



July 2016 – Crop Market Update

Public Policy Department

Budget & Economic Analysis Team

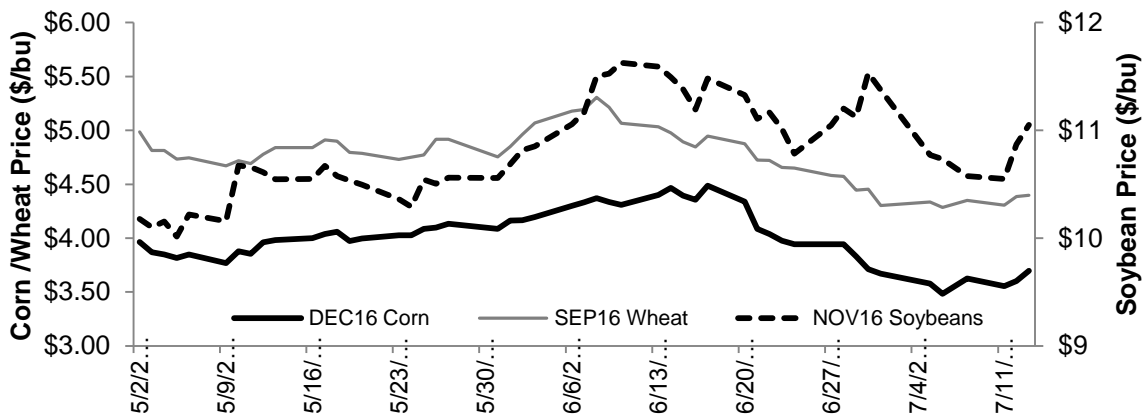
All Eyes on the Crop Size

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At this point in the year market anticipations for the size of harvest play a major role in forming price expectations for the upcoming marketing year. In the May 2016 Crop Market Update, Farm Bureau pointed to global supply concerns, accelerating exports and crop growing conditions as key variables driving the April and May grain and oilseed price rally. New crop corn, soybean and wheat prices traded near or above contract highs (for the year) in early June.

However, since mid-June crop growing conditions have improved, we've experienced "BRExit" and USDA shocked the market with the much anticipated June 30 Acreage Report. Two of these three events directly impact the size of the U.S. crop and contributed to an 18, a 5 and an 18 percent decline in new-crop corn, soybeans and September wheat prices (respectively).

Figure 1. Daily Settlement Prices for New-Crop Corn and Soybeans & September Wheat



USDA's June 30 [Acreage](#) report pegged corn at 94.1 million acres, 7 percent higher than the 2015/16 marketing year and over half a million acres higher than March Intentions. If realized, the 94.1 million corn acres planted would be the third highest planted area since 2000. USDA estimated planted soybean acres at a record 83.7 million acres, 1 percent higher than the prior year, but 1.5 million acres above March intentions. All wheat planted area was estimated at 50.8 million acres, down 7 percent from 2015. Finally, all cotton acres were estimated at 10 million acres, 17 percent above the prior year.

Following the Acreage report all eyes are now on the crop size. USDA does not do an objective yield survey for the July report, but rather continues to use weather adjusted trend yields in developing their balance sheets.

USDA's [Economic Research Service](#) identifies planting date, July temperatures, July precipitation and shortfalls in June precipitation as factors for determining U.S. corn yields. For soybeans, USDA

associates June precipitation shortfall, July-August temperatures and July-August precipitation as factors for U.S. soybean yields (due to later pollination). Mid-May planting progress was slightly delayed relative to the U.S. average of 80 percent; June precipitation levels across much of the Western Corn Belt were below the 4.33-inch 8-state weighted average. While these factors have a negative impact on weather-adjusted corn and soybean yields, key July and August temperature and precipitation levels are unknown. The National Weather Service’s [Climate Prediction Center](#) does point toward the probability for above average heat and below average precipitations levels over the next 8 to 14 days, but the impact of this weather on crop conditions is unknown. Thus, at this point in the growing season the best indicator of crop condition and potential crop yields is found in USDA’s weekly [Crop Progress](#) report.

