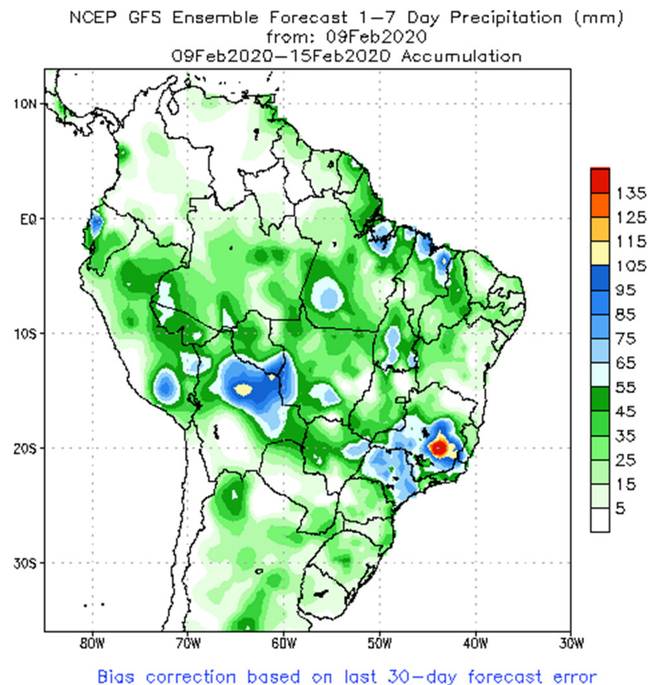
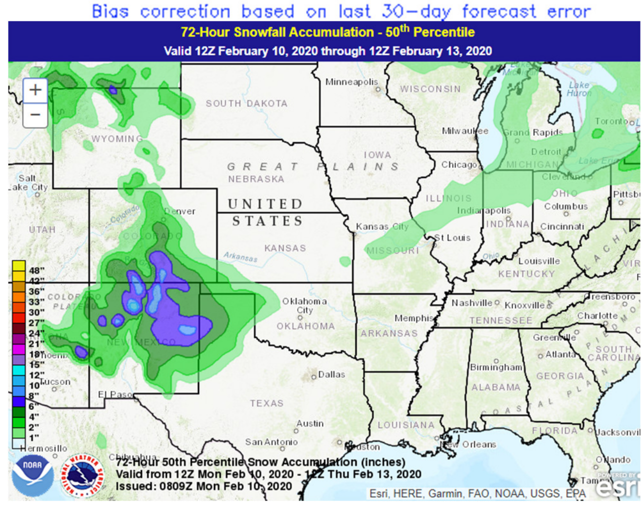
Weather

No big changes to the forecast over the weekend. Northern Brazil will see near normal rainfall over the next two weeks with amounts ranging from 2-5”. Mostly above normal temps will be seen with some potentially well above normal readings mid next week. Southern Brazil will see near to slightly below normal rainfall over the next two weeks with amounts ranging from 2-3”. A lot of southern RGDS will see limited rainfall for several additional days before better rainfall chances return to the area this weekend. No extreme heat but mostly AN readings.



Argentina should see near to above normal readings over the next two weeks with amounts ranging from 2-5”. The heaviest rainfall will favor northeastern areas while the lightest amounts will be seen in the southwest. Rainfall next week looks like it should be more impressive than what is seen this week. No major heat is expected.



No change in the US with the southeastern states expected to continue to see wet weather. Meanwhile we should see some significant snow fall in portions of the Southern Plains feedlot areas over the next day or two.

Crops

Tomorrow we’ll get the Crop Production and WASDE reports. Obviously nothing much to worry about on the Crop Production report, so we’ll simply focus on what to expect from WASDE. There are lots of *possible* changes we could see from WASDE this month. One thing to keep in mind about the average guesses….the surveys were taken before it was “announced” that trade deal details will not be included in the WASDE. If you read my comments from Friday, you know what I think about the need for such an announcement. That said, for some crazy reason I do certainly think the average guesses were influenced by expectations for some sort of change to the projections based on the (lack of) details. I know this was the case because a Reuters reporter even questioned whether the survey should be redone now that everyone knows there is nothing that can be included. As of right now, I haven’t see such a resurvey published, but it might be coming today.

