NESVICK
TRADING GROUP, LLC

Thursday, June 6, 2019
NTG Morning Comments
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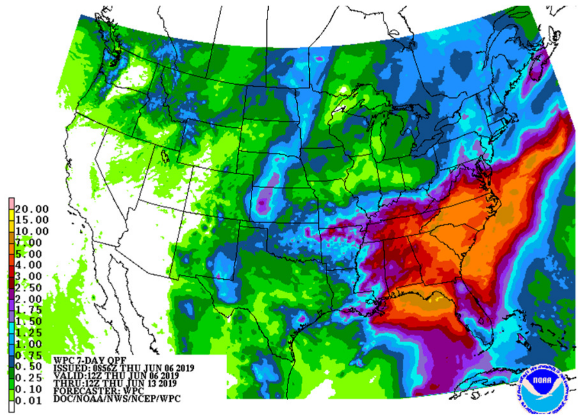
Weather

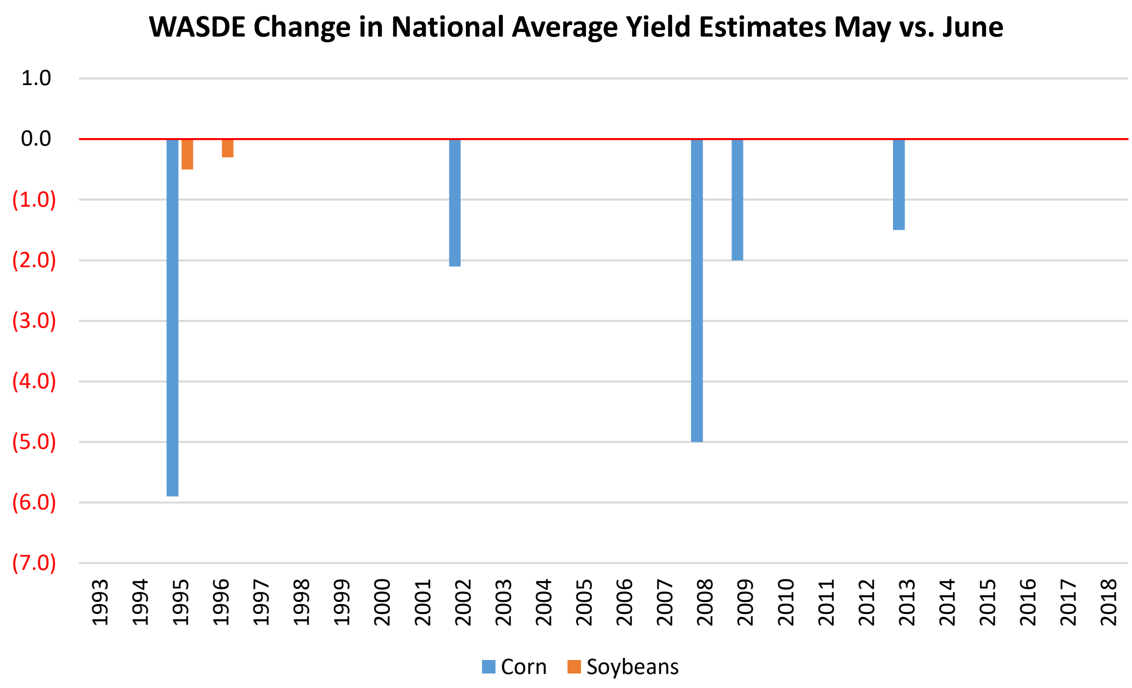
Map at right shows: 7-day total



We might be looking at the driest 7+ day stretch the Corn Belt has seen all spring. You can see to the right that it won't be completely dry, but rainfall totals for a majority of the Corn Belt area should average well below normal over the next week or so. Models are projecting an uptick in rainfall chances late in the 6-10 day period and into the 11-15 day period, but note that we're still not looking at "big" rainfall totals like we saw over the past month or so.

Crops

I've presented the following chart before. This shows a history of the yield changes from the May to June WASDE reports in the past several years. You can see clearly that WASDE is highly unlikely to make any change to their soybean yield next week. That is a pretty easy conclusion. Corn yield changes have become rarer, and I still believe WASDE would much prefer to not change their estimate in corn either. However, I think the slow planting progress has become too much for them to ignore.

