NESVICK
TRADING GROUP, LLC

Thursday, June 20, 2019
NTG Morning Comments
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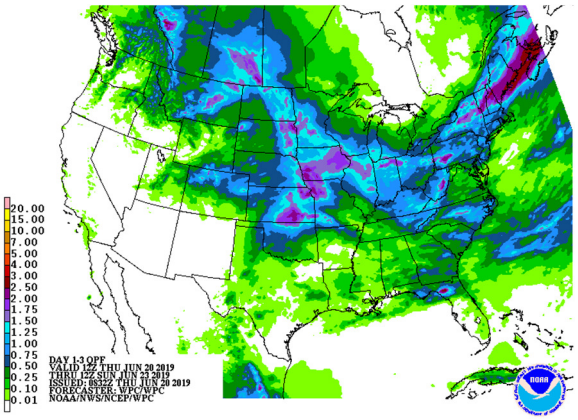
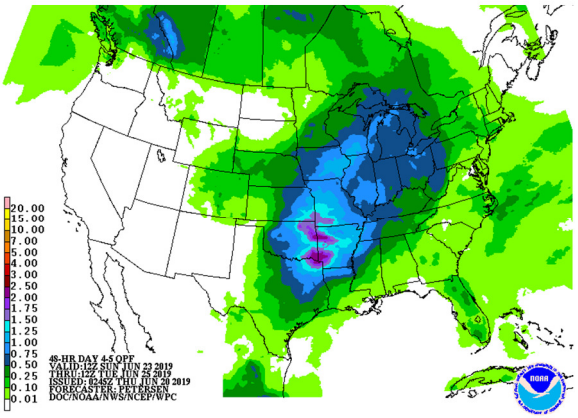
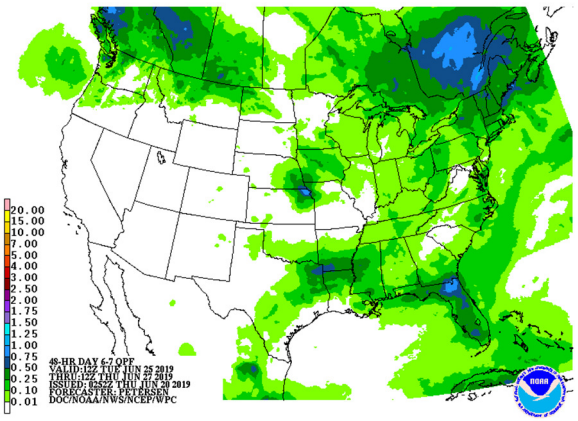
Weather

Maps to the right: Days 1-3, 4-5, and 6-7







No major changes to the forecast this morning. You can see from the maps at the right we've still got at least 5 more days of heavy rainfall moving through the Corn Belt. The forecast beyond that gets a bit more questionable, but the outlook still calls for near daily rainfall chances somewhere in the Corn Belt during the two week period. Forecast model agreement for the 6-10 and 11-15 day periods is poor this morning, leaving a lot of doubt in the forecast. What there is agreement on is that the pattern will shift after the next 5 days. We'll see a ridge of high pressure set up base in the US southwest. This will allow for warmer temps than we've seen lately. It will also allow for "ring of fire" rainfall chances as systems slide across the top of the ridge. The forecast models have a hard time picking up that activity in their longer range projections, but it is worth noting that both the GFS and Euro models did turn wetter in the 6-10 day timeframe overnight (after the WPC's Day 6-7 map at the bottom right was released). Don't be surprised if the WPC's output for Day 6-7 timeframe starts to trend wetter this afternoon.

Another few days of "cool" weather in the Corn Belt though the trend is clearly for warmer conditions going forward. We'll still see 70s and some 80s for highs through tomorrow before warming things up some. Though temps will average AN at times, this seems largely tied to warmer overnight lows than any extreme daytime highs.

