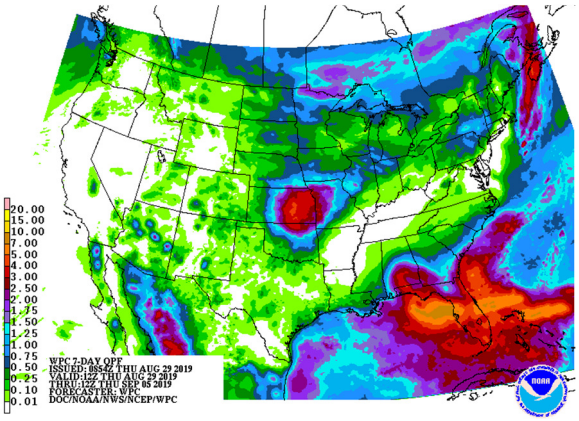
NESVICK
TRADING GROUP, LLC

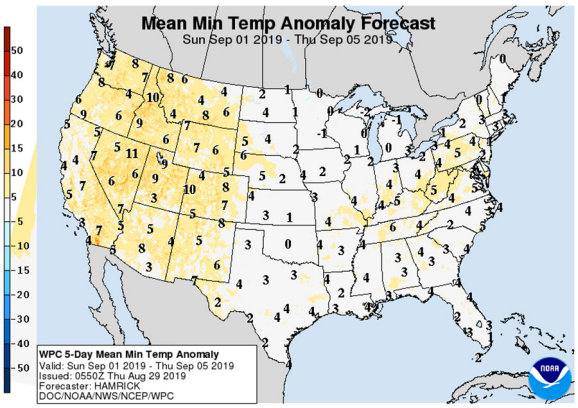
Thursday, August 29, 2019
NTG Morning Comments
www.nesvick.com

Weather

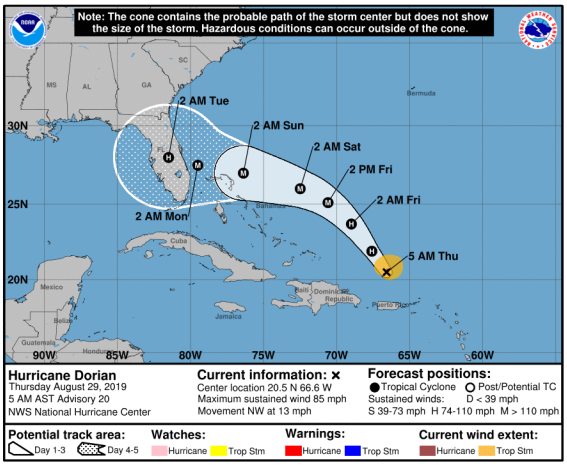
No major changes to the forecast overnight. We have some light showers on the radar this morning but nothing major. We should see showers increase in KS, NE, MO, IA tonight and into tomorrow, pushing into the ECB during the weekend. Mostly dry conditions will return early next week but there will be chances for showers on a "random" basis during much of next week. The pattern should remain active with ongoing precipitation chances all the way through the 11-15 day period. This doesn't mean widespread heavy rainfall, but it does mean that there will be at least *chances* for rain in most of the Corn Belt going forward. The best chances probably favor western areas vs. the east.



The outlook on temps has shifted slightly warmer in the deferred maps. No AN temps seen anywhere in the two week forecast, but the 6-10 and 11-15 day periods look less BN than they did earlier in the week. Our friend Craig Solberg notes- "Rest assured that the pattern is nowhere close to indicating anything close to freezing temperatures for any part of the region (Northern Plains) through at least September 12, and we may see readings go to more normal levels as the 11-15 day period finishes up."



No major changes to the outlook on Dorian. It is now a Cat-1 hurricane but is expected to be Cat-3 by the time it makes landfall in FL Sunday night. Still some debate on whether it moves north from FL or goes back into the Gulf, but for now most believe it will move north. It is expected to slow down considerably after making landfall, meaning it could be dumping a lot of rain on FL.



