NESVICK
TRADING GROUP, LLC

Tuesday, September 10, 2019
NTG Morning Comments
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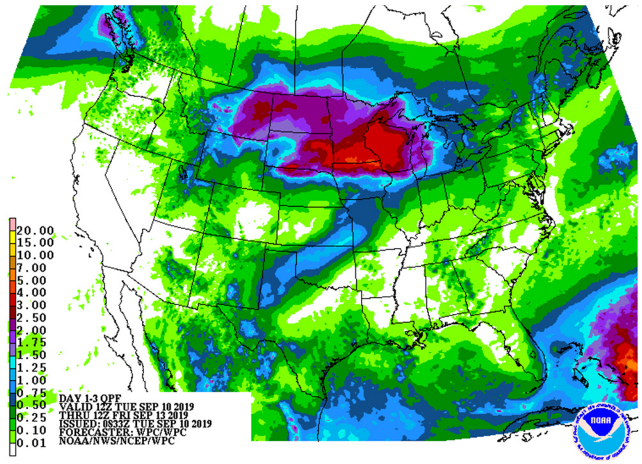
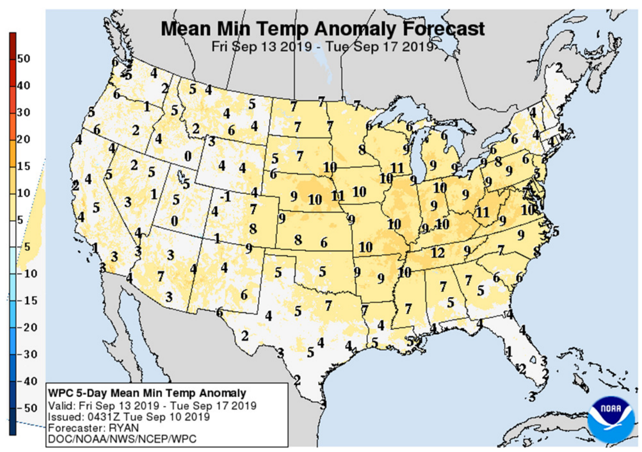
Weather

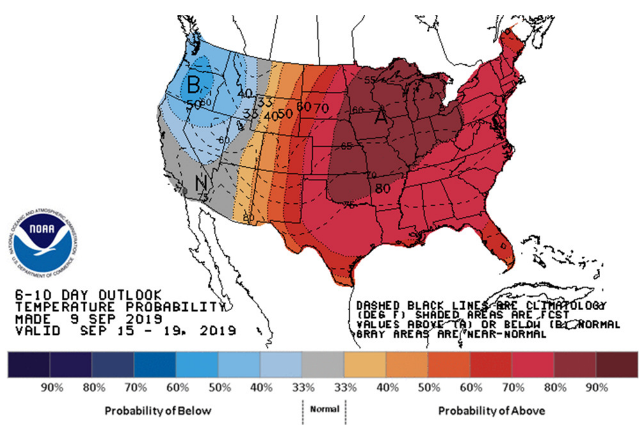


The QPF to the right shows days 1-3 of the forecast, which is when the large majority of expected precipitation will fall this week. You can see at the right that very big rainfall totals will be expected in northern portions of the Corn Belt. The map is probably overstating amounts a little, but make no mistake there will be big totals. You can also see that there is a sharp line of limited rainfall in the southeastern Corn Belt. Look for the rainfall to start to clear out by early Friday and the next several days beyond that should feature mostly dry weather. We will have additional rainfall chances in the 6-10 and 11-15 day periods, with rainfall totals at those times averaging near normal.



No change to the outlook on temps. We will see a few days of cool temps with some 40s and possibly even upper 30s possible in extreme northern portions of the country. Beyond the next few days, however, the pattern looks like it features almost entirely AN temps. Note the map at the right showing expected anomalies for minimum temps during the Day 3-7 period. Min temps will be 7-10F above normal through a wide portion of the Corn Belt. For now the forecast maps are showing no signs of frost or freeze anywhere in the Corn Bel through Sep 24 (and probably longer).

