Tuesday, December 19, 2023

NTG Morning Comments

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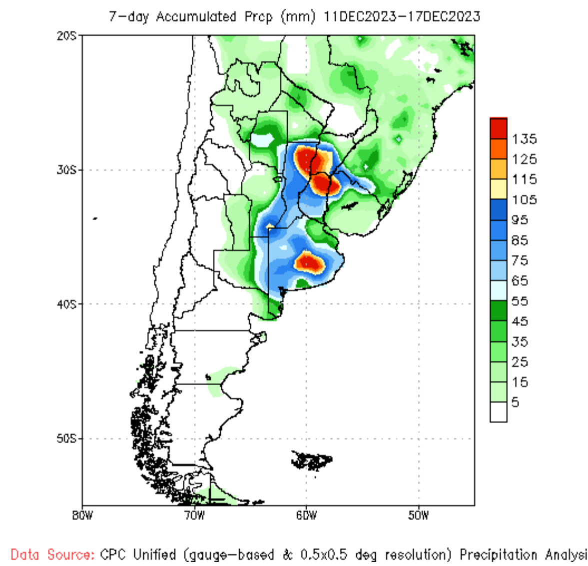
Weather



No big changes. We should see significant rainfall start to develop in northern Brazil over the next 24 hours. This should kick off a period of daily rains that should last the duration of the two-week forecast period. The best rains will be during the Day 1-5 and Day 11-15 periods. Regular rainfall will be seen over the next two weeks in southern Brazil, with totals coming in around near to maybe slightly above normal during that timeframe. The biggest rains in Argentina might be behind us, but that doesn't mean rains are done. We should see additional rainfall in the coming days. Overall two week totals should run near or be slightly below normal, but that should still translate to 1-2" for most growing regions. Temps should be below normal over the next couple of days and there are no signs of any abnormal heat in the forecast.

Crops

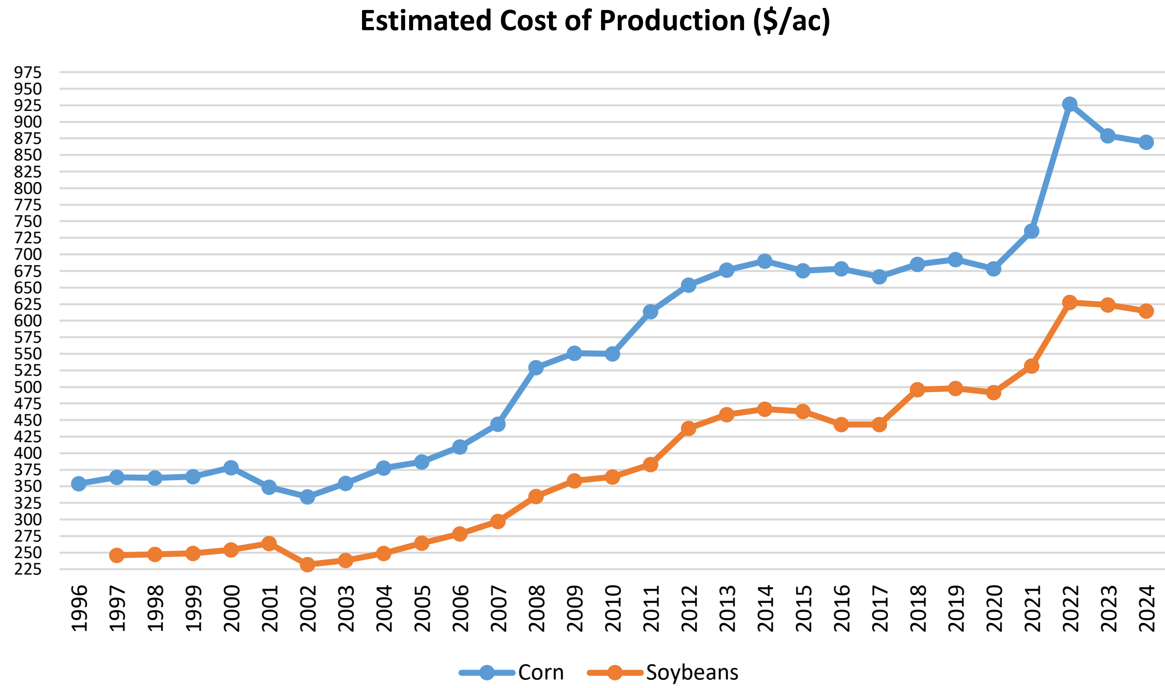
A small teaser comment yesterday on natural gas (of course NG rips after I post some bearish commentary) and fertilizer costs. I want to spend the next few days discussing current 2024 cost of production estimates and we'll eventually get around to discussing some baseline estimates for 2024 planted area.