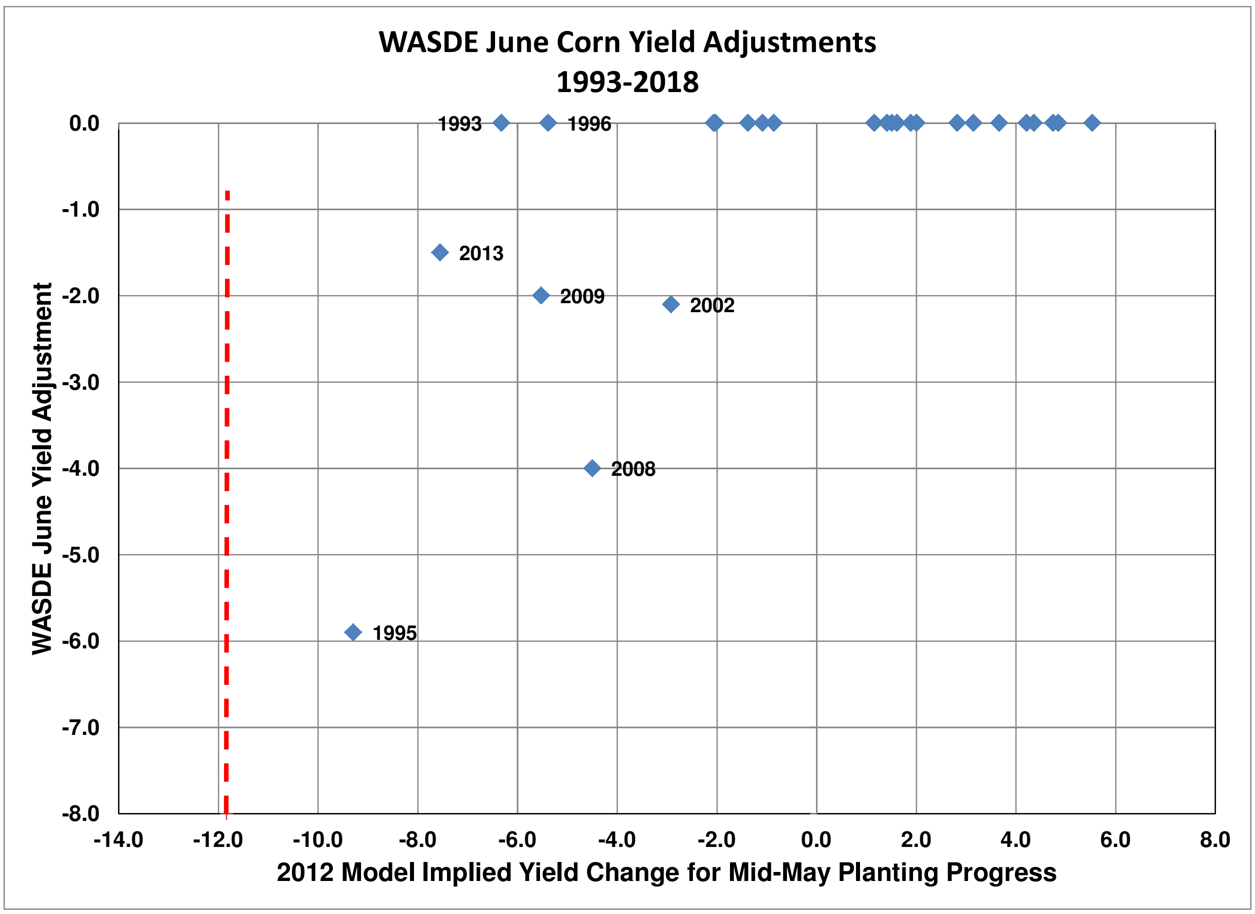


To try to answer how much WASDE might cut their corn yield next week, I'm going to lean on my good friend and colleague Don Frahm's work. Don is formerly of Informa and has forgotten more about yield models than I'll ever know. He recently took a look at WASDE's published yield model (written in 2013) to see what the model itself might say…here is what he found:

USDA's Economic Research Service derived and published a corn yield model in 2013 that used planting progress as one of its independent variables.

