WASDE/Crop Production Report

The October World Agricultural Supply and Demand Estimates (WASDE) report was much anticipated as it was the first glimpse the trade had at yield projections with significant harvest data. Further, it was the first report since the big surprise in the September 30th stocks report. Below is a quick summary of the numbers with discussion below:

U.S. Stocks	Oct 2020 WASDE	Trade Exp	Sept 2020 Wasde	Change
Corn	2.167 bbu	2.113 bbu	2.503 bbu	-0.336 bbu
Soybeans	290 mbu	369 mbu	460 mbu	-170 mbu
Wheat	883 mbu	887 mbu	925 mbu	-42 mbu

World Stocks 2020/21 (mmt)	Oct 2020 WASDE	Trade Exp	Sept 2020 Wasde	Change
Corn	300.45	300.1	306.79	-6.34
Soybeans	88.7	91.36	93.59	-4.89
Wheat	321.45	317.23	319.37	2.08

Corn

There's definitely been some good news for the corn market lately with U.S. balance sheets shedding 789 million bushels of total supply since August. This decline is partially attributable to USDA's quarterly stocks being restated all the way back into June (less carry in from 2019 crop) as well as to a 3.36 bushel drop in the expected yield on 1.5 million less harvested acres.

How does that kind of drop occur? In all reality, the yield change is moderate. An estimate change of 3.36 bushels on a 181.8 bushel yield estimate is an error of just 1.8% and well within the bounds of normal model error. The bigger surprise is the reduction in harvested acres. While one can't possible explain all of USDA's projections, this one seems to be a combination of impact from derecho-affected acres in Iowa and Illinois as well as the incorporation of Farm Service Agency acreage reporting that occurred in July, which is currently being rolled out from county offices now. The vast majority of those acres are located in the Dakota's, which shouldn't be totally unexpected given the slow planting in areas this spring.

So that’s part one - less supply. Part two is the demand and that area is more complicated. U.S. corn demand falls into three main buckets: Feed, ethanol, and exports. There are a few other incidentals, but they aren’t large enough to affect the balance sheet at this point. First up: Feed. Last year’s corn crop was light and not of great quality. That was widely known, but poor test weight is not measured by USDA. It does affect feed because rations are mixed by the pound, not the bushel. By default, it takes more bushels of lighter weight corn to make the same pounds when mixing. Further, high dried distillers' grain (DDG) prices last spring would have caused some reformulation of rations, but the extent is really impossible to measure outside of the quarterly grain stock numbers. Feed demand projections for 2019 were adjusted accordingly and while they are expected to decline for the 2020 crop year, they still remain historically elevated.

The second bucket is ethanol. This market has been the hardest hit demand category as COVID restrictions cut down on gasoline demand. The market is slowly creeping higher, but USDA has dropped about 50 mbu of demand for the 2020 crop year. The third bucket - export demand - is more than making up for that in some interesting ways that are going to be talked about for a long time

The new export forecast is calling for a total of 2.325 bbu of U.S. originated shipments in the 2020 crop year. That’s up 547 million bushels from last year. Here’s the interesting part: On the world balance sheet, USDA is projecting Chinese imports of just 7 mmt (275 mbu). That’s from all originations, including the U.S. USDA’s reasoning is that they utilize existing trade agreements and that is the number that China is using for tariff rate quota (meaning amounts over that will incur additional fees upon entry to the country). China has already made purchases from the U.S. alone totaling in excess of 7 mmt. In fact, the USDA Attache Report in China hinted that there could be a special quota for corn of an additional 20 mmt (total TRQ would then be around 1 billion bushels). Now that wouldn’t all go to the U.S., but the demand picture is clear. China, barring some sort of massive bearish demand shock, is going to exceed USDA’s current predictions. By how much remains to be seen. Shipment pace to date is just average and that’s the number that really needs to be watched here. It’s also very friendly for basis in the Dakotas and western Minnesota, likely well into the winter.

Soybeans

Of the three major grains, soybeans have had an abrupt turn from the overflow just two years ago. That turn is partially attributable to better trade relations along with the market doing its part to reduce production.

As seen above, projected carryout for the 2020 crop is now 290 million bushels with the yield projection remaining just on the high side of trade expectations. USDA’s adjustment to harvested area, however, was well below what the trade expected, which is why we saw the big upside reaction to the October WASDE. There was also a 52 million bushel decline in carry in from 2019, leaving total 2020 supply down 97 million bushels.

On the demand side, crush remains projected at 2,180 mbu, which is going to be difficult to push higher. Crush margins have been, and continue to be, profitable, albeit less attractive with the last run. Exports is where the U.S. balance sheet will see the most action, up 75 mbu from last month alone. While corn shipments to China are merely “ok” so far, soybean shipments to China this marketing year are matching the level seen year-to-date back in 2016 - the best shipment year we've seen. So, in soybeans we are seeing those aggressive sales turn to shipments already, and that's very encouraging.

To put this in perspective, over the course of two months, U.S. balance sheets have gone from a 13.7% stocks to use ratio, down to a 6.4% stocks to use ratio. At 6.4%, we'd be the tightest balance sheet since 2015, which is quite constructive and likely to offer longer-term support to futures, as well as basis. Keep in mind that funds remain very long of grains in general, and at this point are likely to defend that position. That could change at any given time, but for now, it would make sense to try and milk it until closer to South American producers are closer to harvest.

Pricing bushels in an inverted market, like we see in soybeans now, can be a tough proposition. Inverses usually occur on the backs of rapid rallies, creating this euphoric, must-hold-now mentality. There's certainly been a reward for holding bushels. Looking ahead, it's easy to say those back months could come up. They might, but don't have to. However, if that's your plan, please keep in mind that these high prices are buying Brazilian and Argentinean acres too, and once February arrives, U.S. shipments take a back seat. So, there is a timeline that needs to be kept in the back of your mind when executing soybean marketing.

Wheat

With the U.S. wheat production season largely wrapped up, we didn't see the same action as we did in soybeans or even corn. Still, the reduction in carryout due to the stocks adjustments on September 30 are supportive. The wheat market finally appears to have dropped some carryout, although we remain well supplied. Projected prices rose from $4.58 for the 2019 crop to $4.70 on the 2020 crop.

Reduced production seen in the October WASDE was already evidenced in the September 30 Annual Small Grain summary, so it wasn't a shock. The reduction came all in the winter wheats, with hard red spring wheat (HRS) production in that report coming in at 586 mbu, above the 577 mbu the trade expected. While the total export number for wheat didn't change between September and October, there were class changes that benefitted HRS export. Overall, wheat is going to remain somewhat at the mercy of soybean and corn - not able to support itself, but not able to pull away if those two crops continue to see strength.