

**CORN** For the USDA report on Wednesday July 12<sup>th</sup>, the average pre-report trade estimates for 2017-18 production and yield as well as for 2016-17 ending stocks have been released. At first glance, they are conservative to say the least. For production and yield, the question is whether the trade is estimating what they think the USDA numbers will be Wednesday, or whether they estimating the crop's potential as it stands today given the current understanding of crop conditions and weather prospects.



The northern plains have been a focal point this year, with the severe drought in the Dakotas causing spring wheat conditions to plummet. With very low wheat prices over the last few years, the producers in that region have switching to corn and especially soybeans. North and South Dakota together will plant 12.6 million soybean acres, roughly 14% of the entire nation's soybean planted area. They will also plant 8.9 million acres of corn, which is almost 10% of the corn planted acreage for the US. The recent National Weather Service 6-10 and 8-14 day forecasts had heat and dryness expanding east into Minnesota, Iowa, Nebraska, and Kansas, with the center of the ridge of heat centered over the Dakotas. Reports of severe dryness in central and southern Illinois, western Iowa and Nebraska are prevalent as well.

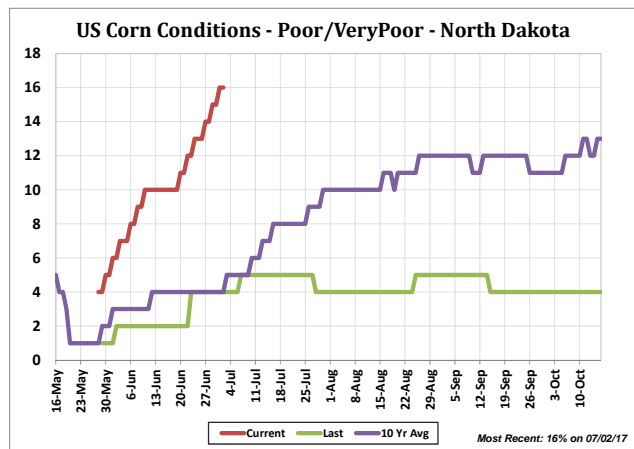
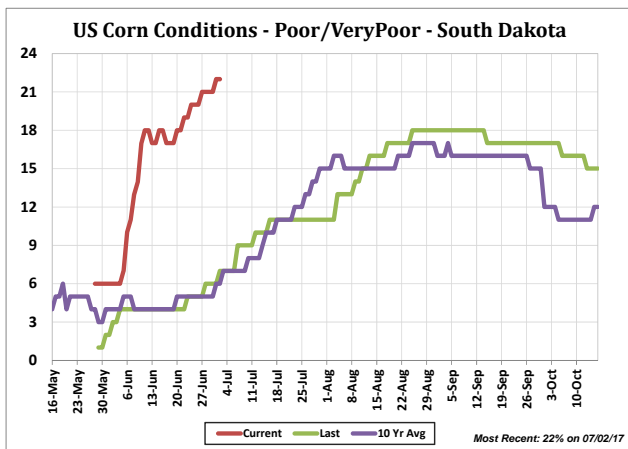
The question remains how aggressive the USDA will get in Wednesday's report. The average trade estimate on corn yield is 169.3, with production at 14.100 billion bushels. The June USDA report pegged the US corn yield at the 170.7 bushels per acre with production at 14.065 billion bushels. Given the weather developments since June 1<sup>st</sup>, we don't think that a 1.4 bushel/acre decline in yield is nearly enough. Instead, we believe a 165.0 bushel yield would about as high as we could get at this point. If weather continues to deteriorate in the western half of the Corn Belt, yields could continue to slide.

In our supply/demand analysis on page 2, we put 2016-17 beginning stocks at 2.400 billion bushels versus the average estimate of 2.322. This is due to the potential for aggressive Brazilian exports later this year. With a 165 bushel/acre yield, ending stocks could decline to 1.904 billion bushels and the stocks/usage ratio to 13.3%. With a 162.5 yield, ending stocks could fall to 1.696 billion bushels and the stocks/usage ratio to 11.9%. If weather conditions continue to struggle, yield could fall to 160 bushels/acre. That scenario would leave ending stocks at 1.488 billion bushels and the stocks/usage ratio at 10.4%. Given the severe situation in the Dakotas and reports of corn crops in Illinois and Indiana being short and already beginning to pollinate, the USDA may get a little more aggressive in Wednesday's report. Still, we think a 2-bushel decline in yield from the June report (to 168.7 bushels/acre) would be about as aggressive as they would get for the July report. They would likely wait until more of the crop has pollinated before making more drastic adjustments.

