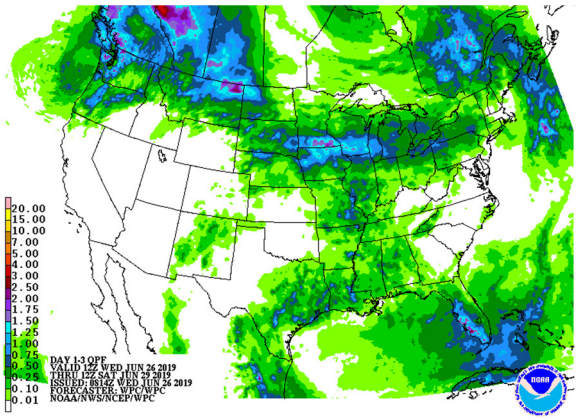
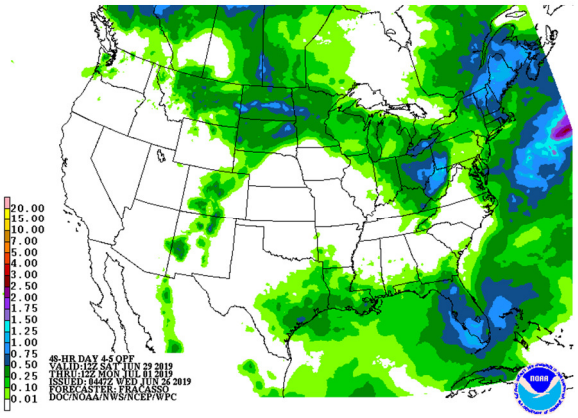
NESVICK TRADING GROUP, LLC

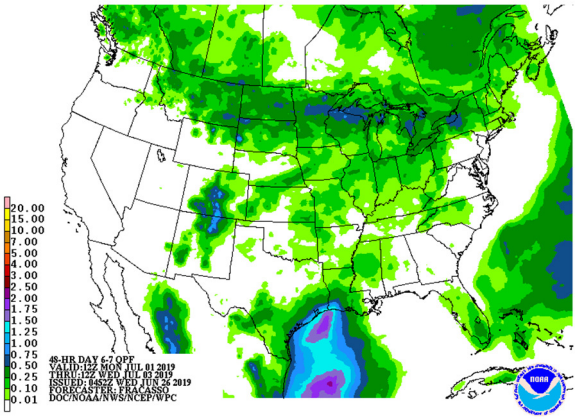
Wednesday, June 26, 2019
NTG Morning Comments
www.nesvick.com

Weather

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







Some thunderstorms noted on the radar at the tie of writing this morning and some severe thunderstorm warnings in effect for those areas. Look for those rains to continue to move eastward into IA before dissipating later in the morning. Looking forward, the forecast is basically unchanged. We're looking at scattered showers on a daily basis through the Corn Belt probably for the duration of the two-week forecast period. Look for scattered afternoon showers today in eastern and southern portions of the region. Overall rainfall amounts won't be huge but scattered areas will see localized heavy amounts. Then we'll likely see additional showers overnight favoring northern and western portions of the region. Additional daily threats of rainfall will continue through Friday before the region briefly clears out a bit during the weekend. We should return to the scattered shower activity next week. Note that the QPF maps shown to the right are basically just a guess where the best rains will fall. Given the scattered nature of the rainfall expected, it is nearly impossible to nail down the specifics.