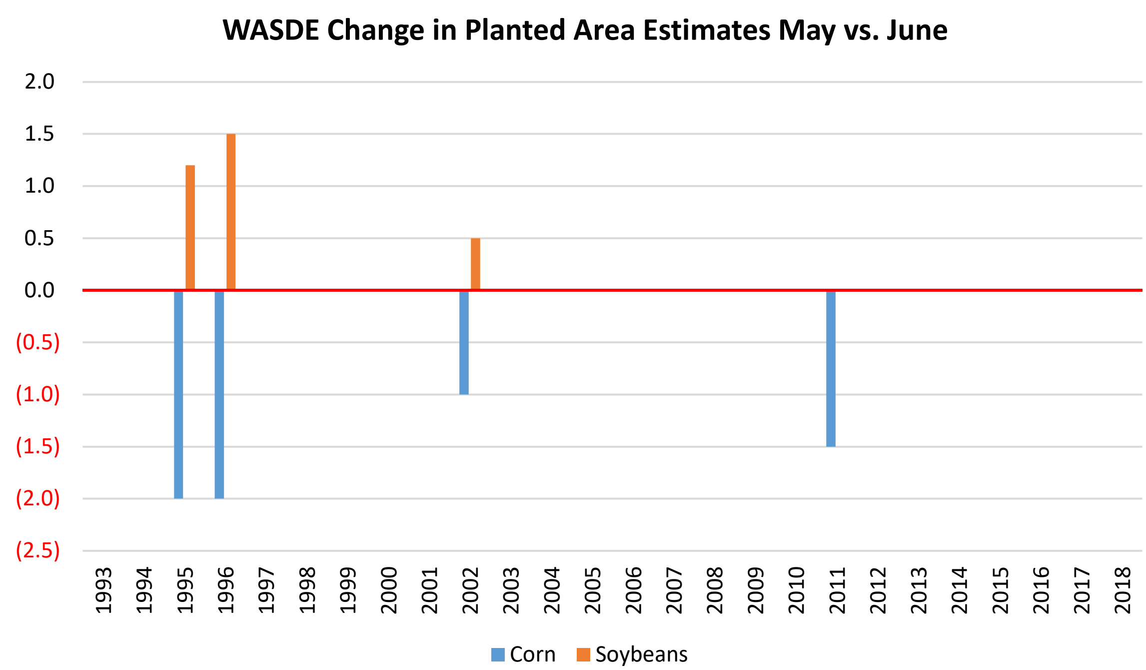
That model's planting progress coefficient was applied to the mid-May planting status over the 1993-2019 seasons with implied yield adjustments for planting pace displayed in the following scatter along with WASDE's June adjustments. NOTE that WASDE DID NOT have the model's guidance until 2013.

Algebraically a 12 bpa cut would be implied by the model for this year due to the reported mid-May planting progress, though ***NO experience exists to suggest WASDE will follow the model in that manner.*** *A repeat of their 2013 action suggest a much more modest 2-4 bushel cut.*



So what Don is essentially saying is that even when WASDE first had the yield model in 2013 to use, they didn't adjust the yield in June to the level the model would have implied. There is no reason to suggest they will cut as much as the model implies this year either. I agree with Don that 2-4 bpa cut in yield is likely. Note that even on the larger end of that range, the current average guess for yield published yesterday by Bloomberg is 171.1, implying the market believes the cut will be closer to 5 bpa. The market might be slightly disappointed. Looking again at the Bloomberg survey, the average guess on soybean yield is for a cut to 49.0 from 49.6 last month…I view that as highly unlikely personally. That soybean yield isn't going anywhere.

