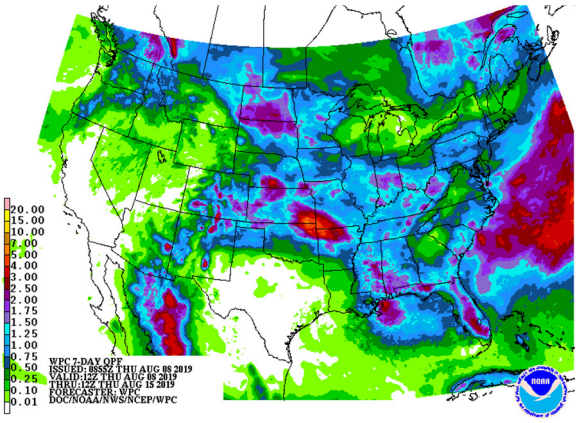
NESVICK TRADING GROUP, LLC

Thursday, August 8, 2019
NTG Morning Comments
www.nesvick.com

Weather

7-day QPF shown at right. For the majority of the Corn Belt, look for mostly dry conditions through Sunday. The exception will be southern and southwestern areas. You can see significant rains moving through KS this morning, for example. Rainfall chances through the heart of the Corn Belt will be best on Sun/Mon. As usual, the map at the right is probably overstating coverage of the rains, but it should be a situation where just about everyone in the Corn Belt has a shot at precipitation. Look for slightly cooler temps through the weekend with warmer temps (but not "hot") again next week.

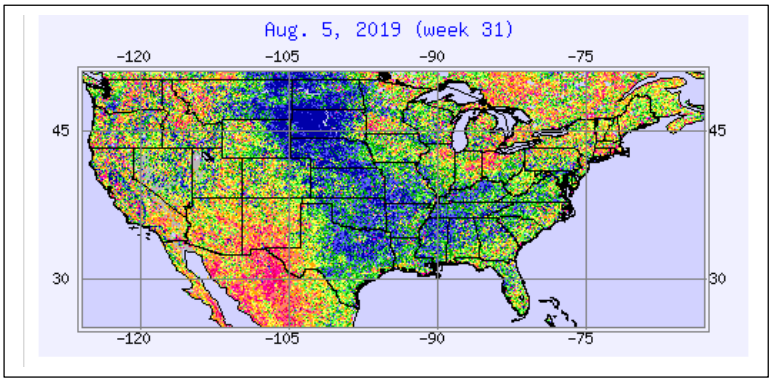


Crops

I had originally planned to discuss balance sheet prospects again this morning but it dawned on me that some additional commentary on production would be appropriate first.

As you recall from my reports on Mon/Tues, I am not as negative to the yield corn/soy numbers as most seem to be. In my opinion, the most important item to track heading into Monday's report, as it pertains to yield anyway, is the condition rating. And, as described on Monday, in my opinion the latest condition rating indicates to me that there is a good chance NASS's corn yield estimate proves *higher* than WASDE's prior guess. I will *conservatively* assume a 168 bpa national average corn yield on Monday. I will say the same with soybeans, and I personally am going to assume a 49 bpa national average soybean yield. I would again point out that I'm *trying* to be conservative with that figure.

A quick note on some conversations held around the office here over the past few days. It has been noted that, without objective yield data, NASS will be relying more heavily on satellite imagery in their yield calculations. I would like to point out this is not necessarily new. Last August NASS had 1) Farmer survey, 2) Objective yield data, and 3) Satellite imagery. This year, as many mathematically astute observers point out, we're now looking at 50% farmer survey and 50% satellite imagery for yield inputs. The concern is, with a NDVI that looks something like the picture shown, this will lead NASS to cut their yield estimate substantially more than conditions themselves would otherwise imply (due mainly to the light colored areas in ECB and some portions of MN/SD/etc). At the risk of being proven wrong (what else is new?) I would advise a great deal of caution against being overly concerned by an outsized impact of satellite imagery next week. I say this mainly because, in my opinion, the "weak spots" in the satellite pictures right now are most likely to be areas that are the hardest hit by prevent plant area. Those areas are naturally not going to have the same look on the satellite as they would in a "normal" year. While that might influence NASS's acreage discussion, I think NASS is smart enough to know that NDVI and other satellite readings

