NESVICK
TRADING GROUP, LLC

Monday, July 15, 2019
NTG Morning Comments
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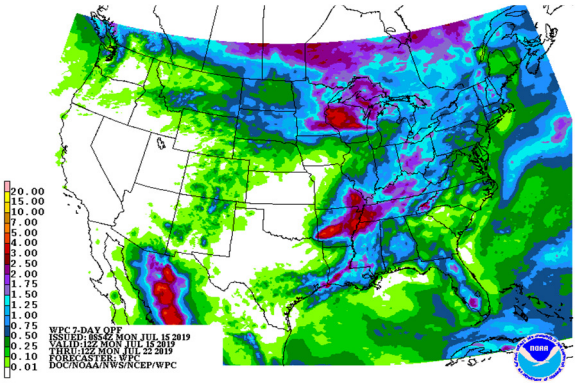
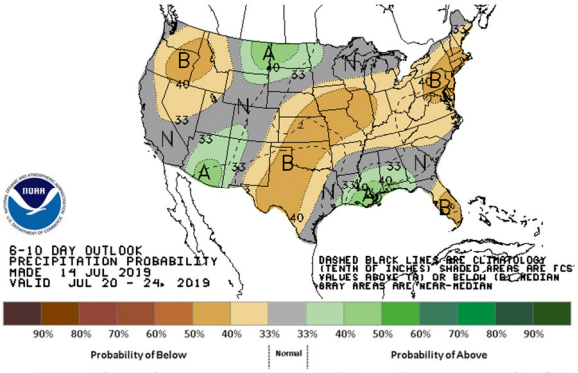
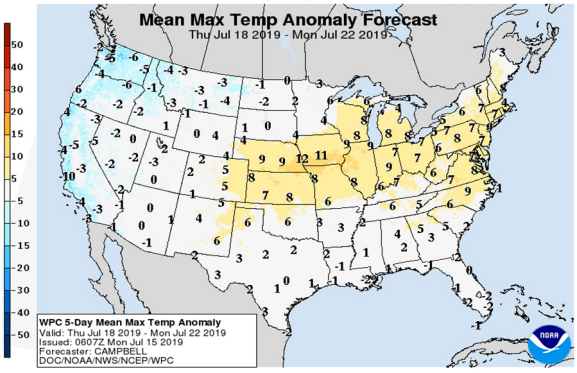
## Weather

No major changes to the forecast since Friday. We have the remnants of Barry working their way north and east through the Mid South and starting to enter southern portions of the ECB this morning. This rainfall will push east/northeast through Wednesday with some localized heavy rainfall totals expected. The Northern Plains will continue to see active showers from "ring of fire" rains that develop as systems move along the northern border of the ridge of high pressure that is situated in the central US. NE, KS, much of MO, the southern half of IA and portions of west-central IL will see very limited rainfall over the next 10 days. The ridge of high pressure should be at its strongest during the weekend and early next week which is when rainfall chances will likely shut off for most of the Corn Belt with the exception of the extreme Northern Plains where more "ring of fire" rain will be possible. The 11-15 day forecast is a difficult call right now. The ridge of high pressure is expected to diminish late in the 6-10 day period which should open up chances for some better rainfall chances in the 11-15 day period, but exactly how much can fall and where is a total guessing game at this point.

