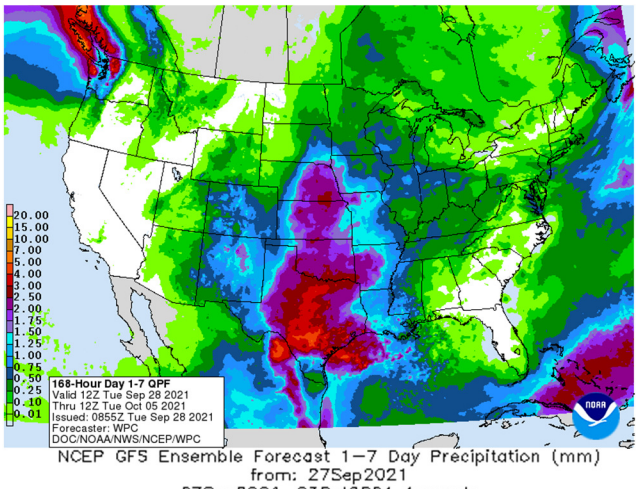
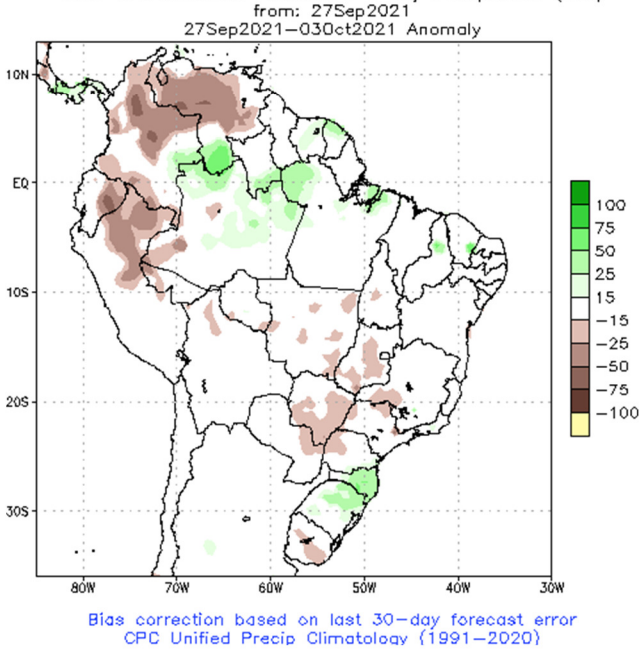
Weather

We can probably call the US forecast wetter this morning, though the overall theme is unchanged. The bottom line is we're looking for daily chances for rain in the Southern Plains over the next several days and this will expand to some surrounding areas as well. Most of the rain shown in the map at the right won't start falling for another ~24 hours, but from tomorrow through Saturday we should see some heavy rains in the area. The rainfall will expand into portions of the WCB for Thur-Sat. The rainfall shown in the ECB will mostly be seen from Sun-Mon, but obviously that is not expected to be heavy amounts. Temps meanwhile should continue to average mostly above normal for the duration of the two week period.



NCEP GFS Ensemble Forecast 1–7 Day Precipitation (mm)
from: 27Sep2021

No big changes to the forecast in Brazil. We should see fairly limited rainfall chances in northern Brazil over the next week or so. The Week 2 period should feature an uptick in rainfall chances in the region, however, which should allow for a bit more planting progress to be made.



Crops

Every so often I get completely stuck while trying to study something. I can feel something isn't right with some analysis/numbers, but I can't quite put my finger on it. That has been the case when trying to dissect the Sep 1 corn stocks estimate recently. Thankfully, I am fortunate enough to be surrounded by a lot of smart people. One such smart person is Don Frahm, whom I was relieved to find had done some very nice work on crunching the Sep 1 corn stocks estimate. What follows below is his analysis. I'm copying his work word-for-word, and I'll just have a quick recap afterwards….

