NESVICK TRADING GROUP, LLC

Tuesday, June 30, 2020

NTG Morning Comments

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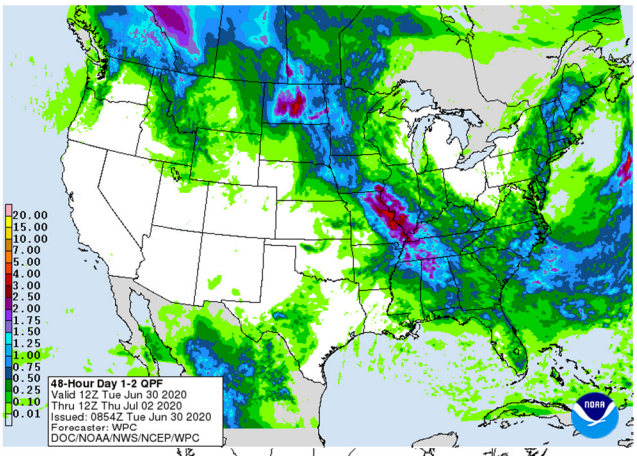
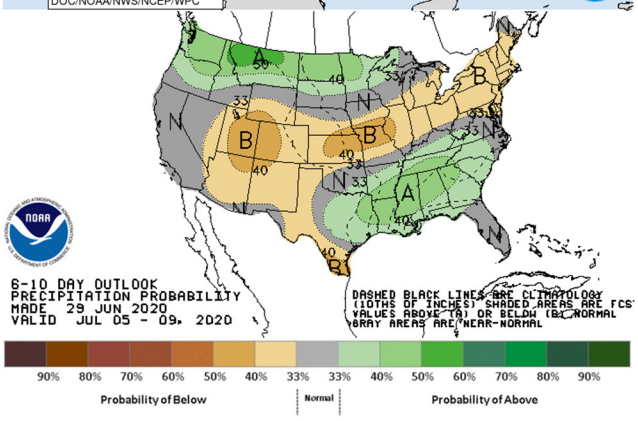
Weather

No major changes to the forecast this morning. The QPF map shown to the right is just the 48-hour QPF as this is when the vast majority of rainfall for the next week will fall. Beyond the next 48 hours, we should look for largely dry conditions through most of the Corn Belt. The exception could be the Northern Plains where some better rainfall chances might be seen. You can see at the right that the NWS believes that below normal rainfall chances are likely to continue in the 6-10 day period as well. It does seem likely there will be some modest improvement in rainfall chances in the 11-15 day period, but the models are completely set on that either and confidence is not especially high. Look for mostly above normal temps to be seen over the next two weeks, and it is possible the 11-15 day period could be the hottest period in the forecast especially in the central US.





Crops

We have big market-moving USDA reports on deck today. Over the past few days we've review our expectations for the report and so today we'll just have a quick recap.

June 1 Grains & Soybean Stocks Estimates (Million Bushels)

	Average Trade Analyst Estimate	Range of Trade Analysts Estimates	2019 June 1 USDA Stocks
Wheat	987	963-1,085	1,080
Corn	4,959	4,795-5,250	5,202
Soybeans	1,391	1,160-1,725	1,783

US Planted Area Estimates (1,000 Acres)

	Average of Trade Analyst Estimates	Range of Trade Analysts Estimates	USDA March Intentions	USDA 2019 Planted Acres Final
Corn	95.1	93.0-97.1	97.0	89.7
Soybean	84.8	84.0-86.5	83.5	76.1
All Wheat	44.7	44.0-46.0	44.7	45.2
Spring Wheat	12.6	12.0-13.0	12.6	12.7
Durum	1.3	1.3-1.4	1.3	1.3
All-Cotton	13.2	11.9-13.9	13.7	13.7

Acreage –
As noted last week, I don't spend a lot of time dissecting the details of acreage. That said, in a general sense we know that *typically* acreage totals increase from NASS's March report to the June. Instead, the expectations for this month's report show a slightly smaller total acreage pie vs March. There is a rational reason to suspect this might be true, with planting problems in the Dakotas noted due to the need to still harvest last year's crop. There were other minor issues as well. The market is looking for a modest reduction in the corn acreage figure and a modest increase in soybeans. In general, I can come up with no major objections to the newswire surveys other than to note I do have some concern the total acreage pie might prove to be slightly larger than anticipated.

