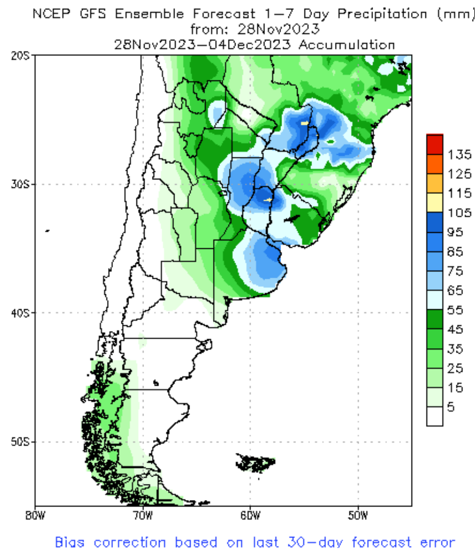
Weather

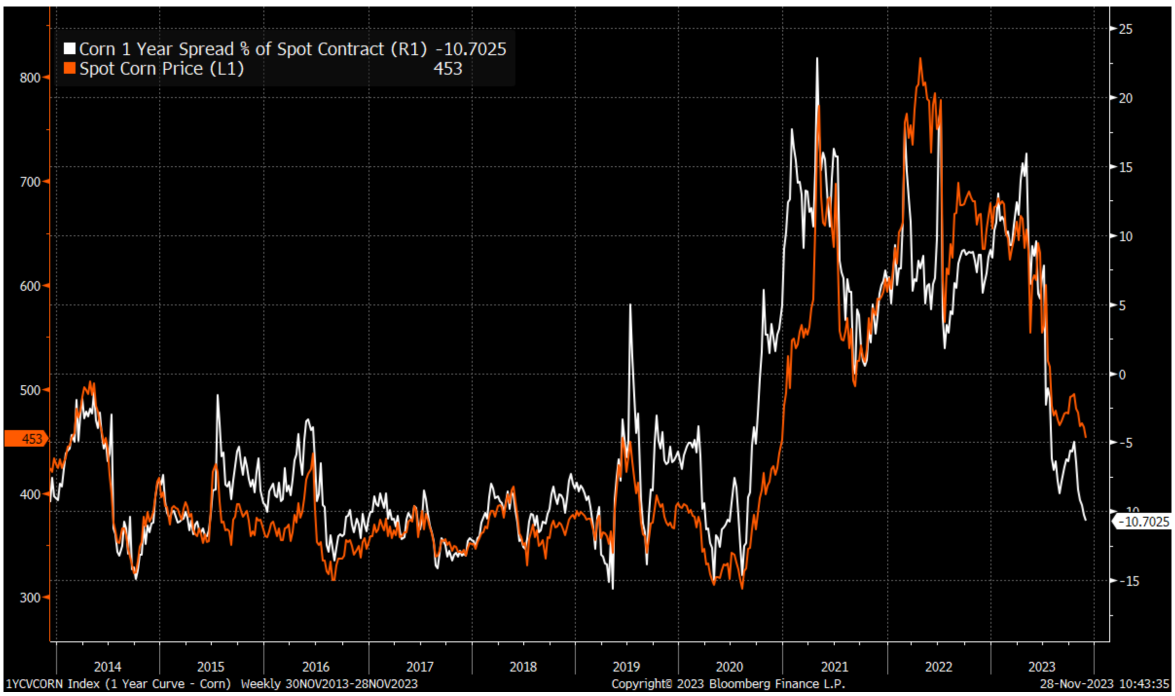
No changes. Daily rainfall in northern Brazil, though today and tomorrow will see limited rainfall. Overall totals over the next two weeks should average near normal. Near to above normal rainfall should be seen during the next two weeks in southern Brazil. Rainfall amounts in RGDS will be less than they've seen lately, however, which should mean no new flooding problems. We've seen some significant rains in Argentina in the past 24 hours and rains are still falling this morning. Additional rains will be seen tomorrow and Friday. This is still the wettest part of the two week forecast, but rainfall will still be seen in both the 6-10 and 11-15 day period. Overall rain in those periods should average fairly close to normal.



