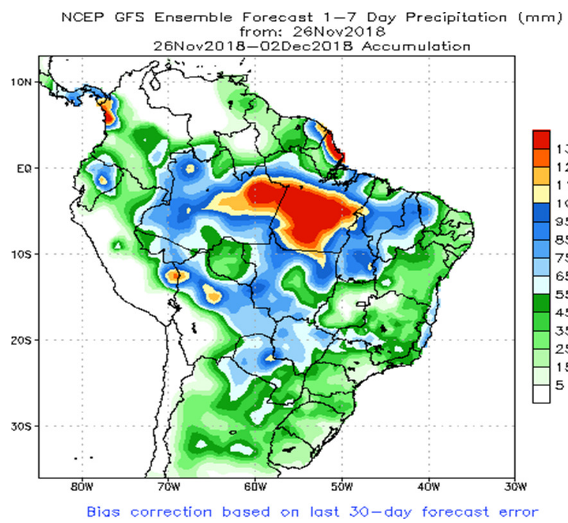
Weather



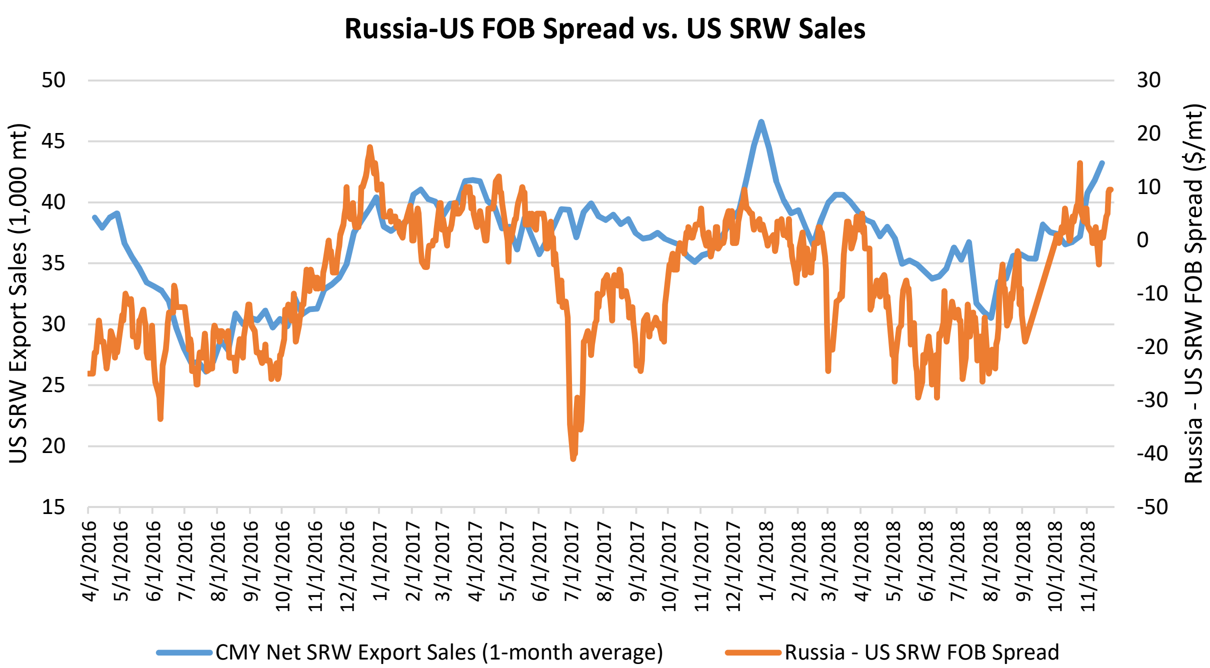
No significant changes to the forecast this morning. Northern Brazil will continue to see AN precipitation chances over the next two weeks. Rainfall totals during this period should range from 5-8" in much of the area with some locally heavier totals possible. Southern portions of the country will see rainfall run near to slightly above normal, with two week totals probably averaging between 2-4". No abnormal heat is expected.

In Argentina, two week rainfall totals should run near to below normal with amounts averaging 1-2" with some locally heavier amounts possible. No major heat is expected during the next two weeks.

