NESVICK TRADING GROUP, LLC

Thursday, June 25, 2020

NTG Morning Comments

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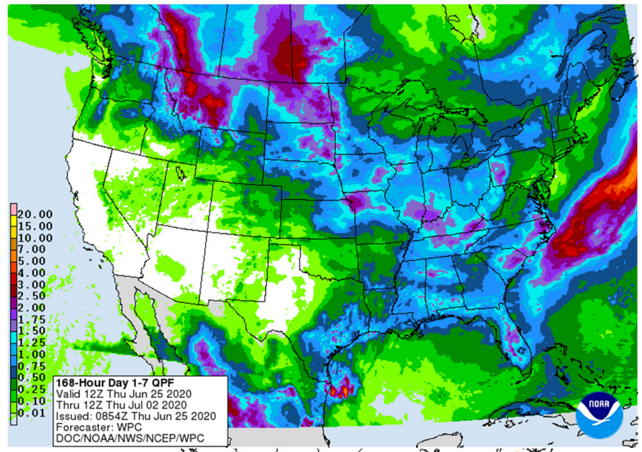
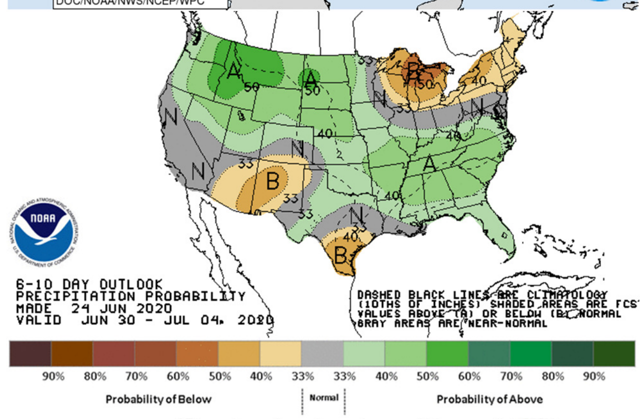
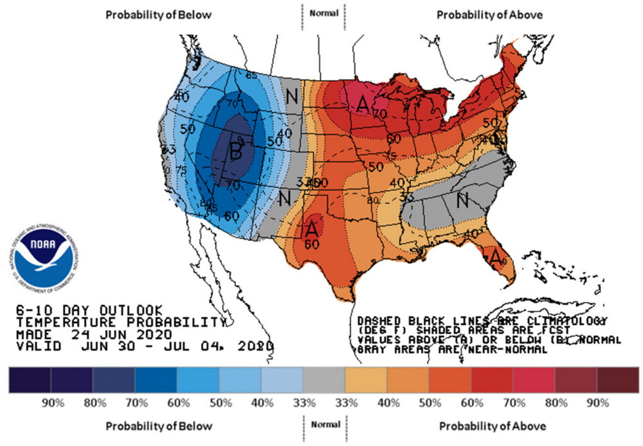
Weather

No major changes to the forecast this morning. The 7-day QPF is shown at the right, and you can see that the WPC is currently calling for fairly widespread significant rainfall totals over the next week through most of the Corn Belt. As always, the map is probably overstating coverage to a degree but the point is most areas will continue to see chances for rainfall during this timeframe. Rains will be returning to the Corn Belt later tonight and will be seen in the region on a daily basis for the remainder of the 7-day period. There should be some chances for severe weather outbreaks in parts of the northern Corn Belt both tonight and tomorrow. Rainfall chances will likely continue into the 6-10 day period and while the computer models are not showing a lot of precipitation in the 11-15 day period, the pattern set up is one where rainfall chances would likely remain in place at that time as well. Overall, while some areas will certainly be short-changed it appears an active precipitation pattern is in place for at least the next two weeks.







