NESVICK TRADING GROUP, LLC

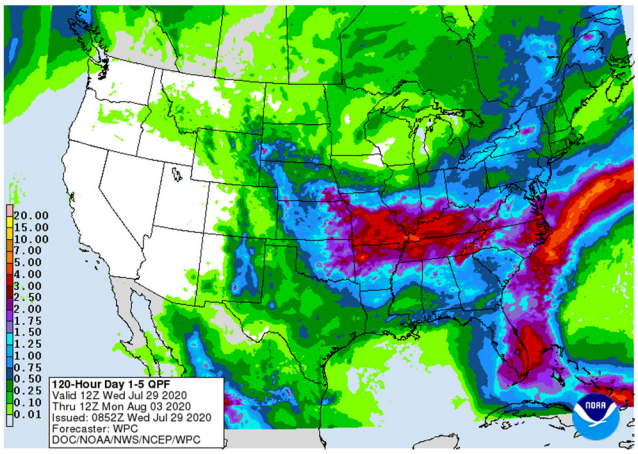
Wednesday, July 29, 2020

NTG Morning Comments

www.nesvick.com

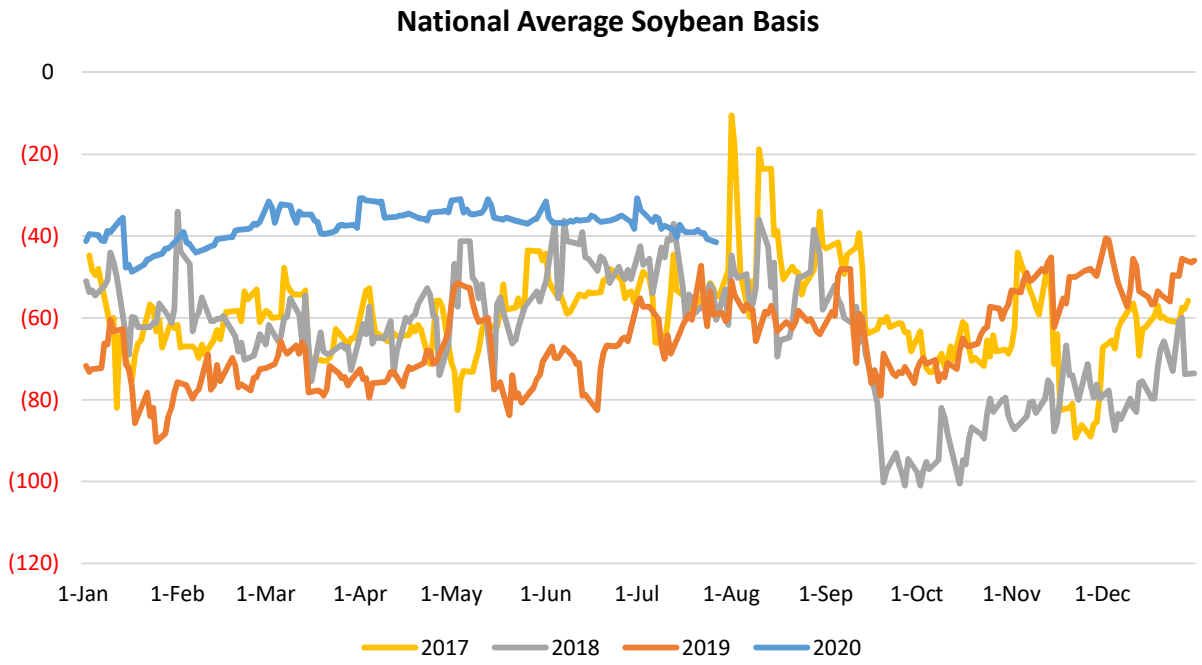
Weather

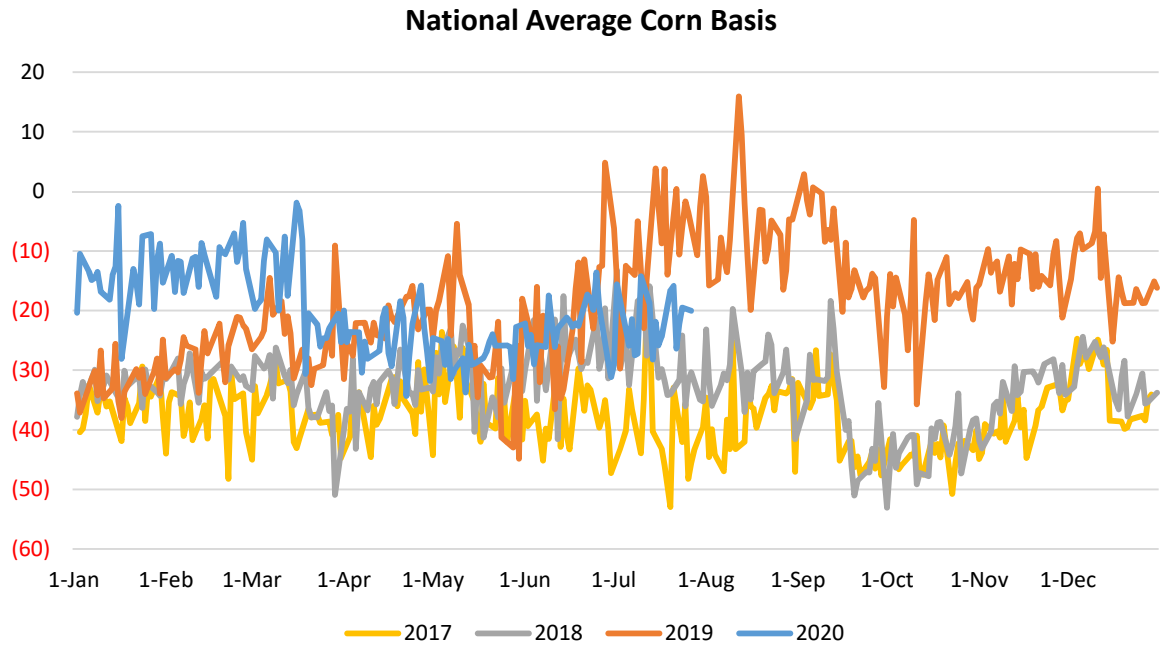
No changes. 5-day QPF shown to the right. We'll see big rains through portions of the Plains, southern Corn Belt, and Delta during this period. The biggest rains should be tonight through Friday. The 6-10 day period should feature widespread below normal precipitation chances through a majority of the country. The outlook for the 11-15 day period is just a guess at this point. Temps should be relatively cool for at least the next 10 days.



