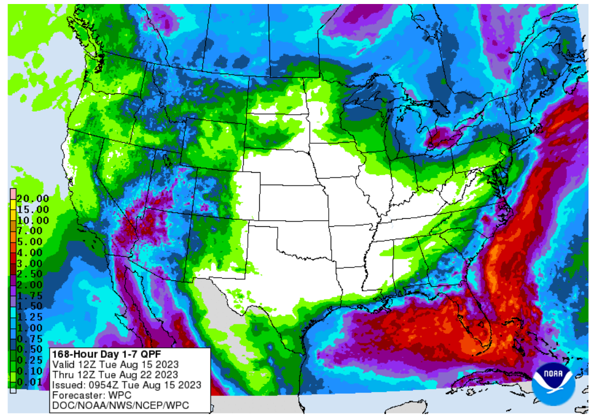
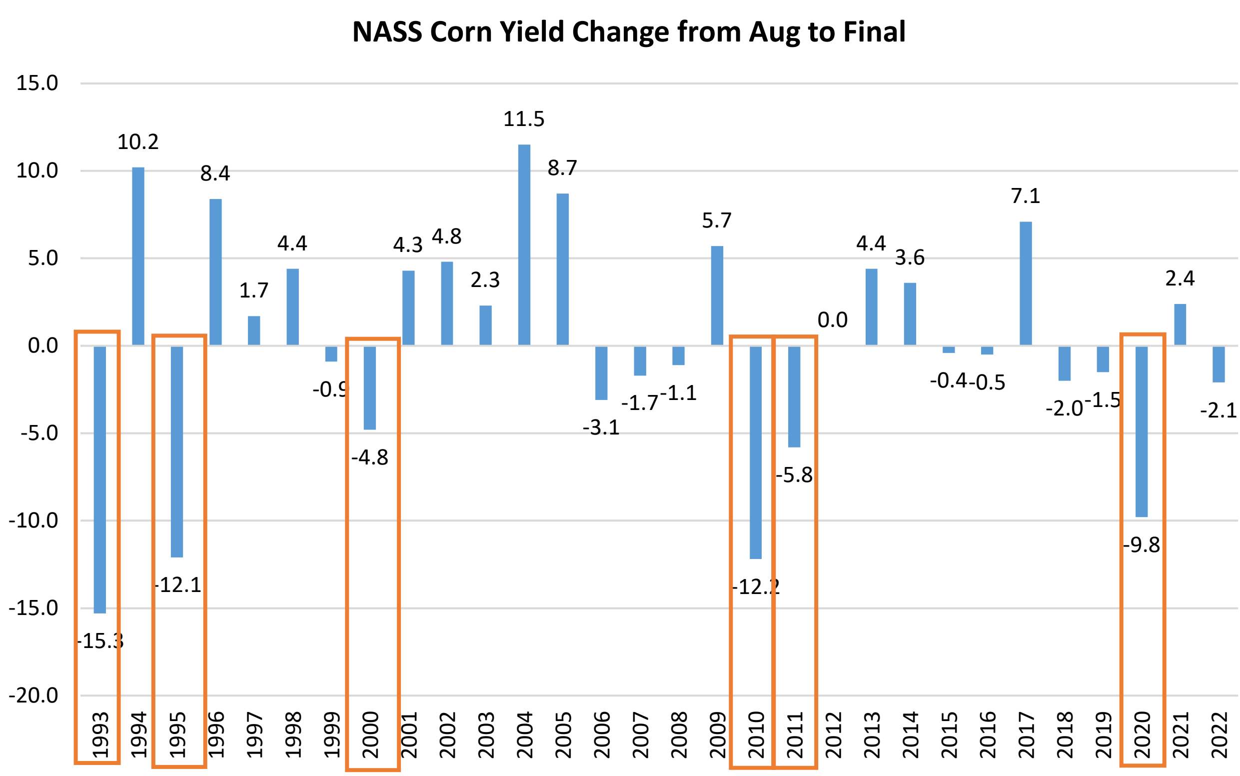
Weather



No big changes. The 7-day QPF shown at the right. Obviously a lot of dry weather over the next week. We should finally start to see some rains return to the Northern Plains by early next week but it will take a little time for those rains to expand southwest into the heart of the Corn Belt. We should return to the pattern we've seen most of the summer during the 11-15 day period, but that of course means some areas will get rains but others might be short-changed. Temps will actually be fairly mild for the next several days, but we do have significant heat on the way. This weekend into early next week will likely be the worst of the heat. That will translate into low to mid 90s for a solid portion of the Corn Belt.

