Friday, May 31, 2019

NTG Morning Comments

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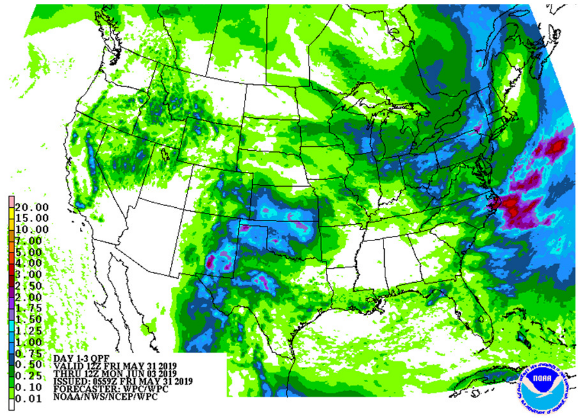
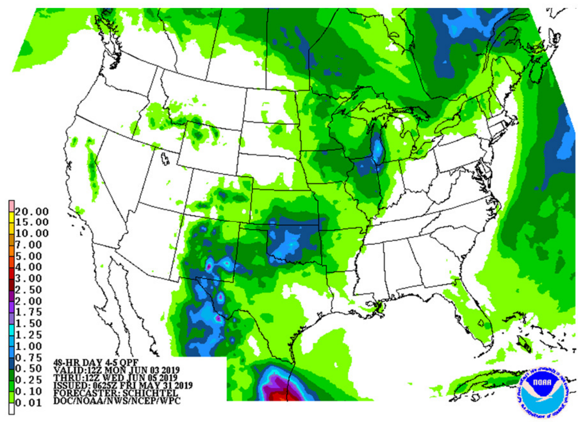
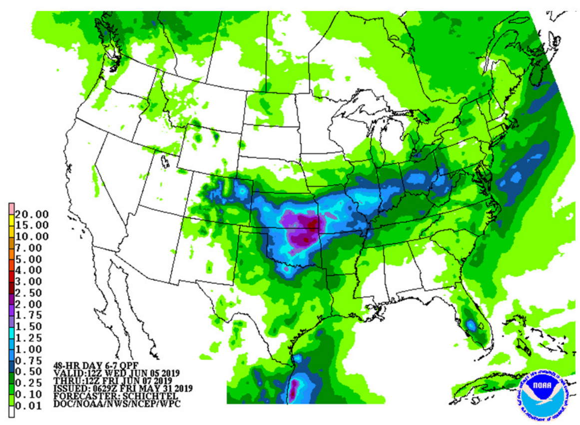
Weather