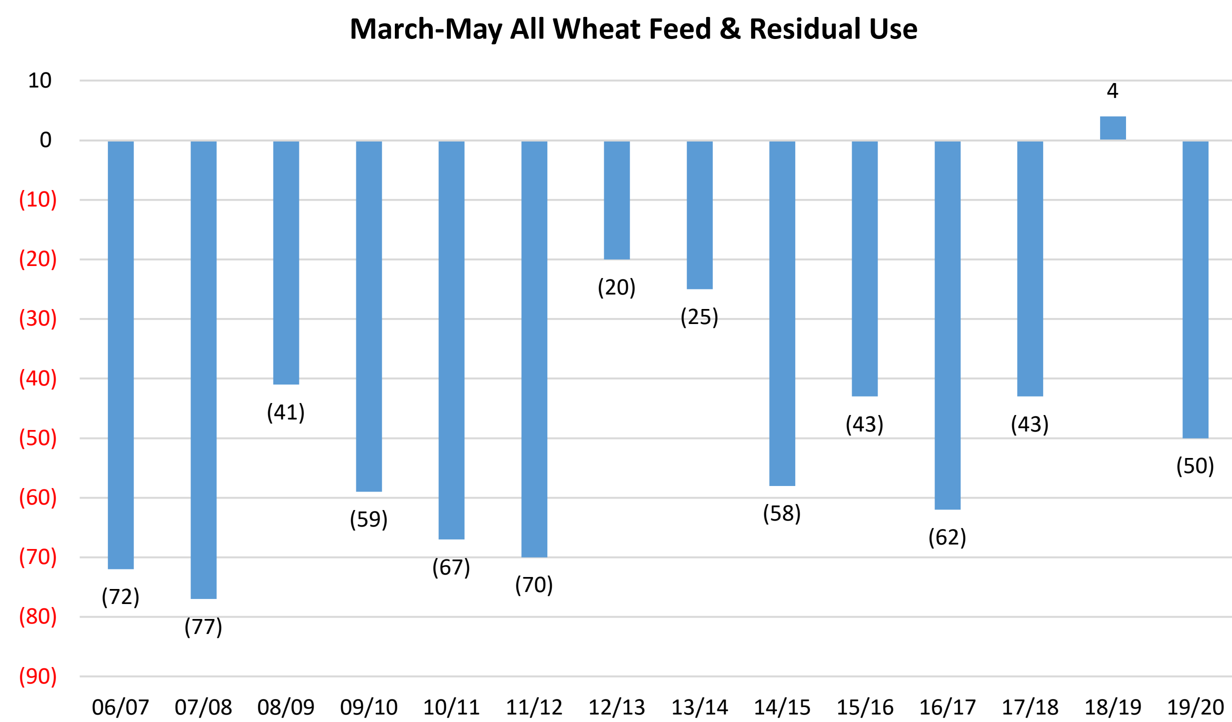
The coolest weather of the two week period will be seen today. Starting tomorrow we should start to see above normal temperatures spread through the region. We should see mostly above normal temps remain in place through the duration of the two week forecast. That said, the heat will be nothing extreme with a lot of 85-95 highs recorded in the Corn Belt. You'll certainly also hear of nighttime lows remaining above the 70 level as well.