September Corn Stocks Risk

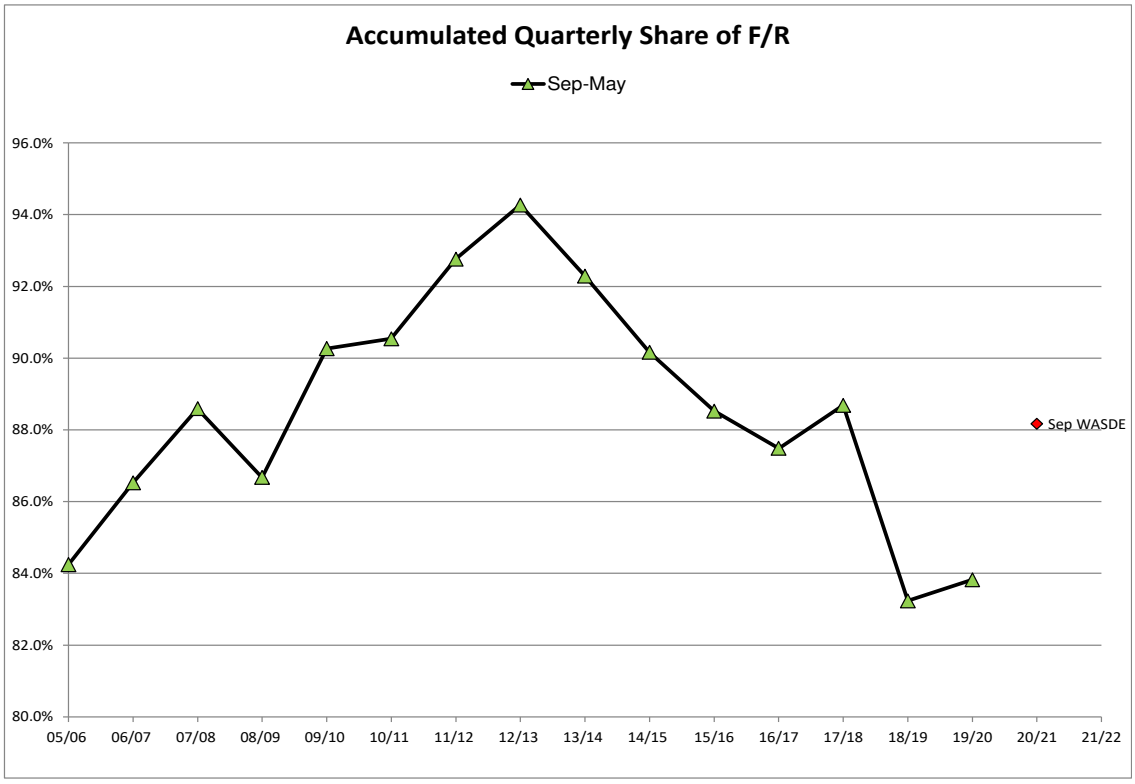
September corn stocks have triggered significant changes in F/R use as compared to WASDE's pre-report estimate in each of the past three years. At the end of the 17/18 CY, WASDE's F/R estimate was reduced 148 mil bu in October following reported September stocks, increased by 343 mil bu in 18/19 and increased by 227 mil bu last year.

WASDE's Sept estimate for the 20/21 CY is 5,725 mil bu, 3% below 19/20. Sep through May F/R disappearance implied by June '21 stocks is calculated to be 5,049 mil bu, up 2.1% from a year earlier, implying a June-Aug '21

F/R value of 676 mil bu, which would be nearly 30% below the year earlier. With the first three quarters up 2 percent one might conclude a 30% year over year decline the last quarter a bit heroic, and leap to the conclusion bigger annual F/R is supported by the first three quarter experience and therefore suggesting a good likelihood September stocks will be below WASDE's estimate. OR…….

