August 5, 2016

Agriculture Market Highlights:

July 2016 will go down as one of the more difficult months we've had to deal with. The month started with such promise. Fresh off the heels of a June Planting Intentions report that went as expected (less soybean area than consensus) soybean prices were poised to make a run at new highs. Yet markets took a sudden turn in the opposite direction after the first weekend of the month. New weather forecasts had updated showing favorable conditions for crops for the following two weeks. The market quickly, no...violently, reversed direction in the second full week of July.

Our bullish thesis on soybeans had always been predicated on huge demand expectations for the late summer months through the winter. As that had not changed, I'll admit I was perhaps a bit slow to react to the change in market direction. Regardless of the crop size, I figured, prices were likely headed higher eventually as there was little chance in added production from improved weather fully offsetting the demand surge we were expecting. I had underestimated the degree to which the rest of the trade had piled into long soybean positions solely on account of perceived weather problems. Once their fears went unrealized, there was a mass exodus from these positions...and quite simply it is something I had underestimated.

The jury is still out on US soybean production of course, though that hasn't stopped the market from dialing in new record yield and production levels. Personally I will withhold judgment until I take my annual crop trip through the Midwest. My colleagues and I will start on Aug 12 and return Aug 19, crossing back and forth across key production states including Illinois, Iowa, Minnesota, Nebraska, South Dakota, and Missouri. After taking this trip for roughly 10 years now, I feel we've developed a highly effective methodology in determining US corn and soybean production within a reasonable margin of error. Though it seems everyone now goes on crop trips, I feel our efforts are second to none and I believe we have a solid track record to back up that claim.

Upon returning from my crop trip, I will then have a better handle on just what we're looking at in terms of soybean (and corn) production and then we'll have a good handle on total supplies. From there, we can plug in our demand expectations and make some calculated estimates on where prices are headed over the medium/long term.

In terms of demand, truly nothing has altered our thought process from last month's report. Soybean demand is surging...just as we expected it would at this point in the year. Weekly soybean export inspections have started to pick up and we feel <u>highly</u> confident that August shipments will set a new record. It is also highly likely that Q1 exports in 16/17 set a new record and that exports for the entire marketing year of 16/17 could be record large. Combined with potential for very solid crush demand domestically in the US (there is a chance the US could benefit in world meal demand as Argentina's crush slows following their crop losses), total US soybean demand in 16/17 could be record large.

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Attached below are my supply and demand estimates for US soybeans. If anything, my expectations for demand going forward are only *bigger* than they were at this point last month. If you combine my 15/16 and 16/17 demand figures vs. those presented by WASDE, you can see I am roughly 220 mil bu larger. This will more than offset an increase to the yield projection to match the previous record as shown in the red column. Even matching this record yield presents a significant YOY decline in stocks, which should support prices from current levels. The debate rages on as to how big exactly the crop is this year, but as noted above, I hope to have a much better feel for things following our annual crop trip.

US Soybean Supply and Demand (Million Bushels/Million Acres)

	USDA 11/12	USDA 12/13	USDA 13/14	USDA 14/15	USDA 15/16 Jul	Opus 15/16	USDA 16/17 Jul	Opus 16/17	Yield Increase
Planted Acres	75.0	77.2	76.8	83.3	82.7	82.7	83.7	83.7	83.7
Harvested Acres	73.8	76.2	76.3	82.6	81.8	81.8	83.0	83.0	83.0
Abandoned Acres	1.2	1.0	0.5	0.7	0.9	0.9	0.7	0.7	0.7
Yield	41.9	39.8	44.0	47.5	48.0	48.0	46.7	47.0	48.0
Carryin (Sep 1)	215	169	141	92	191	191	350	233	233
Production	3,094	3,034	3,358	3,927	3,929	3,929	3,880	3,901	3,984
Imports	16	36	72	33	25	30	30	30	30
Total Supply	3,325	3,239	3,570	4,052	4,145	4,150	4,260	4,164	4,247
Crush	1,703	1,689	1,734	1,873	1,890	1,890	1,925	1,915	1,915
Exports (Census)	1,360	1,320	1,647	1,843	1,795	1,900	1,920	2,015	2,015
Seed	90	89	98	97	97	97	95	100	100
Residual	2	1	0	48	12	30	30	35	35
Total Use	3,155	3,098	3,478	3,861	3,794	3,917	3,970	4,065	4,065
Carryout (Aug 31)	169	141	92	191	350	233	290	99	182
Stocks/Use	5.4%	4.6%	2.6%	4.9%	9.2%	5.9%	7.3%	2.4%	4.5%

Looking around to corn and wheat, I don't see a lot of opportunity in either market in terms of flat price movement. Both will be subject to bounces off these depressed price levels, but given ample global supplies of both those bounces will likely be pretty short lived. That being said, I am starting to look more closely at corn spreads. Speaking generally, the US farmer will not be keenly interested in selling at these depressed price levels and commercial resellers are not going to be interested in selling wide carries. I think corn spreads will eventually need to firm up in order to move physical grain necessary to feed what should be impressive US corn demand through the first half of 16/17 (at least).

Respectfully,
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