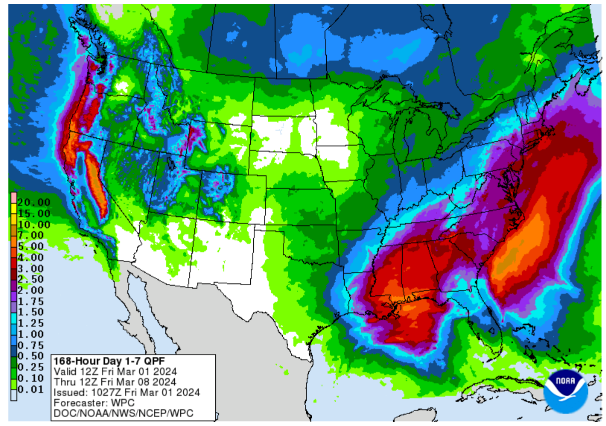
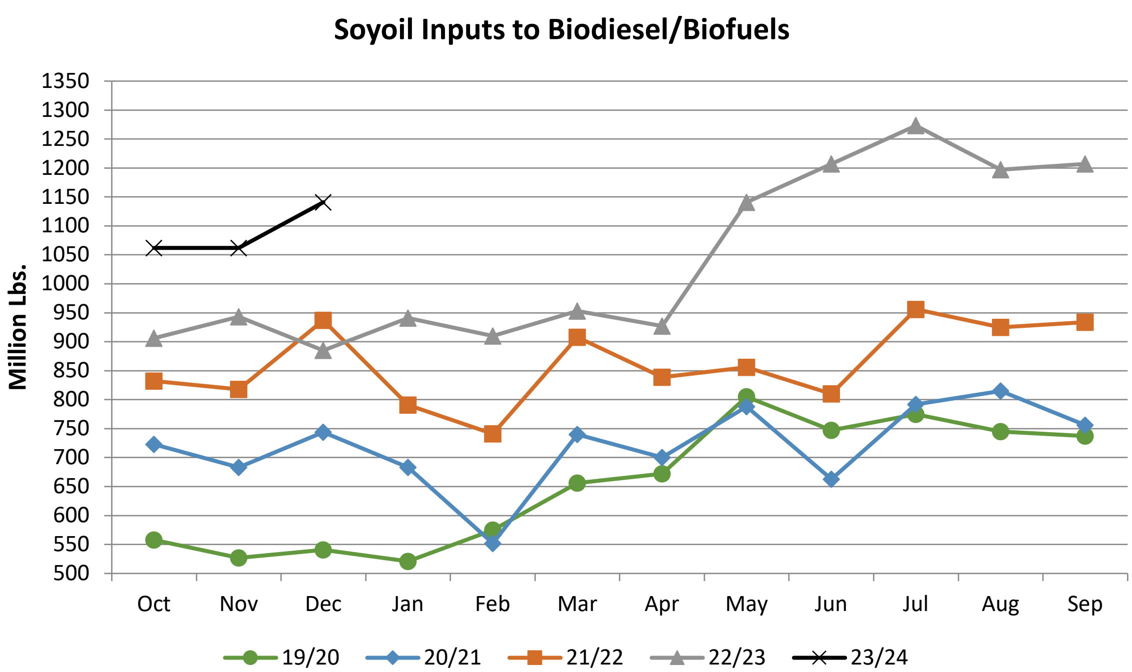
Weather