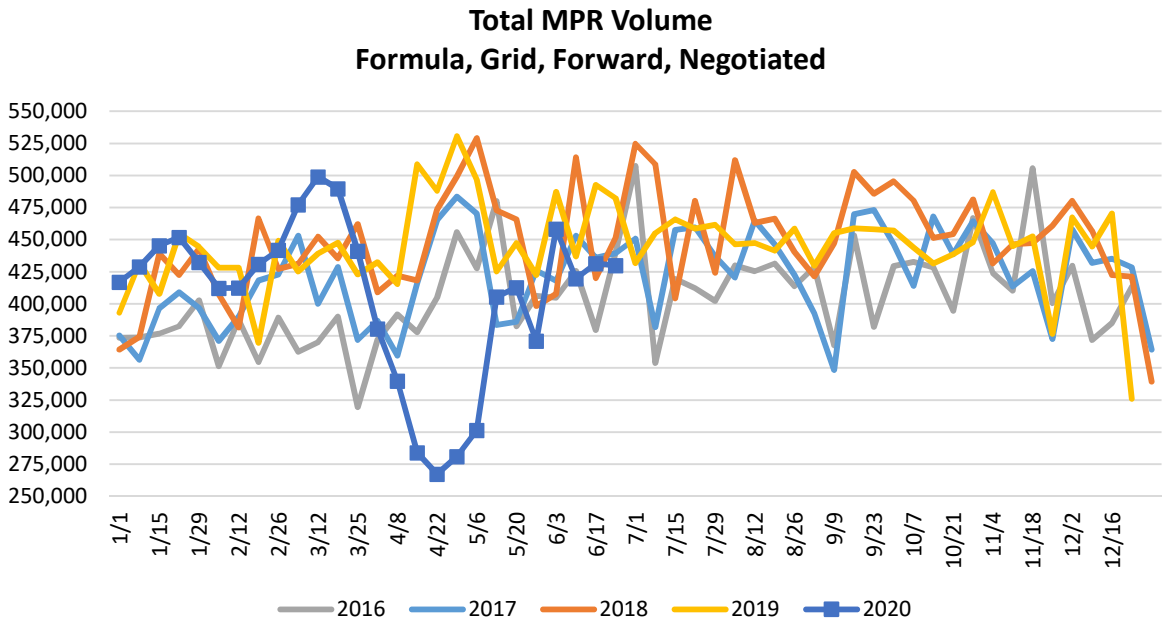
Wheat stocks-
As noted in commentary last Thursday, the HRW/corn ratio moved to the widest level we've seen in several years during the MAM quarter. In theory, this should suggest lower wheat feeding on the margin. With that in mind, I'm expecting a normalized negative F&R figure for the MAM quarter and that pushes my stocks estimate near 1.0 bil bu, which is higher than the newswire average guess.

Soybean stocks-
As noted in commentary last Friday, the newswire average guess on soybean stocks would result in the smallest Sep-May cumulative seed and residual use in at least the past decade. There is reason to believe that seed and residual use should be small as NASS likely understated the 2019 soybean crop. Still, even after accounting for that it seems the market is assuming demand that is likely too small and I'm betting the under for soybean stocks.

Corn stocks-
Trying to nail down quarterly corn stocks is a good way to look foolish and the past year has been exceptionally difficult. That said, the bottom line in my opinion is that the newswire average guess implied F&R consumption seems a bit too big. With that in mind, I'm taking a low confidence call to bet the over on corn stocks today.

