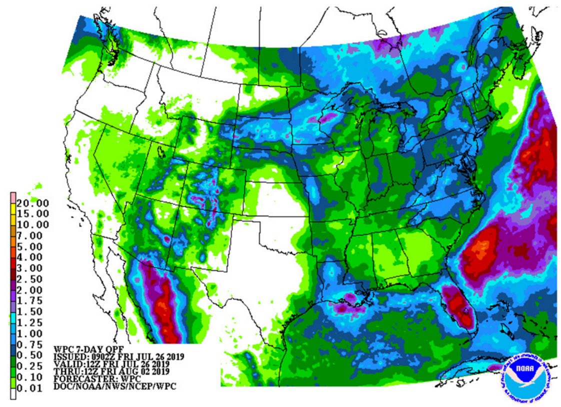
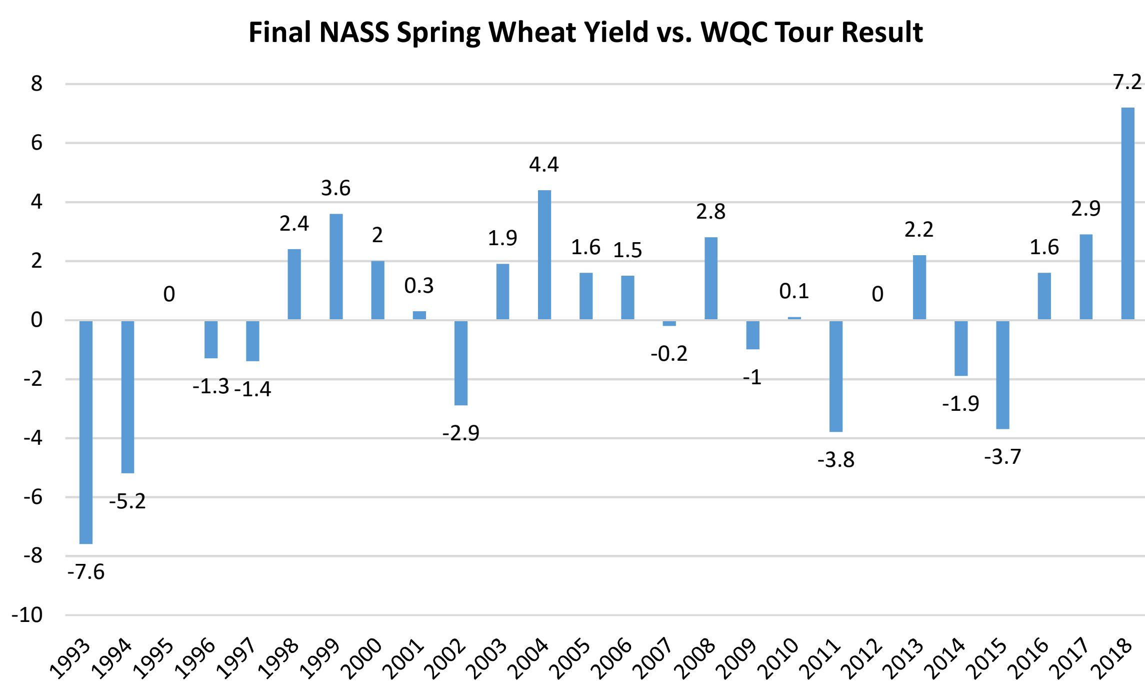
Weather

The 7-day QPF map is shown to the right, and maybe its just me but the coverage of weekend rainfall sure looks like it has declined a bit compared to what we were looking at yesterday. This is especially the case in eastern portions of the Corn Belt. It is possibly also worth noting that computer models have trended slightly drier in the 6-10 day period overnight as well. As noted yesterday, we are not in a pattern where the computer models are going to know what is going on, but it is still a change worth mentioning. No extreme heat is in the forecast, but temps should turn warmer next week with a return of 90s for highs in some southern portions of the region.



