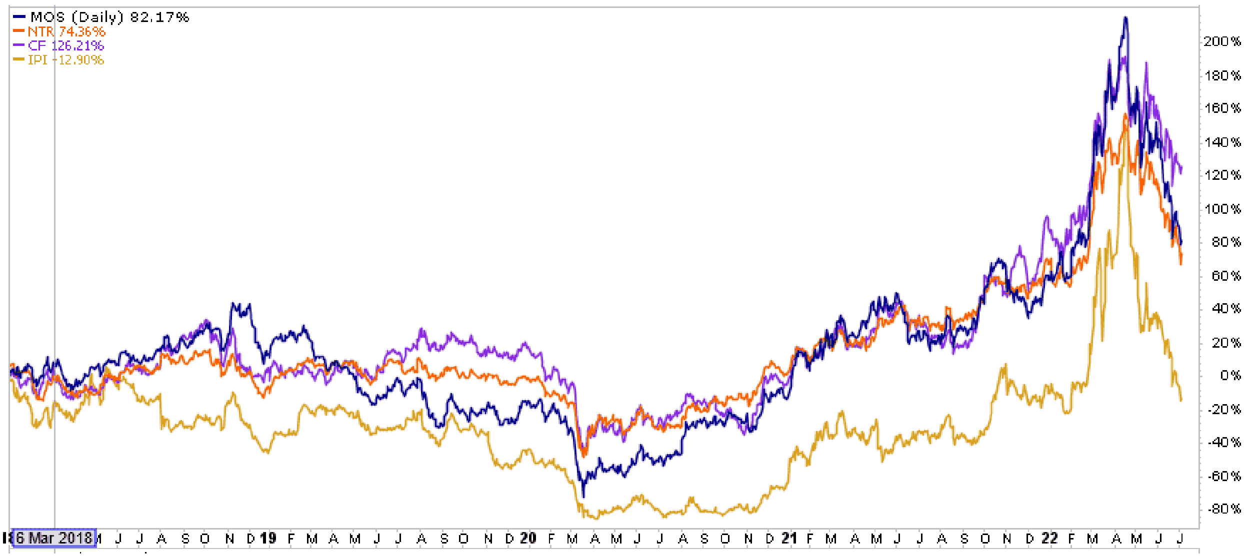
Fertilizer Stocks Plummet With Agricultural Prices

The graph below shows the four largest fertilizer stocks (MOS, NTR, CF, and IPI) have seen a quick reversal of their recent price surges. Russia holding back on fertilizer exports, supply line problems, and speculative traders drove the first-quarter outperformance. The same issues drove agricultural prices higher. However, like fertilizer stocks, their prices are falling rapidly. For example, since peaking in May, Corn, Wheat, and Soybeans are down 28%, 36%, and 16%, respectively. While the Russian conflict is not ending, speculative traders are clearly exiting long positions, and many supply line problems are disappearing. Fertilizer prices are a very critical component of agriculture prices. As such, fertilizer stocks indicate that inflation is likely peaking and heading lower.



What To Watch Today

Economy

- 8:30 a.m. ET: **Change in Nonfarm Payrolls**, June (+268,000 expected, +390,000 prior)
- 8:30 a.m. ET: **Change in Private Payrolls**, June (+237,000 expected, +333,000 prior)
- 8:30 a.m. ET: **Change in Manufacturing Payrolls**, June (+21,000 expected, +18,000 prior)
- 8:30 a.m. ET: **Unemployment Rate**, June (3.6% expected, 3.6% prior)
- 8:30 a.m. ET: **Average Hourly Earnings**, month-over-month, June (+0.3% expected, +0.3% prior)
- 8:30 a.m. ET: **Average Hourly Earnings**, year-over-year, June (+5.0% expected, +5.2% prior)

- 8:30 a.m. ET: **Average Weekly Hours All Employees**, June (34.6 expected, 34.6 prior)
- 8:30 a.m. ET: **Labor Force Participation Rate**, June (62.4% expected, 62.3% prior)
- 8:30 a.m. ET: **Underemployment Rate**, June (7.1% prior)
- 10:00 a.m. ET: Wholesale Inventories, month-over-month, May final (+2% expected, +2% prior)
- 10:00 a.m. ET: **Wholesale Trade Sales**, month-over-month, May (+1% prior)
- 10:00 a.m. ET: **Consumer Credit**, May ($30.9 billion expected, $38.1 prior)