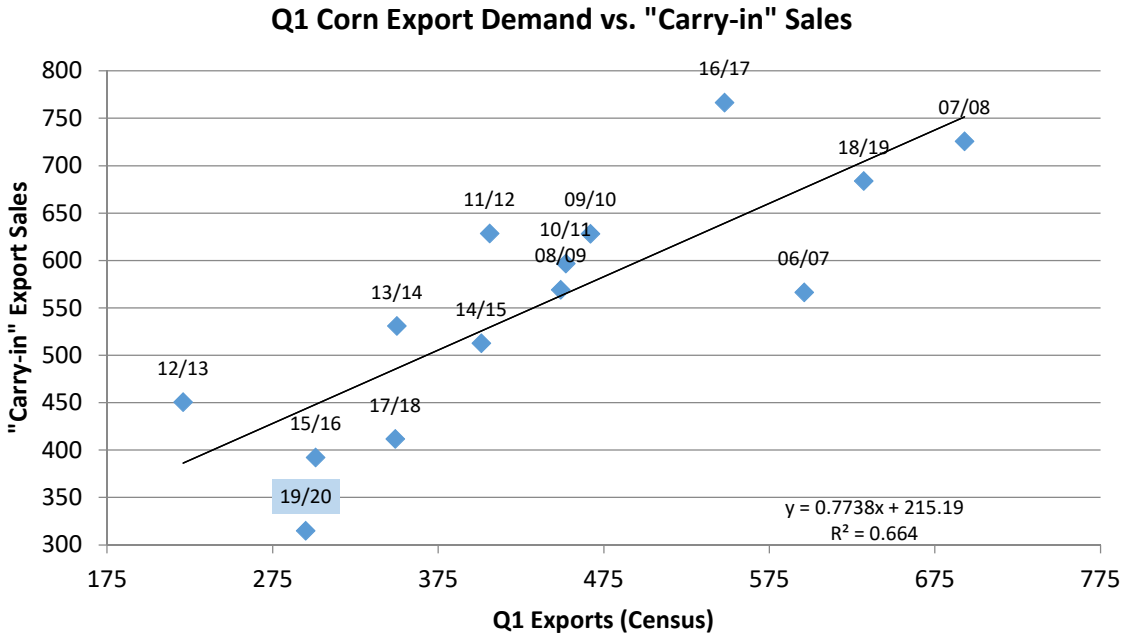
Crops

I want to take a similar look at the SON corn balance sheet like we did with soybean yesterday. I've got a lot of feedback on the commentary so far this week, so please keep that coming.

We'll again be using USDA's latest production figure in our assumptions, though I know most of you believe that estimate to be too large. We're using a slightly larger 18/19 ending stocks figure of 2,400 mil bu. Looking at demand, feed and residual and FSI consumption are both much more opaque than the demand figures we were looking at yesterday in soybeans. There is a lot more wiggle room in both of those figures, but we can make some overall assumptions:

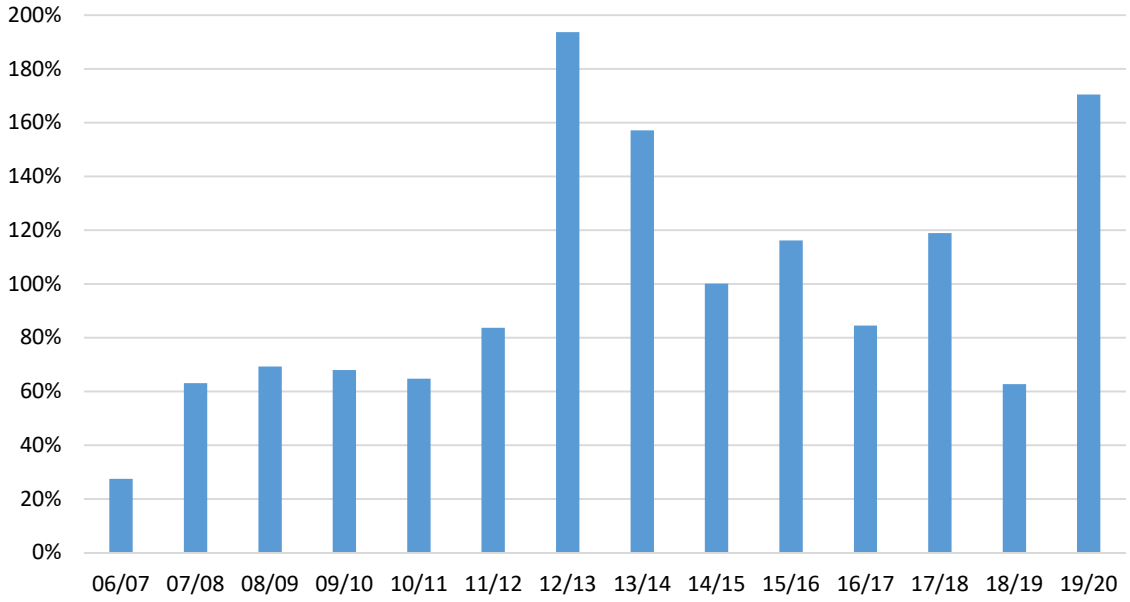
- The likelihood for a delayed 2019 harvest could increase Q4 18/19 F&R but could weigh on Q1 19/20 F&R. Likely strong wheat feeding activity should weigh on both quarters' demand figures.
- Ethanol production margins are not dramatically different from where they stood during the same timeframe last year. I can perhaps optimistically assume something slightly larger YOY in terms of ethanol production, but nothing huge.

