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Tuesday, January 22, 2019
NTG Morning Comments
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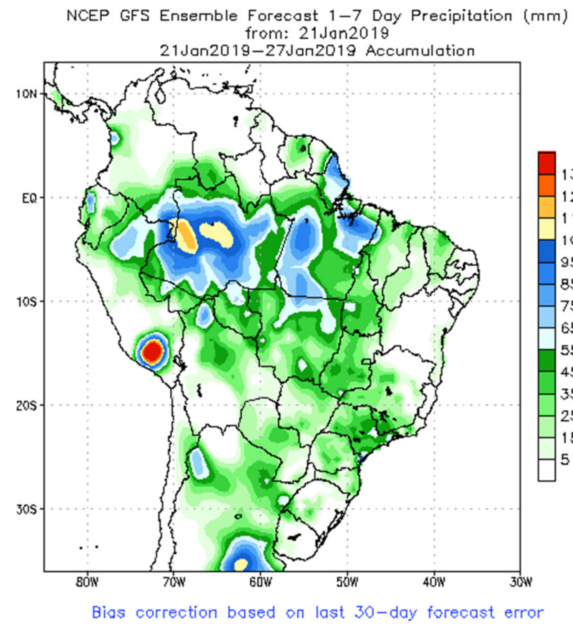
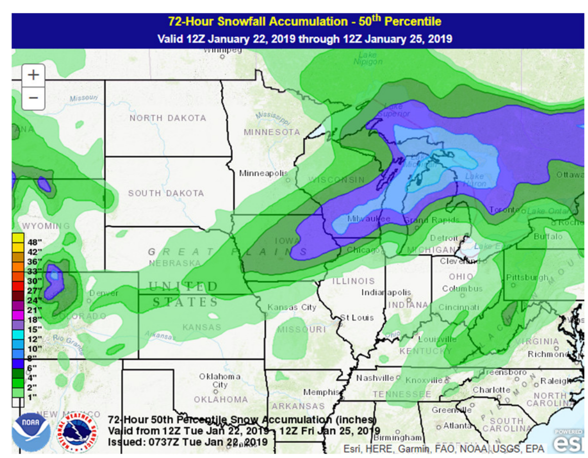
Weather



Once again, no major changes to the South American forecast. The pattern remains locked in place. Northern Brazil will see BN precipitation over the next two weeks. Two week rainfall totals will range from 2-4". Southern Brazil will see rainfall average mostly BN as well with two week rainfall totals of 2-4" in most areas but 1-2% in RGDS and Paraguay (this is actually slightly drier in RGDS than Friday). Argentina should see rainfall totals run mostly AN during the next two weeks. Rainfall totals during this period should range from 3-6". Rainfall will return to the region tonight and we should see daily chances for showers for the remainder of the 10-day period. No major heat is expected in Argentina, but highs will reach the 90s at times.



As shown to the right we've got a snow event expected to move through the Plains & Corn Belt this week. Most of what is shown to the right is expected to fall in the next 24 hours. Beyond that, no truly organized systems are expected to impact the US so precipitation chances are minimal outside of the extreme north/northeast. Temps should remain BN for a majority of the country through at least the next 10 days. We should see some modest warming during the 11-15 day period in the southwest while the northeast likely remains cold during that period.

Crops

We've all heard the stories and talk that China is on the verge of promising big purchases of US products. On Friday the article from Bloomberg said "*by increasing annual goods imports from the US by a combined value of more than $1 trillion*". In other articles, we've read specific references to China buying $30-35B in US ag products. After discussions this weekend, I wondered if anyone had truly done the math to see what $35B might actually buy?

Let's start with soybeans of course. The biggest year of US exports to China was probably the 16/17 marketing year when we shipped roughly 1,300 mil bu or roughly 35 mmt. So let's assume that China decides they want to take <u>55 mmt</u> on an annual basis from the US. Let's assume that prices rally 5% from current levels due to this level of purchasing. The current FOB prices from USG is roughly $348/mt.

