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Tuesday, November 13, 2018
NTG Morning Comments
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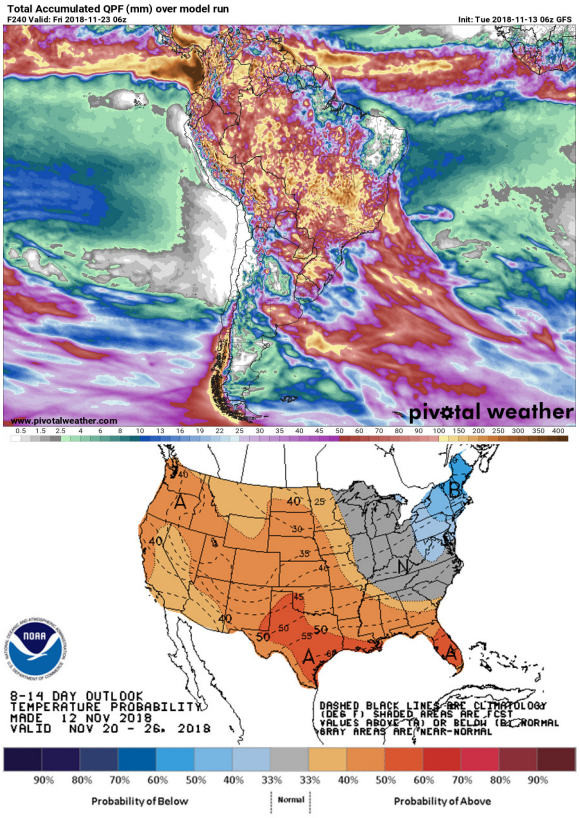
Weather

