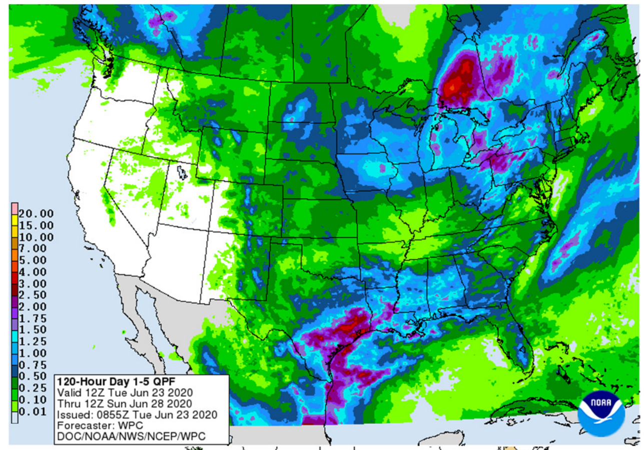
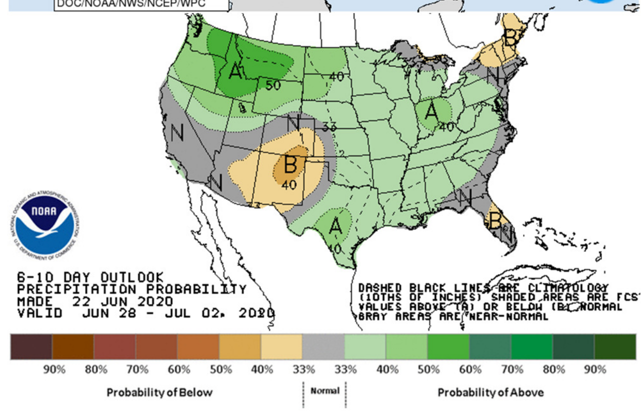
NESVICK
TRADING GROUP, LLC

Tuesday, June 23, 2020
NTG Morning Comments
www.nesvick.com

Weather

Some lingering showers in portions of the ECB this morning but most of the Corn Belt is dry. We should see mostly dry conditions for a few days. The map at the right is a 5-day QPF, and most of the rainfall shown in IA, northern IL, and surrounding areas is expected to fall late in that period. This should develop on Thursday night and stick around through Saturday night. Beyond the 5-day period, there is a ton of computer model disagreement in the forecast so there is not much confidence in the details of the longer-term outlook. However, in general it seems like the NWS and private forecasters are leaning towards modestly above normal temperatures and a continuation of active rainfall chances.





Crops

Not sure what to say about last night's mess of headlines. We should all know better than listen to anything that comes out of Navarro's mouth….

Last week we went into some details regarding potentially favorable developments for improving US soybean exports. I would love to say that export demand is improving for all crops, but unfortunately I can't make that case right now. I've shown last week how Brazil is basically tapped-out on exportable soybean supplies, but that is not the case on corn. In fact, with safrinha harvest advancing we should be about to embark on peak season for Brazilian corn exports. This could have negative implications for US demand in the months ahead.

Below is my very basic rundown of landed-value estimates into Asia. You can see I'm taking CIF/paper values and adding those to futures levels and factoring in an assumption on freight here. I won't pretend that this is an extremely precise measure of landed values from either the US or Brazil. Obviously there are tariffs and other issues to deal with. Still, my hope is that this is a relatively basis apples-to-apples comparison of the two.

