NESVICK TRADING GROUP, LLC

Wednesday, March 25, 2020
NTG Morning Comments
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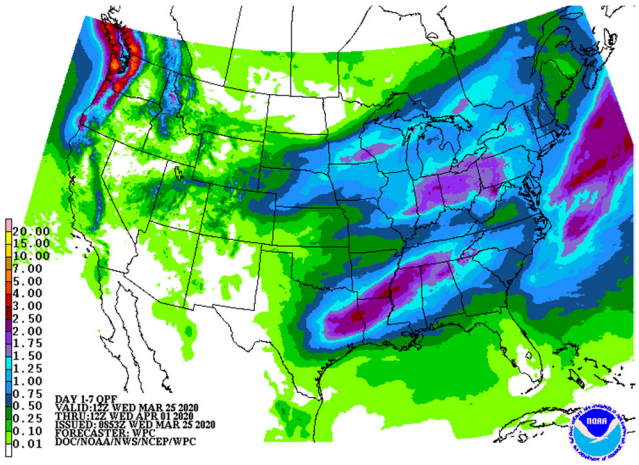
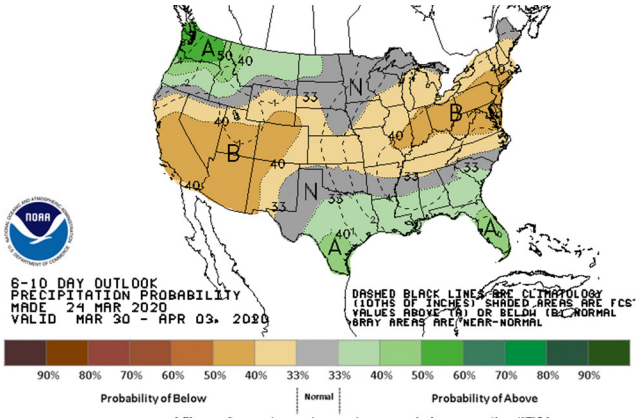
Weather

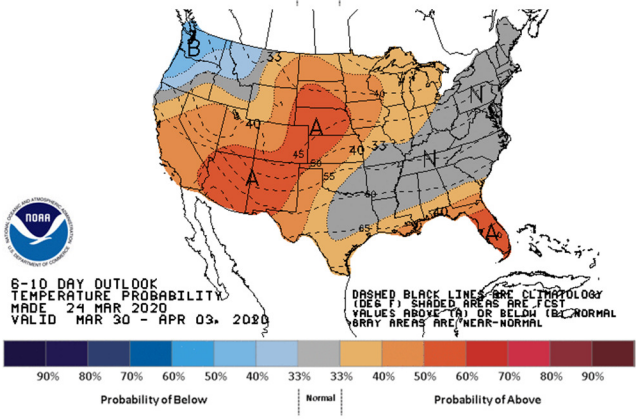
No major changes to the forecast this morning. We should have a few days of mostly dry weather before the next couple of rounds of precipitation move through the country. After the end of the current 7-day period, we're still looking for a fairly significant drop-off in precipitation chances across most of the Corn Belt. Week 2 of the forecast features mostly below normal precipitation chances through the Corn Belt and even some drier weather in the southeast. At the same time we should be experiencing a lot of above normal temperatures. I mentioned yesterday there were some hints of cooler weather in the deferred forecast in the opening days of April. Those hints are still there but there is very limited confidence in that forecast period right now.