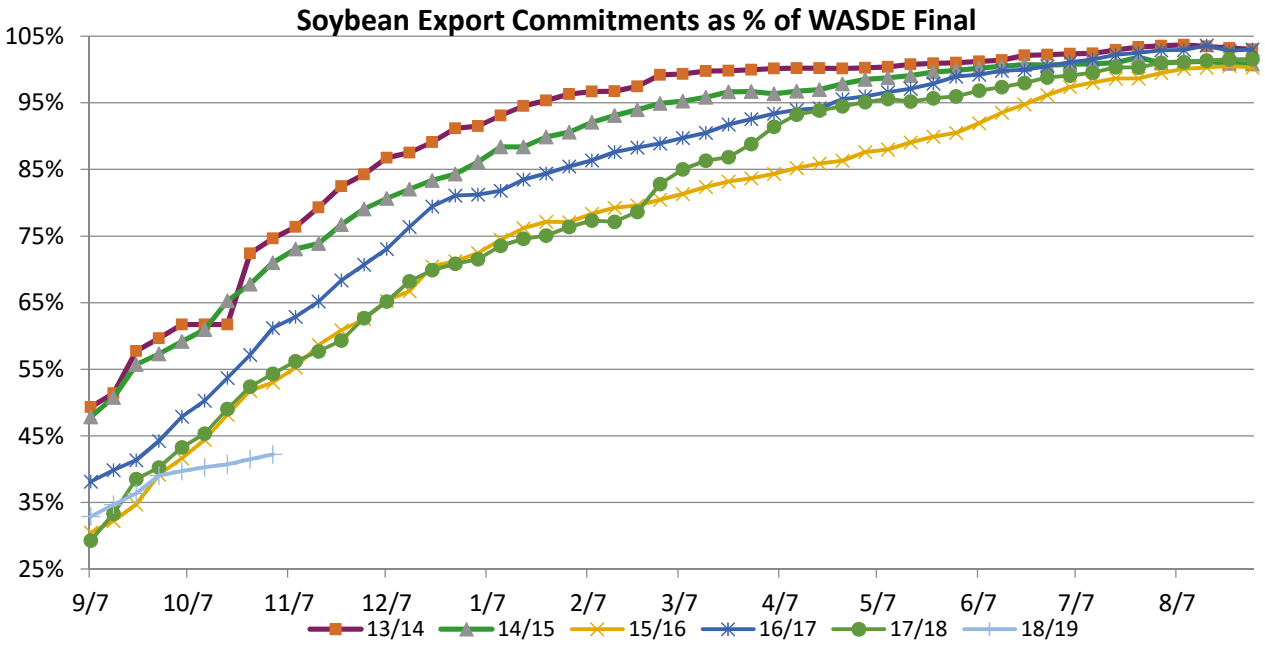


It doesn't appear there are any major changes to the forecast this morning. We're still looking at big rains across a widespread portion of Brazil over the next two weeks. Argentina has seen some big showers over the past several days, and there will be some additional big rains favoring eastern areas later this week. However, a lot of the region should start to see a lessening of rainfall chances over the next 10 days which will be beneficial for wheat harvest and/or corn/soy planting.

The US is looking at cold temps for another week or probably a bit longer. However, in the 11-15 day period the forecast is expected to flip with mostly AN temps expected for a wide portion of the country.

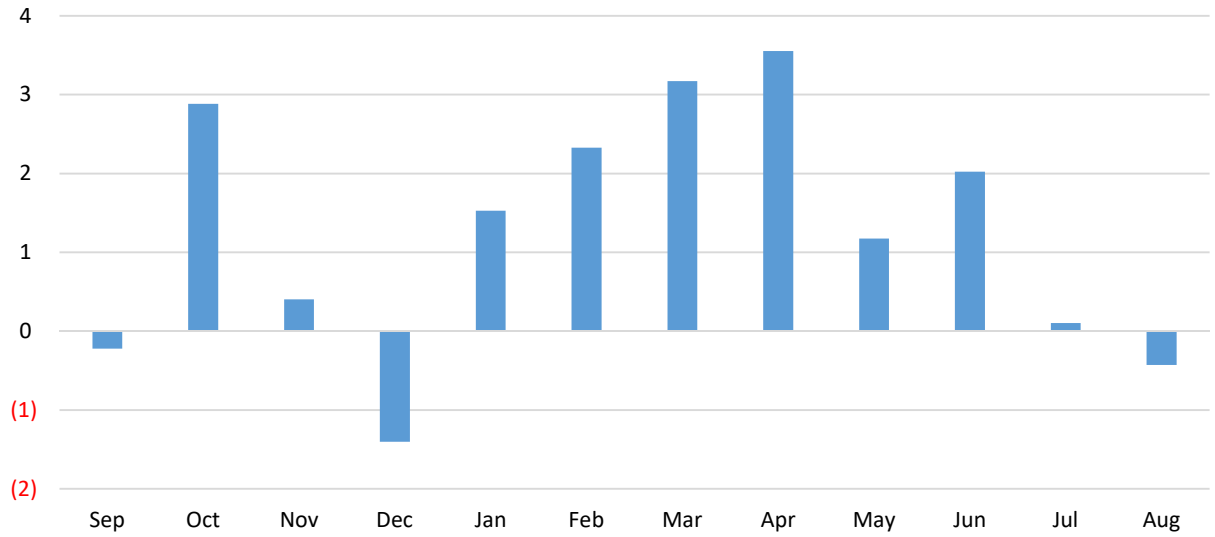
Crops

WASDE lowered their soybean export projection last week, but I just wanted to send a quick note pointing out that they're still waaaaay off. Remember, WASDE *supposedly* is assuming the Chinese tariffs remain in place through the duration of the marketing year. Those guys are either not being honest about that assumption or they are clearly not seeing the same demand picture that I'm seeing. As shown below, US export commitments are running ridiculously behind the normal pace at this time of year.