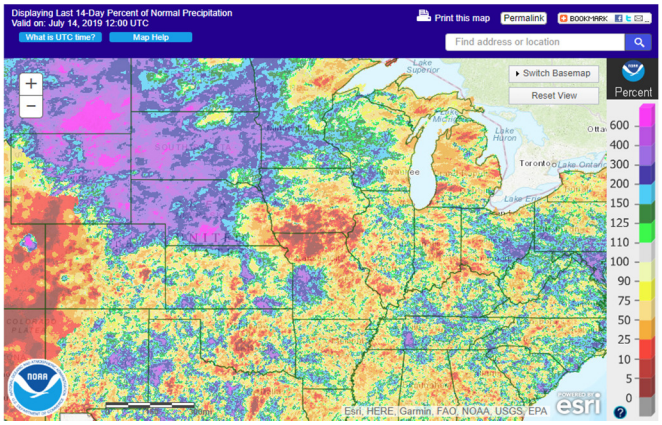



Widespread above normal temps should be seen through at least mid next week. Most areas should see highs range from the upper 80s to mid 90s. Southwestern portions of the Corn Belt should see warmer temps at times into the upper 90ss. During the period mentioned above when the ridge will be at its peak strength, we could see some of those areas reach into the 100s. Overnight lows should remain in the 70s and some areas will not even fall below 75. Temps should moderate late in the 6-10 day period and during the 11-15 day period as the ridge of high pressure diminishes with temps likely to average near normal.



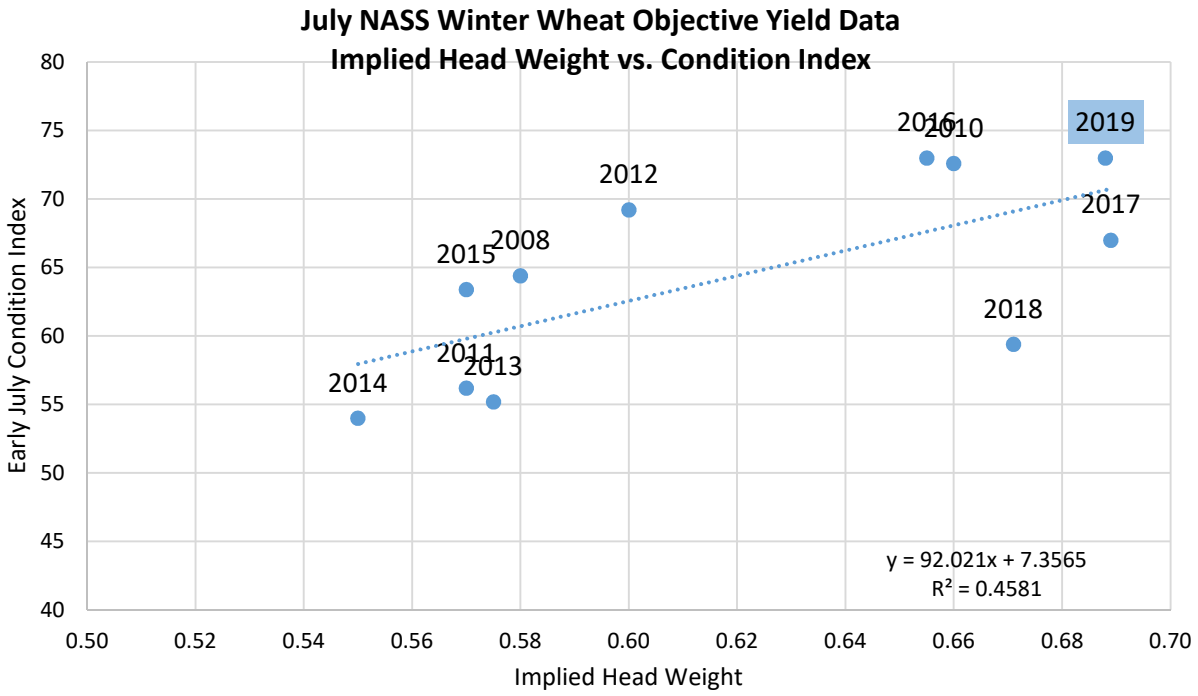

Map at the right shows 14-day percent of normal precipitation. Note the Northern Plains have done very well on precipitation and that is not expected to change. Eastern dryland NE, northern MO, southern IA, and portions of western IL might be the areas to be concerned with given the 10-day outlook in those areas.