Crops

Last week's USDA corn yield projection obviously doesn't end the debate on the final yield estimate…it just officially kicks off all the debates. It seems people take the USDA estimates personally sometimes. I just wanted to look at a snapshot of the big changes between the August NASS corn yield estimate and the final yield estimate and highlight a few instances of significant reductions vs. August. The chart below plots these adjustments from August to final, and you'll see I've highlighted a handful of specific years.



A quick review of these significant reductions:

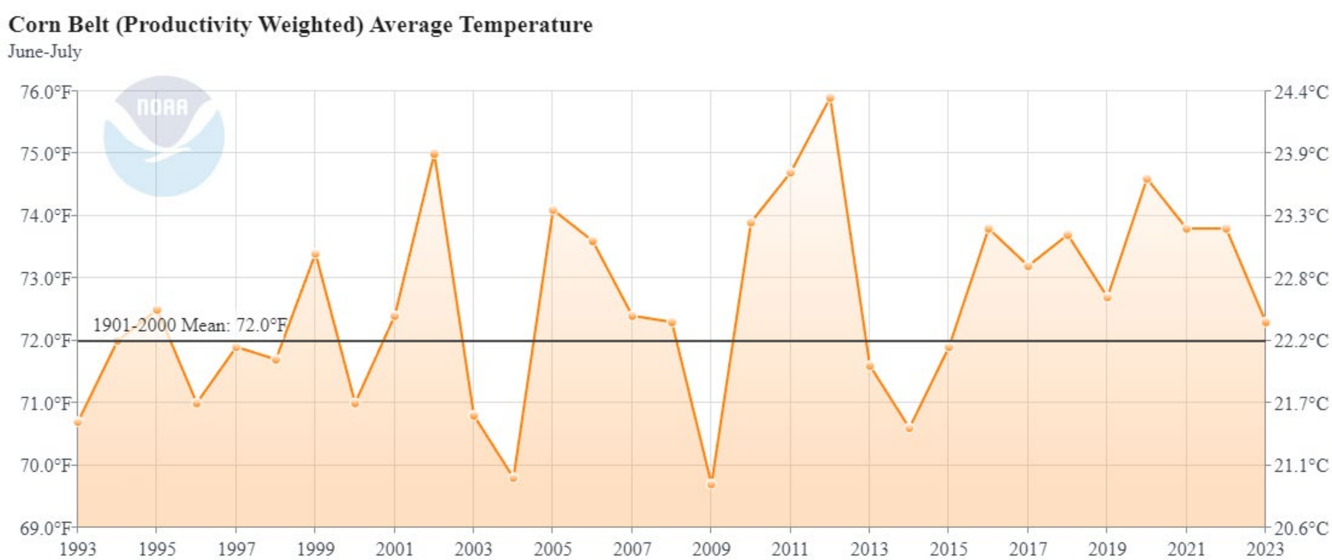
1993 – The crop was hit with an October 1 freeze when states like MN still had 80% of corn immature. Crop development seems to be running pretty close to normal this year, so while we can't rule out freeze damage there is no reason to believe we're more susceptible than usual right now.

1995 – Not sure of anything special about 1995. Temps were above normal during Jun-Jul, but nothing dramatic.

2000 – Nothing special in terms of weather, but what does stand out is very high expectations for this crop initially. The Aug 2000 crop report showed a +4.9 bpa increase in yields relative to the May WASDE trendline estimate. So with the August to final reduction in 2000, we simply ended up near trend yields.

2020 – What wasn't going wrong in 2020?

2010, 2011, 2020 – All of these years saw relatively hot Jun/Jul timeframes. The chart below looks at the average temps in the Corn Belt during the Jun-Jul period from 1993-present. This year's Jun-Jul period, while above normal, was not as hot as any of those three years.

