Tuesday, December 5, 2023

NTG Morning Comments

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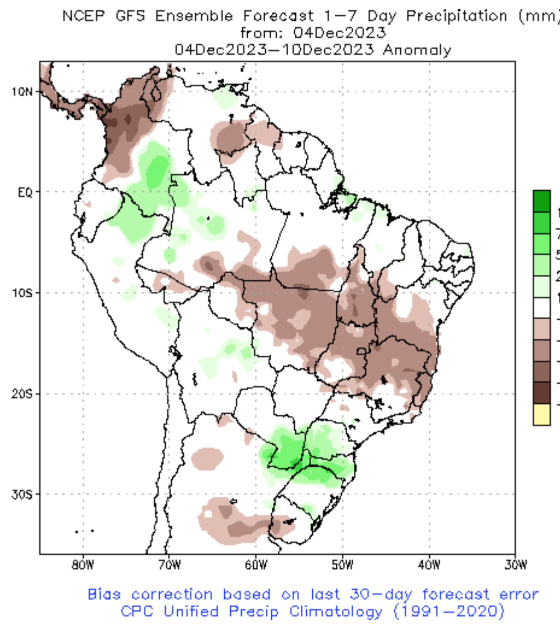
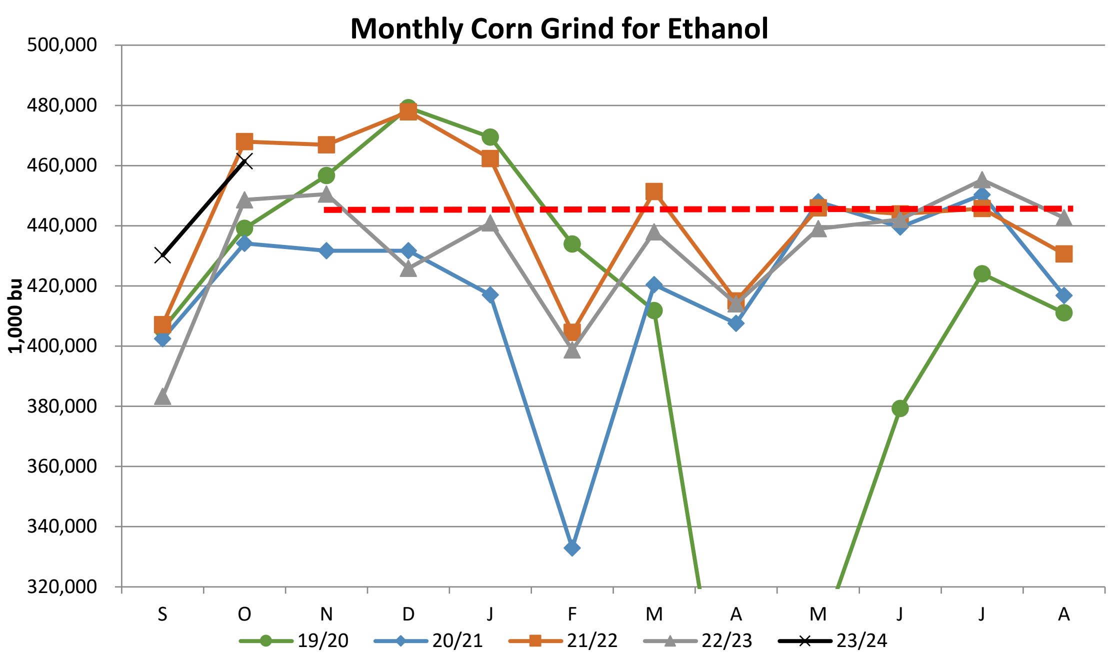
Weather

No big changes. Daily chances for rain in northern Brazil. The lightest amounts will likely be seen in the next 5 days, with the 11-15 day period likely the wettest timeframe. Ongoing active precipitation in southern Brazil should maintain good conditions. RGDS won't see flooding-type rains and should see near normal amounts in the Week 2 period which will be welcomed. Argentine rainfall prospects for the next 10 days are nothing special. "Some" rain will fall, but most areas will likely run a bit below normal during that period. An uptick in rainfall chances is expected for the 11-15 day period with widespread above normal totals currently expected.