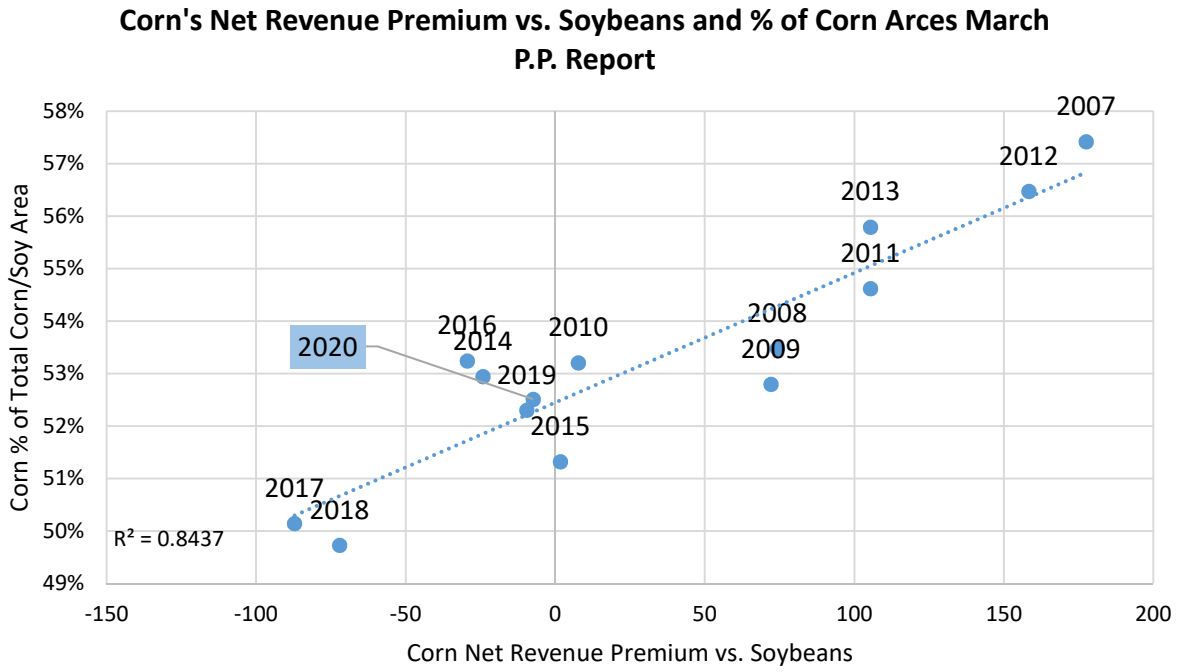
Crops

We've already reviewed this a few times previously so I won't spend much time on it this morning. Still, with the Prospective Plantings report looming next week I thought it would be a good time for a very quick refresher on what my math shows for the corn/soybean acreage mix. Yesterday I showed that typically USDA increases their corn and soybean acreage "pie" vs. the Outlook Forum but usually it adds to one crop and subtracts from another. I want to look this morning if the February average prices, which have proven to be a fairly decent indicator of what to expect on the PP report, will give us any clues on which crop should be favored for more/less acreage.





The chart below is one I've shown before. It takes my estimate for the net revenue difference between corn and soybeans and compares that against corn's percentage of the total corn+soybean acreage pie. My net revenue comparison takes the February average price for new crop futures and USDA's cost of production estimates and I also include trendline yield and basis assumptions. Other analysts will have varying estimates on the net revenue comparison.