Crop Progress

Crop conditions in many portions of the U.S. are ahead of both last year and the five-year average good-to-excellent ratings.¹ Highlights of USDA’s July 11 Crop Progress report show a corn rating for the U.S. at 76 percent good or excellent; the soybean rating was 71 percent good or excellent. Upland cotton was 54 percent good to excellent, ahead of the five-year average but 3 percentage points below last year’s crop, Figures 2 through 4.

Figure 2. Percentage Point Change in Corn Condition (Good to Excellent) Relative to the Five-Year Average, as of July 10, 2016

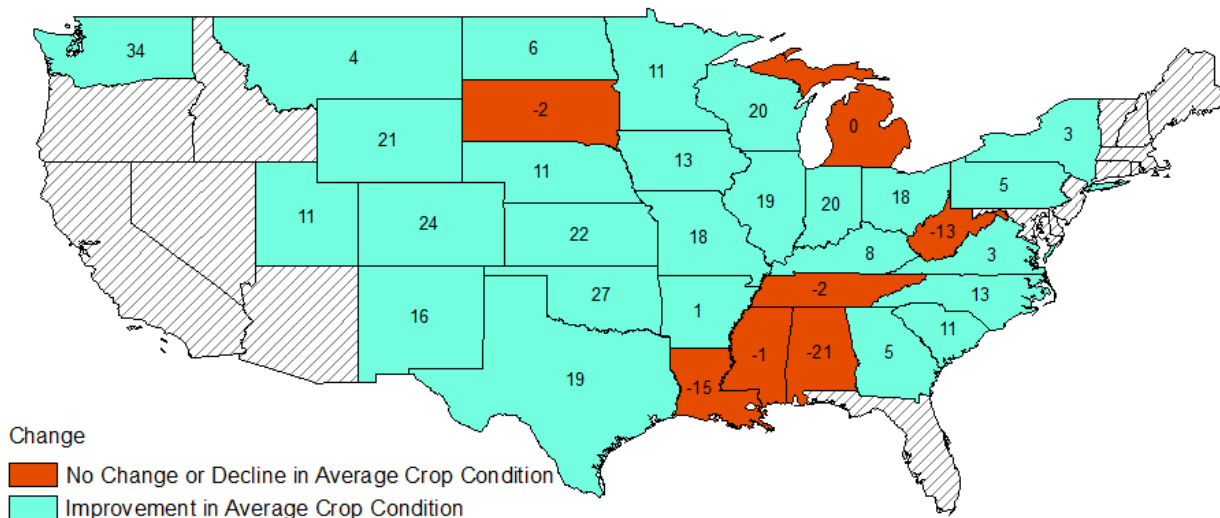


Figure 3. Percentage Point Change in Soybean Condition (Good to Excellent) Relative to the Five-Year Average, as of July 10, 2016

