Five Minute Market Update

Corn:

<u>Net change for the week:</u>

Dec: 3.37 down 4
March: 3.47 1/4 down 4 1/4

This week started with fresh supply and demand projections from the USDA. The latest adjustments were viewed as net bearish by the trade.

We'll start by getting the numbers for the 2015/16 marketing year, which ended on August 31, out of the way. The USDA made just one slight adjustment; it lowered the export projection by 10 million bushels. That went straight to the bottom line, bumping up ending stocks by 10 million bushels to 1.716 billion bushels. The average trade guess was 1.711 billion.

That change means we have a 10 million bushel increase in 2016/17 beginning stocks. The USDA reduced its yield projection from 175.1 down to 174.4, which is a smaller cut than the trade anticipated. The average trade guess was 173.4. This yield adjustment reduced production by 60 million bushels to 15.093 billion. The trade was looking for a drop of about 126 million bushels. On the demand side, feed usage was cut by 25 million bushels. The net result of all this is a carryout projection of 2.384 billion bushels, which was down 25 million from last month but was 55 million bushels higher than the average trade guess.

On the world scene, the USDA trimmed the old crop global carryout by 90,000 tonnes, but the trade was expecting a larger cut so that was slightly negative. For the 2016/17 marketing year, world ending stocks were cut 1.35 million tonnes to 219.46 million. That too was a smaller reduction than expected.

Even though the report was considered bearish, the corn market held its ground rather well this week. Helping provide support were anecdotal reports of yields that were good, but not as good as hoped for. The trade was already skeptical about the relatively small yield reduction in this week's report, and these harvest reports have reinforced that skepticism. However, as the harvest has moved north the yields have been improving.

Frequent and sometimes heavy rains have been interrupting the harvest, and this is also helping to hold up prices. In addition to harvest delays, traders are talking about the potential for stalk rot and ear mold if the wet weather continues. Currently the forecasters are predicting a drier pattern to commence in about 10 days.

So is it possible that the low in corn is behind us? Perhaps, but we don't have any solid evidence yet. Even if there is a low in place, the upside potential is likely to be limited while new crop supplies are being absorbed. The trade is talking about the potential for another cut in the estimated yield in the October Supply & Demand Report, but those cuts would be coming from a very high level. The old yield record is 171 bushels per acre. The USDA is currently predicting 174.4, so we could see a 3 bushel per acre cut from this week's estimate and still break the record. And since corn plantings this year were the third-largest since 1944, the national average yield can drop below the old record of 171 and still produce a record harvest.

This being the case, even if the low is behind us, which remains to be seen, that doesn't mean that prices are necessarily going to go up much anytime in the near future. It would just mean that the market is done making new lows. That said, watch for a close in the Dec contract over 3.44 1/4. If the market is able to accomplish that it will be evidence that the harvest lows did come in early, and the chart suggests that fund short-covering may then produce a short-lived rally of as much as 20-30 cents.

Soybeans:

Net change for the week:

Nov: 9.66 down 14 1/4
Jan: 9.71 1/4 down 13

In the Supply and Demand Report, the trade was already aware that the USDA had underestimated old crop soybean exports, and the USDA confirmed that with a 60 million bushel upward revision. That reduced 2015/16 ending stocks by a similar amount, which therefore reduced 2016/17 beginning stocks by the same number. Old crop ending stocks now stand at 195 million tonnes. The trade guess was 232 million, so this was friendly.

On the new crop balance sheet, the average yield was raised to 50.6 bushels per acre, which was up 1.7 bushels from last month and was 1.4 bushels above the average trade guess. Soybean production now stands at 4.201 billion bushels, up 141 million from last month and 112 million more than the trade guess. On the demand side of the ledger, exports were raised 35 million bushels. The net result is a new crop carryout projection of 365 million bushels, up 35 million from the August report. The trade guess was 330 million bushels. Looking at the world numbers, old crop ending stocks were reduced more than anticipated, while new crop stocks were unexpectedly raised. Looking at this report in totality, there were highlights for both the bulls and the bears, but it was net negative overall. The trade is already talking about the prospect for another upward revision to both yield and production in next month's report.

This season's soybean market is going to be an interesting battle between record supply and record demand. Our export sales pace has been amazing, although everyone knows that these sales are going to be very front-loaded and they'll come in at a much slower rate going forward. When we get on the back side of harvest we may see the attention of the trade focus more on demand and less on the size of this year's harvest, which may allow for some price strength in late October or November. In the meantime the bears may maintain control why we try to figure out just how big this crop is. However, wet weather could change the topic of conversation if it continues long enough.

Wheat:

Net change for the week:

Dec KC: 4.17 1/4 down 1 1/4
July: 4.54 1/4 down 3/4
Dec Chicago: 4.03 1/4 down 1/4
July: 4.49 1/2 down 1 1/2

The supply and demand tables for wheat attracted little attention, coming in neutral in the domestic numbers but a little friendly in the global balance sheets.

Looking first at US supply and demand for the 2016/17 marketing year, the USDA made no changes at all to either net supply or to usage, which left the ending stocks projection unchanged at 1.1 billion bushels. A closer examination shows some changes in the carryout projection for individual classes, with hard red winter ending stocks cut 30 million bushels while soft red winter and hard red spring were upwardly revised.

In the 2015/16 global S&D table, world carryout stocks were trimmed by 990,000 tonnes to 240.89 million. That was 810,000 tonnes less than the average trade guess. New crop world ending stocks of 249.07 million tonnes were down 3.75 million tonnes from last month's estimate and 2.28 million tonnes below the average trade guess. Both numbers were friendly but no big deal.

The steep price break in August attracted some export interest, which in turn helped produce a moderate price recovery in the first half of September. Already we are seeing export interest tail off again now that prices have recovered somewhat. Even if the US doesn't have a price advantage on the world market, we should still be able to attract buyers due to the fact that a greater portion of this year's world wheat production is low protein or low quality. The US hard red winter wheat crop was also low protein, but the large old crop ending stocks that were carried into this marketing year means that higher protein wheat is still available.

The wheat market should eventually recover to a less offensive price level, if for no other reason than that it is so unprofitable that plantings will decline. Weather problems in Australia or Argentina might help, as could winter wheat planting delays. But in the immediate future I expect the market to continue to struggle, and probably not go very far in either direction.

Cattle

Net change for the week:

Oct live cattle: 107.87 up 3.47
Dec: 108.05 up 2.65
September feeders: 135.50 up 1.27
Oct: 132.95 up down 1.67

Fed cattle sold for $110.00 in the South, up $5.00 from last week's trade. Boxed beef was moderately lower in choice but solidly lower in select. The average steer carcass weight for the week ended September 3 was 898 pounds, up 2 pounds from the previous week but 16 pounds less than a year ago.

Last week I wrote that the charts were suggesting that a low was finally in place, and this week's action in both cash and futures is providing confirmation. Despite the notable bearishness of my clients, I see a market that has several positive things going for it, including good packer margins, strong retail margins, a tendency for cutout values to increase in the fall, and a current supply situation. In addition, the latest USDA projections call for an 8.6% increase in beef exports and a 12.3% drop in imports. Furthermore, big kills in July and August likely pulled cattle ahead. Fed cattle supplies should slowly tighten this fall, and allow for further improvement in prices.

I got burned in August by being optimistic about the market's prospects, and maybe I'll get burned again, but I think we'll see Dec live cattle make it back to the 114.00-117.00 area, and I wouldn't discount the possibility for $120.00.

Have a great weekend!

Jeff