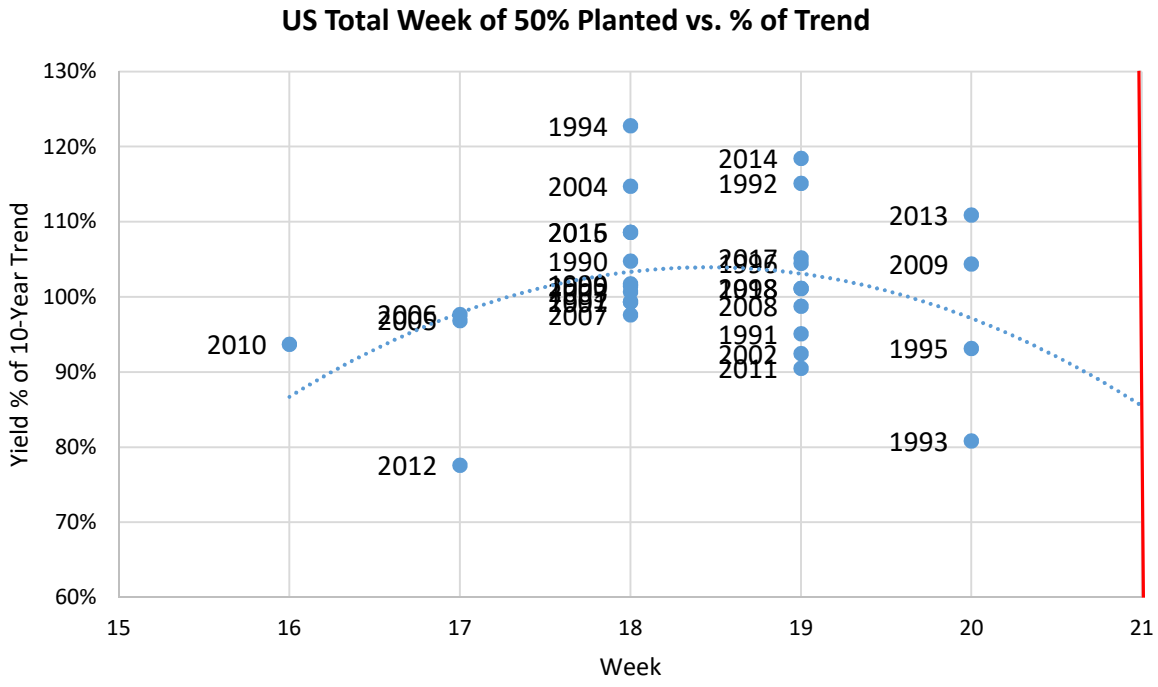
Perhaps worth noting that with the ridge of high pressure expected to move into the southwest in the 6-10 day period and forward, the HRW belt should start to dry out after the next 5 days and allow for better harvest progress in that region.

No change in the outlook for FSU wheat areas. Over the next 10 days the region will see very little rainfall, if anything. There are chances for an uptick in the 11-15 day period, but that might be near-normal t best. High temps will remain near the 90s and will only increase in the next few days with some mid/upper 90s possible. Temps *might* cool off a smidge (still AN) in the deferred portions of the forecast, but model agreement is not good.