Crops

I sat down to write today thinking I'd cover more about the Ukraine-Russia conflict and it's potential impact on US wheat prices. I quickly realized there is little value I can add on the subject. Much like the case in soybeans concerning the US-China trade dispute, we're simply at the whims of politicians and headlines. There isn't much I can add there, except to reiterate what I said yesterday about not being naked short calls in this environment.

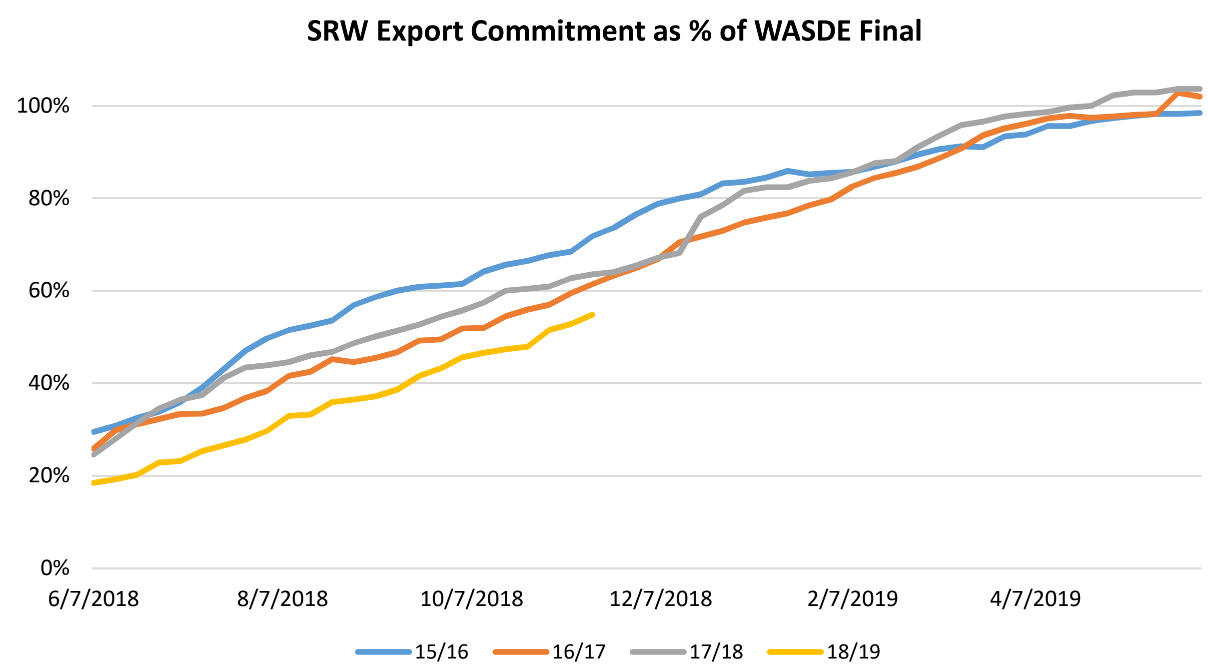
I did look at the current price spreads between US and Russian values and find some items worth mentioning. I found the chart below of interest. The orange line shows the spread between Russian FOB (Novorossijsk) and US Gulf SRW FOB. The blue line shows CMY net sales of US SRW from the weekly export sales report, but I'm using a 1-month average to try to tame down some of the volatility.