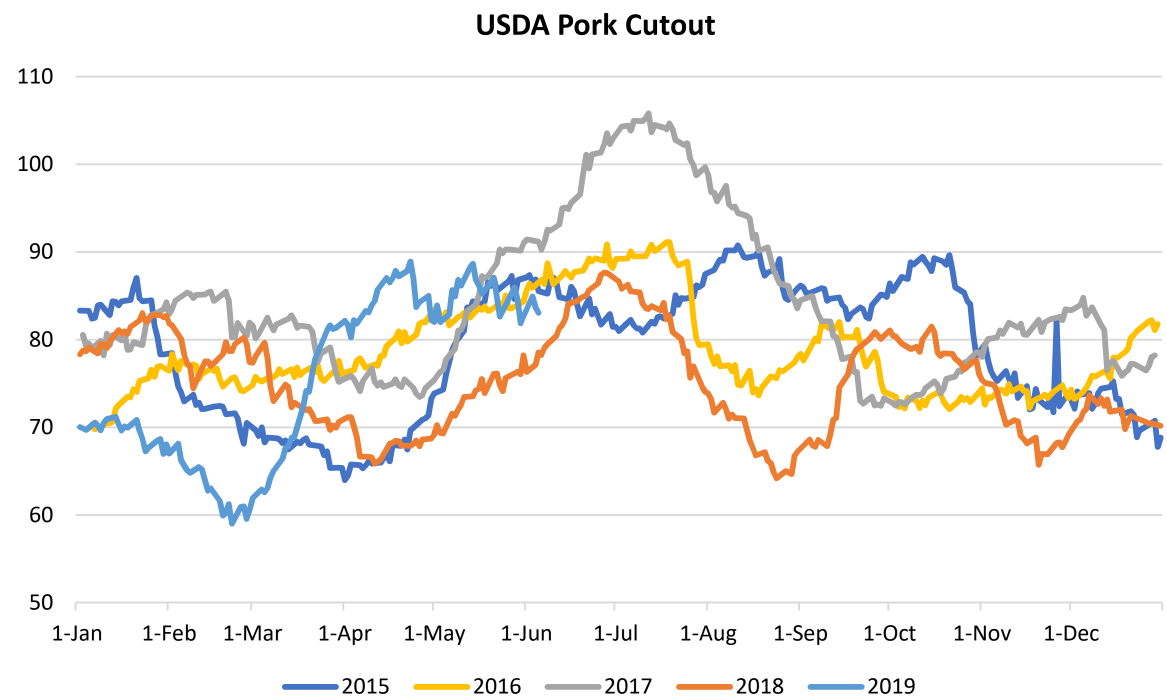
Turning very quickly to acreage….If we look at the Bloomberg survey on production and yield, we can back into an estimate where the "guess" on corn area calls for a reduction of a little more than 3 million acres from planted/harvested area. While that seems highly reasonable considering the overall planting backdrop we're looking at, I have to point out that WASDE hasn't made such a big cut in acreage before in the June report. I would agree that 2019 is unprecedented and I it wouldn't shock me to see 3-4 million acres cut. For a while, I was inclined to believe WASDE leaves acreage completely alone…but the planting progress is probably sufficiently bad to warrant a move. I'm still a bit on the fence about how big of a cut to expect, but anywhere between 2-4 million acres cut would seem like a reasonable assumption. Note that the average guess on soybean yield/production is basically implying no change in soybean area…which is probably the right move. As you can see below, however, one could make an argument that WASDE has been inclined to raise area for soybeans in the June report before. I don't think that will be the case this year, but just keep it in mind..



Livestock

Nothing particularly new to report here today. Yesterday's cash cattle trade was mostly 113-114…late yesterday we were hearing of 114 trade in KS. If I had to guess, I would imagine that the market is still probably bid there again today. Volume so far this week doesn't sound especially impressive, so we've still got some work to do.

Still seeing counter-seasonal "sluggishness" in the pork cutout here lately. Admittedly, we also just experienced counter-seasonal price strength through Mar/Apr so perhaps we're simply experiencing a bit of a hangover from that. Still, not exactly the price action we're accustomed to seeing in pork prices at this time of year.



Financials

Nothing new today. Tariff Man still doing his thing – saying Mexican proposals yesterday were "not nearly enough". Negotiations will continue today, but President Trump remains in Europe and its hard to believe that we can have a major breakthrough when he's not even present. We'll see what happens with negotiations today.

The main market-mover early this morning will be the ECB's policy announcement and Draghi press conference. The ECB will leave rates unchanged and it seems unlikely that the ECB will alter its forward guidance that calls for rates staying low "at least through the end of this year". Draghi will likely be asked about ECB support for banks, which of course are really struggling right now. Draghi has opened the door to help some banks by exempting some deposits from negative interest rates…that might be of interest to some traders. Doubt it would generate a ton of action in the FX however.

Energy

Saudi and Russian oil officials will be convening in St. Petersburg over the next few days to participate in the International Economic Forum. This will be the first face-to-face meeting between the two groups since last month. Saudi officials continue to push towards keeping oil production quotas in place, but the Russians have been much less vocal on the issue leading some to believe they're questioning whether or not to continue. Clearly oil prices have hit the skids over the past month, which puts the Saudis back where they started in an effort to support oil prices. The CEO of Rosneft, a major Russian oil firm, has remained critical of the OPEC+ and reiterated his criticism again this week, which is interesting. In addition to losing market share associated with production cuts in line with the OPEC+ agreement, the Russians are also dealing with the problem of pipeline contamination into Europe.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Trade Balance – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am
- Several Fed Speakers

Thanks for reading.

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