Crops

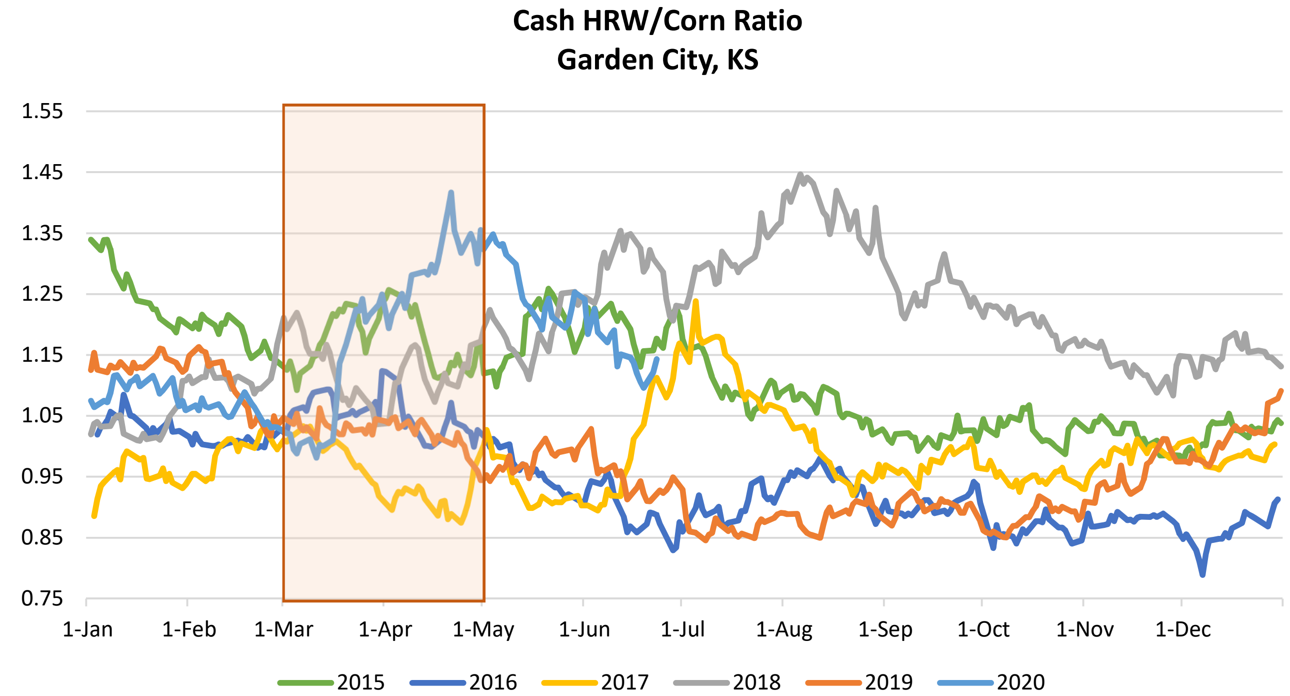
We'll start looking at quarterly stocks estimates ahead of next week's USDA report. Today we'll look at wheat. This will of course set the final ending stocks figure for the 19/20 marketing year. WASDE's ending stocks projection earlier this month was 983 mil bu. I find myself ending up at a June 1 wheat stocks number near 1.0 bil bu, slightly larger than the WASDE projection for ending stocks. Let's run through the details quickly.

Quarterly food use numbers are pretty consistent. I'm going to plug in 242 mil bu for MAM which would give me an annual total of 963 mil bu which is basically the same as WASDE. Seed use rarely causes much excitement, but I'm plugging in 15 mil bu for MAM which gives me 59 mil bu for an annual figure vs. WASDE's 60 mil bu estimate. Close enough. I'm going to pencil in exports for MAM at 237 mil bu, which gives me a slightly smaller figure than WASDE for the 19/20 marketing year at 956 mil bu vs 965 mil bu.

As always with quarterly stocks projections, the big question mark is feed and residual. Prior to last year, we could say that MAM wheat F&R was always negative, but last year's stocks figure surprised us with a slightly positive F&R figure. Note the chart below. You can also see in the chart that I'm assuming a somewhat more "normalized" F&R of -50 mil bu for the quarter. That is almost exactly the average MAM F&R from 06/07-18/19.



I think one reason to expect a deeply negative F&R for the quarter is the price relationship of wheat vs. corn during the timeframe. The chart below looks at the HRW/corn ratio at Garden City, KS as an example. Here you can see that the HRW/corn ratio started the quarter at a low level and that might have implied another positive F&R figure for the quarter if it continued. However, due to the Covid issues which need no further explanation at this point, HRW/corn blew out to some of the widest levels in years later in the quarter. In theory, this should have eliminated the desire for residual wheat feeding during the quarter.