Maps at right show: Days 1-3, 4-5, and 6-7







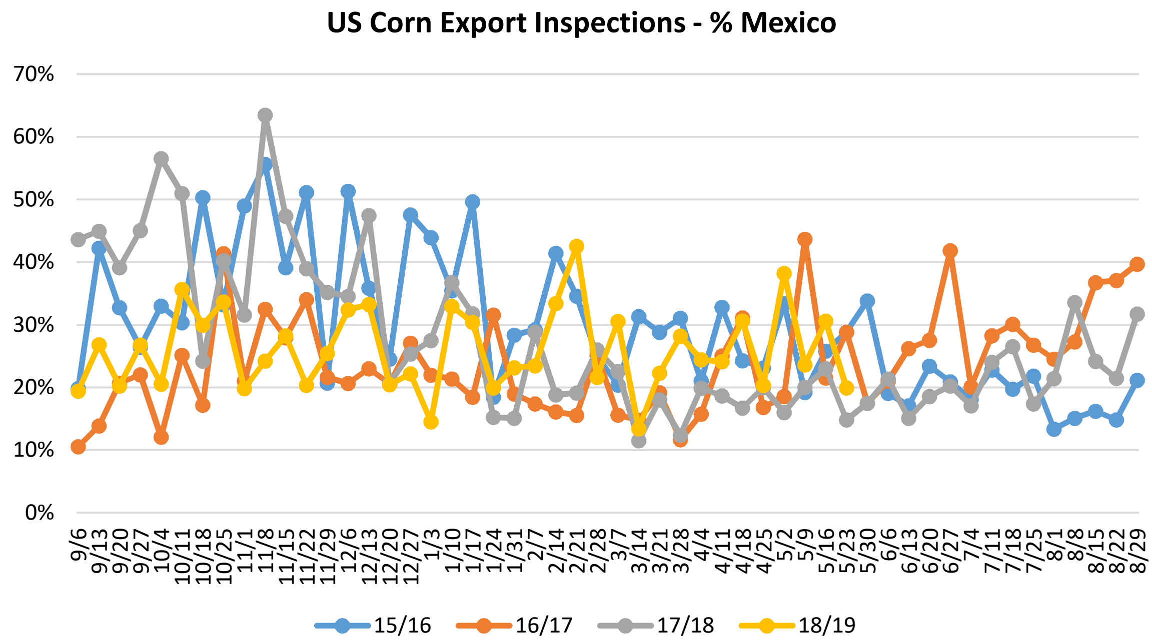
No huge changes to the forecast since yesterday morning, but the forecast for the 6-10 day period has trended slightly wetter especially in the ECB. Today through the weekend won't necessarily be dry in the Corn Belt, but showers that are seen will be fairly light. There will be some "decent" showers that develop tomorrow and tomorrow night but this likely won't produce much better than ~.25" with some locally heavier totals possible. Sun/Mon should see a lot of dry weather in the Corn Belt. Tuesday will see light rainfall return to the WCB which should eventually move eastward. From there, we could see a daily chance for showers in the ECB from Wed through the end of the 6-10 day period (June 9). This wouldn't necessarily mean heavy rains each day, but over the course of that period we could see 1-2" rainfall totals with some locally heavier totals possible. This area would include much of MO, IL, IN, and OH. Areas to the north and west of there should see much lighter amounts. In the 11-15 day period, look for near normal rainfall totals. Again, not "dry" but no big heavy totals either. Remember, June is typically the wettest month of the year through the Corn Belt.

Nothing new to report on temps. We should see a mix of warm/cool days, but generally speaking temps are likely to average near to above normal over the next two weeks.

One international area to keep an eye on…the forecast for the wheat areas of the FSU are looking very warm and dry over the next two weeks. I'm not sure if the wheat market has noticed yet, but be on guard for this situation. We'll cover it more closely here going forward.

Crops

I wasn't expecting I'd be writing about corn and soybean exports to Mexico this morning. President Trumps new tariff threats against Mexico have clearly sparked some fear of retaliation in the markets overnight. This fear is not unfounded. MYTD corn inspections to Mexico have accounted for roughly 25% of total US corn export inspections in 18/19. You can see in the chart below that this is fairly consistent with levels seen over the past several years, though some years have seen even greater amounts at times. For soybeans, MYTD inspections to Mexico have accounted for roughly 10% of the total so far in 18/19. Clearly the soybean market has to be concerned as they already have lost Chinese business and Argentina won't be a destination this upcoming year either.



But what is the real risk here? Remember, corn and soybeans were not included on the retaliatory tariffs Mexico imposed after the steel and aluminum tariffs. Those were mainly focused on beef and pork and other items. Of course this time is different, with tariffs now covering all imports, so that might change. I really have to question the Trump administration's tactics here. If the goal of tariffs on China is to move supply chains back to North America in a new iteration of the Monroe Doctrine, this won't help. I can't imagine this helps with USMCA either. Note that Mexico's Deputy Foreign Minister said that "Mexico doesn't want a trade war with US" and that "Mexico won't retaliate on tariffs until discussing issue with US".

Now on to what I was planning to present this morning - yesterday USDA's FAS issued a GAIN report on the fall armyworm situation in China. To be honest, I don't know much about armyworm problems so I've been interested in the story ever since it broke. Also, considering the ASF outbreak which appears to be far from under control, I'd say that yet another "epidemic" to hit Chinese agriculture right now would be worth noting. As has become my customary procedure when looking at these GAIN reports, I'll simply pull some quotes of interest from the report and I'll also copy a few of the graphics.