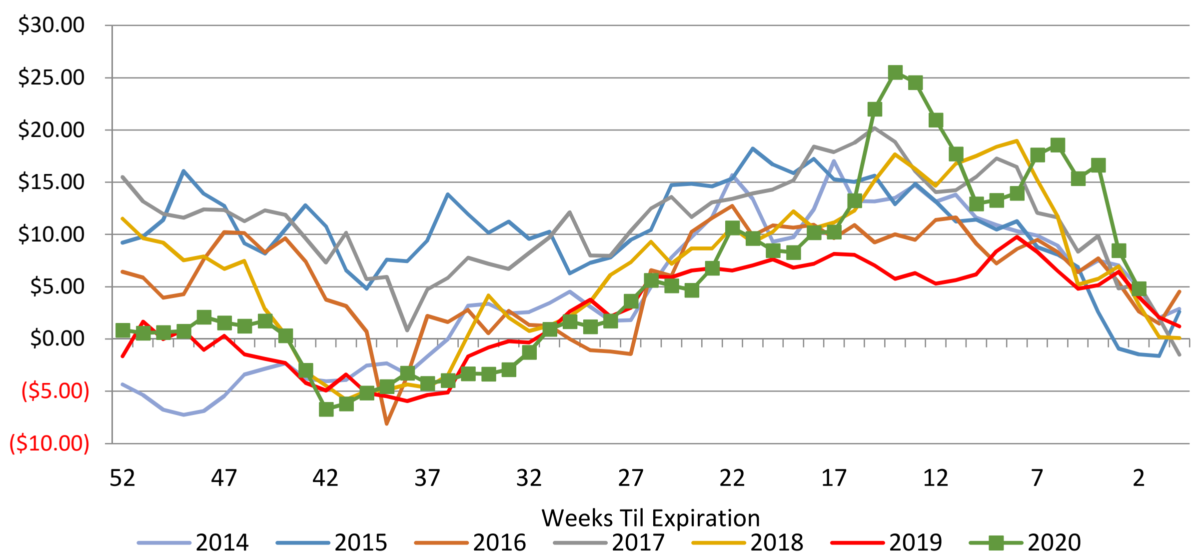
USG Values						Brazil				
	Jul	Aug	Sep	Oct			Jul	Aug	Sep	Oct
CIF Value	52.5	51.5	53	48.5		Basis	76	75.25	73.5	69.5
CBOT Futures	328.25	333.25	333.25	341.5		CBOT Futures	328.25	333.25	333.25	341.5
	CN	CU	CU	CZ			CN	CU	CU	CZ
USD/MT Conversion	$ 149.89	$ 151.47	$ 152.06	$ 153.54		USD/MT Conversion	$ 159.15	$ 160.82	$ 160.13	$ 161.80
USG-Japan Pmax	37.8	37.8	37.8	37.8		Santos-China Pmax	25.6	25.6	25.6	25.6
Total Landed Ex-Tax	$ 187.69	$ 189.27	$ 189.86	$ 191.34		Total Landed Ex-Tax	$ 184.75	$ 186.42	$ 185.73	$ 187.40

You can see the values are pretty similar, though Brazil has a very modest edge into Asia based on the estimates above. Obviously the US should still have an advantage into Mexico. The US might also have a modest advantage into the EU. So US export demand isn't suddenly going to disappear. But as we stated weeks or months ago, the window of US dominance of global corn exports was limited and it now appears we're reaching the end of that timeframe. Thoughts appreciated.

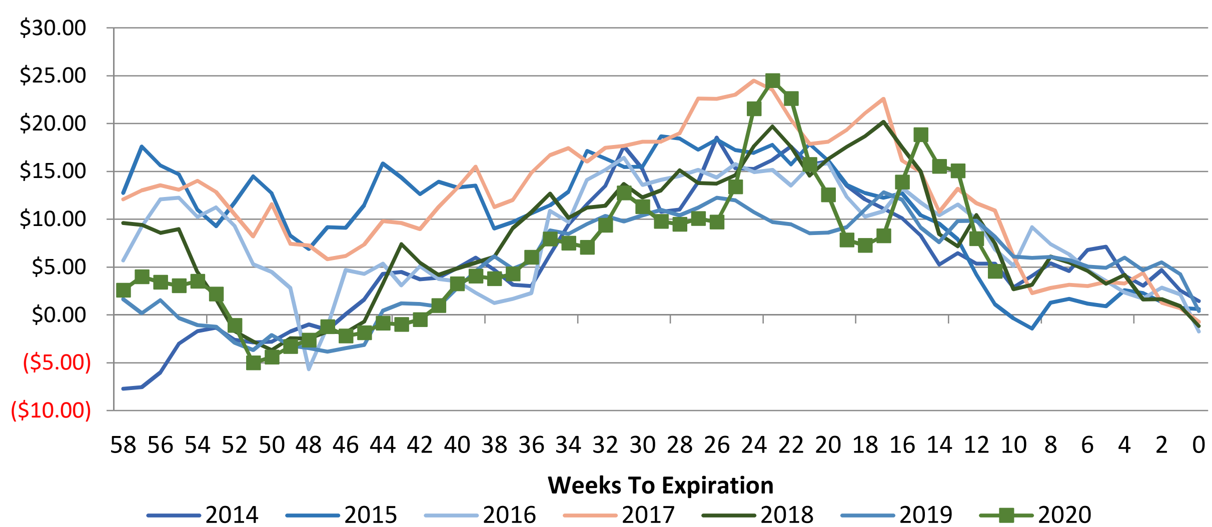
Livestock

LC basis has basically normalized. It is not completely uncommon to see basis against the Oct contract turn negative and I guess at this point we can't rule that out.

