NESVICK
TRADING GROUP, LLC

Thursday, September 5, 2019
NTG Morning Comments
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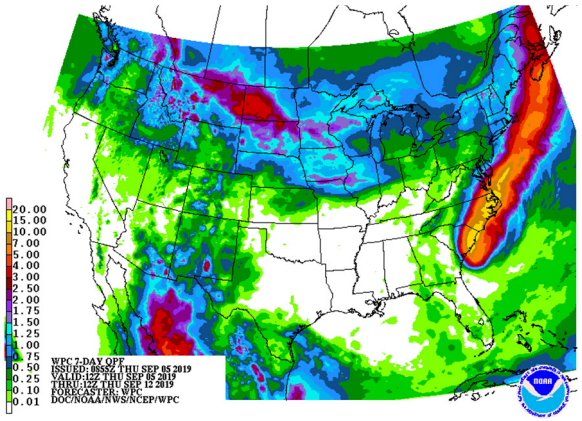
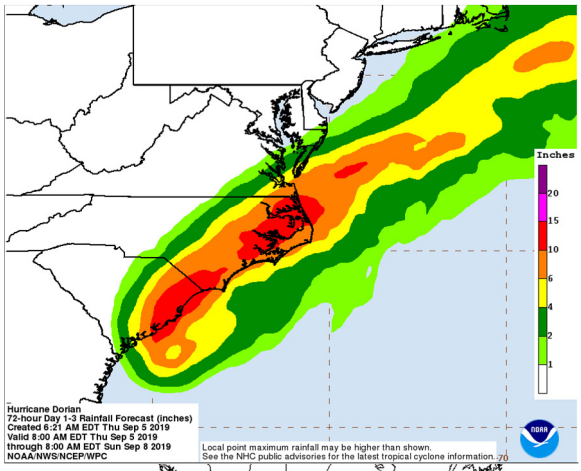
Weather

No big changes to report on the forecast. Today and tomorrow should be mostly dry through the Corn Belt before showers start to work their way into northern areas and gradually spread over the next several days beyond that. The 7-day QPF is shown to the right. As usual, you can probably expect coverage of rainfall to be less than shown but the types of amounts shown are probably going to be pretty accurate. There will continue to be chances for rainfall in the Corn Belt into the 6-10 and 11-15 day periods. In both cases, it is likely that the best amounts and coverage will favor western and northwestern portions of the region. Southeastern portions of the Corn Belt will likely be short-changed on precipitation.



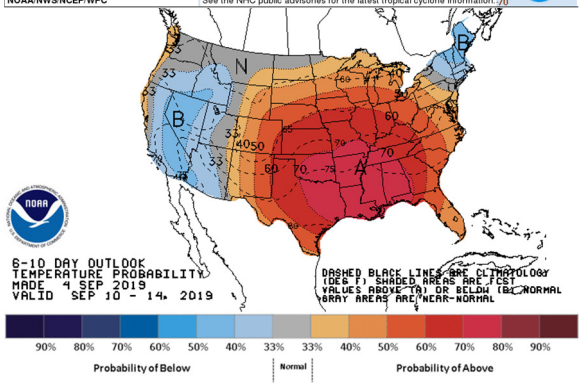
The map at the immediate right zooms in for the precipitation outlook from Hurricane Dorian. And most of that will be falling within the next 24 hours.



There is no sign of frost/freeze conditions for the northern Corn Belt at any point in the forecast through Sep 19 (and probably beyond). There might be a chance for seeing some very spotty upper 30s in extreme northern portions of the country on Sunday morning but nothing that comes close to freezing.

Crops

Today I'm going to stir the hornets' nest and discuss prospects for the national average corn yield in next week's Crop Production report. It seems a lot of people are taking USDA projections much more personally this year than usual. Just keep in mind these are my best guesses for what to expect from USDA next week and are simply based on past tendencies from NASS. I welcome any feedback, positive or critical.