Wheat-

We’ll start here because there is less to say here. Simply put, I don’t expect any significant changes to the 19/20 US balance sheet tomorrow. Last month they revised F&R slightly higher due to the smaller than expected Dec 1 stocks figure, but that should mean no change until the next stocks report. Food and seed use also should see virtually no change. There is always a chance for a change in exports, but I don't see the reason for change this month. It would seem to me that the pace of commitments is right inline with what one would usually expect for this time of year, and with that in mind I don't expect any change to the 975 mil bu projection from last month.

There probably aren't any major changes looming to the world production/demand estimates either. There could be a downward revision in Argentina's crop but that won't be huge. Maybe even a little downside to the Australian crop but again we're not talking a big number. I suppose it is possible WASDE lowers the estimate for Russian exports but they already took that down 1 mmt last month so they might wait and see another month for further changes. The bottom line in the world numbers is that there could be some changes but the adjustments will probably be pretty minor and won't really impact the tone of the market.

Corn-
The changes here will probably be pretty minimal too. I once again might be splitting hairs here, but I still think imports are below the rate at which WASDE's 50 mil bu projection seems logical. I'm going to continue to plug something smaller into that slot until they change it or I just give up. There should be no change on F&R as they just adjusted that last month to account for the Dec 1 stocks. We probably shouldn't expect any change until after the next stocks report. It also seems likely that the ethanol grind will remain unchanged this month. That leaves exports at the one possible question mark. I have to admit I'm very torn on this. I think eventually WASDE's current 1,775 mil bu projection will prove too big. However, I'm not convinced they will make an adjustment this month. For starters, we've all seen that US corn export sales have picked up modestly in the past few weeks. As we've noted before, the US probably has a window of a few months where sales should be pretty solid as our competitiveness picks up ahead of new crop South American harvest. With that in mind, and with no changes to South American production likely tomorrow, I am going to lean toward WASDE keeping the export projection unchanged for now. Based strictly on pace, one would usually expect WASDE to cut their projection further, however, so I wouldn't be surprised by that either. I'm going to go with no change tomorrow but leave open the possibility for potentially ~50 mil bu lower exports.

US Corn Supply and Demand (Million Bushels/Million Acres)

	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	**USDA 19/20 Jan**	**Possible 19/20**
Carryin (Sep 1)	1,731	1,737	2,293	2,140	**2,221**	**2,221**
Production	13,602	15,148	14,609	14,340	**13,692**	**13,692**
Imports	67	57	36	28	**50**	**40**
Total Supply	15,401	16,942	16,939	16,509	**15,962**	**15,952**
Feed and Residual						
Total Feed and Residual	5,131	5,470	5,304	5,432	**5,525**	**5,525**
Food, Seed, and Industrial						
Corn for Ethanol Fuel	5,206	5,439	5,605	5,376	**5,375**	**5,375**
Other FSI	1,429	1,446	1,452	1,415	**1,395**	**1,395**
Total FSI	6,635	6,885	7,057	6,791	**6,770**	**6,770**
Total Domestic Use	11,766	12,355	12,361	12,223	**12,295**	**12,295**
Exports (Census)	1,898	2,294	2,438	2,065	**1,775**	**1,775**
Total Use	13,664	14,649	14,798	14,288	**14,070**	**14,070**
Carryout (Aug 31)	1,737	2,293	2,140	2,221	**1,892**	**1,882**
Stocks/Use	12.7%	15.7%	14.5%	15.5%	**13.4%**	**13.4%**

