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Thursday, August 22, 2019
NTG Morning Comments
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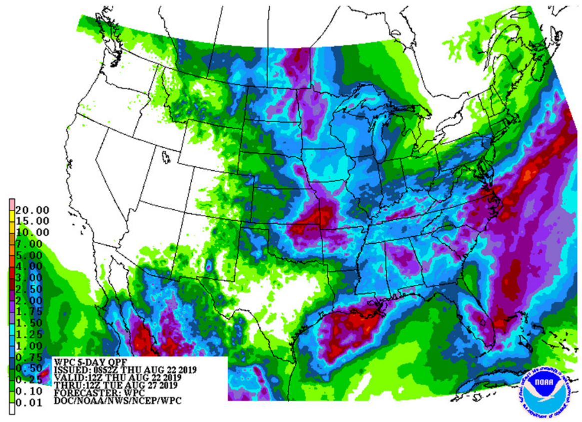
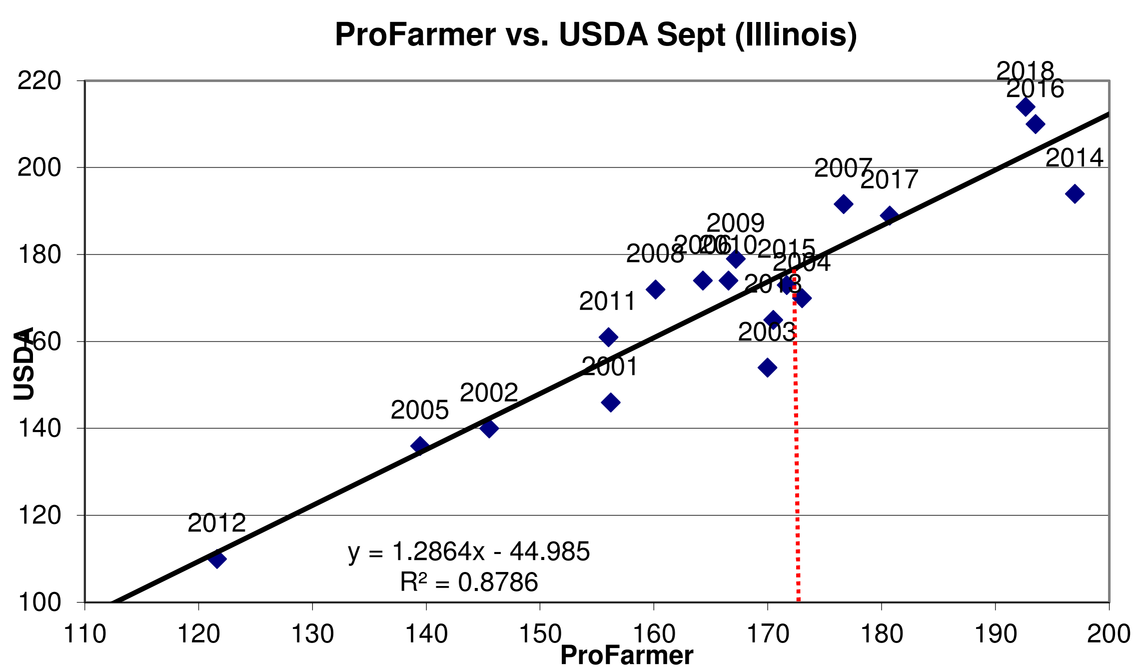
Weather



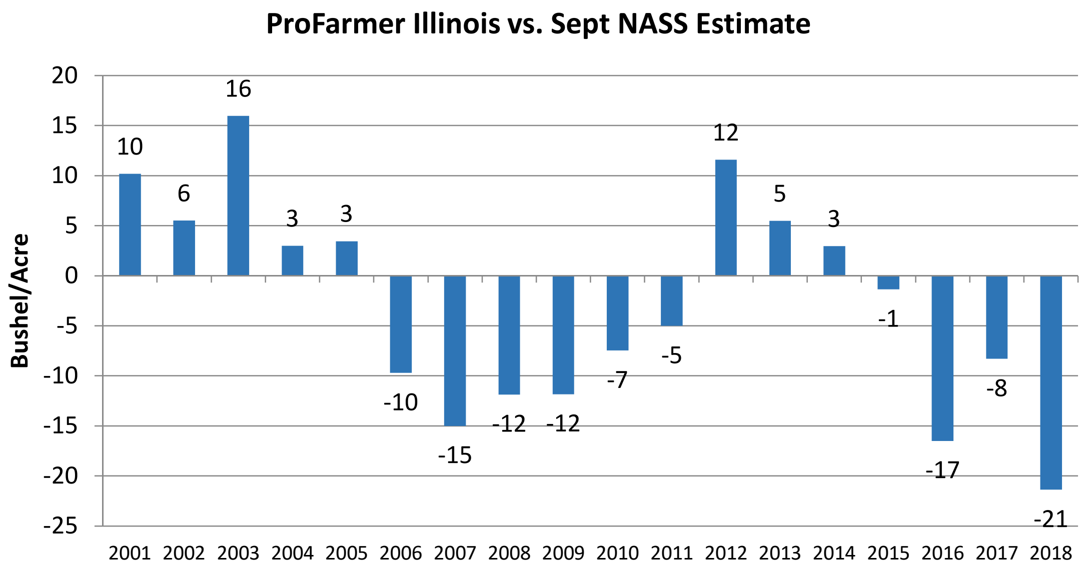
No major changes to the forecast this morning. We have some showers on the radar this morning in portions of the southern Corn Belt and it should be the south that should see additional rainfall today and tonight. Limited rainfall chances will be seen in northern areas today through Saturday. We'll see rainfall chances increase in the WCB on Sunday and that will push eastward through Tues. This event seems capable of producing lots of .5-1.5" rainfall totals, though as usual coverage will not be 100%. Another few days of drier weather will fallow that with some additional rains late next week. The 11-15 day period looks like it will start dry with some showers favoring the WCB late in the period. The entire two week forecast period continues to show mostly cool weather through the Corn Belt. Most eyes remain on the Northern Plains where the 6-10 and 8-14 maps show well BN temps. Note that highs on most days will be in the 70s with some cooler days in the 60s. Lows will mostly be in the 50s but some days will dip into the 40s.