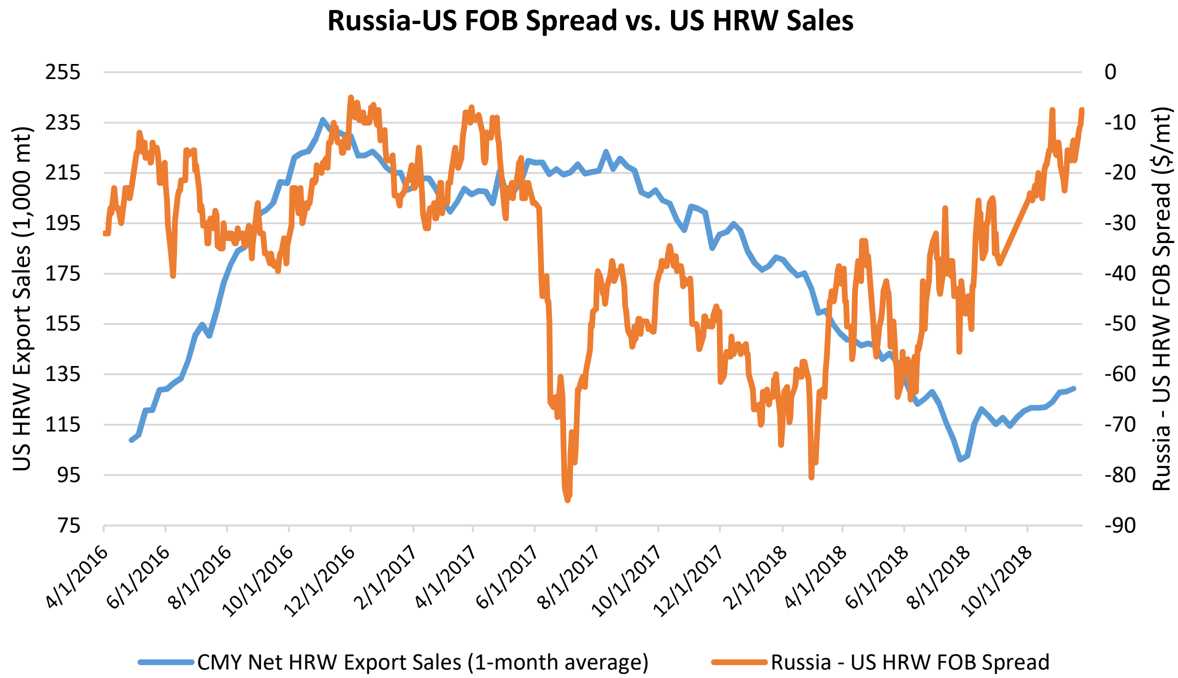
A few observations here:

- Russian FOB values are a premium to US SRW again and over the past few years you can see this is a rare circumstance.
- There is a general tendency for US SRW sales to perform better when the spread vs. Russia is narrow or especially when US is a discount. That probably seems like an obvious statement, but hey….

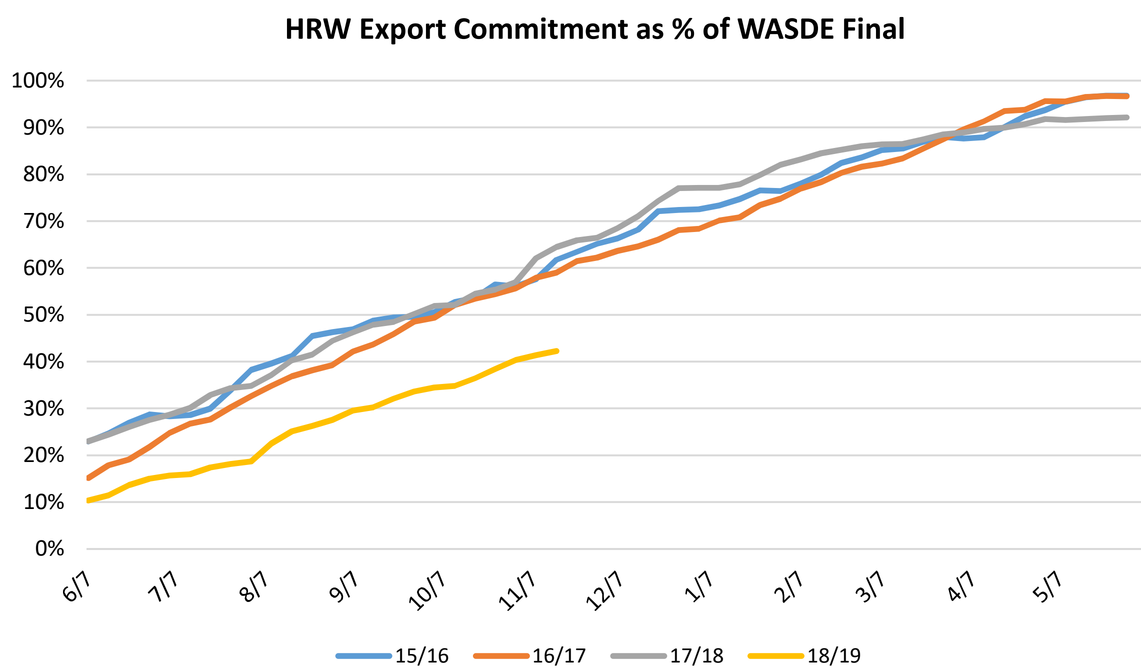
Is there any reason to suspect that the current premium that Russian wheat values hold over US SRW will reverse over the next few months? Based on what we know about concerns in the government over the pace of exports and reports on YOY reductions in Russian wheat storage, I'd guess probably not. That "should" continue to support US SRW sales. Before you get too excited, remember WASDE is already baking this into their current projection. I can't get excited about upside potential to the WASDE projection until we catch up to a more "normal" pace of commitments.



