NESVICK TRADING GROUP, LLC

Thursday, July 11, 2019
NTG Morning Comments
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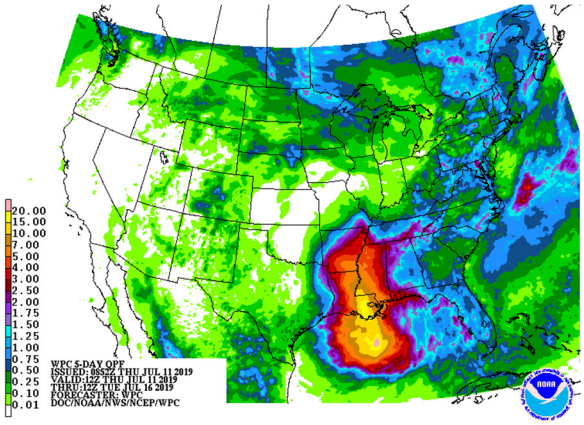
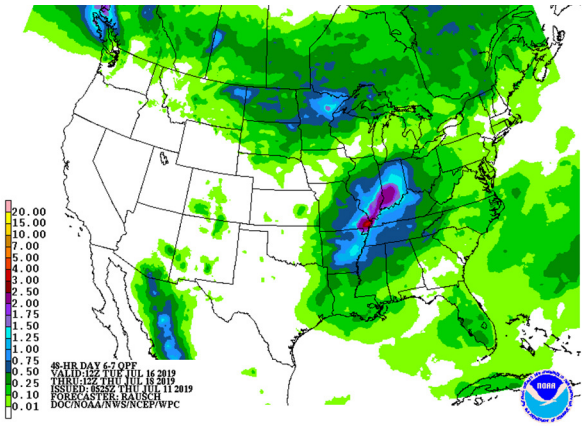
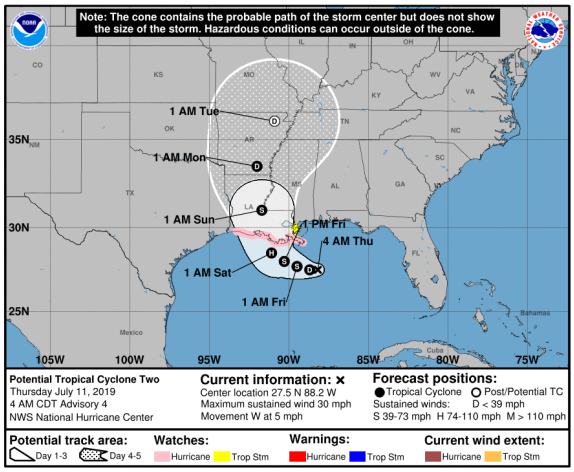
Weather

Days 1-5 then 6-7 at the right.





You can see the Corn Belt is not expected to see much precipitation during the next 5 days. There will be some scattered activity in the Northern Plains. Localized rainfall amounts might be bigger than shown, but coverage will probably be less than shown. Otherwise, limited rainfall during this period. The big story remains the storm that will eventually be named Barry in the northern Gulf. The storm track has gradually been shifting eastward since yesterday morning. In fact, the latest models since the Day 6-7 map at right was produced have continued to move further east. That should mean the next map updated for that timeframe should see the biggest rainfall amounts shift to the southeast a bit, producing a bit less coverage in the ECB than currently shown. There are some hints of possible showers in the WCB in some new model guidance early in the 6-10 day period, but confidence is not high on that for now. Late in the 6-10 day period and into the 11-15 day period we should see the ridge of high pressure peak in intensity. This should limit precipitation chances for a bulk of the Corn Belt. It will also keep AN temps in place for a vast majority of the Corn Belt. The outlook for temps has turned a bit warmer today. Highs in the upper 80s to mid 90s will be seen through early next week. Southwestern areas could see some 95+ heat during that same timeframe. In the 6-10 and 11-15 day period when the ridge is at its peak intensity we should see temps really pick up. We could definitely see a lot of 95+ readings and might even see a few 100s. Temps are expected to back off a bit late in the 11-15 day period but would still be AN.