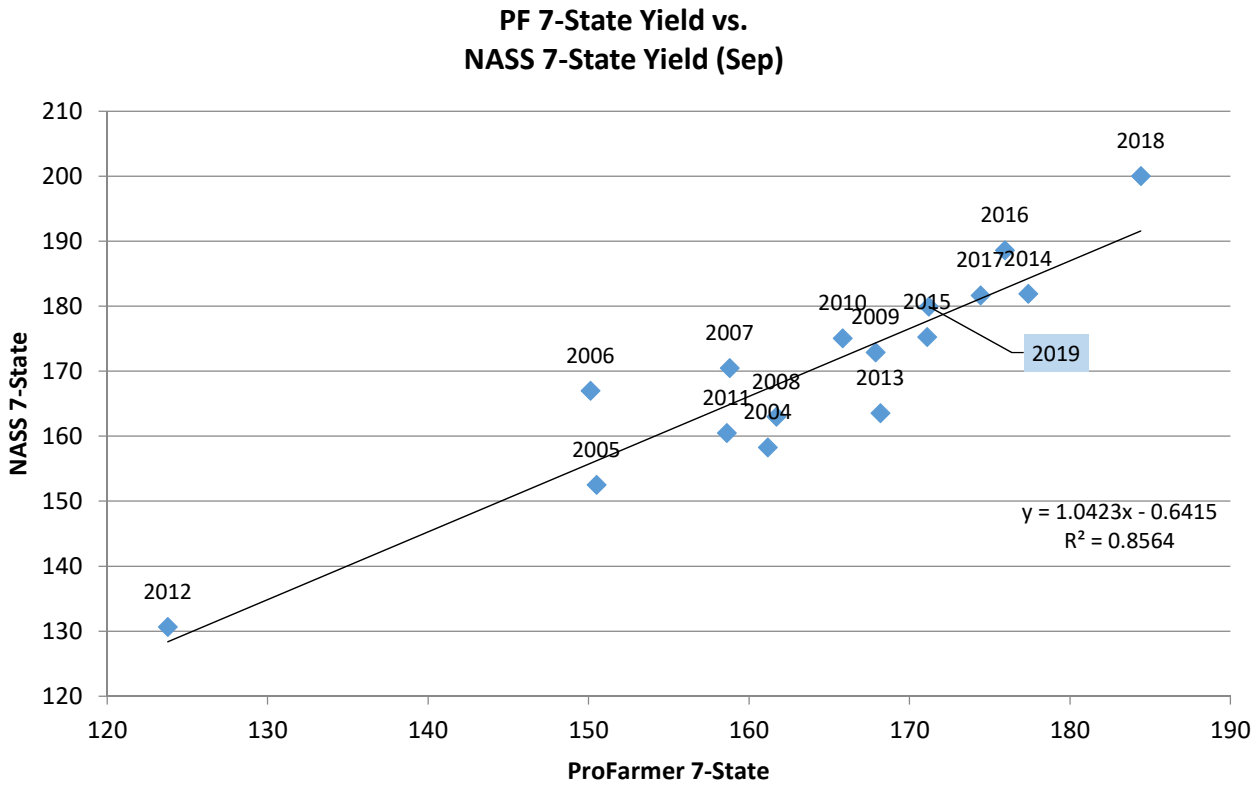


Let's first point out that I expect no significant changes to the prior NASS acreage figures this month. Yes, there might be some tweaks here and there, but in my opinion NASS has gone out of their way to support their conclusions and that implies to me that we should table the acreage debate for now at least.