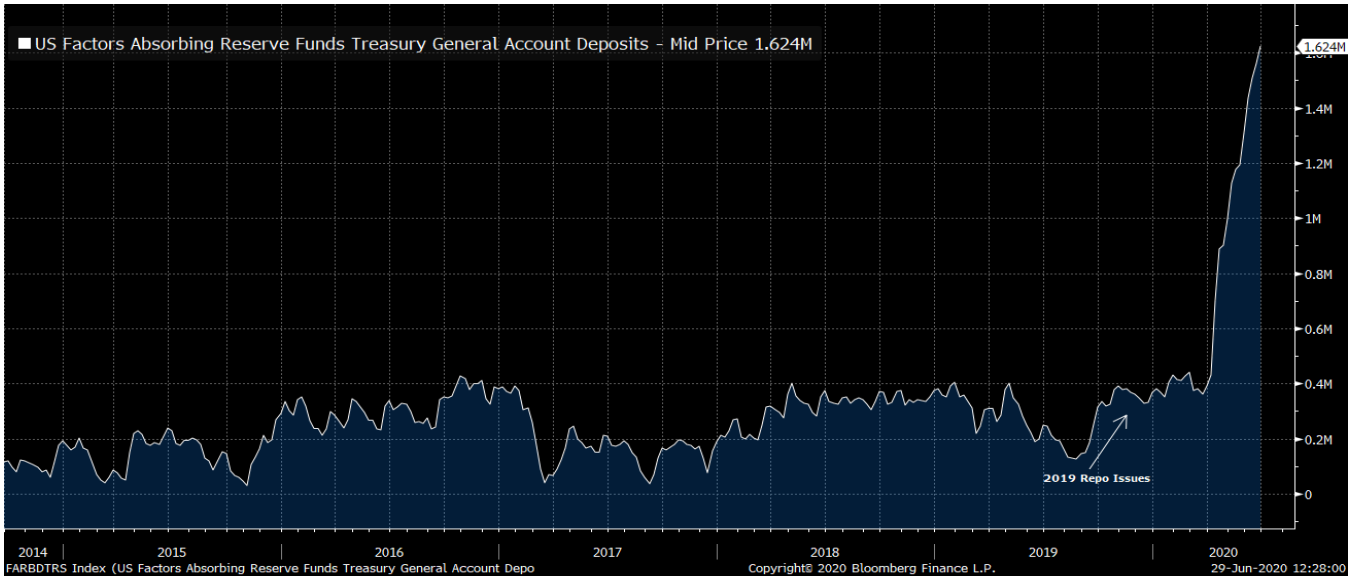
If my past history of predicting quarterly stocks is any indication…you should fade all of this. Good luck out there.

Livestock
I didn't notice anything that really stood out in the weekly cattle/beef data that was reported yesterday. The comprehensive beef report showed another week of solid beef movement, though sales made for export were down a bit from the level seen in the prior few weeks. I guess if I had to say something stands out it would be the MPR volume totals. This is shown in the chart on the following page. You can see that cash trade volumes are back within the normal range, but considering the pace of the slaughter lately I do wonder if the packer is sitting on as much committed supply as he would like. Admittedly, this is a holiday-shortened week so maybe I'm making a big deal of nothing. Thoughts appreciated.



Financials

The chart below shows the balance of the Treasury's General Account. Think of it as the government's checking account. You can see recently the balance has sky-rocketed higher to over 1.6 trillion dollars. Why am I bringing this up? Well, think back to September of 2019…which admittedly feels like 5 lifetimes ago. At that point the Treasury was "filling up" its account again after drawing down its account balance during yet another debt ceiling debate. I think most analysts would agree that the move to increase the Treasury's general account balance at that time was at least partially responsible for the extremely tight liquidity conditions that led to the repo problems and a temporary market freak-out. By issuing debt, primary dealers were forced to participate in auctions and this took funding and liquidity away from other segments of the market.



Looking ahead, we might experience the opposite market reaction going forward. Why would the Treasury need to keep such an extreme balance on hand? So, the Treasury could conceivable start to draw down the balance. It would do so by either rolling over fewer maturing treasuries or it could increase payments. In other words, it could produce the exact opposite of what we saw in Sep 2019…it could produce a flood of liquidity. Obviously this would potentially come at a politically convenient time for the Trump administration. If the Treasury could help provide another surge of liquidity and support equity markets it would certainly help support the Trump administration's claims that it has weathered the Covid economic storm successfully. Whether or not that is actually true is a completely different story, of course, but one thing we've learned over the past few years is that liquidity is everything to the markets.

Energy

We noted yesterday that gasoline futures were getting the week started off on a poor note, but it didn't take long for gasoline (and other energy contracts) to turn around and post solid gains. Part of the gains were probably due to somewhat favorable virus updates from key US states. As shown at the right, the main states that have been cited as a major concern for a "second wave" account for roughly 30% of US total motor gasoline demand. If reopening measures are reversed in these states, gasoline consumption would definitely take another hit. However, the modest improvement in case count headlines yesterday likely alleviated some of those concerns….for now. The gasoline market is likely to be very closely tied to the Covid case numbers reported in these four states over the next several days or weeks.

Motor Gasoline Consumption (1,000 bbl) 2018

State	Consumption	% of US
Arizona	70,764	2.1%
California	365,610	10.7%
Florida	220,211	6.5%
Texas	346,231	10.2%
Combined	1,002,816	29.5%

Today's Calendar (all times Central)

- Consumer Confidence – 9:00am
- Quarterly Stocks & Acreage – 11:00am
- Powell and Mnuchin Testimony – 11:30am

Thanks for reading.

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