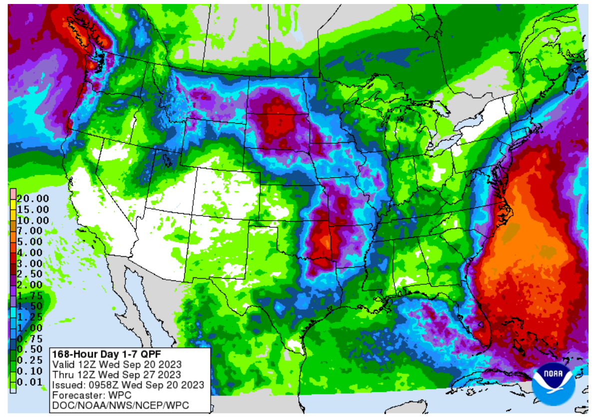
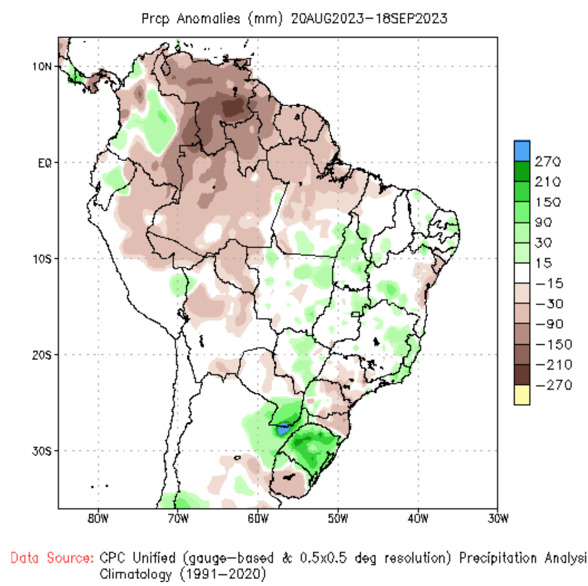
Weather

No big changes for the US weather forecast. 7-day QPF shown at right. We'll see some western portions of the growing region see some rains starting tomorrow, but the bulk of the rain shown is still 3-4 days away. Temps should continue to average mostly near to above normal across the majority of the US.



I've heard a lot of angst lately talking about how dry Brazil is right now. We have to remember that Brazil is just on the cusp of coming out of their dry season. While precipitation totals have been light recently, note the second chart at the right. This shows the 30-day precipitation anomaly. In most of Brazil's main growing areas, we've seen a lot of near normal precipitation over this period…despite the fact the amounts themselves have been pretty small.

