NESVICK TRADING GROUP, LLC

Tuesday, July 28, 2020

NTG Morning Comments

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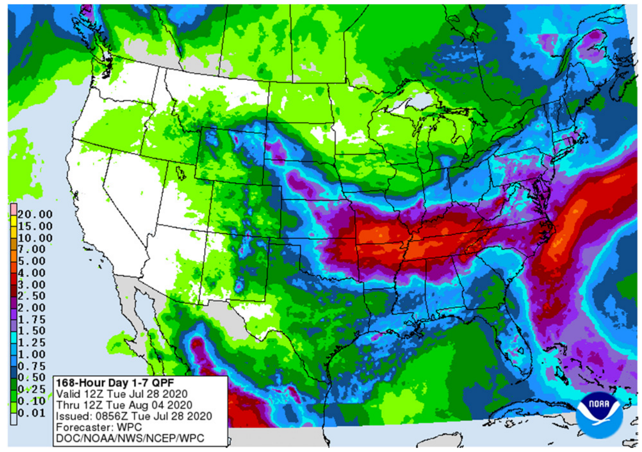
Weather

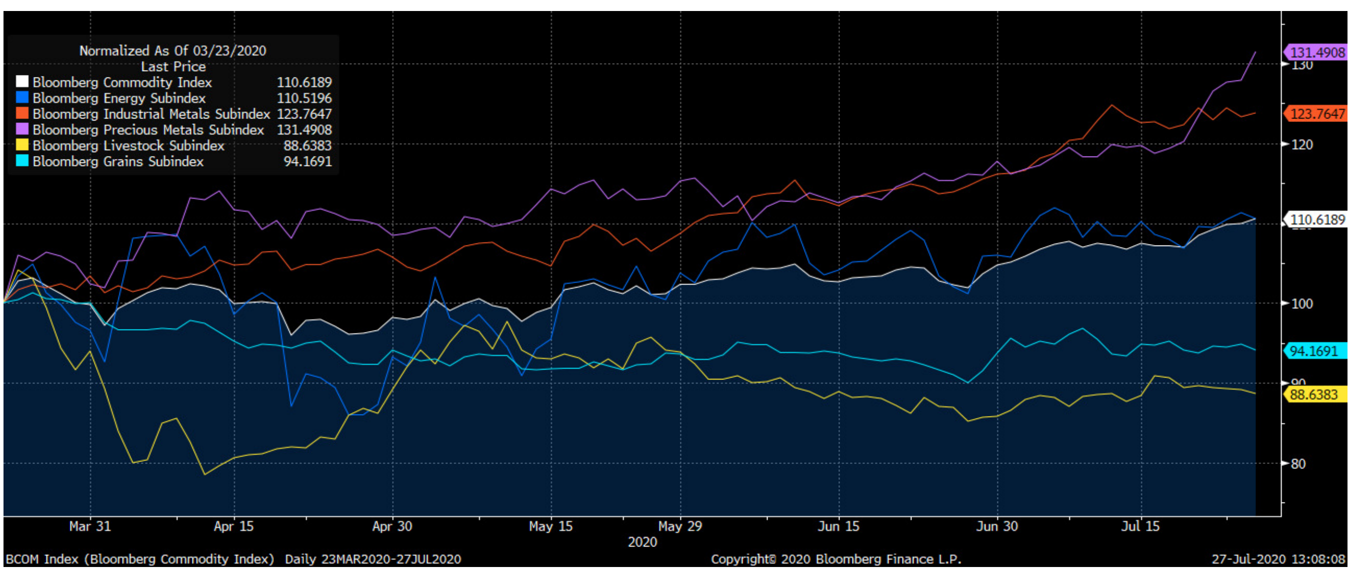
No major changes to the forecast this morning. The 7-day QPF is shown at the right. There will be near daily chances for precipitation during this period, but the heaviest amounts will start on Thursday and continue into the weekend. Obviously the focus of rainfall will be in the Southern Plains and southern portions of the Corn Belt along with the Delta. Northern portions of the Corn Belt will see very limited rainfall this week, and it is likely that limited rainfall will continue through the 6-10 day period as well. There is simply no confidence in what to expect for the 11-15 day period at this time.



The outlook for temps calls for mostly cool weather going forward. Highs will mostly be in the 80s today through Thursday. We could see even cooler weather develop for a few days after that with lots of below normal temps expected. We could see a lot of highs in the 70s for a big portion of the region. Temps should increase during the 11-15 day period but still will probably average near normal and certainly we'll see nothing extreme.

