McKeany·Flavell

Sweet Beat

January 12, 2017

2016/17 Corn Production Lowered

2016/17 Supply & Demand for Sugar Remain Bearish

WASDE Report Insights: Corn

Given today's 48 million bushel hit to 2016/17 domestic corn ending stocks, the market has remained surprisingly calm, showing a nominal increase today. In the end, stocks of 2.355 billion bushels are still large, and there are plenty of opportunities for demand to trend lower and offset today's revision.

One such way is within the feed category. Indeed, some sectors of livestock production continue to show at least small increases month vs. month. However, last month's Cattle on Feed report pegged inventories down 1 percent from last year in spite of a sharp increase in placements in November 2016 compared to a year ago. If this trend continues, it is likely to pressure feed demand for corn in the coming months.

The other factor to drive this category comes from the other side of the world. China announced on Tuesday that new antidumping and anti-subsidy duties against U.S. distillers grains will go in effect immediately. The Chinese government apparently wanted to make a point, setting the duties at a range between 42 and 54 percent for the antidumping portion and between 11.2 and 12 percent for the anti-subsidy tariffs. These will be in place for the next five years.

In effect, these taxes will significantly limit the U.S. export markets for this product, while increasing the presence of distillers grains in the domestic market and pressuring prices. As such, it is safe to assume more distillers grains will be used in U.S. livestock rations, as long as ethanol production remains strong. This will also impact prices for gluten feed, keeping them under pressure and representing a lower percentage of the total coproduct credit.

Speaking of ethanol, production has remained on the high side. Demand is supportive, with ending stocks in December down 3 percent from 2015. Also worth mentioning, the import tarriff on U.S. ethanol imported by China may revert back to 30 percent this year.

The market's attention is turning to acreage possibilities for 2017/18. The rally in soybean prices and a bullish global balance sheet will

Corn Highlights

- China imposed import duties on U.S. distillers grains
- Basis values unseasonably strong
- More corn acreage likely shifting to soybeans

Sugar Highlights

- Louisiana output lowered 32,000 STRV
- 2016/17 stocks-to-use at 15.4 percent
- Mexico production remains at 6.371 MMT

USDA Corn Supply/Demand Estimates

	2014/15	2015/16	2016/17 Projections	
(Million Bushels)		Estimate	December	January
Beginning Stocks	1,232	1,731	1,738	1,737
Production	14,216	13,602	15,226	15,148
Imports	32	67	50	55
Total Supply	**15,479**	**15,401**	**17,013**	**16,940**
Feed & Residual	5,280	5,131	5,650	5,600
Food, Seed & Industrial	6,601	6,635	6,735	6,760
*Ethanol and By-products**	*5,200*	*5,206*	*5,300*	*5,325*
Total Domestic	**11,881**	**11,766**	**12,385**	**12,360**
Exports	1,867	1,898	2,225	2,225
Total Use	**13,748**	**13,664**	**14,610**	**14,585**
Total Ending Stocks	**1,731**	**1,737**	**2,403**	**2,355**
Stocks-to-Use	**12.6%**	**12.7%**	**16.4%**	**16.1%**
Average Farm Price	$3.70	$3.61	$3.05-$3.65	$3.10-$3.70
Planted Acres (Million)	90.6	88	94.5	94.0
Harvested Acres (Million)	83.1	80.8	86.8	86.7
Yield per Harvested Acre	171	168.4	175.3	174.6

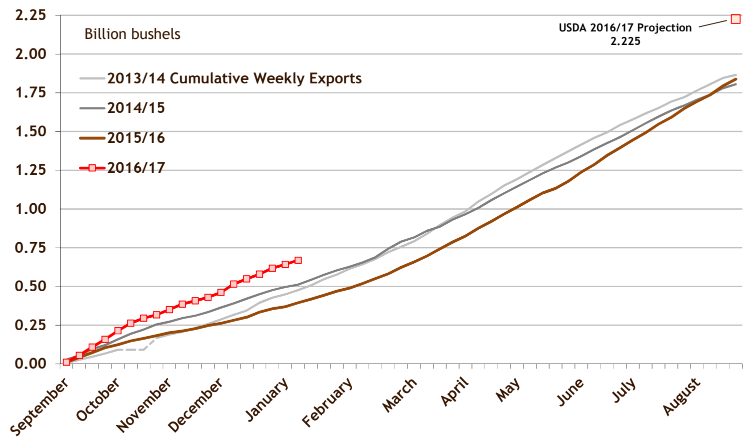
** Ethanol corn use is a component of Food, Seed & Industrial corn use. By-products include DG, corn gluten feed, and corn oil.*

11 Embarcadero West, Suite 200 • Oakland, CA 94607 • 510/832.2866 • Fax 510/763.8856

likely motivate farmers to shift more acreage away from corn in favor of soybeans. Significant improvements in soybean yields and lower input costs could also incentivize more soybean plantings. Lastly, it is possible as many as 3.7 million acres of lost wheat acreage could be shifted toward corn and soy. Depending on how things all pan out, the reduction of corn acreage versus the current year could be as little as 2 million acres.