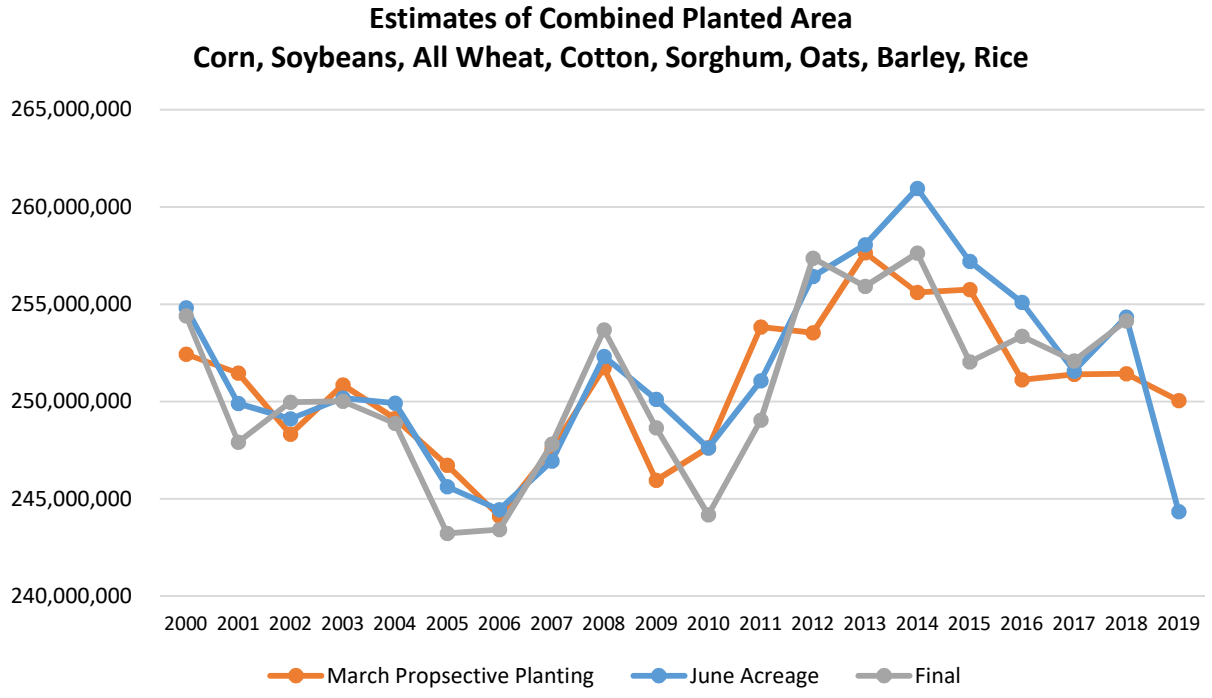


will potentially understate yield potential for crops that have been planted in those areas and thus, I don't think the satellite images will have an outsized influence on the yield calculation.

On to the stickier subject of acres. I'm not sure where to start. The truth is – nobody knows anything. We can all point towards precip maps and planting progress and what Big Uncle Al from said in an email. All that is fine and well, but there is only one group on Earth that possesses the ability to compile detailed information on acreage across all of the US. Guess what – that group already gave us their best estimate on June 28. Their numbers sparked "outrage" in the market – "how could they be so wrong?" If you recall in commentary dated 7/1/19 following the report I basically said everyone should pump the brakes on the "USDA is dumb" narrative. For starters, as I've pointed out before, we got the overall acreage cut that we were looking for just not in the area we were looking. I've shown the breakdown here several times before, but I think it is worth repeating one last time. NASS gave us a bigger than expected overall drop in acreage…so why the outrage by market participants?