Random Observation

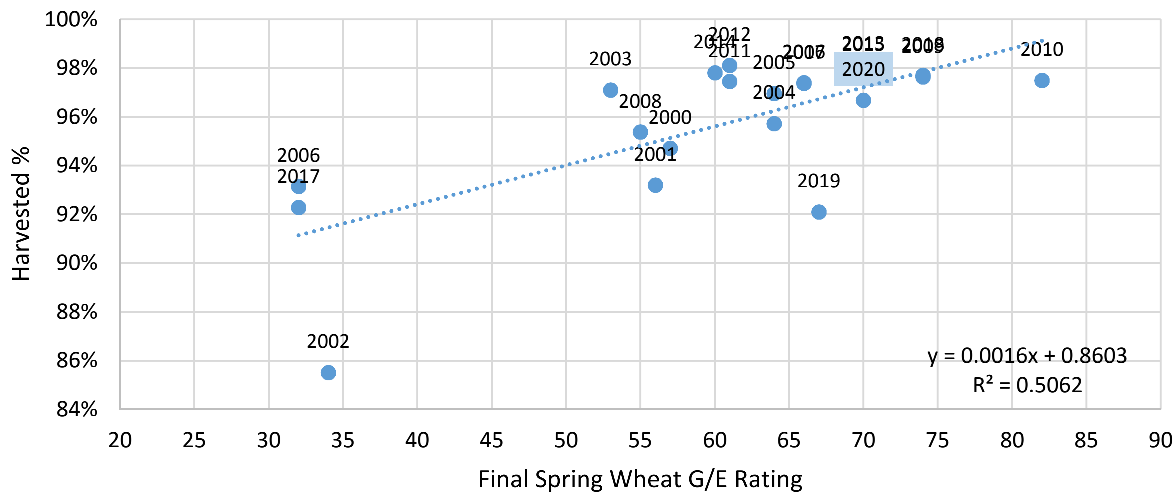
The S&P 500 bottomed this year on 3/23. The Bloomberg Commodity Index bottomed about a month later, but since bottoming it is up roughly 17% from the lows. Only two subcomponents of the BCOM are down since the SPX bottomed on 3/23…grains and livestock…*sigh*



Crops

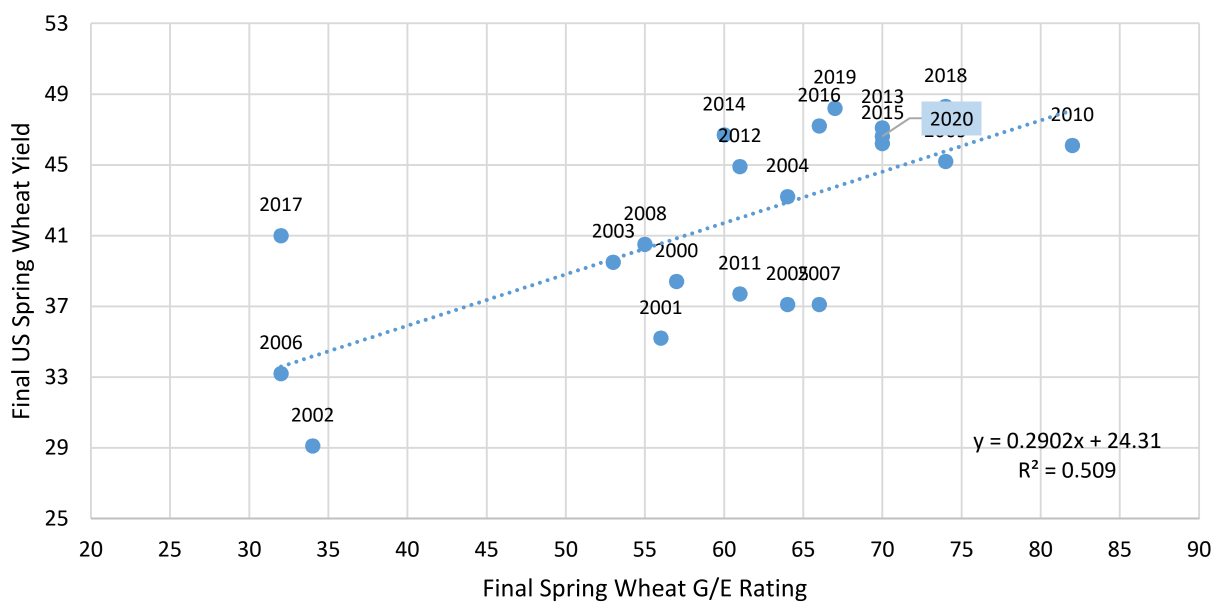
It is normally this time of year that we get the WQC's Spring Wheat tour. Obviously due to the Covid situation that tour is not taking place this year, which unfortunately gives us a bit less data to work with in determining spring wheat production potential. We've only got the condition ratings to go with right now, and I thought I'd give that quick look this morning. The chart below looks at spring wheat conditions vs harvested area as a percentage of planted area. You can see that last year was an outlier due to the complications with flooding, but this year's NASS estimate seems inline with that we should normally expect.