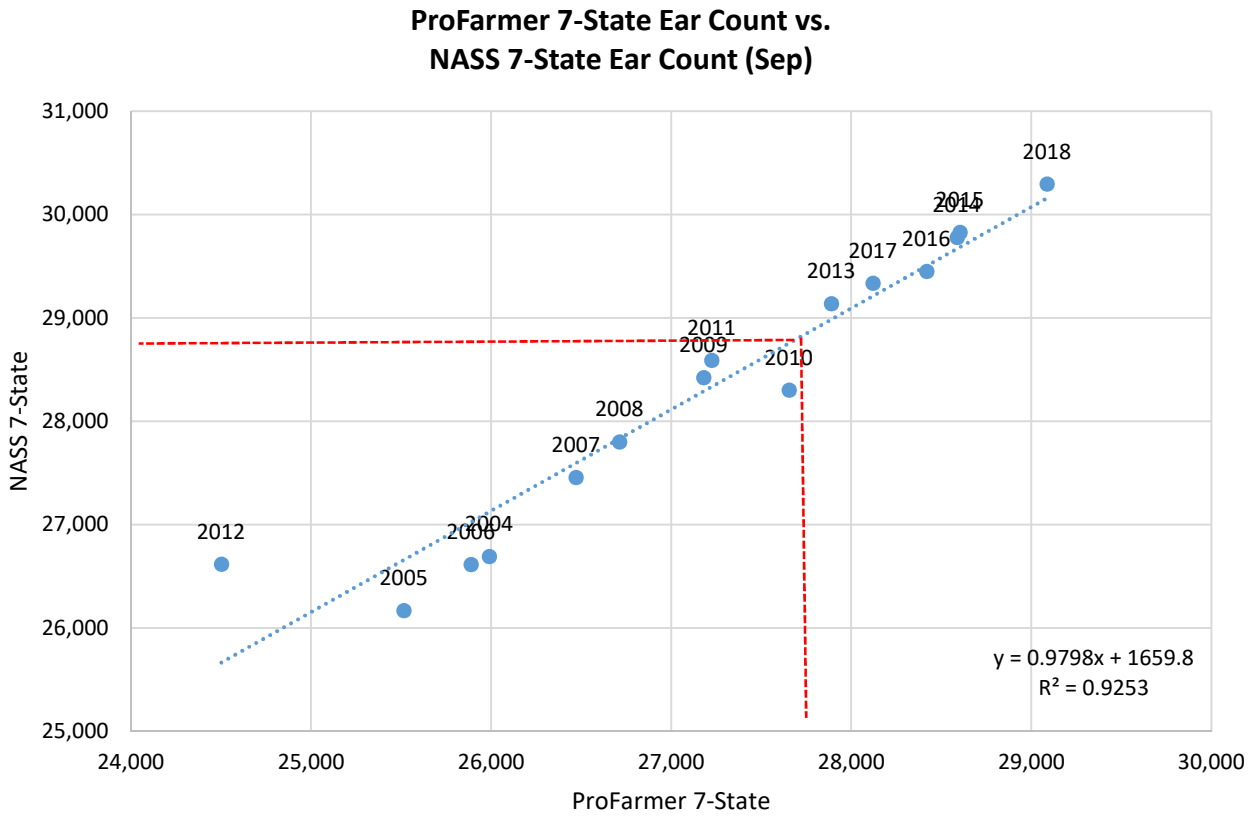
As for yield, the first thing we have to admit is that we start from a different spot this year than usual. We don't have any NASS objective yield data as a starting point. Admittedly, there is a reason NASS did away with the Aug

objective yield collection – it was highly prone to revision in the Sep report. However, those revisions were generally pretty predictable, so the Aug objective yield data was a helpful tool even if inaccurate.

