

## Weather

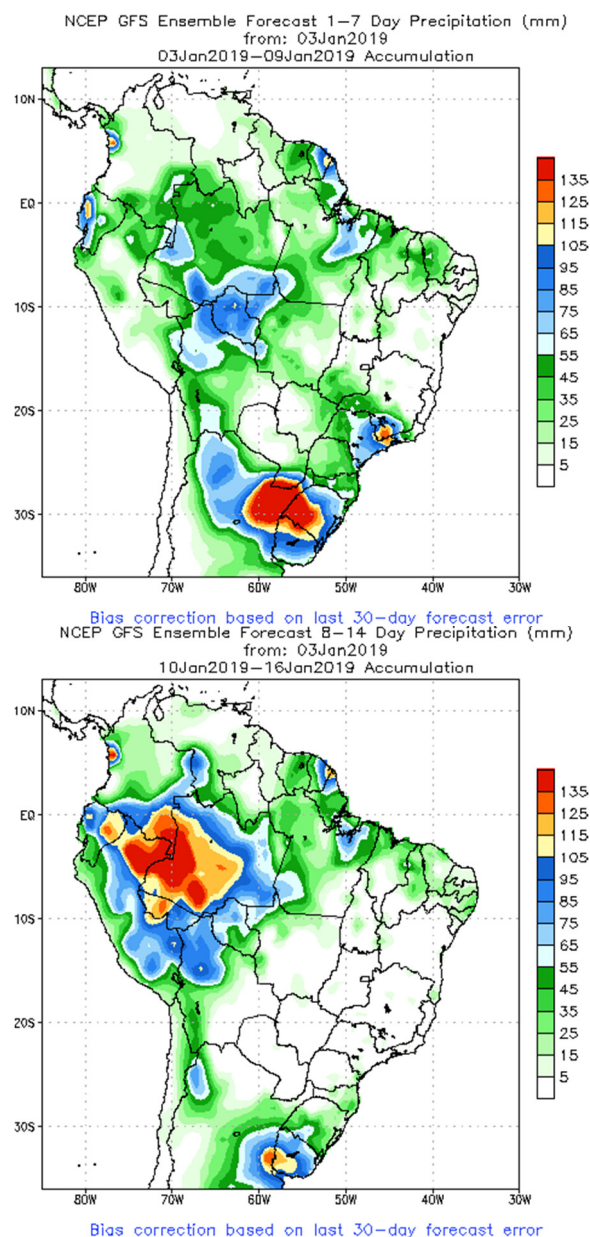
Rainfall through northern Brazil is expected to average mostly below normal over the next two weeks. Two week totals will mostly range from 2-4" though Minas Gerais, Bahia, and points to the northeast will see less. There will be scattered showers and thunderstorms today through the weekend. Amounts won't be huge, but we should see some "decent" totals in spots. We should then go through a period of mostly dry conditions through much of next week. Rainfall chances should once again increase into the 11-15 day period with decent amounts but once again probably less than normal. No extreme heat is expected.

Southern Brazil will see AN rainfall totals in RGDS and near normal elsewhere over the next two weeks. Look for two week totals of 2.5-5.0" through the bulk of the area though some parts of RGDS will see bigger amounts. We'll see daily chances for rain through Monday, with a lot of 1-2" totals expected. Rainfall chances will likely continue in RGDS beyond that but in Parana, MGDS and other areas we should see rainfall decline for next week. An increase in rainfall chances is likely at the end of the 6-10 day period and into the 11-15 day period. Temps will at times heat up to the mid 90s, but nothing extreme or long-lasting.