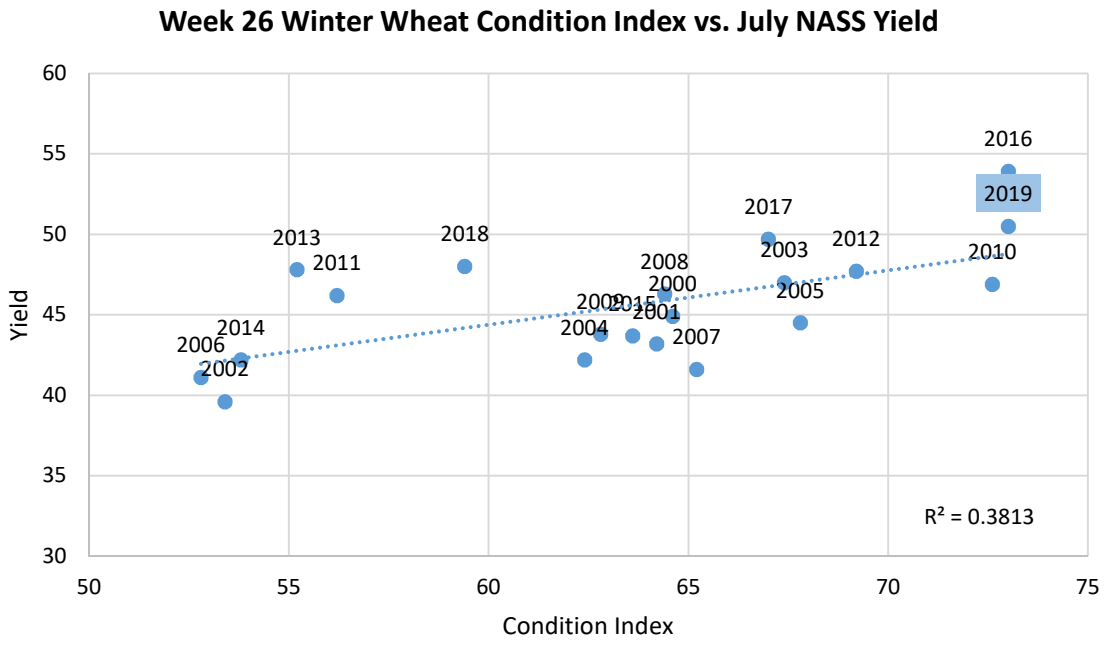
Crops

Quickly ahead of today's WASDE report we'll look at the all-wheat balance sheet. This won't require a lot of effort as we've basically already got the old crop balance sheet wrapped up following the June 1 stocks number. Admittedly we don't have all the details finalized yet, but with the May Census trade numbers we're not left with a lot of debate on the old crop balance sheet.

In the old crop balance sheet, we know 18/19 ending stocks will be 1,072 mil bu, down from the June WASDE's projection of 1,102 mil bu. We also know, based on the Census trade numbers for May, both imports and

exports will fall slightly short of WASDE expectations. Below you'll see I've made some assumptions for food use and feed & residual to add up to the ending stocks figure…I'll concede those are basically just guesses and we'll just have to see what WASDE gives us later today.

In the new crop balance sheet the biggest question mark we will have is on production. WASDE will update acreage numbers inline with NASS's 6/28 estimates. I'm also of the opinion that it is likely that NASS will increase their winter wheat production total. The Bloomberg survey average guess calls for a very modest increase in total winter wheat production to 1,282 mil bu from 1,274 mil bu last month. I am of the opinion that the increase should be larger. Look at the chart below which plots the Week 26 condition index score (Week 25 is used in years where conditions were not reported on Week 26) vs. the July NASS winter wheat yield. I have this year highlighted, which plots the condition index vs NASS's June estimate. If NASS were to feel inclined to raise the yield closer to what we saw in 2016 it would add maybe 75 mil bu to production. I'm going to be a bit more conservative with my baseline estimate, but I think there is some upside risk to wheat production based both on condition ratings and on some of the reports I'm hearing out of the Plains.



You'll note below I am making no changes to the June WASDE 19/20 demand projections. Not that I necessarily think they're perfect…I just don't have any new information this month to argue against what they've presented thus far. Because of my bigger than consensus production estimate, my outlook for ending stocks is bigger than the average guess.