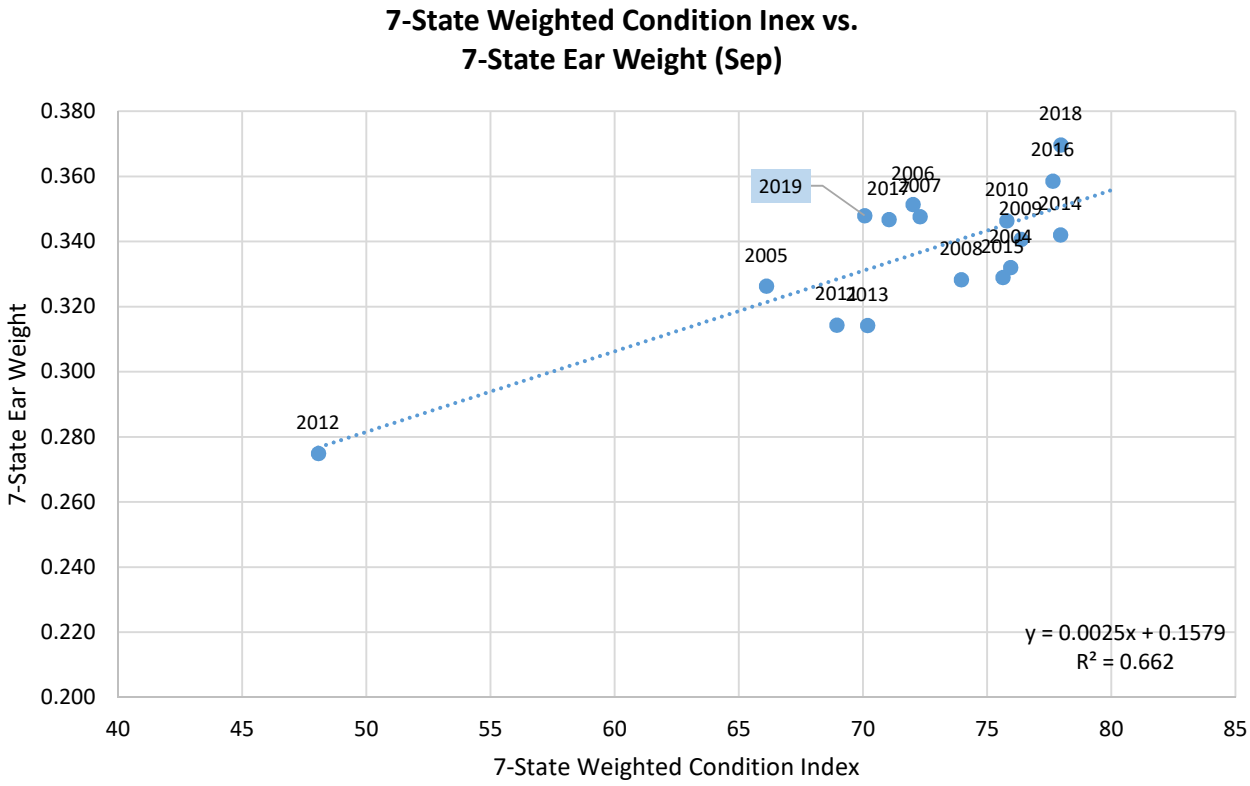
So where to look this year? I would argue some of the best data we have available comes from the ProFarmer crop tour. I don't want to pay any attention to their national crop projection – I deem that as pretty worthless. Keep in mind they don't actually use the state-level yields they report during the week to come up with that national projection. I do want to pay attention to their data they collected along the route. If you simply compare the 7-state weighted average of the reported state yields vs. the NASS 7-state weighted average yield in Sep, the relationship is pretty strong. It is shown below. The highlighted 2019 figure below shows this year's ProFarmer 7-state weighted average against the NASS Aug average. You can see ProFarmer's figure would justify the NASS 7-state average reported in Aug. This would seem to argue against much change next week.



But if we want to dig even deeper into ProFarmer's data collection, we can see their ear counts line up very well with the ear counts that NASS reports in Sep as shown below. The redline indicate where this year's ProFarmer 7-state average lies and what that would imply we should expect from NASS next week. You can see the implication would be the lowest ear count since 2012. Should that get us fired up for potential downside in the yield?