Crops

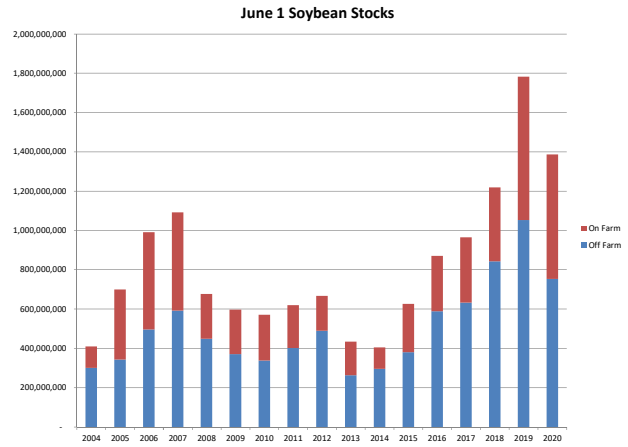
One thing that has been a supportive fundamental input for soybean and corn futures over the past several weeks and even months has been the relatively strong domestic basis levels. Charts showing a historical look at national average basis are shown below. In the case of soybeans you can see that basis has been historically high essentially all year. In the case of corn, the only year with higher basis than present was last year when the ECB (and other areas) saw basis levels scream higher due to the flooding problems.