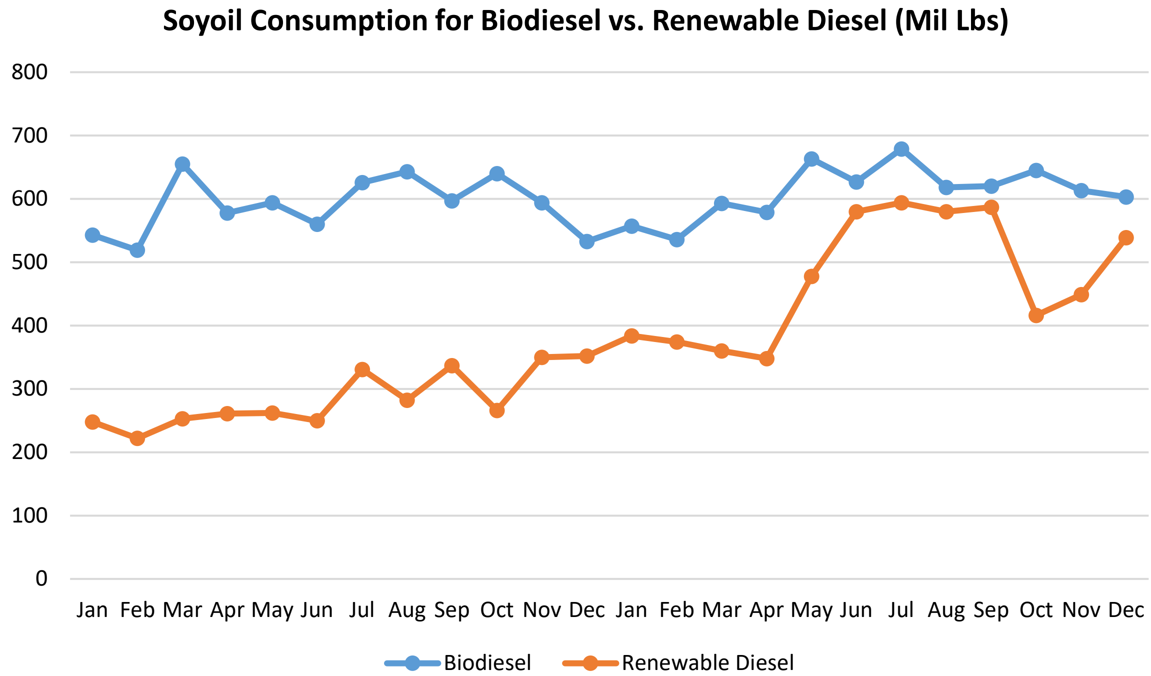
No big changes. Rainfall in northern Brazil is likely to run near normal over the next two weeks. Temps will likely run above normal at times. Southern Brazil should see regular rainfall chances over the next two weeks, allowing for a good finish for soybeans and a good start for safrinha corn production. Argentina should see some rains tonight and tomorrow and then dry conditions for most of next week. Then another improvement in rainfall chances for the 11-15 day period. No changes for the US either. Mostly above normal temps through the middle of the country. Precipitation chances will continue to favor southeastern portions of the country, with little moisture in the middle of the country. Models do suggest an improvement in rainfall chances in the middle of the country for the Week 2 period.

Crops

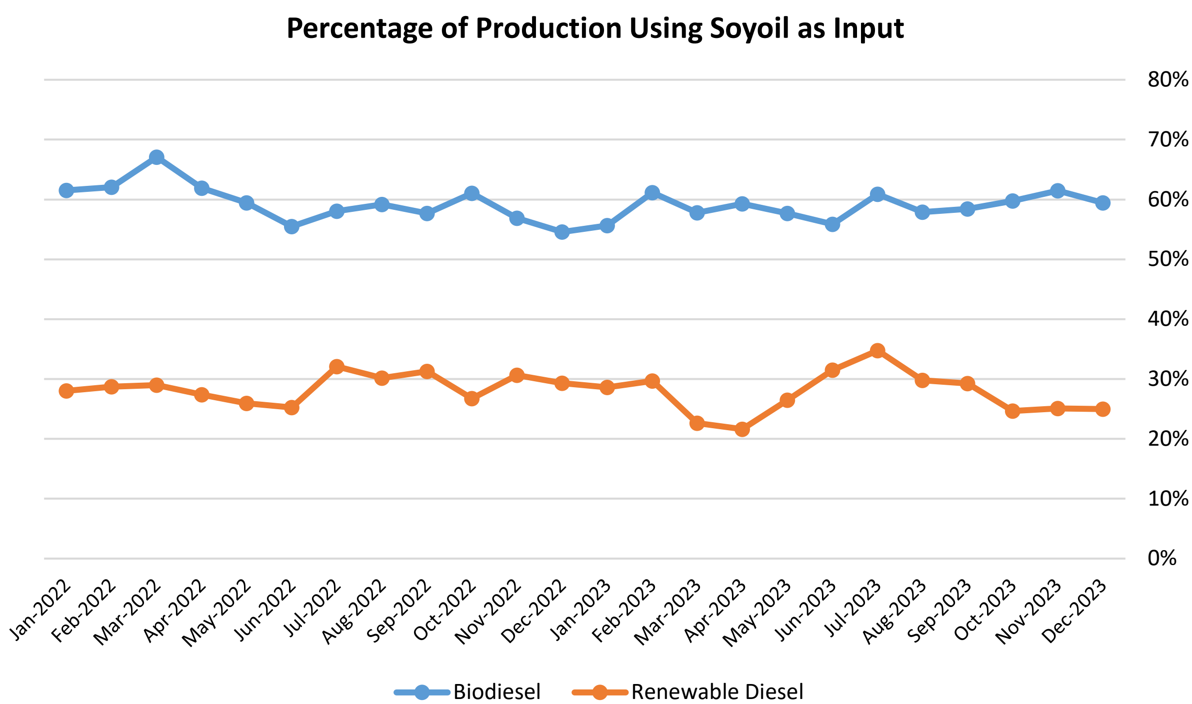
A quick update with the latest EIA numbers on biofuel production today. These latest numbers are from December. Total soyoil inputs for biofuels production were up from the prior couple of months. You can see this is obviously a very strong start to the marketing year, though consumption levels are not record strong.