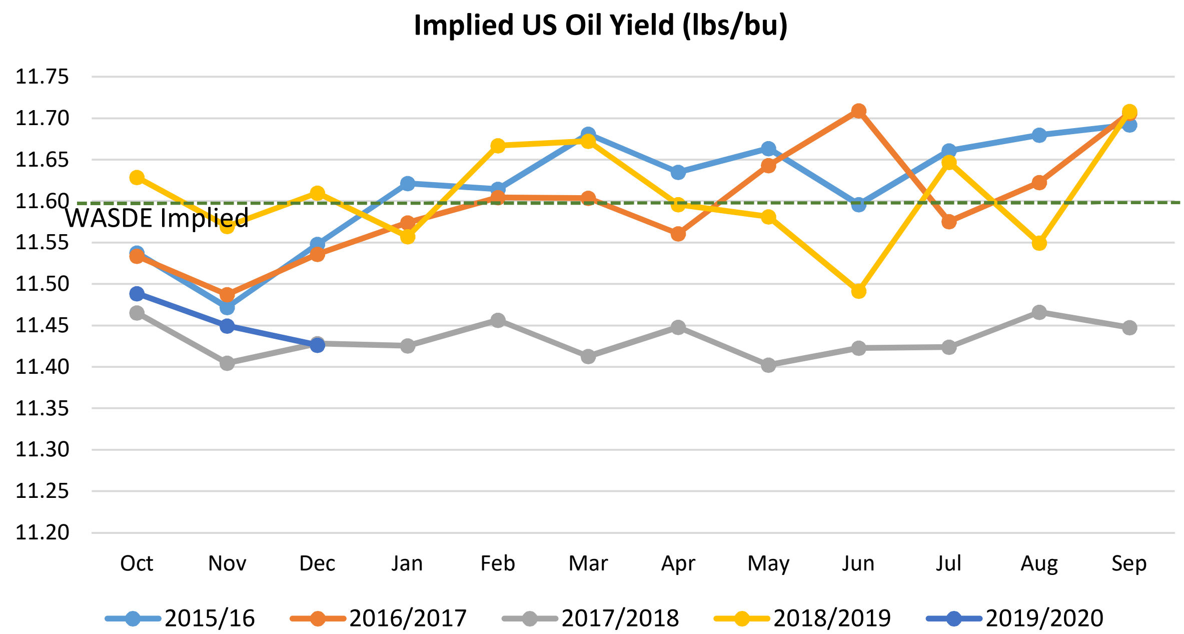
Soybeans-
Again there probably won't be a ton of change here. As noted in Friday's commentary, the outlook on exports as it stands today is pretty bleak. Outstanding sales to China are basically rock-bottom and outstanding sales to the rest of the world are pretty light as well. Brazilian offers are $10/mt cheaper to China right now, which doesn't help. I think it makes sense for WASDE to cut exports ~50 mil bu tomorrow and I show that in my projection below. I suppose it is possible they leave it alone today because of some sort of "hope" for an increase in sales based on the trade deal. However, IF WASDE sticks to their standard protocol I think it would be an easy call to look for a lower export projection tomorrow. For crush, the pace so far this marketing year does not imply WASDE should make a big adjustment today. WASDE might adjust their crush projection tomorrow IF they feel it is necessary for their meal and/or oil balance sheets. More on that in a sec…

US Soybean Supply and Demand (Million Bushels/Million Acres)