As is the case with soybeans, the level of "carry-in" sales is usually a pretty decent indicator of what to expect on Q1 exports. To put it bluntly, current outstanding export sales for corn look abysmal, and we could be looking at the lowest carry-in sales in at least the past decade. Right now I'm assuming roughly 8 mmt of carry-in sales, but based on the recent pace of sales that might even prove optimistic. I am going to assume US SON exports of roughly 300 mil bu, which sounds low but when you look at the scatter below it would actually seem somewhat optimistic. Keep in mind that US export competitiveness has actually *decreased* despite the big break in futures prices since early summer.



Keep in mind that the Delta corn harvest, as we saw with soybeans yesterday, should make up a very big amount relative to this Q1 export demand. You can see below that AR, LA, MS, TN production should actually exceed Q1 total exports. That isn't unprecedented, but it also isn't entirely common. Even in 15/16, where export demand was comparably bad to what I expect to see this year, the Delta crop was not nearly as big as what is expected this year.

Combined AR, LA, MS, TN Corn Production at % of Q1 Exports



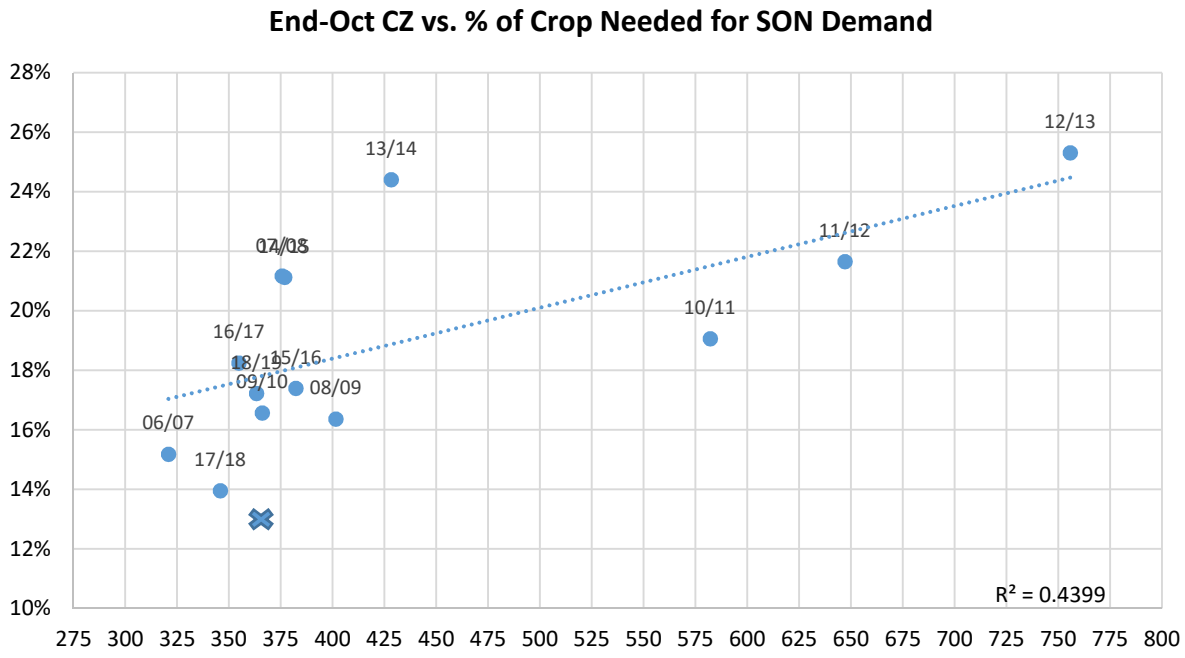
So if you plug in demand expectations as described above into a Q1 balance sheet, it would look like this:

US Corn Quarterly Supply and Demand														
	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	**19/20**
Carryin (Sep 1)	1,967	1,304	1,624	1,673	1,708	1,128	989	821	1,232	1,731	1,737	2,293	2,140	**2,400**
Production	10,531	13,038	12,043	13,067	12,425	12,314	10,755	13,829	14,216	13,602	15,148	14,604	14,420	**13,901**
Sep-Nov Imports	1	2	3	1	5	4	35	15	5	13	14	11	6	**8**
Total Supply	12,499	14,344	13,670	14,741	14,138	13,446	11,779	14,665	15,453	15,346	16,899	16,908	16,567	**16,309**
Sep-Nov														
Feed & Residual	2,159	2,387	1,930	1,993	2,047	1,781	2,060	2,312	2,225	2,178	2,279	2,248	2,286	**2,192**
Food/Seed/Ind	811	986	1,219	1,380	1,582	1,612	1,466	1,550	1,615	1,631	1,689	1,744	1,712	**1,725**
Exports	596	693	449	467	452	406	221	350	401	301	548	349	632	**295**
Total Use	3,567	4,066	3,598	3,839	4,082	3,799	3,746	4,212	4,241	4,111	4,516	4,342	4,630	**4,212**
Stocks (Dec 1)	8,933	10,278	10,072	10,902	10,057	9,647	8,033	10,453	11,212	11,235	12,383	12,567	11,937	**12,097**
Needed Sales	1,599	2,760	1,971	2,165	2,369	2,667	2,722	3,376	3,004	2,367	2,765	2,038	2,484	**1,812**
Needed/Use	45%	68%	55%	56%	58%	70%	73%	80%	71%	58%	61%	47%	54%	**43%**
Needed/Crop	15%	21%	16%	17%	19%	22%	25%	24%	21%	17%	18%	14%	17%	**13%**

Again I want to focus on the bottom line, which calculates what we need out of new crop production to meet Q1 demand assuming we use up all old crop ending stocks first. While not as extreme as what we saw yesterday in soybeans, this is still the lowest percentage needed in the timeframe shown. And even if I were to take the ProFarmer production figure, it would move from 13% to 14%...not necessarily a game-changer for this specific variable.

Is this % of crop needed variable a decent indicator of what to expect for CZ? Unfortunately, it is not quite as helpful as what was shown yesterday in soybeans (and admittedly even that is debatable). The chart is shown below, and you can see that this is not necessarily especially helpful. That said, you can see there is a general

bias that the more we need of the crop in Q1 the stronger the performance of CZ. The X marks the spot for my assumptions this year vs. current price.



I guess my key takeaway here is the demand pull in Q1 for corn is likely to be relatively "soft". Some have made the argument that futures should be supported by the notion that the potential crop shortfall will be in the ECB which feeds the river (delivery) system, but I wonder if the expected size of the Delta crop (relative to demand) is an offsetting factor? Thoughts appreciated.

