NESVICK TRADING GROUP, LLC

Wednesday, July 1, 2020
NTG Morning Comments
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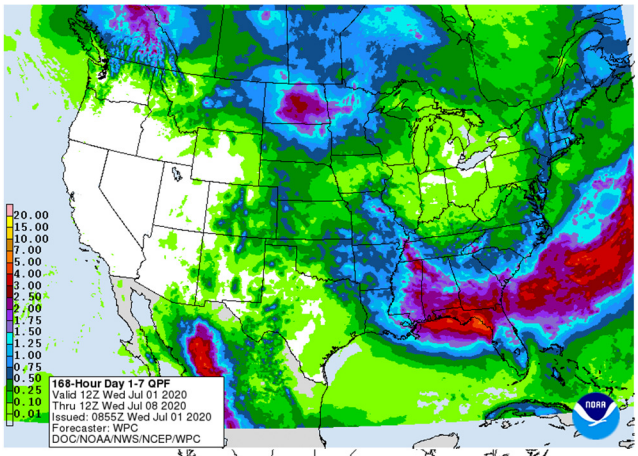
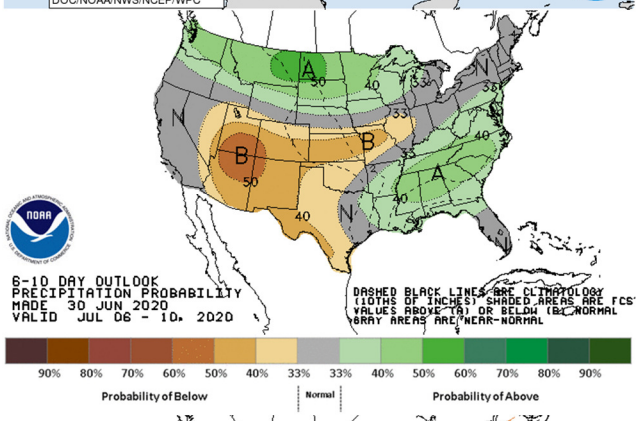
Weather

No big changes to the forecast. The rainfall in the central/southern Corn Belt shown in the QPF at the right should be wrapped up later tomorrow, leaving most of the area dry for the majority of the 7-day period. The obvious exception is the Northern Plains where it appears there will be some active rainfall chances as the week progresses. It also appears likely that fairly widespread below normal precipitation odds will be seen in the central and southern Corn Belt during the 6-10 and 11-15 day periods, but northwestern areas and the Northern Plains could see some near to above normal precipitation totals.

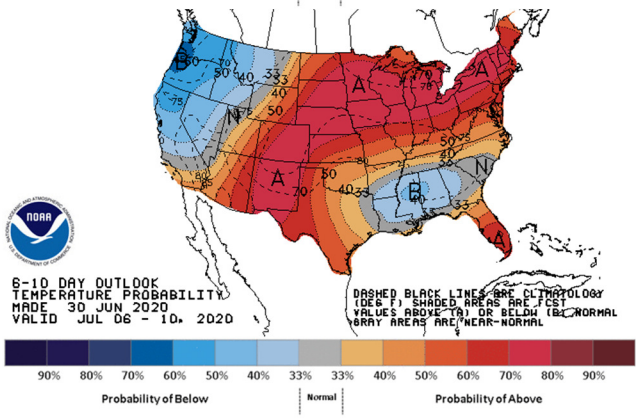


Look for fairly warm weather to dominate the two week forecast period. Temps will gradually warm up as we move along. For now, look for mostly 80s and some lower 90s for highs. We should see upper 80s to mid 90s by the end of this week. By the 6-10 day period, temps will probably kick up another notch with lots of 90-95 highs. By mid to late next week, Corn Belt temps should be running 5-10F above normal. That would mean lots of 95+ highs and there would almost certainly be some spots reaching the 100 level. There does not appear to be any indication that heat will abate at the end of the 11-15 day period in today's forecast maps.