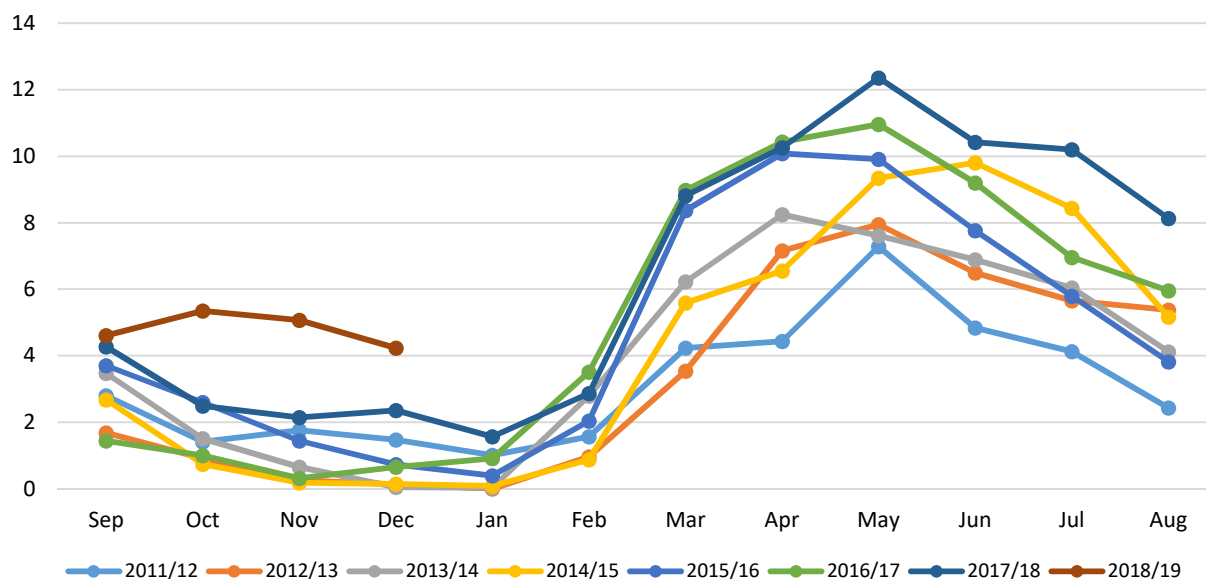
Most of the main growing area in Argentina should see AN rainfall totals over the next two weeks. Look for two week totals of 5-9" through northeastern areas, 2.5-5.0" in central areas and .75-2.5" in southwestern portions of the area. Most of the area is dry today and tomorrow but rains should return on Sunday and we'll likely see a daily threat of rainfall through mid next week if not longer. No big heat will be seen with a lot of highs in the 80s.

## Crops

On Wednesday Brazil reported trade data for December. Though I had been continually raising my estimate for soybean exports out of Brazil during the month, I was still surprised when their official number was reported at 4.2 mmt. That is simply an unheard of December export number out of Brazil. Note the history below...