$348/mt x 5% x 55 mmt = $20 billion.

Now let's look at corn. Their current WTO requirements should imply they take about 7 mmt a year if they were actually sticking to their requirements. Let's round that up to an even 10 mmt and assume it all comes from the US. The current FOB price for USG corn is roughly $170/mt.

$170/mt x 5% x 10 mmt = $1.8 billion

Ok, now wheat. China is only a marginable wheat importer at present but again if we're looking at WTO "requirements" one could argue they could be pushed to import up to 10 mmt of wheat as well. FOB PNW white wheat is roughly $240/mt.

$240/mt * 5% * 10 mmt = $2.5 billion

DDGs would also likely be a source of exports to China in this environment. I have no idea what sort of volume we could be looking at, so let's just assume 10 mmt again here. I'm showing FOB USG DDG prices at roughly $212/mt.

$212/mt * 5% * 10 mmt = $2.2 billion

And lastly, what about ethanol? Again, no idea on what sort of import volume we could be looking at here but let's make a guess. China's National Bureau of Statistics showed total gasoline consumption in 2016 to be 120 mmt. We also know they can domestically produce close to a 3% ethanol blend at present. To make up that remaining amount, one could speculate China would need about 8 mmt of ethanol imports. I show a rough estimate for USG FOB ethanol at $470/mt.

$470/mt * 5% * 8 mmt = $4 billion

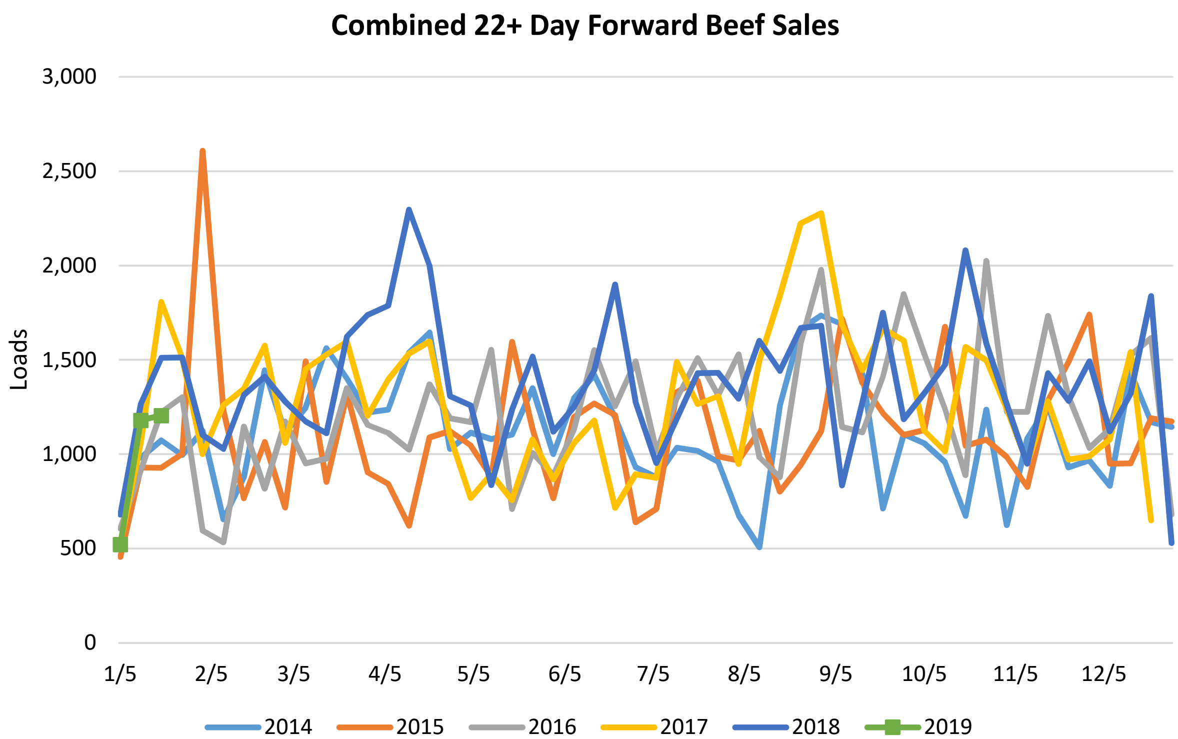
Add all of the numbers up and you get right at $30B. Now of course I haven't included anything for freight in these figures, though maybe we can count that in the 5% mark-up. Still, this shows that the numbers being tossed around, at times, are certainly feasible…at least in terms of US supplies. Especially if it causes prices rallies beyond the 5% assumed here.