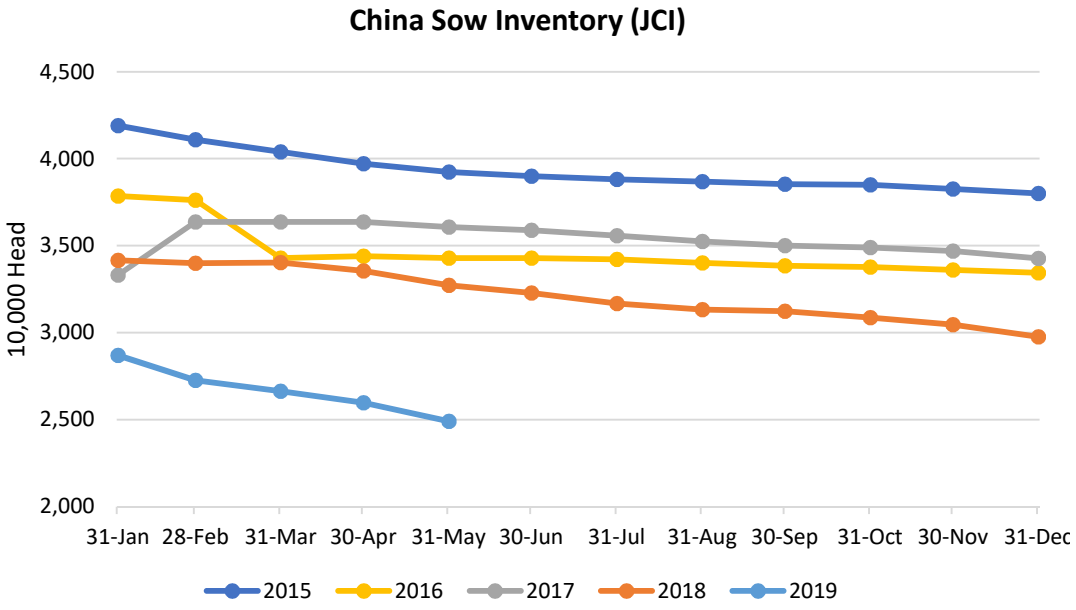
US All-Wheat Supply & Demand Estimates (Million Bushels/Million Acres)

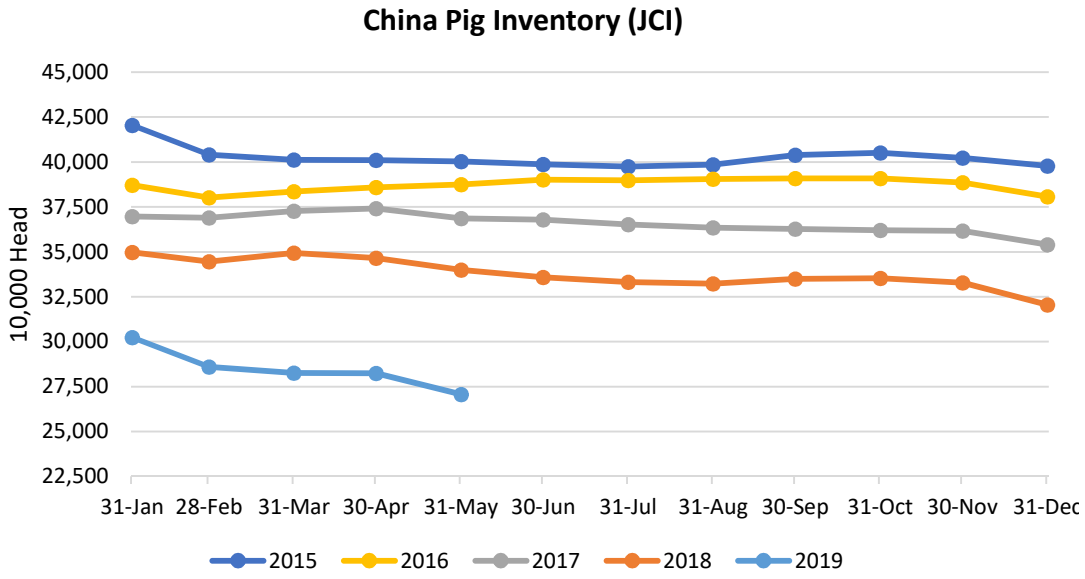
	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19 June	Possible? 18/19	USDA 19/20 June	Possible? 19/20
Planted Acres	55.0	50.1	46.1	47.8	47.8	45.8	45.6
Harvested Acres	47.3	43.9	37.6	39.6	39.6	39.0	38.4
Abandoned Acres	7.7	6.2	8.5	8.2	8.2	6.8	7.2
Yield	43.6	52.7	46.4	47.6	47.6	48.7	50.0
Carryin (Sep 1)	752	976	1,181	1,099	1,099	1,102	1,072
Production	2,062	2,309	1,741	1,884	1,884	1,903	1,920
Imports	113	118	157	140	133	140	140
Total Supply	2,927	3,402	3,079	3,123	3,116	3,145	3,132
Food Use	957	949	964	960	965	965	965
Seed	67	61	63	62	62	68	68
Feed & Residual	152	156	51	50	83	140	140
Total Domestic	1,177	1,167	1,079	1,072	1,110	1,173	1,173
Exports	775	1,055	901	950	934	900	900
Total Use	1,952	2,222	1,980	2,022	2,044	2,023	2,073
Carryout (May 31)	976	1,181	1,099	1,102	1,072	1,072	1,059
Stocks/Use	50.0%	53.2%	55.5%	54.5%	52.4%	53.0%	51.1%

If my projections for this report are anything like what I've done so far this year, everything I've said this week is dead-ass wrong. Good luck today.