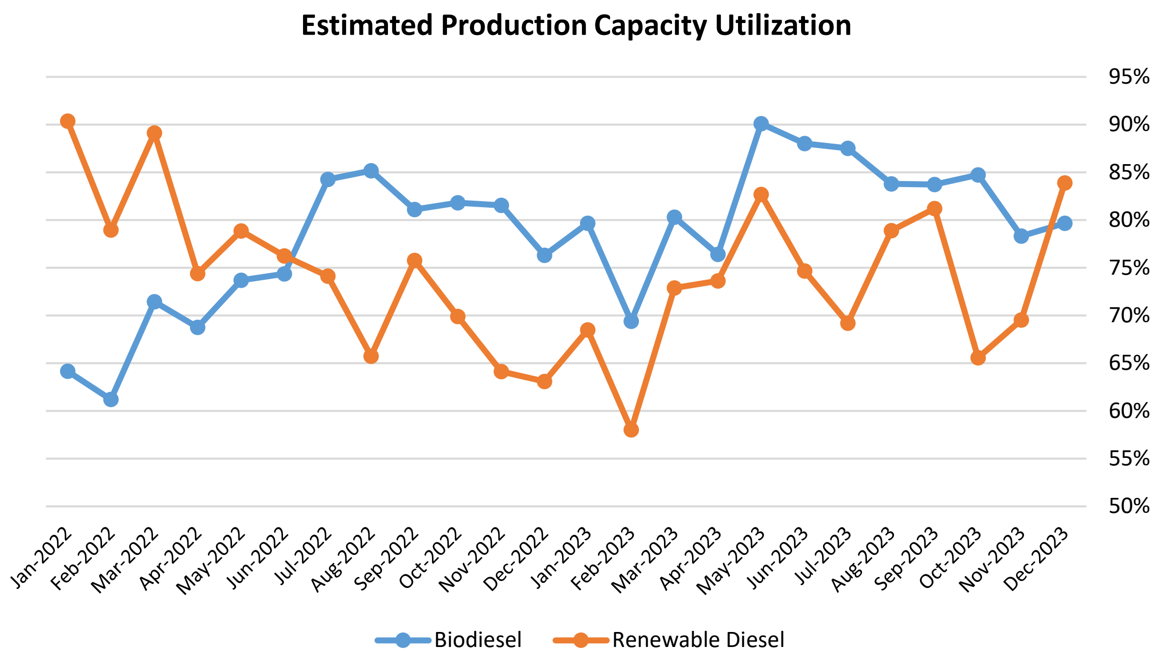
The chart on the following page shows a breakdown of the soyoil use in biodiesel vs renewable diesel. Biodiesel use is down to its lowest level in several months. Renewable diesel is almost up to the same level as biodiesel.