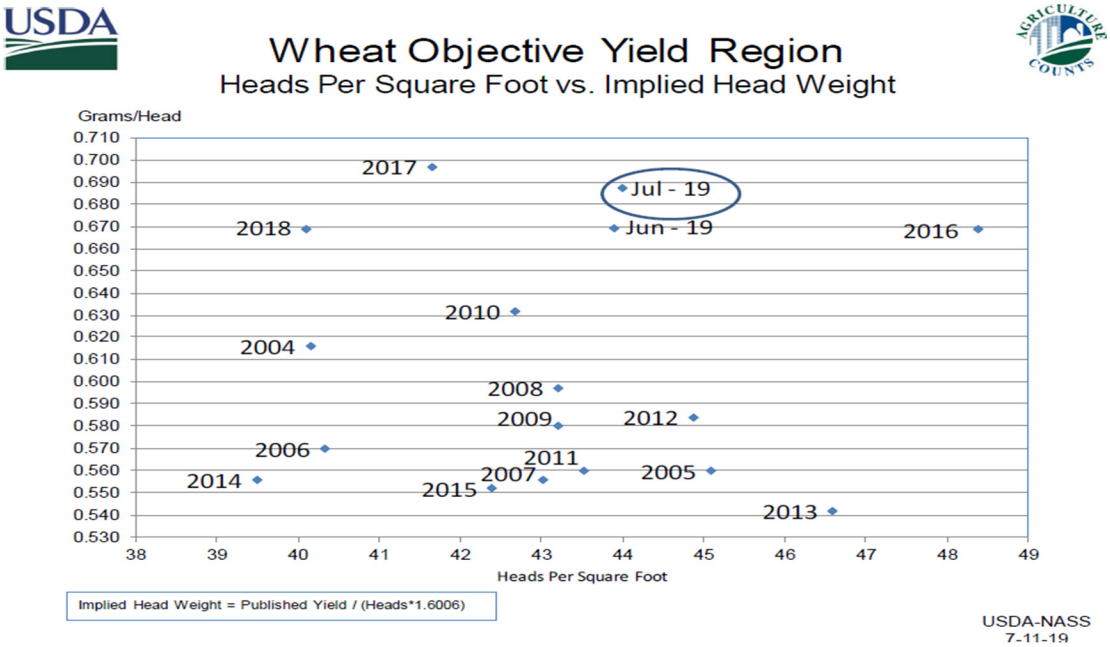
**Crops**

One thing that "bugged" me a little last Thursday in NASS's Crop Production report was the winter wheat production number. If you recall from my commentary last week, I thought perhaps we might have an upside surprise to the winter wheat production figure based on the very strong condition ratings to close the season and based on the anecdotal yield reports I've personally been hearing. NASS did increase their yield and production figures, but not quite as much as I thought was possible. I wanted to look quickly at their objective yield data this morning to see if anything stood out to give us a clue on the potential direction in next month's report. As it turns out, I can't find much that sticks out.