?**Earnings**

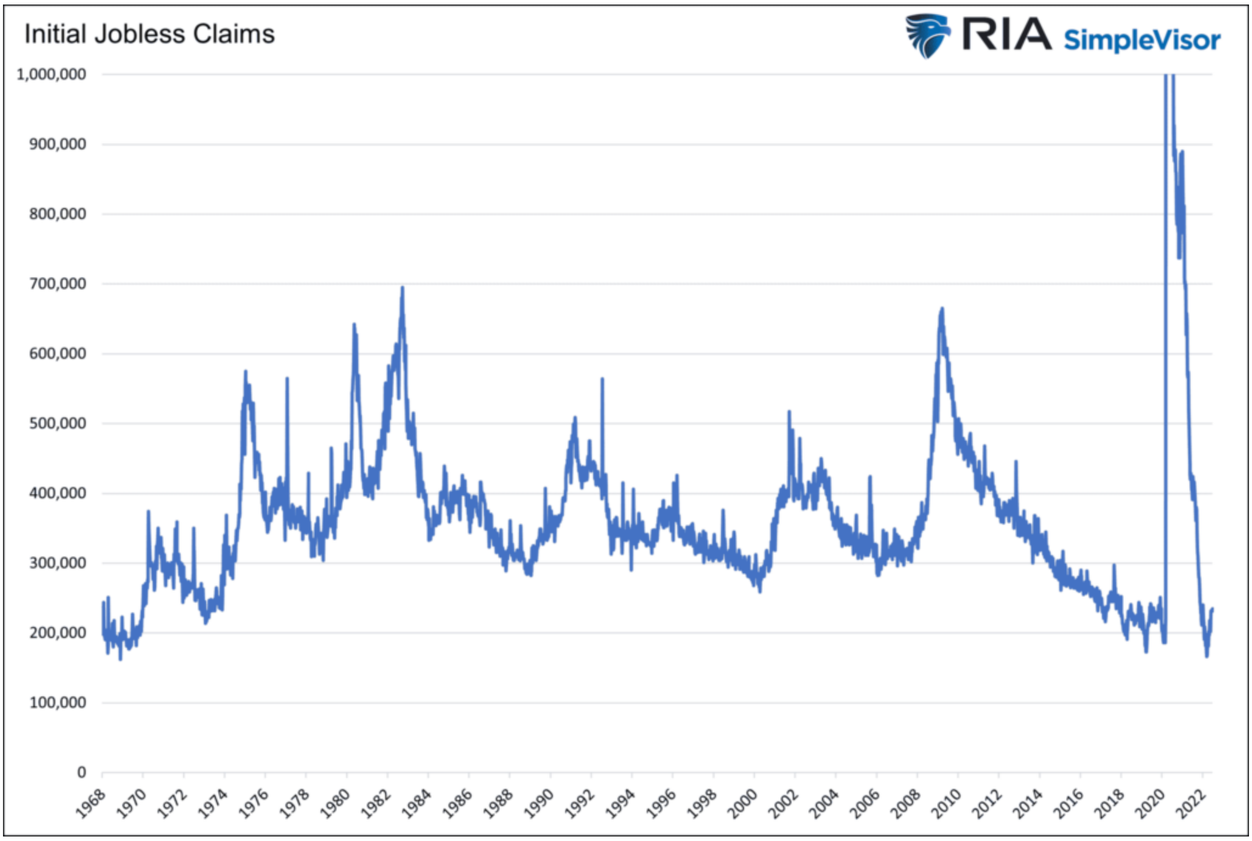
- *No notable companies expected to report.&#2013266080;*

Market Trading Update

The market rallied yesterday nicely as the FOMC minutes confirmed what the markets have already priced in. However, the action over the last few days has been weak and has eaten up most of the previous oversold condition. As such we removed our trading position in the QQQs but are maintaining our RSP position for now. As we approach the 50-dma we will likely remove that position as well and look to potentially add our short-S&P 500 ETF position back into portfolios.