Crops

Just some food for thought this morning. I don't spend a lot of time looking at COT numbers, but I wanted to look at it briefly this morning. Not for the MM numbers, however, but instead I want to look at the index trader for a change. The index trader net and gross positions in corn is shown in the chart below. It should go without saying that the index trader is typically a net long, though the scale of that long varies. Right now, you can see the net long is down somewhat close to the recent lows in 2019 (trade war, etc). Since the end of July, the index trader has been a net seller of roughly 90k contracts. Most of this has come in the form of long liquidation, of course, but you can see that we've recently seen an increase in the gross shorts. That gross short position is roughly 90k contracts smaller than it was at its peak in 2019.

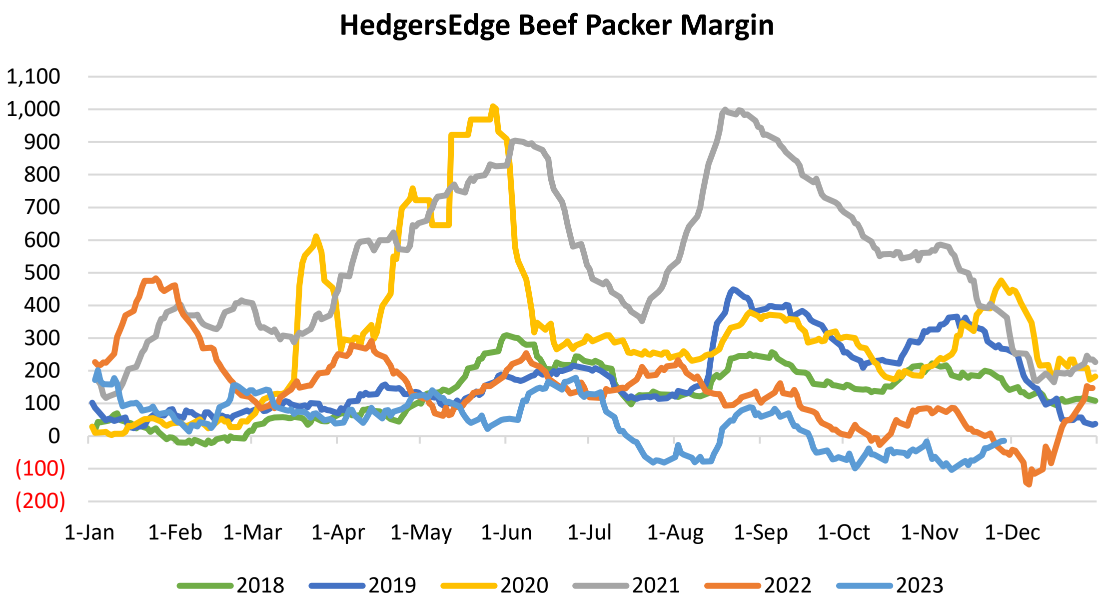
My bias is that the index trader could continue to be a net seller in corn, and the chart below shows a big reason why I believe that. First note the white line on the chart. This shows the 1-year calendar spread in corn displayed as a percentage of the spot contract. In other words, right now there is roughly a 10% carry from Dec '23 to Dec '24. While this is a dramatic change from the inverted markets of the past few years, this is clearly not the widest carry we've seen. For index longs, this carry means a big loss. Passive index longs that have to roll futures out the curve will be paying 10% over the course of a year just on the roll…not including any changes in the price. However, that would obviously be a good thing for index shorts. A short position rolled over the course of the year would *make* 10% even before accounting for any potential changes in underlying price.



And on that note regarding underlying price, note the orange line in the chart above showing the spot corn price. The carry in the market has been widening in recent weeks but the flat price is not moving lower as much as you might normally expect. But the bottom line is, as long as the carries continue to widen, flat price will remain under pressure. These wide carries good news for those index shorts, who have not had a good run of things in the past couple of years. Those index shorts may continue to build their positions and that might beget more selling in general. The CFTC started reporting index trader positions back in 2006 and the lowest the net position has been was roughly 206k contracts (note first chart above). I wouldn't be shocked if we posted a new low at some point in the next few months. Thoughts appreciated.