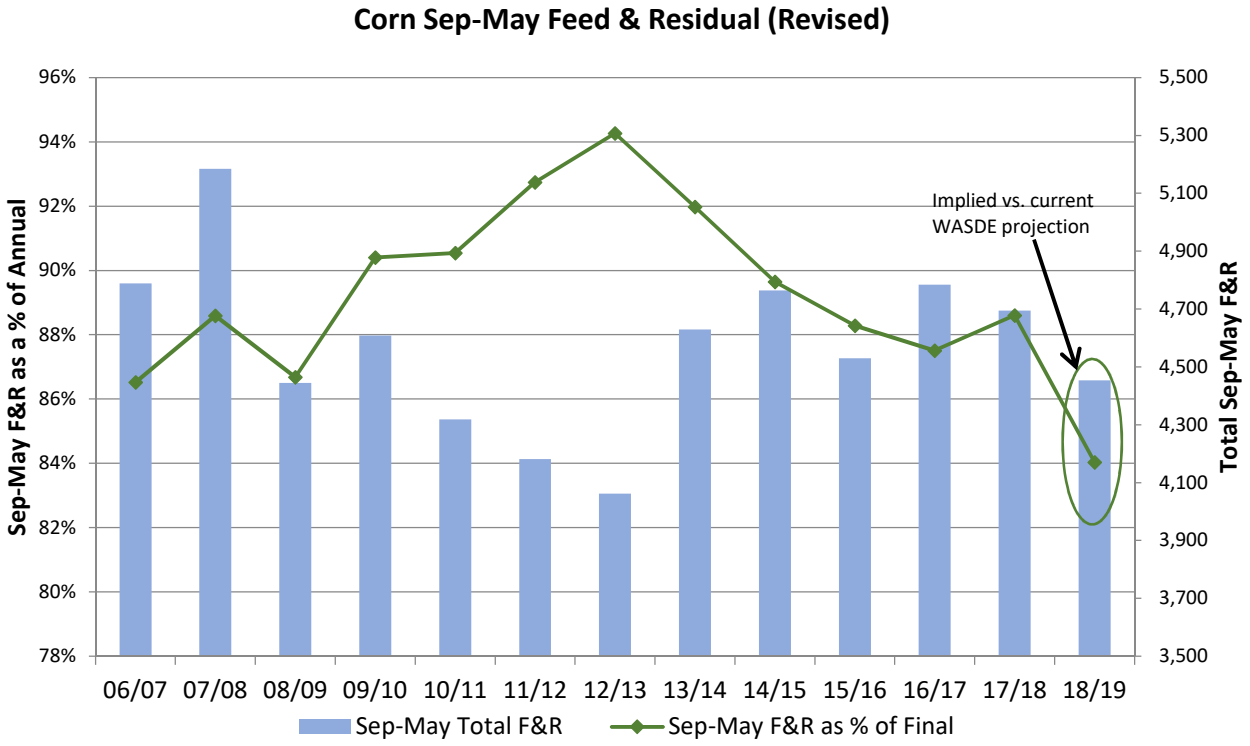
Temps should be fairly close to normal today with AN temps seen tomorrow through most of next week. No extreme heat is expected, however, with highs reaching into the low or mid 90s.

By now you've likely seen the forecast for Europe, with big heat expected over the next several days. We already had some 90s through France yesterday and we should see areas of 100+ in France today through Saturday. Temps will moderate a little next week. Meanwhile, precipitation should run well below normal over the next two weeks. A big portion of the region will see no rain over the next 10 days.