Livestock

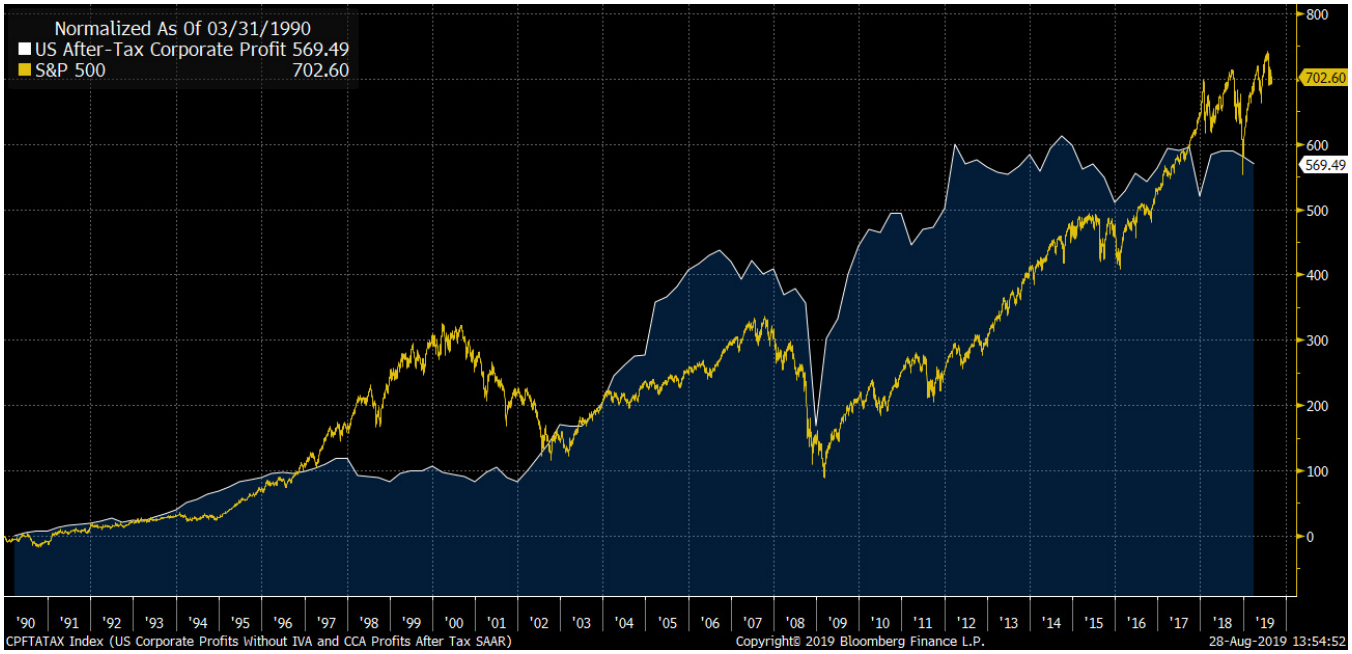
The most interesting headline from yesterday is word the USDA will be investigating beef/cattle pricing following the TSN fire earlier this month. I don't have any color to add on it…but it will certainly be interesting to see what they find. Otherwise, I once again have little new information to report this morning. We've seen some limited volume cash cattle trade this week, with the trend seemingly lower as the week has progressed. Beef prices have moved sharply lower as well, though perhaps it is an encouraging sign to see that load counts have improved as prices have come down. Speaking of lower prices, the pork cutout continues to get hammered here. The cutout ex-bellies is especially weak. Bellies are soft too but they're holding together better than the remainder of the cutout. On tap today is carcass weights. IF we're backing up supplies like the market seems to be pricing, we should start to see this show up in weights. Maybe not quite this soon…but something to think about.

Financials

US equity futures are zooming higher on news that China will not retaliate against the newest tariffs announced by the Trump administration….for now. Keep in mind that this does not change anything about the Sep 1 new tariffs either side has already announced. Those are still scheduled to go into effect over the weekend. All the

Chinese side is saying is they don't have immediate plans to announce anything new…for now. The simple truth is their latest tariffs were largely symbolic as they already weren't buying much of the products on which they increased tariffs. There aren't many more products they can add tariffs to either. They're going to have to find another non-tariff related way to retaliate going forward, and that's probably all this is – an admission they have to think about what their next steps will be. The Chinese officials did claim that there could still be face-to-face meetings at some point in Sep…and why not? Despite the "softer" tone overnight, the fact remains that both sides are entrenched in their positions. This is not going away nor is it improving.