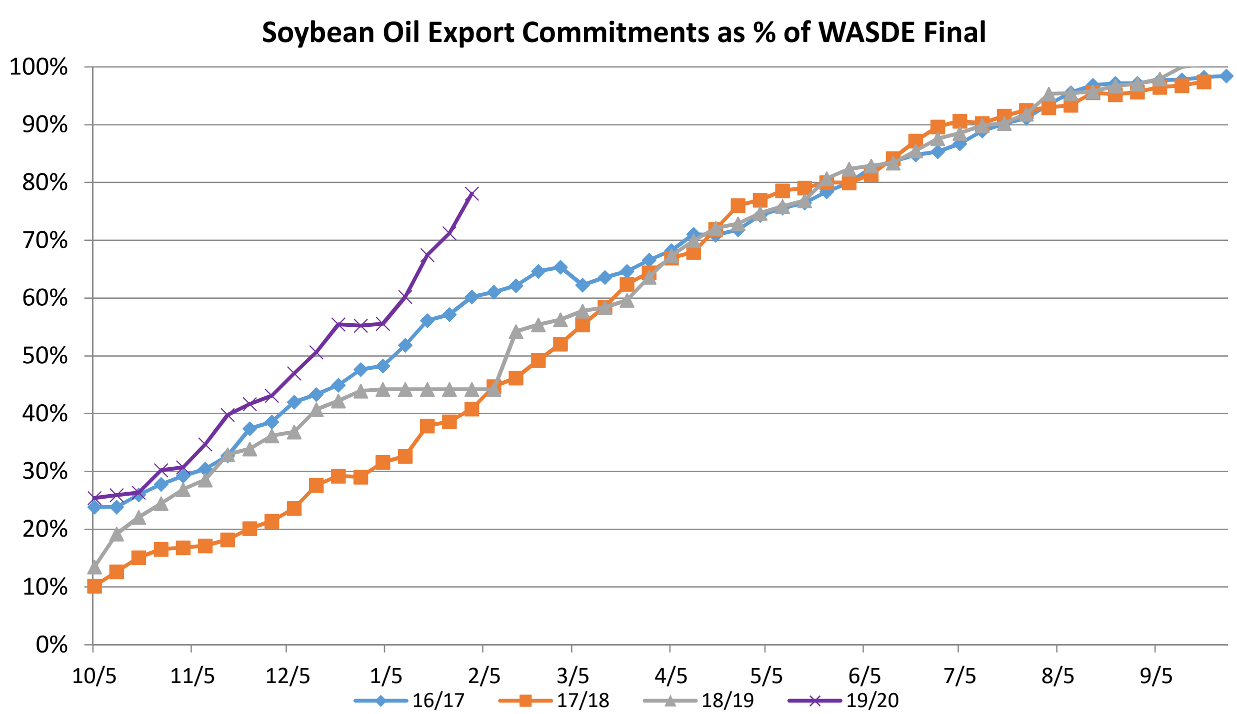
	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	**USDA 19/20 Jan**	**Possible 19/20**
Planted Acres	82.7	83.4	90.2	89.2	**76.1**	**76.1**
Harvested Acres	81.7	82.7	89.5	87.6	**75.0**	**75.0**
Abandoned Acres	1.0	0.7	0.7	1.6	**1.1**	**1.1**
Yield	48.0	52.0	49.3	50.6	**47.4**	**47.4**
Carryin (Sep 1)	191	197	302	438	**909**	**909**
Production	3,926	4,296	4,412	4,428	**3,558**	**3,558**
Imports	24	22	22	14	**15**	**15**
Total Supply	4,140	4,515	4,735	4,880	**4,482**	**4,482**
Crush	1,886	1,899	2,055	2,092	**2,105**	**2,105**
Exports (Census)	1,936	2,174	2,134	1,748	**1,775**	**1,725**
Seed	97	105	104	88	**96**	**93**
Residual	24	36	5	43	**32**	**32**
Total Use	3,943	4,213	4,297	3,971	**4,008**	**3,955**
Carryout (Aug 31)	197	302	438	909	**474**	**527**
Stocks/Use	5.0%	7.2%	10.2%	22.9%	**11.8%**	**13.3%**

Looking at the meal balance sheet, I don't suppose there is much to change here today. MYTD meal domestic disappearance numbers have been pretty volatile so far. WASDE is currently forecasting about a 2% YOY increase in domestic disappearance, which has been pretty average over the past few years. Until we start to see the data show some consistency one way or another, I don't expect any change here. I also think they leave exports unchanged. There is some chance they could raise production even with the crush figure being unchanged as yields have been pretty good so far this year.

Looking at oil, WASDE has a lot of work to do here. On production, oil yields have been really disappointing so far this year. You can see in the chart below that so far the monthly oil yields have been coming in well below what WASDE has been using so far this year. Without an increase in the soybean crush, WASDE has to lower yield and thus lower oil production.