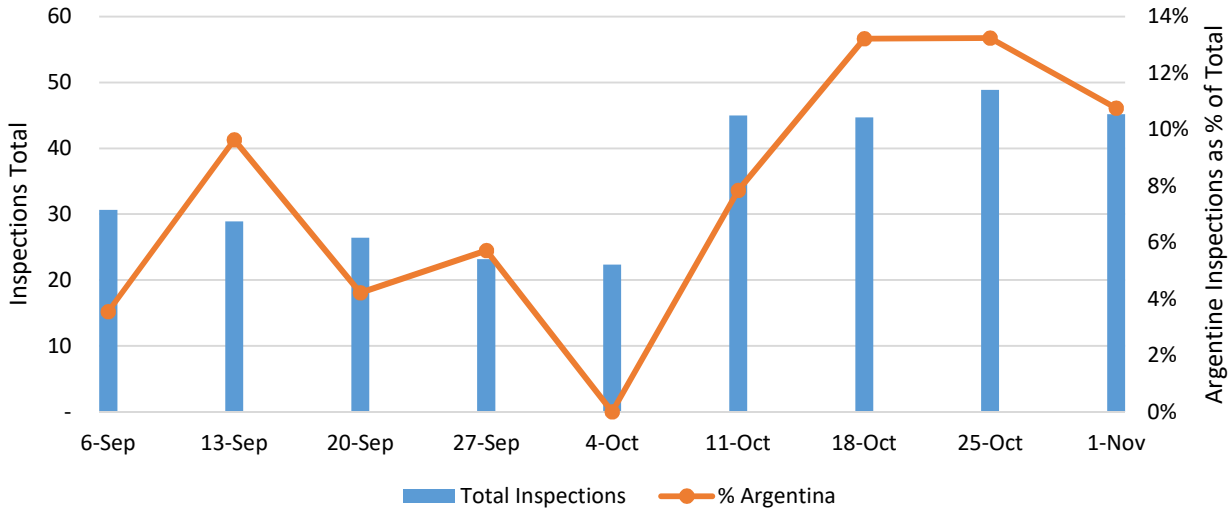
Also keep in mind that South America will probably have a sharp YOY increase in production combined with probable early harvest in Brazil that should mean a big shift in exportable supplies this year.

Projected YOY Change in Brazil & Argentine Soybean Exports



And here is one more interesting thing to keep in mind, especially ahead of today's export inspections report. There has been some "optimism" about weekly inspections totals recently as they have been averaging 40 mb or more lately. That isn't good for this time of year, but for some reason some analysts claim it is better than expected. Anyway, note that at the same time that shipments to Argentina have been making up 10% or so of the weekly shipments. How long can we count on Argentina to account for 10% of our export book? Maybe through early January? At that point they'll start to be counting on new crop supplies of their own and then that chapter in US export demand will end.

US Soybean Export Inspections - 18/19 MYTD
Recent Surge In Shipments to Argentina