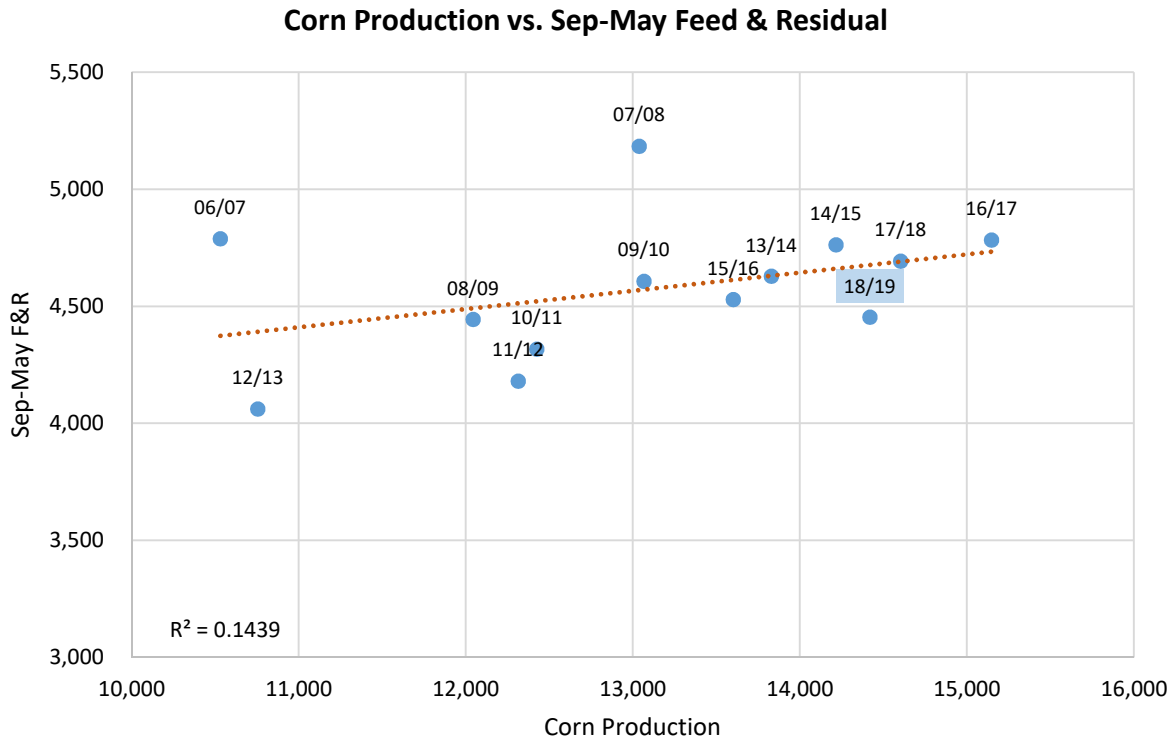
Crops

Today we're looking at prospects for this Friday's corn stocks number. To be honest, I'm a bit gun-shy about saying *anything* about the prospects considering the big surprise we got last quarter. As usual, we have a few knowns coming into the quarter. We know our starting inventory (duh) and we "know" exports for the quarter will total somewhere near 570 mil bu (official May data is not yet available). We have a decent idea that ethanol consumption for the quarter should total near 1,350 mil bu, and that gives us a decent handle on FSI consumption. As always, the big guessing game for the stocks figure is feed and residual.

The Bloomberg survey guess for June 1 corn stocks is 5,335 mil bu. Taking some assumptions for the demand data we think we "know", we can back in to an "implied" F&R figure of roughly 967 mil bu of F&R consumption during the quarter. This would actually be slightly larger than last year's Q3 F&R and generally a fairly "average" Q3 F&R over the past several years. At face value, it seems to be a fairly decent guess by the market overall. However, this would also imply that WASDE's current annual F&R projection (5,300 mil bu) is too large. Note the breakdown below. The market's implied MYTD F&R consumption would be the smallest since the drought-reduced years. It would also represent only 84% of the marketing year total based on the current WASDE projection. The market is essentially arguing that WASDE's current F&R projection is too big.



The market certainly *might* be correct on that front. Clearly the Q2 F&R was much smaller than most would have guessed. However, there typically is a good relationship between F&R and overall crop size. Admittedly the relationship isn't "automatic" (shown below) but you can generally point to very specific reasons for the outliers. In most other "normal" years, you can see a decent relationship. I've plotted the market's implied F&R against production below to show that the current guess on F&R demand would be very low vs. production.

