NESVICK TRADING GROUP, LLC

Friday, June 26, 2020
NTG Morning Comments
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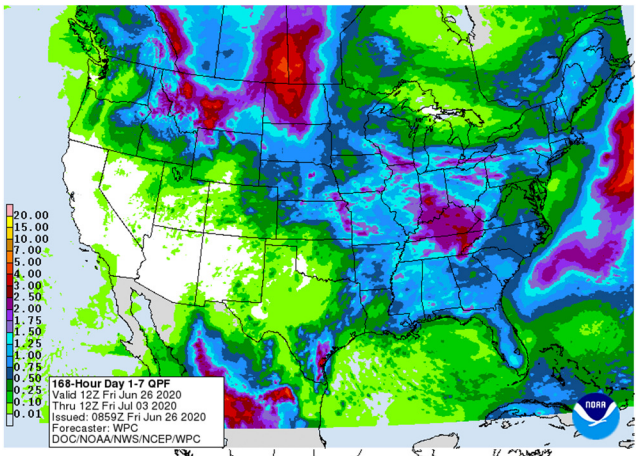
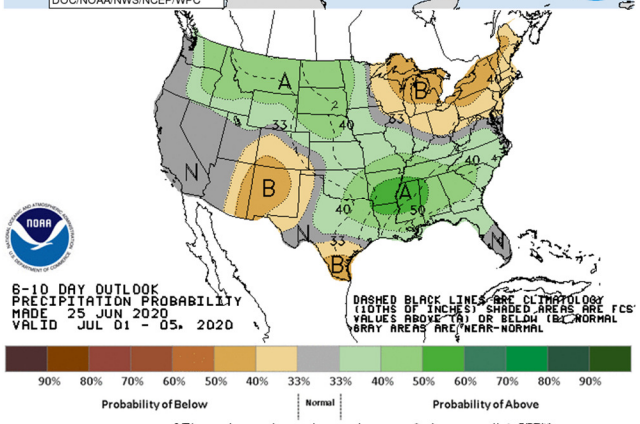
Weather

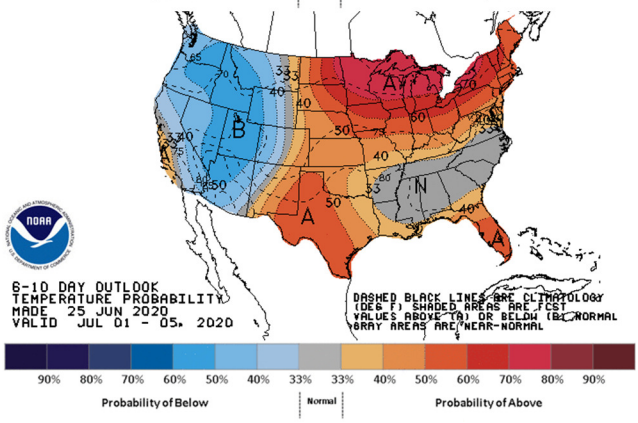
No major changes to the forecast. You can see the 7-day QPF at right and note that there will be widespread precipitation across the Corn Belt during this period. There is rain in portions of the northwestern Corn Belt at the time of writing this morning. This kicks off a daily threat of rain in the region for at least the week if not longer. Rains will be in western and northeastern portions of the Corn Belt today before mainly focusing on central and eastern areas for the weekend. Then for early next week we should see rains return to northwestern portions of the Corn Belt and gradually work their way southeastward. It is likely that precipitation chances would continue into the 6-10 day period, favoring the northwestern and southeastern portions of the Corn Belt with the best amounts and coverage. There is little confidence in the 11-15 day forecast, but for now it appears there will be "some" rain but probably somewhat less than what we will see in the near term. No change on the outlook on temps. We should see temps consistently average above normal, but no extreme high temps should be seen.