¹ The 5-year average includes lower 2012 ratings

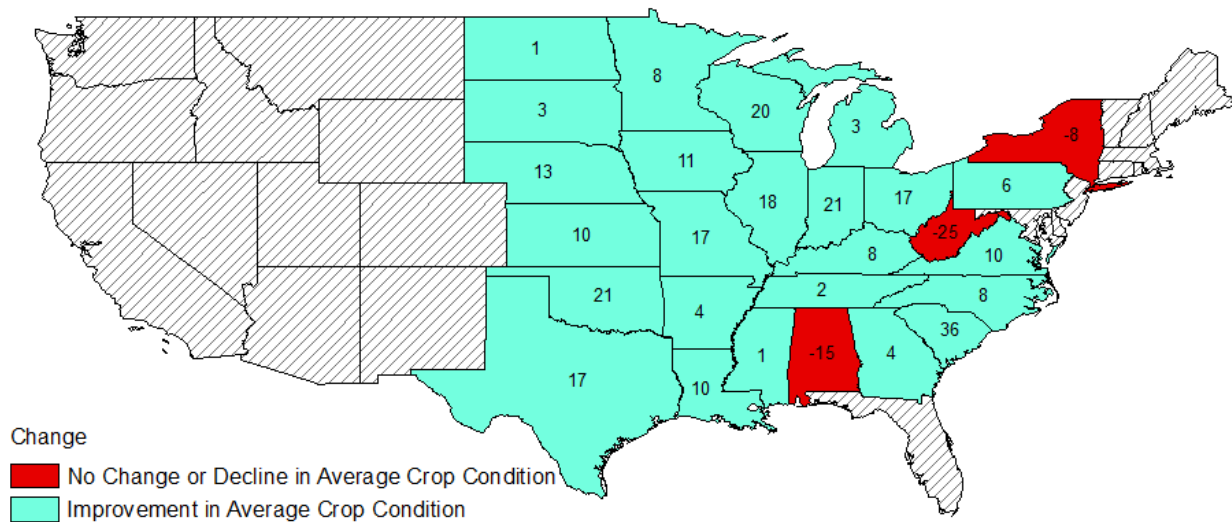
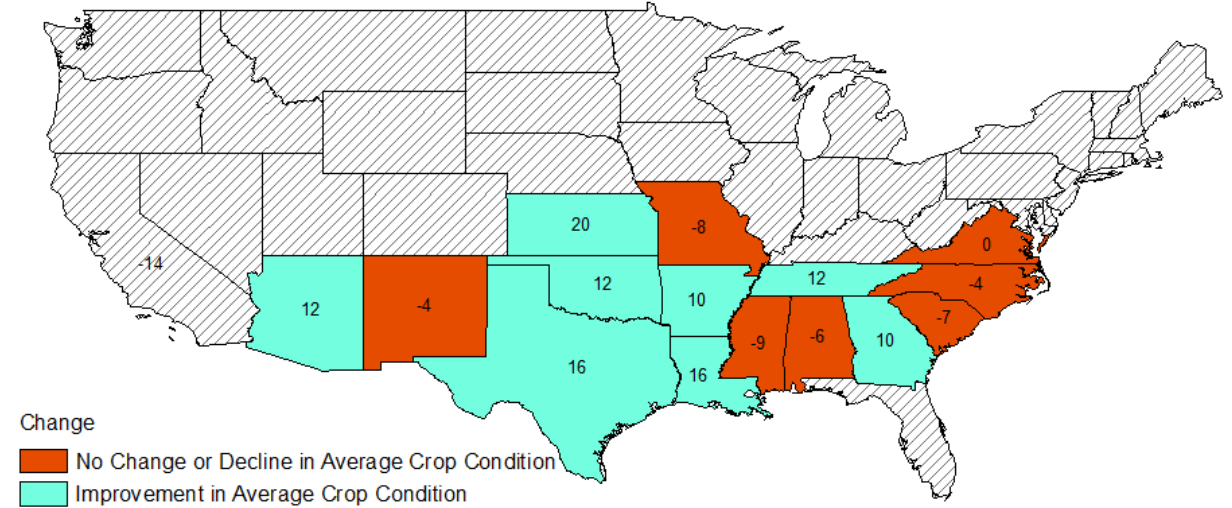


Figure 4. Percentage Point Change in Upland Cotton Condition (Good to Excellent) Relative to the Five-Year Average, as of July 10, 2016



With a large portion of the crop currently in good or excellent condition the potential remains for USDA to increase yield estimates in the coming months above the current projections of 168 and 46.7 bushels per acre for corn and soybeans, respectively. Higher yields combined with additional acreage of corn and soybeans would push 2016/17 marketing year ending stocks even higher than those projected in USDA’s July 12 [World Agricultural Supply and Demand Estimates \(WASDE\)](#).