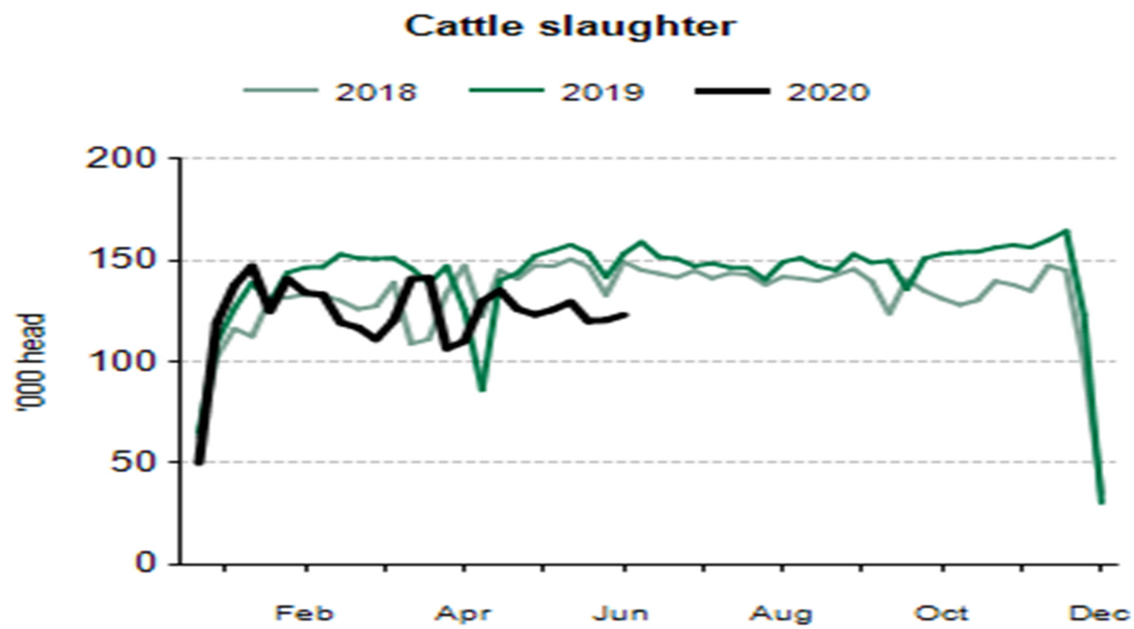


The Bloomberg survey of guesses was released yesterday afternoon and the average for wheat is 987. You can see I'm betting the over with my 1-billion bushel carryout projection. Thoughts appreciated.

Livestock

On tap this morning we have the weekly export sales numbers. I won't produce the charts this morning, but the AMS reports for both beef and pork would continue to point towards solid sales figures. Maybe down a little bit from last week but still looking pretty good. We'll see..

One thing that should certainly continue to support US beef export demand is the pace of Australian slaughter and production. The chart below is pulled from MLA's weekly slaughter report. You can see that Australian cattle slaughter is running well below the levels of the past two years. This is important for US beef supplies for two reasons. First – it should limit Australian exports to countries in southeast Asia, such as Japan, and the US could potentially become a replacement source. Second – it should also limit Australian exports into the US. The US will still import from Mexico and Canada, but beef imports from Australia should slow dramatically and that will certainly be felt in the cutout.

