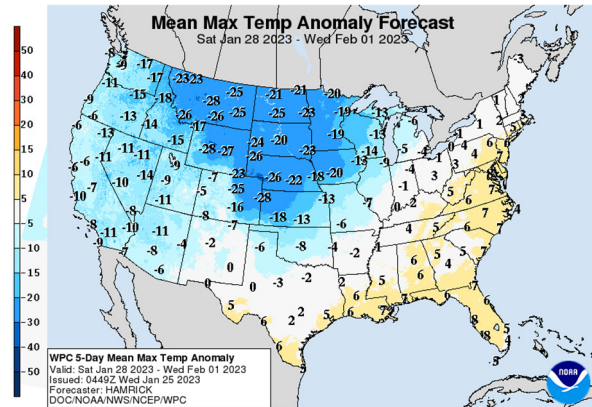


**Weather**

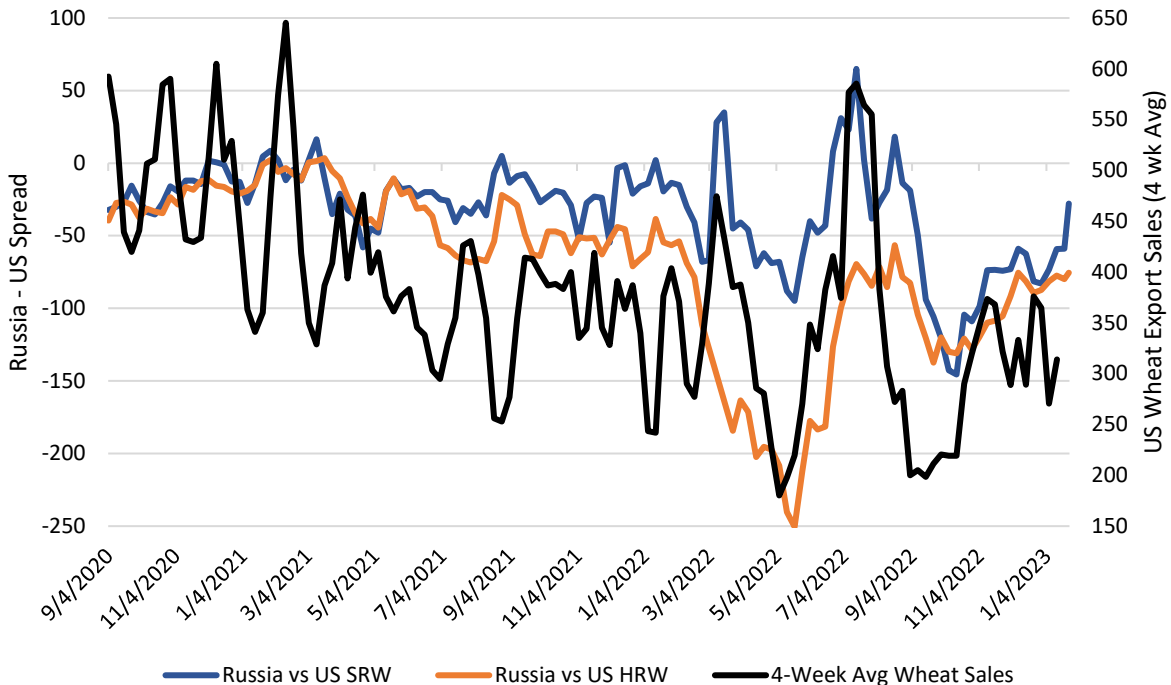
No changes to the South American forecast. Northern Brazil will continue to see near to above normal rainfall. Southern Brazil, specifically RGDS, will continue to see below normal precipitation over the next 5-7 days but the Week 2 forecast shows good chances for near normal precipitation. More very good rains for Argentina through the end of the month, but the deferred outlook shows a return to below normal precipitation chances in the 11-15 day period. The US forecast is largely unchanged as well. Limited precipitation in the middle of the country with some very cold temps moving in and sticking around for at least the duration of the two week forecast period.



**Crops**

One chart today, again looking at some wheat spreads. This time we're looking at the spread between Russian FOB wheat values and US FOB wheat values. Russia – US SRW is shown with the dark blue line and Russia – US HRW is shown with the orange line. US wheat remains a premium vs. Russian FOB values, but you can see that the gap has been steadily narrowing in the past few weeks. This is worth noting because US export sales typically respond as the gap narrows. The black line shows a rolling 4-week average of all wheat export sales. You can see the tendency for sales to be better when the US is more competitively priced. And the US doesn't necessarily need to be a discount for an impact to be felt, though that definitely can lead to strong sales.

**Russia FOB Wheat vs. US FOB Wheat**



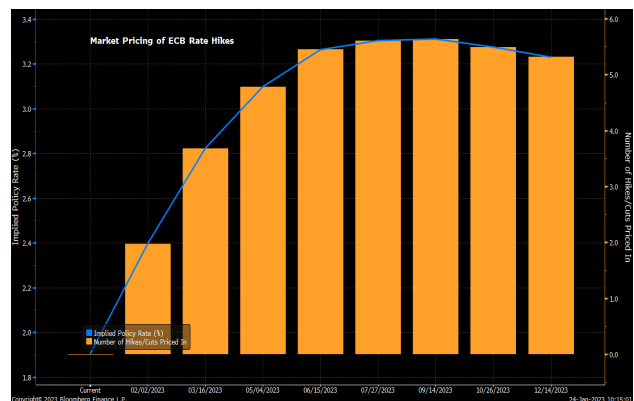
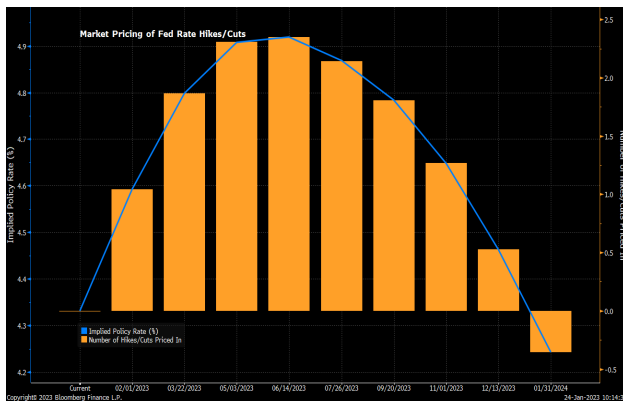
Bottom line – on the margin US wheat is getting a bit more competitive and this \*might\* lead to a modest improvement in export sales in the weeks ahead. Thoughts appreciated.

