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Wednesday, August 23, 2023
NTG Morning Comments
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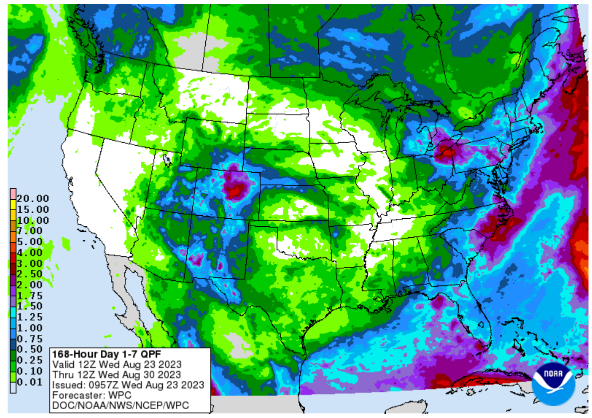
Weather



No changes. Hot, hot through tomorrow then temps moderate. Above normal temps return in 11-15 day period, but not as extreme. No sign of good precipitation over next 15 days.

Crops

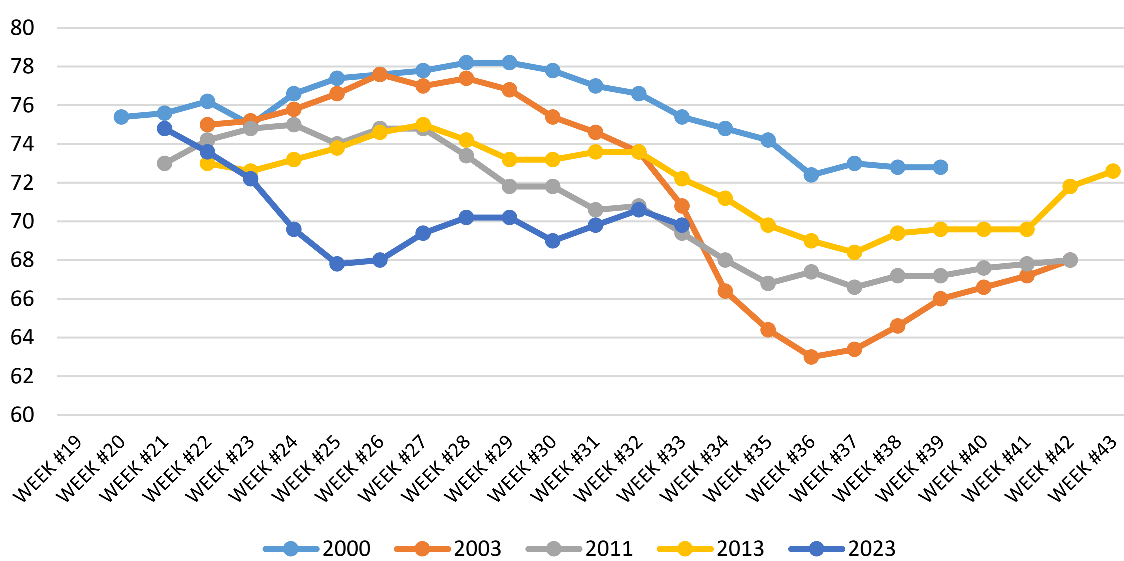
We're back looking at crop conditions this morning. I think it is safe to say that most of us assume condition ratings will be down next Monday. How much is open to debate, but they'll certainly be lower. I thought it might be worth a look at years in recent history that have also seen a sharp late-season decline in condition ratings. Today we'll look at corn and tomorrow we'll look at soybeans.

I wanted to look at years that saw sharp declines in condition ratings in the second half of the season. In my examples below, I'm taking a starting point of Week #30, which is roughly end of July and beginning of August. My cut-off point is Week #37 which would be mid to late September.

First, let's establish a baseline. Since 2000, on average my condition index score declines by 2.3 points from Week #30 to Week #37. The worst year saw a 12 point decline, which was posted in 2003. The best year saw an increase during that timeframe of 2.2 points in 2006.

The four years shown in the chart below are the ones I've identified with significant condition rating declines during this timeframe. In 2013 there was a late-season uptick in conditions, but during the Aug to mid-Sep timeframe conditions fell fairly hard in all of these years.

Corn Condition Index Comparison



I wanted to look at these years in detail to see if there were any similarities to note with this year other than the expectation that we'll see condition ratings decline in the weeks ahead. With that goal in mind, I put together the table shown at the right. At the top we have my condition index score as described earlier. Under weather conditions, I am taking departure from normal temperatures and precipitation for the Corn Belt (productivity weighted). At the bottom, I compare yield estimates.