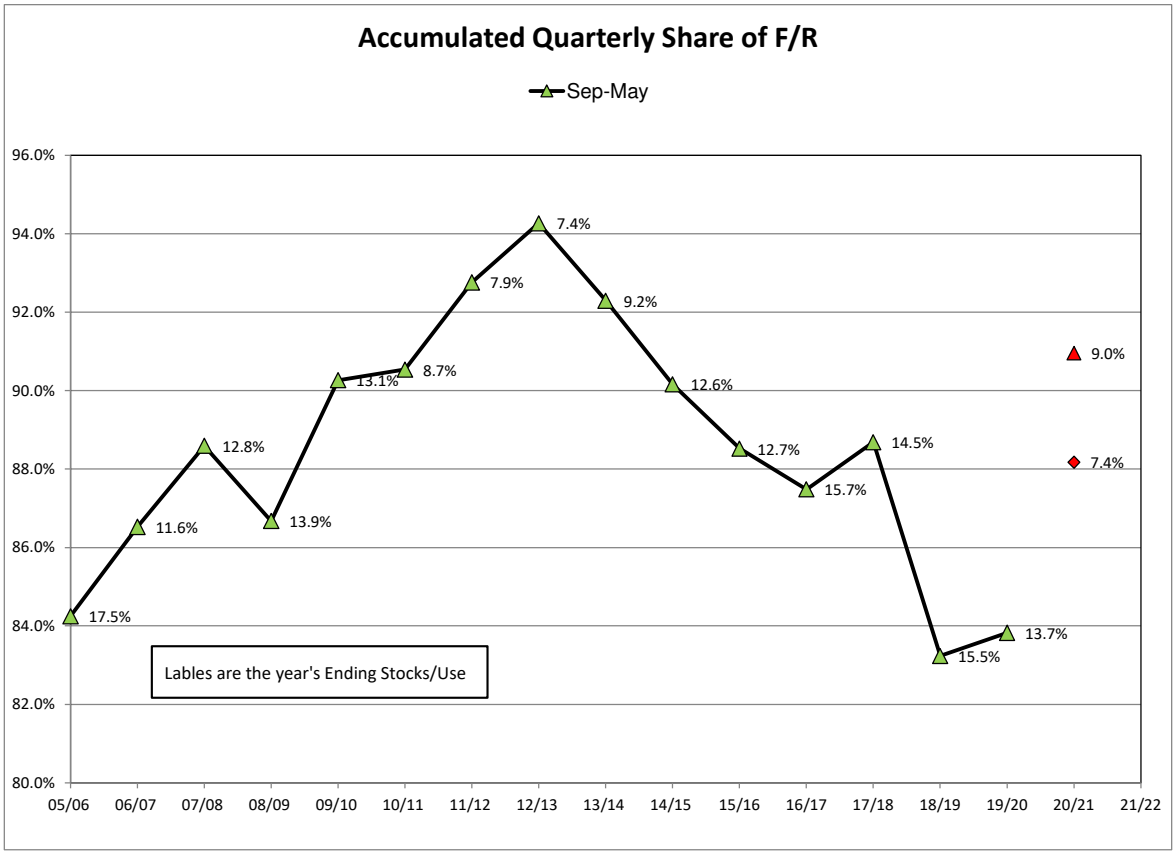
Case #1

The following chart displays the historical share of annual F/R disappearance which has statistically occurred during the first three quarters in past years along with that implied by WASDE'S current estimate for 20/21. Clearly, 20/21 as implied by WASDE's current estimate is sharply different than last year and 18/19, but it is similar to 15/16, 16/17 and 17/18. The 84 to 94 percent historical range over this timespan algebraically suggests 20/21 F/R use of 5,400 to 6,000 mil bu given the Sep-May occurrence, 350 below to 250 mil bu above WASDE's current estimate.