Crops



We're still looking at expectations for balance sheets and today we'll look at soybeans. There is a lot of potential for change in the old crop balance sheet. If you recall, I was surprised last month with the limited movement in their demand figures. This month I think they'll have to make some significant adjustments…starting with exports. Last month I don't know what they were thinking by leaving their projection alone. This month they very obviously "have to" post an increase. Sep-Jul Census exports total roughly 1,565 mb and Aug inspections appear on track to set a new record high for the month. I'm personally penciling an estimate of roughly 180 mb for Aug exports. I don't know if WASDE will be quite as aggressive with raising their export projection, but it is clear they have to do something.

It also appears WASDE was premature in lowering their crush projection last month. The July crush turned out much larger than we were anticipating at that time and it appears likely the Aug crush will prove to be solid as well. Again it appears WASDE "has to" do something this week, it remains a question of how much. I doubt WASDE will try to outguess the Aug crush number before we have anything from NOPA, but I think a 15+ mb increase vs. last month would seem reasonable.

Just like we discussed with corn yesterday, the main influencer for the new crop balance sheet will of course be production. Again, I am more optimistic than most and I expect very little change in the production figure. For the sake of argument, in my baseline assumption below I'm lowering the yield by 0.5 bpa but that is still easily above consensus expectations. If my assumption is correct, I would doubt WASDE would make many changes to their demand figures. I think they should lower their export projection slightly, but I admit that is a 50-50 call at this point. With new crush capacity set to come online next year, I think it remains a good bet they keep their crush projection showing a decent YOY gain.

My baseline assumptions are shown in the blue columns below. You can see that my old crop ending stocks figure is actually smaller than the consensus guess. My new crop ending stocks estimate is a bit larger than the average guess but this is very clearly due to my bigger than expected production figure. I've again added another column (pink) showing a breakdown of what I would think is likely if the consensus expectation for production is proven correct. You can see that with that lower production figure I would find myself pretty close to the average guess on ending stocks as I would expect WASDE to more aggressively slash exports with lower production.

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

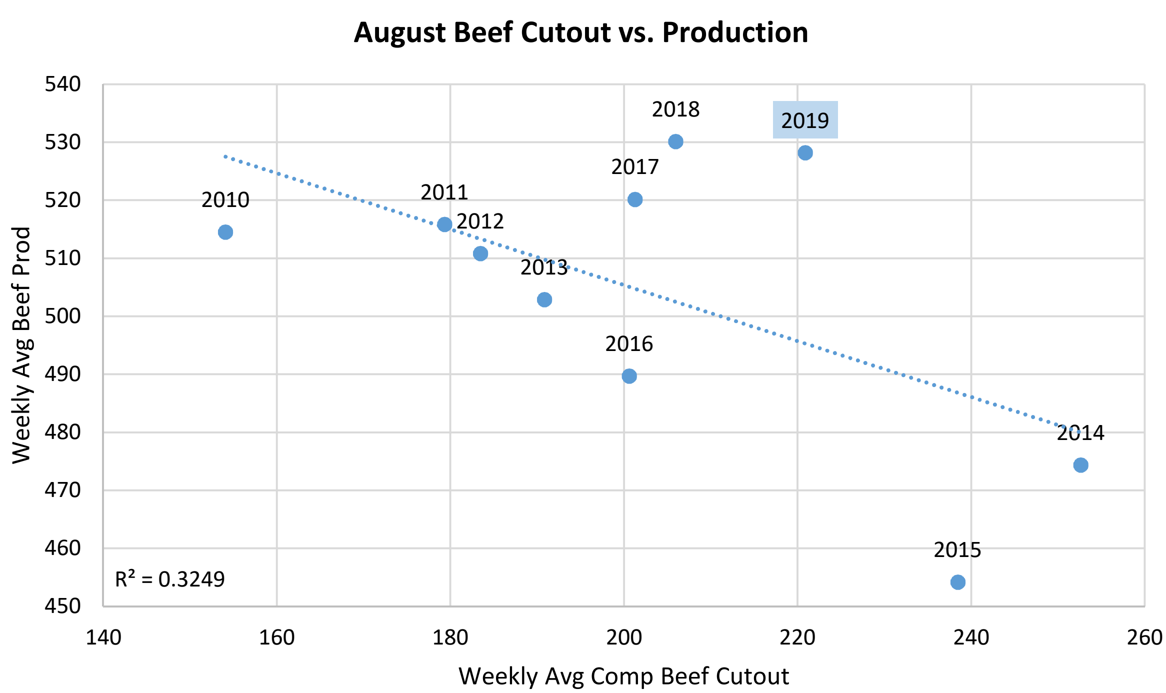
	USDA 15/16	USDA 16/17	USDA 17/18	**USDA 18/19 Aug**	POSSIBLE? 18/19	**USDA 19/20 Aug**	POSSIBLE? 19/20	Expected Production
Planted Acres	82.7	83.4	90.1	**89.2**	**89.2**	**76.7**	**76.7**	**76.7**
Harvested Acres	81.7	82.7	89.5	**88.1**	**88.1**	**75.9**	**75.9**	**75.9**
Abandoned Acres	1.0	0.7	0.6	**1.1**	**1.1**	**0.8**	**0.8**	**0.8**
Yield	48.0	52.0	49.3	**51.6**	**51.6**	**48.5**	**48.0**	**47.1**
Carryin (Sep 1)	191	197	302	**438**	**438**	**1,070**	**1,013**	**1,013**
Production	3,926	4,296	4,411	**4,544**	**4,544**	**3,680**	**3,643**	**3,581**
Imports	24	22	22	**17**	**15**	**20**	**20**	**20**
Total Supply	4,140	4,515	4,734	**4,999**	**4,997**	**4,771**	**4,676**	**4,614**
Crush	1,886	1,899	2,055	**2,065**	**2,080**	**2,115**	**2,115**	**2,115**
Exports (Census)	1,936	2,174	2,129	**1,700**	**1,740**	**1,775**	**1,750**	**1,725**
Seed	97	105	104	**89**	**89**	**96**	**96**	**96**
Residual	24	36	8	**75**	**75**	**30**	**30**	**30**
Total Use	3,943	4,213	4,296	**3,929**	**3,984**	**4,016**	**3,991**	**3,966**
Carryout (Aug 31)	197	302	438	**1,070**	**1,013**	**755**	**685**	**648**
Stocks/Use	5.0%	7.2%	10.2%	**27.2%**	**25.4%**	**18.8%**	**17.2%**	**16.3%**

