$9.05

$9.30 was unchanged. The post report reaction break found demand as the trade looked past the USDA's estimates for S America, where the USDA made only modest cuts to Argentina's soybean and soymeal exports. Crops continue to roll backwards, and exportable supplies remain in strong (farmer) hands.

In the soy product balance sheets, production for soybean meal and soybean oil was increased by the higher crush rate forecast. Soymeal exports were increased by 200,000 short tons to 12.4 million tons, which absorbed all of the additional supply. In the soyoil balance sheet, the production forecast was increased by 115 million lbs. The big surprise was that biodiesel demand was lowered by 300 million. The USDA had increased the estimate to 7,500 million lbs back in December as the US import rate was set to decline, but soybean oil use has not kept up with the larger production totals, as producers have increased use of other feed stocks. However, the March forecast is still 1 billion lbs (16%) larger than last year, and total domestic soyoil use is expected to be record large at 21 billion lbs.



In the S American estimates, the USDA raised their estimate for Brazilian production to 113 million mt (plus 1 from Feb) versus 114 million mt last year. The Argentine crop estimate was lowered 7 million mt to 47 million and was generally in line with expectations. However, it is worth noting that in the 2008/09 crop, the full impact of the drought was not realized in the USDA's figure until June. The soymeal export forecast was down just 1% from February, but still the second largest on record, and the USDA expects that Argentina will make up 46% of total world soymeal trade. The world remains heavily dependent on Argentine supplies. However, the crop continues to roll back, and the BAGE's weekly crop report showed that 79% of the crop was rated as poor/very poor versus 76% last week, while 87% of the soybean crop's soil moisture was rated as dry/poor. 74% of the crop was setting pods and 10% was rated as mature. The Exchange also lowered their crop production forecast by another 2 million mt to 42 million, or 15.5 million mt less than a year ago.



The USDA's US wheat balance found more supply which, along with a slight upward revision to world wheat stocks, deemed the report as slightly bearish. US 2017/18 wheat exports were lowered 25 million bu amid a string of poor weekly export sales as the Gulf is priced out of the world market entirely through June. US old crop wheat end stocks were lifted 25 million to 1,034 million. Unlike corn, the boost in carryover stocks will buffer against new crop yield losses. US HRW demand has been particularly slow since late 2017. However, it is tough to be overly bearish on wheat amid a rapidly tightening US corn balance sheet. There is currently no shortage of wheat, nor is the much of a threat to record global wheat stocks assuming relatively normal weather in Europe and the Black Sea. Chicago rallies will be hard fought and a top is due when funds have covered shorts.

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	39.8
Yield	52.7	46.3	46.3	47.0
Production	2,309	1,741	1,741	1,870
Carryin	976	1,181	1,181	1,034
Imports	118	155	155	125
Total Supply	3,402	3,076	3,076	3,029
Food	949	955	955	960
Seed	61	62	62	65
Feed/Resid	157	100	100	110
Exports	1,055	925	925	900
Total Use	2,222	2,042	2,042	2,035
End Stocks	1,181	1,034	1,034	994
Price	$4.89	$4.65	$4.70	$4.70

Of the 25 million bu decline in US exports, 15 million was taken from the HRW balance sheet and 10 million from HRS. HRW production is being most threatened via drought, which this week was upgraded to exceptional in pockets of OK. However, as carryover stocks rise the impact of adverse weather will be muted. Old crop HRW end stocks are now forecast at 510 million bu, up 15 from Feb and up 40 million from the Dec report. Preliminary work suggests HRW stocks will be maintained at a comfortable 300-310 million bu even should yield fall 15-20% below trend. Note that US exports will account for just 14% of world trade this year and amid the lack of demand. Gulf wheat cash prices today are unsustainable without adverse weather in another major exporting country. Seasonal tops are forming as the Plains drought worsens.