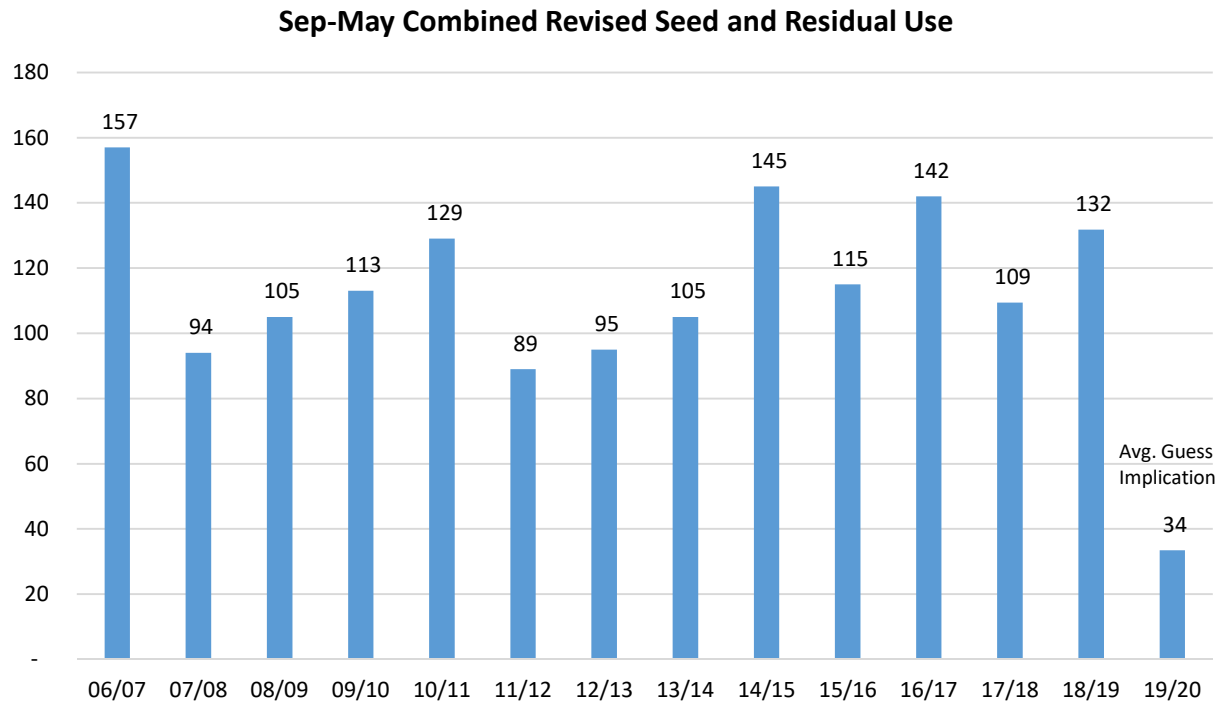
Crops

Still looking at quarterly stocks estimates and today we'll look at soybeans. Let's first agree on the known-knowns for MAM soybean disappearance. Crush consumption during the quarter should finish up somewhere around 556 mil bu. Exports during the quarter will probably end up near 244 mil bu. As always, this leaves residual and seed demand as the big question mark for soybean stocks. On that front, let's first note the recent tendencies for soybean stocks. The Dec 1 stocks number was +62 mil bu vs. the average guess for that report. The Mar 1 stocks number was +25 mil bu vs. the average guess. This is leading many to believe that last year's soybean production estimate was likely understated by NASS. Unfortunately, precedent shows that NASS is unlikely to make an official adjustment to their soybean production estimate until the Sept 30 stocks report. So we're stuck trying to make a guess on stocks with a highly uncertain production number. It makes a hard job even harder.



The chart below takes a look at combined seed and residual cumulative consumption during the Sep-May timeframe. Note that these are revised figures, adjusted for final NASS acreage figures. The average guess for