Spring Wheat Harvested % of Planted vs. Final G/E Condition Total



As for yield, the July NASS spring wheat yield was 46.6 vs 48.2 for a final yield in 2019. This year's crop is rated in slightly better condition than last year…as of right now anyway. You can see that 2016, 2018, and 2019 all had higher yields than the current NASS estimate for this year with similar condition ratings.

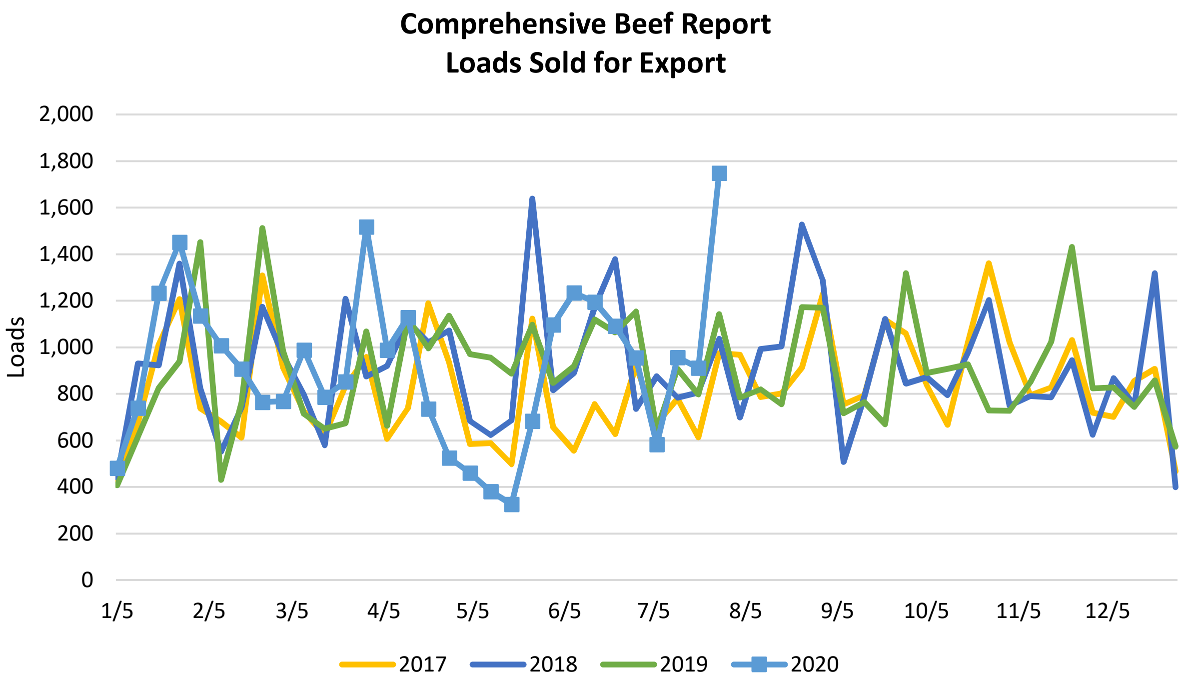
US Spring Wheat Yield vs. Conditions



I guess my bottom line this morning is that if condition ratings hold up, I'd expect some upside in spring wheat yields and production going forward. We'll get more into the weeds on corn and soybean yield potential as the August crop report nears.

Livestock

An interesting comprehensive beef report yesterday…it showed a record level of loads sold for export seemingly out of nowhere. See the chart below. As you know, I've been pounding the table on the idea that US export demand "should" pick up going forward but up until now I've looked foolish. Is this a one-off event or is this the start of an improvement in export demand? I'll be interested to see how well this translates to a strong number in the Thursday report and to what destination this big business might be headed assuming it shows up on Thursday.