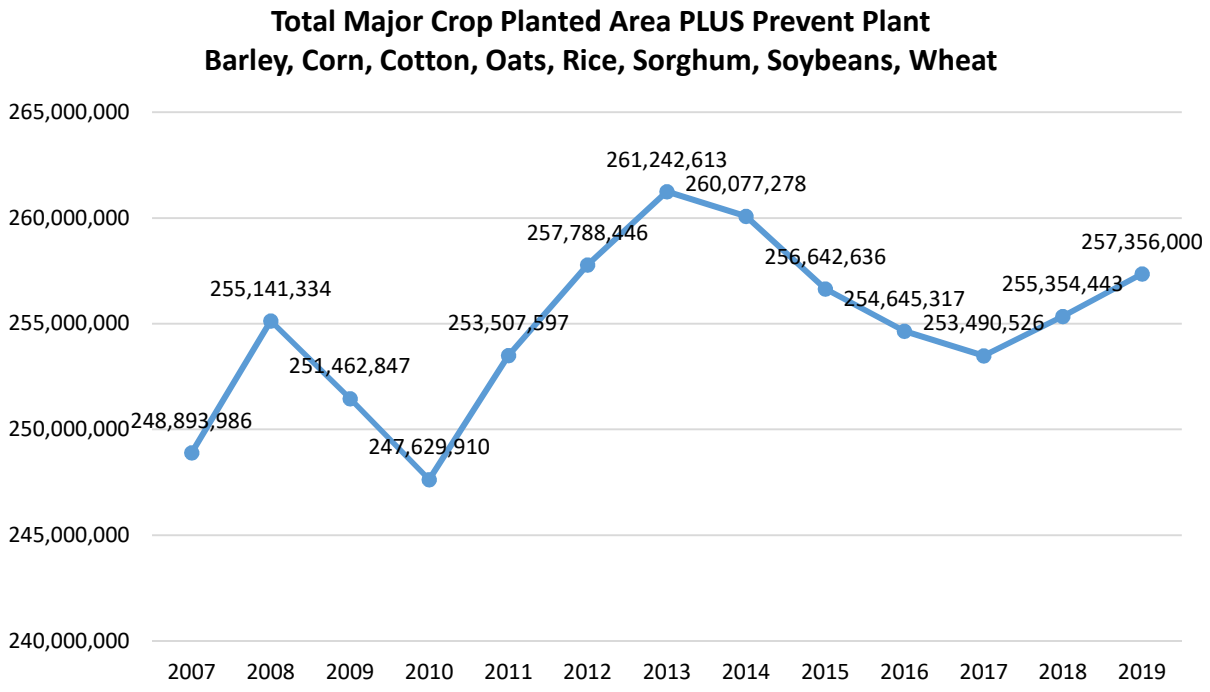
	March Intentions	Bloomberg Survey	Net Difference	Actual June	Net Difference
Corn	92,790	87,030	(5,760)	91,700	(1,090)
Soybeans	84,620	84,680	60	80,040	(4,580)
Spring Wheat	12,830	12,590	(240)	12,430	(400)
Cotton	13,780	13,740	(40)	13,720	(60)
Total	204,020	198,040	(5,980)	197,890	(6,130)

In fairness, I suppose a modest bit of outrage was appropriate. Not for the June acreage numbers, but rather for the March figures. The chart below shows a breakdown of major crop planted area over the past several years. You can see the orange line is the history of the March Prospective Planting figures and the 2019 figure was the lowest since 2010. It now seems fairly obvious that March figure was understated significantly, as it was already 4 million acres below the 2018 final. Considering we had about 1.2 million acres of PP across major crops in 2018 (a below average amount) you could argue that NASS already implied 5 million acres of PP in March.



So, if you believe that…and then if you account for additional 6 million acre reduction in the June report… one could make the argument that NASS is already accounting for 11 million acres of PP. How much more is there to go? Certainly this year has been unprecedented in terms of a wet spring, so I can't argue against a record amount of PP. My database on PP numbers is not exhaustive, but the biggest I see going back to only 2007 is a total of roughly 9.6 million in 2011. I've seen several newswires and articles suggesting "talk" of PP acres totaling 13 million…though I'm not sure where anyone is getting that information. Some have argued that would mean a total of 7 million less acres than the June number (following June's -6 mil) but taking our assumption on the implications from the March number into account we could make the argument that it would only mean 2 million less acres vs. June. The average guess on corn area calls for a reduction of roughly 4 million and in soybeans an increase of roughly 1 million for a net reduction of 3 million. I guess you could say I'm not too far off from consensus in that case.

For fun, I thought it might be helpful to look at total planted area combined with total prevent plant area over the past several years. In theory, by adding the two together, you're getting a picture of "everything" available to plant for a year. That chart is shown below. For 2019, I'm taking the June Acreage report numbers and adding our presumed 13 million acre prevent plant total to it. I find it interesting that the implication is that this year's total "possible" acreage would be near levels not seen since the "boom days" of '12-'14. Especially considering wheat area is so much lower than it was at that time. That wheat area has largely been shifted to soybeans over the years, but still interesting.