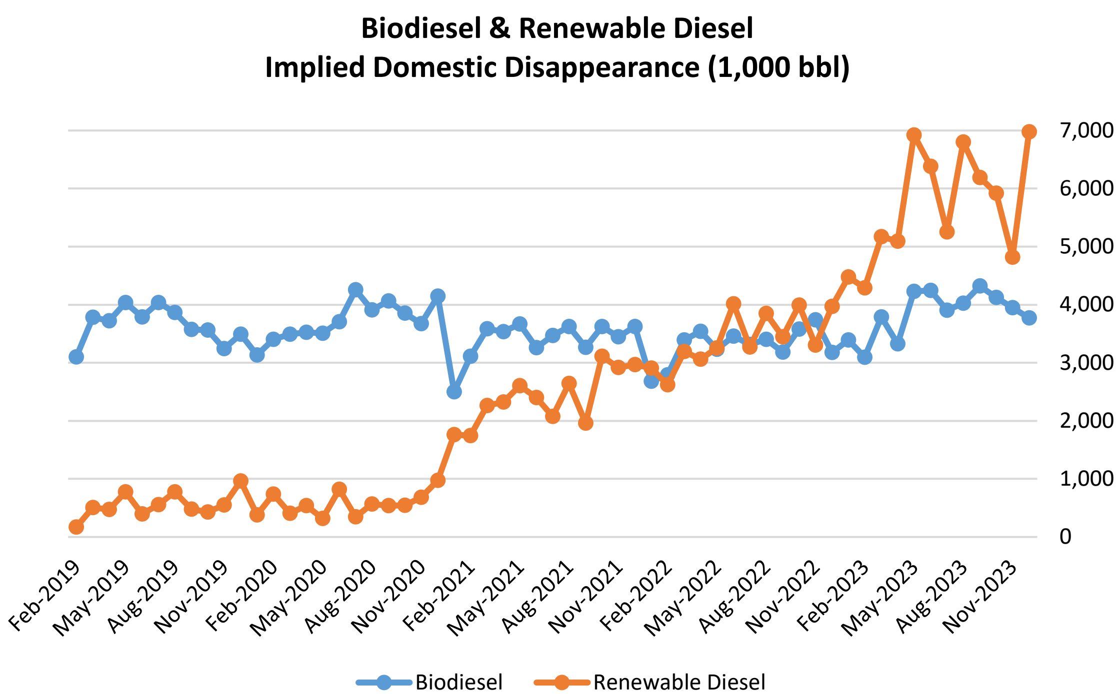
Despite the bounce in soyoil use in renewable diesel production, it still only represents about 25% of total feedstocks for RD.



And here is an estimate on production capacity utilization. That RD utilization rate isn't a record, but also keep in mind that capacity has expanded a lot over the past 2 years so that is still a pretty strong figure.

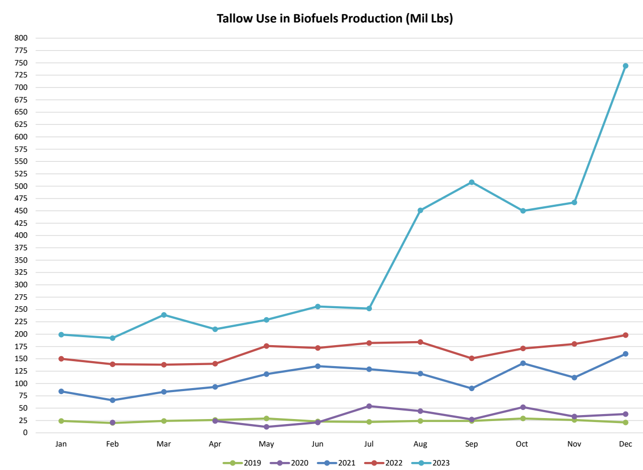


And lastly…RD domestic disappearance has really started to heat up in the past few months…Dec'23 posting a new record high.