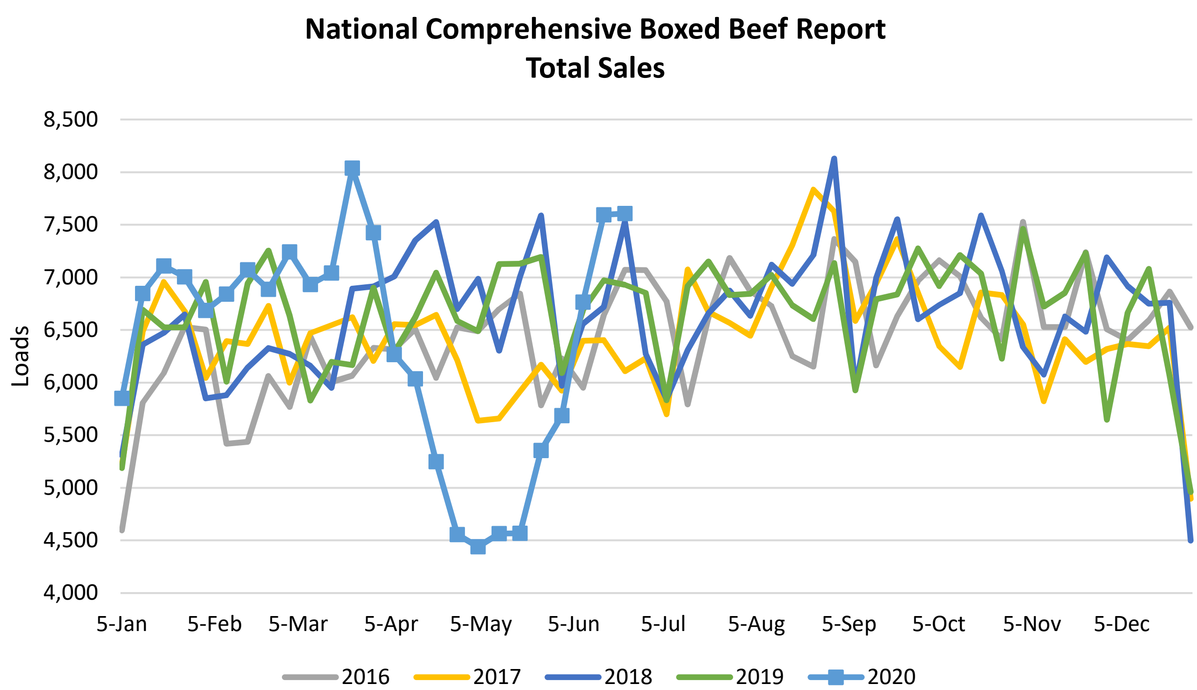
June Live Cattle Basis History



August Live Cattle Basis History



The only other item that stands out to me this morning is the level of total beef sales shown on the comprehensive beef report. The total loads sold is shown in the chart below. You can see we've been near the highest level of the year over the past two weeks. It is an encouraging sign, of course, but there is still some unease as to whether or not this can keep up as foodservice is obviously not back to full strength yet and won't be for some time. Still, beef movement of this level should support solid slaughter runs from packers. Last week's MPR volume was pretty solid again and supports the argument for another strong slaughter for this week and the foreseeable future.



Financials

Equity futures are higher this morning and the Euro is strong on the back of fairly solid PMI numbers. French PMI jumped to 51.3 from 32.1 last month and beat expectations of 46.8. German PMI was a softer 45.8 but this was still a solid improvement from 32.3 last month and also higher than projected. In the end, the Euro-area composite PMI jumped to 47.5 vs a forecast for 43.0 and last month's 31.9. So, still some weakness present but a good round of PMI numbers for Europe vs. expectations and the reason for this morning's Euro strength.

Two charts today that have stirred up a mental thought-process for me, but I'm not quite sure where I'm headed right now. Consider this discussion no more than some stream of consciousness rambling, but I think it is important to consider. I appreciate any and all feedback.