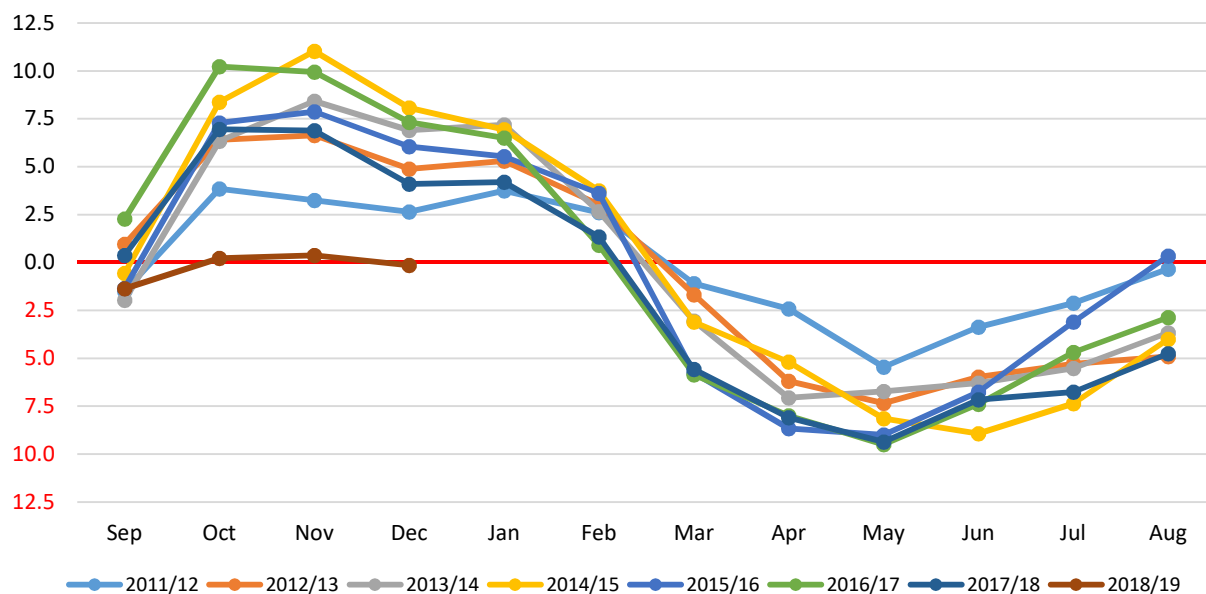


## Brazil Soybean Exports US Marketing Year



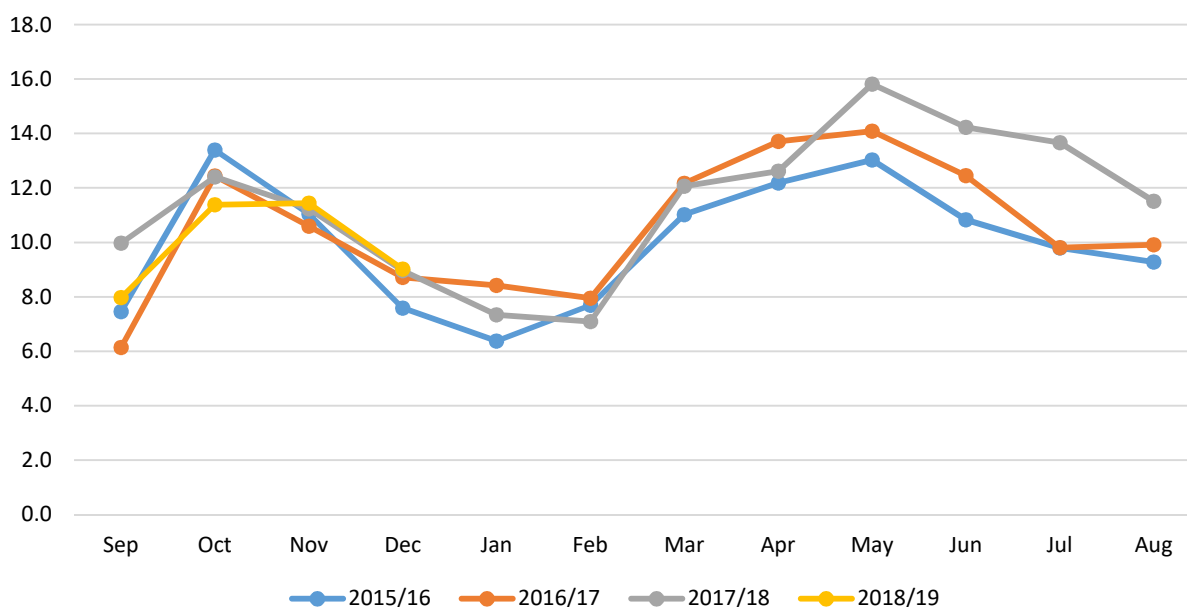
Though we don't have official data on the US for December (or November for that matter) we do have a pretty good idea of what exports will be based on inspections. And, based on what I would project from inspections, I find it interesting to note that Brazilian exports in December might exceed US exports for the first time in recent history. Not bad considering a lot of people were expecting Brazil to be *importing* soybeans by now...

## Net Difference In Monthly Soybean Exports US vs. Brazil



For starters, I think it is interesting to consider that last year's Brazilian crop was likely understated (by a lot?) in the context of the current race everyone seems to be in to lower this year's crop. We'll table that debate for another day, but more important to me today is that the window for "big" US soybean exports is almost closed. Regardless of what you think about Brazil's crop size, the world will be shifting to Brazil for their needs from Feb/Mar forward. There is no "pent up" global demand as we feared there might be, as strong Brazilian shipments have kept total world exports running fairly inline with prior years (see chart below). Chinese cash meal prices are off 20% from their highs in October, hardly indicative of strong demand prospects there.