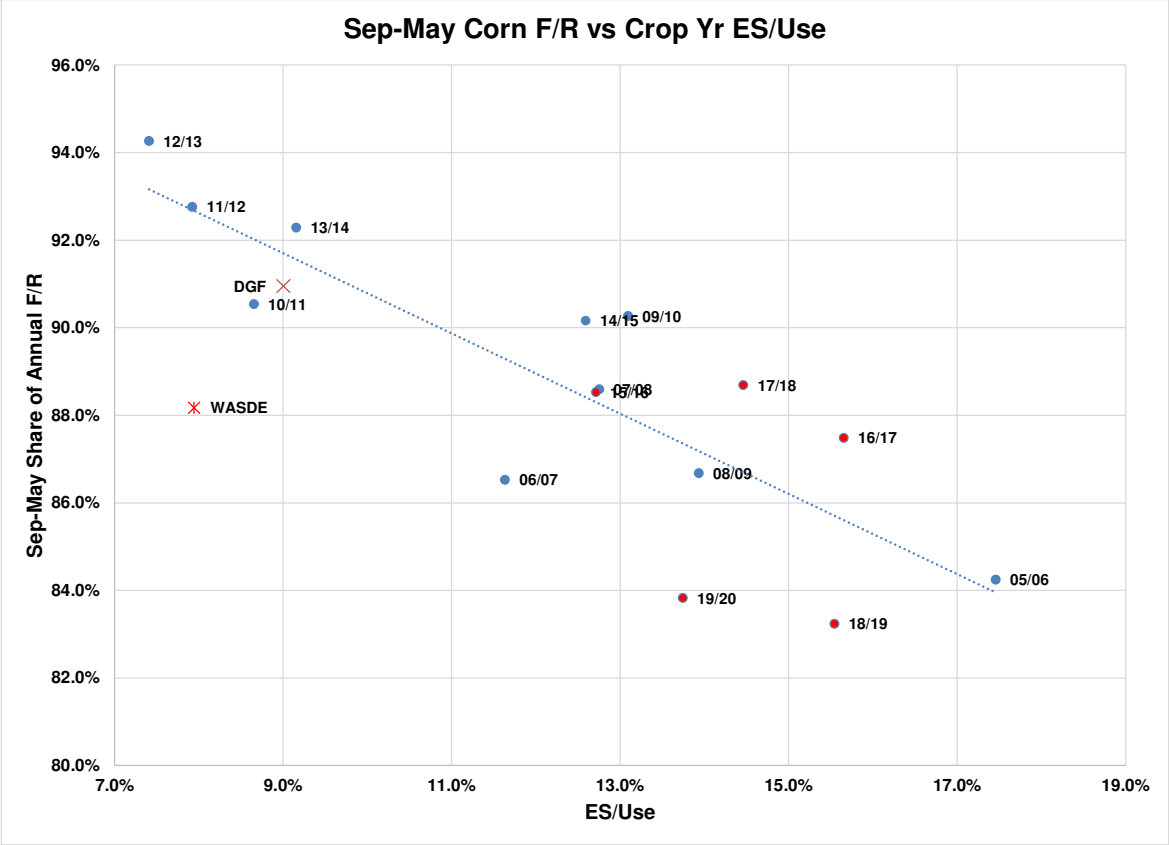
The chart below is a repeat of the prior one with season ending stocks/use percentages added as data labels and a second point for 20/21 which represents my personal estimate.

It is noted that historical years with tight stocks to use ratios see larger Sep-May shares of CY F/R use and therefore small June-August F/R values.



The 20/21 plot labeled 9% is consistent with my personal S/U balance which includes a F/R estimate of 5,550 which is implied by USDA-ERS's F/R model annual estimate. The 91% share is "derived" from it as an annual value and that calculated for the Sep-Feb period from NASS's stocks and production estimates.