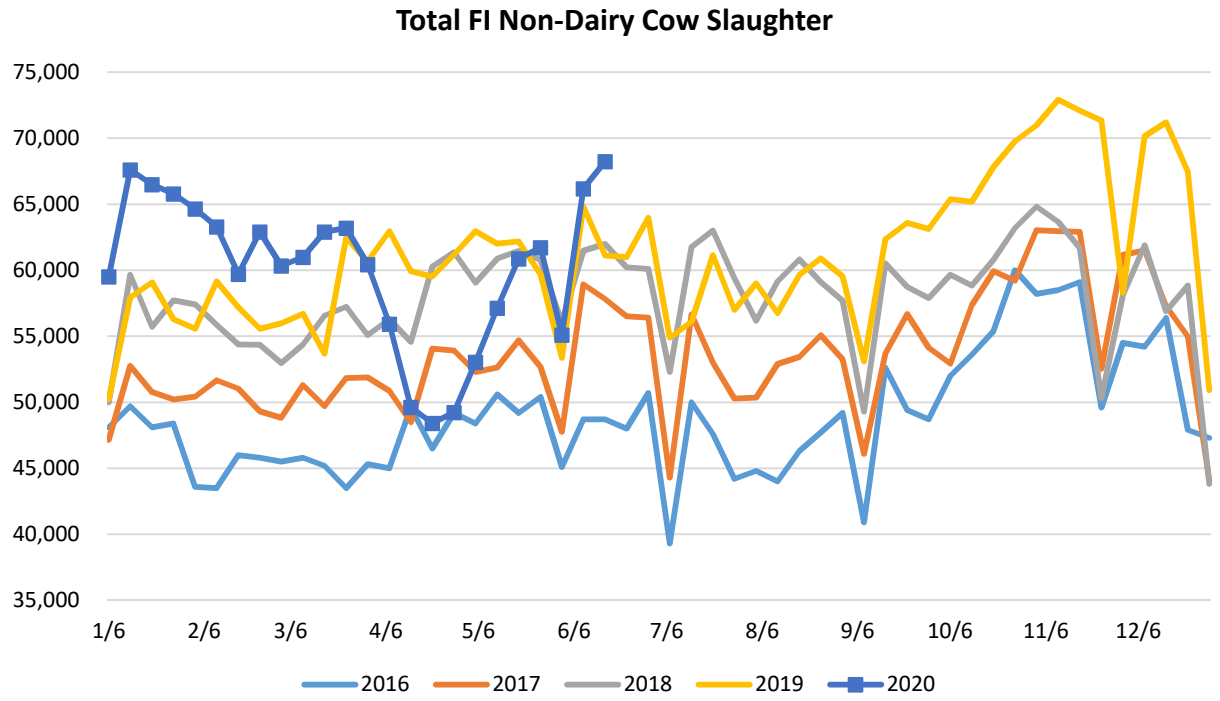
June 1 stocks from the Bloomberg survey is 1,391 mil bu, and if realized it would imply the smallest MYTD seed and residual use in a long time. The point here is that the market is baking in a considerable revision to the 2019 production total with its projection for stocks.



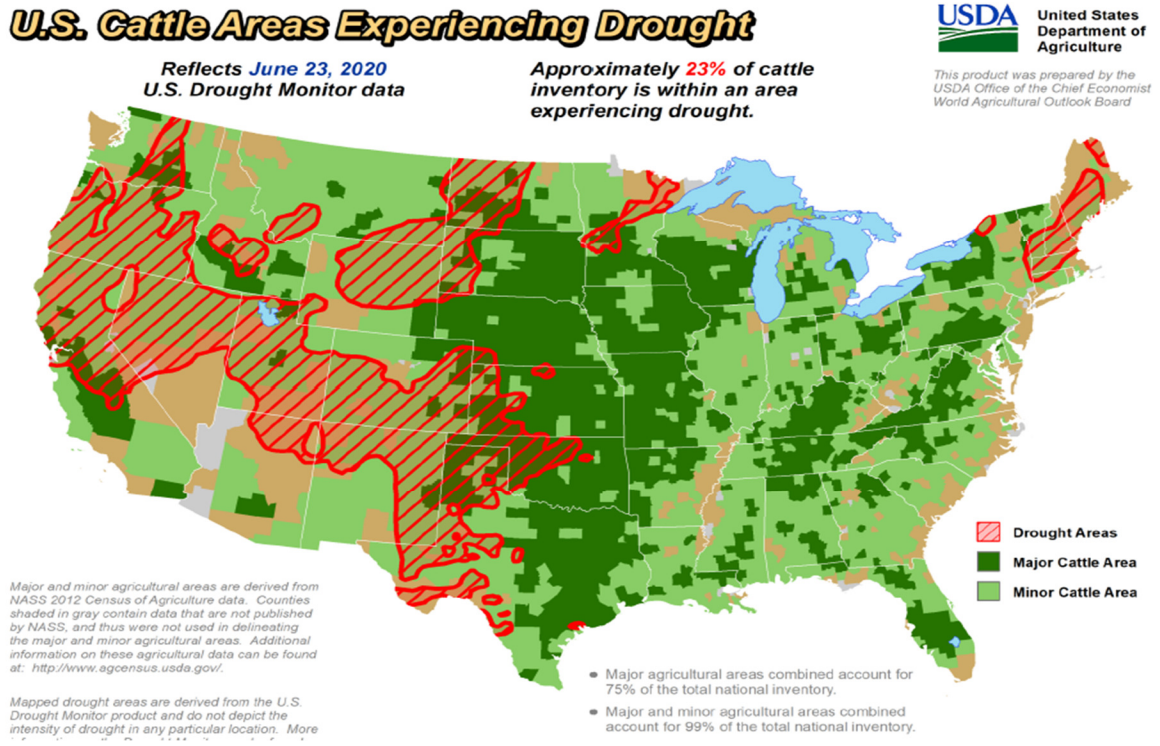
So while I agree with the market's understanding that last year's crop was likely understated, the exceptionally small implied consumption noted above sticks out like a sore thumb. Even if NASS were to revised production 50 mil bu higher eventually, I think the market might be leaning a bit too low with its implied demand. Wit that in mind, I'm going to take the under vs. the expectation for soybean stocks next week.