The Fall Armyworm (FAW) – a crop eating pest – first detected in China in January in 2019 has now spread across 15 Chinese provinces and currently impact about 90,000 hectares (1.35 million mu) of grain production. Officially, Chinese authorities have employed an emergency action plan to monitor and respond to the pest. FAW has no natural predators in China and its presence may result in lower production and crop quality of corn, rice, wheat, sorghum, sugarcane, cotton, soybean, and peanuts among other cash crops. Experts report tht *there is a high probability that the pest will continue to spread across China, reaching the Northeast China corn belt by June 2019.*

Here is a breakdown of the locations where FAW has been found and a breakdown of those provinces' production levels.

Fall Armyworm Confirmed Detections in China

UPDATE: Fall Armyworm in Africa and Asia

Production of Major Agricultural Commodities in South China

		Corn	Rice	Soybean	Peanut	Sugarcane
1	Yunnan	3%	3%	2.4%	0%	15%
2	Guangxi	1%	5%	1.1%	4%	66%
3	Guangdong	0%	5%	1.3%	6%	13%
4	Hainan	0%	1%	0	1%	2%
5	Guizhou	1%	2%	1.4%	1%	1%
6	Hunan	1%	13%	1.6%	2%	1%
7	Henan	8%	3%	3.9%	29%	0%
8	Anhui	2%	7%	9.7%	5%	0%
9	Jiangsu	1%	9%	3.6%	2%	0%
10	Zhejiang	0%	3%	1.7%	0%	1%
11	Fujian	0%	2%	1.4%	2%	0%
12	Hubei	1%	8%	1.6%	4%	0%
13	Sichuan	4%	8%	4.1%	4%	0%
14	Jiangxi	0%	10%	1.9%	3%	1%
15	Chongqing	1%	2%	1.6%	1%	0%
All Province Total (in 10,000 tons)		**21,955**	**20,707**	**1,294**	**1,729**	**11,382**
Percentage of Total		**25%**	**81%**	**37%**	**64%**	**100%**

Source: China National Bureau of Statistics (2017); 2016 China Agricultural Statistical Report

I'm interested to know what sort of emergency action plan is in place…hopefully something better than used for ASF.

MARA is taking emergency measures to monitor and control the spread of FAW. Chinese officials reportedly administer a national crop protection monitoring and surveillance program with offices in each local agricultural bureau, implementing a trapping and scouting program. On March 18, 2019, China's MARA issued a 2019 Fall Armyworm Prevention and Control Technology Plan (Pilot Program). The plan recommends the adoption of prevention and control measures on more than 90 percent of the affected area, and environmentally-friendly technical measures, such as crop rotation, across more than 30 percent of the affected area.

Here is the catch…

It is important to note that most farmers in China do not have the financial resources and training needed to effectively manage FAW. Even if a FAW mitigation program is employed, costly control measures (mainly chemical sprays) will drag producer margins into negative territory for farmers of most crops that could be affected. FAW management requires farmers to closely monitor their fields and to time their spraying efforts to target FAW during its larval stage of development.