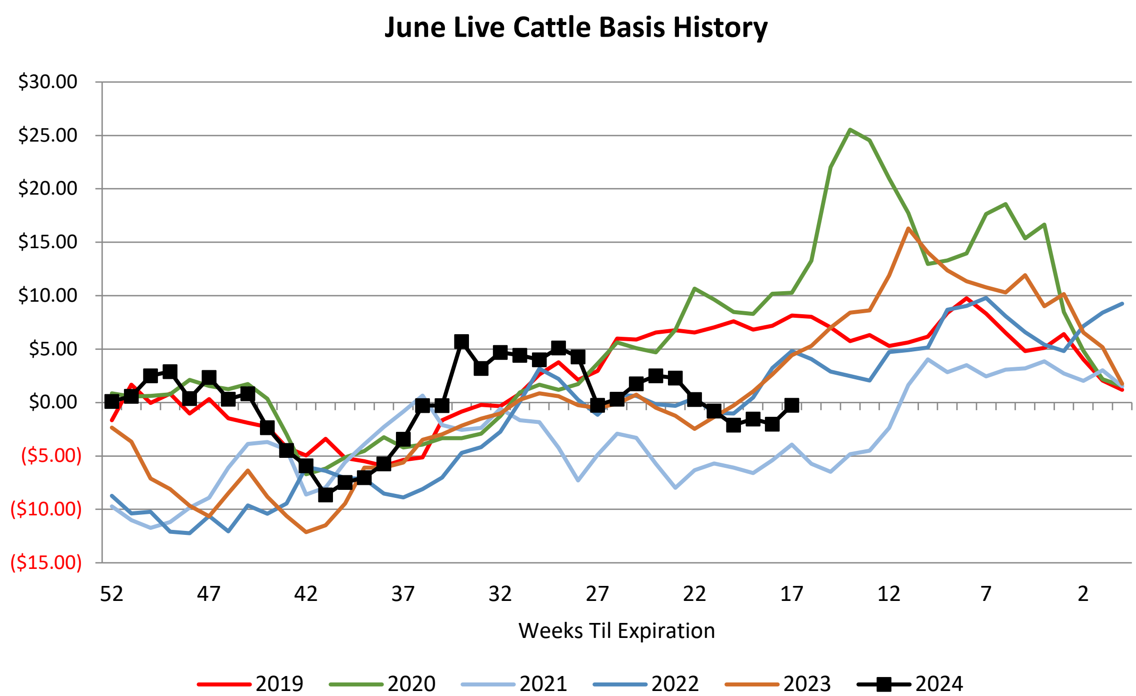


Livestock

I wasn't planning to discuss tallow use in biofuels production today, but the chart stands out too much for me not to mention it. See the chart to the right. A massive new record big amount of tallow was used in biofuels production in Dec'23. On the margin this should support the drop credit.