Livestock

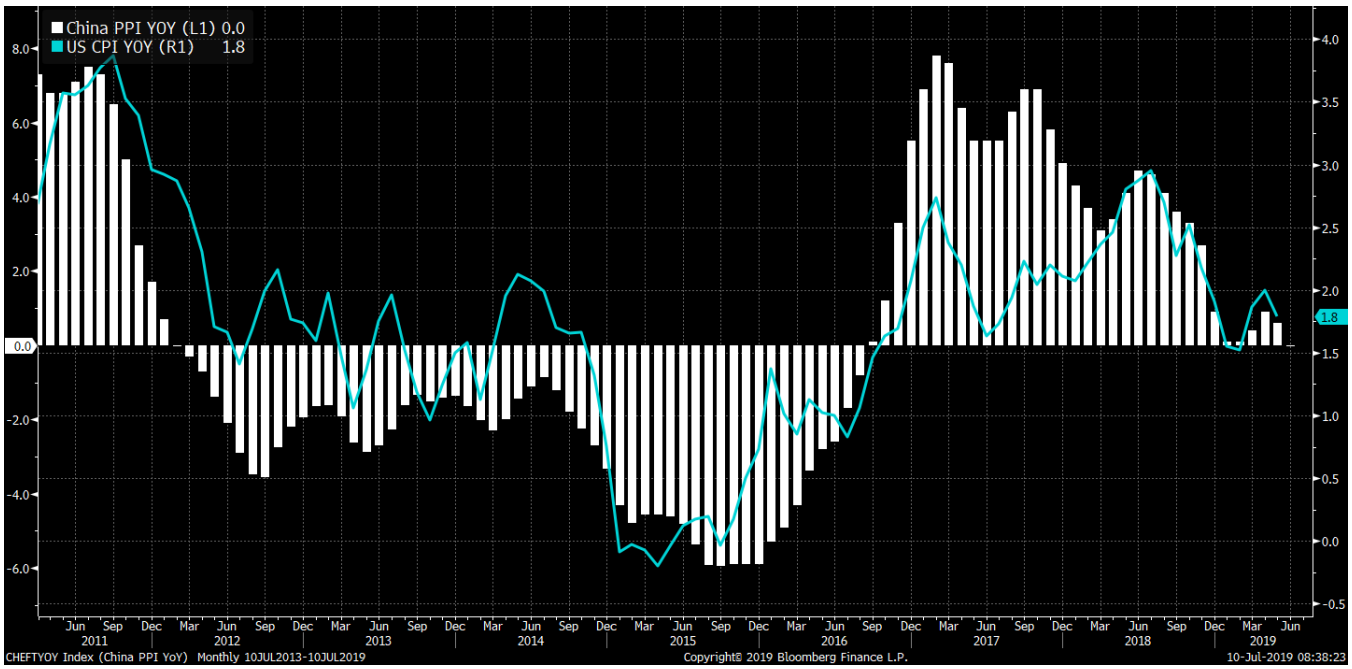
Nothing new here, but just an update that herd liquidation continues in China. I have sow/pig numbers from JCI updated through end-May shown below. The numbers just continue to get smaller meaning, in my opinion, this problem is still getting bigger.





