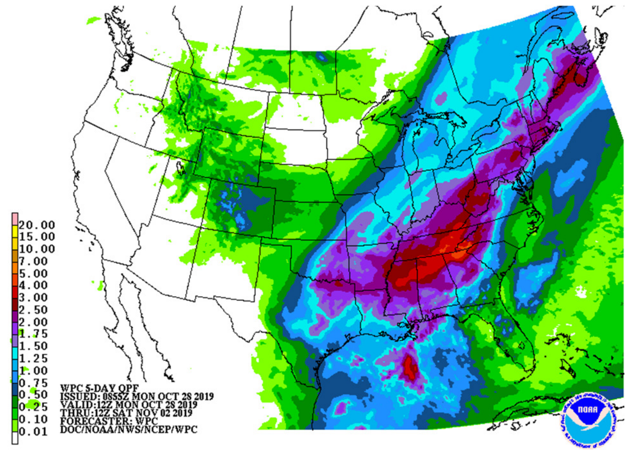
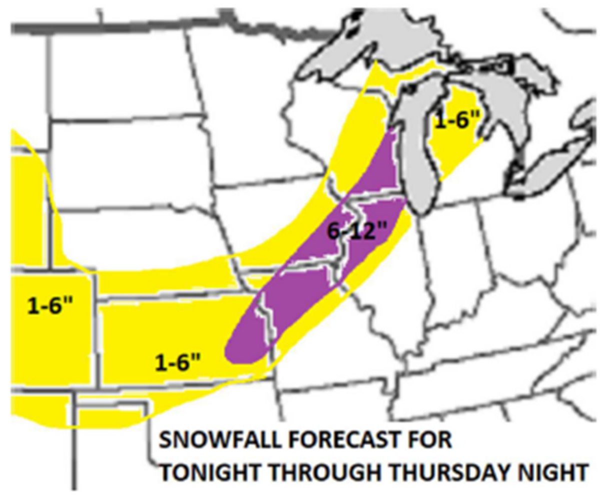
Weather

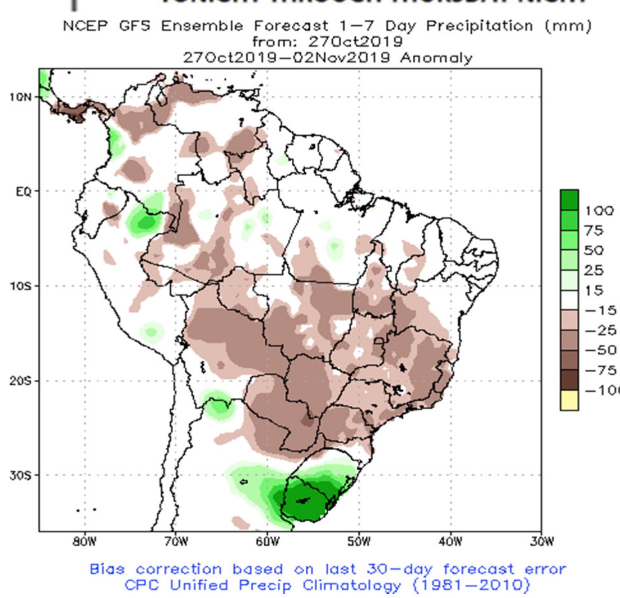
No major changes to the forecast this morning. As you can see with the map at the right we've got some additional significant precipitation on tap for the eastern third of the country this week. Some of this should initially start to fall in the Corn Belt tonight and we should get another round on Thursday. We should see some significant snowfall totals develop in portions of the Corn Belt from both events. The second map at the right shows our own Craig Solberg's latest estimate for snowfall potential over the next several days. When compared to what the expectations were late last week, it seems the band of heavy snow has pushed further to the east encompassing less of IA and more of northern IL. The Corn Belt should start to dry out again on Friday and that should kick off a period of mostly dry conditions that should last for at least a week or so and possibly longer. We could see some additional precipitation in the 11-15 day period, but nothing "big".



Temps should easily average well below normal over the next several days. Lots of the country will see averages 10-20F below normal. Temps will moderate a bit early next week but colder weather will quickly return.