Jobless Claims

Initial Jobless Claims inched higher to 235k, up 4k from the prior week. While claims are increasing, they are doing so at a very slow rate and, as shown below, still well below historical norms. The five-year average leading up to the pandemic was 245k. Before that, jobless claims tended to trough at about 300k. We suspect jobless claims and the BLS employment data will be slow to show economic deterioration. Many businesses struggled to hire workers over the last two years. This was especially true with the lower-income employees. Companies will be apprehensive about letting them go at the first sign of trouble. Might we see a higher than average percentage of job layoffs among the higher income earners this time?



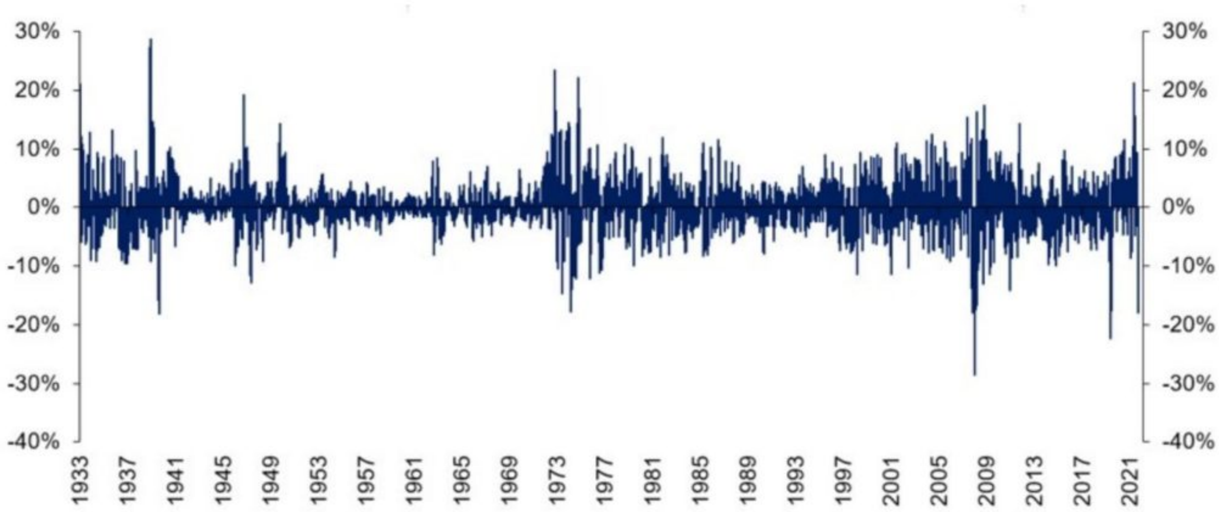
Commodity Prices in Freefall

From metals to energy and agricultural products, commodity prices are collapsing. While some of the selling pressure may result from speculative positions and inflation hedges unwinding, it is also likely due to sharply decelerating economic growth. These declines may take a few more months to fully present themselves in CPI and PPI. However, when they hit, inflation data may start surprising to the downside. Albert Edwards recently opined on the topic as follows:

> *All these data are consistent with the global economy plunging into a deep recession. Soft?landers (now as rare as flat-earthers) claim that this is just excess speculative froth being blown off, but the bulls said that too in 2008 and look how that ended up!*

The graph below shows the CRB Commodities index just had its third-largest 20-day decline in 90 years. The second graph shows the recent drop, which can potentially fall much further to normalize.

Figure 1: Rolling 20 trading day change in Bloomberg Commodity Index..
current point around third largest fall in 90 years...