The screenshot shown at the right is pulled from the USDA's Cost of Production forecast file published on the ERS website. Let me know if you'd like the link. I typically adopt USDA cost of production estimates as-is…they've clearly got more data than I do so I don't typically argue. Of course it is important to note that this is a national average projection, so don't get triggered if this doesn't match your regional projections.

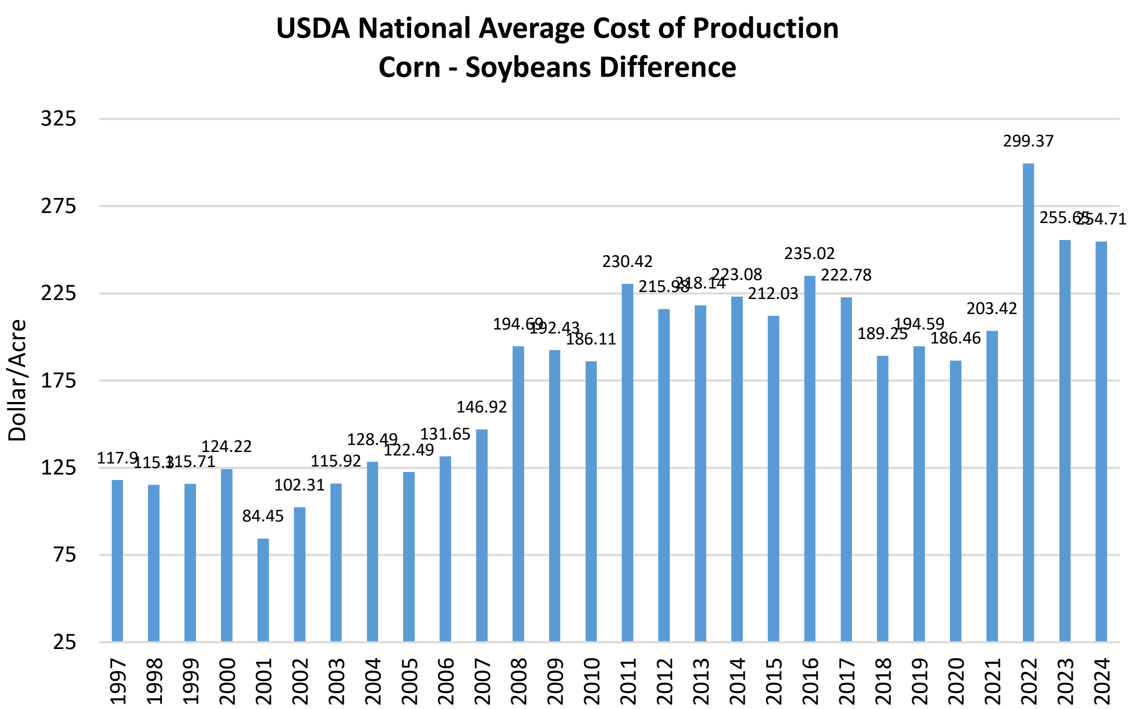
Cost-of-production forecasts for major U.S. field crops, 2023F-2024F[1]

	Corn		Soybeans	
Item	2023F	2024F	2023F	2024F
	Dollars per planted acre			
Operating costs				
Seed	108.96	109.70	70.38	70.86
Fertilizer[2]	186.73	160.12	52.86	45.33
Chemicals	60.88	55.90	52.88	48.55
Custom operations[3]	34.30	35.07	15.34	15.68
Fuel, lube, and electricity	28.20	29.73	20.07	21.16
Repairs	46.67	46.94	35.86	36.07
Other variable expenses[4]	0.27	0.27	0.02	0.02
Interest on operating capital	11.79	10.29	6.26	5.59
Total, operating costs	477.79	448.02	253.67	243.26
Allocated overhead				
Hired labor	4.28	4.37	6.04	6.17
Opportunity cost of unpaid labor	29.32	29.91	20.97	21.39
Capital recovery of machinery and equipment	159.07	160.97	135.60	137.22
Opportunity cost of land (rental rate)	183.65	182.47	169.82	168.73
Taxes and insurance	17.74	18.21	14.69	15.08
General farm overhead	25.43	25.58	22.84	22.97
Total, allocated costs	419.49	421.50	369.96	371.55
Total, costs listed	897.28	869.52	623.63	614.81