Crops

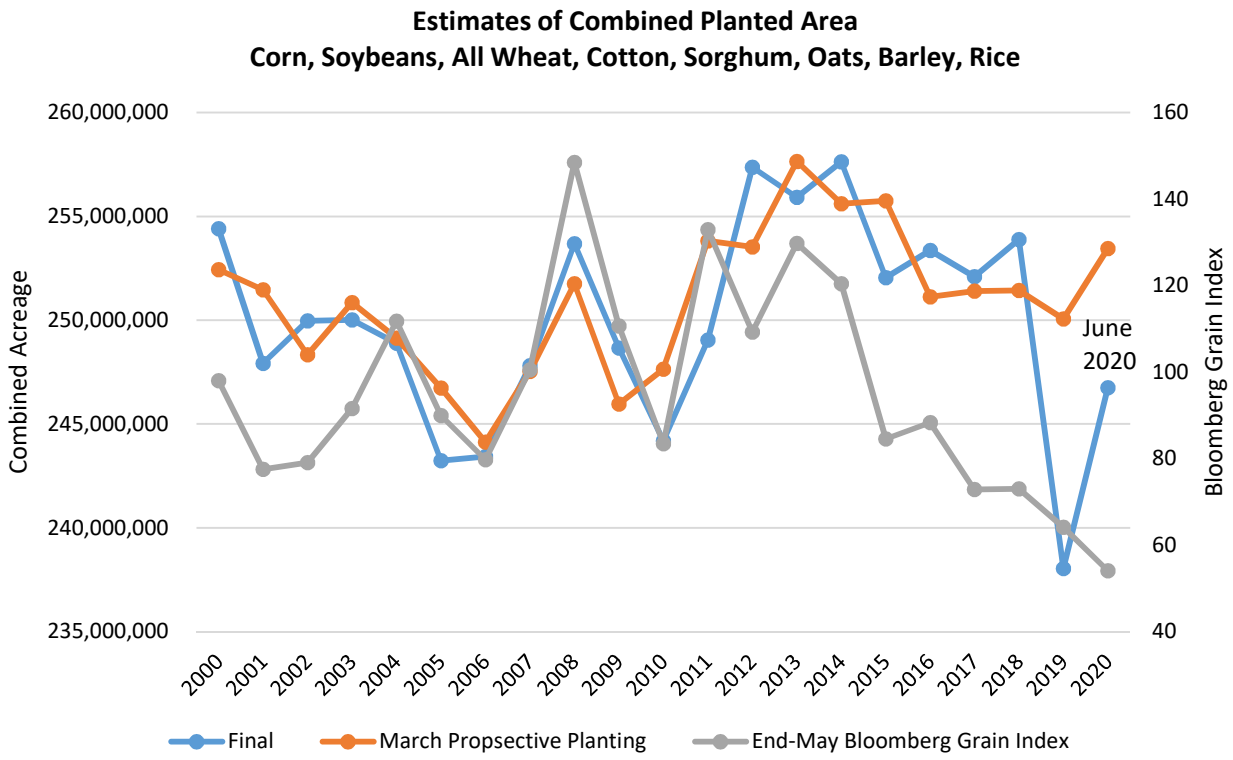
Looking at our breakdowns ahead of yesterday's reports, we did "ok". Our expectations for quarterly stocks for corn, soybeans, and wheat were all pretty good. That said, we whiffed bad on acreage as I said I was thinking acreage could be bigger than expected when it really turned in much lower than expected.



The one question I got repeatedly asked yesterday was "where are all the acres?" Today I just want to leave you with one quick chart as food for thought. Tomorrow we'll probably follow up with some additional thoughts on the acreage.

I'll pose a question to the reader this morning – Isn't it rational to expect that planted area "should" decline as crop prices decline?

The chart below looks at major crop planted area in the US since 2000. The orange line represents the initial March Prospective Plantings report and the blue line represents the final planted area for the year. For the "final" point this year I'm simply plugging in yesterday's acreage totals. Also included on the line is the Bloomberg commodity grains index, which is meant to be an indicator of overall grain market price levels. I know, the index isn't technically a price level, but lets not get too far in the weeds here.



