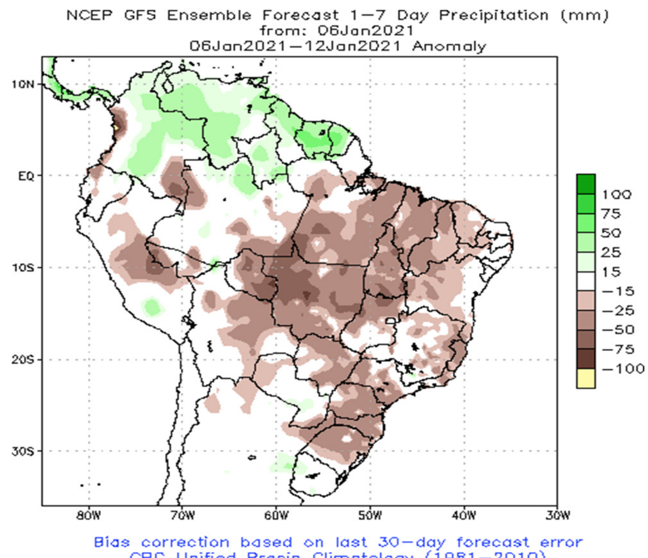
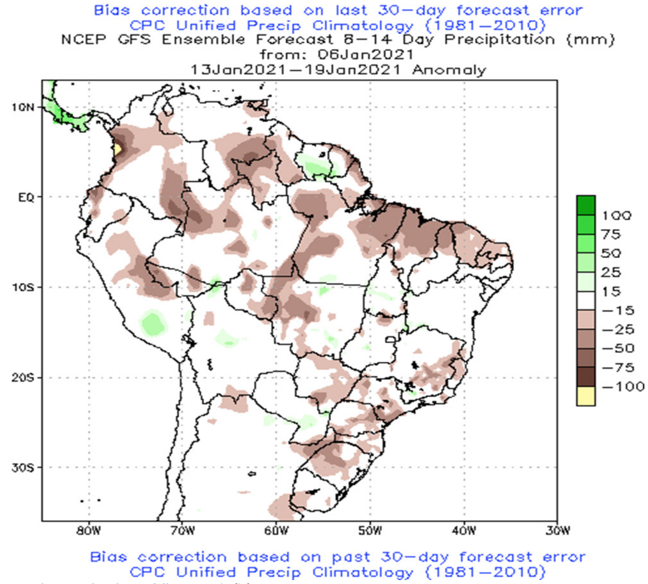
Weather

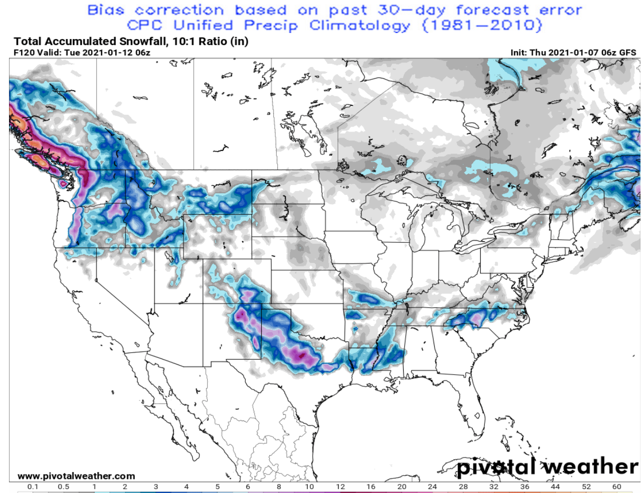
Near normal rainfall expected in northern Brazil over the next two weeks. Limited rainfall in the next few days with improvement in rains for both the 6-10 and 11-15 day periods. We could see some brief hot weather later this week with some 95+ highs, but that shouldn't stick around very long. Southern Brazil should also see near normal rainfall over the next two weeks. There will be daily rainfall chances over the next 5 days, though RGDS will be an exception and be mostly dry. Limited rainfall during the 6-10 day period but another uptick in rainfall chances for the 11-15 day period. Some briefly hot weather early next week on Sun/Mon with highs of 95-100, but that will not last very long with cooler temps already in place by Tues.



Argentina is still expected to see mostly near normal rainfall over the next two weeks, but it does appear the forecast is slightly drier than we have been seeing over the past several days. We still have two systems expected to move through the region next week, but the rainfall totals are down a bit from what has been presented in the past few days. Still, that being said, this remains the best shot of moisture the area has seen in a while and could produce widespread 1" rainfall totals with some locally heavier amounts. Rainfall totals in the 11-15 day period should diminish though it won't be completely dry. We'll see some briefly hot weather this week with highs in the 90s and some mid-90s. Temps will be cooler next week.