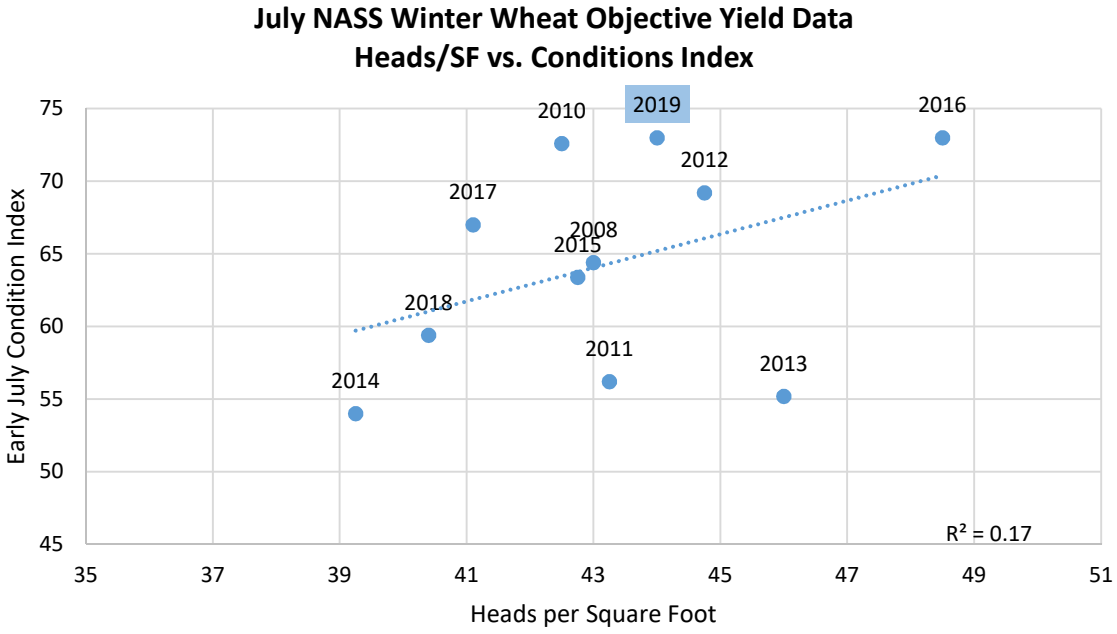
The chart below compares the implied head weight vs. the early-June condition index. You can see there is a pretty solid relationship between the two. This year's relationship is highlighted. You can see that NASS is definitely inferring a strong head weight due to the strong condition ratings, so I can't find anything there to make an argument about.




The number of heads per square foot reported by NASS somewhat stood out to me. You can see in in the chart NASS provided in their Executive Summary and which I've copied below. This stood out to me as 2016 was another year with very strong condition ratings (in fact, vey similar to this year) and head counts that year were much bigger. Could this be an area that NASS is behind on right now. Is there any correlation between condition ratings and high head counts?