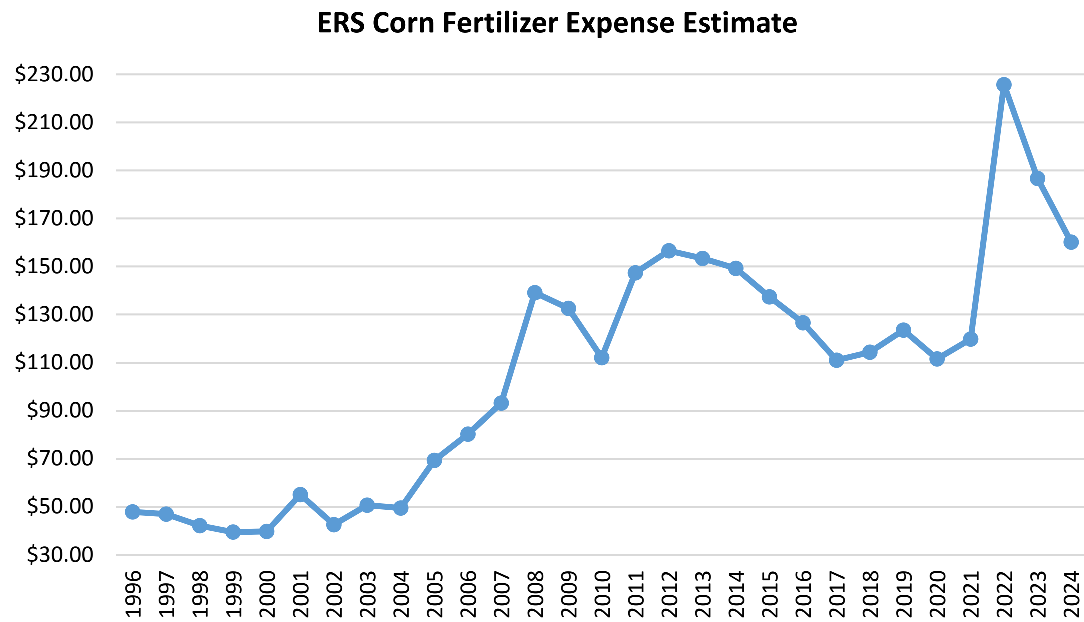
The first thing that sticks out to me is the bottom line, where USDA is showing modest declines for 2024 cost of production for both corn and soybeans. Both are projected to be down about 1% YOY. The chart on the following page looks at a history of USDA cost of production estimates. We're down over the past two years, but I wouldn't be calling anything "cheap"…



The chart below looks at the history in the spread between corn costs and soybean costs. The spread is forecast to be roughly unchanged YOY. While down from the 2022 high, still elevated from a historical perspective.