### Livestock

Not much to say on this subject today. The week so far has been fairly quiet. No cash activity yet. Seeing most looking for cash to be roughly steady with last week. Beef prices continue to sink, which means packer margins are contracting again. This is happening from elevated levels, however, so I'm not sure how much it matters overall. Cattle futures bounced off technical support levels late last week and have been creeping higher so far this week. LCJ is within spitting distance from contract highs.

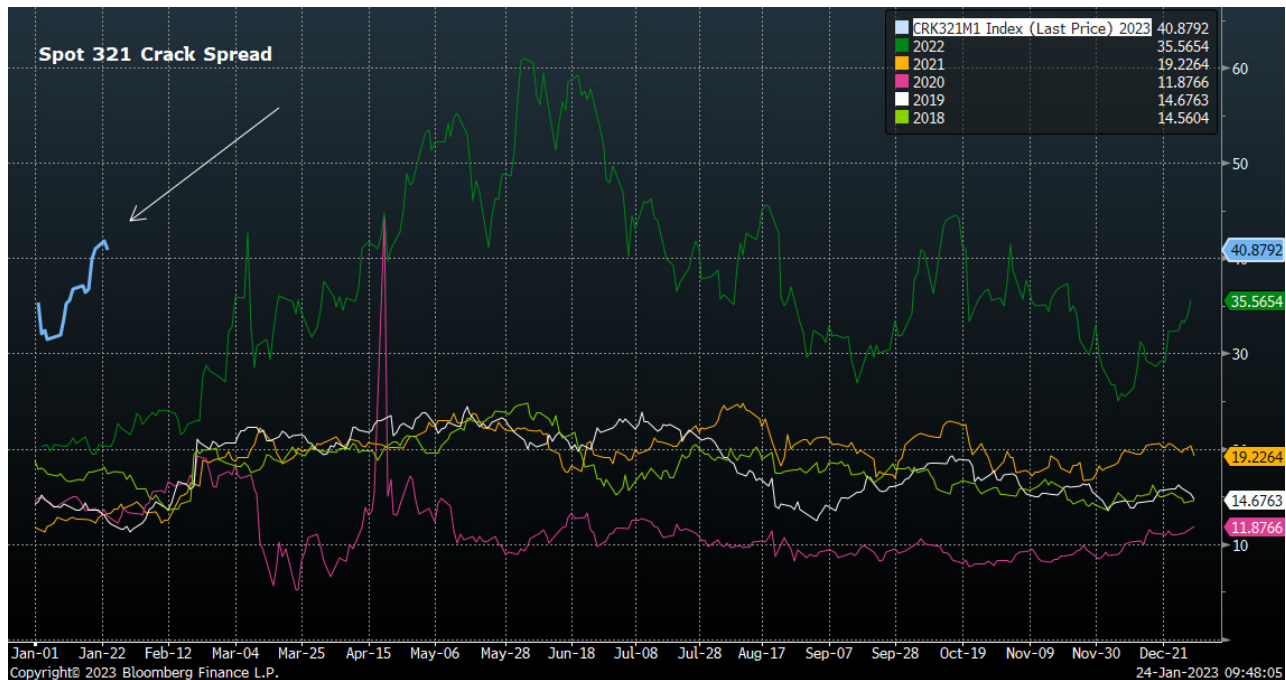
### Financials

I didn't report it yesterday, but it is worth noting that the Eurozone flash PMI was back above 50 according to the release yesterday. Obviously that is the level that indicates economic growth. The 50.2 Composite reading was a 6-month high. This better than expected reading sent a hawkish signal ahead of the ECB which is scheduled to issue their next policy update next week on 2/2. The market is now fully pricing in a 50 bps rate hike from the ECB for next week. I think the market pricing on central bank actions is showing an interesting divergence. The charts below show what I mean. On the left I show what markets are pricing for the Fed Funds rate. They show a 25 bps rate hike next week with another 25 bps in March and general uncertainty for a few months before pricing in a series of rate cuts. Instead, for the ECB (shown on the right), the market is pricing in 50 bps for next week and another ~50 bps for March followed by 25 bps hikes in May and June before leveling off. This is quite a contrast in market expectations. I suppose the market could be wrong, but it has long been my opinion that the markets tell the central banks what to do rather than the other way around. On the margin, this should be another factor that weighs on DX as the Euro comprises almost 60% of the index.



### Energy

I haven't been paying attention lately, but it was pointed out to me yesterday that crack spreads have been creeping higher recently. See the chart below. While we're not back to the record highs of last spring, we're not too far off. We're now at a level we haven't seen in several months. This should encourage strong refinery runs and would seemingly speak well of product demand.



**Today's Calendar (all times Central)**

- EIA Petroleum Inventories – 9:30am
- Cold Storage – 2:00pm

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