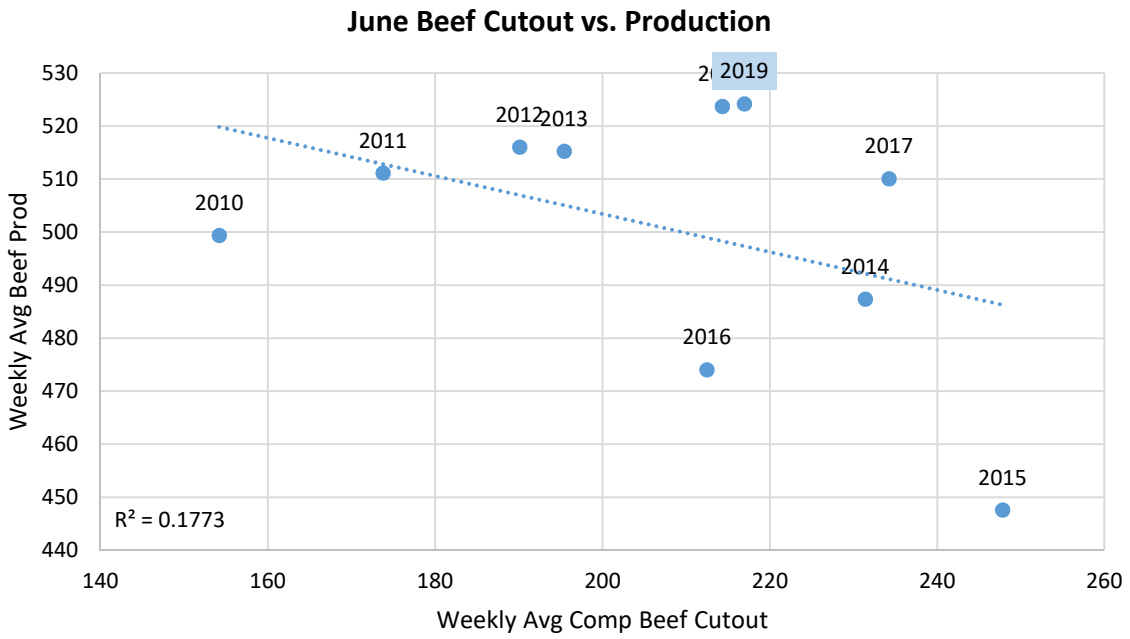


I'll probably regret this, but I'll take a low-confidence under vs. the average guess on corn stocks for Friday.

Livestock

Late yesterday reports surfaced saying China would halt all imports of Canadian "meat products" starting today. I don't have many details to pass along, but it is an interesting development that is obviously tied to the worsening ties following the Huawei arrest. The most up-to-date origin-level data on Chinese imports I have is March, where Canadian pork accounted for roughly 11% of Chinese imports that month.

Over the past few weeks I've heard some grumblings about beef demand from various traders and analysts. The thought process would seem to be that beef demand, particularly exports, hasn't been strong enough to support prices considering beef *production* has been so large. Looking at the chart below, I would argue that perhaps they're being a bit too critical. This compares weekly average beef production during the month of June vs. the weekly average composite cutout. Of course the production figure is MTD and is using the *estimated* data since we of course are not caught up on the official slaughter data. This chart will change as that data is updated. Still, it shouldn't change dramatically. It shows that June weekly average beef production is the largest we've seen since at least 2010 and probably much further back than that (slightly larger than last year). Cutout prices have held up pretty compared to last year as well, so demand could be implied to be at least equal to last year if not slightly better. Admittedly, the relationship shown in the chart isn't great…other months seem to line up better than June. Still, I think this points towards pretty solid overall beef demand relative to production levels. I don't demand is anything to complain about at the moment…but please let me know if I'm missing something.