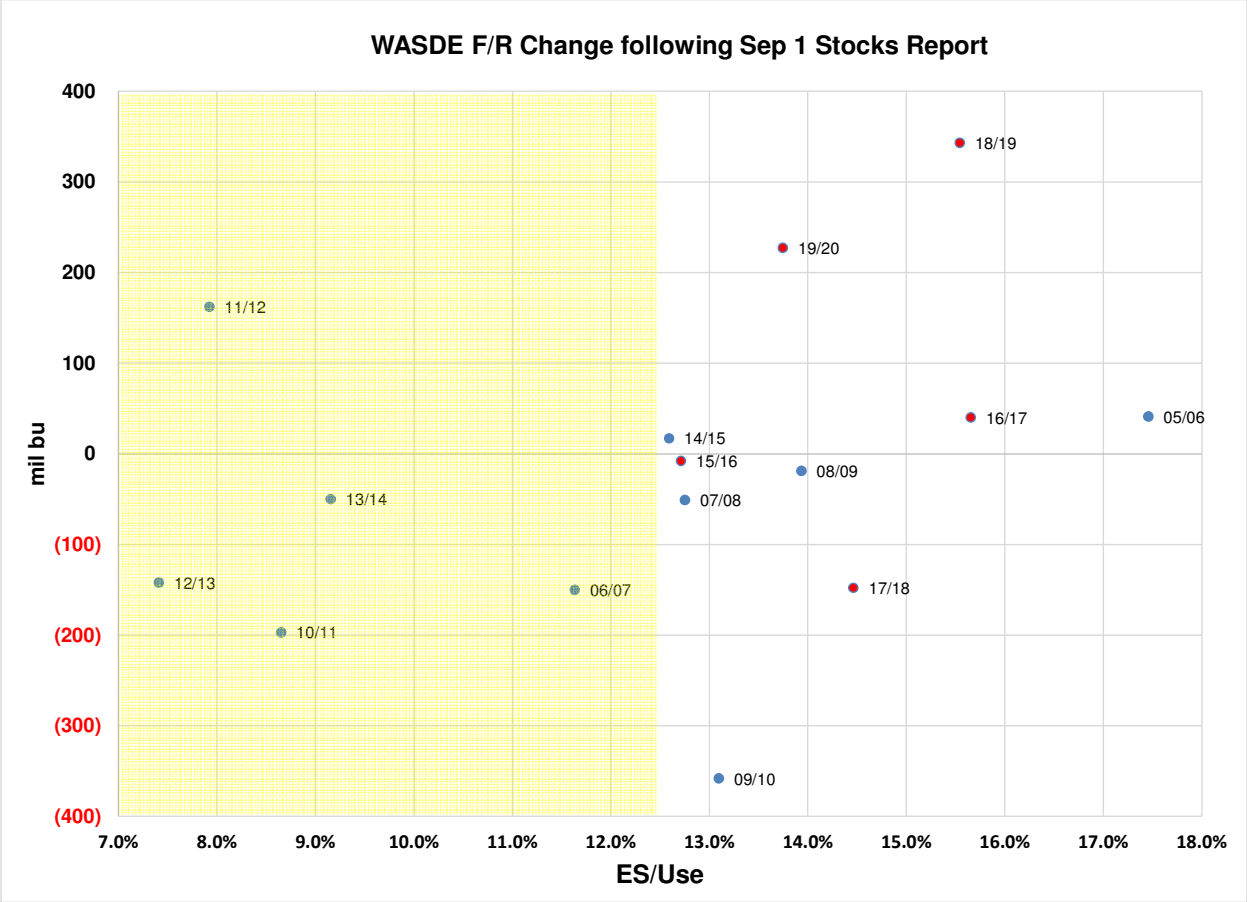
These two-line charts data is converted to an X:Y scatter in the following chart to focus on the association between ES/U and the distribution of F/R use across the CY. There appears to be a relationship across past years. The implication from this scatter, should the relationship hold in 20/21, would be that WASDE's estimate is on the order of 150-200 mil bu to high holding other elements of the balance unchanged.



Case #2

Looking at WASDE F/R estimate changes from September to October, there appears to be a strong **tendency** for estimate reductions in years when ES/U ratios are small. Across the past 15-years, WASDE lowered estimated F/R use by 75-200 mil bu following reported September stocks in 4 of the 5 years ES/U was below 12.5%. The exception was 2011/12.

It is noted, in the September 2012 WASDE, 2011/12's F/R was reduced by 150 mil bu on the argument that harvest of early maturing 2012 corn would be used in the 11/12 CY. Whether that occurred or not, it was not evidenced in Sep stocks and October's post Sep stocks F/R returned very close to the level estimated in August. 20/21 ES/Use will be below 12.5%.



