NESVICK
TRADING GROUP, LLC

Tuesday, July 9, 2019
NTG Morning Comments
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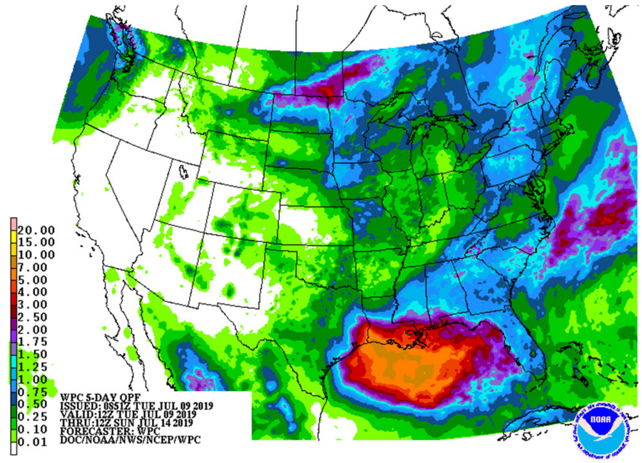
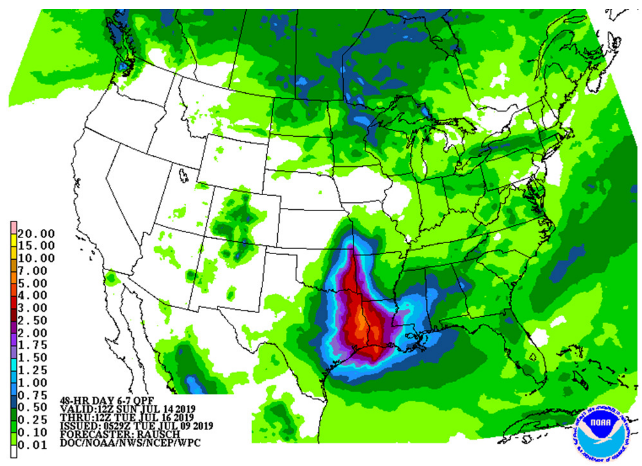
Weather

Big rains overnight through central NE. These rains should weaken considerably this morning with some redevelopment of thunderstorms expected later this afternoon again favoring western portions of the Corn Belt. There will be some rain chances in eastern areas tomorrow but coverage will be very scattered. It will be a situation where a lot of the area sees nothing while other areas get substantial rainfall amounts. A lot of dry weather is expected during the weekend, but even then there should be some scattered activity at times (probably favoring northern and northwestern portions of the region). The outlook for the 6-10 day period remains completely dependent on the forecast for the looming tropical system that will be impacting the Gulf and eventually moving inland at some point. The question is where exactly does it make the move north? The European model is fairly consistent this morning brining the storm through TX/LA (see second map at right) and the European model goes further to show the remnants of the storm impacting the Corn Belt during the 6-10 day period. The GFS is relatively close to the Euro in terms of storm placement, but it has the storm dissipating faster and thus is less of an influence on the Corn Belt. The bottom line, the 6-10 day forecast is entirely dependent on what this storm does and there is very little confidence on that right now. It looks like that high pressure will again dominate the region in the 11-15 day period meaning continued AN temps and probably mostly near to BN precipitation chances for the Corn Belt during that period.





Crops

We'll look at possible US balance sheet adjustments in the next few days ahead of Thursday's WASDE report. Today we'll start by looking at corn. Please note our discussion from yesterday regarding the outlook on yield and acreage. I am personally assuming that WASDE adopts the NASS acreage projection from 6/28. I am also assuming <u>no change</u> in WASDE's corn (or soybean) yield projection from their June report. Please refer back to yesterday's comments if you need further explanation.

Starting with the old crop balance sheet, the June 1 quarterly stocks figure argues for no change in WASDE's current F&R estimate. Recall the market had been looking for a much larger quarterly inventory figure, but that was under the assumption that WASDE would eventually lower their F&R estimate. With the quarterly inventory proving to be smaller than expected, all it really does is allow WASDE to maintain its current projection. As noted in our discussion on ethanol last week, I believe WASDE is likely to leave its current ethanol projection alone for now. MYTD data has been disappointing, for sure, but June EIA data has been pretty solid and that keeps a *little* bit of hope alive that the corn grind could reach the WASDE estimate. I eventually think we'll wind up a bit short, but for now I don't think WASDE should feel compelled to lower the projection. Maybe WASDE might increase their projection for "other FSI" based on the smaller than expected June 1 stocks number, but that shouldn't be anything that moves the needle much. On exports, I continue to look at the pace of shipments and the level of outstanding sales and argue for a big reduction vs. WASDE's prior projection. I think final exports could wind up +150 mil bu lower than currently projected, but I'm guessing WASDE "should" cut their estimate by 100 mil bu this week. It is possible they slow-play this and cut less, but I think they have to cut *something* this week.