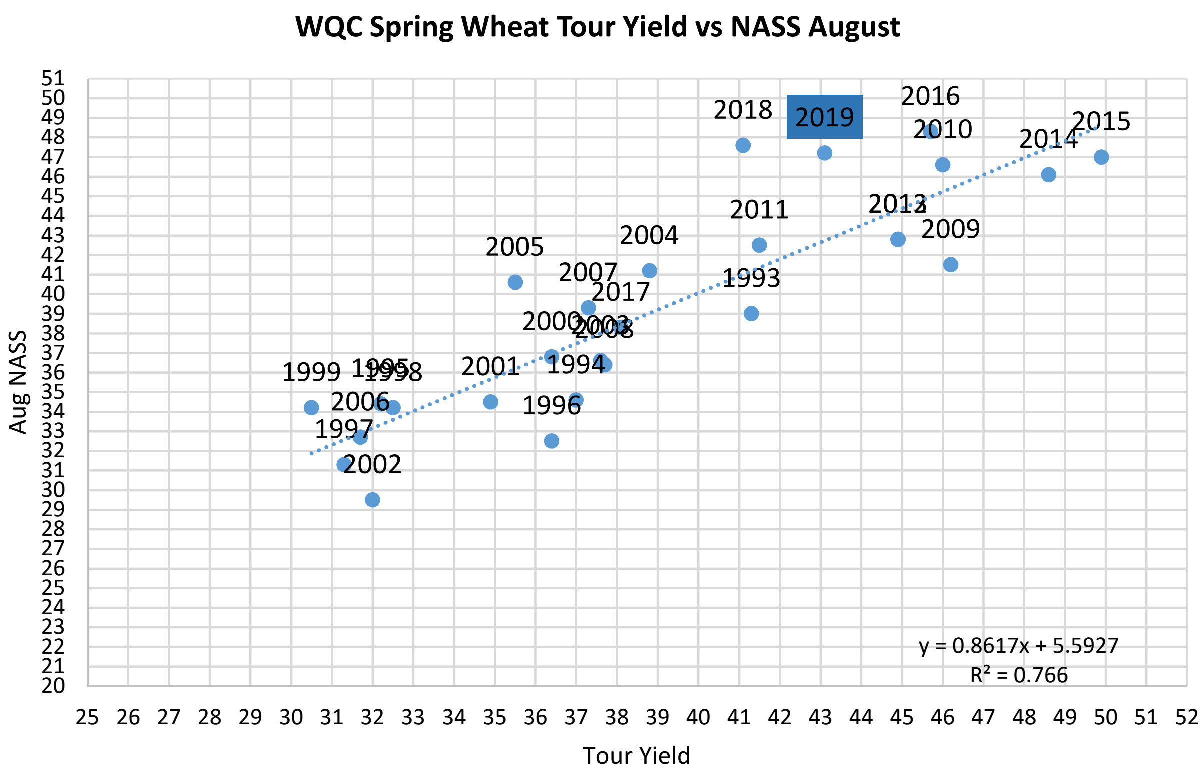
Crops

Today we'll look at the results from the WQC's Spring Wheat Tour which has just concluded. Before we get to this year's results, however, let's take a look at the mess we got from them last year. The chart below compares the final NASS spring wheat yield estimate vs. the Tour's estimate, and last year was the second biggest miss that I have in my data set.



It seems the WQC is at least trying to atone for their mistake last year. They have forecast the spring wheat yield at 43.1 from this year's tour vs 41.1 last year despite last year's crop ratings being slightly better. You might still argue, however, they're going to come in light yet again. In July, NASS set the spring wheat yield at

47.2. In the chart on the following page, I plot the WQC's yield estimate vs. the Aug NASS estimate. You can see there has been a pretty good relationship generally. Last year was way out of whack, however, and if NASS were to keep their July estimate (the highlighted 2019 figure) or even maybe go higher it might make this year look out of whack again as well.