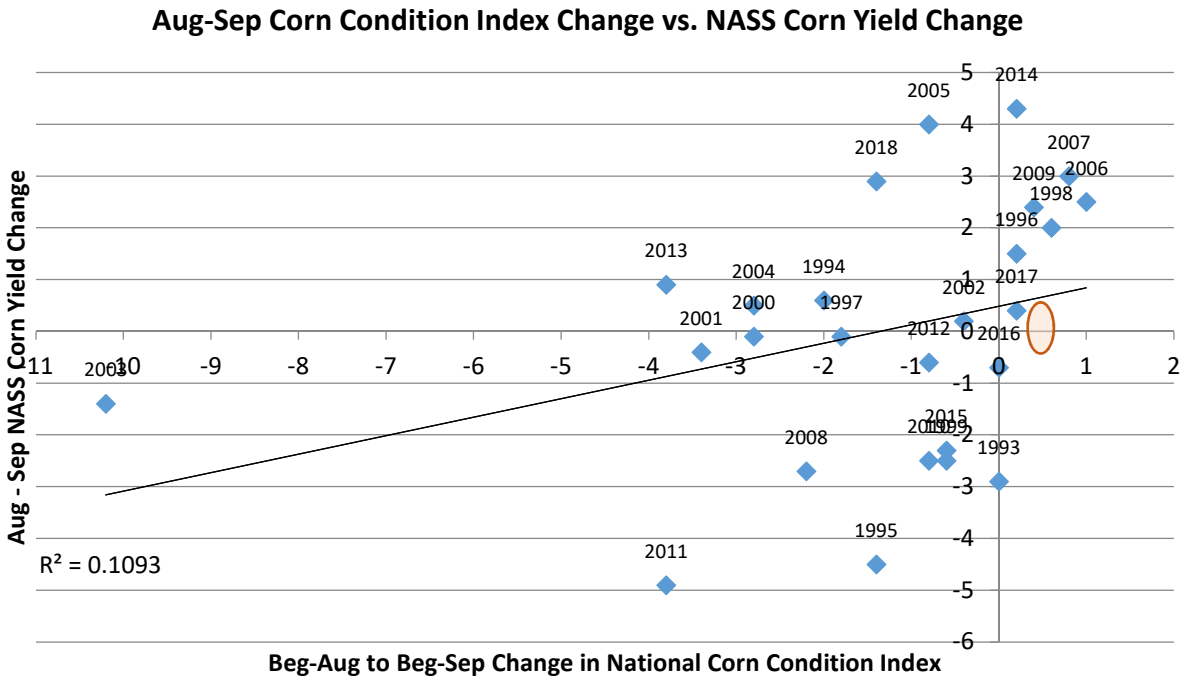


Short answer – probably not. My bias would be to shade the ear counts slightly higher than the implication above. And beyond ear counts we have to factor in ear weights. There isn't a great way of modeling ear weights, but the best I've found compares ear weights vs. condition ratings. The chart on the following page shows the 7-state weighted ear weight vs. a weighted condition index for those same 7-states. You can see there is a loose but imperfect relationship here.



Note I have a 2019 point highlighted. This shows the approximate ear weight necessary to hit NASS's Aug 7-state yield if we were to match the implied ear count exactly. "Ah ha!", you might say. "This ear weight would look too big based on conditions and thus the yield must ultimately be lower than NASS's Aug estimate!" Well, maybe, but I would counter by suggesting that a lower ear count would generally probably lend itself to higher overall ear weights.

Also consider the following chart. Don't get hung up on the poor R*2. This shows the change in condition ratings from the beginning of Aug to the beginning of Sep vs. the change in the NASS yield estimate from Aug to Sep. I think there are two points to make here. 1) Conditions normally decline a little during the month of Aug but that has not been the case this year. 2) In years where the condition rating increased during the month, NASS has moved the national average yield *higher* each time. Admittedly that isn't a huge sample, but I think it is certainly worth noting.



What's my bottom line bias? **I'm expecting a national average corn yield that is very little changed vs. last month…call it +/- 0.5 bpa vs. last month's 169.5 bpa estimate**. Obviously I can't profess huge confidence on that…there are just so many unknowns. However, the ProFarmer figures and condition ratings that we have this year sure seem to me to argue for something similar to NASS's Aug estimate. Don't let yourself naively discount the possibility of something higher. Sure, that might prove to be incorrect, but I think it would be very poor risk management not to admit the possibility. Thoughts appreciated.