Source : GFD, Bloomberg Finance LP, Deutsche Bank

FOMC Minutes Summary

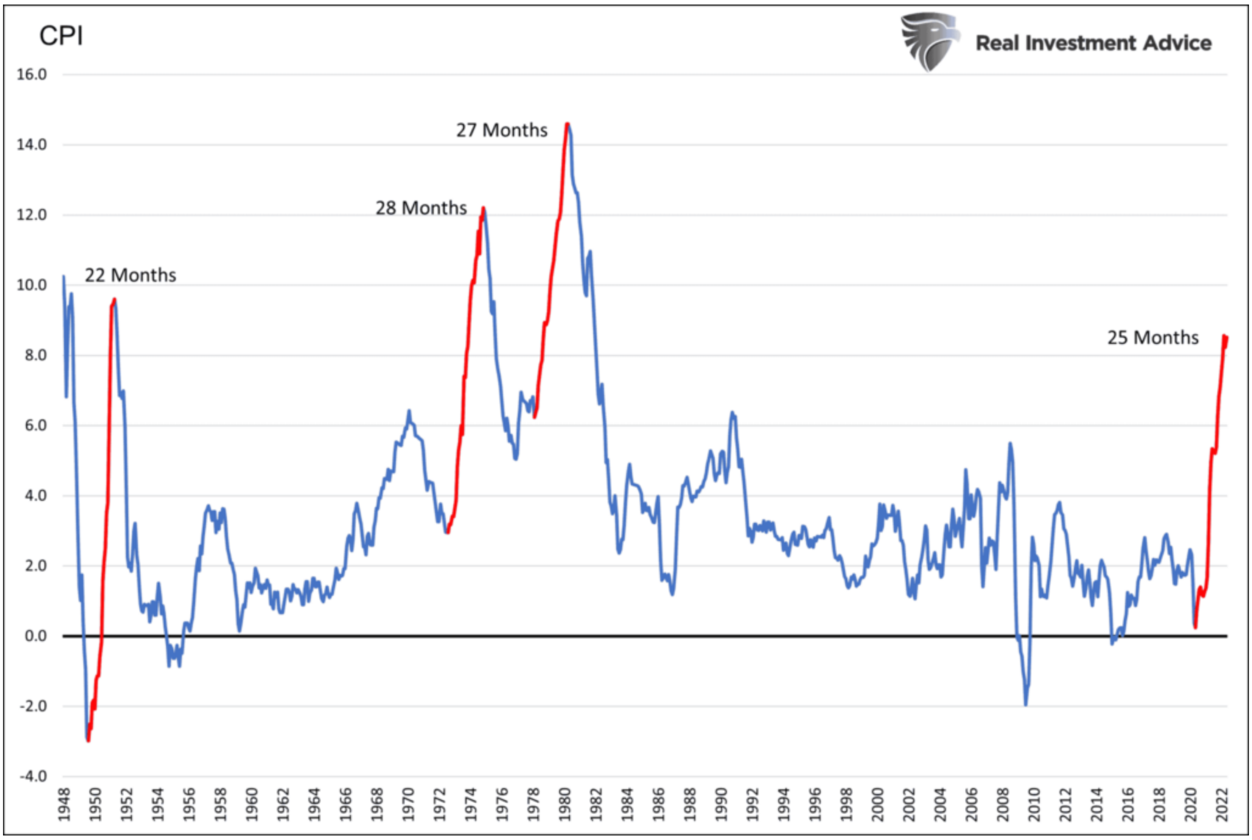
The FOMC minutes echoed the Fed's FOMC statement from three weeks ago. Essentially the Fed is solely focused on bringing inflation back to its 2% target. Further, they will not rule out the possibility of hiking rates by more than last month's 75bps. The quote below sums up its resolve to fight inflation.

*?Participants concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognized the possibility that an **even more restrictive stance** could be appropriate if elevated inflation pressures were to persist,?*

As Michael Feroli, from the [Wall Street Journal], opines below, the Fed is becoming more accepting that its actions might result in a recession.

*As a result, the minutes also revealed officials? growing acceptance that fighting inflation might lead to higher risks of a recession, but they saw that as ?**a cost they?re willing to pay**,? said Michael Feroli, chief U.S. economist at JPMorgan Chase.*

We again present the graph below showing that surges in inflation tend to last about two years and retreat just as quickly as they accelerated. As a reminder, June's CPI will be released next Wednesday.



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