2015/16 Marketing Year

Highlights of the July 12 WASDE (included in the following tables) showed lower projected ending stocks for corn during the current 2015/16 marketing year due to higher ethanol use and stronger export volumes. Despite lower ending stocks the marketing year average price was lowered by a nickel to \$3.65 per bushel (below the PLC reference price). The lower U.S. ending stocks helped to offset the smaller estimate of the Brazilian corn crop such that total World ending stocks were increased marginally to 206.9 million metric tons from June’s estimate of 206.45 million metric tons. Similarly, projections for increased soybean exports during the current marketing year led to a 20 million bushel decrease in projected 2015/16 U.S. ending stocks to 350 million bushels. USDA

left unchanged the projection for the 2015/16 marketing year average soybean price of \$9.05 per bushel. World soybean ending stocks for 2015/16 were decreased slightly to 72.2 million metric tons. For all wheat, domestic supply was trimmed by million bushels, but that was offset by lower consumption projections; ending stocks were ultimately pushed up by one million bushels. The marketing year average price for wheat was mostly unchanged at \$4.89 per bushel.

2016/17 Marketing Year

For the upcoming marketing year, improved export opportunities for new-crop corn were offset by the additional planted area and lower domestic use. As a result, ending stocks for 2016/17 were increased 73 million bushels to 2.081 billion bushels (stocks-to-use ratio of 14.7 percent). Current expectations are for the 2016/17 marketing year average corn price to range from \$3.10 to \$3.70 per bushel. For new-crop beans, higher planted area was partially offset by increased exports and crushing with the net effect of increasing carryout projections by 30 million bushels to 290 million bushels (stocks-to-use ratio of 7.3 percent). USDA projections for the marketing year average soybean price range from \$8.75 to \$10.25 per bushel. For wheat, additional planted area and increased yield estimates pushed domestic production up by 184 million bushels compared to the June projections. Based on the current price competitiveness of wheat relative to corn in feeding rations, USDA increased feed and residual use by 100 million bushels. The net effect was a 55 million bushel increase in projected 2016/17 carryout stocks with a marketing year average price projection of \$3.80 per bushel. World carryout stocks for new-crop corn and soybeans were increased, while wheat ending stocks were reduced by 4.14 million metric tons to 253.7 million metric tons.

Summary

While the pace of consumption will continue to drive price expectations for the 2015/16 marketing year, the crop size will be the primary factor driving bullish or bearish price movement through the remainder of the growing season. The development of poor growing conditions for the remainder of July and into August would push new-crop corn and soybean prices above their current mid-point projections of \$3.40 and \$9.50 per bushel, respectively. For now, all eyes are on the crop size...and the weather.

Table 1. U.S. Corn Supply and Use

	2015/16 July Proj.	2016/17 June Proj.	2016/17 July Proj.
Area Planted (mil. acres)	88.0	96.3	94.1
Area Harvested (mil. acres)	80.7	85.9	86.6
		<u>Bushels</u>	
Yield per Harvested Acre	168.4	168.0	168.0
		<u>Million Bushels</u>	
Beginning Stocks	1,731	1,708	1,701
Production	13,601	14,430	14,540
Imports	60	40	40
Supply, Total	<u>15,392</u>	<u>16,178</u>	<u>16,281</u>
Feed and Residual	5,200	5,550	5,500
Food, Seed & Industrial	6,592	6,670	6,650
Ethanol & by-products	5,225	5,300	5,275
Domestic, Total	11,792	12,220	12,150
Export	1,900	1,950	2,050

Use, Total	<u>13,692</u>	<u>14,170</u>	<u>14,200</u>
Ending Stocks	1,701	2,008	2,081
Avg. Farm Price	\$3.65	\$3.20-\$3.80	\$3.10-\$3.70
Stocks-to-Use	12.4%	14.2%	14.7%

Table 2. U.S. Soybean Supply and Use

	2015/16 July Proj.	2016/17 June Proj.	2016/17 July Proj.
Area Planted (mil. acres)	82.7	82.2	83.7
Area Harvested (mil. acres)	81.8	81.4	83.0
		<u>Bushels</u>	
Yield per Harvested Acre	48.0	46.7	46.7
		<u>Million Bushels</u>	
Beginning Stocks	191	370	350
Production	3,929	3,800	3,880
Imports	25	30	30
Supply, Total	<u>4,145</u>	<u>4,200</u>	<u>4,260</u>
Crushings	1,890	1,915	1,925
Seed	97	95	1,920
Export	1,795	1,900	95
Residual	12	30	30
Use, Total	<u>3,794</u>	<u>3,940</u>	<u>3,970</u>
Ending Stocks	350	260	290
Avg. Farm Price	\$9.05	\$8.75-\$10.25	\$8.75-\$10.25
Stocks-to-Use	9.2%	6.6%	7.3%