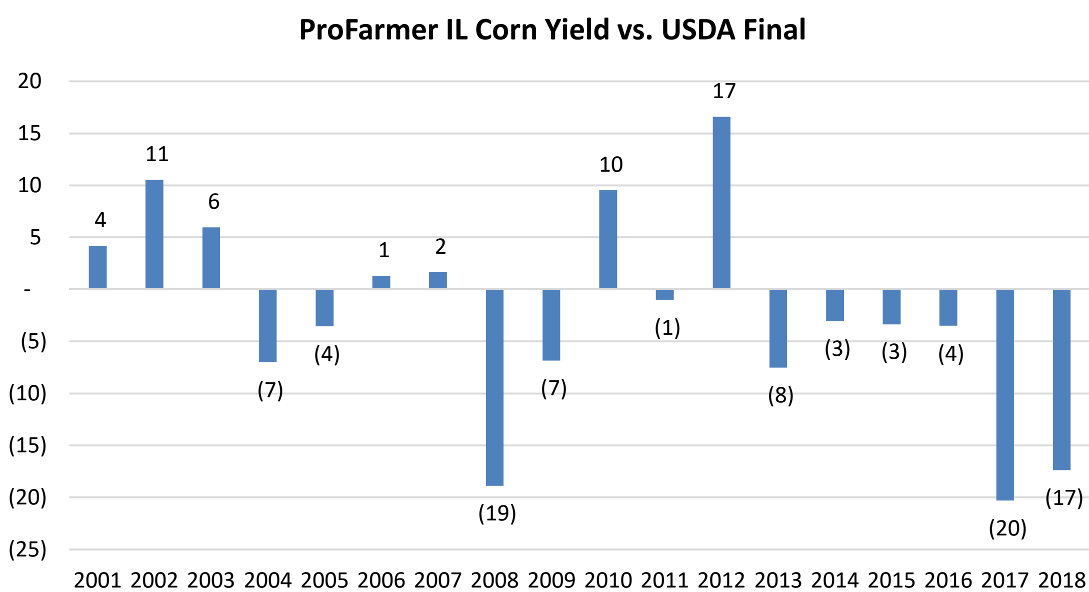
Crops

ProFarmer out with their IL corn details yesterday evening, pegging the crop at 171.17 bpa. The usual scatter plot I've been presenting is shown below, and this would imply that NASS would move the yield down slightly to roughly 175 bpa vs. their 181 bpa Aug estimate.