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USDA SUPPLY/DEMAND US CORN										2017/18		
	10-11	11-12	12-13	13-14	14-15	15-16	Jun USDA 16-17	May USDA 17-18	Jun USDA 17-18			
Planted Area (M Acres)	88.2	91.9	97.3	95.4	90.6	88.0	94.0	90.0	90.0	90.9	90.9	90.9
Harvested Area (Acres)	81.4	83.9	87.4	87.4	83.1	80.8	86.7	82.4	82.4	83.2	83.2	83.2
Yield (Bu/Acre)	152.6	146.7	123.2	158.2	171.0	168.4	174.6	170.7	170.7	160.0	162.5	165.0
Beginning Stocks (M Bu)	1,708	1,128	989	821	1,232	1,731	1,737	2,295	2,295	2,425	2,425	2,425
Production	12,425	12,314	10,755	13,829	14,216	13,602	15,148	14,065	14,065	13,314	13,522	13,730
Imports	28	29	160	36	32	67	55	50	50	49	49	49
Supply, Total	14,161	13,471	11,904	14,686	15,479	15,401	16,940	16,410	16,410	15,788	15,996	16,204
Feed & Residual	4,770	4,512	4,309	5,001	5,280	5,123	5,500	5,425	5,425	5,425	5,425	5,425
Food, Seed & Industry	6,432	6,431	6,044	6,532	6,601	6,643	6,920	7,000	7,000	7,000	7,000	7,000
Ethanol for Fuel	5,019	5,000	4,641	5,124	5,200	5,224	5,450	5,500	5,500	5,500	5,500	5,500
Domestic Total	11,202	10,943	10,353	11,533	11,881	11,766	12,420	12,425	12,425	12,425	12,425	12,425
Total Exports	1,831	1,539	730	1,921	1,867	1,898	2,225	1,875	1,875	1,875	1,875	1,875
Use, Total	13,033	12,482	11,083	13,454	13,748	13,664	14,645	14,300	14,300	14,300	14,300	14,300
Ending Stocks	1,128	989	821	1,232	1,731	1,737	2,295	2,110	2,110	1,488	1,696	1,904
Stocks/Use Ratio	8.7%	7.9%	7.4%	9.2%	12.6%	12.7%	15.7%	14.8%	14.8%	10.4%	11.9%	13.3%



### The Hightower Report Weekly Market Letter

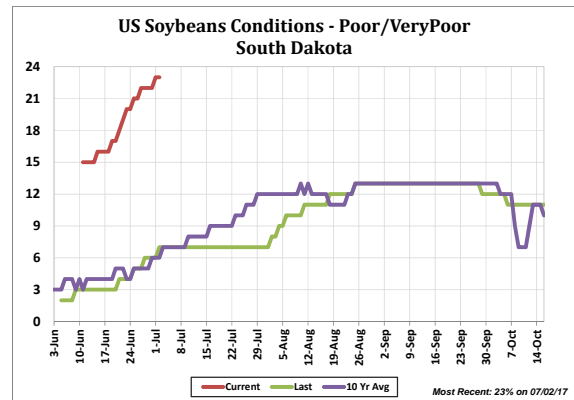
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**SOYBEANS** We think the USDA's forecast for 2016-17 soybean ending stocks will need to come down due to the continued strong export program that has reached 107.1% of the USDA's export total for the marketing year. The average trade estimate for 2016-17 ending stocks is 431 million bushels, down from 450 million bushels reported in the June USDA supply/demand report. We expect the 2016-17 ending stocks will come in at 420 million bushels, due to stronger old crop exports.



The average trade estimate for the 2017-18 soybean yield is 47.9 bushels, with a range of 46.0 to 49.5 bushels per acre. The USDA is using a trend line yield (48.0 bushels/acre), and we feel they will leave that number unchanged in the July report. The critical month for soybeans is August. In 2012 a couple of rain events in August saved the soybean crop and resulted in a 40.0-bushel yield despite a complete disaster in corn that year.

Still, with the Dakotas producing nearly 10% of the nation's soybeans and the forecast calling for hot and dry weather through the end of July, soybean yield expectations are moving lower from the current 48 bushels/acre. The average estimate for 2017-18 ending stocks is at 485 million bushels, which we feel is a little high. We look for that figure to come in around 465 million bushels due to the increase in old crop exports.