**Combined "Big 3" Soybean Exports  
 US, Brazil, Argentina**

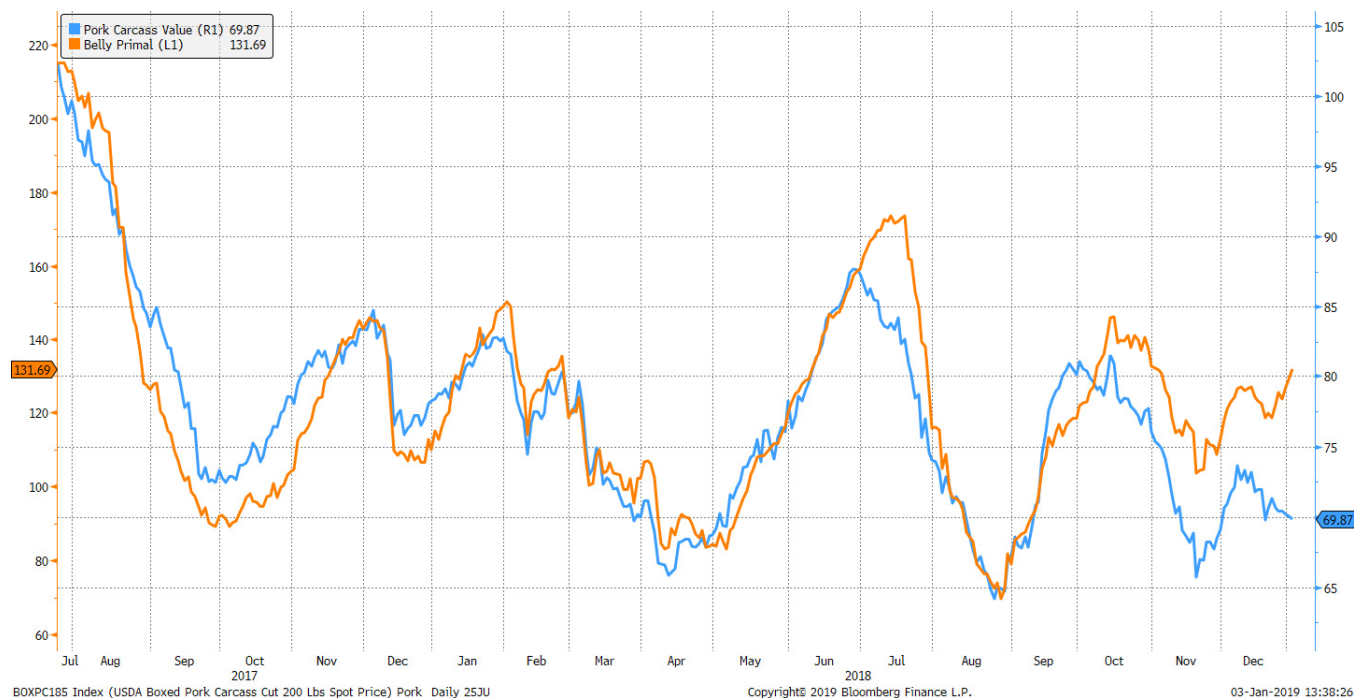


My point this morning is twofold: 1) Brazil has shipped more beans than we thought was possible and 2) Brazil's new crop supplies (regardless, for now, of crop size) will be hitting in the next two months and this should significantly curtail additional US business outside of the Chinese government token demand. On that front, I stand by my comments noting that nothing traded this week (so far) but I do fully expect one more tranche of buying before the US-China talks commence later next week.

## Livestock

In cash cattle trade yesterday, we saw some pretty widespread cash activity at 123 through portions of TX, KS, and NE. I don't have a good feeling for volume, but it doesn't sound like it was huge and packers probably have more to do. Trading 123 is a bit of a disappointment considering everyone was looking for higher trade and that is roughly steady with last week. Still, there is room for further upside with potential cash trade today. If I'm honest, I don't really have a feel for who has the leverage here. On one hand the packer hasn't bought a lot in the past few weeks and margins are still strong. On the other hand, one could perhaps make the argument we've pushed some December cattle into January here. No strong bias myself.