Livestock

Not much stood out to me in yesterday's official slaughter release. I suppose it is somewhat interesting to note that we've posted back-to-back weeks where the official slaughter was lower than the initial estimate. In fact this week's difference was a historically significant 13k head. Definitely something to consider going forward. The other thing that stood out to me is the cow kill. The overall cow kill level doesn't particularly stand out, but when you look at dairy vs non-dairy cow kill, non-dairy kill is up significantly. Milk prices have rallied sharply which has dramatically curtailed dairy cow culling, but beef cow culling is picking up.



This uptick might simply be a matter of tougher economics within the industry, but one other thing I would point out is the expanding drought in the southern US. If we start to see a bigger area affected with degrading pasture conditions, it has to be a concern that beef cow kill might start to pick up even more. Thought appreciated.



Financials

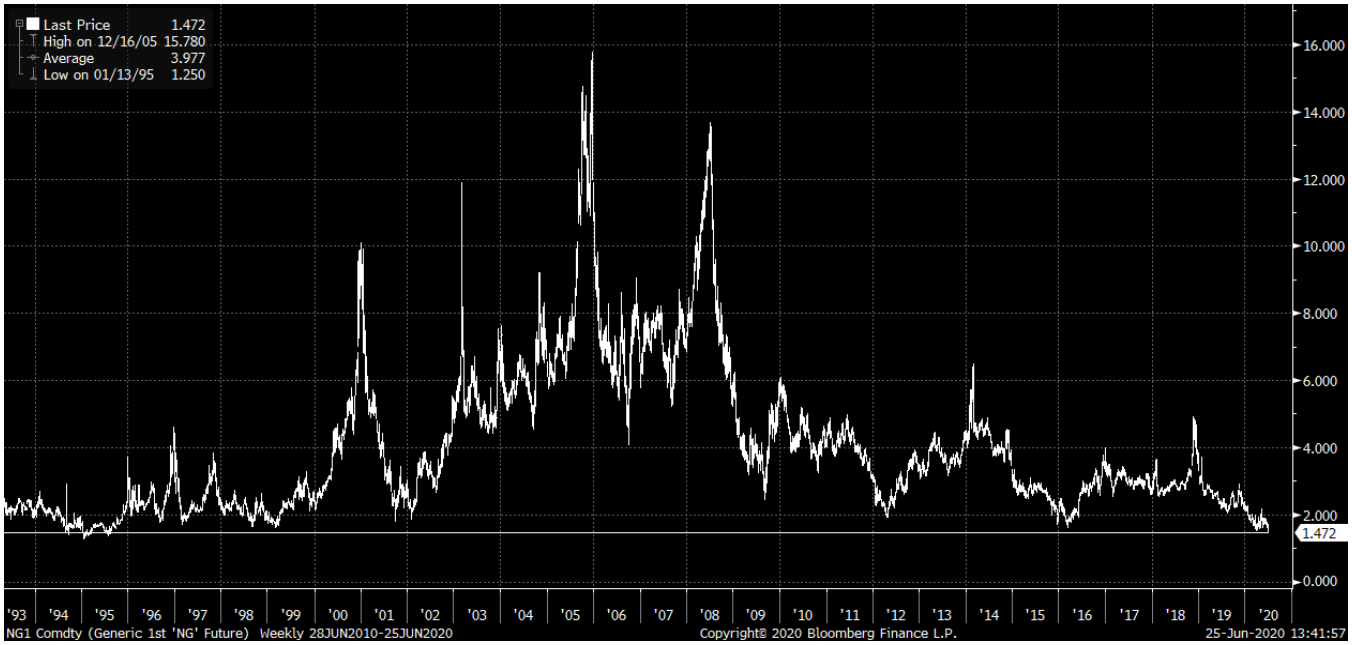
Not long ago I produced some charts showing inflation expectations and gold, and noting how the outlook on gold (and precious metals in general) looked solid going forward. One more quick update on that thought process this morning. This time I'm looking at TIPS yields. Now I'll admit I'm not an expert on TIPS by any means, but the basics in understanding will suffice this morning. To oversimplify, the yield on 10-year TIPS is essentially the 10Y Treasury yield minus 10-year inflation expectations. So, with 10-year Treasury yields at low levels and with inflation expectations creeping higher (as noted in previous commentary) it makes sense to expect that 10Y TIPS are posting negative yields at present. What is interesting about TIPS yields and gold is that the two are highly correlated, as shown in the chart below. 10Y TIPS yields are in white and gold is in yellow with its axis inverted.