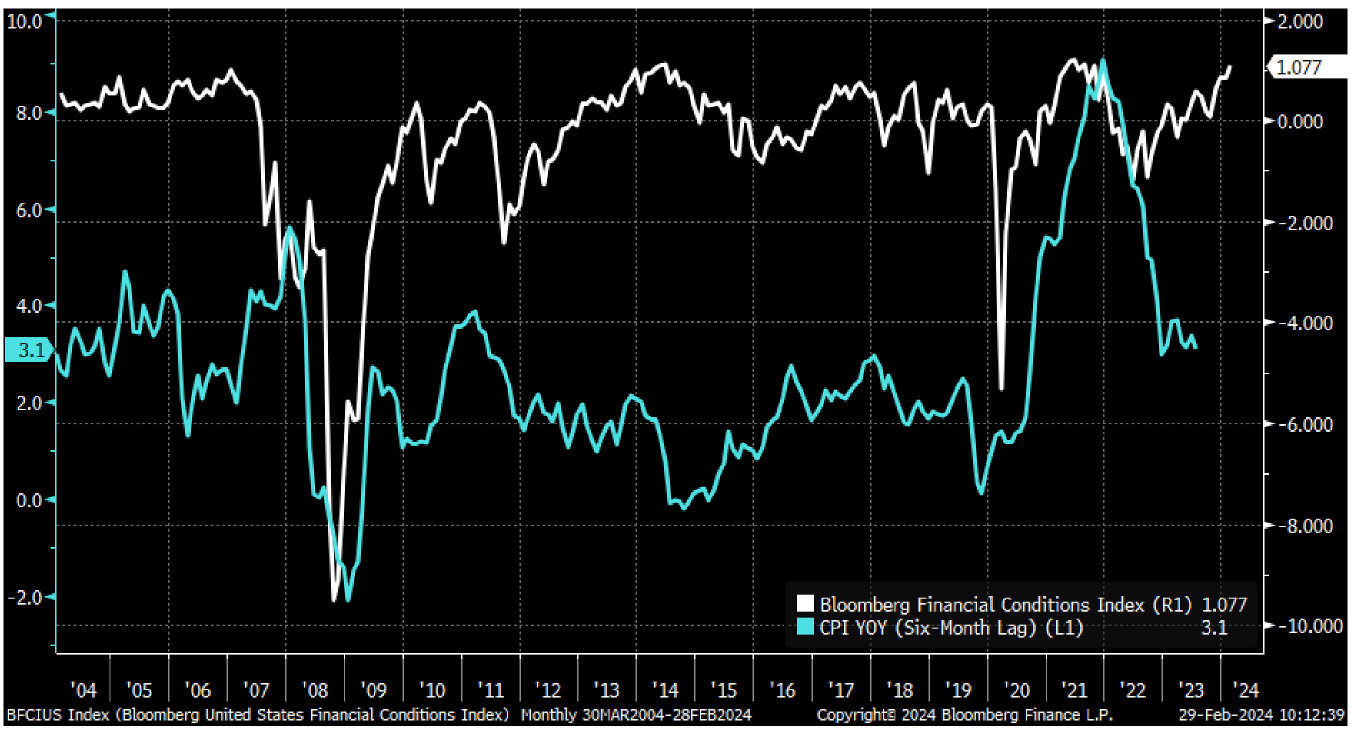


One thing I haven't looked at in a long while is basis. The chart below takes a look at the seasonal view of June basis. You can see we're sitting at a fairly weak level for this time of year. In these recent years, only 2021 was softer. You can also see there is a strong seasonal tendency for basis to strengthen over the next couple of weeks. With weights moving higher and performance improving, combined with the idea brought forward earlier this week about possibly under-killing Jan numbers, it seems questionable (to me) whether cash can do the work to get that seasonal surge. Which would mean another possible alternative, of course. Thoughts appreciated.