What might make things more interesting is if HRW ever start to pick up. I've got a chart below showing the same relationship between Russian and US HRW values and HRW sales below. You can see there is less obvious tendency between the two as what we saw with SRW, yet still this would seemingly argue that HRW could start to find some better footing in the export market. IF HRW sales start to pick up, it might make the wheat market a bit more interesting.

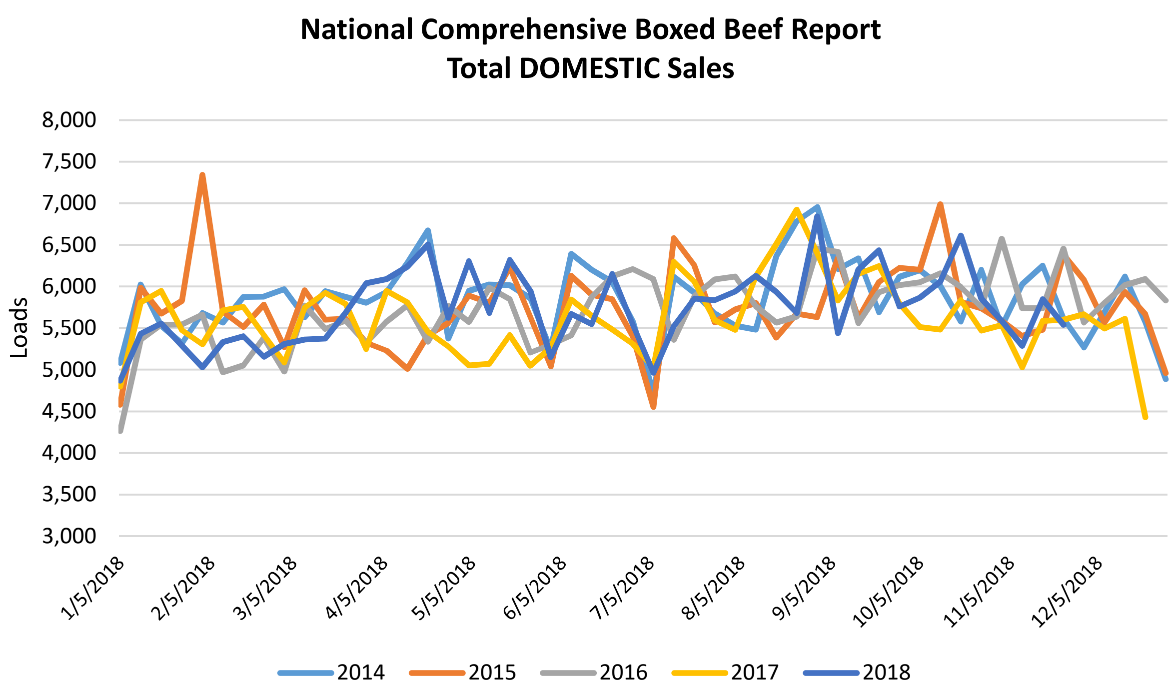


Again, I would still caution that some degree of improvement is already baked into the WASDE numbers.



Livestock

Nothing major stood out to me in the weekly official data from USDA yesterday. The MPR figures were inline with what we were expecting. As shown below, total domestic beef loads last week were nothing special, but I would simply chalk that up to week-to-week volatility in the numbers.



Otherwise, I have nothing new here this morning. Early calls for cash trade this week are steady/higher as packer margins have made back some lost ground over the past week or so.