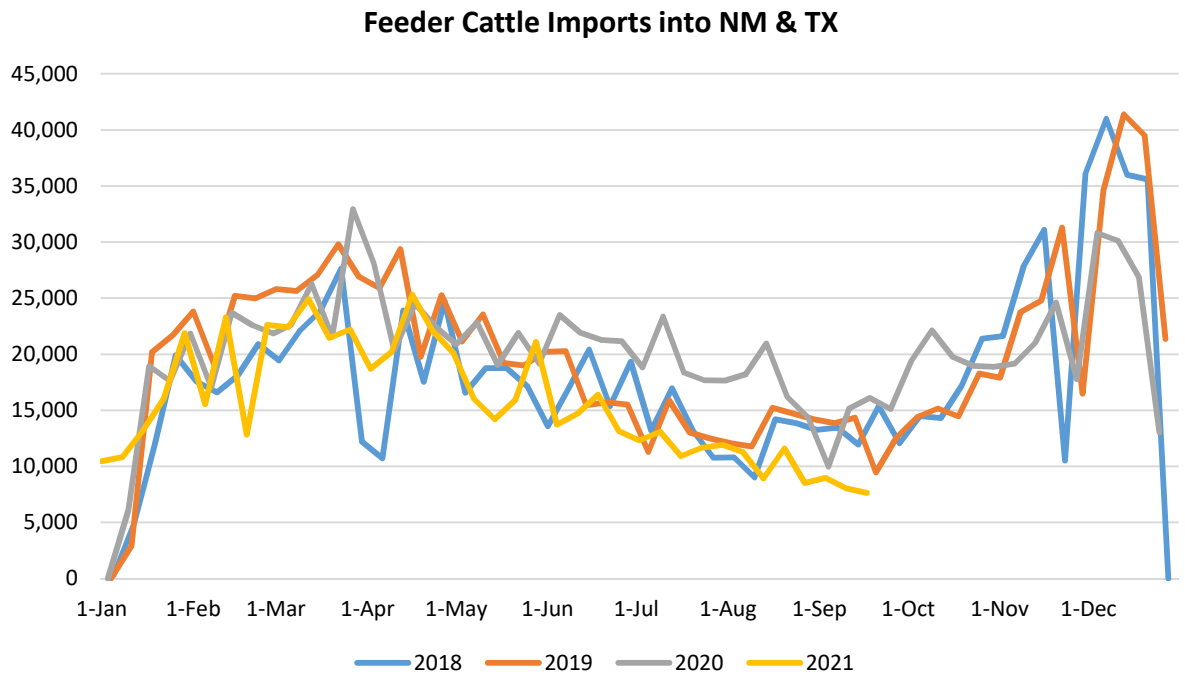
DZ here again – My problem was exactly what Don described in his opening. My initial arithmetic was implying a bigger annual F&R figure because of the strong disappearance from Sep-May. That simple work didn't "feel" right, however, and I'm glad Don had done this work on his own to help with the analysis. And recall our work from last week showing that in recent years, it is mostly the "tight" supply years in which Sep 1 stocks turn out higher than expected. The only exception was 2012, but that was partly because WASDE lowered F&R in Aug as Don mentioned above.

	Corn Sep 1 Stocks				WASDE
	Actual	Expected	Diff	% Diff	S/U
2010	**1,708**	1,407	301	21%	10%
2011	**1,128**	948	180	19%	7%
2012	**988**	1,126	(138)	-12%	10%
2013	**824**	681	143	21%	6%
2014	**1,236**	1,185	51	4%	9%
2015	**1,731**	1,739	(8)	0%	13%
2016	**1,738**	1,754	(16)	-1%	13%
2017	**2,295**	2,346	(51)	-2%	16%
2018	**2,140**	2,010	130	6%	13%
2019	**2,114**	2,418	(304)	-13%	17%
2020	**1,995**	2,266	(271)	-12%	17%
2021		1,153			8%

As always, there is no reason to be hyper-confident going into a quarterly stocks report. However, I feel Don's work is well-reasoned and plausible. It argues for a higher than expected corn stocks number, and I'm going to lean that direction myself. Thoughts appreciated.

Livestock

Quick thought on the COF numbers and herd liquidation. I pulled data on feeder cattle imports from Mexico yesterday. The imports of feeders into NM and TX from Mexico is running well below year ago levels. The chart on the following page shows the seasonal view. Right now it looks like this series is running about 150k head under year ago levels, or roughly 20% lower.