If you asked me to guess which of the above would have the least impact on our domestic balance sheet – I would say soybeans believe it or not. The 55 mmt would equal roughly 2,020 mil bu. Add ~250 mil bu for exports to the remainder of the Western Hemisphere and assume Brazil gets the rest of Asia and Europe and we're not looking at "explosive" export totals.

Thoughts appreciated.

Livestock

Nothing particularly new to report this morning. Yesterday's release on MPR volume showed cash volume last week was once again nothing huge but once again within a "normal" range thanks again to a big pull on formula cattle. Negotiated trade only represented roughly 18% of the weekly volume which is on the low side of the recent range. Nothing major to report from the weekly comprehensive beef report either. Total loads of beef were under year ago levels but nothing that really stood out. The sales for 22+ days forward was maybe a bit light and perhaps something worth keeping an eye on…but also within the range seen the past few years.

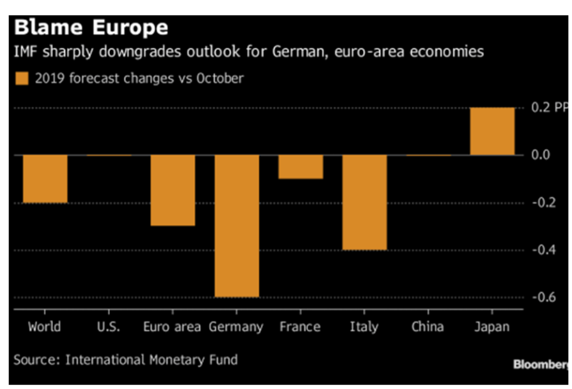


Financials

Nothing new to report on the government shutdown as we enter Day 32. Both parties appear to be set to introduce legislation to end the shutdown, but in each case the other party has already vowed to vote against the measures. Business as usual…

The "World Economic Forum" at Davos will likely dominate headlines on CNBC, Bloomberg, and the other usual business media outlets. I'm not sure why this is dominates headlines. For a more sarcastic take on Davos, I recommend following @TheDavosMan on Twitter.

World equity markets and US futures are weaker at the time of writing this morning, though there doesn't truly appear to be any one catalyst this morning. There were some soft data out of Europe this morning (German ZEW was weak) so that is one issue. We also have the story floating that the US is indeed looking to extradite the Huawei CFO currently under house arrest in Canada (not sure why that comes as any surprise?) which perhaps raises concerns over ongoing trade negotiations. Brexit remains a muddied mess. The IMF cut its forecast for



global economic growth for 2019, now calling for 3.5% growth vs. 3.7% previously (2018 was also estimated at 3.7%). You can see on the chart above that a big portion of the IMF's cuts (relative to their prior estimates) were focused in Europe.

Energy

Nothing new to report this morning. The Saudi oil minister has apparently decided that he will not be attending Davos, so that means less chance for meaningful oil-related headlines from the event. Otherwise, crude oil once again seems to be caught up in the risk-on/off blob this morning, and with equities lower that means crude oil weaker. The chart below shows CL price action compared to ES futures since the start of the year. The two markets have been completely tied to each other.

Today's Calendar (all times Central)

- Existing Home Sales – 9:00am
- Export Inspections – 10:00am

Thanks for reading.

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