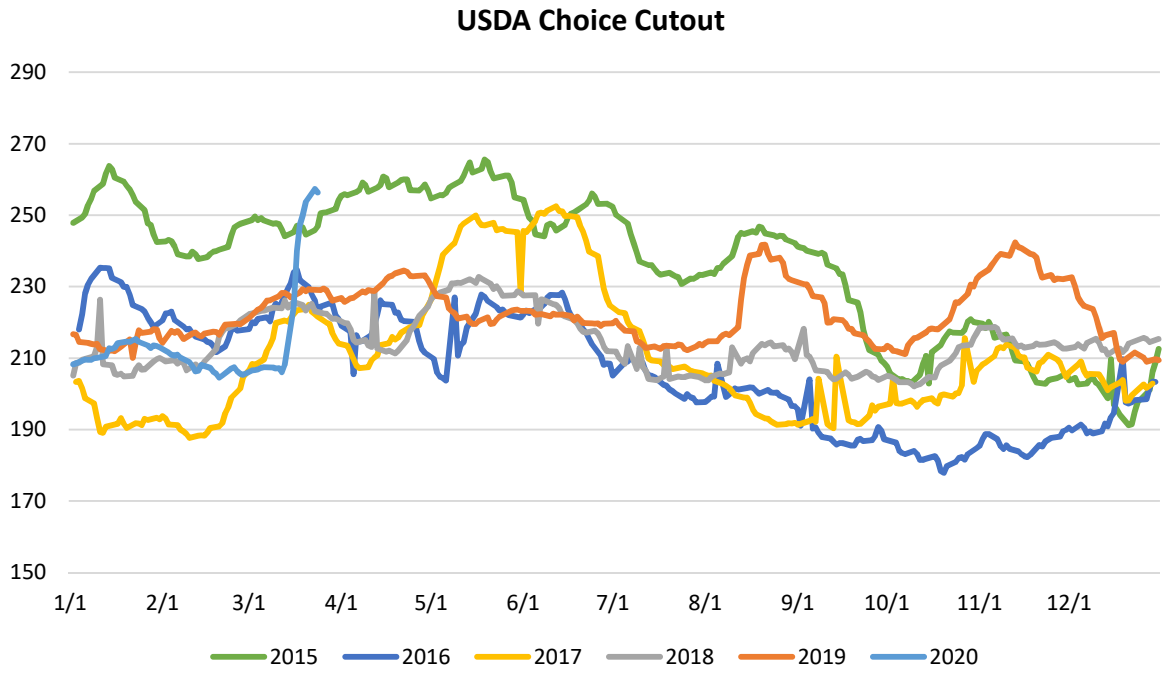
For the 2020 point, I'm taking the USDA Outlook Forum estimates. You can see that based on my estimate for the net revenue comparison, the percentage of corn area in the total corn+soybean pie given in the Outlook Forum seems pretty reasonable. With that in mind, I don't have any major argument against what USDA has already given us.

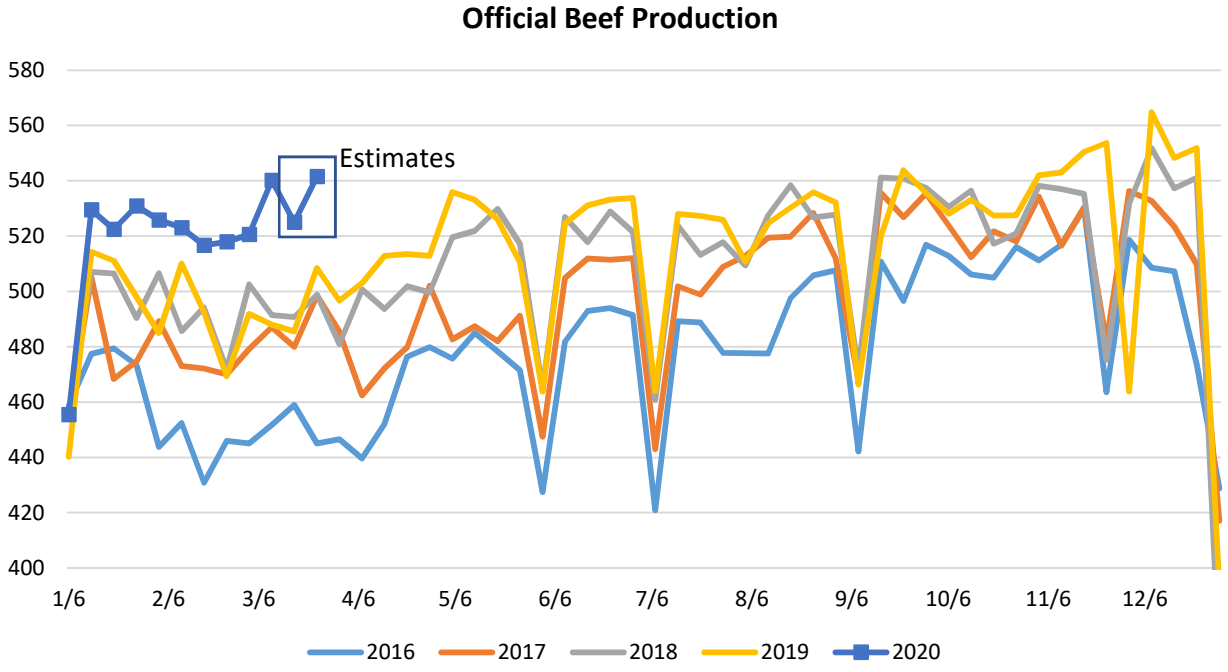
That said, as noted yesterday I think there is a reasonable assumption that total corn and soybean area might increase slightly vs. the Outlook Forum. With the relationship basically already inline as shown above, I guess I "should" say that any possible increase could be split between the two crops. That said, my personal bias is to favor more corn for this month's report. I am certainly open to any and all pushback.