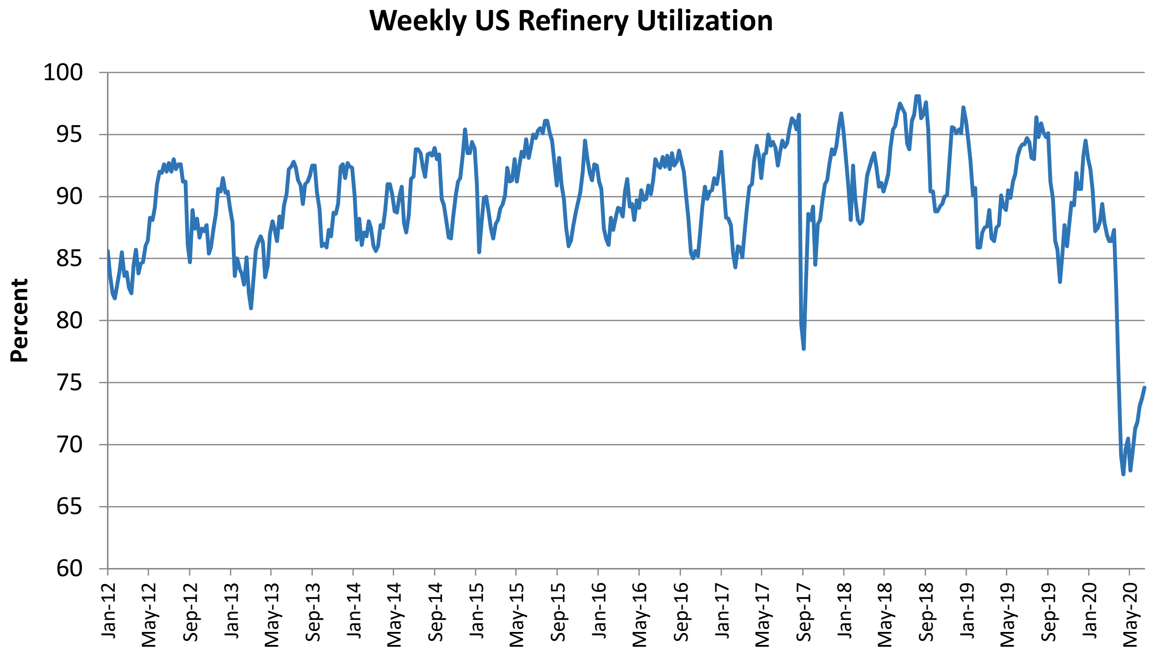


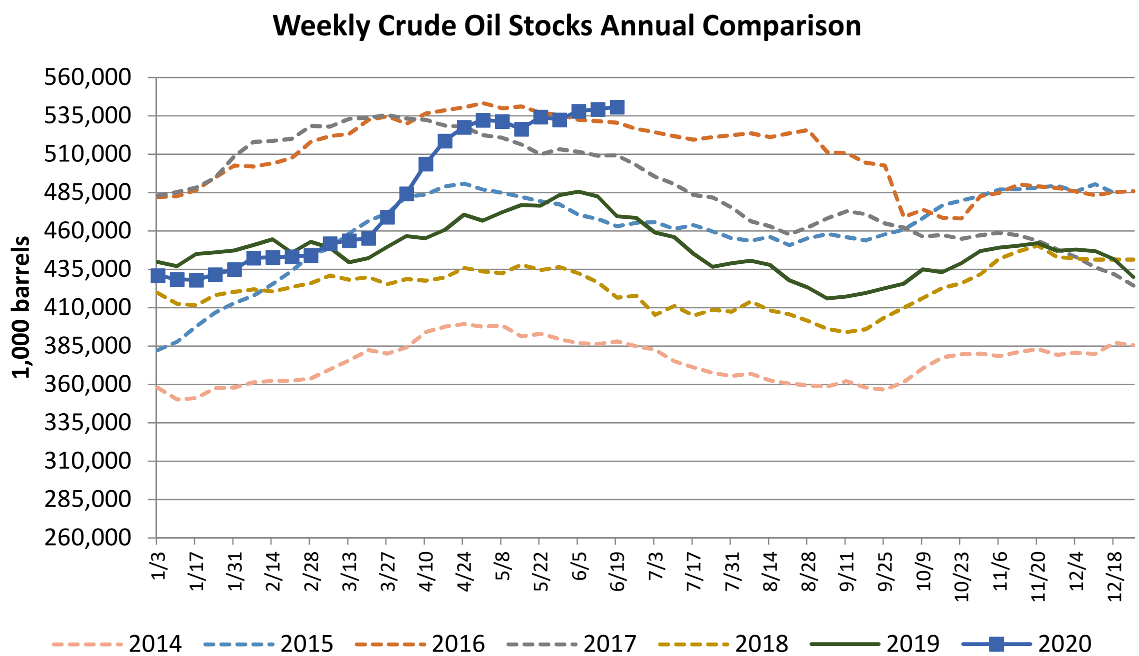
Financials

Nothing particularly new to report this morning. Virus numbers continue to expand across the country, which is of course creating fears of another "lockdown". I will still contend that the decision making process on lockdowns will be largely politically motivated going forward, but we'll see. ES futures continue to hang close to key moving average support levels this morning. We have a lot of big technical support immediately below the market here so if the market really starts to roll over here, the selling could get ugly fast. On tap this morning we have the weekly release on jobless claims. The median expectation calls for another 1.3 million of initial claims, which would mark the 14th straight week of claims over 1 million. Continuing claims are expected to decline slightly to 20.0 million vs 20.5 million last week. We also have durable goods orders and the third revision of Q1 GDP this morning, but I don't think those will be paid much attention.

Energy

Obviously we got lots of inventory data from the EIA yesterday as we do every Wednesday. After looking through the data a bit this morning, I think the one chart that stands out the most to me right now is this one. This shows the estimated refinery utilization percentage over the past several years, and even after the recovery in economic activity refinery utilization is running at a very, very low level. One reason this stands out to me is that crude oil production levels increased last week, and if oil production is starting to increase while refineries are still running slowly we will continue to see building inventories.





Today's Calendar (all times Central)

- Jobless Claims – 7:30am
- Export Sales – 7:30am
- Durable Goods – 7:30am

- EIA Natural Gas Storage – 9:30am
- Hogs & Pigs – 2:00pm

Thanks for reading.
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