Livestock

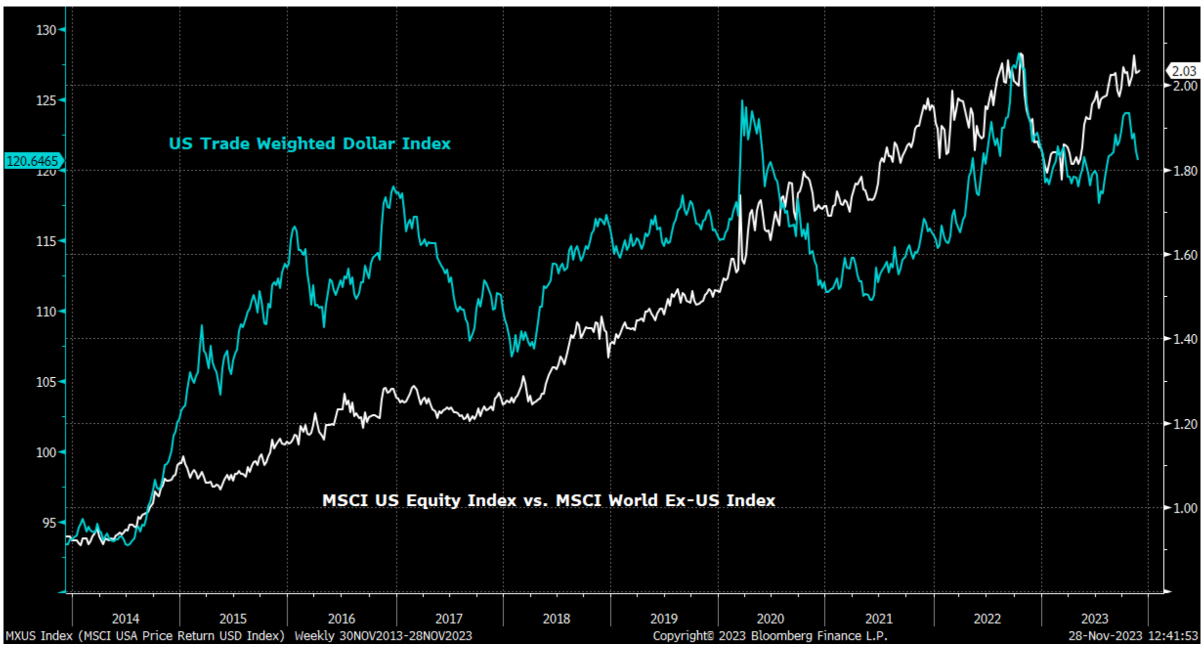
We picked a good time to talk about feeder cattle yesterday right in front of a limit up move. Keep in mind for today's session the limit in feeders is now 12.25. The limit for fats is also expanded for today, out to 10.00. Otherwise, I don't have much to say today. Guess we'll see what we can follow up yesterday's surge with. Chart below looks at beef packer margins. Margins have improved a smidge, but remain negative. The meltdown has been more on the board than cash, with the futures price weakness more of a basis flip than anything else.



Financials

Just a quick chart this morning I found interesting. The chart looks at the ratio between the MSCI US equity index vs the MSCI world ex-US equity index. What this is telling us is that US equity valuation relative to the rest of the world is back to it's old all-time highs set late last year. I suppose one could maybe argue it could be on the verge of putting in a double-top….though obviously this isn't a chart you "trade". Anyway, my point here this morning is to suggest that US equity valuations once again look stretched vs. the rest of the world.

Maybe that is rational, maybe not. It might depend on your bias towards the dollar. The chart below shows the exact same ratio as the chart above, but this time I've added the Fed's calculation for the trade-weighted dollar index. I suppose there can be a debate over which is the dog and which is the tail, but typically these two move in tandem. The most notable exception was during Covid. Most recently, US equity valuations have become more stretched while the dollar has rolled over. If you are of the belief the dollar should weaken from here, then you should probably be cautious towards US stocks relative to the rest of the world. If you're a dollar bear, maybe you overweight EM or other such markets in you stock portfolio? Thinking out loud…thoughts appreciated.



Energy

Limited news to discuss today. We're still just in a wait-and-see mood in regards to the OPEC meeting which is now scheduled for tomorrow. Yesterday's weekly API release showed crude oil stocks down 817k barrels last week. Expectations for today's EIA release call for a near-steady inventory figure. The only other story I see of interest this morning is a report suggesting the Saudis will likely lower their prices to Asian customers starting in January in an effort to better compete with the US and the North Sea.

Today's Calendar (all times Central)

- Q3 GDP Revision – 7:30am
- EIA Petroleum Inventories – 9:30am
- Fed Beige Book – 1:00pm

Thanks for reading.

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