Turning to the new crop balance sheet, we're looking at a potential big increase in total supply. This of course comes from the higher carry-in as noted above but also because we'll be looking at slightly bigger harvested area and probably no change in yield. In my baseline assumption, as shown below, I'm assuming total supply is up roughly 300 mil bu from last month. I would expect that most of that increase will flow through into ending stocks. Due to higher production, WASDE will tweak their F&R estimate slightly higher. Other demand projections are likely to remain unchanged. I could certainly make a strong argument for lower export demand. NMY sales for 19/20 are off to a very slow start and we'll likely have a low level of "rollover" sales from 18/19 to add to that. Despite that concern, I think WASDE will be reluctant to cut demand much further from here for now.

You'll see my breakdown of a "baseline" assumptions below. As noted above there could be some minor tweaks to other FSI or imports, but none of that should be market-moving. Thoughts appreciated.

US Corn Supply and Demand (Million Bushels/Million Acres)

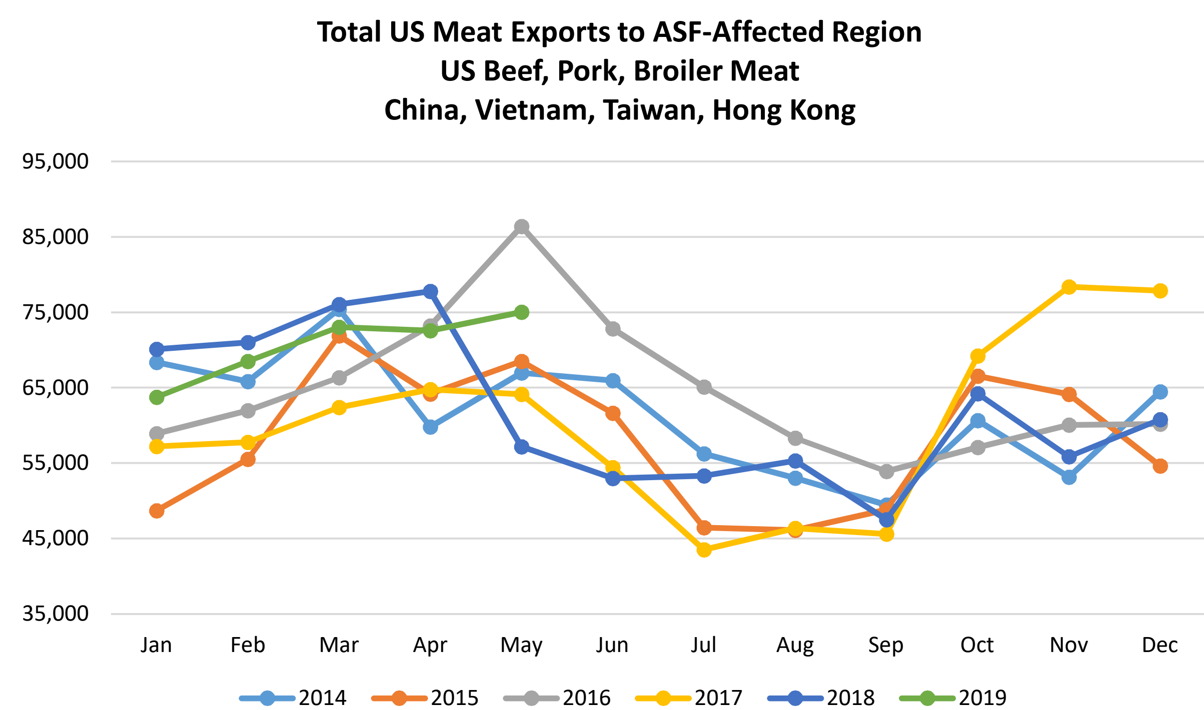
	USDA 15/16	USDA 16/17	USDA 17/18	**USDA 18/19 June**	**Possible? 18/19**	**USDA 19/20 June**	**Possible? 19/20**
Planted Acres	88.0	94.0	90.2	**89.1**	**89.1**	**89.8**	**91.7**
Harvested Acres	80.7	86.7	82.7	**81.7**	**81.7**	**82.4**	**83.6**
Abandoned Acres	7.3	7.3	7.5	**7.4**	**7.4**	**7.4**	**8.1**
Yield	168.4	174.6	176.6	**176.4**	**176.4**	**166.0**	**166.0**
Carryin (Sep 1)	1,731	1,737	2,293	**2,140**	**2,140**	**2,195**	**2,295**
Production	13,602	15,148	14,604	**14,420**	**14,420**	**13,680**	**13,877**
Imports	67	57	36	**35**	**35**	**50**	**50**
Total Supply	15,401	16,942	16,934	**16,595**	**16,595**	**15,925**	**16,222**
Feed and Residual							
Total Feed and Residual	5,131	5,470	5,298	**5,300**	**5,300**	**5,150**	**5,200**
Food, Seed, and Industrial							
Corn for Ethanol Fuel	5,206	5,439	5,605	**5,450**	**5,450**	**5,500**	**5,500**
Other FSI	1,429	1,446	1,453	**1,450**	**1,450**	**1,450**	**1,450**
Total FSI	6,635	6,885	7,058	**6,900**	**6,900**	**6,950**	**6,950**
Total Domestic Use	11,766	12,355	12,355	**12,200**	**12,200**	**12,100**	**12,150**
Exports (Census)	1,898	2,294	2,438	**2,200**	**2,100**	**2,150**	**2,150**
Total Use	13,664	14,649	14,793	**14,400**	**14,300**	**14,250**	**14,300**
Carryout (Aug 31)	1,737	2,293	2,140	**2,195**	**2,295**	**1,675**	**1,922**
Stocks/Use	12.7%	15.7%	14.5%	**15.2%**	**16.0%**	**11.8%**	**13.4%**