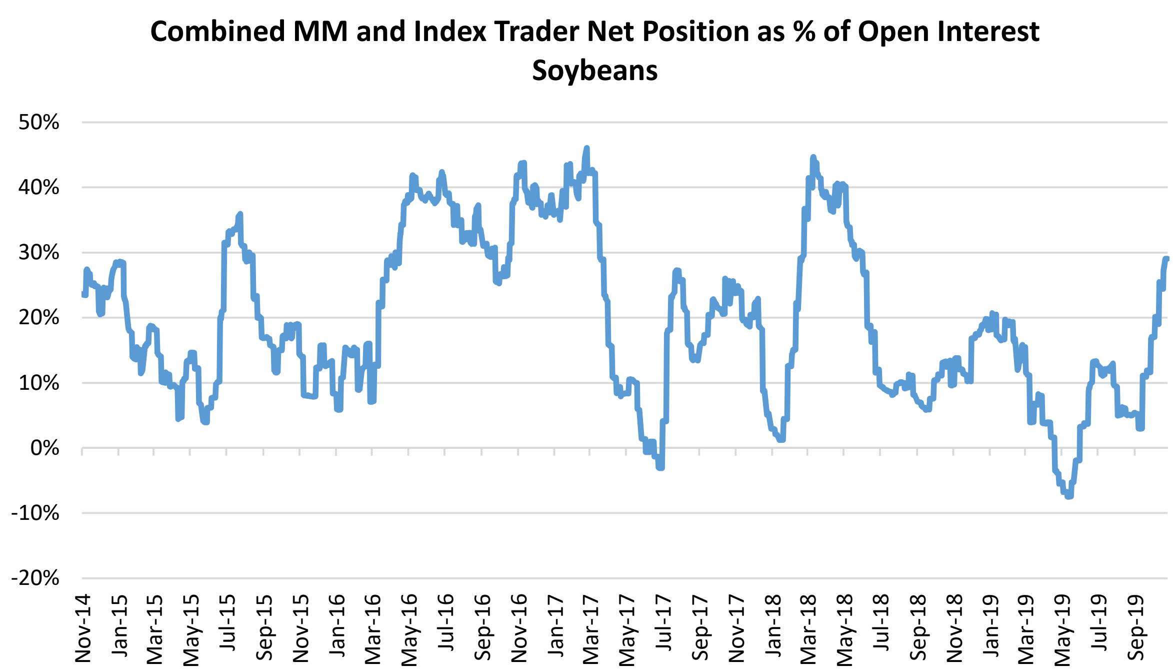
In northern Brazil look for rainfall totals over the next two weeks to average below normal. Rainfall this week will be very spotty leaving big areas with dry conditions. Rainfall chances will improve later in the 6-10 day period but even then we're not looking at big amounts. Rainfall in southern Brazil should average above normal with some especially big rainfall amounts possible in RGDS (4-6" with locally heavier totals). Temps should average mostly above normal in Brazil with some fairly hot weather seen (some 100s possible) later this week and weekend. Northern Argentina should see big rains in some areas associated with the same systems that puts big rains in RGDS. Southern portions of the country should see below normal precipitation amounts over the next two weeks, however.



Crops

You've likely heard by now but, as expected, the challenger Alberto Fernandez won the presidential election in Argentina over the weekend. Taking roughly 48% of the vote, there will be no need for a run-off and his new administration will take office on December 10. As of right now, we haven't heard of any changes to the tax laws for corn, wheat, soybean, or soy product exports. Right now corn and wheat are taxed at about 4 pesos per export dollar, which at current levels comes out to about 7%. Soybeans and meal/oil are taxed at 18% plus 4 pesos per export dollar, which currently comes out to around 25%. Also keep in mind that Fernandez's running mate, former President Fernandez de Kirchner, imposed strict limits on corn and wheat shipments as a means of "ensuring domestic food supplies". For a government that is in desperate need of dollars, that would seem counter-productive and most seem to think that isn't on the table right now, but it is something to worry about. Argentina's central bank announced early this morning it would further tighten limits on purchases of dollars to just $200/month from the current level of $10,000/month. Inflation remains near 50% and unemployment is near 10%. There is no easy way out for Argentina here, so it will be interesting to see the first steps this new administration takes.