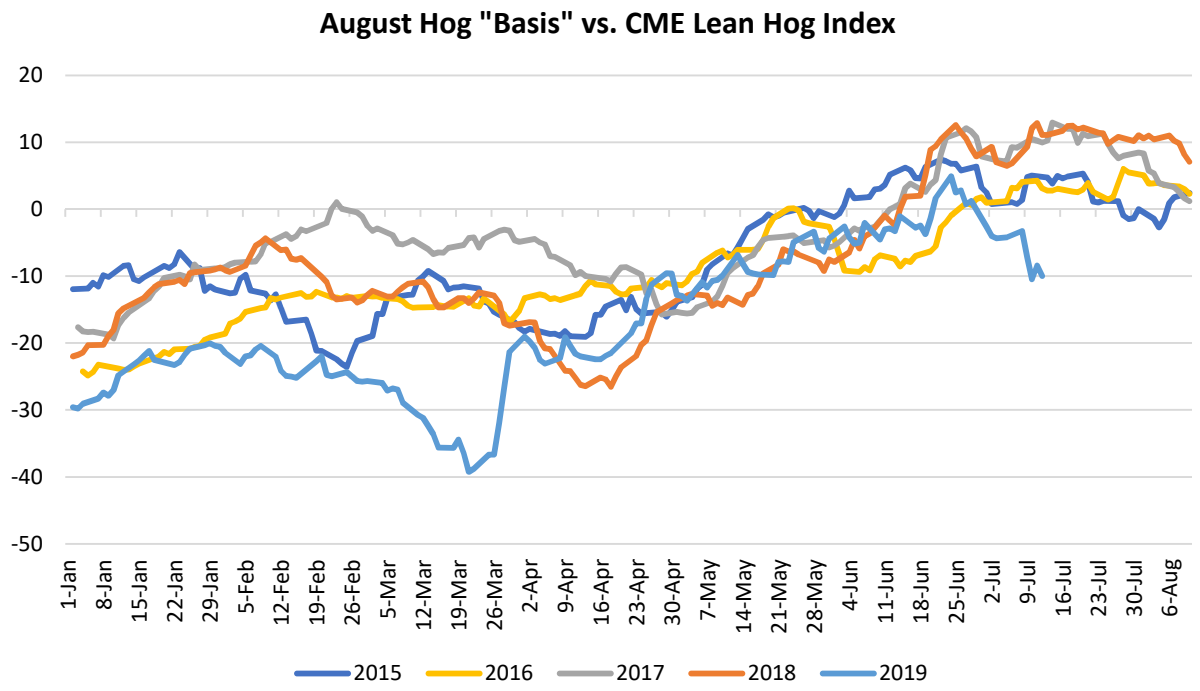

As it turns out, not really. There isn't a very good relationship between condition ratings and head counts. I've plotted the July NASS objective yield data below, and again this year's relationship is highlighted. This doesn't necessarily mean that NASS is spot on, it just means I can't point to any particular issue with their objective yield counts right now. Gun-to-head I still think the winter wheat yield has some potential for upside, but confidence is not high. If you have any suggestions on anything to look at, I'm all ears.



**Livestock**

Cash trade on Friday didn't get really going until late in the day, and because of that I don't have a strong feel for volume. Based on what little I have been able to piece together, it does seem like volume was pretty solid. We continue to have a pretty wide spread in trade between the north and south…with the weather influences on the north still being felt. As of right now, seems like cash trade this week should be at least steady with last week…unless we get a significant break in the board.

Hog futures posted a solid rally last week, but for now the cash market hasn't kept up. The CME's lean hog index has been moving lower for the past several weeks and seasonal considerations would argue that might not change any time soon. The chart below compares the August hog contract historically against the CME's lean hog index and you can see that "basis" is much weaker than usual right now. We're going to need to see a somewhat counter-seasonal increase in the hog index if August lean hog futures are going to maintain this rally. I'm open to other thoughts please…




Found this on the JCI China twitter feed overnight. The chart at right shows China's MARA estimates for pig and sow inventories vs. last month and last year. I don't have the actual numbers available at the time of writing. Still, as the M-o-M numbers continue to decline, this just shows that situation hasn't even stabilized yet. This will remain a problem for a long time to come.

| June, 2019 | Pig Inventories | Sow Inventories |
|---|---|---|
| M-o-M | ↓5.1% | ↓5.0% |
| Y-o-Y | ↓25.8% | ↓26.7% |

Source: Ministry of Agriculture and Rural Affairs

**Financials**

Not a lot of new information to pass along this morning. Crypto currencies are off very sharply at the time of writing this morning, though it comes as no surprise to anyone to see these markets continue to behave in a very volatile fashion. China reported mixed economic data over the weekend. GDP was +6.2%, which was weaker than expected and the slowest quarterly GDP pace since the data began in 1992. However, factory output and retail sales numbers were both better than expected. Despite the weak GDP number, the other releases allowed Chinese equity markets to close modestly higher overnight, and most Asian markets were higher as well.

We have the NY Fed's Empire Manufacturing survey out this morning, but otherwise a quiet day for US economic releases. We're kicking off the new earnings season today, however, with C due to report before the open this morning. This will kick off a big week of bank earnings with JPM, GS, and WFC all due to report tomorrow and others following as the week progresses.

**Energy**

Crude oil is trading modestly higher at the time of writing this morning. Roughly 73% of oil production from Gulf of Mexico platforms is reportedly offline following Hurricane Barry, but reports are already suggesting that workers are preparing to return soon as the storm has made landfall and has weakened. Remember that the GOM accounts for "only" 16% of total US crude oil production these days. Roughly 62% of GOM natural gas production is also offline at the moment, but the GOM "only" accounts for 3% of total US production. As of right now, I have not seen any reports suggesting that any significant shutdowns have taken place with Louisiana's refineries, which account for roughly 18% of total US operable refining capacity. We'll need to keep an eye on flooding in that region today as rains continue, but it looks like the storm will not have a lasting impact on the region…at least in terms of oil/gas production.

**Today's Calendar (all times Central)**

- Empire Manufacturing Index – 7:30am
- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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