Corn Condition Comparisons

	2000	2003	2011	2013	2023
Condition Rating					
Week #30	77.8	75.4	71.8	73.2	69.0
Week #37	73.0	63.4	66.6	68.4	69.8
Difference	(4.8)	(12.0)	(5.2)	(4.8)	0.8
Weather Conditions					
June Temps	-0.8	-2.3	1.2	0.3	1.2
July Temps	-1.4	-0.2	4.1	-1.3	-0.7
August Temps	1.4	2.4	1.4	0.1	
September Temps	0.6	-1.6	-1.8	3.0	
June Precip	1.29	0.09	0.55	0.82	-1.36
July Precip	0.27	0.45	0.04	-0.72	0.33
August Precip	-0.59	-1.08	-0.49	-1.15	
September Precip	-0.50	0.61	-0.48	-0.90	
Yields					
Trend	135.5	139.7	161.7	163.6	181.5
August NASS	141.9	139.9	153.0	154.4	175.1
Final NASS	136.9	142.2	146.8	158.1	
Diff vs Trend	1.4	2.5	(14.9)	(5.5)	
Diff vs August	(5.0)	2.3	(6.2)	3.7	

Let's look at individual years quickly:

2000 – Good conditions in June/July with cool temps and above normal precipitation. Condition ratings likely declined late season due to an uptick in temps and decline in precipitation at that time. While the final yield was not as good as hoped for based on Aug 1 conditions, it still proved to be slightly above trend.

2003 – Again we saw relatively cool temps in Jun/Jul with near to slightly above normal precipitation. August turned hot and dry, likely sparking the decline in conditions. However, September saw that reversed and likely sparked the late season improvement in conditions. In the end, yields were slightly above the trend and August NASS estimate.

2011 – The key issue this year seemed to be temps. We saw above normal temps from June through August in 2011, which definitely zapped yield potential. Late season precip was well below normal as well. And look at the Sep temps coming in well below normal. We did likely see some freeze damage that year as well. It all lead to a poor crop.

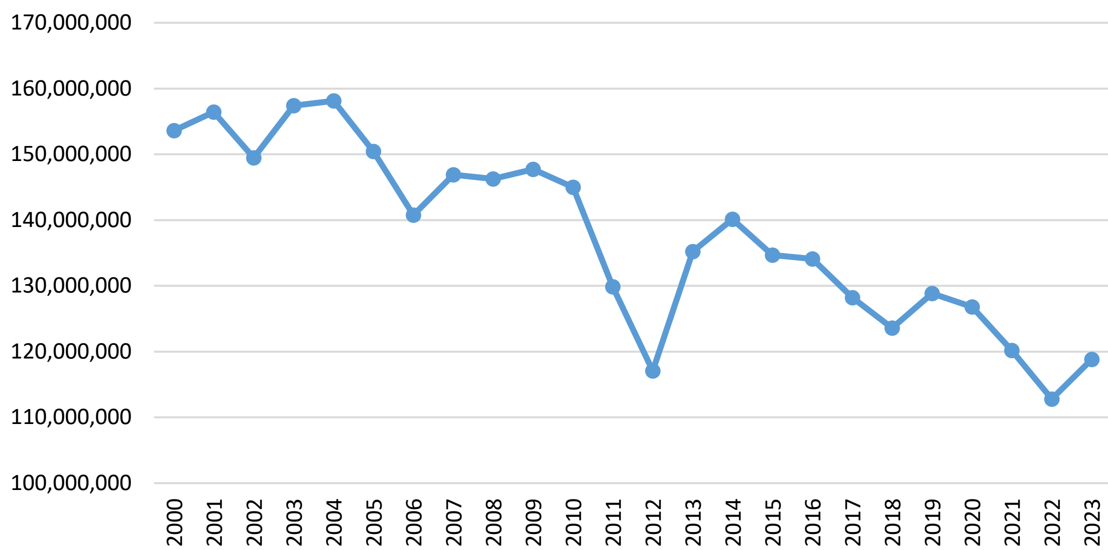
2013 – We talked about this a little already this week. I noted that the yield in 2013 actually increase vs. the Aug NASS estimate, but I did fail to mention that this was still a sub-trend yield. I wonder if NASS had a post-2012 hangover in their initial Aug estimate leading them to be too low. Below normal precip for the last half of the growing season kept yields sub-trend.

It's too early to say whether any of these years will prove to be a decent analog on what to expect this year. I guess every year is different so trying to compare with others can be a waste of time. However, I guess my only point this morning is that a dry and hot finish for the crop isn't necessarily a death sentence for corn. I would also point out that with the strong level of precipitation early in August, the departure from normal for the whole month isn't likely to be eye-popping. Thoughts appreciated.