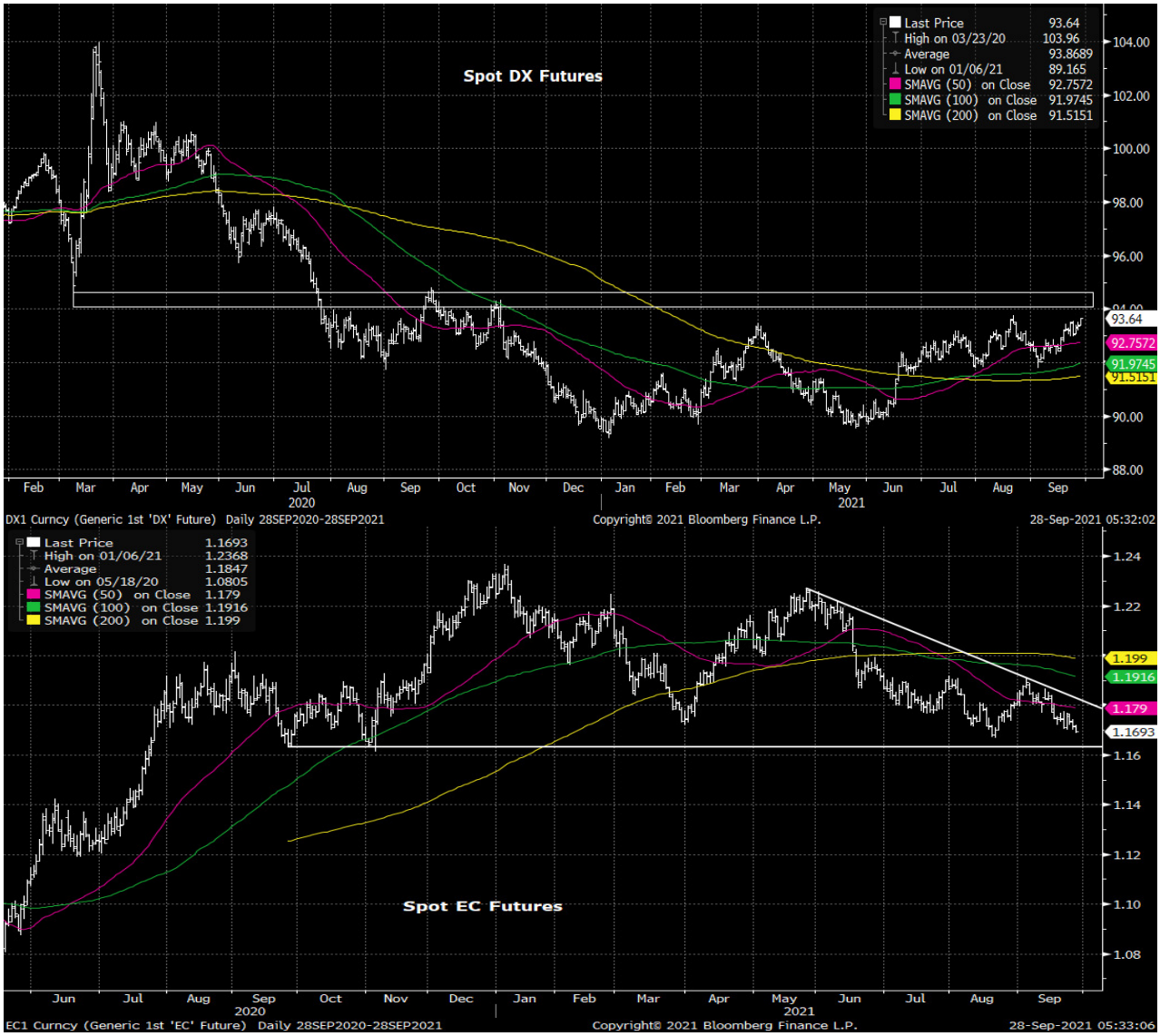
What's the point? Well, I'm not entirely sure I have one. I just find it somewhat interesting to see feeder imports running 20% lower YOY, or roughly 150k head, while YTD placements are up 4% YOY or a little more than 500k head. Isn't this another supportive detail in the case for ongoing herd liquidation? I know, Mexican feeder imports into NM & TX don't tell the entire story, but it is a pretty good chunk of it. Thoughts appreciated.

Financials

A risk off morning, with Treasury yields higher and equity futures lower. This is partially brought about by the ongoing spike in energy prices. Natural gas is up another 6%+ this morning at the time of writing. WTI is up roughly 1%. The entire Treasury curve is seeing yields move higher. I showed last week how the 10Y yield was breaking out to the upside. To the right you can see that the 5Y yield is now breaking out above the 1% level for the first time since the pandemic started.