Table 3. U.S. Wheat Supply and Use

	2015/16 July Proj.	2016/17 June Proj.	2016/17 July Proj.
Area Planted (mil. acres)	54.6	49.6	50.8
Area Harvested (mil. acres)	47.1	42.8	44.1
		<u>Bushels</u>	
Yield per Harvested Acre	43.6	48.6	51.3
		<u>Million Bushels</u>	
Beginning Stocks	752	980	981
Production	2,052	2,077	2,261
Imports	115	125	120
Supply, Total	<u>2,919</u>	<u>3,182</u>	<u>3,362</u>
Food	960	963	963
Seed	68	69	69
Feed and Residual	132	200	300
Domestic, Total	1,161	1,232	1,332
Exports	777	900	925
Use, Total	<u>1,937</u>	<u>2,132</u>	<u>2,257</u>
Ending Stocks	981	1,050	1,105
Avg. Farm Price (\$/bu)	\$4.89	\$3.60-\$4.40	\$3.40-\$4.20

Stocks-to-Use	50.6%	49.2%	49.0%
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Table 4. U.S. Rice Supply and Use

	2015/16 July Proj.	2016/17 June Proj.	2016/17 July Proj.
Area Planted (mil. acres)	2.61	3.06	3.21
Area Harvested (mil. acres)	2.58	3.03	3.19
			<u>Pounds</u>
Yield per Harvested Acre	7,470	7,618	7,680
		<u>Million Hundredweight</u>	
Beginning Stocks	48.5	42.9	40.9
Production	192.3	231.0	245.0
Imports	24.0	24.0	24.0
Supply, Total	<u>264.9</u>	<u>297.9</u>	<u>309.9</u>
Domestic & Residual	121.0	135.0	138.0
Exports, Total	103.0	112.0	115.0
Rough	34.5	35.0	37.0
Milled (rough equiv.)	68.5	77.0	78.0
Use, Total	<u>224.0</u>	<u>247.0</u>	<u>253.0</u>
Ending Stocks	40.9	50.9	56.9
Avg. Milling Yield (%)	70.00	70.00	70.00
Avg. Farm Price (\$/cwt)	\$12.30	\$11.60-\$12.60	\$11.20-\$12.20
Stocks-to-Use	18.3%	20.6%	22.5%

Table 5. U.S. Cotton Supply and Use

	2015/16 July Proj.	2016/17 June Proj.	2016/17 July Proj.
Area Planted (mil. acres)	8.58	9.56	10.02
Area Harvested (mil. acres)	8.07	8.80	9.30
Yield per Harvested Acre (lbs.)	766	807	815
		<u>Million. 480 Lb. Bales</u>	
Beginning Stocks	3.70	4.10	3.90
Production	12.89	14.80	15.80
Imports	0.04	0.01	0.01
Supply, Total	<u>16.62</u>	<u>18.91</u>	<u>19.71</u>
Domestic Use	3.55	3.60	3.60
Exports, Total	9.20	10.50	11.50
Use, Total	<u>12.75</u>	<u>14.10</u>	<u>15.10</u>
Unaccounted	-0.03	0.01	0.01
Ending Stocks	3.90	4.80	4.60
Avg. Farm Price	\$58.0	\$47.00-\$67.00	\$42.00-\$66.00
Stocks-to-Use	30.6%	34.0%	30.5%

Heading for the BRexit

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As you've certainly read by now, on June 23, the UK decided it to give the EU back its letter jacket. Break-ups are hard, no matter if they're between individuals, or in this case nations. We're now almost three weeks post-referendum and it would appear well into the third stage of the five stages of grief.

