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Monday, December 3, 2018
NTG Morning Comments
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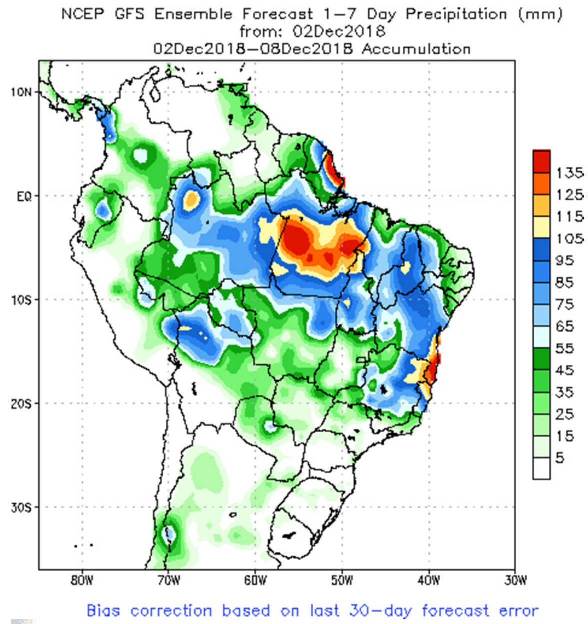
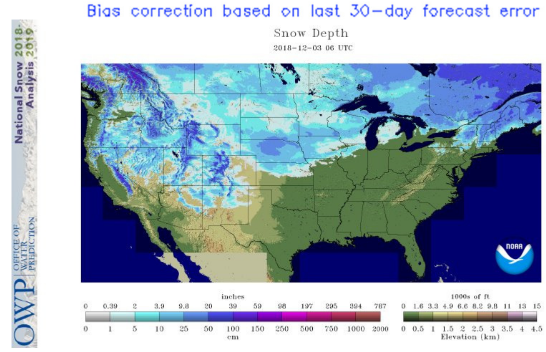
Weather



Rainfall in northern Brazil will average above normal over the next two weeks. We should see two week totals range between 3-7" for the region, with the biggest share of those rains falling in the current 1-5 day period. Rainfall totals should subside a bit in the 6-10 day period and will actually probably average below normal in the 11-15 day period. Rainfall totals in southern Brazil should be pretty minimal over the next 10 days, but model agreement is very strong that the region should see an excellent pick-up in precipitation chances starting in the 11-15 day period. That period should feature widespread AN precipitation totals. Look for temps to be fairly mild and southern areas should see quite a bit of BN readings at times.



Two week rainfall totals in Argentina should run near to below normal in the main growing areas. For the next week, look for very little or no rainfall anywhere in the region. Any rainfall that is seen will be in far western areas. Later in the 6-10 day period and through the 11-15 day period we should see a return of excellent rainfall chances through the heart of the region with especially good amounts for the northern half of the main growing area. No heat in the forecast and we'll instead see several instances of BN temps over the next two weeks.

As expected we saw big snowfall totals during the weekend stretching from SD/NE into WI. Look for mostly dry conditions in the US Plains through Thursday, with some precipitation returning for Fri/Sat. We will see chances for snow in the area stretching from the TX Panhandle and southern KS through southern MO and further east. Snowfall accumulation looks like it could range from 2-8" in the area. Generally speaking the US is looking at a lot of BN temps through the next 10 days, but the 11-15 day timeframe could see warmer conditions develop favoring the eastern half of the country.

Crops

Obviously the trade headlines from this weekend are the key to price action here today. I'm fully expecting more headline risk today and over the next few days as official "clarify" their comments and respond to questioning on the matter. Here are a few of my unanswered questions, and if you've got any feedback I'd love to hear it.

1) I know the US statement said the Chinese will buy US agricultural products "immediately", but has the 25% tariff on soybeans and other products actually been removed?
    - Hearing from *multiple* sources *inside* China, it seems everyone is still in the dark on this. Nobody in the commercial space seems to know what is happening yet from what I can understand,

however, there are some saying that prior tariffs remain in place from both the US and Chinese side. They imply the deal only halts new tariffs from going into effect, meaning the 25% tariff on US soybeans would, in theory, still be in place. IF that is correct, then it would leave probably only Sinograin and COFCO available to immediately purchase US soybeans for state reserves. Please note, I'm not entirely sure if that is accurate or not…like I said, there are still more questions than answers here.