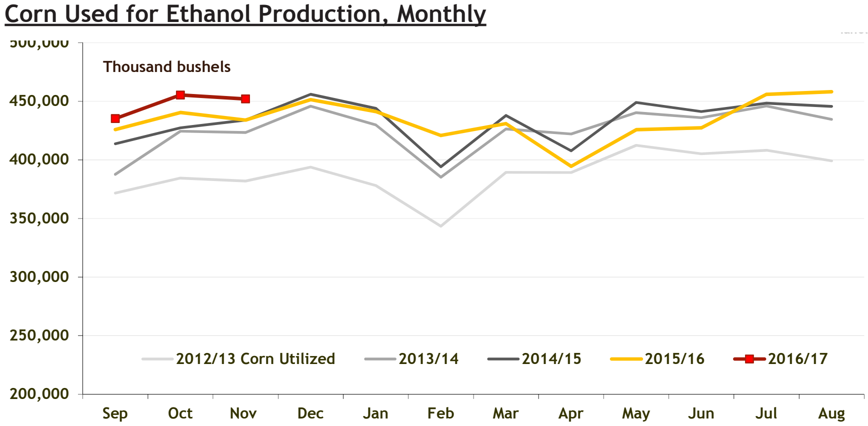
Nevertheless, the situation still appears to be bearish for corn. Even if acreage fell to 89 million planted acres and yields declined to 171 bushels per acre in 2017, total supply could surpass 16.35 billion bushels. Projecting 2017/18 ending stocks at this point is an iffy proposition, but we would need only a minor reduction in exports to come in around 2.0 billion bushels again.

Cumulative U.S. Corn Exports, by season



Lastly, corn basis is surprisingly strong in spite of a market swimming in corn. For the time being, it appears farmers are content with storing it, hoping for better prices down the road. Today's market reaction might be a much needed wake-up call to motivate movement from producers and elevators. Between now and planting season, there should be a major move of corn to processors, providing basis pressure counter to typical seasonal dynamics.

Corn Used for Ethanol Production, Monthly



WASDE Report Insights: Sugar

As is typical for a January WASDE report, USDA made only minor revisions to 2016/17 projections. Production was lowered 29,000 short tons, raw value (STRV) as Louisiana production was lowered 32,000 STRV, only partly offset by a 2,000 STRV increase in Texas.

After minor adjustments to imports, total supply was lowered 31,000 STRV. With demand estimates also unchanged, ending stocks were lowered to 1.881 million STRV, yielding a 15.4 percent stocks-to-use (STU) ratio.

Mexican sugar estimates were also mostly unchanged, with production still placed at 6.37 million metric tons (MMT) and ending stocks at a somewhat bearish 1.23 MMT.

With Mexico's export limit all but locked in at only 972,000 MT under the Suspension Agreements—more sugar than needed to reach the target STU of 13.5 percent—the trade will be more interested in the politics and negotiations taking place in Washington. With several deadlines having passed already and the Trump Administration preparing for inauguration, the chances that anything will be accomplished in the short term seems unlikely.

Following the holidays, the sugar business always seems slow, and this year is certainly no different:

USDA Sugar Supply/Demand Estimates

1,000 Short Tons, Raw Value (STRV)

	2014/15	2015/16	2016/17 Projections	
		Estimate	December	January
Beginning Stocks	1,810	1,815	2,054	2,054
Production	8,656	8,989	9,342	9,313
Beet Sugar	4,893	5,119	5,371	5,371
Cane Sugar	3,763	3,870	3,971	3,942
FL	1,981	2,173	2,142	2,142
HI	146	152	46	46
LA	1,513	1,428	1,644	1,612
TX	123	116	140	142
Imports	3,553	3,341	2,696	2,694
TRQ	1,536	1,620	1,533	1,532
Other Program	471	396	175	175
Other	1,546	1,325	987	987
Mexico	1,532	1,309	972	972
Total Supply	14,019	14,145	14,092	14,061
Exports	185	74	25	25
Deliveries	12,019	12,051	12,155	12,155
Food	11,888	11,881	12,000	12,000
Other	131	170	155	155
Miscellaneous	0	-33	0	0
Total Use	12,204	12,091	12,180	12,180
Ending Stocks	1,815	2,054	1,912	1,881
Stocks/Use Ratio	14.9%	17.0%	15.7%	15.4%