The Bloomberg survey average guess for 19/20 ending stocks is 1,663 mil bu, and I just don't get it. That is calling for a reduction vs. last month despite the bigger harvested area and likely bigger carry-in. Even if you want to cut the yield to the average guess from Bloomberg of 164.8 bpa, if my demand scenario above is correct you'd be looking at a 19/20 carryout near 1,870 mil bu. I think it is an "easy" call to take the over vs. the 1,663 mil bu average guess for the carryout estimate. It is skewed low due to some very low estimates within the survey (the low guess is 1,235).

Livestock

Nothing major stood out to me in yesterday's MPR data, other than total cash volume trade last week turned out a bit smaller than I was thinking. Considering the somewhat smaller volume than I had guessed and the fact that kills are running at a fairly solid clip right now, I'd have to guess that "should" lean modestly supportive to this week's cash trade. Yesterday's board break doesn't help of course, and we have the index roll out of the LCQ contract to deal with as well. Still, I can definitely get on board with the argument that cash trade this week should be steady or higher.

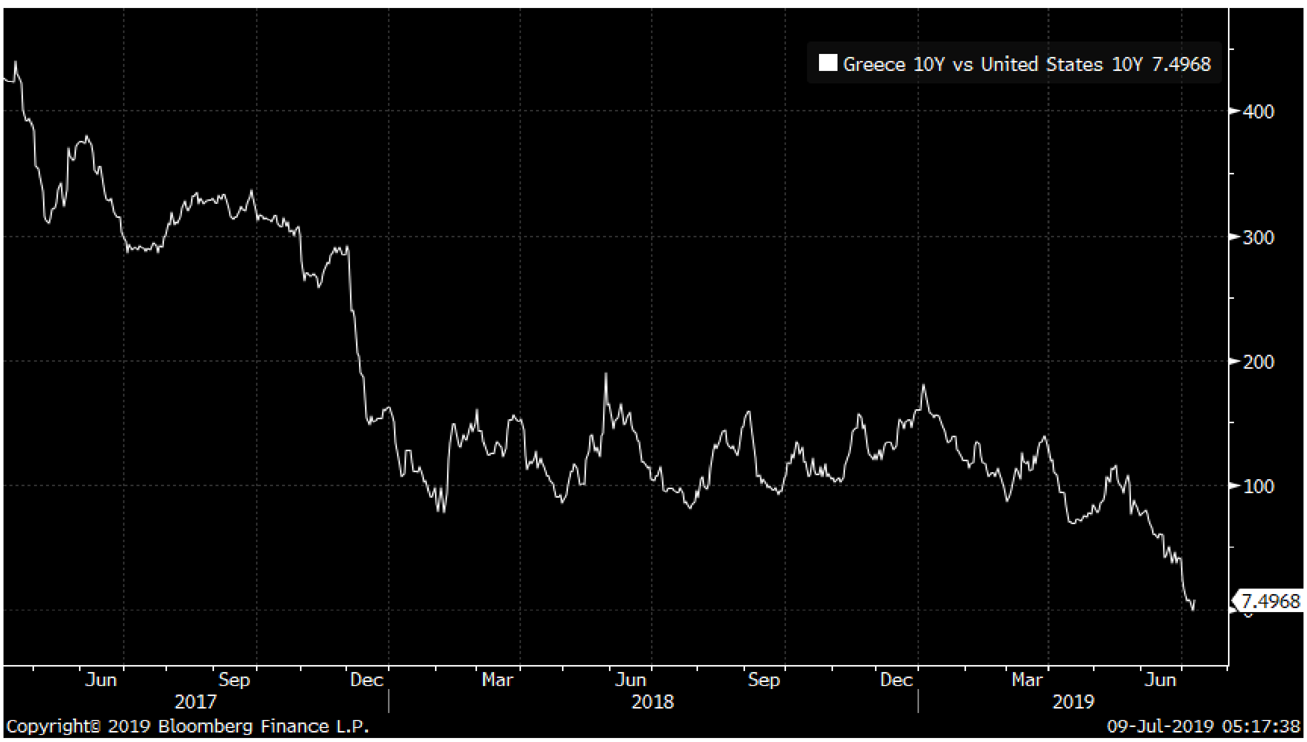
The past few days of looking at official pork & beef exports got me thinking about trying to somehow track the influence of ASF-related demand on US meat exports. There is no one way to track this, but below is something I'll be monitoring closely over the coming months. This combines total US meat exports, including beef, pork, and broiler meat, to ASF-influenced countries. You can see on the chart that I'm counting China, Vietnam, Hong Kong, and Taiwan as those ASF-influenced areas for now. I suppose I might eventually need to expand that area, but for now this seems appropriate. I think it is interesting to note that US exports to this area in the first four months of the year were running behind year ago levels. In May we've seen that trend reverse. It seems there is a somewhat seasonal tendency for exports to this region to slow during the summer months. I wonder if that pattern will repeat this year. If not, might that mean that ASF-influenced demand is starting to present itself?



Financials