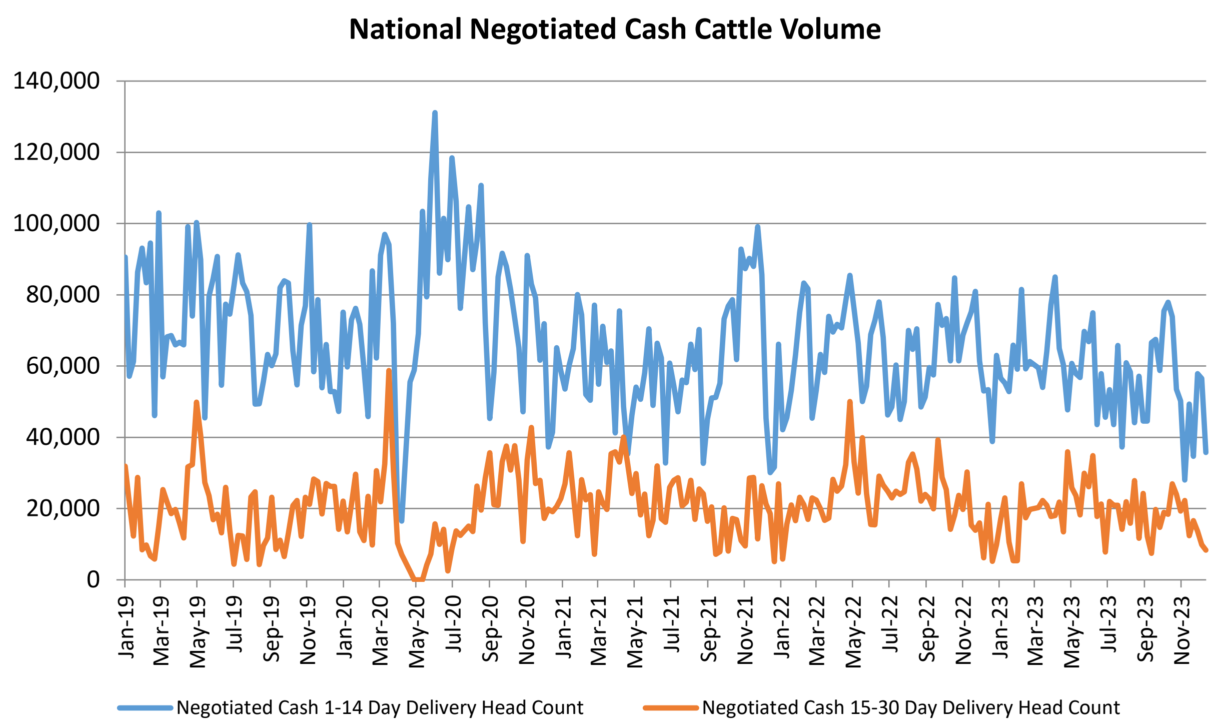


Tomorrow we'll take a quick look at the fertilizer line in the 2024 projections. We'll compare the USDA's fertilizer projection vs. our index that I showed yesterday. You can see below that USDA is projecting another modest decline in fertilizer expenses this year.

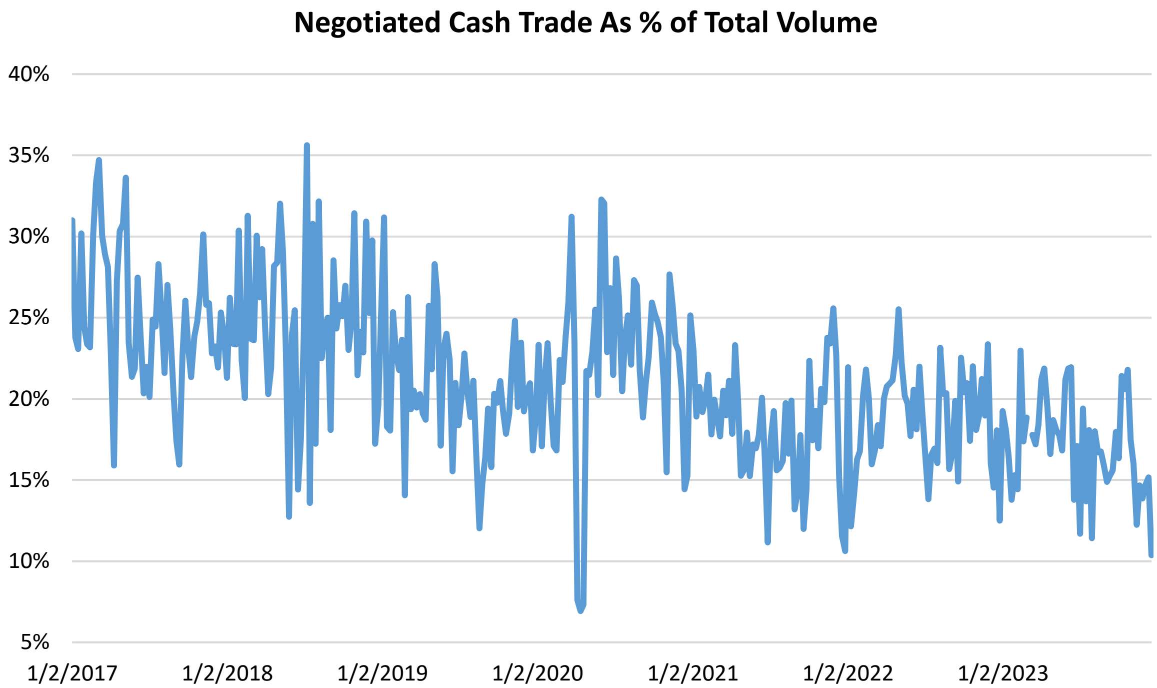


Livestock

Very small negotiated cattle trade reported for last week, as shown in the chart below…



In fact, as a percentage of the total MPR reported trade, the negotiated cash count represented one of the smallest percentages I have in my files. See below…