The report goes on to say…

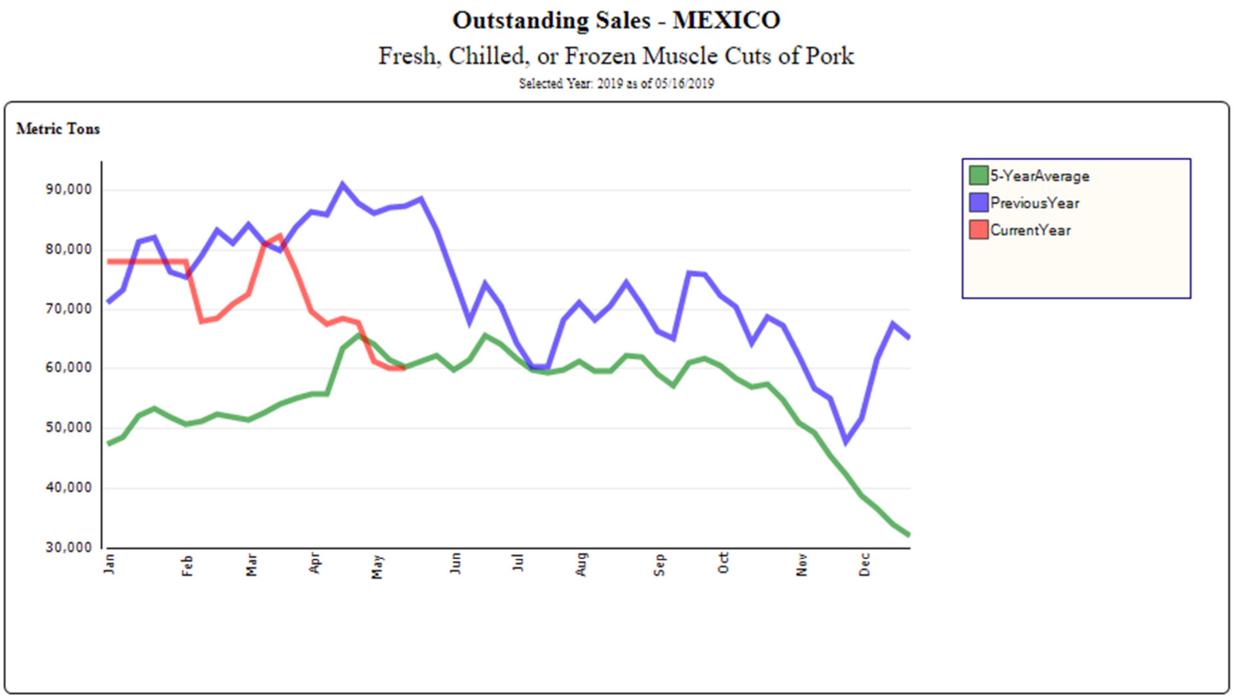
FAW has become established in South China and is projected to begin moving northward as summer temperatures rise and crops develop along major growing areas in Central China, the North China Plain, and eventually North East China. Seasonal factors such as the timing of the monsoon season in September/October 2019, and the number of typhoons, will influence the timing, distribution, and impact of FAW in North East China and the North China Plain, China's principal grain producing regions. CAAS experts report that there is a high probability that the pest will spread across all of China's grain production area in the coming months.