World equities markets are weaker this morning and bond yields across the globe are mostly higher this morning. There doesn't appear to be any major "new" information on which to attribute the weaker trade over the past 24+ hours. Japan posted some soft economic numbers overnight, but economic data has been slowing globally for a while now, so that isn't "new". There does seem to be some concern that the market turned too dovish on the Fed here too quickly. We have several Fed speakers making the rounds today and Fed Chair Powell will give Congressional testimony later this week. There is some concern they all might have a slightly less-dovish tone. The market has dialed back some of the dovish price implications in the past week. Fed fund futures are still pricing in 100% odds of a rate cut later this month, but last week there was about a 20% chance of a 50 bps cut to rates. Right now that stands at about 1%, with a 99% chance for "only" 25 bps of cuts. This shift to a sorta-less-dovish mindframe is probably largely behind what appears to be a mild market hangover we're experiencing at the moment.

With little else to discuss today (no economic data of note on tap) I thought I'd pass along some "weird" news. We know that global bond yields have been tumbling and especially in Europe. Still, I was a bit surprised to see the chart below. This shows the spread between Greece and US 10-year yields. You can see that we're basically on par with each other now. Greece and the US have essentially the same yields. That is not a sentence I thought I'd be writing a few years ago.



Energy

Nothing major to report this morning. Crude oil futures are trading slightly higher at the time of writing, bucking the overall risk-off trend of the morning. Some of this modest "strength" might be tied to the Iranian news suggesting a push toward greater uranium enrichment and the potential for a US reaction to that news. We also have the API with their inventory release this afternoon and the EIA tomorrow…expectations call for a 3.6 million barrel decline in stocks which would be a fourth consecutive weekly decline. The WTI chart is still flirting with the same levels we've been watching for a while now and my opinion is unchanged. Unless there is a significant escalation in the Middle East, I think crude oil prices will have no success in breaking out above these technical resistance levels.

Today's Calendar (all times Central)

- JOLTS Job Openings – 9:00am
- EIA STEO – 11:00am
- Several Fed Speakers

Thanks for reading.

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