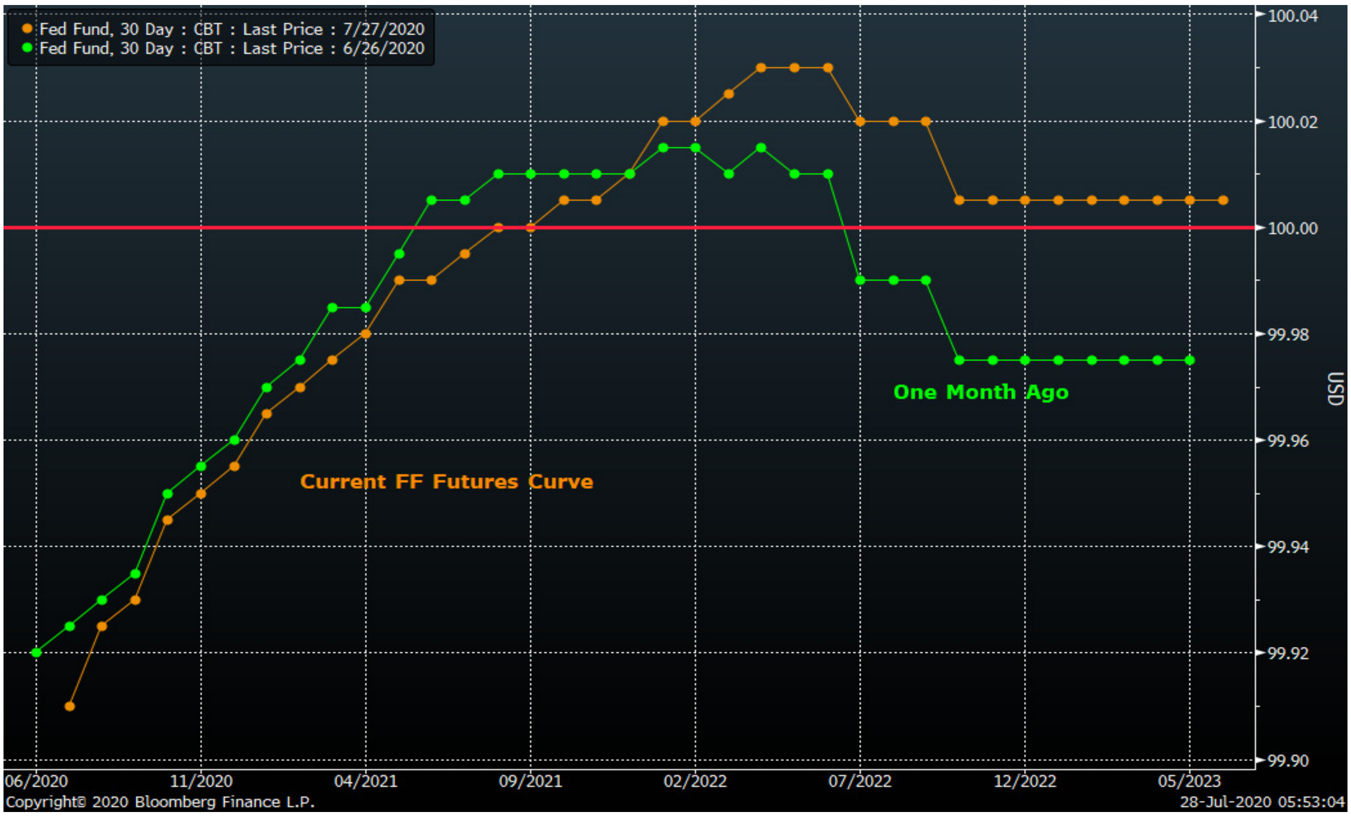


Nothing else major stands out to me from the standard Monday data releases. Total MPR volume last week was up a decent amount from the prior week and the highest volume since the Covid collapse in early spring. This should be an indication that slaughter levels will be elevated going forward. I guess the question now is how will the beef market respond? The cutout seems to be holding steady at recent levels and I've even seen some call for a modest bounce

