

WASDE update: Brazilian corn crop downgrade

This week's WASDE report contained few surprises, with the 2020/21 Brazilian corn crop downgraded as expected, whilst there was little change in 2021/22 balances for grains and soybeans. The report was moderately supportive for corn and slightly bearish for soybeans



Drought hits Brazilian corn output

The June WASDE report from the USDA was moderately supportive of corn prices, with changes to the US and global 2020/21 balance sheets leading to a tightening.

In the US, both domestic demand and export estimates were increased for the 2020/21 marketing year by a combined 150m bushels and given there were no changes on the supply side. It meant that the US ending stocks edged lower to 1.1b bushels, less than the roughly 1.2b bushels the market was expecting. As for the upcoming 2021/22 season, there were no changes to the US corn balance, with the exception that we are expected to enter the season with slightly lower stocks, and so as a result ending stocks for 2021/22 were lowered from 1.51b bushels to 1.36b bushels. Expectations heading into the release were for a number closer to 1.4b bushels.

Turning to the global corn balance, the largest change seen for 2020/21 was the current Brazilian

corn crop. Drought conditions in the region weighed on the safrinha corn crop, and expectations going into the release were that the USDA would revise lower their Brazilian output estimate. Instead, Brazilian production was revised down from 102mt to 98.5mt, which still leaves output higher than what many in the market are expecting. The estimate is also above what CONAB is forecasting for the crop, with them yesterday also revising lower their production estimate to 96.4mt from 106.4mt.

There is room for the 2020/21 global corn balance to tighten further with the potential for further downward revisions to the Brazilian crop. However, for 2021/22, global corn stocks are expected to grow YoY. Therefore, we believe prices should weaken from current elevated levels when new crop supply becomes available. However, this is assuming normal weather conditions in the US over the summer months.

Apart from the weather, another key uncertainty is whether the market will continue to see robust import demand from China over 2021/22. The USDA is forecasting that China imports will total 26mt in the upcoming marketing year, unchanged from the current season's estimate.

Corn supply/demand balance

	2021/22 est latest	2021/22 est previous	Est revision MoM	2020/21 est	ΔYoY	2019/20
US (m bushels)						
Area harvested (m acres)	83.5	83.5	0.0	82.5	1.0	81.3
Yield (bu/acre)	179.5	179.5	0.0	172.0	7.5	167.5
Production	14,990	14,990	0.0	14,182	808	13,620
Imports	25	25	0.0	25	0	42
Consumption	12,315	12,315	0.0	12,170	145	12,185
Exports	2,450	2,450	0.0	2,850	-400	1,778
Beginning stocks	1,107	1,257	-150.0	1,919	-812	2,221
Ending stocks	1,357	1,507	-150.0	1,107	250	1,919
Global (m tonnes)						
Production	1,189.9	1,189.9	0.0	1,125.0	64.8	1,117.5
- US	380.8	380.8	0.0	360.3	20.5	346.0
- Brazil	118.0	118.0	0.0	98.5	19.5	102.0
- Argentina	51.0	51.0	0.0	47.0	4.0	51.0
Demand	1,181.0	1,181.1	0.0	1,149.9	31.2	1,134.6
- EU	77.9	77.9	0.0	73.3	4.6	78.8
- China	294.0	294.0	0.0	289.0	5.0	278.0
Beginning stocks	280.6	283.5	-2.9	305.5	-24.9	322.6
Ending stocks	289.4	292.3	-2.9	280.6	8.8	305.5

Source: USDA

Soybean inventories edge higher

The WASDE numbers were less constructive for soybeans. The agency revised its US domestic demand estimate by 15m bushels for the 2020/21 marketing, which left ending stocks for the season at 135m bushels. The market expected ending stocks to be closer to unchanged, at a little more than 120m bushels. There were no changes to US supply or demand estimates for 2021/22; however, given the higher beginning stocks, obviously, ending stocks for the next marketing year are also higher than the market was expecting.

Turning to the global soybean balance for 2020/21, and similarly, the global market is expected to see ending stocks edge higher, with them estimated at 88mt, up from the previous estimate of 86.55mt, and also higher than the roughly 87.4mt the market was expecting. This increase was

driven by slightly weaker domestic US demand, whilst Brazilian production was revised higher by 1mt to 137mt. The market had expected this estimate to remain unchanged.