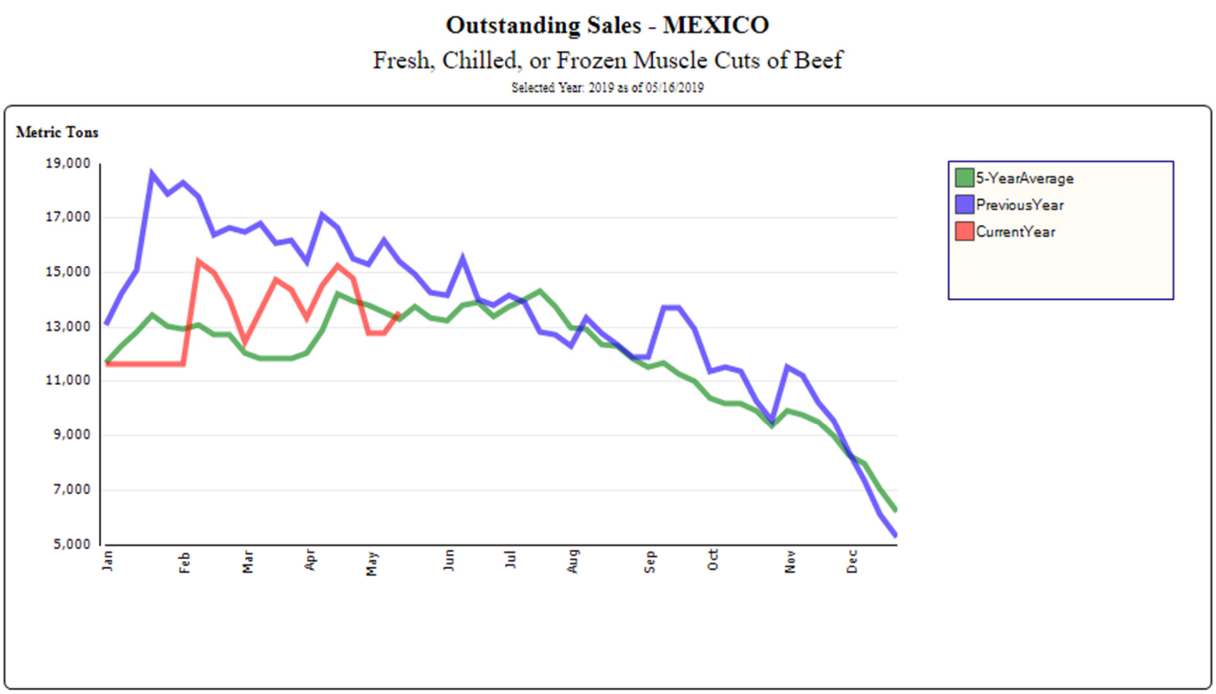
Again, I'll admit to not having a ton of knowledge about armyworms, but from what I've been told they can cause a lot of damage in a very small window. I think this is something to have on the radar. I don't want to be hyperbolic, but we've got a big potential problem with US corn production this summer (still remains to be seen what we can get planted) and if this becomes a problem in China that would mean problems in the #1 and #2 corn producers at the same time. Admittedly, China's status as world's #2 corn producer hasn't meant a ton as they don't import/export much, but it still isn't something I'd want to take lightly if it truly were to become a problem.

If you have any thoughts or additional information to pass my way, I'd be very thankful.

Livestock

The big news here today is of course the tariffs announced against Mexico and the potential for retaliation. We just thought we might start to see some improvement in beef/pork trade with the removal of steel and aluminum tariffs…that optimism didn't last long. We have export sales due out this morning, though it would be too soon to expect to see any real uptick in sales to Mexico at this point. Outstanding pork sales to Mexico are clearly running well behind year ago levels, and we were definitely hoping to see that turn around a little with the removal of tariffs. Again, it should be noted that the Mexican administration has not announced any retaliation yet…but its probably a safe bet they're not just going to do nothing.