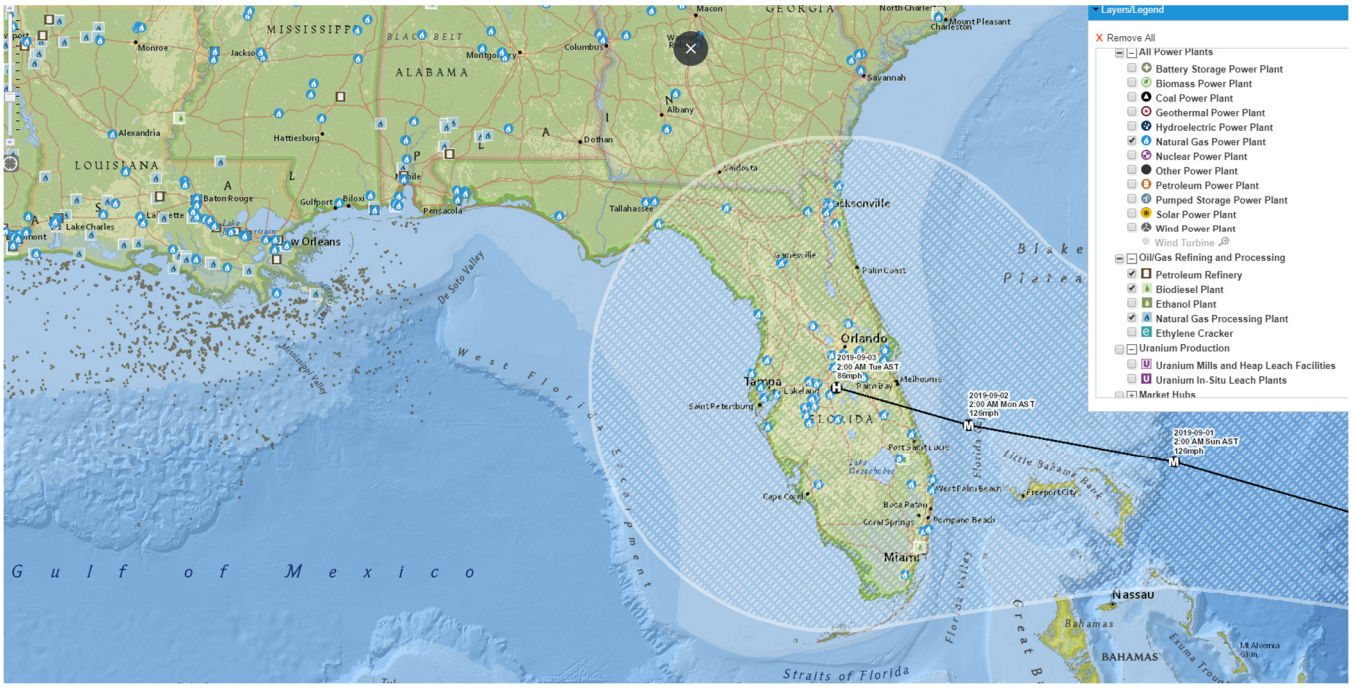
An interesting chart that was passed my way earlier in the week. This compares US after-tax corporate profits vs. the S&P 500. In this chart, I'm merely tracking the % gain of both US corporate profits and the overall S&P 500 index since the start of 1990. You can see these two typically have trended together over time, but note there are two instances where the S&P 500 outpaced corporate profit growth. One such instance was in the late 90s and the other is happening right now. US corporate profit growth flatlined for a few years in the late 90s even as equities continued to march higher. We all know what eventually happened then…equity markets corrected lower in the early 00s. The two measures have since tracked fairly closely together, but again we're now seeing US corporate profit growth flatline while the S&P continues to track higher. Is this another such situation where equities will correct lower or will corporate profit growth improve?



Energy

Hurricane Dorian isn't anything to be necessarily concerned with in terms of oil/gas infrastructure… for now. The map below shows the storm forecast vs. US oil platforms, refineries, and natural gas processing sites. FL is not much of a hotbed for that activity, so for now this isn't going to play a role in oil/gas price action. Most forecast models show the storm moving north from FL, but there are some forecast models that continue to track it west back into the Gulf which would potentially allow it to regain strength. It would also potentially put it a lot closer to the major infrastructure shown on the map below. Don't let this sneak up on you over the long

weekend if you've got oil/gas positions on… Oh, one thing to be aware of for FL…the current forecast path takes it almost on a direct course through a heavy concentration of natural gas fueled power plants in the state. Loss of electricity in the state could actually reduce demand for natural gas temporarily.



Today's Calendar (all times Central)

- GDP – 7:30am
- Export Sales – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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

DISCLAIMER:
This communication is a solicitation for entering into derivatives transactions. It is for clients, affiliates, and associates of Nesvick Trading Group, LLC only. The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. These materials represent the opinions and viewpoints of the

author and do not necessarily reflect the opinions or trading strategies of Nesvick Trading Group LLC and its subsidiaries. Nesvick Trading Group, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such.

Officers, employees, and affiliates of Nesvick Trading Group, LLC may or may not, from time to time, have long or short positions in, and buy or sell, the securities and derivatives (for their own account or others), if any, referred to in this commentary.

There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. Nesvick Trading Group LLC is not responsible for any redistribution of this material by third parties or any trading decision taken by persons not intended to view this material.