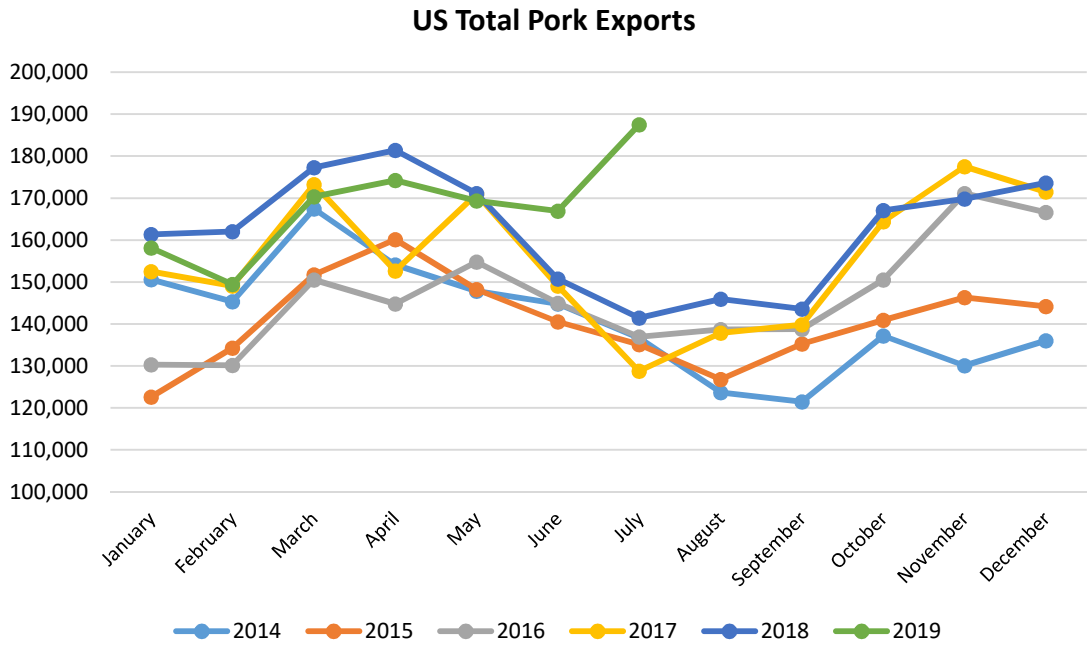
Livestock

I know I'm late on reporting on this, but it will be interesting to see what sort of disruptions might take place in the NC area hog slaughter as Hurricane Dorian moves through. Shown to the right I've listed a few plants that might be affected by the storm. Obviously Tar Heel is the big one. I listed the VA plant but for now it doesn't appear to be really in the path of significant problems. We'll see what happens with the storm, but just keep your eyes open for potential short-term slaughter disruptions as the storm moves through. Also, there is obviously a lot of poultry production and slaughter in the area too…just something else to consider.