2) Let's assume for a moment that China *does* end the current 25% tariff on US soybean imports. If you're a Chinese private crusher, how aggressive do you really want to be with US soybean purchases knowing the door could slam shut again soon?
    - Remember, we've pointed out that Chinese meal prices and crush margins have already started to sag. Import arrivals never dropped off to the degree we originally expected as Brazil kept finding soybeans to ship. And, on top of that, South American new crop production prospects look bright (for now) and Brazil's new crop should come off earlier than usual. Do you really want to take US beans right now or do you wait for South American cash markets to soften further (so long as weather is cooperative)? Feb Brazil is now at parity vs. US without tariffs, and March forward is cheaper. If I'm the Chinese crusher, I think I'm still focusing my attention down south.
3) Will WASDE change their soybean export projection based on this "deal" alone?
    - WASDE has stated their 1,900 mb export projection assumes zero exports to China for the remainder of the marketing year. I've pointed out countless times why that is an absurd belief, but it is what it is. If we're going to assume this means business as usual going forward, then we should plug in *something* for China. Will WASDE make that move as early as this month? Or does WASDE stay where they are until there is some further clarification?
4) Will we start to see some analysts change their projections on 2019 acreage?
    - I've already seen a reference to a smaller increase in corn area by one well-known analyst already. If you've been reading me recently, you know I was never that "bullish" towards an increase in corn area to begin with, but this might be worth keeping an eye on going forward.

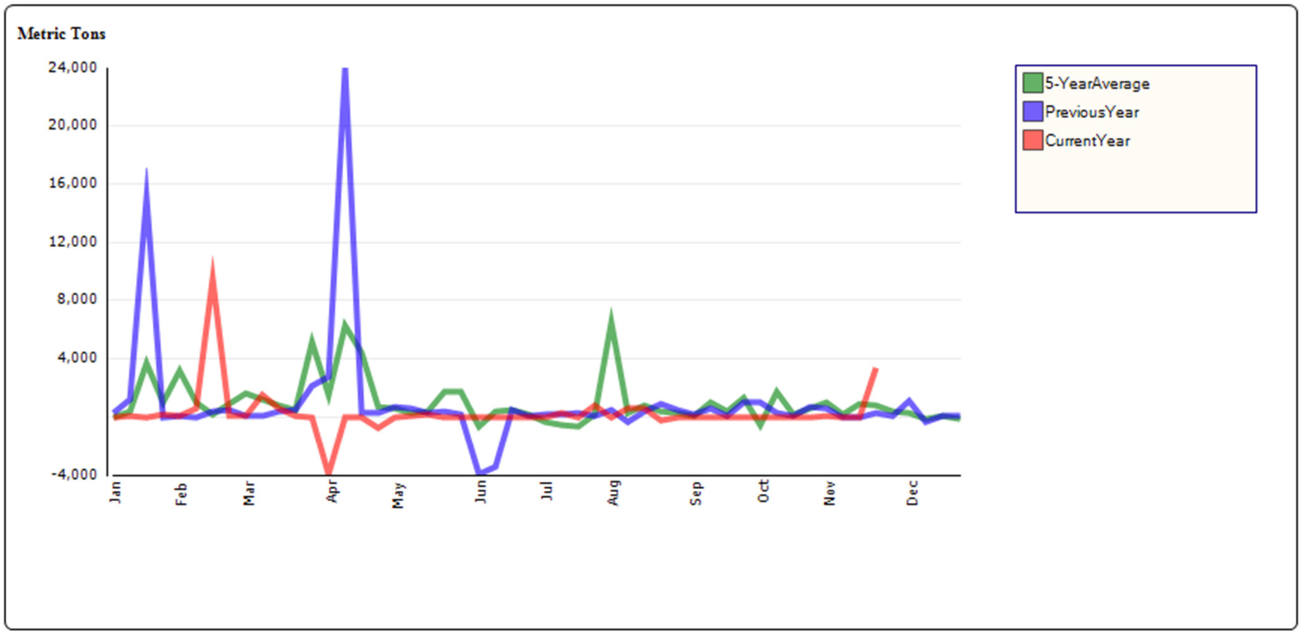
I'm sure I'll think of other questions in addition to these. If you have questions, let me know. I certainly don't pretend to have any answers, but maybe we can work through things together.