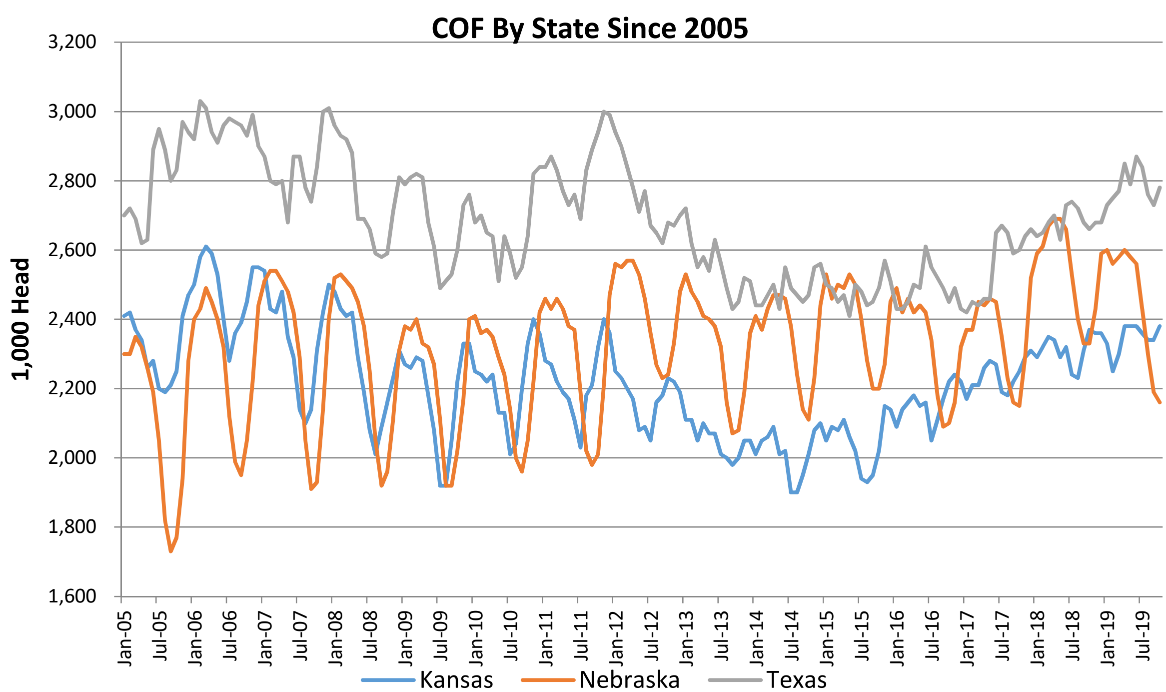
The soybean market seems to have run out of gas to the upside here for a minute. There are several possible reasons for this inability to push through technical resistance, but one that stands out from the COT numbers is simply that the market has added a lot of new length here in a fairly short period of time. There are lots of different ways of looking at this, but the chart below is one of my favorites. This takes the notional value of the combined MM and index trader net position and compares it as a percent of total open interest's notional value. You can see that after moving to a record short level (as a percent of OI) we've fairly quickly moved back to a sizeable net long. While this isn't a record by any means, it is certainly a level that we haven't seen very often in the past 5 years. At this sort of level we probably need a further catalyst for upside, something like confirmation of weaker than expected US yields or poor South American weather conditions. Both are possibilities, but we need to *see it* to push above resistance levels probably.



Livestock

Friday's COF report proved to be very close to the official expectations, but as I mentioned on Friday it felt like the market was wanting to trade a bigger-than-expected placement number. Certainly placements picked up late in the month and have apparently been very large so far this month so that is something we'll need to consider for next month's COF, but for now it doesn't appear this round of COF numbers should have a big impact on the market. More importantly we had cash trade late last week up from the prior week's surprisingly soft values. We had trade in the south of 109-110 and going home on Friday it sounded like 112 bids in the north were being passed. I haven't heard anything new since then. It sounds like initial expectations for cash trade this week are again higher, and this should be supportive to the board initially this week.

This chart seems to explain the spread between northern and southern cash cattle values lately –



Financials

The chart below takes the non-commercial (spec) net positions across all major currency futures markets and combined them together. This, in theory, should give us an idea of the underlying sentiment towards the dollar. The more negative the number on this chart, the bigger the bullish bet for the dollar and vice versa. You can see that after being very bullish towards the dollar (net short other currencies on this chart) earlier in the year, we've seen the position reduced dramatically. While the market is still net short most FX contracts, and thus long the dollar, the position is not nearly anything I'd consider extreme. The DX contract has recently bounced off some key support levels, so it'll be interesting to see if we start to see flows back into the dollar here or if the sentiment has truly changed.

Combined FX MM Non-Commercial Net Position
EC, JY, SF, AD, CD, BP

I don't see any major headlines from over the weekend. On the Brexit front, the EU has finally officially granted a three month Brexit delay with the deadline now set for Jan 31. Any bets on whether we'll be talking about another delay 3 months from now? There are some second-tier economic releases out in the US today, but probably nothing that really pushes the market around. The earnings release calendar shows GOOGL will report after the close today, and that will certainly be worth watching. We have central banks on tap this week with both the Fed and the BOJ due to issue policy statements later in the week.

Energy

Interesting report from the IMF released over the weekend showing the breakeven price for oil for Iran to have a balanced budget will more than double from 2018 to 2020 due mainly to the US sanctions. A chart of several of the IMF estimates is shown to the right, but the Iranian figure really stands out. That said, even with the impossibly high (?) breakeven price, Iran's government deficit will widen to "only" 5.1% of GDP in 2020 according to IMF. The Saudis once had the highest breakeven price level in OPEC and notably their breakeven level is expected to fall…though it is still very far from current Brent crude oil prices.

IMF Breakeven Oil Prices in $/bbl

Country	2018	2019	2020
Iran	82	155.6	194.6
Iraq	45.4	62.5	60.3
Kuwait	54.2	54.3	54.7
Saudi Arabia	88.6	86.5	83.6
United Arab Emirates	66.7	70.2	70

Today's Calendar (all times Central)

- Chicago Fed Index – 7:30am

- Dallas Fed Index – 9:30am
- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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