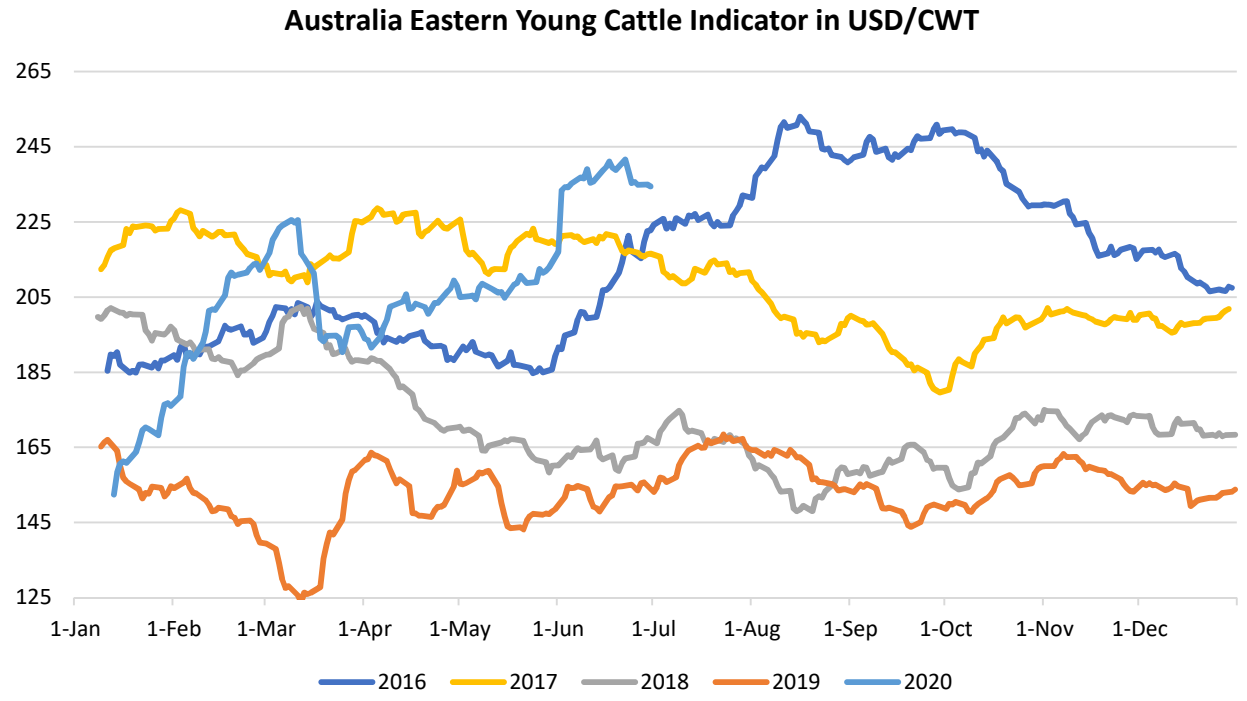
Doesn't it make sense to see acreage decline as prices continue to fall further into the abyss? Remember last year we all made the point of saying that the farmers responded to the price signals to plant more corn despite the flooding. Doesn't it make sense to expect the farmer to respond to the price signal of low prices across the board? Have we reached price levels that finally discourage production efforts? That seems more reasonable to me than the big increase in planting intentions given to us by NASS in their March report.

Sure..don't get me wrong…I would anticipate that final acreage numbers could increase a little vs. what we got yesterday. Still, considering prices are low, demand got hammered due to Covid, the China trade deal is off to a highly questionable start, and the farmers are sitting on very big old crop inventories already…it makes sense that 2020 planted acreage would be off something. A fair criticism would be "thanks DZ, where was this yesterday *before* the report". I guess this is just an instance where I wouldn't have believed myself until I saw it.

Thoughts appreciated.

Livestock

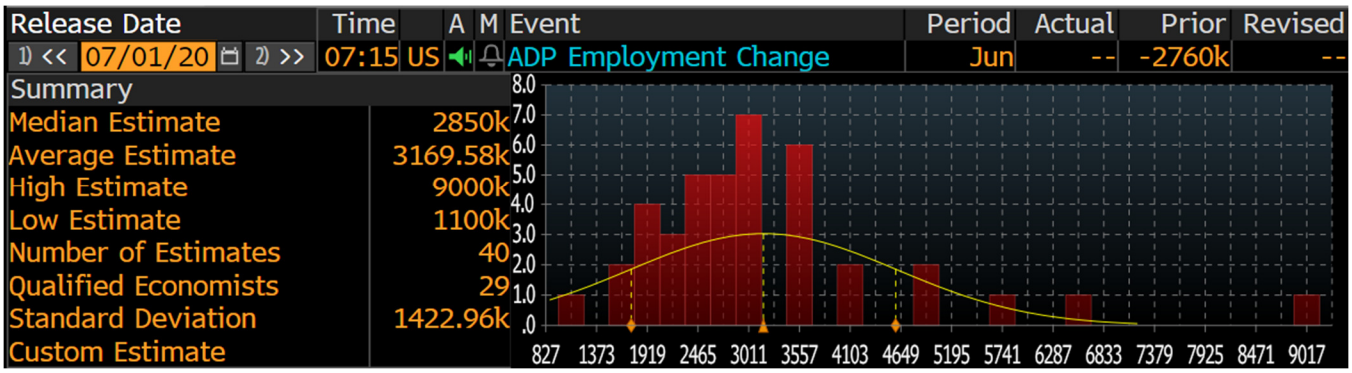
Last week I brought up the fact that Australian cattle slaughter is running well behind year ago levels. Today I want to take a very quick look at Australian cattle prices. The chart below looks at the Eastern Young Cattle Indicator, but I've converted the figure into USD/cwt. First, note the massive YOY change in Australian cattle prices. At this point last year we were at the lowest level in the past 5 years and right now we're near the highest level during the past 5 years. This is obviously a very dramatic change. Additionally, you can see that price level in USD/cwt for Australian cattle is sharply higher than what we're looking at here in the US.