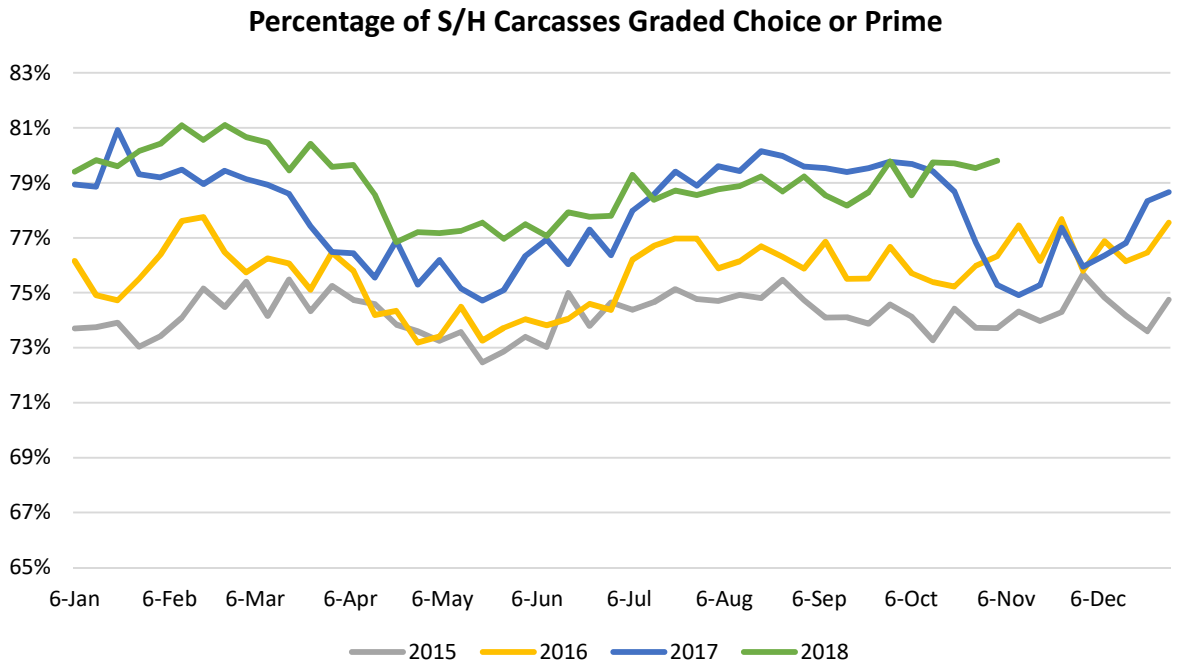
China is still completely absent and the demand from Argentina is on borrowed time. Supposed demand from Brazil never materialized as they seem to keep finding soybeans to sell/crush. Continue to bet the under vs. the WASDE export guess. Yes, I know US-China teams are "talking"…we'll see if anything yields results. While I am skeptical, I'd be lying if I said I had any confidence I knew what the outcome of this G-20 meeting will be.

At some point in the near future we need to talk about this giant crush projection of WASDE's…I'm starting to have some doubts….