Still expecting snow in the Southern Plains next week, but the forecast has shifted the snow a bit further south than previously expected, as noted in the 5-day GFS projection shown to the right.

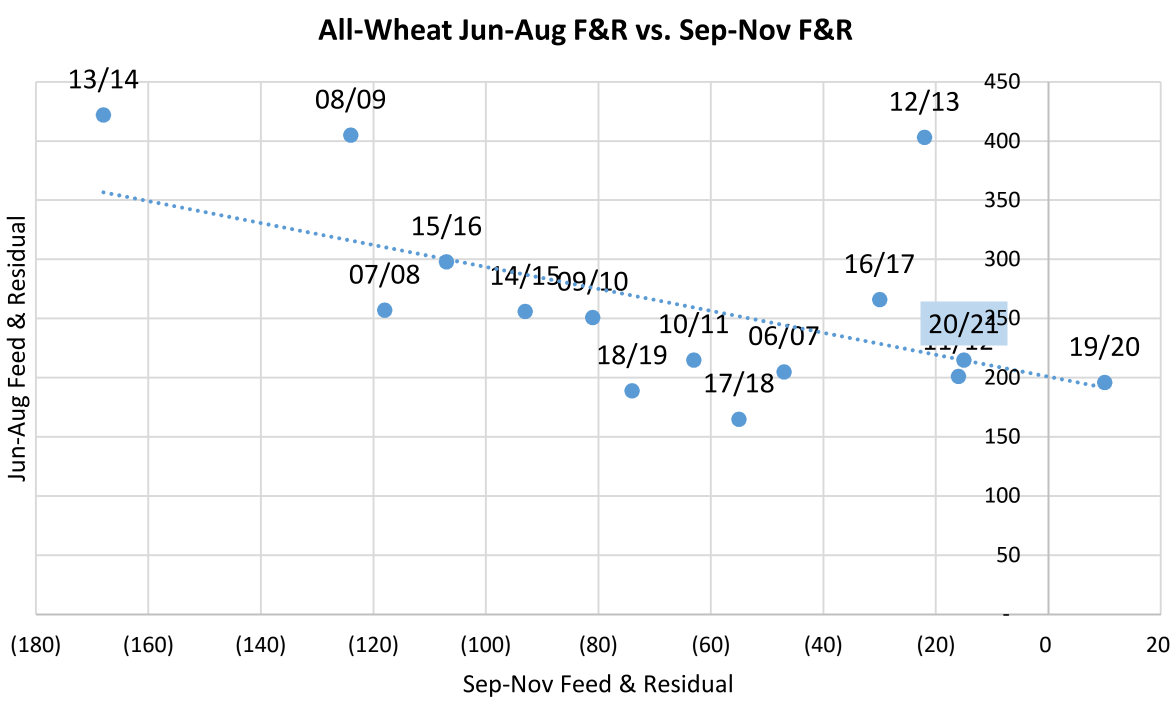


Crops

In addition to the unpredictable potential changes in 2020 production numbers, next week also holds the always unpredictable Quarterly Stocks report. Over the next few days we'll do our best to make preparations for that aspect of next week's reports. It should go without saying that the stocks estimates I'll be presenting, as always, are low confidence as there is just no way of accounting for all the various shenanigans NASS could employ.

We'll start our review with the quarterly stocks for wheat today. Wheat will have fewer moving pieces as production figures are unlikely to be adjusted much (though it is possible). Food and seed use are usually pretty consistent from quarter to quarter, so those are unlikely to produce any big surprises next week. Trade data, exports and imports, are not quite set in stone but we have official Census data for 2 out of 3 of the months so we should be able to get it pretty close.

As always, the main question is feed and residual consumption. As shown below, there is a fairly typical relationship between the NASS estimate for F&R between Q1 and Q2. There are some years that notably stand-out from the overall relationship, but in each of those years it is fairly easy to point out a special circumstance that factored into the discrepancy. You'll see I'm plugging in a level for Q2 F&R in the chart below that lines up fairly close with the typical relationship.



With all of the above in mind, you'll find my rough guesstimate for Dec 1 all-wheat stocks below. I haven't yet seen any newswire guesses so I don't have anything to compare against right now. Please be sure to ping me if you feel I'm off on anything. What I do think is interesting is that this would be the lowest Dec 1 wheat stocks figure since 14/15.