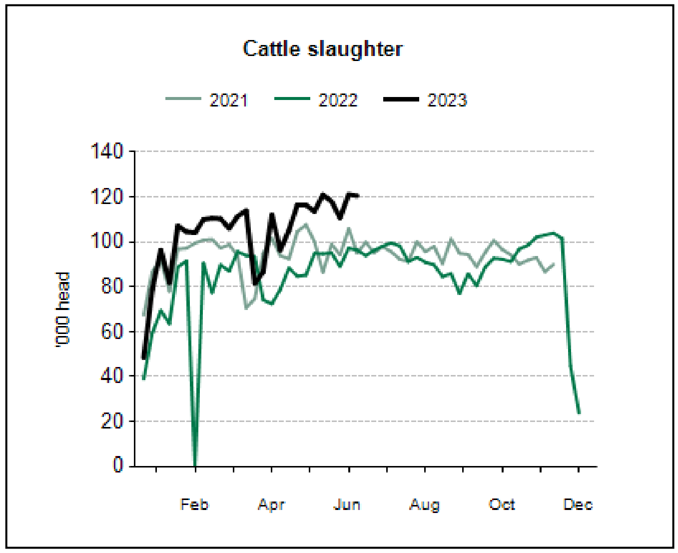


In the cases of 2010 and 2020 we saw above-trend Aug NASS yield estimates. In those years, one could certainly argue (with the benefit of hindsight) that expectations were entirely too high. In 2011 the Aug NASS yield was down from trend, which is likely why we weren't down quite as sharply from Aug to final.

My only point here is…what yield level will make the corn balance sheet tighten to the point that one would feel bullish at $5 CZ? If it requires a significant reduction vs. the Aug NASS estimate, I think it is worth noting that for now this year doesn't seem to follow the patterns from these other major revisions.

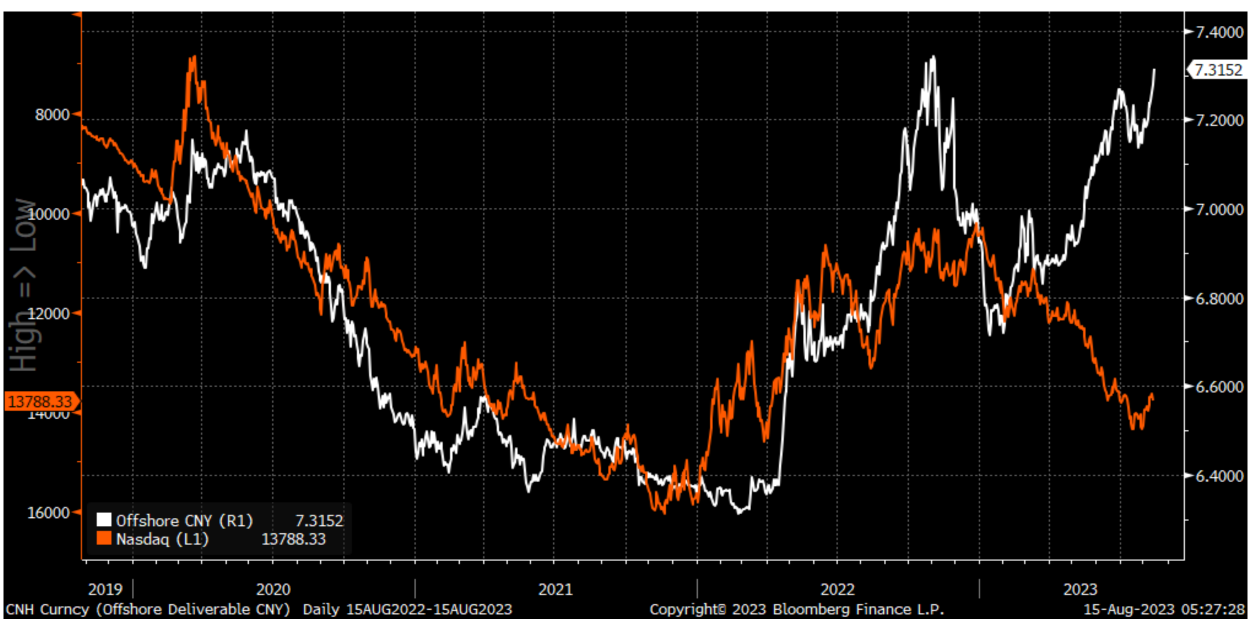
Livestock

A quick update on something I haven't looked at in a while. The chart at the right shows the level of the Australian cattle slaughter over the past few years. The weekly levels recently have been running about 20% higher YOY. The YTD total is roughly 23% higher YOY. This is certainly leading to some of the US's lost of competitiveness in the export arena this year. It is also allowing increased imports of Aussie beef into the US as well. That being said, though the slaughter is running well higher from the past few years, this still isn't an especially strong slaughter level. The Australian industry is still only slowly coming back from their liquidation and rebuilding periods. But the bottom line is…supplies are growing.