Financials

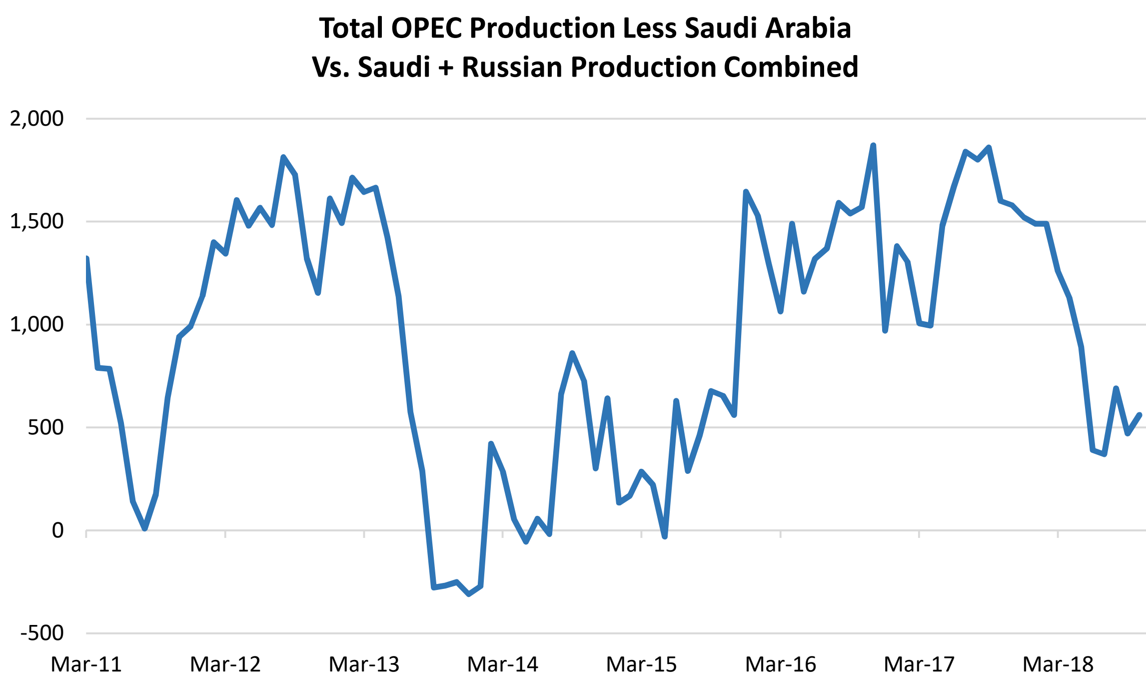
I don't see any major new information to pass along this morning. US equity futures are lower at the time of writing after the WSJ story late yesterday suggesting President Trump is already planning to go ahead with additional tariffs on Chinese goods starting in 2019. The story suggested that Trump did not feel overly confident a deal could be won this weekend. Unfortunately, there will be a lot more of these headlines throughout the week and you just don't know what angle they'll take. It should make for choppy and irrational price action.

Expectations for a December rate hike have crept back slightly higher over the past week. On tap today we have four different Fed officials speaking, and these members run the gamut from dovish to hawkish. I would expect the market to eventually settle in on very high odds of the December rate hike, but the outlook for 2019 is wide open. If my math is right, it looks like Fed Funds futures are pricing in odds of more than 2 rate hikes in 2019 at only ~10%. If that is correct, it would seem to me the risk of the market being wrong right now is there are more rate hikes than fewer.

Energy

US crude oil futures are basically unchanged at the time of writing this morning. The ongoing question is whether or not OPEC will cut production at their official meeting on Dec 6. Of course before we get there, we've got a meeting between Russian and Saudi officials at the G20 this weekend which could be interesting. I still lean towards the idea that OPEC will indicate an "official" cut, but that the Saudis will cut from current record levels meaning, in the grand scheme of things, the cuts won't amount to a lot. We'll see.

This isn't necessarily ground breaking information, but I found it interesting. I wanted to look at combined Russian and Saudi oil production vs. the rest of OPEC (less Saudi Arabia). It is charted below. Combined OPEC production, less Saudi output, is just barely bigger than combined Saudi and Russian production. This should give these two oil giants much more clout in determining market policy. The last time these two were larger than the combined sum of the remainder of OPEC was in 2013, when WTI was trading over $100/bbl.



Today's Calendar (all times Central)

- Consumer Confidence – 9:00am
- Several Fed speakers during the session

Thanks for reading.

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