In addition to needing to lower production (without a higher soybean crush) WASDE also needs to raise their oil export projection. Just look at the pace of exports as shown below.

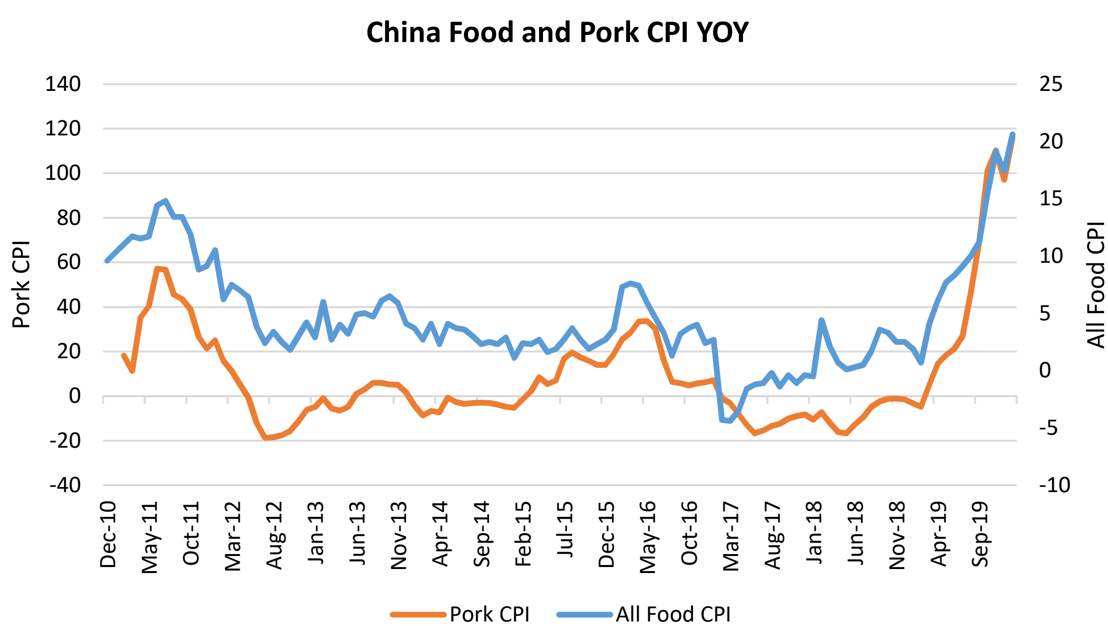


And recall from our prior comments that WASDE is already penciling in one of the tightest stocks/use ratios for soyoil we've seen in a looong time. WASDE will have some room to lower domestic disappearance. It is likely that both biodiesel use and other domestic consumption can be reduced to offset some of these changes. Still, without an increase in the soybean crush it seems very likely that the soyoil balance sheet will get a bit tighter tomorrow.

We'll stop here for now but follow up with a few more last-minute thoughts ahead of the report tomorrow morning. Be on the lookout for possible revisions to the surveys today as well.