The denial phase didn't last long once now-former Prime Minister Cameron announced that what was done was done; a second referendum vote would not be taken. The markets took us through the anger phase with significant hits to the pound and the Euro. The pound fell to its lowest level in more than 30 years—£1.298 a week ago (July 6). The U.S. dollar has strengthened on the pound by 11 percent since the Brexit vote. The Euro has also taken a hit, though considerably more modest. The Euro is down 3 percent against the dollar since the vote.

British Pound Per 1 U.S. Dollar Over the Last Month



Euro Per 1 U.S. Dollar Over the Last Month



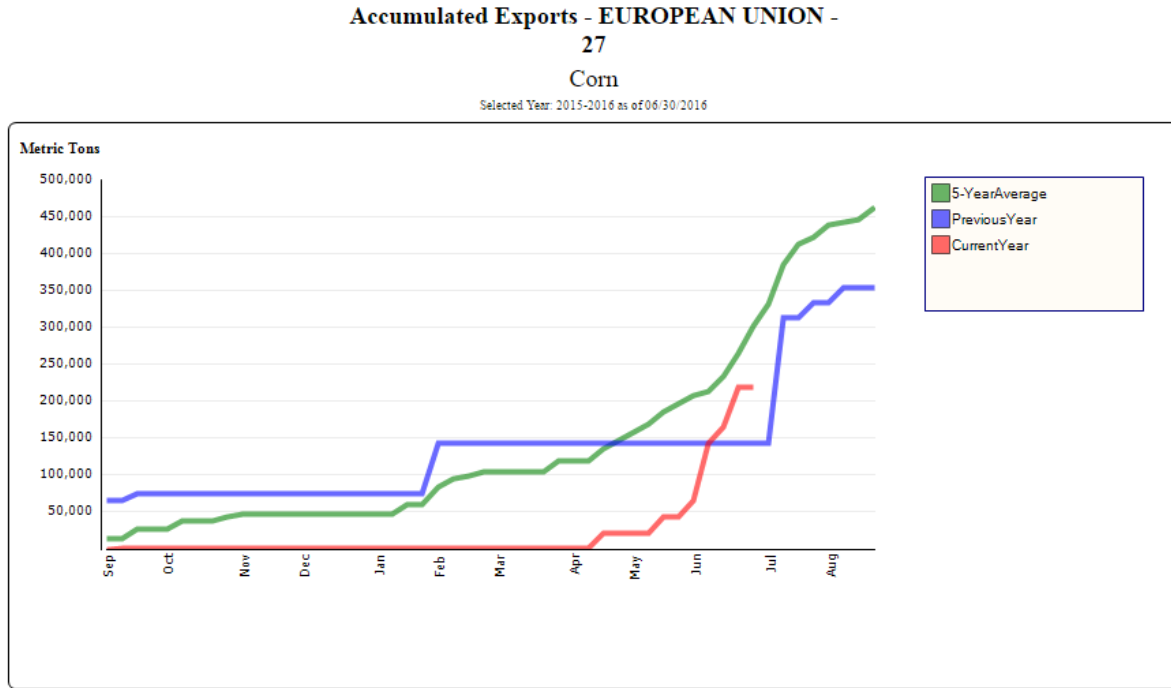
The strengthening U.S. dollar against the pound and, to a lesser extent, the Euro should certainly lead to a spike in U.S. vacationers to see the new Harry Potter play in London, but it also could have more serious implications for U.S. agricultural trade. Last year, the EU imported \$12.1 billion in U.S. ag products, equivalent to 9.1 percent of total ag exports by value. The U.K. represented 14.7 percent of those EU sales. Weakness in the British pound increases the cost of American products and could soften demand.

A place where we might first start seeing the impact of U.S. dollar appreciation might be weekly export sales of corn and soybeans. On the corn side, accumulated exports are below the five-year average, but we haven't seen much response in outstanding sales data to date. Outstanding sales are the total outstanding export sales contracts by country and/or commodity that have not been shipped at any given time during the marketing year. On the bean side, the story is a bit more interesting. Accumulated exports of soybeans to the EU are actually up over last year and the five-year average. In Figure 4, however, you will notice a fairly significant uptick in outstanding sales. It appears some buyers are holding off on sales as they sort through the Brexit fallout. It will be interesting to see if those sales contracts hold up or if buyers cancel over currency concerns and looks elsewhere for product.