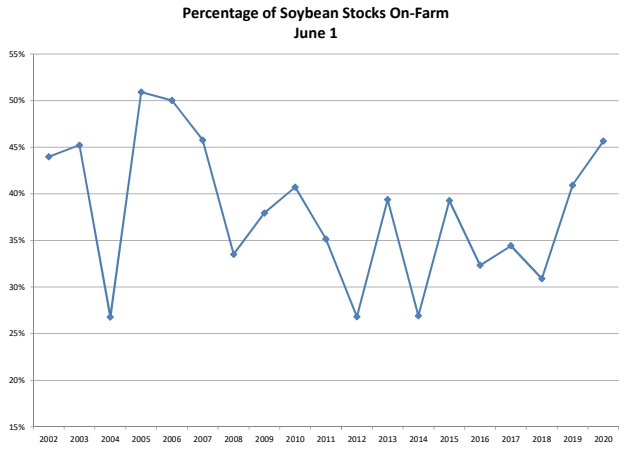


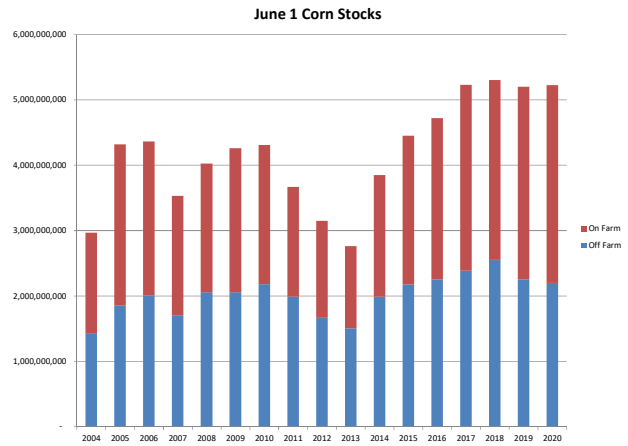


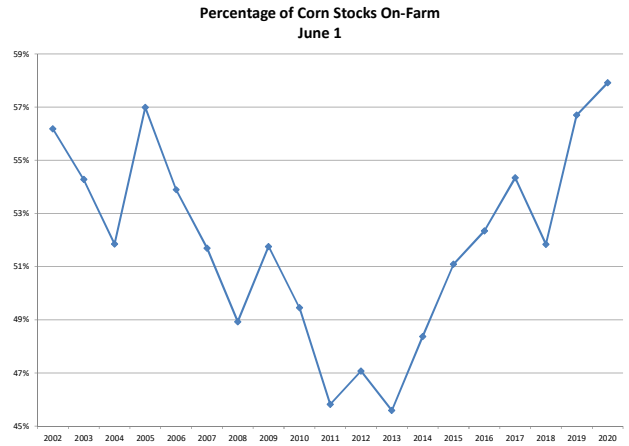
Obviously after the past years of trade wars and Covid demand destruction, we can't argue that basis is high because supplies are tight. Instead, basis is tight at least in part due to the farmers' unwillingness to part with inventory at perceived unfavorable price levels. On that front, nothing has changed. Corn futures are basically right off their lows. Soybeans have bounced some, but hardly what I'd call a significant amount.

That said, I think there is one fairly obvious chink in the armor here. Due to the unwillingness to move bushels, the level of on-farm storage as of June 1 is extremely high. Note the breakdowns below.









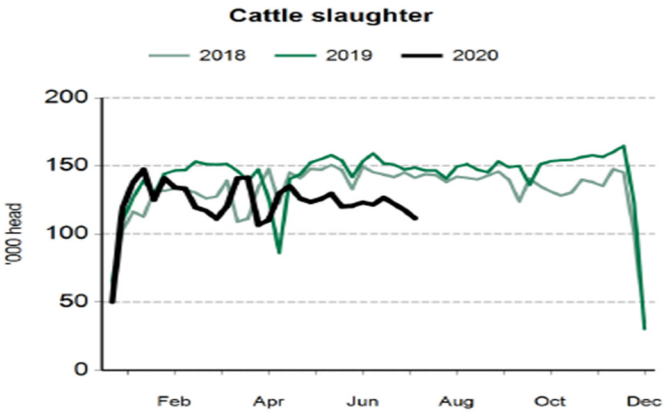
In the case of soybeans, the aggregate level of on-farm stocks is not quite record and in percentage terms on-farm stocks are not record either…but they're still very big from a historical standpoint. In corn, on-farm stocks are the largest I show in my dataset and they're also the highest I show in terms of the percent of total stocks.

After this Monday's surge in condition ratings, it seems there is suddenly a growing optimism (concern?) that US yields could turn out a bit better than some had been thinking. If we're starting to get closer to harvest with massive on-farm stocks and a big crop on deck, how desperate will the farmer be to find a bid? Remember, there is no MFP to bail anyone out this year (for now, anyway).

Thoughts appreciated.