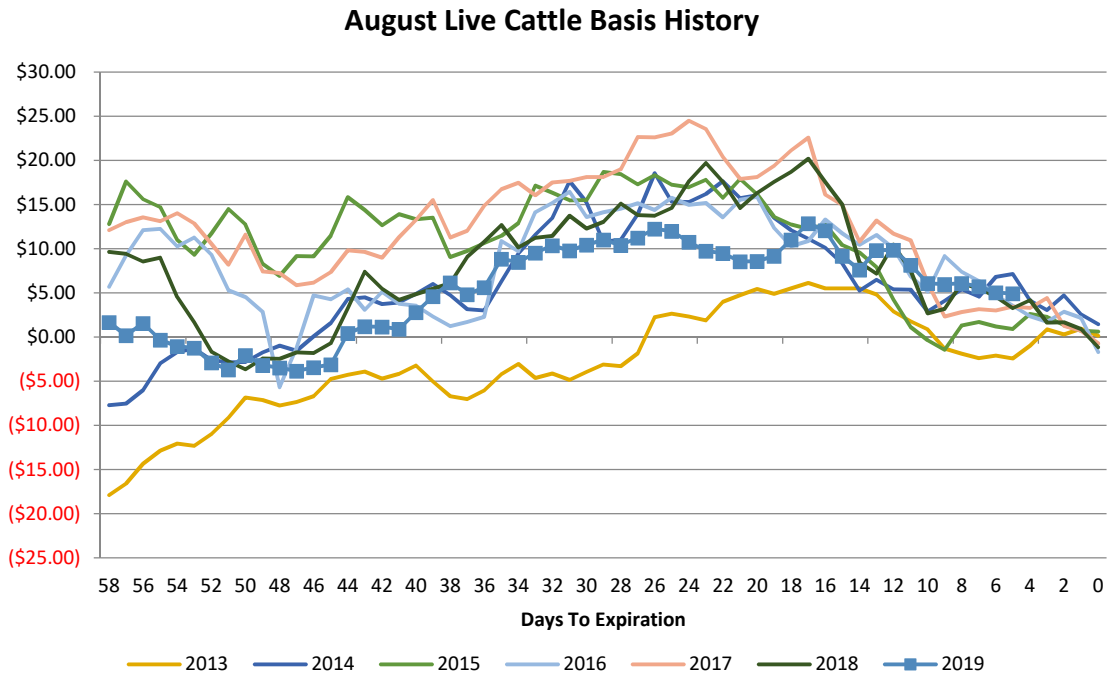


I guess my "official" call is for a 2 million acre reduction vs. the June figure. I'm going to stick all of the loss to corn in my assumption…so call corn planted area 89.7 million vs. 91.7 previously. I'll leave soybeans unchanged at 80 million. Still, based on all of the above I have this lingering thought – *could planted area be higher?*

We'll look at corn and soybean balance sheets tomorrow.

Livestock

We haven't looked at cattle basis in a while and with only limited cash trade so far this week I figured it might be a good spot to get a refresher. The chart below shows the history of August basis. You can see that this year remains relatively wide – not necessarily eye-poppin wide but certainly wider than usual. In theory, this sort of basis should promote active marketing of hedged cattle, but so far cash trade has been pretty slow to develop. Twitter yesterday reported bids of 109 south and offers of 113. I have heard of some small 114 trade north. Not much else to report right now.



On tap today are export sales. That never used to be a major market mover but of course these days it certainly can be. Tonight China will update their CPI numbers, and food/pork inflation numbers are something we'll be watching very closely.

Financials

A much calmer feel to the markets this morning. It all seemed to start yesterday afternoon after a disappointing 10-year Treasury auction took some of the wind out of the sails of the bond market. We've seen bonds correct further lower overnight, and equity markets are trading higher. The CNY is still hovering around the 7.0 level, but I suppose the steadiness of the currency is allowing the market to take a deep breath here for a moment. Gold and silver are also both posting modest corrections this morning. It'll be interesting to see if these

corrections in gold, silver, and bonds turn into something larger. Note that Italian bonds are getting sold off aggressively this morning as it appears another government shake-up could be coming.

No major new information this morning to pass along, so we'll just keep it short here today. No major economic releases today, though we do have a 30-year auction this afternoon so following yesterday's 10-year performance that will be worth keeping an eye on. Otherwise, just business as usual today…

Energy

Crude oil futures are trading sharply higher at the time of writing this morning, though of course this follows yesterday's aggressive sell-off. The main headline that allowed the market to stabilize yesterday was word that Saudi officials were talking with other oil producers on ways they could slow or halt the price decline. Of course the Saudis are already producing lower than their agreed-upon production quota, and yet here we sit with WTI hovering just above the $50 level. If US inventories have stabilized and if tensions don't reignite in the Persian Gulf, I'm not sure what more the Saudis can or want to do here. I'm sure they're not interested in giving up more market share by cutting production even further. The next meeting of the OPEC+ group will come early next month, which might be interesting if oil prices continue to trade poorly.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am
- 30Y Auction – 12:00pm

Thanks for reading.

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