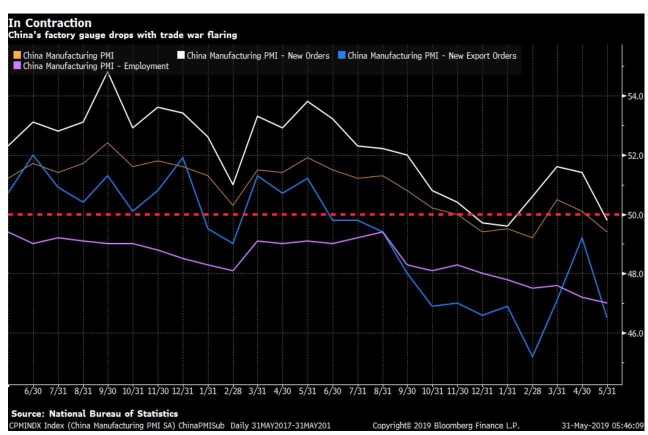




Financials

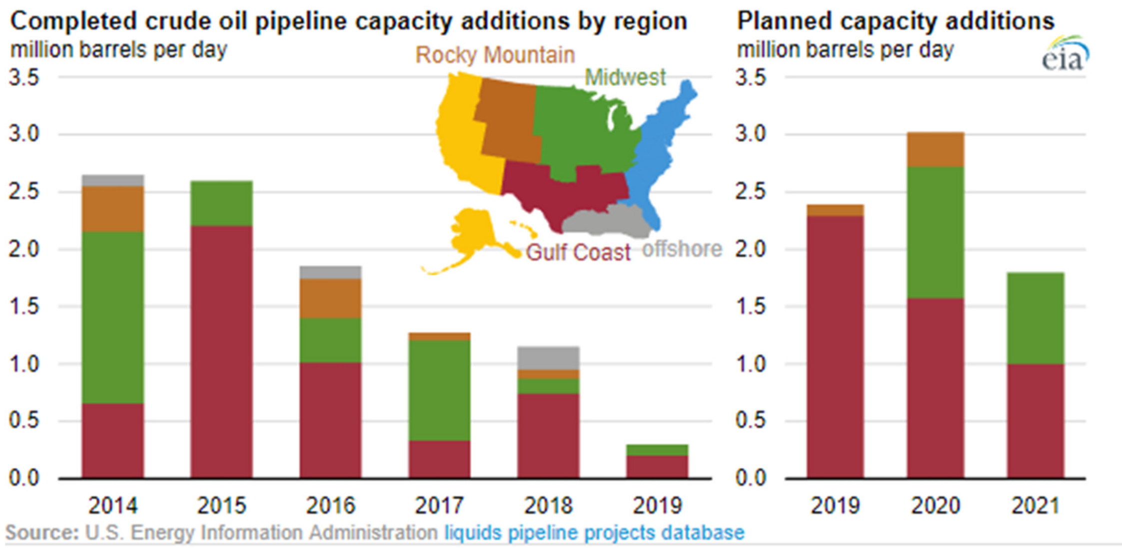
I usually smirk a little when I hear someone mention “Dr Copper”, but for fun this Friday I thought I’d throw in a chart on copper this morning. I think it is somewhat worth noting that the charts shown yesterday on ES and CL are showing signs of trouble (CL specifically really broke down yesterday) and the copper chart is another one that looks potentially suspect here. Chart below. You can see we’re testing the uptrend in place since late 2015 and we *might* be putting in a potential H&S formation here. I do think it is interesting to see equites (in the form of ES futures, anyway), crude oil, and “Dr Copper” all looking shaky here technically. In fairness, copper hasn’t broken down yet and ES futures managed to hold support levels yesterday (though this morning we’re trading below the 200-day MA…will we close here?). I also do question how low crude oil can go with the Iranian sanctions yet to fully bite and the renewed tensions in the Middle East. Still, I think it is interesting that all this is happening basically in unison. And that doesn’t even account for a potential breakout in the dollar (yes, I’m still calling for that) and the sharp break in US rates. German bund yields hit new record lows overnight.

Not helping matters overnight, Chinese PMI data came in soft. Manufacturing PMI fell to 49.4, weaker than expectations and clearly in the sub-50 contraction zone. What is noticeable in the details is the manufacturing employment sub-index fell to its lowest level since post-crisis 2009. New export orders were also soft. If the job market is taking a hit, we should probably expect to see more stimulus measures from the government. CNY is still hovering around the same level the government seems to be supporting, but one has to wonder if that will last forever.



Energy

EIA has launched a new product called the "Liquids Pipeline Projects Database". The EIA noted that "*increasing Permian crude oil production has outpaced pipeline takeaway capacity to bring the crude oil to market. The increasing crude oil production and need for more pipeline transportation capacity prompted a large expansion of crude oil pipeline infrastructure".* This new report, due to be updated twice a year (May and No) will update the projects currently planned and/or under construction. EIA gave its first update yesterday, and note that 2019 and 2020 are expected to be very good years for increases in US pipeline capacity.



Today's Calendar (all times Central)

- Export Sales – 7:30am
- PCE Deflator – 7:30am
- U of M Consumer Sentiment – 9:00am
- Baker Hughes Rig Count – 12:00pm
- More Tariffs? Who knows…maybe

Thanks for reading.

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