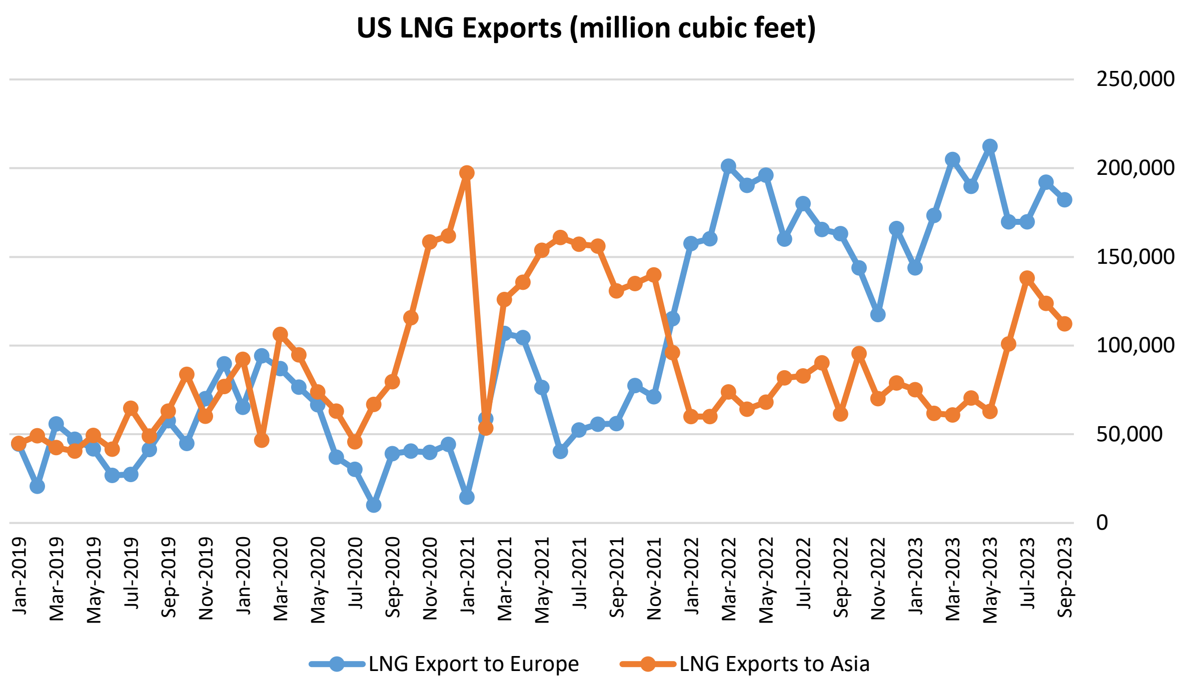
Anecdotally, I was also told yesterday that this week's showlist is down somewhat significantly. I can't independently verify that, but it would be somewhat interesting considering the above.

Financials

No major news to pass along this morning. The big mover overnight is the Japanese Yen. The BOJ held their latest meeting and made no hints of changes towards policy. Their YCC policy will remain in place for the foreseeable future, which is leading some to sell the Yen as yields will remain depressed. This makes some sense as the Yen had also run into key technical resistance at the 200-day MA, however I might suggest this reaction is a bit overdone. In my opinion, the BOJ doesn't necessarily need to raise yields to allow the Yen to rise vs. the dollar. Instead, US rates could drop and converge closer to Japanese yields. That would also, in my opinion, allow the Yen to rise. For today, however, I'm wrong and the Yen is back under pressure.

Energy

A lot of angst yesterday as more firms are limiting vessel traffic through the Red Sea, or more specifically, the Bab El Mandeb strait. The oil market might have been a bit exaggerated as there is a pipeline on the western coast of Saudi Arabia that should continue to allow oil to ship through Suez, though perhaps in somewhat smaller quantities. The real question mark is more likely LNG exports from Qatar to Europe. But even here the market is likely to figure out a solution that isn't too big of a hurdle. Note the chart below showing US LNG exports to both Europe and Asia. The LNG exports to Asia are typically coming out of the Gulf Coast and needing to move through the Panama Canal before going to Asia. In case you haven't been following things closely, the Panama Canal is a bit of a mess right now. So, it would seem possible, if not highly likely, that some US LNG flows originally destined to Asia could instead be redirected to Europe. At the same time, some of those Qatari flows originally destined to Europe could instead be redirected to Asia. I'm definitely oversimplifying things, but at the same time the market should be able to work this out. Bottom line…I'd be careful chasing NG higher here if the sole premise is Red Sea LNG flows.



Today's Calendar (all times Central)

- Housing Starts – 7:30am

Thanks for reading.

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