Crops

We're going to look at another bit of data released last week. NASS issued their monthly Grain Crushing report. The October corn grind for ethanol was 461 mil bu which was up from 430 mil in Sep and up vs 449 mil in Oct 2022. We're only two months into the new marketing year, but so far the corn grind is up about 60 mil bu from the Sep-Oct timeframe last year. The current WASDE projection calls for a 150 mil bu YOY increase in the corn grind. The red line in the chart below is the approximate monthly pace necessarily to hit their projection. This level seems pretty appropriate to me. I wouldn't be completely shocked to see WASDE increase their corn grind projection, but I would personally bet they leave it alone this month.

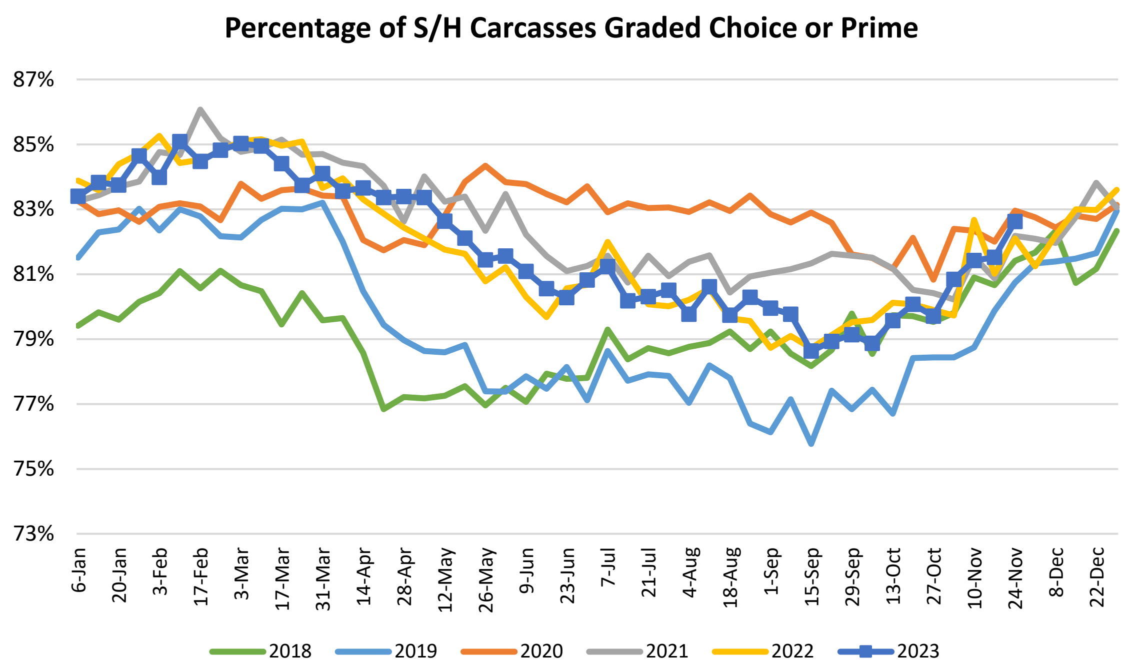


Also last week we got the monthly Fats & Oils release. The total Oct soybean crush was roughly 201 mil bu, which is right where we would expect based on the NOPA release. That is a new record high crush level, but again…no surprise. It is obviously early, but at this point in time I don't see any reason why WASDE should feel compelled to make any adjustment to their current crush projection.