So let's think about this a minute. We KNOW the Fed is not going to do anything that allows Treasury yields to rise at any point in the near future. So, IF inflation expectations continue to creep higher that should continue to push TIPS yields lower and thus….higher gold prices…at least according to the chart. So the risk to this thought process probably isn't a rise in Treasury yields but rather a decline in inflation expectations. Certainly that might have been behind some of the early-yesterday weakness we saw with gold prices yesterday. The thought process being that worsening Covid problems would create additional lockdown measures and create dis-inflationary economic problems. I personally don't buy on to that logic, but it is certainly a risk. Instead, I view the risk of a roll-back into "total" lockdown as a low-probability at the moment so I think we might see inflation expectations continue to creep higher. If that is right, it should be lower TIPS yields and higher gold. Thoughts greatly appreciated.

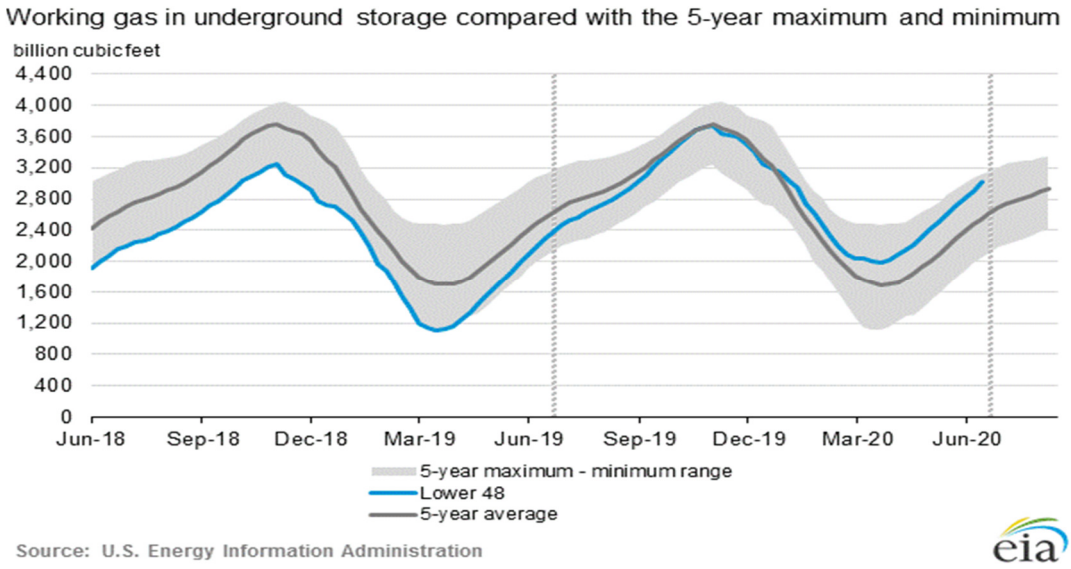
Otherwise, I don't see any new-news to pass along. Covid cases continue to uptick and this will slow further reopening moves, but decisions to scale back what has already reopened will remain highly political.

Energy

I'll concede I don't pay much attention to natural gas, but I think it is worth pointing out that futures got monkey-hammered yesterday and hit their lowest price levels since the mid-90s. It is lower yet again this morning.



I presume the main cause for weakness yesterday was the weekly storage report, which showed a significantly higher build in storage than was expected. In the chart below you can see that current storage is now running up towards the high end of the 5-year range. Given what we think we know about production levels, it seems fairly likely we'll be making new highs in the storage levels going forward.



Today's Calendar (all times Central)

- PCE Deflator – 7:30am
- U of M Consumer Sentiment – 9:00am

Thanks for reading.

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