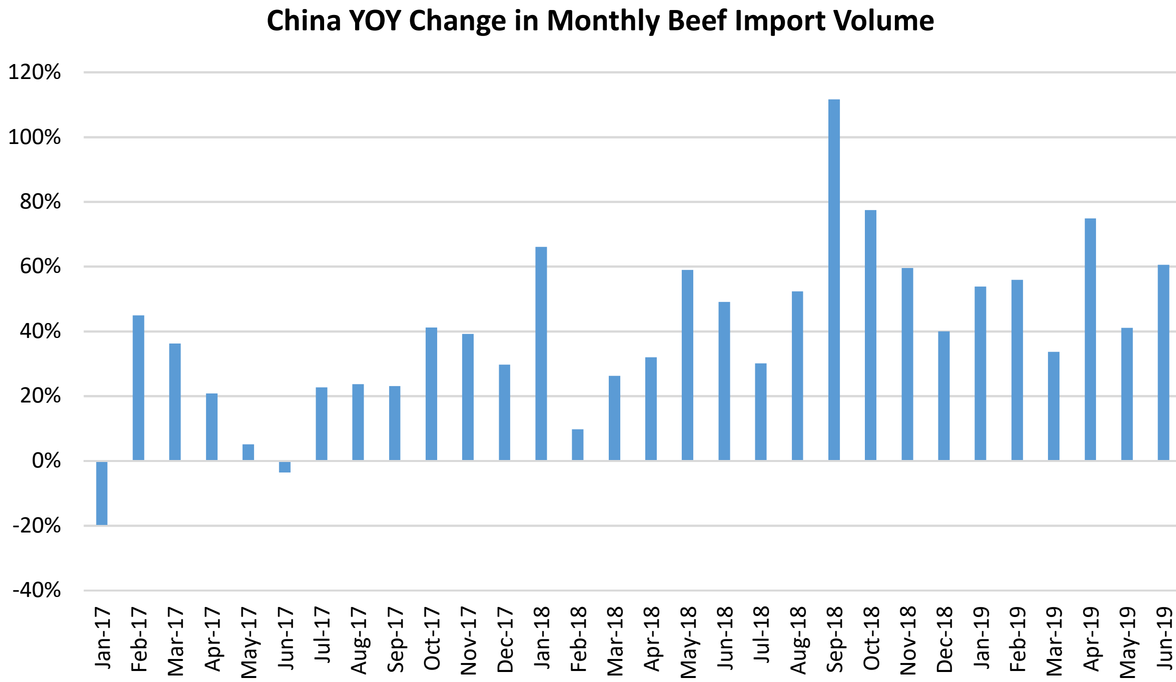


I guess the bottom line here today is that if you're a true believer in the WQC you would make the argument that NASS's spring wheat yield estimate was too high. I suspect you can tell from my tone that I am not a big believer in the tour's estimate, and as such I don't have a strong bias going into the Aug NASS here.

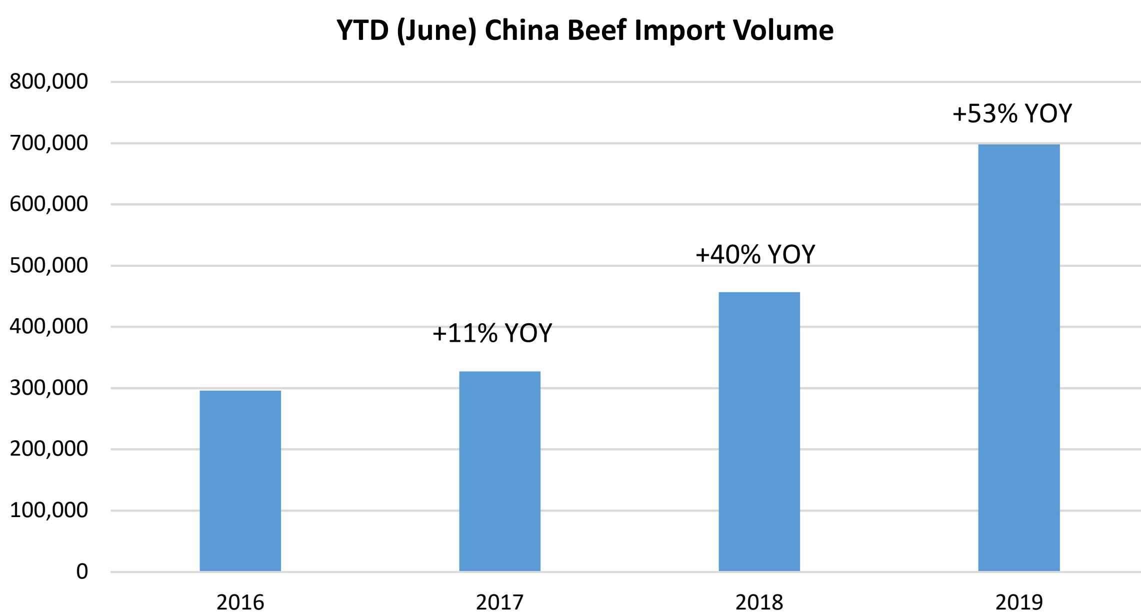
Livestock

The story on China's beef imports from earlier this week has received a lot of attention. I was discussing China and a few other items with a friend earlier in the week and he made the observation that the increase in Chinese beef demand *might not have anything to do with ASF*. We know that China's beef demand has been growing before ASF surfaced, so I thought I'd give that a quick look this morning.

My data on China's Customs beef import volume only goes back to 2016. In the chart below I display the monthly YOY percent change in China's beef imports from 2017 forward. The average YOY % change in monthly imports during this period has been roughly +40%. The latest data for June showed a 60% YOY increase, which of course would be "above average" but it doesn't jump out on the chart as something "special".



