

Hard Red Spring Wheat on Fire

As a bullish global story begins to build in the wheat complex thanks to sharply lower production in the European Union and Australia as well as the highly competitive Black Sea region has helped support the US wheat complex out of the harvest slump. However, one huge black cloud looming over the wheats was the prospects of a massive spring wheat crop – today that cloud may be lifting.

US acreage pushing to a multi-year high, fueled by in general lower commodity prices, of 12.709 million acres of hard red spring wheat out of the total 12.899 million spring wheat acres, minus durum, planted in the US. North Dakota, the nations #1 hard red spring wheat producer, made the largest acreage leap by increasing in the amount of 1.43 million acres and then topping it off with nearly perfect growing conditions – or so we thought.

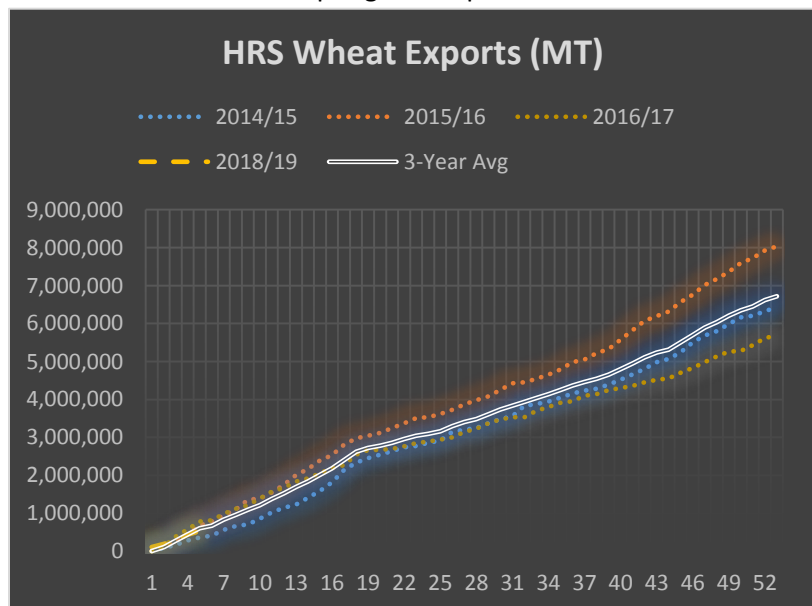
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The annual Wheat Quality Tour is under way as scouts moved through southern North Dakota on Tuesday under the bias that there is a beautiful crop out there. To the surprise of many, southern North Dakota yields failed to impress with scouts estimating yield at 38.9 bushels per acre; above last years drought stricken 37.9 but falling short of the 44.7 5-year average and the 47.0 yield the USDA is using.

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Now, keep in mind that 59% of North Dakota’s 2017 hard red spring wheat production comes from the northern 3 districts of the state which has yet to be scouted.

However, if the northern region doesn’t provide excellent crops for the scouts, overall production is likely to fall. As to how much, if we remember back to last year, mid-season scouting can provide outlier results in some cases but often near final yields. One bushel per acre equating to 12.42 million bushels; a minor reduction in that amount does very little to the balance sheet. In this scenario, US ending stocks will remain second



highest in the last 20+ years – second to, and within only a few million bushels, of market year 2015/16.

With yield up for debate but working with the assumption that overall production will be dropping, foreign demand is going to be key as to where ending stocks finish. The USDA has 270 million bushels of hard red spring wheat allocated for export; above 2016/17 market years dismal 228 million but still below 2016/17's 319 million bushels. Will the US meet the USDA target? It is still early in the marketing year, but trade tension could weigh heavily on this market since the top 5 importers are Asian nations: Philippines, Japan, Taiwan, China and South Korea with number 6 being the European Union in market year 2017/18 and accounted for nearly 75% of total exports.

The market is on fire after months of nothing bullish for the bulls to chew on. With headwinds present on the demand side of the table and still a potentially large crop in the un-scouted regions of North Dakota/Minnesota/Montana. All eyes will be on scouting results this week, but bullish sentiment must be kept in check while producers take advantage of the rally.

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Thanks for reading!

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