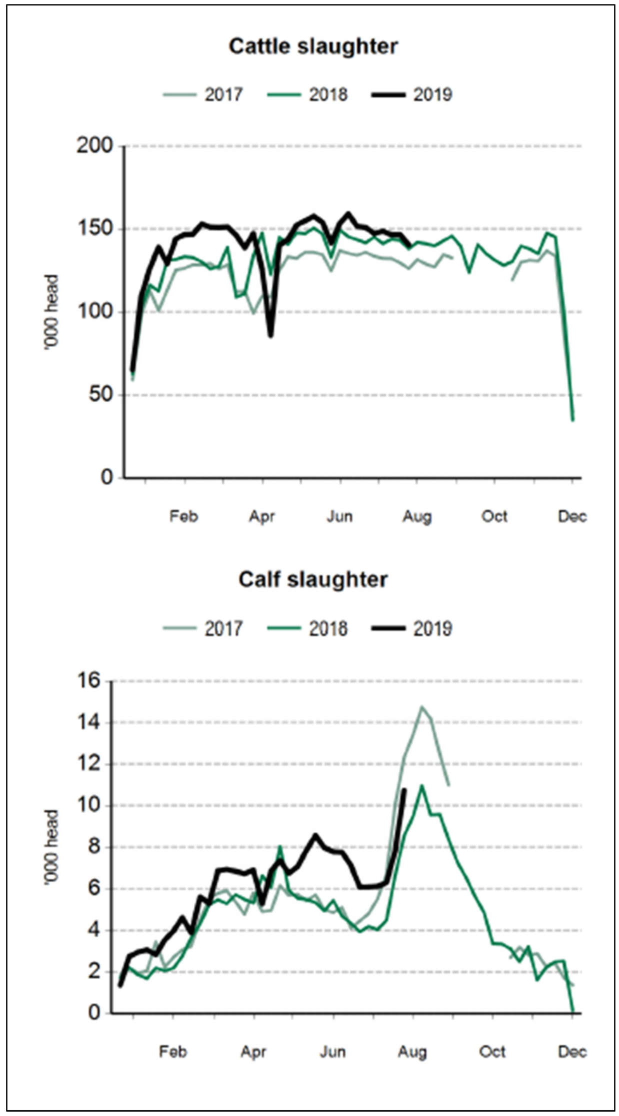
That being said, over the past few years we've seen the disparity between the ProFarmer and NASS estimates widen and the long-term view as shown above hasn't been especially helpful. Note the charts below. The first compares the difference between the ProFarmer yield estimate for IL vs. the NASS Sep estimate, and you can see that last year ProFarmer was a whopping 21 bpa too low vs. NASS in Sep and has been way too low in each of the past three years. The second chart shows the ProFarmer estimate vs. the final NASS IL yield and again you can see that the past few years has seen a very wide divergence. Maybe ProFarmer will turn out closer this year, but I think this might be a reason to doubt that NASS is very aggressive to the downside in IL at least initially. If NASS does move to 175 bpa in Sep, as implied with the long-term regression, it would essentially equal a 0.75 bpa cut to the national average yield all else being equal (and so far most PF numbers have implied near-equal figures).





Livestock

I've been meaning to take a quick look at Australia's slaughter pace for a while but the recent headlines have definitely distracted me. The charts to the right show the latest weekly data available on Australian cattle and calf slaughter. You can see that cattle slaughter has been running easily above year ago levels. Herd liquidation continues to be the theme in Australia as the drought there just shows no signs of ending. This pace of slaughter keeps a lot of beef flowing to the market, and China has been a big destination for the beef lately. Exports to the US appear to have fallen off in the most recent data, but we'll just have to wait and see if that continues. As long as the drought continues, look for liquidation to remain the theme and for beef to be flowing out of Australia. At some point, however, we've got to reach a tipping point where the numbers for slaughter are just no longer there.



Nothing new to report on cash cattle. There were some reports of cash trade at 107/175 in the north and 105 south yesterday, though I don't get any impression we've really defined the market for the week. Beef prices are starting to show some signs of running out of gas… if that's the case we could see the packer margins (on paper) come in sharply and that might curtail interest in running slaughter capacity to the max. There were rumors yesterday of some Sunday shifts being worked out, but if margins compress I doubt there will be a ton of interest in seeing that stick around long.

Financials

The "hawkish" headlines from yesterday's FOMC minutes seemed to get the most headlines. Items like "mid cycle adjustment" were passed around and USTs broke while the dollar was slightly higher. That said, I do find an article on Bloomberg interesting. The article notes that the minutes broke down the rationale behind the rate cut into three bullet points. They were:

- To insure against further slowing of business sentiment, stemming in part from a global manufacturing slump.
- "Risk management" – or essentially perceived downside threats to the overall economy
- To reset inflation back to its 2% target.

Arguably, all three of these issues are still present today. On the inflation front, many will point out that CPI came in "hot" last month but remember the Fed believes they need to let inflation run above their 2% target at times to offset the time it spends below the 2% target. Also, forward-looking inflation measures are not looking strong. Business sentiment and the trade war have not changed since the meeting, and in fact President

Trump's 10% additional tariff announcement came the day after the Fed's last meeting. We'll just have to wait and see what Powell gives us tomorrow morning, but one could certainly make the argument that the case the FOMC minutes presented for the July rate cut is still in place today.

Some PMI numbers have been reported overnight, but of course all eyes were on Europe and specifically Germany again. The headline figures show some modest improvement, but there still isn't much there to be excited about. The German composite PMI bounced to 51.4 vs 50.9 in July, but manufacturing remained deeply in negative territory. The measure of future activity hit its lowest since Nov 2012 and employment was the lowest since Aug 2014. This should keep the ECB on track for an easing bias in their next meeting.

Energy

Crude oil futures continue to trade in a somewhat tight range. The recent downtrend in prices still seems firmly in place but the speed at which WTI rejected the push towards $50 can't be overlooked either. We're still hanging around key MAs and the current technical setup is one where I just don't have a strong feel for the next potential move. Yesterday's EIA report showed a drop in inventories, but gas/distillate inventories were higher than expected. I continue to keep an eye on gasoline inventories, as we appear to be coming out of the summer driving season with ample supplies.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- Markit PMI – 8:45am
- EIA Natural Gas Storage – 9:30am
- Cold Storage – 2:00pm

Thanks for reading.

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

referred to in this commentary.

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