Mexico Sugar Supply and Use

*1,000 Metric Tons, Actual Weight**

	2015/16	2016/17 Projections	
	Estimate	December	January
Supply			
Beginning Stocks	811	1,037	1,037
Production	6,117	6,371	6,371
Imports	83	10	60
Use			
Domestic	4,767	4,719	4,769
Exports	1,207	1,470	1,470
Ending Stocks	1,037	1,229	1,229

**To get raw value, multiply actual weight by 1.06.*

U.S. HFCS Exports to Mexico**

Oct-Sep 2015/16	864,737 metric tons
Oct-Nov 2015	108,205 metric tons
Oct-Nov 2016	146,281 metric tons

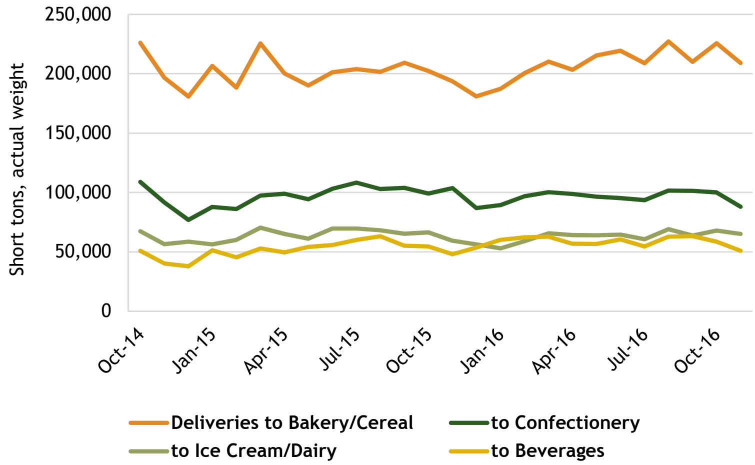
*** U.S. International Trade Commission. Dry weight.*

With most, perhaps around 80 percent, of industrial sugar booked for 2017, the sugar market was very quiet during and after the holidays. This is likely to continue for the next 45 days leading up to the 2017 International Sweetener Colloquium.

One of the more interesting sugar markets to watch lately has been the world #11 market. After trading above $0.23 for much of October, the #11 Mar-17 futures contract reversed course, dropping to as low as $0.1815 on December 23. Its decline was fueled by U.S. dollar strength and the liquidation of record long speculative positions. Prices have since rallied back above $0.20, closing today at $0.2076. With a large global production deficit still forecast for 2016/17, possibly followed by a balanced or even a minor surplus market for 2017/18, futures should continue to trade from $0.19 to $0.23 for the balance of the crop year.

The domestic raw sugar market continues to hover around $0.29. With negotiations with Mexico at an impasse, we don't see much changing there. If an agreement is reached requiring Mexico to ship more of its sugar as raw, we may see a small decline, perhaps as low as $0.2750 this crop year. Lower prices would be difficult this crop year given the limited Mexican imports. A potential wildcard: USDA may opt to support raising cane imports to bolster low cane sugar stocks. However, through the first two months of the crop year we are seeing some recovery in domestic beet sugar shipments. In November, beet processor deliveries were up 21.3 percent versus a year ago, while cane refiner deliveries slipped 1.1 percent.

Monthly U.S. Sugar Deliveries



U.S. refined beet sugar prices continue to trade between $0.2850 to $0.3000 FOB mill, and cane prices are still showing a large premium depending upon location and available competition. On a delivered basis, cane prices are usually priced at a $0.04 to $0.07 premium. In some competitive situations, the premium may be much smaller as beet cooperatives will eat higher freight to compete with traditional cane customers outside their typical marketing regions. Cane prices are typically trading between $0.34 and $0.37, FOB mill.

Kevin Combs, Steve Vuilleumier, and Nicole Thomas

McKeany•Flavell

11 Embarcadero West, Suite 200 • Oakland, CA 94607 • 510/832.2866 • Fax 510/763.8856