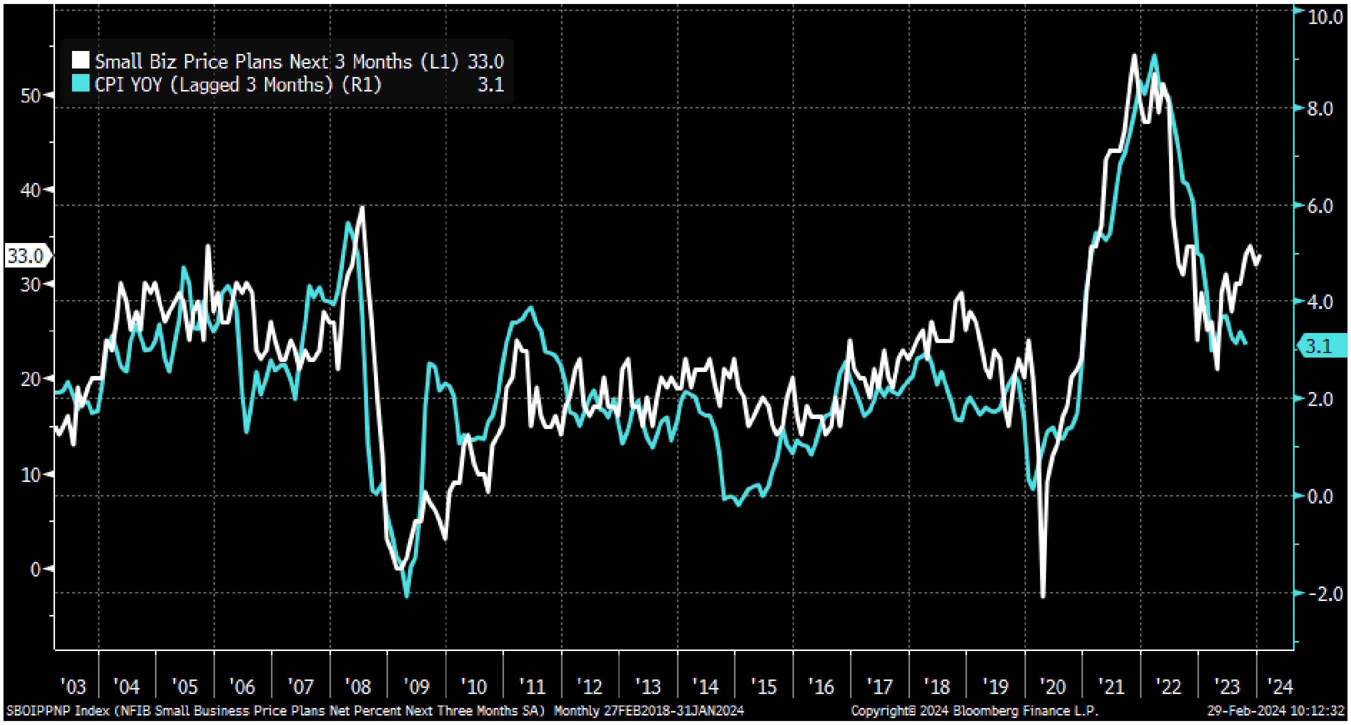


Financials

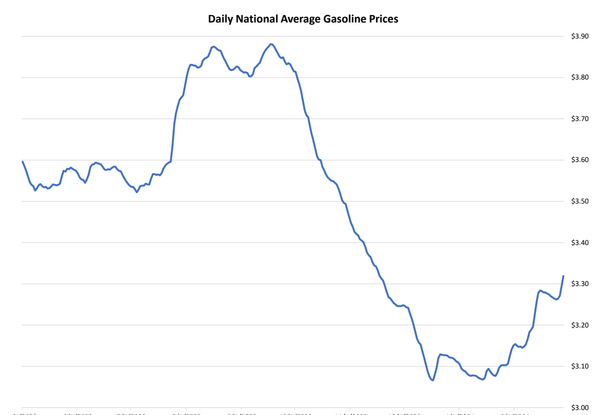
Yesterday's PCE number came in right at expectations. The bottom line is that recent inflation numbers have been a bit "bouncey". I'll concede that I had been of the opinion that inflation was surely declining, but recent data does have my questioning my prior bias if I'm being honest. There are a lot of different examples I could pull from, but for the sake of time this morning I'm just going to point out two. This first one isn't quite as intuitive, but it plots CPI (blue line) vs. the Bloomberg financial conditions index. Basically, with tighter financial conditions, you expect inflation readings to slow down. It happened briefly during the pandemic for instance. We also saw it during the first half of the Fed's rate hike cycle. However, you can note that financial conditions have been easing lately…to nearly the easiest on record. This largely due to the massive rally in equities, of course. Lower Treasury yields and loosened lending standards have also contributed to the easier financial conditions. The CPI line is lagged by six months to show there is a lag between the easing/tightening of financial conditions and inflation readings. If there is any validity to this thought process it would potentially mean a forthcoming bounce in CPI readings in the months ahead.



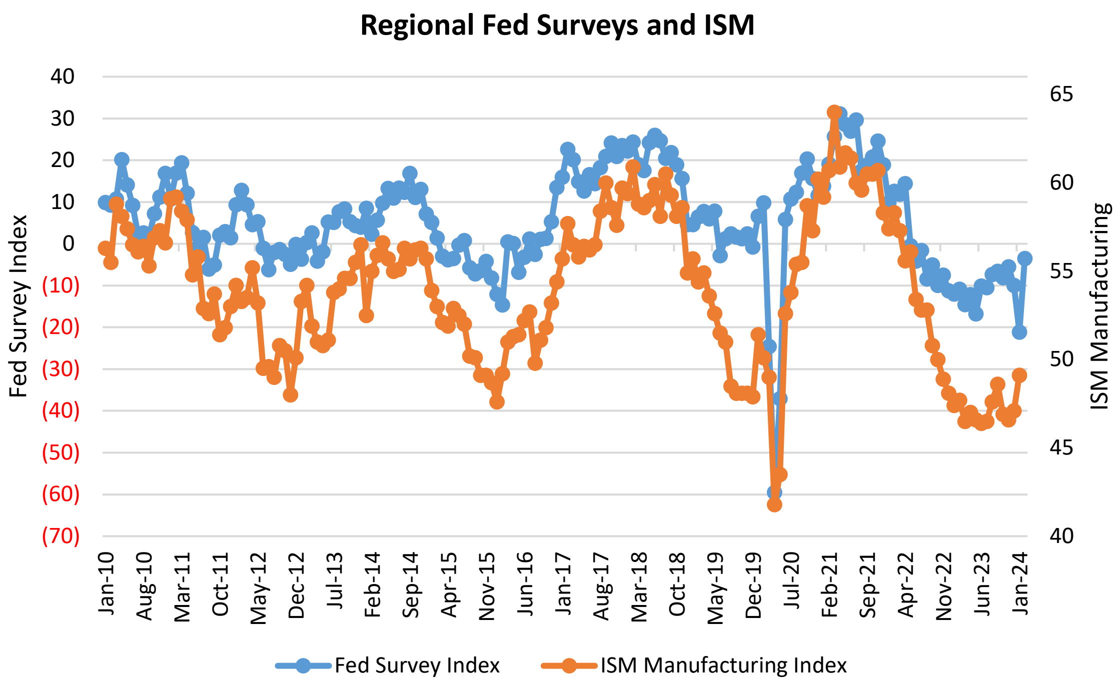
The next chart is a little cleaner and probably a little easier to relate with. Again, the blue line is CPI YOY. The white line in this case shows the NFIB small business survey of price plans for the next 3 months. What you can see here is that, in the past several months, the price plan index has been creeping higher again. That would be suggestive of these small business pushing prices higher. You can see that CPI tracks this index pretty well on a 3-month lag. This would seem to be another such instance that suggests CPI readings could move higher in the months ahead.