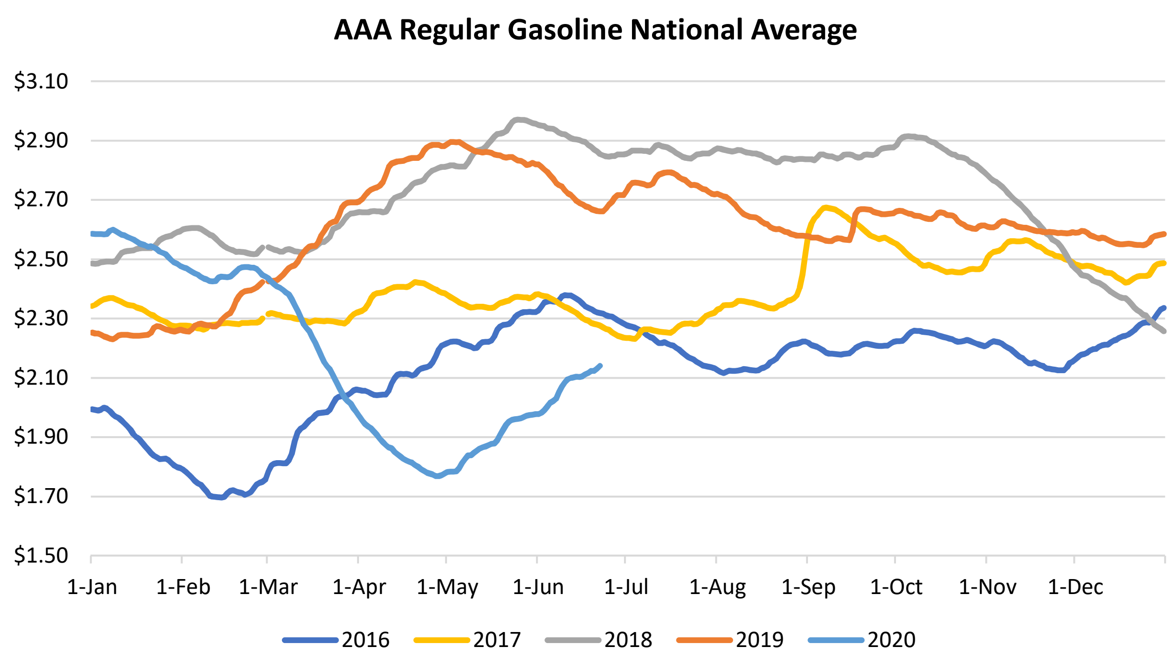
The breakout in spot gold yesterday above the $1,750 level is definitely something I think we should be paying attention to…and not just for those who like to trade precious metals. The breakout in gold is potentially a big sign of things to come. The first chart below looks at the spot gold price vs the 5-year Treasury inflation breakeven. Simply put, gold performs well when the market is looking forward at higher levels of inflation in the future. That seems like a pretty obvious statement, but the bottom line is that the way gold is trading right now is indicative of higher levels of forward inflation than the market is pricing in at present.

Taking that same chart of the 5-year inflation breakeven and comparing it to the Fed's trade weighted dollar index and you get another unsurprising chart. If gold is correct in pricing in higher levels of inflation, it should also lead to a weakening dollar (note dollar index axis is inverted). Again, not really a shocking statement.

I guess my point is this morning is that gold's breakout yesterday, assuming it holds, is a very good indication that the market is starting to look ahead at stronger levels of inflation in the near future. If correct, this has truly massive implications on a very wide range of markets. Obviously I mention the dollar above, and that should surprise nobody. Higher inflation expectations will also drive key commodity markets and could have a huge impact on bonds as well. Again, this is all stream of consciousness and I honestly haven't quite worked all of this out in my head, but my point is watch gold here and if it maintains its upward movement then we need to start to take inflation prospects much more seriously.

Energy

The chart below takes a seasonal view of US regular gasoline national average price. You can see as the Covid lockdowns spread earlier this year we saw a counter-seasonal decline in prices. Prices have since started rebounding, though remain well below year ago levels. What might be interesting now is that we're nearing the typical seasonal peak in gasoline prices as the summer driving season starts to relax. Will that mean gasoline prices will dip again from these levels or are we due for some counter-seasonal strength in the late summer and/or early fall?



Today's Calendar (all times Central)

- Markit PMI – 8:45am
- New Home Sales – 9:00am
- Richmond Fed Index – 9:00am

Thanks for reading.

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