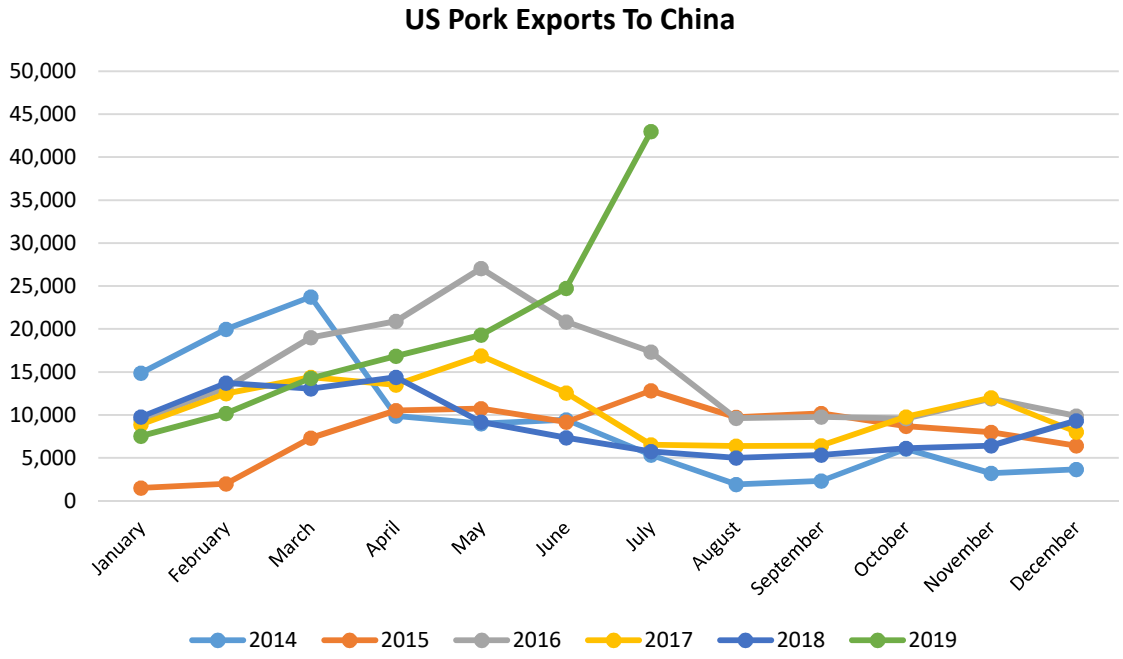
Hog Slaughter Capacity by Plant

Smithfield	Tar Heel, NC	34,500
Smithfield	Clinton, NC	10,600
Smithfield	Gwaltney, VA??	10,400

Today and tomorrow we'll review the official Census trade data for July. Today we'll quickly look at pork exports. You've probably heard by now, US pork exports were very big in July.

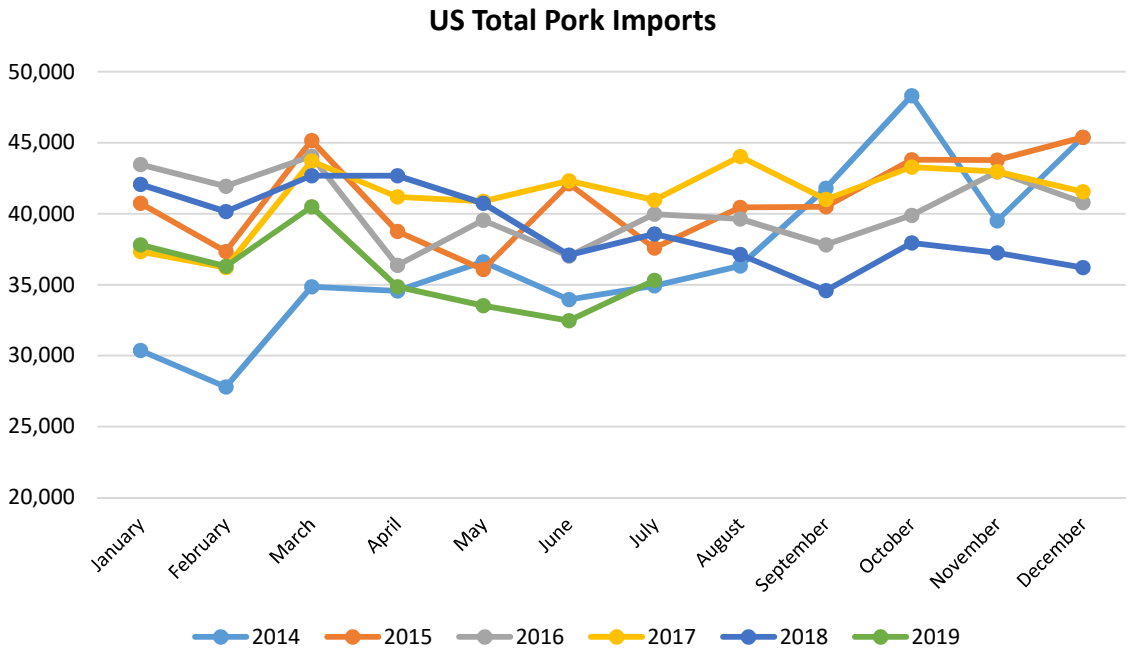


Obviously the number everyone was watching was exports to China. You can see this in the chart below. This shouldn't come as a huge surprise, however. Though the FAS weekly shipment data by definition won't truly match up with the Census numbers, we "knew" shipments had picked up significantly.