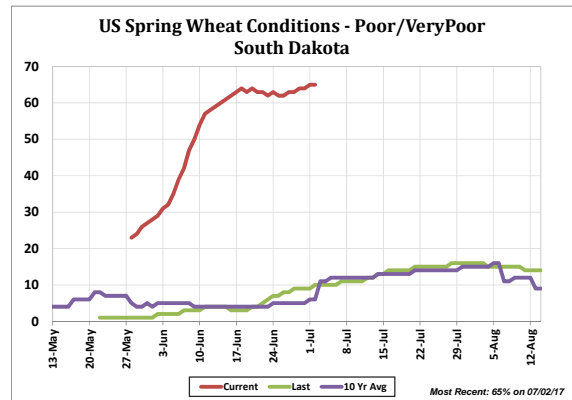
USDA SUPPLY/DEMAND US SOYBEANS										2017/18		
	10-11	11-12	12-13	13-14	14-15	15-16	Jun USDA 16-17	May USDA 17-18	Jun USDA 17-18	1 bu Below Trend	2 bu Below Trend	3 bu Below Trend
Planted Area (M Acres)	77.4	75.0	77.2	76.8	83.3	82.7	83.4	89.5	89.5	89.5	89.5	89.5
Harvested Area (Acres)	76.6	73.8	76.1	76.3	82.6	81.7	82.7	88.6	88.6	88.6	88.6	88.6
Yield (Bu/Acre)	43.5	42.0	40.0	44.0	47.6	48.0	52.1	48.0	48.0	47.0	46.0	45.0
Beginning Stocks (M Bu)	151	215	169	141	92	191	197	435	450	420	420	420
Production	3,331	3,097	3,042	3,358	3,927	3,926	4,307	4,255	4,255	4,164	4,076	3,987
Imports	14	16	41	72	33	24	25	25	25	25	25	25
Supply, Total	3,497	3,328	3,252	3,570	4,052	4,140	4,528	4,715	4,730	4,609	4,521	4,432
Crushings	1,648	1,703	1,689	1,734	1,873	1,886	1,910	1,950	1,950	1,950	1,950	1,950
Exports	1,505	1,366	1,328	1,639	1,842	1,936	2,050	2,150	2,150	2,150	2,150	2,150
Seed	87	90	89	97	96	97	104	101	101	101	101	101
Residual	43	-2	16	10	50	25	14	34	34	34	34	34
Use, Total	3,282	3,159	3,111	3,478	3,862	3,944	4,078	4,235	4,235	4,235	4,235	4,235
Ending Stocks	215	169	141	92	191	197	450	480	495	374	286	197
Stocks/Use Ratio	6.6%	5.4%	4.5%	2.6%	4.9%	5.0%	11.0%	11.3%	11.7%	8.8%	6.7%	4.7%

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**WHEAT** The average trade estimate for 2017-18 all wheat production is 1.750 billion bushels, with a range of 1.634 to 1.834 billion. All winter wheat production is estimated at 1.261 billion bushels, hard red wheat at 745 million bushels, and soft red at 303 million bushels.

With harvest winding down for winter wheat, the hard and soft red estimates are being fine-tuned, and no real surprises are expected. The question remains the protein content of the crop, which has been averaging 11.3% versus 11.2% in 2016.



There are potential fireworks in the spring wheat production estimate. The average estimate is 409 million bushels with a range of 305 to 464 million bushels. Up to this point the USDA's working number for this year's production has been 493 million bushels. The big question for Wednesday's report will be harvested acres. Previous drought years averaged 91% harvested, with in the 2002 drought year, only 85% was harvested. We think the USDA will come in close to 380 million bushels as a starting point on Wednesday.

USDA SUPPLY/DEMAND US WHEAT										2017/18		
	09-10	10-11	11-12	12-13	13-14	14-15	Jun USDA 15-16	May USDA 17-18	Jun USDA 17-18			
Planted Area (M Acres)	59.2	53.6	54.4	55.3	56.2	56.8	55.0	46.1	46.1	45.7	45.7	45.7
Harvested Area (Acres)	49.8	46.9	45.7	48.8	45.3	46.4	47.3	38.5	38.5	37.9	37.9	37.9
Yield (Bu/Acre)	44.3	46.1	43.6	46.2	47.1	43.7	43.6	47.2	47.3	<b>47.2</b>	<b>46.0</b>	<b>43.0</b>
Beginning Stocks (M Bu)	656	976	863	743	718	590	752	1,159	1,161	1,184	1,184	1,184
Production	2,209	2,163	1,993	2,252	2,135	2,026	2,062	1,820	1,824	1,789	1,743	1,630
Imports	119	97	113	124	172	151	113	125	130	125	125	125
Supply, Total	2,984	3,236	2,969	3,119	3,025	2,768	2,927	3,105	3,115	3,098	3,052	2,939
Food	919	926	941	951	955	958	957	955	955	965	965	965
Seed	69	71	76	73	77	79	67	66	66	66	66	66
Feed & Residual	142	85	159	365	227	114	152	170	170	170	170	170
Domestic, total	1,129	1,081	1,176	1,389	1,259	1,151	1,177	1,191	1,191	1,191	1,191	1,191
Total Exports	879	1,291	1,051	1,012	1,176	864	775	1,000	1,000	1,000	1,000	1,000
Use, total	2,008	2,373	2,227	2,401	2,435	2,015	1,952	2,191	2,191	2,191	2,191	2,191
Ending Stocks	976	863	743	718	590	752	976	914	924	907	861	748
Stocks/Use Ratio	48.6%	36.4%	33.4%	29.9%	24.2%	37.3%	50.0%	41.7%	42.2%	41.4%	39.3%	34.1%

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