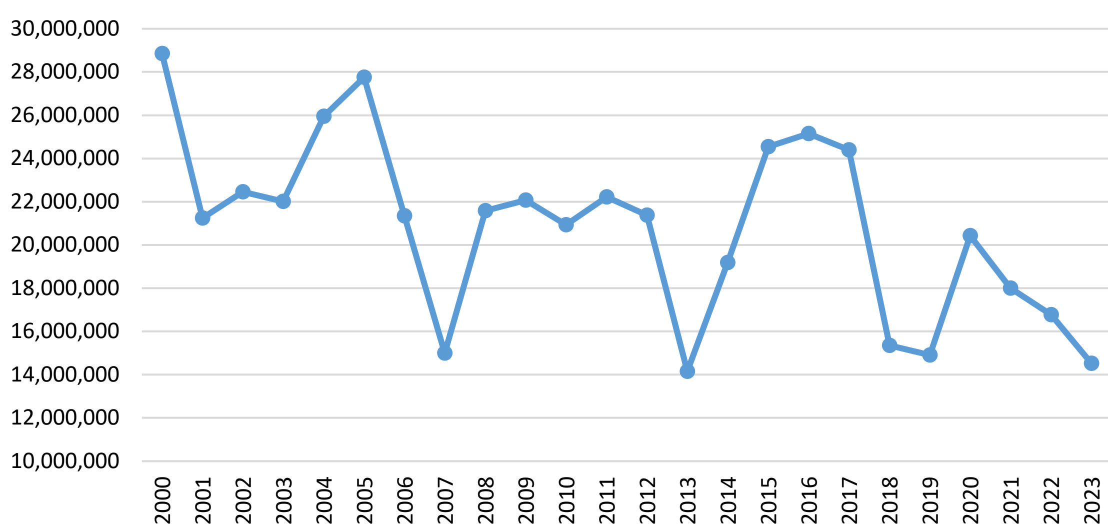
Livestock

Hay isn't something I pay much attention to, but I was reminded that NASS includes a hay production estimate in their August report and I hadn't mentioned it yet. The first chart below looks at the past several years of hay production. A solid rebound from last year but still one of the lowest totals in recent history. I have to wonder if the increase in intensity of drought in the Southern Plains might knock this production estimate a little lower going forward. Hay stocks are right on their lows as well.

US Hay Production (Tons)



Hay Stocks, On Farm - May 1 (Tons)



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Financials

Flash PMI numbers are being released today, and the overnight release of Eurozone numbers are definitely attention-grabbing. The Flash Eurozone composite PMI sank to 47.0 vs 48.6 in July…that is a 33-month low. The German numbers were particularly appalling. The German composite PMI fell to 44.7 (a 39-month low) vs the July reading of 48.5. The German Services PMI fell to 47.3 vs 52.3 in July. I found this quote from the Markit report on Germany interesting and amusing: *"Any hope that the services sector might rescue the German economy has evaporated. Instead, the service sector is about to join the recession in manufacturing…"* I suppose one could find a modest bright spot in the Eurozone manufacturing number, which posted a modest rebound to 43.7 from 42.7 in July. That is still obviously well below the 50-level that denotes contraction, however.

The UK was determined not to be outdone by the Eurozone, however, and posted some absolutely dreadful PMI figures as well. The composite PMI fell into contraction at 47.9 vs 50.8 last month and well below expectations. The manufacturing PMI was all the way down to 42.5 (a 39-month low) vs 45.3 last month.

In both instances, the very weak PMI figures are leading to a repricing of rate ideas. The repricing is less dramatic for the Euro. Yesterday the market was pricing in 50% odds of a rate hike next month. Now those odds have diminished to roughly 35%. For the UK, the market is still pricing in a Sep rate hike but they've basically taken one rate hike out of the expected terminal rate. This repricing is behind the weakness in the Euro and Pound this morning.

Otherwise, I don't see much other important information this morning. After-market today we'll get earnings from NVDA. Will be interesting to see if they can reignite the AI frenzy.

Energy

Crude oil futures are lower at the time of writing this morning. The soft economic numbers mentioned in Europe certainly don't help the case for strong energy consumption. API's weekly inventory report showed a 2.4 million barrel decline in stocks, which is basically inline with expectations for today's EIA release. Looking at the chart at the right, seems like almost a sure thing that we'll go and flirt with that bunch of MAs a few bucks below current prices.

Today's Calendar (all times Central)

- Flash PMIs – 8:45am
- New Home Sales – 9:00am
- EIA Petroleum Inventories – 9:30am
- Cold Storage – 2:00pm

Thanks for reading.

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