Livestock

You might have already seen the headlines, but overnight China reported inflation data for August. Pork price inflation was posted at **+46.7% YOY**. Obviously that doesn't come as a big surprise to us as we've been tracking that data fairly closely recently, but still it is nice to see an official confirmation in the inflation figures. Overall

China food CPI was posted +10% YOY, which would seemingly imply that pork is having a smaller role in the official statistics (surprise – China doesn't release its breakdown on CPI inputs). After the CPI data release the government said it will hold a press conference tonight/tomorrow on "stabilizing hog production and ensuring market supply".

Beef prices were extremely strong during the month of August, as you are certainly aware. They've lost some of the post-fire surge but they haven't completed the round-trip back to levels seen before the fire. What I find interesting from the beef price strength is that beef production in August didn't appear to be severely curtailed despite the fire. Though we don't have full official slaughter data for August, if we plug in the latest estimated beef production figure and compare it against cutout prices during the month, you get a chart like what we have below. The 2019 Aug comp beef cutout clearly looks overvalued relative to the pace of production during the month. Then again, you can also see this is something that is looking more like a "new normal" as 2017 and 2018 cutout values were also "elevated" vs what we would normally expect in the past compared to production rates. Still, despite the "new normal" it certainly seems to me like beef prices will have a very hard time maintaining current levels IF production rates continue to show limited impact from the lost plant capacity.



Yesterday I asked what might change the sentiment of the index trader in livestock sector. I don't know if I'm any closer to an answer, but the look of the long term continuation chart in LC certainly has to be a concern. Below I show the weekly spot continuation chart for LC. You can see we've broken what might have been trendline support near the 100 level. With spot LCV trading a little under 94 at the close yesterday, we are now also looking at taking out that support level indicated by the white horizontal line as well. While I wouldn't say the fundamentals justify it, the chart would seem to imply that a test of the 80 level could be possible. Again, that isn't something I'm betting on but the point here is the LC chart looks atrocious.