Livestock

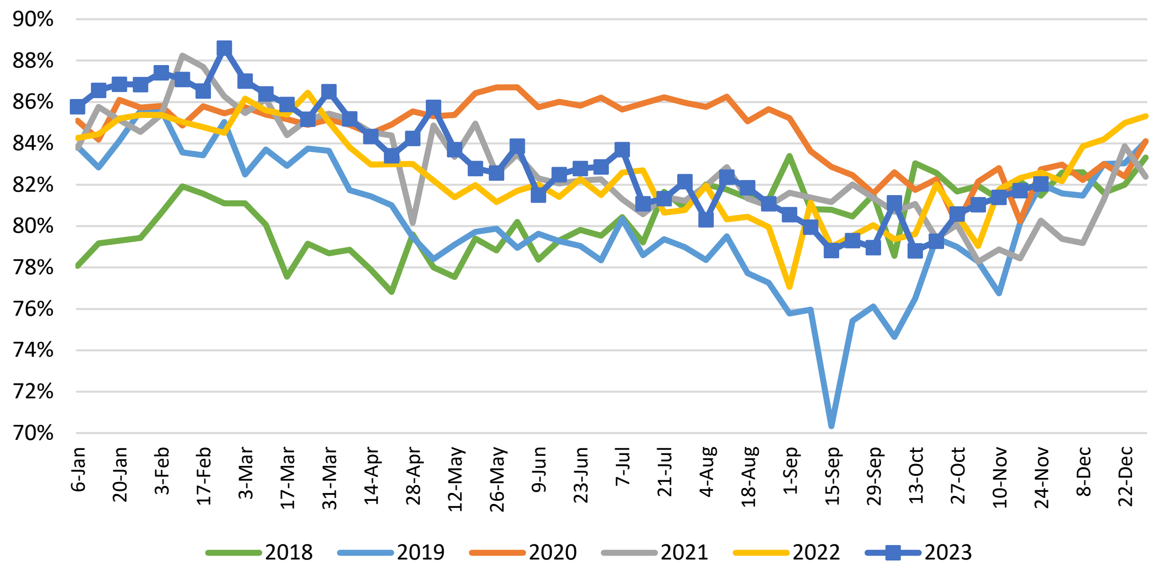
Not much to pass along here from the weekly Monday data dump. Some notes on grading below. The choice cutout continues to sink slowly, following along a fairly normal seasonal pattern here lately. That being said, the cutout is trading well above where it was at this point last year.

We almost posted a seasonal new high in grading last week. The chart below looks at total steer/heifer choice and prime grading. We were just below 2020's level this past week. That being said, I'd be willing to bet that we'll post some new highs in the next couple of weeks.