US All-Wheat Quarterly Supply and Demand	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Carryin (Sep 1)	976	863	743	718	590	752	976	1,181	1,099	1,080	1,028
Production	2,163	1,993	2,252	2,135	2,026	2,062	2,309	1,741	1,885	1,932	1,826
Jun-Aug Imports	27	21	26	36	44	27	33	42	41	23	30
Total Supply	3,166	2,877	3,020	2,889	2,660	2,841	3,318	2,962	3,025	3,035	2,884
Jun-Aug											
Food	235	230	238	235	239	240	238	239	239	238	239
Seed	1	5	1	4	6	1	1	1	2	4	2
Feed & Residual	215	201	403	422	256	298	266	165	189	196	215
Exports	266	295	264	358	253	205	268	292	205	252	270
Total Use	717	730	905	1,019	754	744	773	697	635	690	726
Stocks (Sep 1)	2,450	2,147	2,115	1,870	1,907	2,097	2,545	2,267	2,390	2,346	2,159
Sep-Nov											
Imports	24	32	33	48	35	27	29	36	31	23	27
Food	242	244	247	249	248	249	245	251	247	247	250
Seed	51	51	55	53	49	44	41	40	37	37	40
Feed & Residual	(63)	(16)	(22)	(168)	(93)	(107)	(30)	(55)	(74)	10	(15)
Exports	311	238	198	309	208	192	239	193	203	233	230
Total Use	540	516	477	443	412	378	495	429	412	527	505
Stocks (Dec 1)	1,933	1,663	1,671	1,475	1,530	1,746	2,079	1,874	2,009	1,841	1,681

While looking at wheat, we might as well discuss the initial planting estimates we'll also get next week. For a few years it was an easy bet to take the under vs. the average guess on wheat planted area. Note the table at the right showing a long stretch of acreage coming in under expectations. I wonder, however, if we might have finally hit rock bottom in terms of wheat area we're going to plant at this point? I haven't yet seen a guesstimate for wheat area at the time of writing, but we've got to be looking for a modest YOY increase, right?

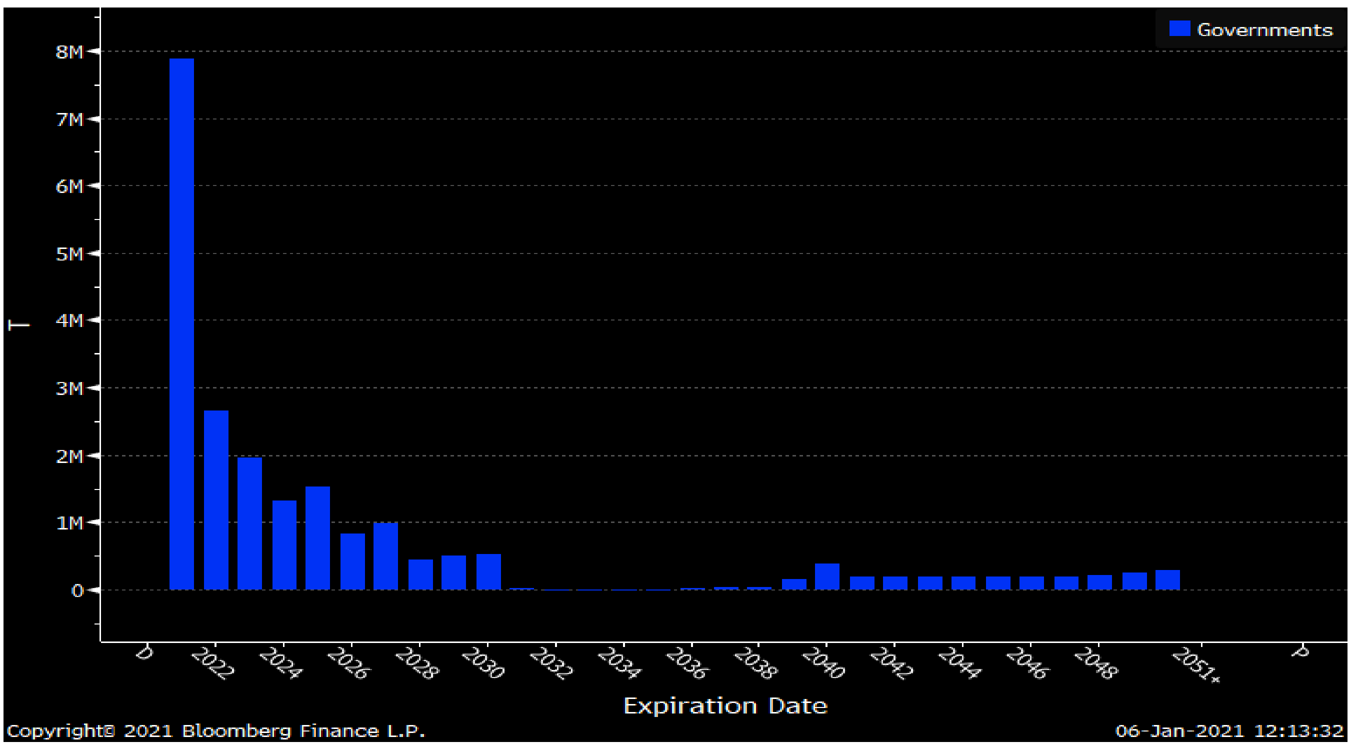
January Winter Wheat vs. Expectations	Actual	Expected	Miss
2007	44.1	44.2	(0.1)
2008	46.6	48.6	(2.0)
2009	42.1	44.2	(2.1)
2010	37.1	40.9	(3.8)
2011	41.0	40.9	0.0
2012	41.9	40.9	1.0
2013	41.8	42.6	(0.8)
2014	41.9	43.5	(1.6)
2015	40.5	42.6	(2.1)
2016	36.6	39.3	(2.7)
2017	32.4	34.4	(2.0)
2018	32.6	31.5	1.1
2019	31.3	32.0	(0.7)
2020	30.8	30.6	0.2