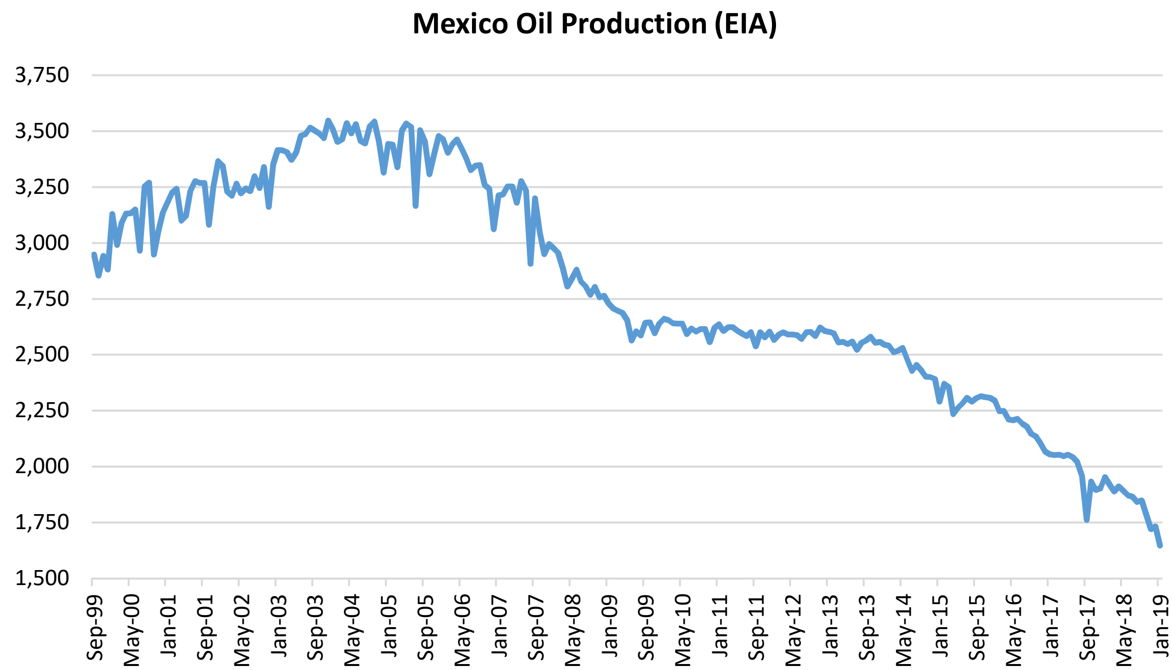
Financials

One interesting tidbit worth pointing out is that economic data here in the US has certainly taken a turn for the better in recent weeks/months. The chart to the right shows the Citi economic surprise index for the US. With the recent string of solid data releases, the index has turned positive for the first time since February. This is interesting timing for such solid improvement with the Fed set to debate the case for another rate cut next week. The sharp recent improvement is certainly part of the reason behind the bounce in bond yields here. The second chart at the right shows the Citi global surprise index. The index here is still slightly negative but again you can see it has posted a very sharp improvement over the past several weeks. Though I don't have it pictured, even Eurozone data has improved over the past few weeks. The ECB is due to announce additional stimulus measures this week despite the improvement in data.

I don't see any major new information to pass along this morning. UK PM Johnson lost another bid to hold a snap election which means he essentially "has to" try to reach a deal with EU authorities. Of course Parliament has already rejected the only deal the EU says they're going to offer several times, so I'm not exactly sure what he is expected to do here.

Energy

We mentioned yesterday that the Saudis are desperate for a higher oil price in order to balance their budget. They are not alone in the world of oil producers looking to "cash in" on oil production. This past week, Mexican President AMLO proposed a budget to Congress that called for about a 17% increase in oil production vs. current levels in an effort to keep the budget balanced. The only problem with that plan is that Mexican oil production has been in decline since 2004 (chart below). Admittedly, the proposed budget would simply require production to bounce back near the 2 mbpd level, which was seen as recently as 2017. Still, I'm not sure what makes them think they can reverse this trend in production suddenly. If they are successful, it will be interesting as that will mean North America is producing yet more oil while OPEC and others continue to limit production in an effort to support prices.



Today's Calendar (all times Central)

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

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684
Trillian IM: dzelinski@nesvick.com