Here is just another way of looking at it. This takes a cumulative YTD total of beef imports over the past few years. You can make the argument that this year's growth is a bit above "trend", but the fact is 2018 was already posting big YOY gains at this time of year even before ASF was truly making major headlines.



I think we need to consider the possibility that this "new" Chinese beef demand isn't entirely the result of ASF and might be here to stay even after their pork supplies normalize. Thoughts appreciated.

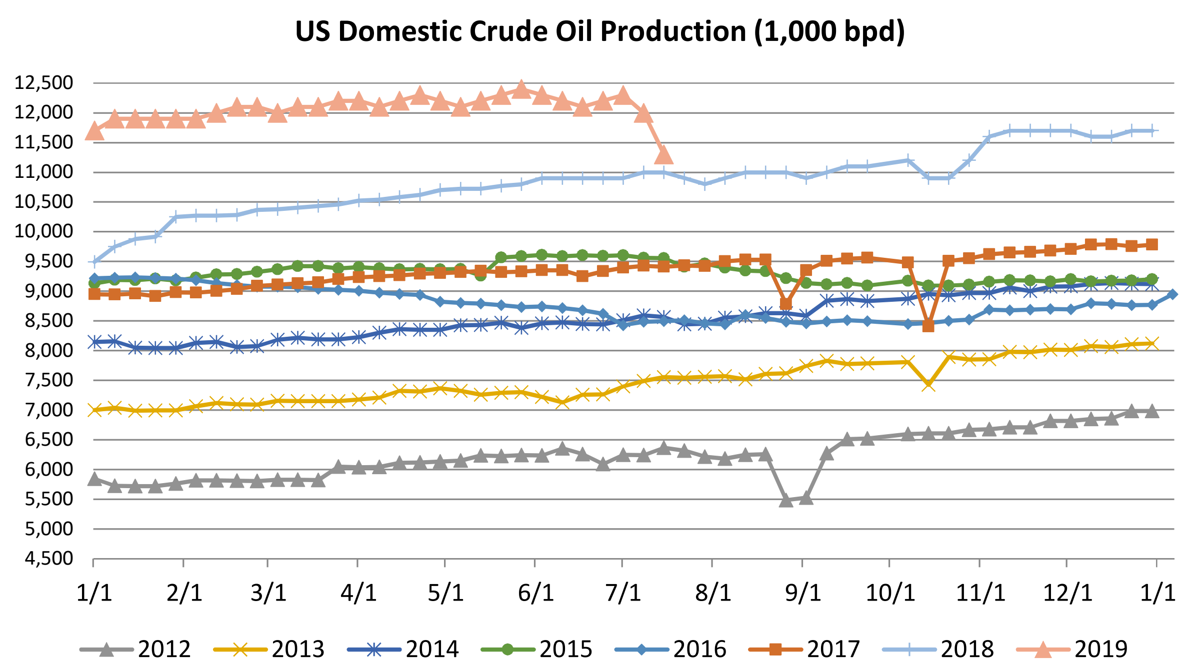
Financials

Big data on tap this morning with the release of Q2 GDP this morning. The median expectation calls for a +1.8% figure vs. Q1 GDP growth of +3.1%. Obviously this will have big implications on positioning ahead of the FOMC later in the month. A miss to the upside will diminish odds of a 50 bps cut, which admittedly are not especially high right now. A downside miss and you might start to see traders price in better odds of a 50 bps cut. As noted before, a cut of 25 bps is almost a sure thing. In earnings releases, the season is obviously in full swing but today isn't especially busy. The headliners today will be MCD and TWTR.

Scanning the headlines this morning, I don't see much new to discuss. New UK PM Johnson apparently asked the EU for a better Brexit deal and, to nobody's surprise, they said no. Iran has apparently test-fired a missile which could be viewed as an escalation of tensions in that region.

Energy

Wednesday's EIA data dump illustrated the impact that Hurricane Barry had on US oil production. You can see in the chart below that production dropped about 1 mbpd last week from two weeks prior. I think some of the prior week's drop also had to do with Barry and preparations ahead of the storm. This represents roughly 8% of US oil production being knocked offline. While not insignificant, considering the location of the storm it really illustrates how shale has transformed US oil production. I know I probably shouldn't make the comparison, but Hurricane Rita in 2005 (obviously a much more powerful and destructive storm) dropped US oil production by about 26%. It will now be interesting to see how quickly this oil production comes back online.



Today's Calendar (all times Central)

- Q2 GDP – 7:30am

Thanks for reading.

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