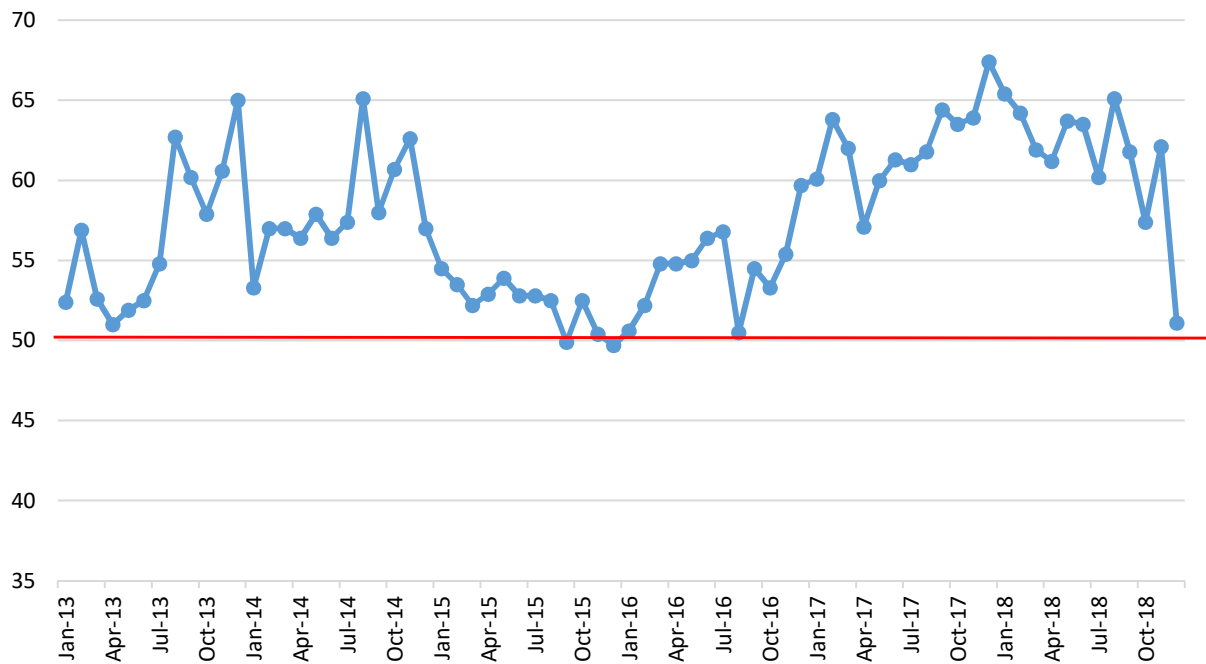
An interesting divergence seems to be developing in pork. The chart below compares the overall pork carcass value vs. the belly primal. You can see they typically trend in the same direction, but notice in the past week or so that bellies have pushed higher while the overall pork carcass value has dropped. In the past such divergences have not lasted long. That leaves me wondering which needs to “correct”, and unfortunately I’m of little help here. Thoughts greatly appreciated.



## Financials

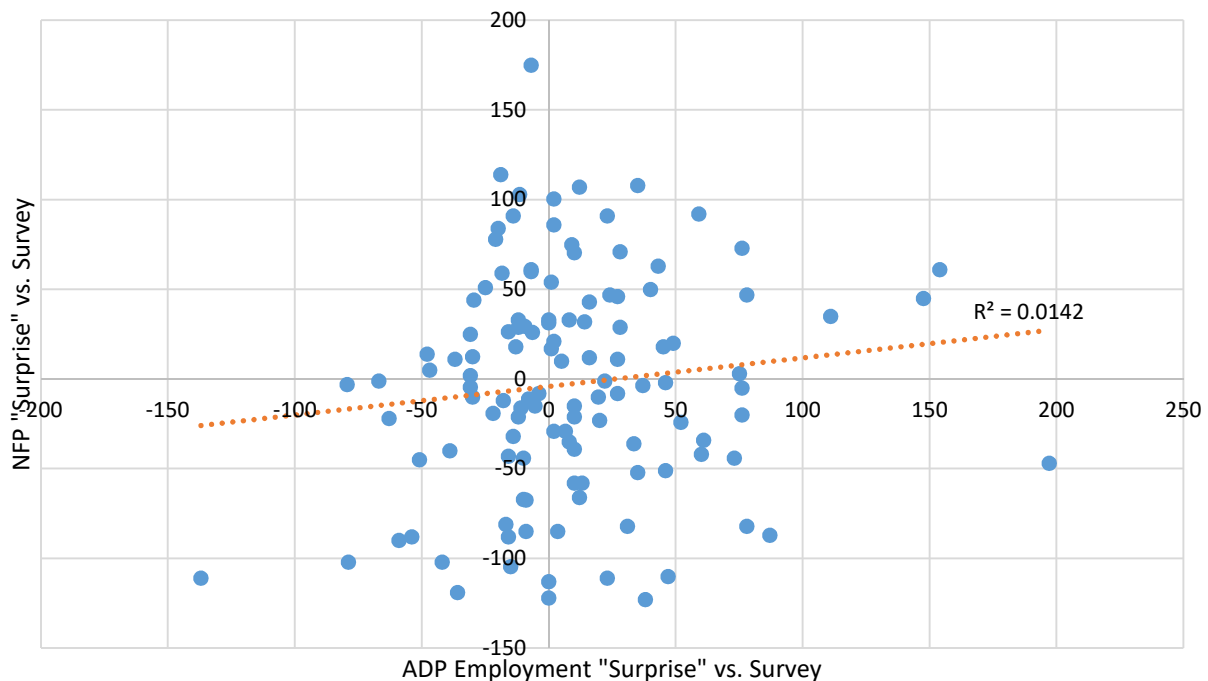
By now you’ve likely heard that yesterday’s ISM manufacturing index was a dud. The index printed 54.1, lower than all estimates in the Bloomberg survey and off sharply from the 57.5 consensus estimate at 59.3 reading in the prior month. The details of the data were not rosey either. ISM said just 11 of 18 industries reported growth in December, the lowest in two years. Below I’ve included a chart of the new orders component of the overall index. New orders fell the most in five years in December, and as you can see they’ve come very close to falling into contraction. Perhaps this is confirmation of what we pointed out yesterday, noting the drop in Chinese PMI vs US durable goods orders.