This simply continues to support the idea that Australian beef/cattle exports will see big declines going forward. This should support US business into some Asian markets and it will also lead to a reduction in US imports from Australia.

Financials

Today we kick off what will be a very busy finish to the holiday-shortened week. First up this morning we have the ADP employment change number. As shown below, there is a very wide range of expectations for this release. Complicating matters this morning is the fact that the ADP showed a sharply negative jobs number last month while the BLS NFP release was sharply positive. This could mean we are due for a big revision to last month's ADP number and/or maybe ADP just plays "catch-up" with this month's release. I have no bias for this morning's release.

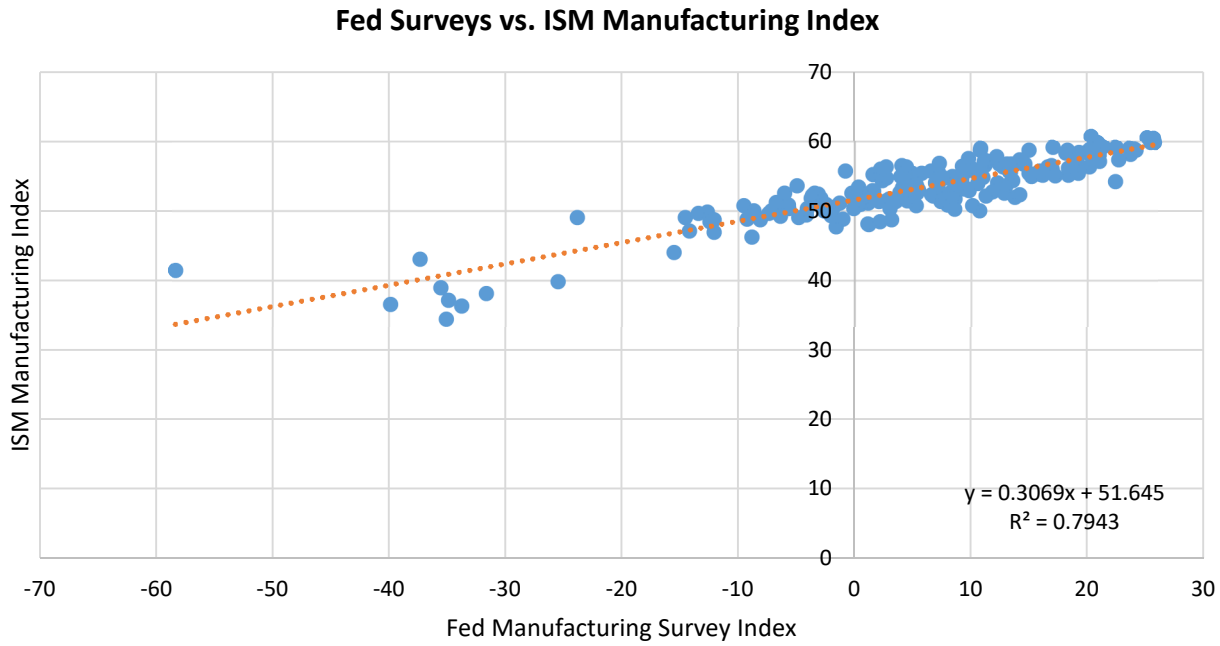


Release Date	Time	A	M	Event	Period	Actual	Prior	Revised
07/01/20	07:15	US		ADP Employment Change	Jun	--	-2760k	--

Summary	
Median Estimate	2850k
Average Estimate	3169.58k
High Estimate	9000k
Low Estimate	1100k
Number of Estimates	40
Qualified Economists	29
Standard Deviation	1422.96k
Custom Estimate	

Also on tap this morning will be the ISM manufacturing index. The good news for this report is that we have all the various regional Fed manufacturing surveys already released. When you combine those regional surveys into one index it can provide a very good indication of what to expect from the ISM release. Note the chart below, which shows my regional Fed survey index compared with the ISM manufacturing index.