With new Prime Minister Theresa May selected and set to be formally appointed on Wednesday, the bargaining phase seems to be getting under way. How pronounced the depression phase and

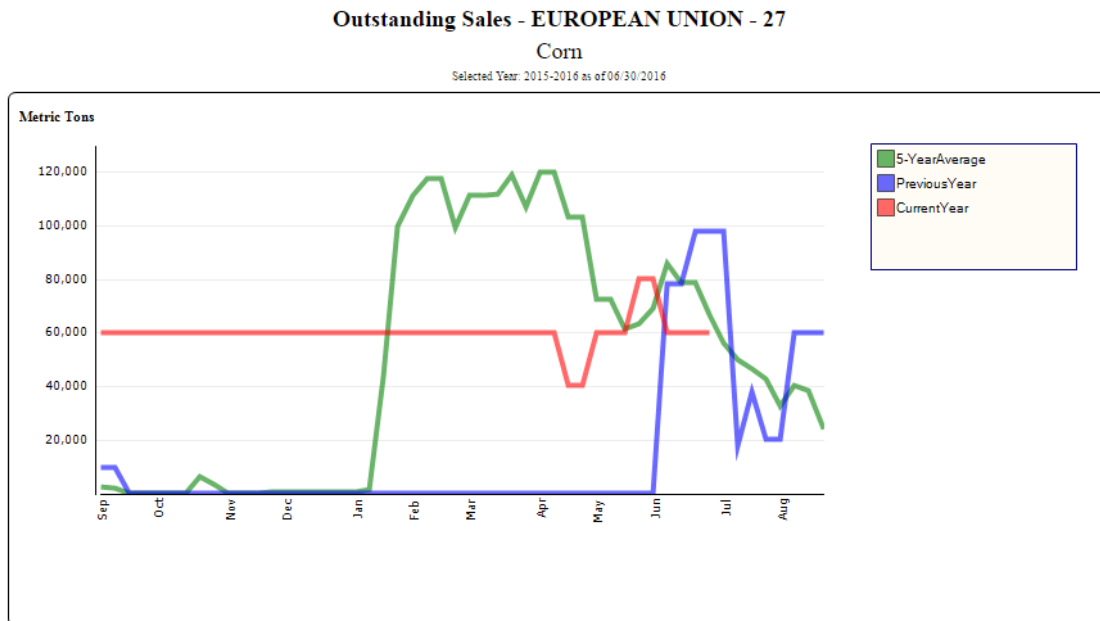
how long the acceptance phase will take to play out will certainly be influence by Prime Minister May and her team.