## ISM Manufacturing Report - New Orders



Yesterday's weak ISM print was certainly what got the most attention, but the ADP employment number earlier in yesterday's session was blowout big. They reported an increase of 271k jobs vs +180k expected. The question this morning is whether or not that means today's NFP will similarly exceed expectations to the upside. At the time of writing, the Bloomberg survey consensus estimate calls for +180k, but given the ADP outperformance I'd bet that some are "whispering" a higher number now. I've shown this before, but considering the circumstances I think it is worth showing again. The chart below compares the "surprise" (actual data print vs. consensus estimate) in the ADP release vs. the surprise in the NFP release. This looks at numbers back into 2009. While you could certainly make an argument for a modest correlation suggesting a higher than expected ADP figure will translate into a higher than expected NFP, I would call the relationship as anything but conclusive. With that in mind, I wouldn't be betting on a huge outperformance from NFP today just because ADP delivered big yesterday.

ADP Employment Change "Surprise" vs. NFP "Surprise"



US futures and world equity markets are higher overnight primarily thanks to newsflow out of China. For starters, the Caixin composite PMI reading improved to a 5-month high of 52.2. Perhaps more importantly, China's central bank has finally responded to the downturn in economic data with easily policy announced overnight. They will cut their reserve ratio requirement for banks by 1 percentage point by January 25. Separately they announced they would "release" 800 billion yuan (\$116B) of liquidity. This is the first country-wide RRR cut since March 2016 and shows we've finally hit a point where Chinese leadership feel they need to step in to support the economy and markets. This might create a big shift in sentiment....

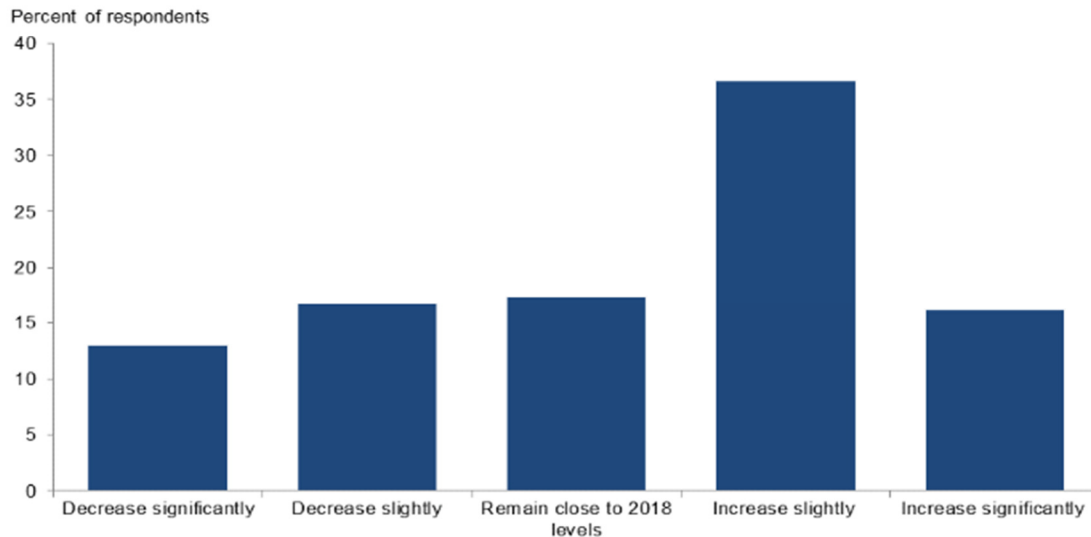
On tap today that might be more important than the NFP release, we have Fed Chair Powell speaking this morning. The market will very closely dissect his words. Fed Funds futures are currently pricing in zero rate hikes in 2019 and actually pricing in almost 50% chance of a rate cut by the end of the year. That seems a bit overly pessimistic to me...