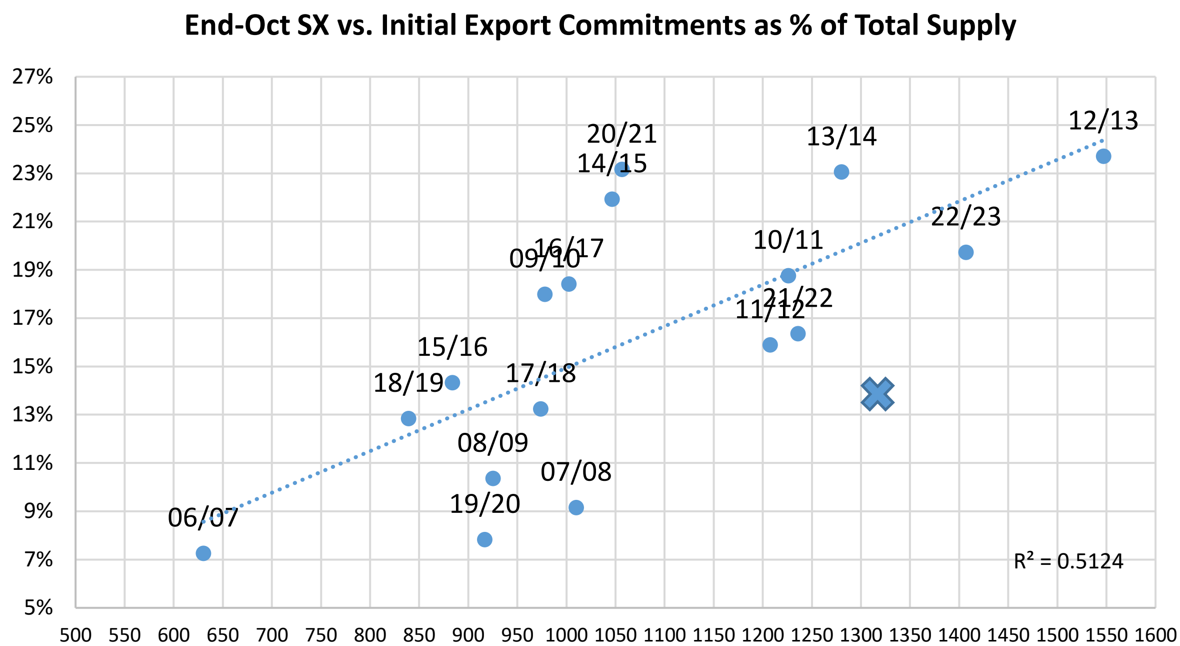


That being said, the forecast isn't ideal. The next 10 days will feature well below normal precipitation and should also feature very hot temps. There should be an uptick in precipitation chances in the 11-15 day period, but that portion of the forecast doesn't appear quite as confident as it looked earlier in the week.

In Argentina, we're still looking at a two week forecast that should feature mostly below normal precipitation across the key growing areas.

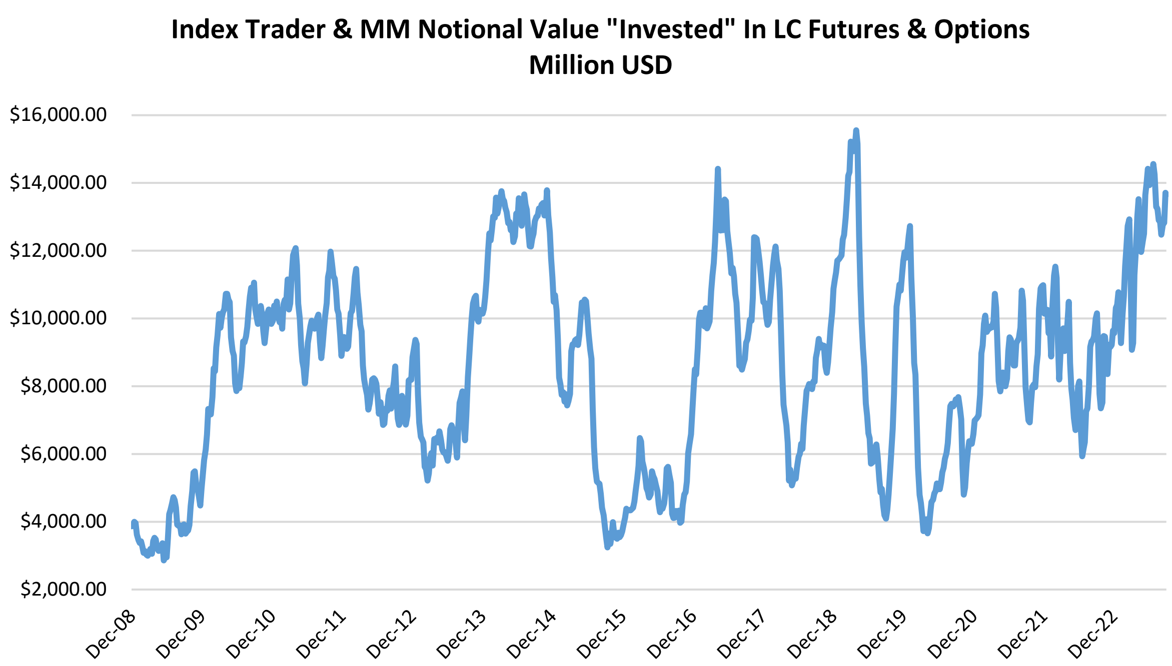
Crops

A lot of discussion/debate over production prospects over the past several weeks…and rightfully so. However, I'm growing more and more of the opinion that production numbers are taking a backseat to demand prospects in terms of price influence. So today and tomorrow I want to take a quick look at US soybean demand prospects and potential influence on price action. I'll keep today's comments fairly short with just a quick scatter on SX vs. export commitments. The chart below looks at US initial export commitments as a percentage of total supply. Total supply would of course mean old crop ending stocks and new crop production. The blue X on the chart represents the current estimate for this year. In my assumption, I'm simply adopting the USDA estimates for both. While that may trigger some of you, just roll with it for now. The point here is to try and illustrate what the market appears to be pricing. We're either pricing in bigger demand than the current pace would indicate or much smaller supply than USDA (or both).