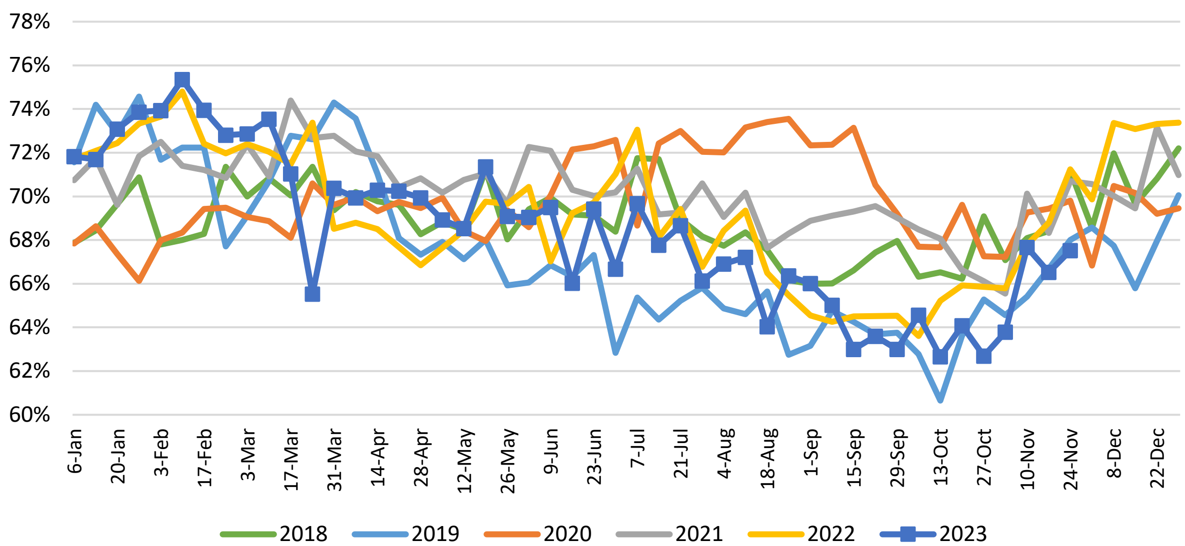


The charts on the following pages look at grading across the key production states. They basically look the same. TX grading is a bit on the low side of the range, but nothing dramatic. Both KS and NE are on the high side of the range.

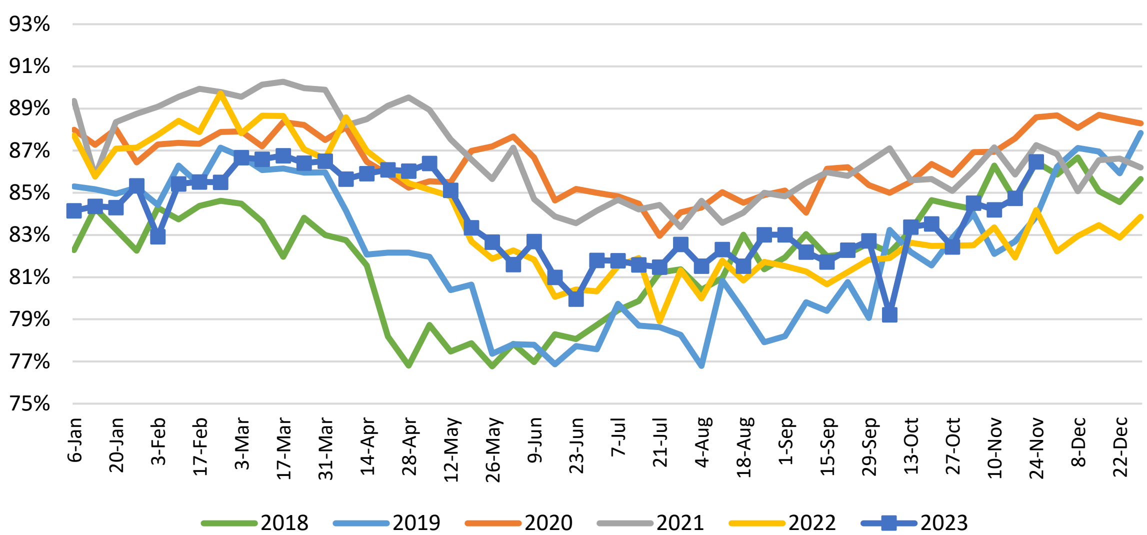
Kansas Percentage of S/H Carcasses Graded Choice or Prime