## Energy

The Dallas Fed published the results of a survey of US oil executives on their website yesterday. I thought the graphics they produced show the results better than I can simply type, so I'm just going to include them here today...

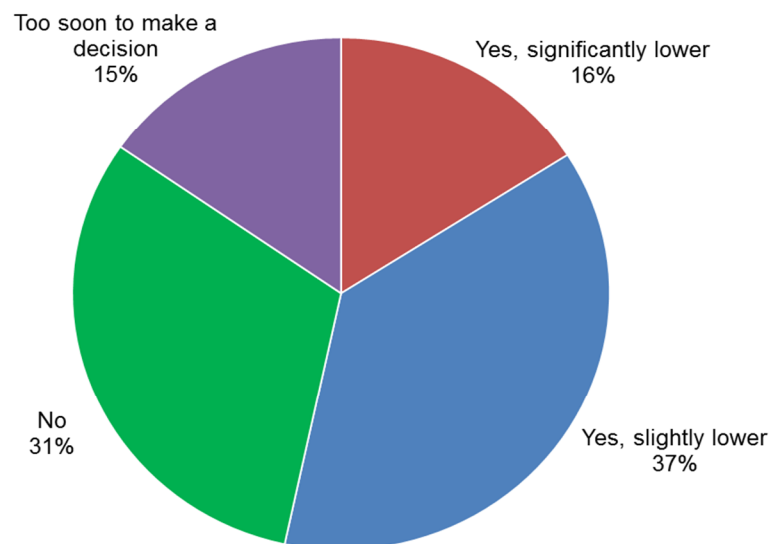
## What are your expectations for your firm's capital spending in 2019 versus 2018?

Reponses were mixed among executives, although most expect their firm's capital spending to increase in 2019 compared with 2018. Thirty-seven percent of executives said they expect capital spending to slightly increase, while an additional 16 percent anticipate a significant increase. Seventeen percent expect their firm's capital spending to decrease slightly and 13 percent anticipate a significant decrease. Seventeen percent expect spending to remain near 2018 levels in 2019.



NOTE: Executives from 161 oil and gas firms answered this question during the survey collection period, Dec. 12–20, 2018.  
 SOURCE: Federal Reserve Bank of Dallas.