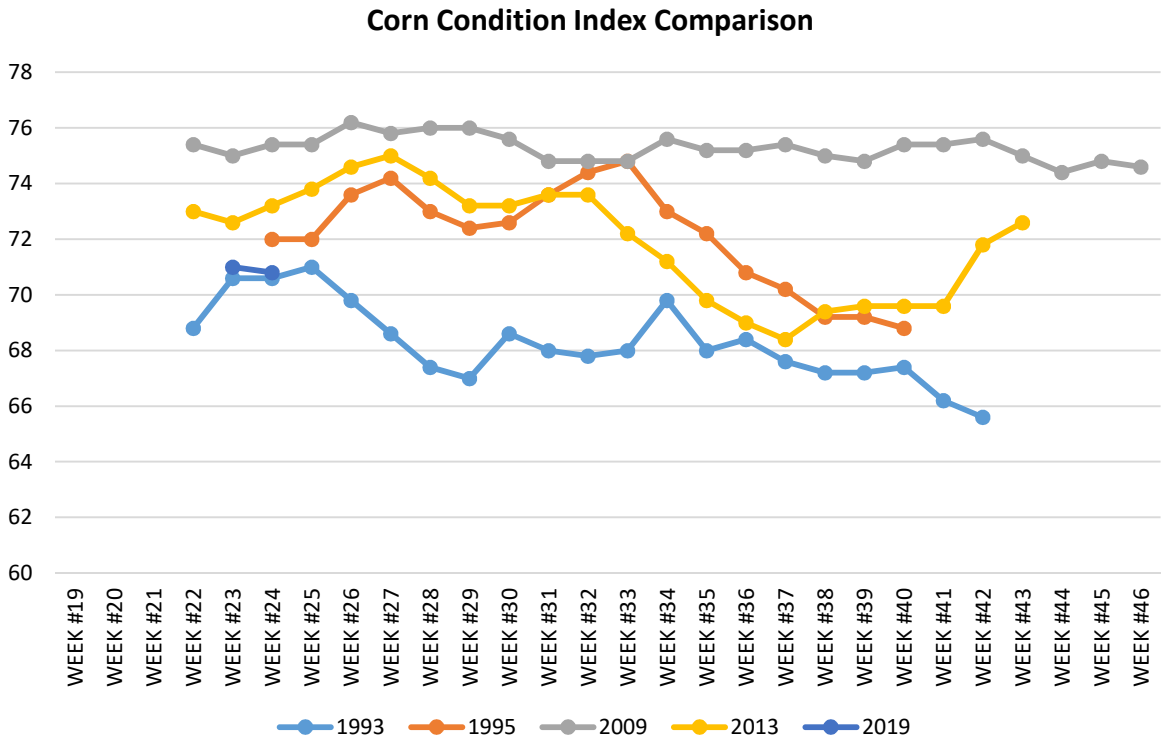
Crops

Every summer there is no shortage on opinions about yield potential, so the current debate this year is really nothing new. With the unusual spring weather so far, the only thing that might be different this year is the range of potential expectations is a bit wider than usual. I spent a lot of time yesterday looking at planting date influence on corn yields, and I'm not sure I've come up with any solid conclusions yet. That said, I had to write something this morning so I thought I'd simply point out one thing I've noticed thus far.

The chart below plots the week in which the national corn crop reached 50% planted against the deviation from the 10-year trend in final yield. This year's 50% pace is marked with the red line, showing this is the latest we've reached that milestone since at least 1990. My eyes are immediately drawn to the years 1993, 1995, 2009, and 2013…all the four latest years prior to this year. In 1993 and 1995 yields turned out well below trend. In 2009 and 2013 yields turned out above trend. Can we really draw any solid conclusions for this year with a 50/50 proposition like this?