Livestock

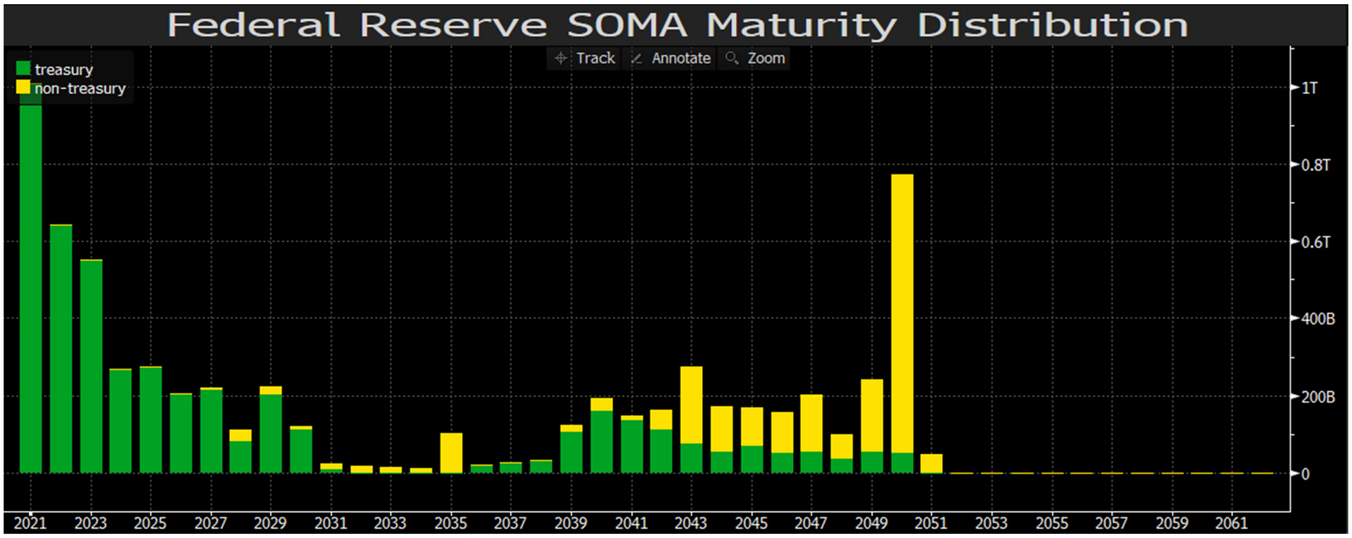
I don't have much to say on the livestock market this morning. We saw some limited cash trade yesterday near 112, but the volume was small enough that I won't say it yet sets the tone for the week. The cutout has been trading pretty soft in the past several days, which doesn't offer a ton of support. Seasonally speaking, the cutout typically just treads water early in the calendar year before a seasonal rally in early spring. Without some support from beef, however, I'm not sure how excited I want to be about upside in fats here. That being said, the chart of LCJ is a little compelling. We tested support at the 50/100 day moving average convergence on Monday and shot right back to life on Tuesday. We're still flirting with technical resistance at 120. A move above the 120 level would seem to have some room to the upside from technical buyers, so the set-up here has my attention. I've been mostly uninspired by cattle for several weeks, if not months now. The fact that the market seems entirely unwilling to back off from this technical resistance level certainly has my attention.