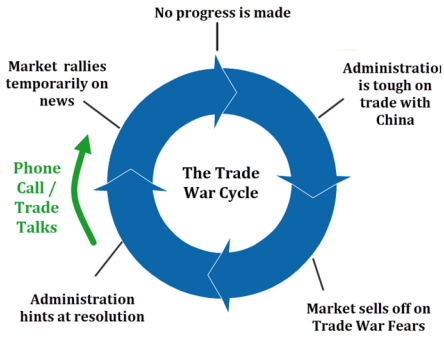


Keep in mind that most of those shipments should have landed at some point during the month of August. All Chinese wholesale pork prices did in August was rally ~40%.

By the way, July US total pork imports were up vs. June but still on the lower end of the range seen during the past few years.



Financials



This is the market we deserve…. As you undoubtedly know by now US-China trade negotiations have finally been scheduled for early October. I've read overnight that this will be the 13th round of face-to-face trade negotiations between the two sides. The market is rallying as if this time will be different. It almost certainly won't be. From the US perspective, why demand anything less than you've been demanding at this point? The equity market is within spitting distance of its all time highs and the Fed is likely to cut rates later this month (Fed Funds pricing 100% odds of a rate cut and commentary yesterday was dovish). Every economist on TV and otherwise will tell you "the US consumer is strong". So what pressure does the Trump administration have? From the Chinese perspective, what has changed? What the US side is asking in terms of commodity purchases is largely unrealistic. The US has an election that Trump is not necessarily sure to win…and his statements that a trade deal if he is reelected being tougher is nothing but talk. I don't see any reason for the two sides to come to an agreement this time around. I'm not sure why I'm surprised the equity market has rallied so much on seemingly meaningless news, but I am. Even the soybean market, hardly know for level-

headed reactions, is taking the news quietly. If forced to make a guess, I would bet that the two sides would aim for another sort of "truce" at this meeting. I'm not sure what a truce would mean at this point – just about everything that can be tariffed is already being tariffed. Still, I'm speculating that is the best case outcome here. And the market would probably rally further on that headline too as if we haven't seen it before…

Note that ES futures have cleared all major technical hurdles on this rally. There is really nothing on the chart that should weigh on the market until we get back closer to the all time highs just above 3000.

There isn't much else to report this morning. Another UK PM is bungling the job of handling Brexit, so nothing new there. It looks like a virtual certainty that we've got another Brexit delay coming. Looking at chart of the BP, it looks pretty compelling actually. We've got a potential double bottom *and* a weekly key reversal in the making here. The non-commercial net position is almost record short too. At the very least this could be a set up for a nice mean reversion rally.

Energy

Crude oil futures are surprisingly flat at the time of writing this morning considering all the optimism surrounding US-China trade talks. This is likely because WTI futures were up sharply yesterday and are experiencing a bit of a hangover. Additionally, the market is probably a little disappointed in yesterday's API inventory release. API showed a build of 0.4 million barrels in crude oil stocks. Hardly anything huge, but expectations called for -2.0 million

Today's Calendar (all times Central)

- ADP Employment Change – 7:15am
- Jobless Claims – 7:30am
- Markit PMI – 8:45am
- Factory Orders – 9:00am
- Durable Goods – 9:00am
- ISM Services Index – 9:00am
- EIA Natural Gas Storage – 9:30am
- EIA Petroleum Inventories – 10:00am

Thanks for reading.

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