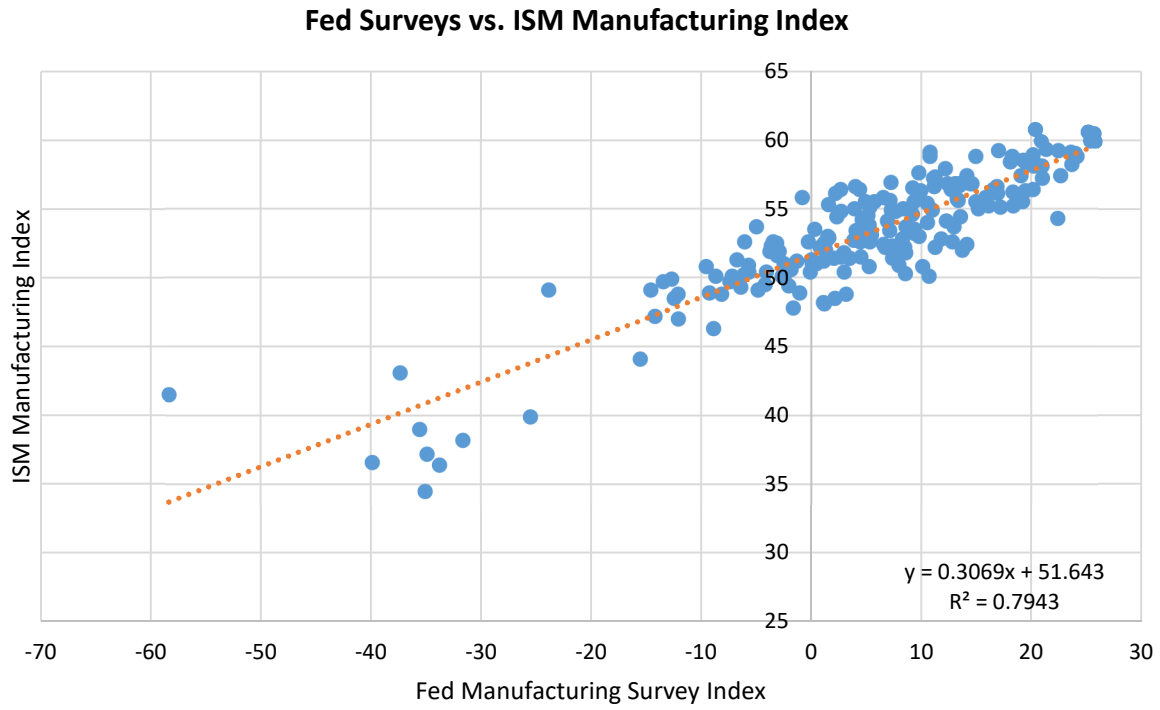
Livestock

Yesterday we mentioned a strong week of possible export demand for the US. Again, that might prove to be a one-time event, but I wanted to revisit Australian slaughter numbers again this morning to show why exports might actually be a supportive factor going forward. To the right is a chart on weekly cattle slaughter from Australia's Eastern States Weekly Slaughter Report. You can see we've been well under year ago levels for a while now and the gap continues to grow wider. We've discussed this all before…Australia is just now starting to recover from the devastating multi-year drought and cattle are being held back for replacement. This will limit slaughter levels and potentially export volumes. This potentially impacts not only US import volumes but also potentially improved the demand outlook for US exports. Is this enough to offset the ongoing weakness in US domestic foodservice demand? Probably not…but it sure doesn't hurt.



Financials

Yesterday we got the release of the Richmond Fed manufacturing survey, which was the last of the monthly Fed surveys to be released. We can now look at our composite index of the Fed surveys and see what it will imply for the ISM release (upcoming on Monday). Our index increased modestly to 6.44 from 4.44 the prior month, implying a similarly modest increase on the ISM release. The scatter shown below indicates an expectation for an ISM reading of 53.6 which would be up from 52.6 last month. Interestingly, 53.6 is the median estimate for next Monday's release…so no argument from me vs. those expectations.



The big ticket item on tap today will be the FOMC meeting and Chair Powell's press conference. As far as the official FOMC statement goes, it seems highly unlikely we'll get any major adjustments from the prior release. The statement's comment on asset purchases continuing "at least at the current pace" is unlikely to be changed. The prior statement also said rates will remain at zero "until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals". It is highly unlikely that this portion of the statement will altered either. Note that we will not get any update on the Fed's economic projections until their Sept meeting, which also means we will not see an update on the dot plot either this month. If there is going to be a big surprise from the FOMC today, it is probably going to have to come from Chair Powell during the press conference.

Energy

Crude oil futures are slightly higher at the time of writing this morning. Yesterday's API inventory release was certainly supportive, showing a 7 million barrel decline in US crude oil stocks. Expectations for today's EIA release had shown a consensus guess of only a 0.5 million barrel decline. That being said, it is also interesting to

see that API showed a 1 million barrel increase in Cushing inventories despite the large overall drop, which might be tempering the upside in WTI price action this morning.

Today's Calendar (all times Central)

- Trade Balance – 7:30am
- EIA Petroleum Inventories – 9:30am
- FOMC Decision – 1:00pm

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684
Trillian IM: dzelinski@nesvick.com