Livestock

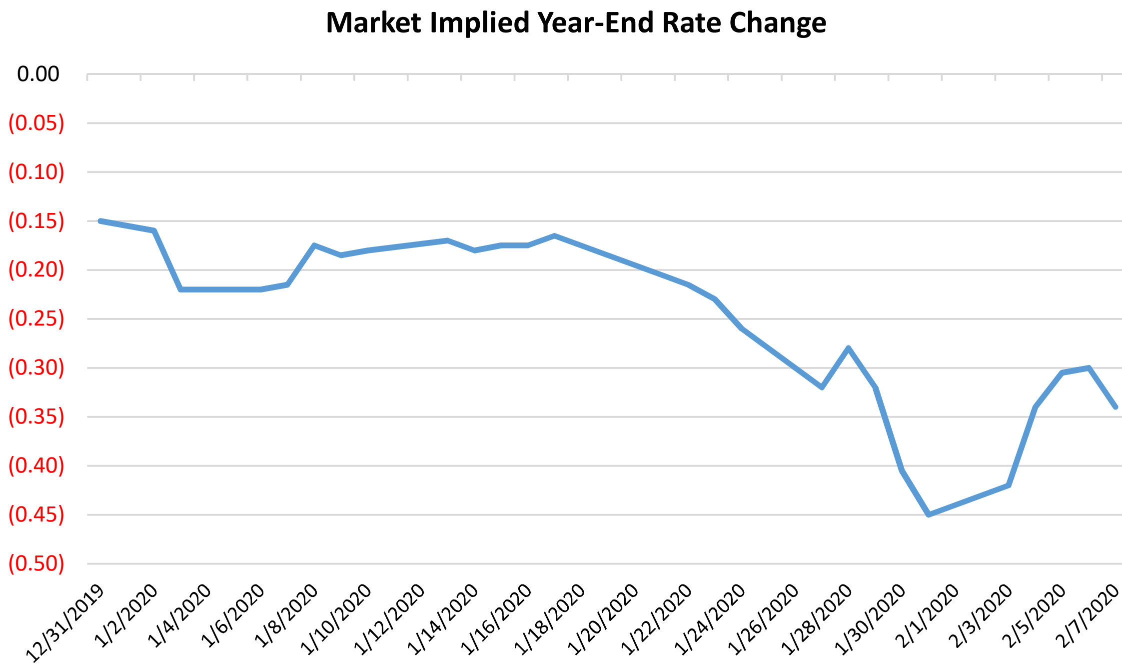
Despite the country being mostly on lockdown still, China did report inflation statistics overnight. The food CPI numbers are certainly worth noting. Total food CPI is up almost 21% YOY. This is the highest level of overall food inflation since early 2008. Pork CPI was up 116% YOY, which is the highest reading I have at all in my data. It is highly likely these numbers will get worse before they get better as the coronavirus limits supply chains and food distribution throughout the country.



Financials

The chart below is something I've shown before but has been adjusted as we've rolled into a new calendar year. This shows what the Fed Funds futures market is implying for a year-end net change in the Fed Funds rate. You'll see in the chart below the market had a modestly dovish bias to start the year, but wasn't even dialing in one full 25 bps rate cut initially. As concerns have ramped up surrounding the coronavirus, the market has started to pencil in a more aggressive Fed. Right now the market is implying at least a full 25 bps cut and at one point was almost fully pricing in two cuts before the end of the year. Keep this in mind when you're considering what the equity market response to coronavirus might be. Yes this is sure to take some points off global GDP.

However, if the response from the Fed will be further easing of interest rates on top of the ongoing expansion in the balance sheet, is the equity market really going to react hyper-negatively? I'm open to thoughts on this…