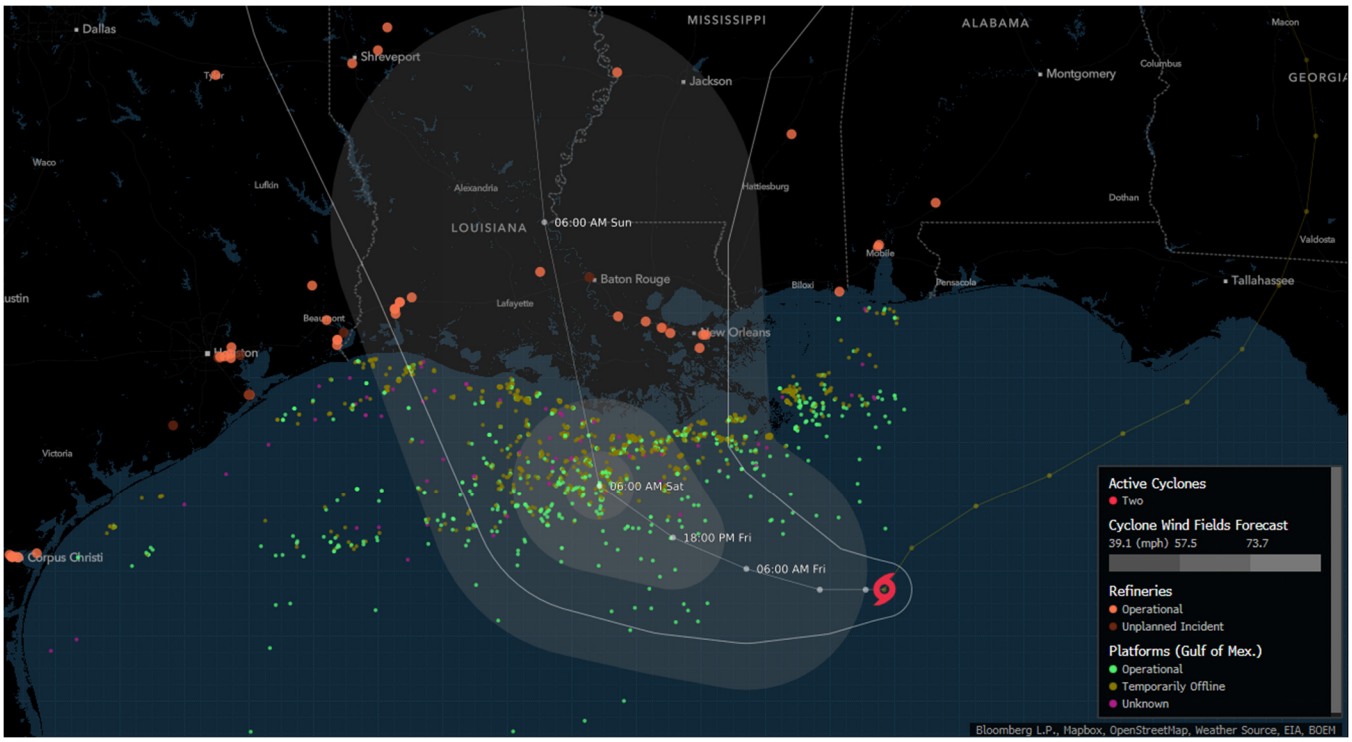
Financials

On tap this morning we have the monthly CPI release. If Chinese data released yesterday is any indication, then the Fed will continue to be disappointed in US inflation numbers. China reported PPI basically unchanged YOY for the month of June. As shown in the chart below, there is a pretty decent correlation between China's PPI and US CPI numbers. The relationship isn't perfect of course, but nothing is in this business. Anyway, with essentially flat PPI from China, it seems unlikely that we should expect much strength in the US figures. The current projection calls for YOY CPI of +1.6%...but I might be inclined to take the under vs. that.



Energy

I said before that I thought it would take a "significant" catalyst to push WTI above the $60 mark and my thought-process was that it would mainly take an Iranian escalation to meet that requirement. As I viewed that as unlikely (and still do) I thought the technical resistance between $59-60 in WTI would likely hold to the upside. Yesterday clearly proved me spectacularly wrong. I'm getting used to that this year, but still… The combination of the much lower than anticipated inventory figure as well as concerns over the storm in the Gulf yesterday lead to a sharp rally. Personally speaking, I still suspect that the rally may not hold. Let's look at the storm in the Gulf first. Yes, the storm is likely to directly move across a big portion of the Gulf offshore oil platforms. There are also several refineries potentially in the path of the storm. You can see these facilities plotted as dots on the map below along with the current storm projected path. Keep in mind, however, these offshore oil platforms are no longer the key to US production levels they used to be. Shale is where US production really lies. Yes, the storm will certainly disrupt these platforms and will also likely disrupt imports but that will probably be a very temporary problem. We'll have to keep an eye on refinery damages too, but that will depend on how strong/big the storm becomes. We'll see.



Looking at the inventory data, nothing major stands out to me. Yes the inventory figure was much lower than anticipated but we've seen increasing volatility vs. expectations as imports/exports play such a bigger role. US crude oil and gasoline inventories continue to follow fairly seasonal patterns for now. US crude oil stocks are roughly 13% higher than at this point last year. I remain reluctant to embrace strength in crude oil, but I am certainly open to entertain any arguments. I suppose the next level of resistance comes in between $62.50-64.00.

Today's Calendar (all times Central)

- CPI – 7:30am
- Export Sales – 7:30am
- Jobless Claims – 7:30am
- Natural Gas Storage – 9:30am
- WASDE & Crop Production – 11:00am
- Monthly Budget Statement – 1:00pm

Thanks for reading.

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