Financials

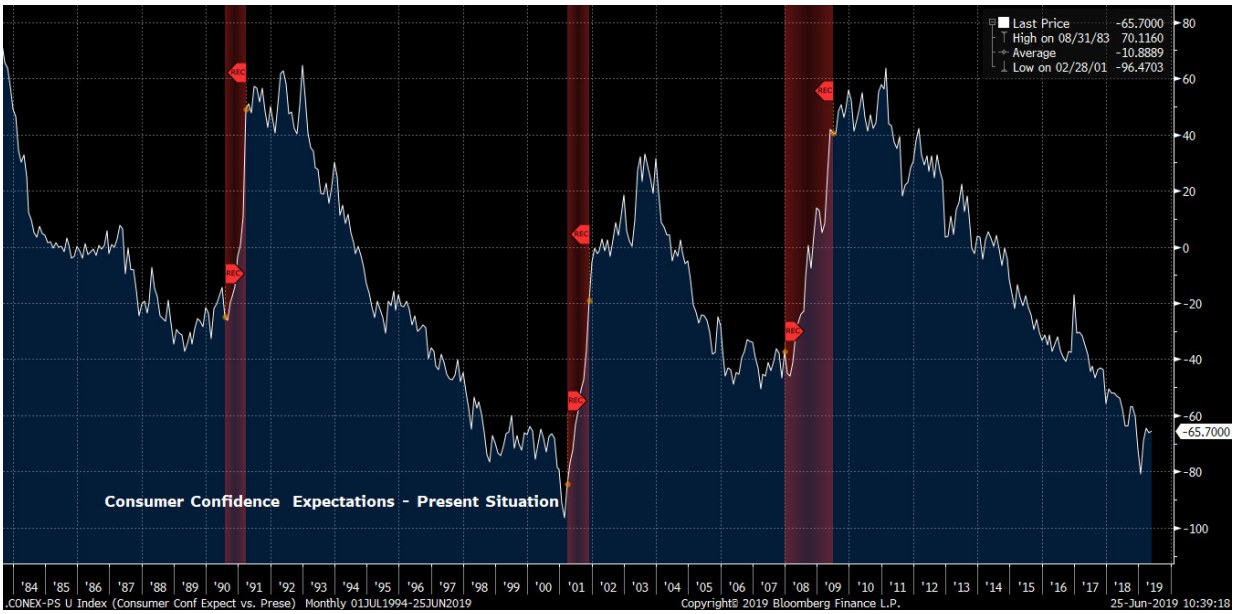
No major new information to pass along this morning. The next major item on the agenda is probably this weekend's G-20 summit where the Trump-Xi bromance may be rekindled. Newswires are reporting the US is going to offer to suspend the next round of tariffs on the additional $300B of imports in an effort to resume the negotiations. As usual, Treasury Sec Mnuchin is trying to sound very upbeat, saying on CNBC this morning that the deal is 90% already in place.

An interesting consumer confidence report yesterday. The headline consumer confidence figure fell to 121.5, lower than all the forecasts in a Bloomberg survey and the lowest since Sep 2017. Of course the narrative to spin the weak number is "the escalation in trade and tariff tensions". I find that a bit humorous – I have a hard time imagining the "average" person in the US today is following the trade negotiations extremely closely. Instead, I found the following highlights from the report interesting:

- Bloomberg reports – *The share of respondents who said jobs were currently plentiful eased to 44% in June, a three-month low. The share of those who said jobs were hard to get climbed to 16.4%, the highest since November 2017.*
- Bloomberg also notes – *Plans to buy new autos fell to a more than one-year low, while plans to purchase appliances dropped to the lowest level since the beginning of 2015.*

I noted this last month, but I'm still keeping an eye on the spread between the "present situation" index and the "expectations index. The spread is charted below. What the chart shows is that, right now, US consumers are more confident (by a wide margin) in current conditions vs. their expectations 6-12 months forward. You'll note that I have added US recessions to the chart, and this is simply to point out that when the current conditions

index gets well ahead of expectations…but then that starts to flip…it has been a good indicator of the past 3 recessions. That doesn't mean it will be a recession indicator this time, but just another item to keep in mind.



Energy

Simply pointing out the chart of spot WTI this morning. You can see prices have bounced back over the past week or so, but we're now running into serious technical resistance. The 50, 100, and 200 day moving averages have all converged right above current price levels. This also coincides with the 50% retracement back to the prior top around $67 in late April not to mention the "round-number" resistance factor of $60/bbl. We'll see how the market responds to today's inventory report, but this $59-60 level might be a tough nut to crack to the upside without some sort of significant escalation in the Strait of Hormuz.

Today's Calendar (all times Central)

- Durable Goods Orders – 7:30am
- EIA Petroleum Inventories – 9:30am

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684de
Trillian IM: dzelinski@nesvick.com
Bloomberg IB: dzelinski2@bloomberg.net