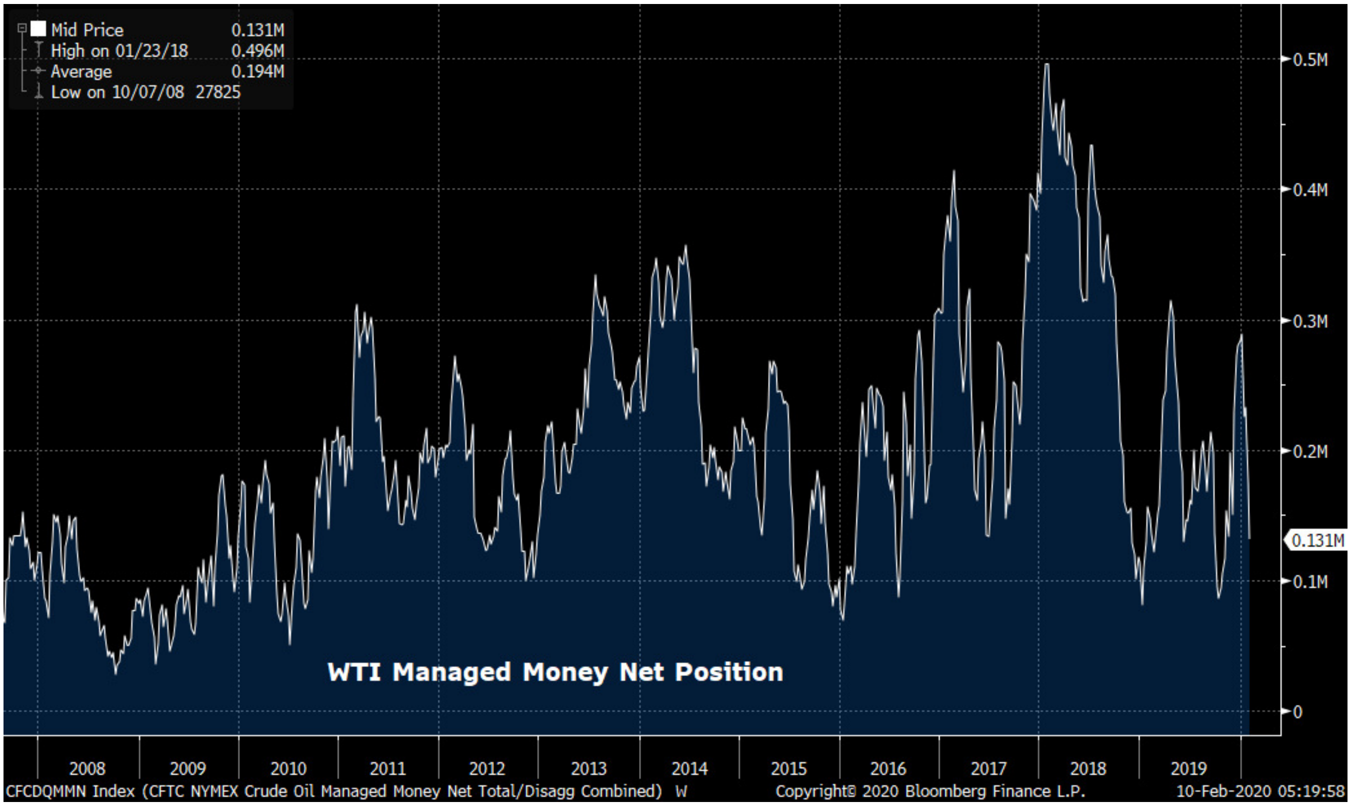


Obviously the coronavirus is dominating headlines right now and it seems there is little else being discussed at the moment. We did have some interesting political developments in Germany over the weekend. Merkel's chosen successor announced she would step down at the leader of the party and would not run as the party's candidate for chancellor in the next election. That leaves the German race wide open, which will obviously have potential to be enormously important for the FX and bond markets going forward. The Trump administration has released some budget proposals for the upcoming fiscal year. It will probably surprise nobody to note that it looks highly like that deficit spending will only increase with these projections. More on that later. No major economic data is due out today. Keep in mind Fed Chair Powell will hold his first day of Congressional testimony tomorrow. Obviously the Fed's read on the coronavirus impacts will be important.

Energy

No major new information to pass along for the energy markets this morning. Prices are lower at the time of writing as the OPEC+ group continues to seem noncommittal on making adjustments to production despite expectations for significant losses in demand. In addition to the lost demand, we also have to keep in mind that Libyan peace talks are ongoing and if we assume we'll get even a temporary ceasefire it will add additional supply to the market. The Russians have been hesitant to commit to an "emergency" OPEC+ meeting for a while and the oil minister for Azerbaijan said over the weekend that such a meeting is unlikely. The next scheduled meeting is for early March.

The chart on the following page shows the WTI managed money net position. You can see that specs are holding a fairly small net long position historically speaking. Over the past 10+ years the net long position has almost always been bigger than what it shown, so this tells you the pessimism shown toward this market right now. Gross short positions have surged higher in the past two weeks. While the short position is certainly nothing close to what was seen at times in 2016 it is definitely interesting to see how quickly the shorts have piled in here.



Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Several Fed speakers throughout the day

Thanks for reading.

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