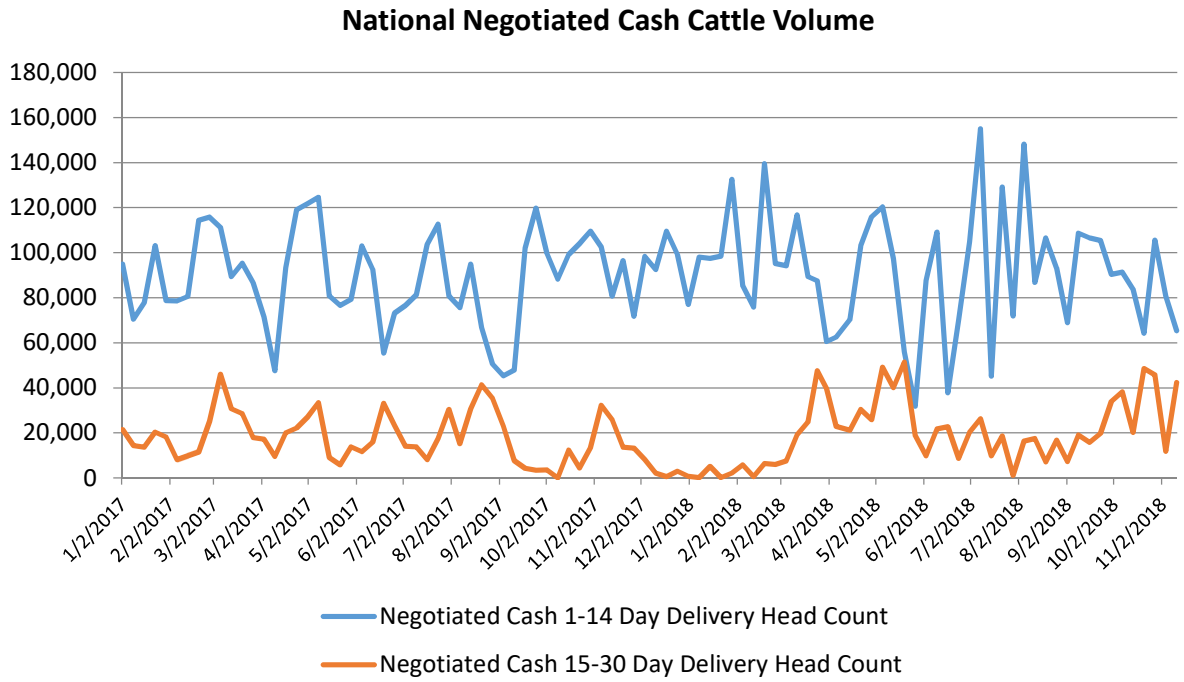
Livestock

The early start for the cattle kill was slowed a bit due to poor weather in some portions of TX and surrounding areas. It would seem probable that the packers will be able to make up for this later in the week, but we'll see. Early calls from most I read continue to look for firmer cash trade this week, but confidence took a hit last week.

While this won't necessarily influence price action here, I find the strong grading levels reported yesterday interesting. The chart below shows the total percentage that grades choice or prime, and while not a record high it is historically large. The total percentage that graded prime by itself *was* a record high.



Nothing major stood out in the MPR numbers yesterday. MPR volume last week was nothing special but up a little from the prior week. The only thing that might be worth mentioning is a decent week of forward sales, as shown below. Forward activity was not necessarily a new high for the year or anything, but certainly a bit above average.



Financials

We've got another quiet day of economic data, but we have several Fed speakers making the rounds today. MN Fed Pres Kashkari, Fed Gov Brainard, and Philly Fed Pres Harker all speak today. Expectations for a December rate hike have been pretty flat lately, with fed funds currently pricing in about a 75% chance of a hike. My personal bias is that the rate hike is on and Fed officials will gradually talk those expectations higher. Of course that might not happen today as Kashkari is an extremely vocal dove. Not many earnings reports today either, but HD and TSN will get some attention.

US equity futures are bouncing in part on news that high-level government officials from both the US and China are taking parts in trade talks. The word overnight is that Mnuchin and Chinese Vice Premier Liu He have resumed talks. I find it interesting that the market is so excited to hear Mnuchin is involved again considering he was so publicly shown to not be the voice of the administration on these matters in May. Nonetheless, the market seemingly views any dialogue as good news and is rallying sharply this morning. The ES chart is showing a very interesting *potential* H&S here, as shown below. I would fully expect a test of the "neckline" near the 2800 area and from there we'll just have to wait and see. The chart follows on the next page…

Energy

The weekend's OPEC trial balloon for lower production in 2019 didn't seem to have the staying power they were hoping for. Soon after that news hit, President Trump fired back with his on tweet insisting the group not reduce oil production, and oil futures tumbled. Futures are getting spanked again this morning, marking what could be a 12th consecutive session lower and Bloomberg tells me that would be a record stretch of losses. Nothing new here though…non-OPEC production is increasing (especially in the US) and waivers for Iranian crude oil lessen the impact of sanctions (for now). Specs continue to pull the rip cord on what is left of their length. We'll see if the Saudis think they can go against the wishes of President Trump here. I'm wondering if the Saudis thought they could start to tighten production as soon as midterm elections were out of the way and are now a bit surprised by his reaction? It probably rests on the Russians…the Saudis likely know it will prove counter-productive unless the Russians are on board.

NG futures are sharply higher in response to the cold weather hitting the US. Spot NG futures briefly breached the $4 level for the first time since 2014. As we have pointed out before, natural gas storage is at its lowest level in at least the past 5 years heading into the seasonal drawdown.

Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Treasury Monthly Budget Statement – 1:00pm
- Crop Progress – 3:00pm
- Several Fed speakers

Thanks for reading.

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