Financials

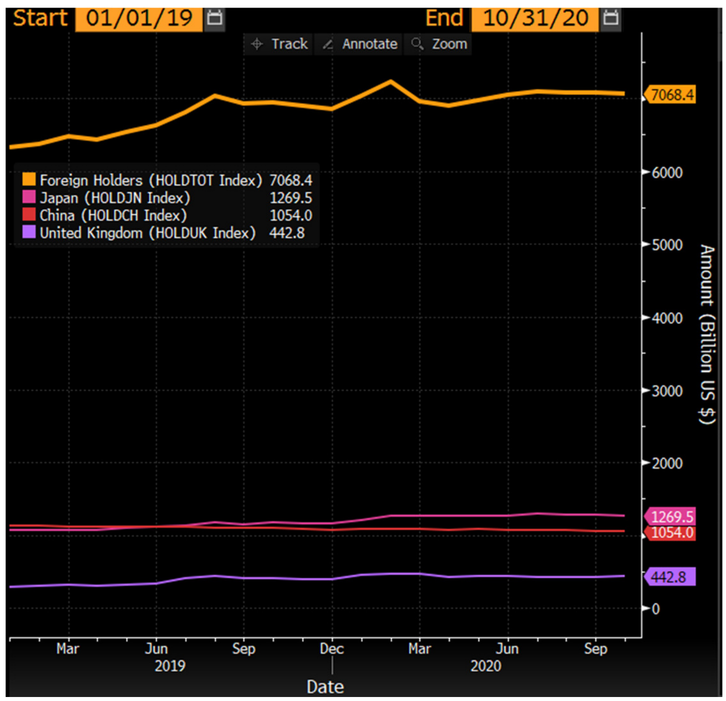
The Treasury market took it on the chin yesterday and without more support from the Fed this is likely to continue. Consider the following. The breakdown below shows the debt maturity distribution for the US Treasury. This shows the Treasury has roughly $8 trillion of existing debt to rollover this year. Keep in mind that, on top of the existing debt, the government will no doubt continue to pile up additional debt as the year progresses. Pre-Covid in 2019 the federal deficit was roughly $1T. In 2020, obviously with Covid, the deficit was in excess of $3T (I don't have official Dec figures yet). Let's split the difference and assume the 2021 deficit will be $2T. So we're up to roughly $10T of supply of Treasuries on the market in 2021. That is roughly 50% of US nominal GDP



So let's look at the biggest holder of US debt, our own Federal Reserve. The chart below looks at the current distribution of Fed holdings, and you can see they have roughly $1T of holdings they'll need to "reinvest" during the course of 2021. On top of that, the Fed has committed to buying $120B of "assets" each month. Obviously not all of that is likely to be directed at Treasuries, but for the sake of argument let's assume it is just for today. I'll round it up and call it roughly $1.5T of possible Treasury purchases from the Fed. That leaves $7.5T or roughly 35% of US GDP for the market to chew on over the course of the year.



The chart to the right shows the latest history of foreign holders of US debt. The orange line at the top shows the estimate foreign totals and the individual lines at the bottom show some of the bigger holders. In all cases, it seems over the past two years that foreign holders have not been keen on adding to their Treasury holdings. Admittedly, higher oil prices might prompt oil importers to hold more Treasuries (oil is still priced in USD…for now), so maybe we can count on foreign holders adding $1T in holdings?



I'm clearly out of my comfort zone here, but the point I'm trying to make this morning is that the supply of Treasuries we're going to be chewing through this year is absolutely massive. My secondary, and more important, point is that this will require MORE from the Federal Reserve than "only" $120B per month. It is tempting to think that the supply of Treasuries will continue to weigh on the market as we saw yesterday for the remainder of the year, but instead I expect the Fed will eventually step up and "provide liquidity" with additional asset purchases. With that in mind, I still like the same markets we've been discussing for months now…gold, silver, bitcoin, and a short dollar position. A short Treasury position certainly does make some sense as well, but I expect that market will eventually settle into range-bound action if and when the Fed finally does start to become more aggressive again.

Thoughts greatly appreciated.

Energy

Don't look now, but the spot WTI spread is *this* close to inverting…

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- Trade Balance – 7:30am
- ISM Services Index – 9:00am
- EIA Natural Gas Storage – 9:30am
- Several Fed speakers throughout the day

Thanks for reading.

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