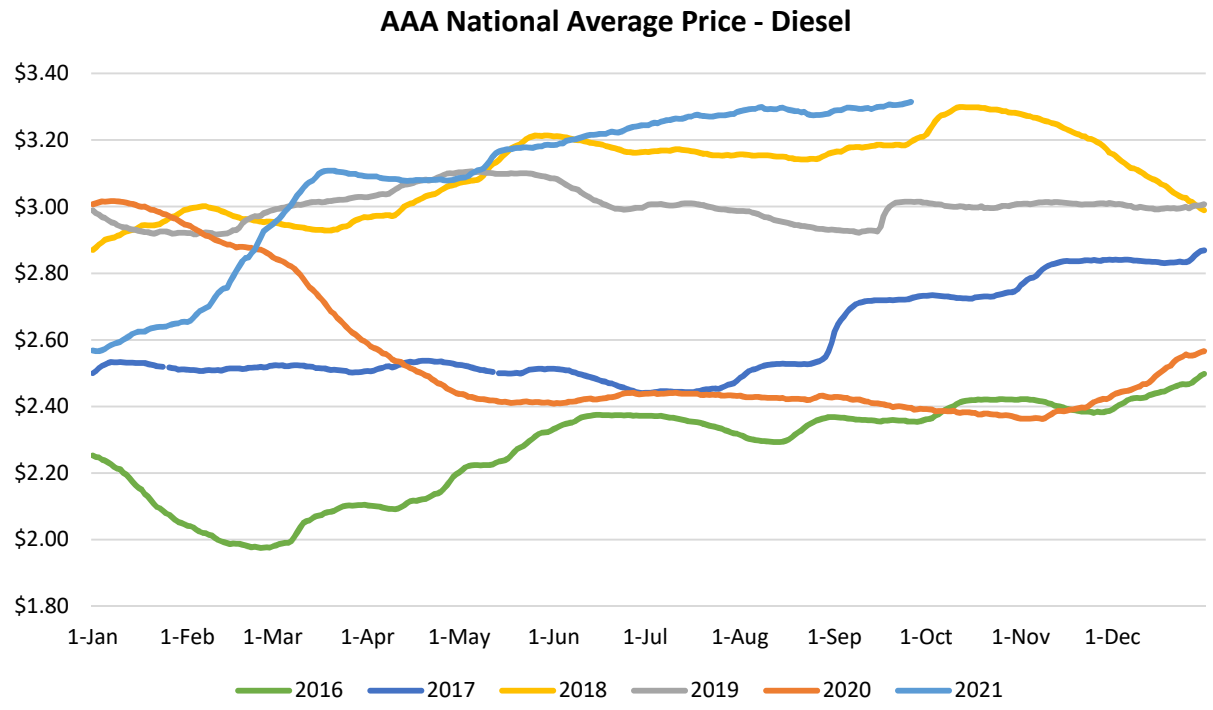
The equity market definitely has a real problem on its hands in the form of higher energy prices. On one hand, one could make the argument that higher prices could force firms to raise their prices to protect their margins which will lead to higher inflation readings. This could then force the Fed's hand into more aggressive tightening of monetary policy, which would be negative to equity prices. I agree, a hawkish Fed seems unlikely at this time. But on the other hand, if the higher energy prices are not offset by higher prices to the end-user, then firms will see their margins contract and that is not good for share prices either.

One more chart that has my attention right now is the DX. Note below. We have been flirting with a potential upside breakout above this resistance level for quite some time now. If the risk-off sentiment starts to pick up some steam, it might be enough to spark lift-off from this level. That would definitely create some ripple-effects for other markets. Along the same lines, the Euro is sitting on an important support level. Perhaps FX might start to get interesting again.



Energy

At some point last week I included a chart showing the national average price of US regular gasoline. The point was that high prices were holding steady despite the normal seasonal decline we see starting in early fall. One thing I haven't looked at much lately is diesel prices. Obviously we require a lot of trucks to move all our stuff around, and those trucks use a lot of diesel. The chart below looks at the seasonal view of US national average diesel prices. Diesel prices are continuing to grind higher right now, posting new highs last week. The national average price of diesel hasn't been this high since 2014.



Today's Calendar (all times Central)

- Consumer Confidence – 9:00am
- Several Fed speakers throughout the day

Thanks for reading.

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