Texas Percentage of S/H Carcasses Graded Choice or Prime



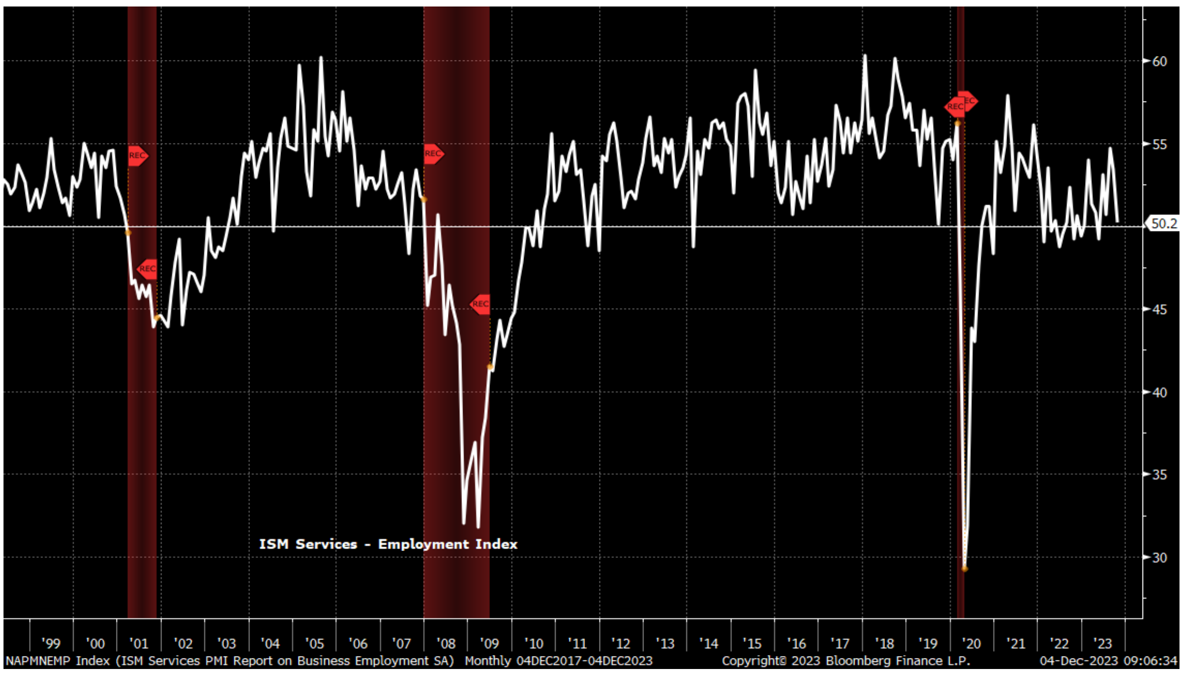
Nebraska Percentage of S/H Carcasses Graded Choice or Prime



Financials

We kick off a busy week of economic data today with the release of JOLTS job openings and the ISM Services index. The JOLTS number is notoriously volatile, so I won't even bother to attempt a guesstimate. However, I do want to simply point out that the numbers have been steadily weakening over the past several months. The chart below looks at the comparison between the "hires" rate and the "quits" rate. The quits rate has seen a lot of attention as it is potentially an indicator of people leaving jobs for better pay/conditions elsewhere. A high quits rate is associated with a tight labor market. You can see the quits rate has rolled over…and so has the hires rate. Admittedly, the quits rate is still somewhat elevated compared to pre-pandemic levels.

Also due at the same time will be the ISM Services index. The headline index number is expected to post an uptick vs. last month and remain well above the 50 level that denotes expansion. This is would be another sign of a still-healthy US consumer. However, one thing I'm going to be looking at is the employment sub-index. That chart is shown below. The employment figure has been bouncing around the 50 level for several months now. Any meaningful move below 50 would be a signal of a looming recession. I'm not predicting a meaningful move this month…if the guess on the headline number is correct then I would expect a modest bounce in the employment index as well. However, the fact that we've been hovering just above the 50 level for a while now is notable on its own…I think.



Energy

Not much news to pass along. The Saud oil minister said OPEC+ could "absolutely" extend production cuts well into 2024…trying to reassure the market that their cuts will support prices. Meanwhile, the spot WTI spread is hitting new lows at the time of writing this morning. The spot month is now 0.26 below the second contract. As you can see from the chart on the right, that is basically right at the post-pandemic lows.

Today's Calendar (all times Central)

- JOLTS Job Openings – 9:00am
- ISM Services Index – 9:00am

Thanks for reading.

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