Livestock

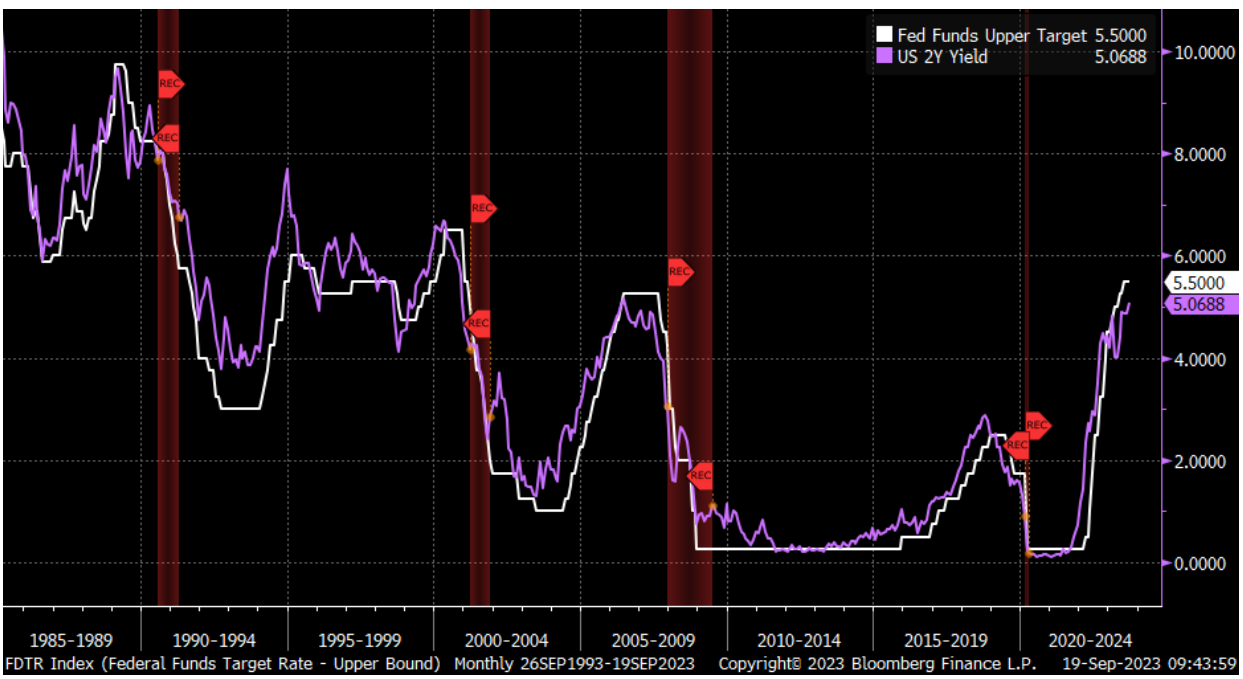
One last comment on LC “participation”. While the number of contracts for MM and index traders are not high, note the chart below. This takes that number of contracts and applies the notional value of the underlying contract. While these specs don’t hold a significant number of contracts, the notional value of their position is not too far from record high. This shows a pretty high level of “participation”…just measured differently.