If you were to plot these two against each other on a scatter plot, you'd come up with what is shown below. Again, a very solid relationship between the two. Taking the past month's Fed regional survey index and simply plugging it into the scatter would show implications for a very strong ISM reading of ~56. Admittedly, the ISM never dipped as low as the Fed surveys to the downside which might be an indication that the upside might not be quite as extreme either. Still, the strength in the Fed regional surveys tells me to bet the over vs. the consensus expectation for the ISM release this morning. The consensus guess is a 49.7 reading, which would be up from 43.1 last month but still below the 50 growth/contraction level. I think the Fed surveys imply the figure should be 50+.

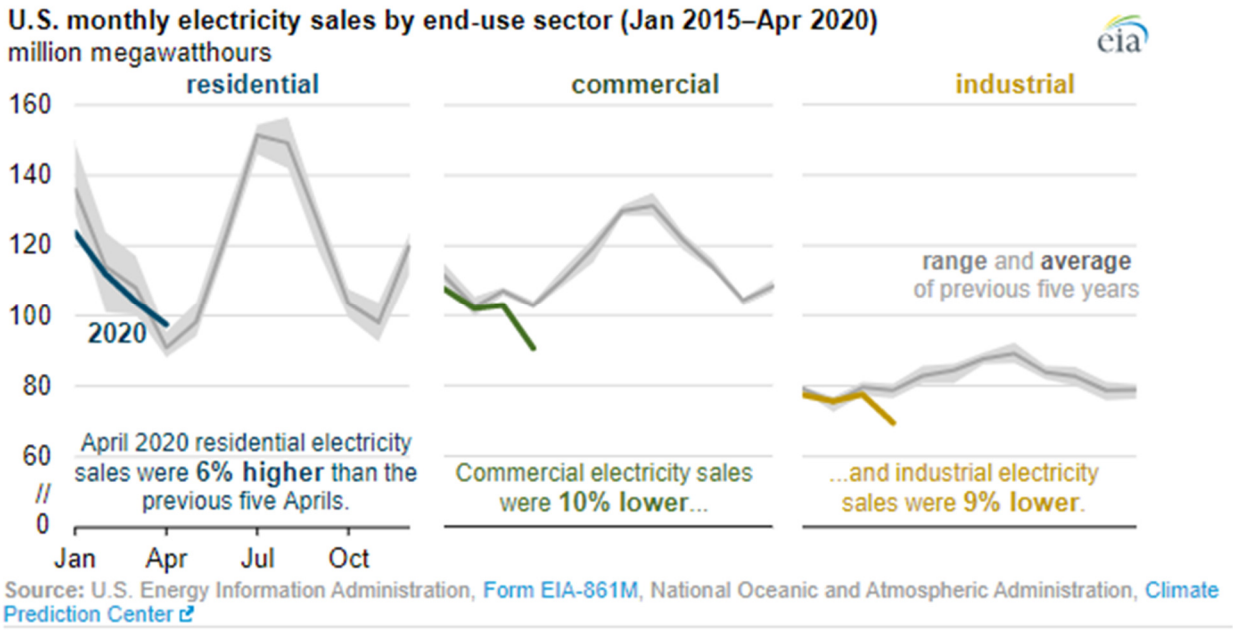


Also on tap in the US today will be the minutes of the latest FOMC meeting. Some will be looking to see if the Fed officials had any serious conversation on yield-curve-control ideas.

In Europe we had some mixed economic data. PMI releases were mostly favorable. The Euro-area manufacturing PMI was 47.4 vs the preliminary estimate of 46.9. Germany and France both beat their preliminary estimates. In Germany, however, unemployment figures were a bit worse than expected.

Energy

I found this chart published by EIA yesterday pretty interesting. The data is a bit old, but it is what it is. The EIA is showing US monthly electricity consumption by sector. You can see in April, commercial and industrial electricity consumption was down *sharply* vs. average due of course to the lockdowns across the country. This is important for us because we have to remember that almost 40% of US electricity generation is from natural gas. The good news for natural gas is that this sharply lower demand came during what is seasonally one of the lowest timeframes for electricity consumption. If the manufacturing numbers come in strong (as expected above) today it might mean we're much closer to average right now during a more important timeframe for seasonal demand.



Today's Calendar (all times Central)

- ADP Employment Change – 7:15am
- ISM Manufacturing Index – 9:00am
- EIA Petroleum Inventories – 9:30am
- FOMC Minutes – 1:00pm

Thanks for reading.

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