## Has the recent drop in oil prices caused you to lower expectations for your firm's capital spending in 2019?

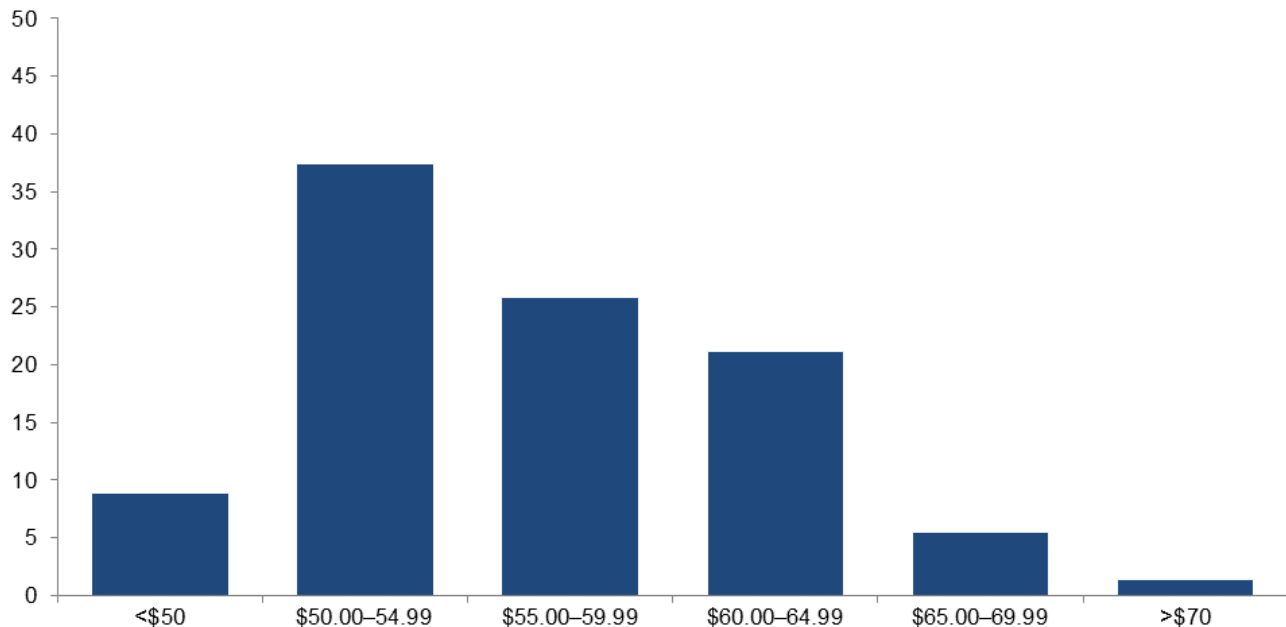


NOTES: Executives from 163 oil and gas firms answered this question during the survey collection period, Dec. 12–20, 2018. Percentages may not sum to 100 due to rounding.  
 SOURCE: Federal Reserve Bank of Dallas.



## What West Texas Intermediate crude oil price is your firm using for capital planning in 2019?

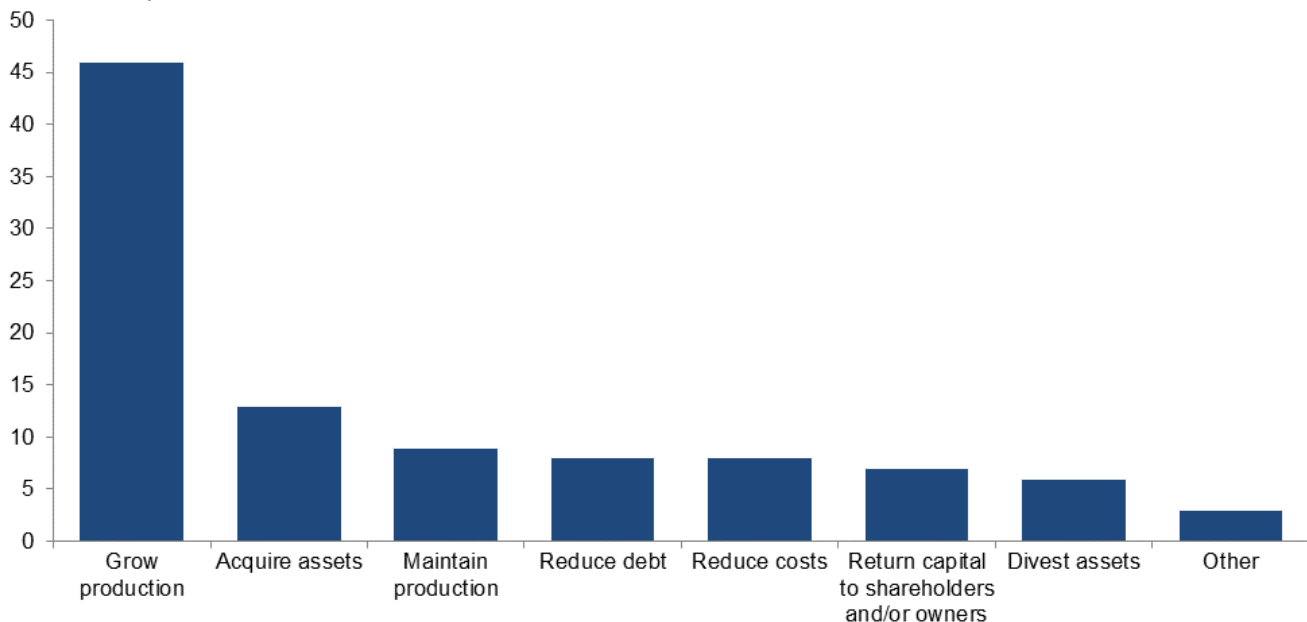
Percent of respondents



NOTE: Executives from 147 oil and gas firms answered this question during the survey collection period, Dec. 12–20, 2018.  
 SOURCE: Federal Reserve Bank of Dallas.

## Which of the following is your firm's primary goal in 2019?

Percent of respondents



NOTE: Executives from 100 exploration and production firms answered this question during the survey collection period, Dec. 12–20, 2018.  
 SOURCE: Federal Reserve Bank of Dallas.



**Today's Calendar (all times Central)**

- NFP – 7:30am
- Fed Chair Powell speaks – 9:15am
- EIA Natural Gas Storage – 9:30am
- EIA Petroleum Inventories – 10:00am
- Baker Hughes Rig Count – 12:00pm

Thanks for reading.

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