

This week has been pretty much all about waiting for the release of the latest USDA report, and Thursday saw the numbers issued. Our take is that they were pretty bullish on corn and soybean yield figures; corn was estimated at 174.6 bushels/acre, down from July's figure of 179.5 whilst soybeans at 50.0 bushels/acre were just below July's 50.8. Both estimated yields were below trade expectation, and maybe more important, below trend. The corn figure is 4.9 bushels/acre below trend and beans are 0.8 under trend yield.

These numbers caused an immediate push higher in Chicago with Dec '21 corn testing the \$6.00/bu level, but not quite reaching it. Nov '21 soybeans reached \$13.695 before easing back to close to unchanged on the day. It seems that the expectation of many was for the Eastern US to make up for heat and drought losses in the West, but the USDA's numbers don't quite give us that overall picture today. August weather is now crucial, particularly for beans, to determine if there will be further yield erosion or improvement before harvest.

Aside from yield, we were somewhat surprised to see 2021/22 US corn export numbers reduced by 100 million bu to 2,400 million. Our surprise comes from what we know of Brazilian crop losses as well as potential additional demand from Canada as well as a possible need to increase the ethanol grind number, which looks light to us. If we take these into account, we could be looking at greater shrinkage in final US 2021/22 end stocks than suggested by the USDA's latest numbers.

US soybean figures were less newsworthy with zero change in final 2021/22 carryout despite the yield cut. We would ask questions of the export number as well as crush believing both to be at the lower end of what we expect, but as previously mentioned if weather plays nice this could be offset by yield. Time will tell, as always.

Wheat figures point to a more bullish picture with 2021/22 down close to 15.5 million mt month on month. The combined output of Russia and Canada has been cut by 20 million mt with a further 0.5 million cut in Kazakhstan output. Combined EU/UK production is forecast to grow but only by 600,000 mt, hardly an offsetting figure. Forecast Australian improvements rest on weather, which is far from a given right now. Assuming Australia manages to reach its 30 million mt output, major exporter stocks will just reach 52 million mt, well below 59 million in 2020 and 62 million in 2019. If our view of strong importer demand is correct the picture for wheat looks more bullish than has been the case previously.

Caveats to the above would have to include the source of USDA data, including farmer survey where it is a known tendency for under rather than overestimation, which could have a bearing on future updates. The market and our analysis above has focussed on month on month changes, which clearly impact price but it should not be overlooked that year on year global end stocks are up in both corn and soybeans according to the USDA, although there remains a 9 million decline in year on year wheat end stocks.

The current USDA iteration is just that, a point in time, which will be reviewed in both September and October before the big picture is better known and available for markets to digest. In the meantime, we have to watch weather, which will likely be the biggest driver of prices, particularly in soybeans, as well as providing the background for northern hemisphere harvests to be completed.

Given our questions on one or two of the USDA's numbers, we continue to hold to a cautiously bullish stance.