Livestock

Sounds like there might have been some very small volume of cash trade yesterday around 188 in IA. Also some 116 in NE. Most still seem to be holding out for something higher. Are the packers going to add another "kicker" to this week's cash? Who knows? The cutout yesterday was slightly lower for the first time in 8 days. That is something I still can't seem to wrap my head around. Note in the first chart on the next page we've seen the cutout surge from the lowest level in several years to the highest level in just the past week or so. Obviously this has come as the country freaked-out (rightfully) and stocked up their freezers. With the push to fill up those freezers basically fulfilled….now what? Beef production is running at seasonally large levels (second chart on next page). Export demand is not likely to chase the beef market higher…at least not in significant quantities.

Don't get me wrong…I'm not even remotely bearish here. The board is still miles under cash and that has to be resolved. I'm just asking the question on beef – now what? Could the cutout come full-circle and trade near seasonally weak levels? If so, what sort of margin is the packer going to want ?





Financials

US equity futures are modestly higher this morning as we have an announcement of a deal on a stimulus package. Of course the bill is still being written, making it very hard to know what exactly is in the deal. We

have to assume that Pelosi has been consulted through the negotiations and that whatever the deal is, it will pass the House too. Bloomberg is reporting the deal included "$500 billion that can be used to back loans and assistance to companies, including $50 billion for loans to US airlines, as well as state and local governments. It also has more than $350 billion to aid small businesses. Then there is $150 billion for hospitals and other health-care providers for equipment and supplies". The bill will also include direct payments to lower and middle class citizens of $1,200 for every adult and $500 for every child. Unemployment insurance would be extended to four months and the benefits would be increased by $600 weekly. McConnell has promised a vote by today. The House could vote on it pretty quickly after that…maybe today, maybe tomorrow. Fiscal stimulus is not just a US phenomenon. Germany has announced their own stimulus package of roughly $812B.

As for the situation surrounding the containment of the virus itself, the newsflow this morning doesn't appear to be any better. NYC continues to be the hotspot here in the US. CA Gov Newsom said the state may have to remain in shutdown for "eight to twelve weeks". The UK has expanded its lockdown measures this week. India has announced a 3-week lockdown. Saudi Arabia has announced a curfew. There are others I'm sure I'm missing.

No "big" economic data in the US today. Durable goods orders is out but likely won't be a big market mover. The big data release of the week will come tomorrow with the update on jobless claims. Right now the median expectation for weekly jobless claims according to the Bloomberg survey is an increase of 1.5 million. To put that into perspective, I've drawn a line on the chart of jobless claims at 1.5 million. You can see that would dwarf the worst of the financial crisis. I've seen several estimates that are even higher. This obviously makes the adjustments to unemployment benefits in the stimulus package very important.

Energy

I'll keep this section short today. The API reported yesterday afternoon that US crude oil stocks were down 1.3 million barrels last week. This is in contrast to expectations for today's EIA release that calls for an increase of 3.0 million. Gasoline stocks are expected down 2 million and distillates down 1.6 million.

There is a Bloomberg article this morning noting that while the main futures markets remain around ~$20/bbl or so, actual physical cargoes are trading at discounts vs. the futures market. For example the article notes that Nigerian oil is trading about $3/bbl under its benchmark Brent, which is its widest discount in several years. Colombian oil is trading at a discount of almost $8/bbl under Brent. Just keep that in mind when looking at oil prices. There is basis to consider for oil as well.

Today's Calendar (all times Central)

- Durable Goods Orders – 7:30am
- EIA Petroleum Inventories – 9:30am

Thanks for reading.

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