And, of course, we can't simply ignore gasoline prices. The chart to the right shows the AAA national average estimate for regular gasoline. After bottoming late last year, gasoline prices have been steadily moving higher again. I mentioned a few weeks ago that some refinery outages are likely behind some of this strength. But whatever the reason, this certainly doesn't help the Fed's fight against inflation. Like I said…I had been of the opinion that the inflation fight was mostly won. This indicators, among others, are causing me some doubt.

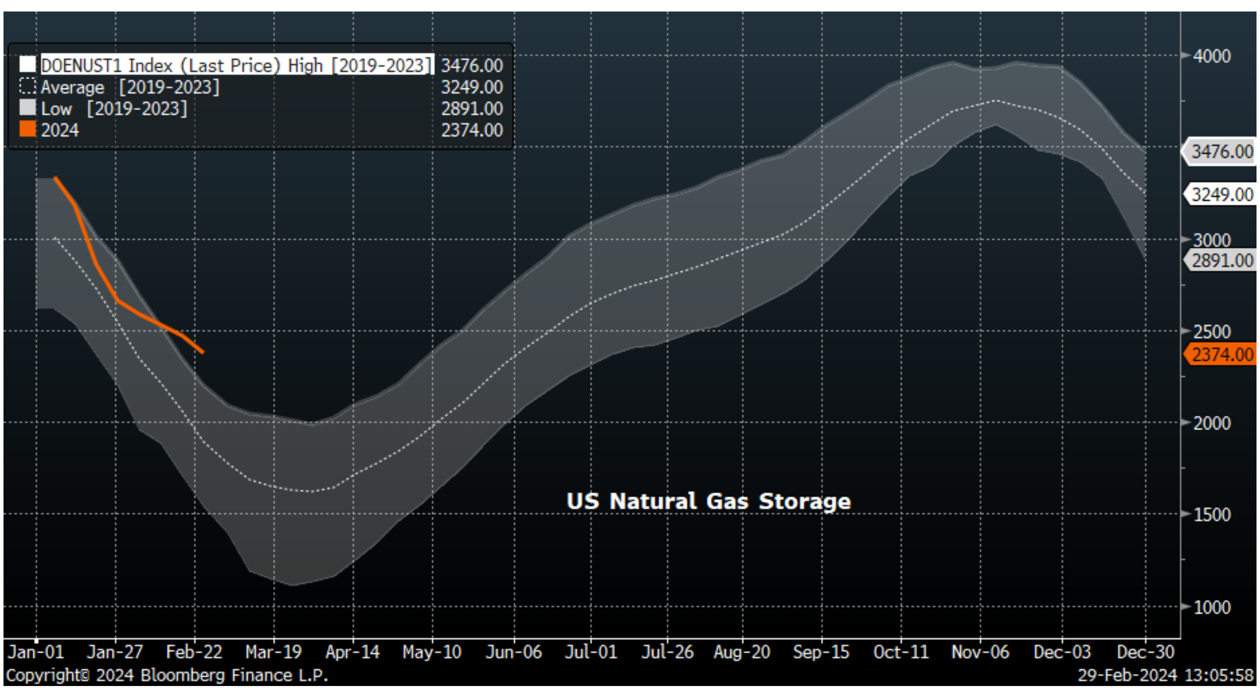


In terms of economic data on tap today the big ticket item will be the ISM manufacturing index. Right now the expectation is for a modest increase to 49.5 from 49.1 last month. In the past we've used the Fed regional surveys as a way of looking ahead to the ISM release, but this relationship has broken down a little in the past few months. Last month posted a solid increase in the ISM reading but the Fed regional surveys were pointing lower. For what it is worth, this month's Fed regional survey index posted a very strong increase, with all 5 regional indices coming in higher vs. last month. I don't know if that will translate into a strong ISM reading, but I am personally cautious for a stronger than expected reading….maybe even above the 50 levels that denotes contraction vs. expansion. Thoughts appreciated.



Energy

Natural gas inventories remain in their seasonal drawdown period, but the drawdowns remain less than normal and we're putting in new seasonal inventory highs relative to the past 5 years….



Today's Calendar (all times Central)

- ISM Manufacturing Index – 9:00am
- U of M Consumer Sentiment – 9:00am
- Fats & Oils and Grain Crushing – 2:00pm
- Additional Fed speakers throughout the day

Thanks for reading.
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