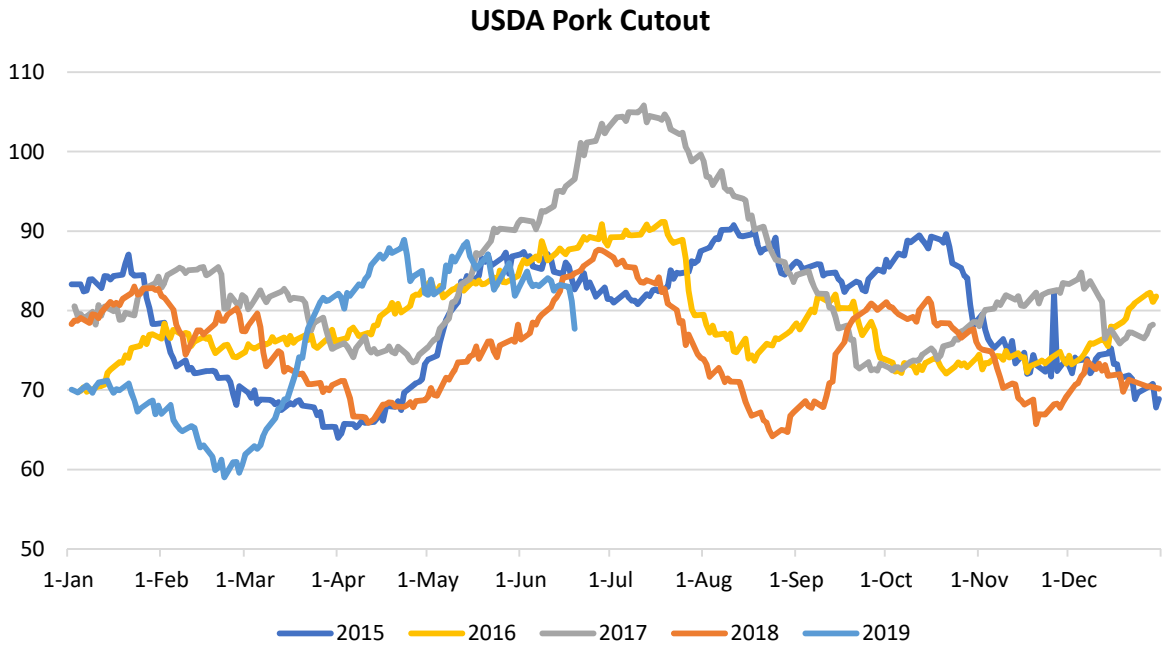
I decided to look at condition ratings for each of these four years, and what I found was pretty interesting. In both 1993 and 1995, condition ratings at this time of year were pretty similar to what we are looking at *this year*. You can see it in the breakdown below. In both 2009 and 2013, condition ratings started the year on much more solid footing. This could be a sign that, for now, we should be comparing more closely to 1993 and 1995 than the other years. Of course, in both 1993 and 1995 condition ratings continued to deteriorate from these levels. In 2009, conditions stayed fairly strong the whole year. In 2013, conditions dipped before rebounding later in the summer. I'll be following this comparison of condition ratings very closely as the summer progresses for my ideas on what the potential for deviation from trend will eventually prove to be.



Livestock

Some modest cash trade yesterday, though volume looks pretty small. Our friends at MP Agrilytics are reporting trade was in a range of 110 (mostly in the south) with some trade as high as 115 in the north. They're calling it an average of 112. The one comment I got yesterday on my basis note was that I should be looking at August basis rather than June at this point. I think that is a fair criticism, I simply thought the August basis chart looked pretty "normal" right now. That said, the basis is still pretty wide (almost $10 as of last week's cash trade) and so the responses are definitely correct in that should continue to encourage some active cash selling on hedged cattle at these price levels. The August futures contract almost feels a bit "doomed" at the moment. Not only does the basis encourage active feeder selling, but we have a big index roll to contend with early next month as well. The index trader will be rolling out of their August positions into other contracts. While the index long is off its recent highs, its still a relatively large position and should certainly be a negative influence on the Aug contract during the roll.

The pork cutout made new recent lows yesterday, continuing its counter-seasonal price action this year. Typically we'd see another few weeks before the cutout topped, but things just aren't acting normally this year in pork.



Financials

Though the dovish commentary from the Fed yesterday didn't come as a huge surprise, we're still seeing big moves in the market. Bonds and gold have surged. The dollar has be whacked. US equities are higher. None of that price action is necessarily surprising considering the dovish stance from the Fed, but it is always interesting to see the big moves following such an event. Fed Funds futures are now pricing in 100% odds of a rate cut at the July meeting. I read yesterday that the Fed has never not cut rates when Fed Funds were showing greater than a 50% chance for a cut. While I haven't individually verified that claim, it seems reasonable and I think it is a good sign that a rate cut next month is virtually a slam dunk.

The one price move I want to point out this morning is the yield curve steepening. We've talked about this before so I won't spend a ton of time on it today, but the yield curve *typically* responds to a Fed rate cutting cycle with a steeper yield curve. And as we've shown before, a quick steepening of the yield curve has preceded the prior 3 US recessions. Every situation is different, but my guard is raised.

Energy

No major new information to pass along this morning. Crude oil futures are sharply higher in part on the dovish Fed moves yesterday and in part due to stories suggesting Iran has shot down a US drone overnight. A Bloomberg report notes that the drone was apparently shot down in international airspace. We'll see if this incident actually leads to any response, but it certainly doesn't help matters. Separately, the Senate will vote today on resolutions to halt arms sales to Saudi Arabia and other Middle Eastern countries.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am

- Philly Fed Index – 7:30am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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