Financials

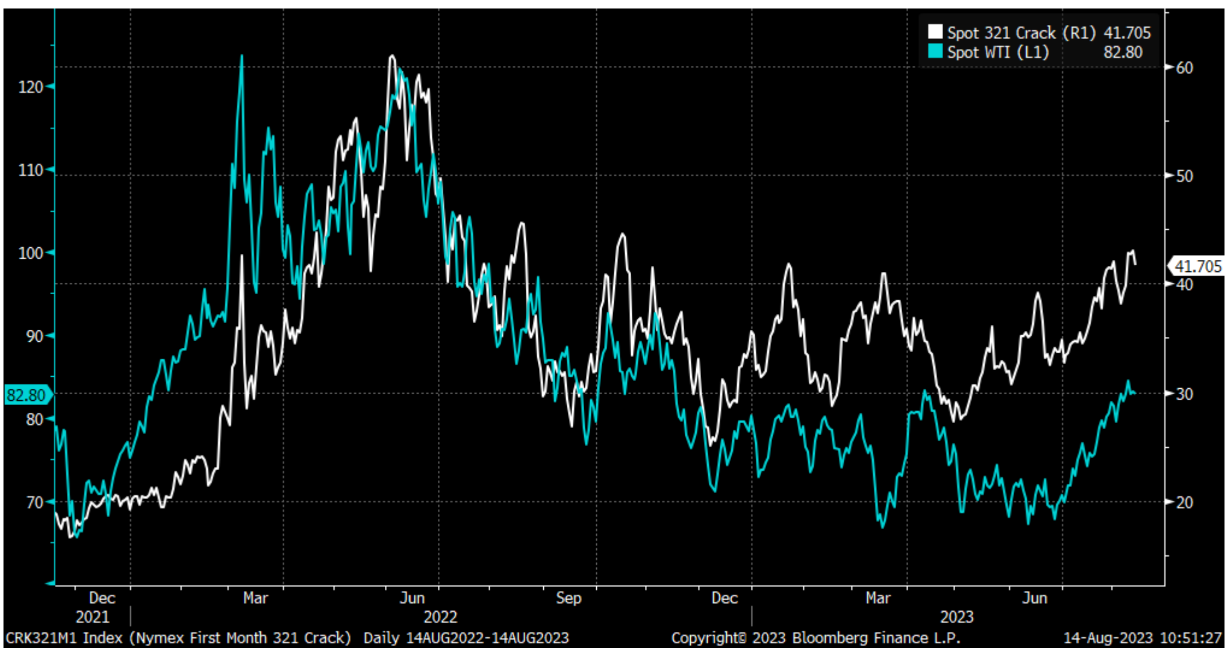
I suppose the biggest news overnight is the announcement from China's central bank to cut rates. The PBOC cut the rate on one-year loans by 15 bps to 2.5%. This is the second rate cut since June. Most had expected rates to remain unchanged. The announcement came immediately after data on retail sales and industrial production fell short of expectations. It is also worth noting that the Chinese government has stated it will stop reported unemployment data on the age group of 16-54 saying it needs to be "refined".



The chart above is one we've shown before. The white line shows the value of CNY (offshore). Remember, higher on this chart means weaker. We're now approaching the lows seen last year. What is interesting here is that the CNY and Nasdaq had been moving in unison in the past few years…until this year. Even as CNY has been weakening, the Nasdaq has been strengthening (orange line, axis inverted). The surprise rate cut overnight has prompted further weakness in CNY and some risk-off action in equities for now. Nothing extreme, but I do think it is worth considering whether this relationship is about to start moving in unison again?

Energy

I pointed out the higher prices for gasoline and diesel yesterday. This is important for lots of reasons, but one is because these higher product values support crude oil prices (duh). The chart below plots the 321 crack (white line) vs spot CL futures (blue line). The crack spread has been increasing since late spring while CL kept grinding lower. The move higher here in CL has merely been it trying to catch back up to the crack spread. The crack spread is still well off its 2022 highs, but at 41 here…it is historically very strong. This should support strong refiner runs and strong demand metrics for oil.



Today's Calendar (all times Central)

- Retail Sales – 7:30am
- NAHB Housing Market Index – 9:00am

Thanks for reading.

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