Figure 1 Corn Accumulated Sales



7/13/2016 Source: USDA/FAS/Export Sales Reporting

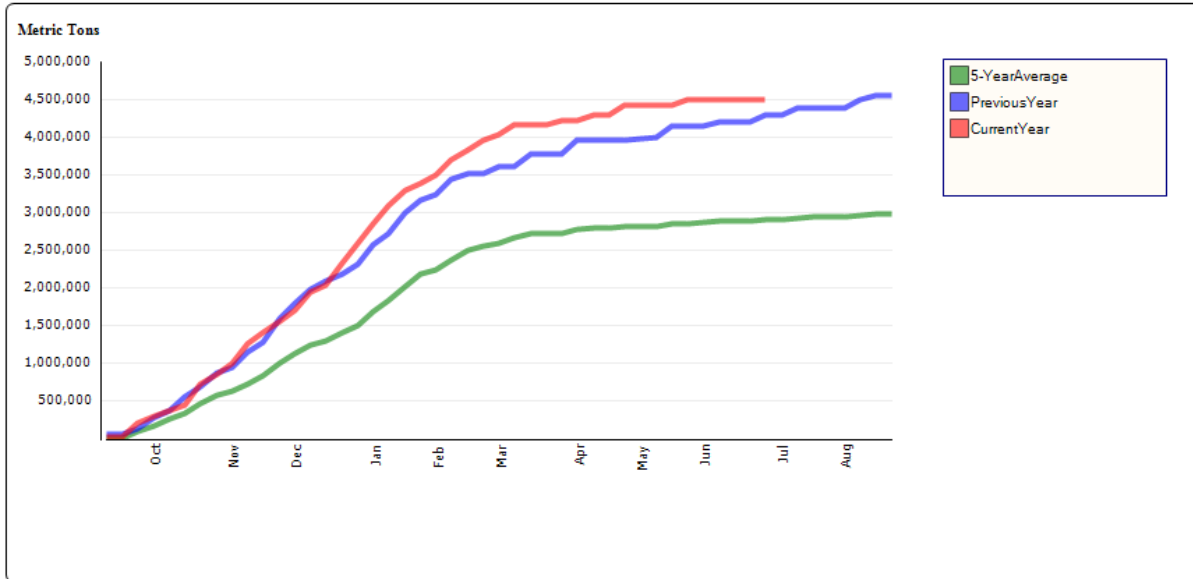
Figure 2 Corn Outstanding Sales



7/13/2016 Source: USDA/FAS/Export Sales Reporting

Figure 3 Soybean Accumulated Exports
Accumulated Exports - EUROPEAN UNION - 27
Soybeans

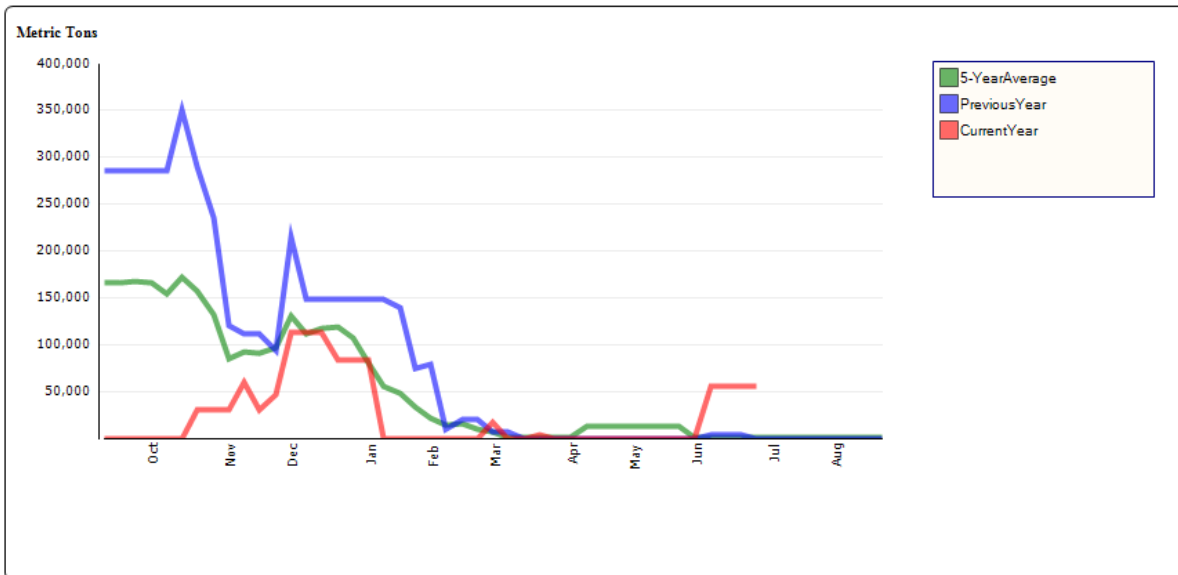
Selected Year: 2015-2016 as of 06/30/2016



7/13/2016 Source: USDA/FAS/Export Sales Reporting

Figure 4 Soybeans Outstanding Sales
Outstanding Sales - EUROPEAN UNION - 27
Soybeans

Selected Year: 2015-2016 as of 06/30/2016



7/13/2016 Source: USDA/FAS/Export Sales Reporting