Financials

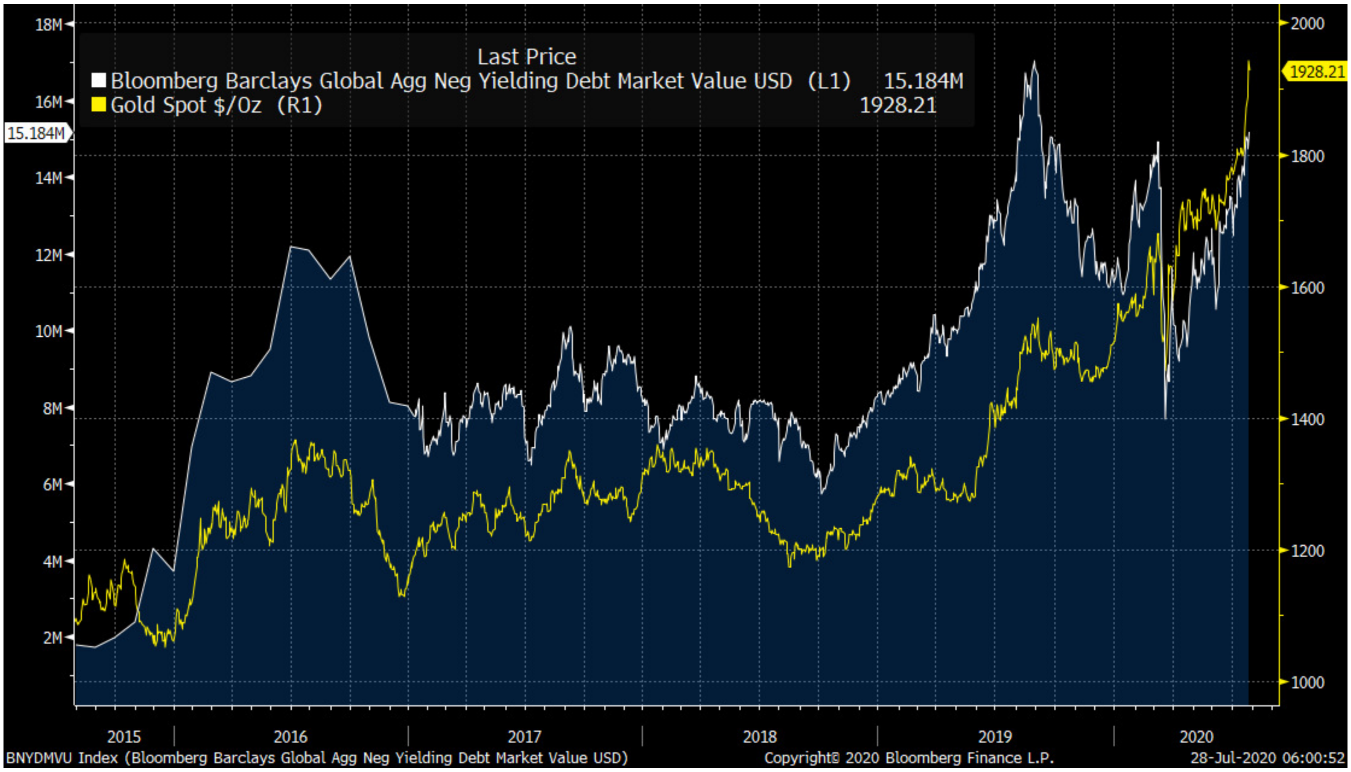
A modestly risk-off tone to markets this morning at the time of writing. Overnight volatility in gold and silver has been very extreme, however. Given the sharp run-up in prices of each, this volatility should come as no major surprise, however. The question to ask yourself if whether the conditions allowing for the sharp rally in gold and silver have changed suddenly? As I've pointed out several times before, to me it is all about inflation expectations and this is best-measured by the yields on 10-year TIPS. As yields on 10-year TIPS push further into negative territory, it should support gold (and silver). Last I looked…TIPS yields were still heading further negative so I don't view the situation as changed for gold and silver. View the overnight volatility in this light.

I also think the FF futures curve should be instructive here. See the chart below. The FF futures curve is still showing the market is expecting the Fed to take rates into negative territory. The current curve shows rates moving negative by late 2021, which admittedly is later than was priced-in a month ago. However, note that the curve is now expecting that once rates turn negative in late 2021 they will stay negative for several years beyond that and will go even deeper negative than previously priced-in.



And if you needed a reminder, gold LOVES negative yielding debt. The chart on the following page compares spot gold vs. the global pool of negative yielding debt. It isn't hard to see the similarities there. Can you imagine what the total global supply of negative yielding debt will look like if and when the Fed takes rates into negative territory?

Again, my point here is simply to argue that we shouldn't overthink the random ups and downs in the markets all the time. The storyline for gold and silver hasn't suddenly changed overnight. Trade accordingly.



Energy

Crude oil futures are modestly lower at the time of writing this morning, I suppose mainly on account of the slightly risk-off tone to markets in general today. I don't see any major new oil-related news to pass along this morning. WTI futures themselves continue to be rangebound. I'm reading some articles this morning suggesting that physical crude oil markets are starting to sag. One suggests that Russian oil prices are trading near 3-month lows, for example. As I've stated here before, there seem to be a lot of signs that the rebound in gasoline consumption has stalled at the current levels, and with OPEC production gradually increasing it might make near term upside in oil a bit more difficult. Thoughts appreciated.

Today's Calendar (all times Central)

- Consumer Confidence – 9:00am

Thanks for reading.

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

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