Financials

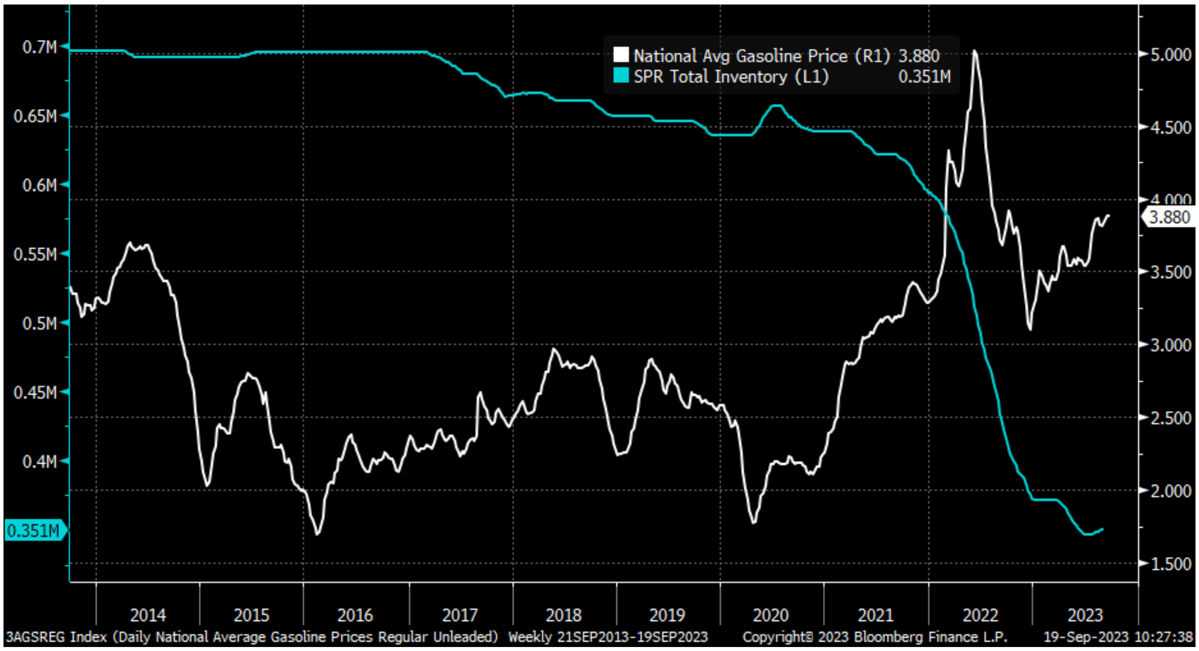
The FOMC rate decision is out this afternoon, but there really isn't any debate over rates. The market is pricing in virtually zero odds of a rate hike this month. Additionally, most expect the decision to be unanimous. What will make today interesting is the updated Dot Plot and Summary of Economic Projections. The Dot Plot will be important to see the level of conviction of the FOMC towards another rate hike before the end of the calendar year. The dots released in June showed a median rate projection of 5.625% for end-2023. If it remains near that same level today, it will essentially mean there isn't full FOMC support for another rate hike…yet. The changes to the SEP should be pretty limited. There could be a few tweaks to the 2023 year-end projections as recent data will allow the Fed to narrow in on their projections, but the 2024 and 2025 figures probably won't change that much. In the press conference, my personal bias is that Fed Chair Powell will mostly stick to the same script he's held for the past several months.

Good luck today. Here is a somewhat random chart in anticipation of today. This compares the Fed's upper target rate vs. the US 2Y yield. Any time in the past ~30 years we've seen Fed funds above the 2Y, a recession has followed shortly thereafter. Will this time be different?

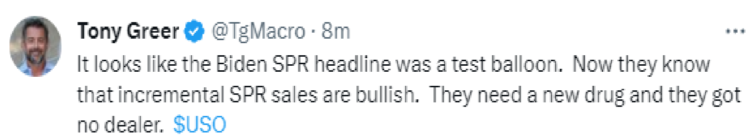


Energy

An interesting headline got tossed around yesterday suggesting that the Biden administration said that "depleting" the SPR is "on the table". I never saw an actual article regarding it and I never took it all that seriously. I guess the question is, what would another SPR drain accomplish? The chart below shows national average gasoline prices vs. the SPR inventory. Last year we saw the SPR drained roughly 250 million barrels. That 250 million barrel drain basically bought the administration a $2 break in the national average gasoline price. I'm not sure what sort of target the administration would have for a "good" gasoline price, but let's just say for giggles they would want a national average price of $2.50. If the same sort of SPR-release-to-price-decline ratio worked out again, that would mean we'd need to see a release of somewhere near 170 million barrels,…which would basically cut the SPR in half from current levels. Not quite "depleting", but significant.



That being said, I'm not sure we can assume the same sort of price decline. Look at the what has been happening so far this calendar year. We've seen a reduction of roughly 20 million barrels from the SPR but gasoline prices have obviously been shooting straight higher. I wonder if my buddy Tony's tweet from yesterday actually nails this "headline". I'm actually not all that bullish the energy complex myself (I expect demand to slow)…but I also agree that additional SPR releases are unlikely to prove to be the magic bullet they were for midterms. Thoughts appreciated.



Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- FOMC Rate Decision – 1:00pm

Thanks for reading.
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