The 2021/22 global balance sheet saw marginal changes to demand & supply, with higher ending stocks driven by expectations of a larger carryover of inventories from the current marketing year. As a result, global ending stocks for 2021/22 are forecast to increase to 92.55mt, with stronger output expected from Brazil, the US and Argentina, suggesting that we should see soybean price trend lower in the next marketing year, assuming no supply shocks.

Soybean supply/demand balance

	2021/22 est latest	2021/22 est previous	Est revision MoM	2020/21 est	ΔYoY	2019/20
US (m bushels)						
Area harvested (m acres)	86.7	86.7	0.0	82.3	4.4	74.9
Yield (bu/acre)	50.8	50.8	0.0	50.2	0.6	47.4
Production	4,405	4,405	0.0	4,135	270	3,552
Imports	35	35	0.0	35	0	15
Consumption	4,420	4,420	0.0	4,560	-140	3,952
Exports	2,075	2,075	0.0	2,280	-205	1,682
Beginning stocks	135	120	15.0	525	-390	909
Ending Stocks	155	140	15.0	135	20	525
Global (m tonnes)						
Production	385.5	385.5	0.0	364.1	21.5	339.4
- US	119.9	119.9	0.0	112.6	7.3	96.7
- Brazil	144.0	144.0	0.0	137.0	7.0	128.5
- Argentina	52.0	52.0	0.0	47.0	5.0	48.8
Demand	380.8	380.8	0.0	369.0	11.8	357.4
- China	119.7	119.7	0.0	114.5	5.2	109.2
- EU	17.6	17.6	0.0	17.9	-0.3	17.3
Beginning stocks	88.0	86.6	1.5	96.5	-8.5	114.6
Ending stocks	92.6	91.1	1.5	88.0	4.6	96.5

Source: USDA

Better supply prospects for European wheat

The USDA left the US wheat balance largely unchanged for 2020/21, except revising higher exports by 20m bushels, which leaves estimated ending stocks at 852m bushels, lower than the roughly 870m bushels the market was expecting heading into the release. As a result, beginning stocks for 2021/22 were somewhat lower; however, this was offset by expectations of slightly higher output in 2021/22. Ending stocks for 2021/22 are estimated at 770m bushels compared to market expectations of more than 780m bushels.

Looking at the global balance, the USDA increased its supply estimates for 2021/22 on higher production from Europe, as recent rains were seen beneficial for the current crop. The agency revised higher its global production estimates by 5.5mt, with the majority of the increase coming from the EU (+3.5mt), Russia (+1mt), the US (0.7mt) and Ukraine (+0.5mt). Global production is now projected to increase 2.4% YoY to a record high of 794.4mt. Global demand estimates were also revised higher by around 3mt, which was mostly driven by Europe. As a result, 2021/22 global ending stocks estimates were increased by around 1.8mt to 296.8mt, larger than the roughly 294mt the market was expecting. With stocks edging higher, we would also expect wheat prices to trend lower from current levels.

Wheat supply/demand balance

	2021/22 est latest	2021/22 est previous	Est revision MoM	2020/21 est	ΔYoY	2019/20
US (m bushels)						
Area harvested (m acres)	37.4	37.4	0.0	36.7	0.7	37.4
Yield (bu/acre)	50.7	50.0	0.7	49.7	1.0	51.7
Production	1,898	1,872	26.0	1,826	72	1,932
Imports	125	125	0.0	105	20	105
Consumption	1,205	1,195	10.0	1,123	82	1,123
Exports	900	900	0.0	985	-85	965
Beginning stocks	852	872	-20.0	1,028	-176	1,080
Ending Stocks	770	774	-4.0	852	-82	1,028
Global (m tonnes)						
Production	794.4	789.0	5.5	775.8	18.6	763.5
- US	51.7	51.0	0.7	49.7	2.0	52.6
- EU	137.5	134.0	3.5	125.9	11.6	138.7
- Russia	86.0	85.0	1.0	85.4	0.7	73.6
Demand	791.1	788.7	2.4	781.6	9.6	748.3
- China	148.0	148.0	0.0	150.0	-2.0	126.0
- N Africa	47.5	47.6	0.0	47.0	0.5	46.3
Beginning stocks	293.5	294.7	-1.2	299.2	-5.7	284.1
Ending stocks	296.8	295.0	1.8	293.5	3.3	299.2

Source: USDA

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