One thing I thought about last night while watching the markets….Trump, Kudlow, & Co haven't really had to address the media directly about any of this yet. They've made a few passing remarks but no "true" questioning yet. That still leaves us open for a lot of "headline bingo" this week.

Livestock

Look for a similar reaction to the trade "deal" in the livestock sector as we've seen in grain markets overnight. The market will be quick to price in additional Chinese pork demand. Last week hog futures rallied on the first significant Chinese pork purchase in quite some time shown in the US export sales report (chart below). As stated in the grain commentary above, I still feel there are more questions than answers regarding potential US-China trade. Still, the combination of the actual sale last week and the hope for the future should be more than enough to lift prices today.

Net Sales - CHINA, PEOPLES REPUBLIC OF
Fresh, Chilled, or Frozen Muscle Cuts of Pork
Selected Year: 2018 as of 11/22/2018



12/3/2018 Source: USDA/FAS/Export Sales Reporting

Aside from the trade "deal", cattle futures should be supported by some strong late-day cash trade on Friday. From what I have heard, it sounds like 118 trade some cattle from north to south late Friday, though I'll admit I don't get a good feel for what sort of volume traded. We'll just have to wait and see for today's MPR update for further details I guess.

Financials

Obviously world equity markets are cheering the trade "deal" overnight. One interesting thing reported this morning is that QCOM considers the NXP purchase dead, despite the mention of the deal being approved if it were brought up again. QCOM has already had to pay massive termination fees for the lack of a deal, and they've also done stock buy-backs. It sounds like they've already moved on, so if President Trump somehow thought this was a "win", it doesn't appear that QCOM is backing him up for now.

Interesting PMI data from Europe overnight, though it is completely overshadowed by the "deal" euphoria. Italy showed miserable manufacturing PMI, indicating that the negative GDP shown in Q3 could continue into Q4, leading to the technical definition of a recession there. French manufacturing PMI fell to its lowest since Sep '16 and German manf PMI fell to a 31-month low. To put things in perspective, Greece had the fourth highest manf PMI in the Eurozone coming in above Spain, Germany, France, and Italy. Not especially rosey numbers, but nobody cares today. Note that Italian bond yields are lower this morning as the government is reportedly preparing to cave in to EU demands on the deficit target (though we've heard this before, too).

The dollar is weaker this morning due to the trade "deal", and we warned last week that the market was leaning very long the dollar. I won't bother reproducing the chart again this morning, but it is little changed from what I presented last week. The combination of trade "deal" euphoria and a supposedly less-hawkish Fed could certainly weigh on the dollar as it might encourage some unwinding of those long positions.

Energy

Crude oil futures are caught up in the risk-on enthusiasm this morning, but oil-related headlines from over the weekend don't seem especially exciting to me. This morning we're learning that Qatar is leaving OPEC. While other countries have come and gone from OPEC, Qatar would be the first Middle Eastern country to leave the group. Qatar is a small producer in the scheme of things within OPEC, but they're leaving the group to focus on expanding their production capacity. This is largely tied to LNG production, but they clearly don't want to have to cut their oil production at this point either. The Saudi-Qatari political problems certainly doesn't help either.

Also over the weekend we've learned that the Russians and Saudis have agreed to continue to work together on oil supplies into 2019. This comes after Putin met with MBS at the G-20. The two sides have *not* confirmed any output cuts as of yet, likely waiting for the next official OPEC meeting later this week (will Qatar vote for an output cut for everyone else on their way out the door?). OPEC's current president said over the weekend he was optimistic a deal will be reached to cut production for 2019 when they meet later.

I'm also reading that the government plan to cut production in Alberta, Canada is supportive to futures…but Alberta oil is trading so far below the board I have to laugh a bit when that is cited as a friendly development. The Canadian government is giving a lesson in supply mismanagement with their decisions here. The glut in Albertan oil supplies is due entirely to the fact that the government won't act on pipelines that will get the oil out, so now they're forcing producers to limit production (though admittedly some producers have asked for this).

Today's Calendar (all times Central)

- ISM Manufacturing Index – 9:00am
- Export Inspections – 10:00am
- Grain Crushing, Fats & Oils – 2:00pm
- Several Fed speakers throughout the day

Thanks for reading.

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