NESVICK TRADING GROUP, LLC

Monday, July 6, 2020

NTG Morning Comments

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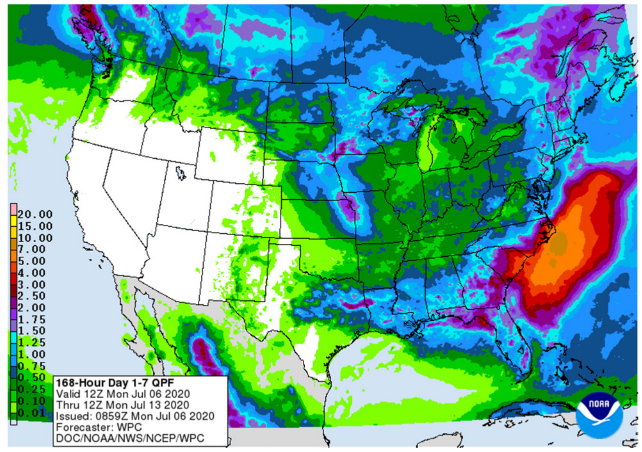
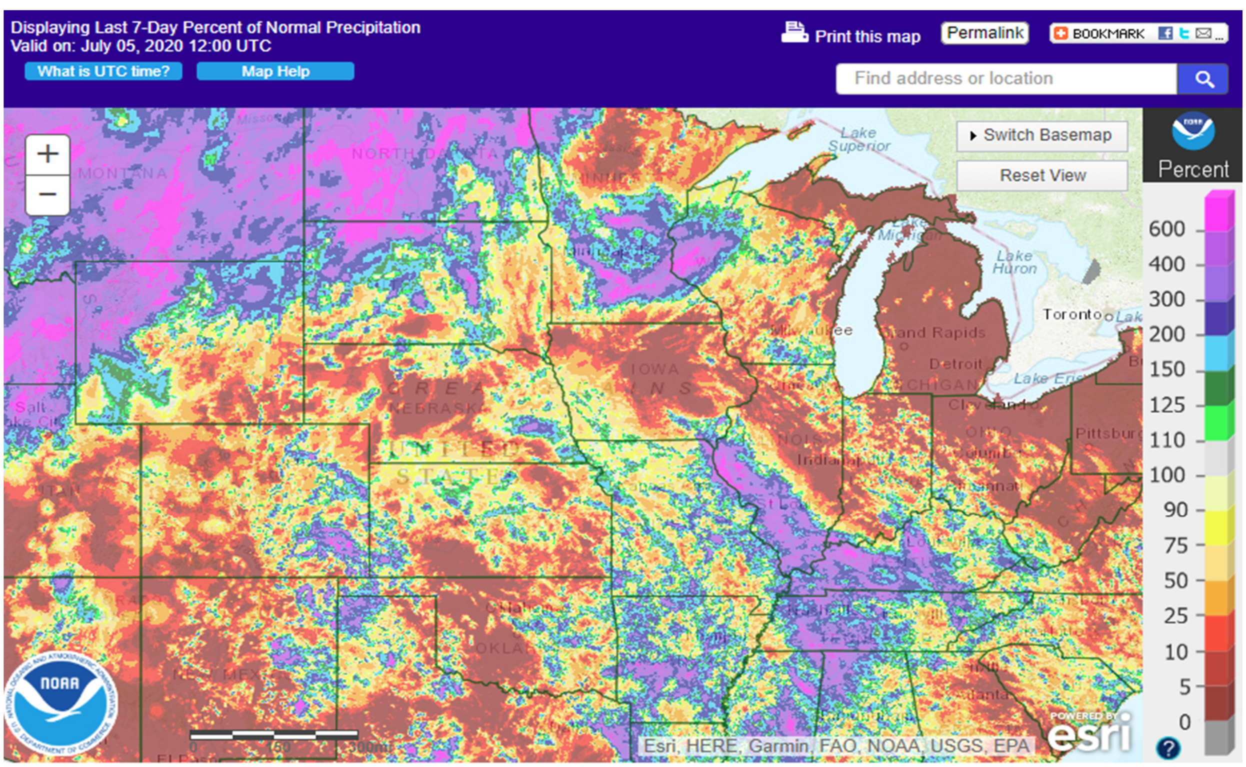
Weather



No huge changes to the forecast this morning. You can see in the 7-day QPF at the right that we will see some instances of localized heavy rainfall amounts favoring the WCB this week. This occurs as disturbances move across the northern edge of the ridge of high pressure that will set up in the Southern Plains and bring mostly dry conditions and hot temps to the rest of the country. The big question is whether this can continue for the remainder of the two week period. The forecast models themselves paint a pessimistic picture for rainfall chances, but with the ridge likely to remain in place for the next two weeks, it does make some sense to expect that some additional "ring of fire" rainfall like this could fall. Perhaps the forecast models are leaning a bit too dry? No change in the outlook on temps. The next two weeks should feature nothing but AN temps. We should see 90+ highs become widespread by tomorrow with some 95+ readings possible in western areas. The hottest part of the forecast could be the July 15-18 period when the ridge is forecast to be at its strongest. This could put some 95-100+ highs into the Corn Belt during that period.

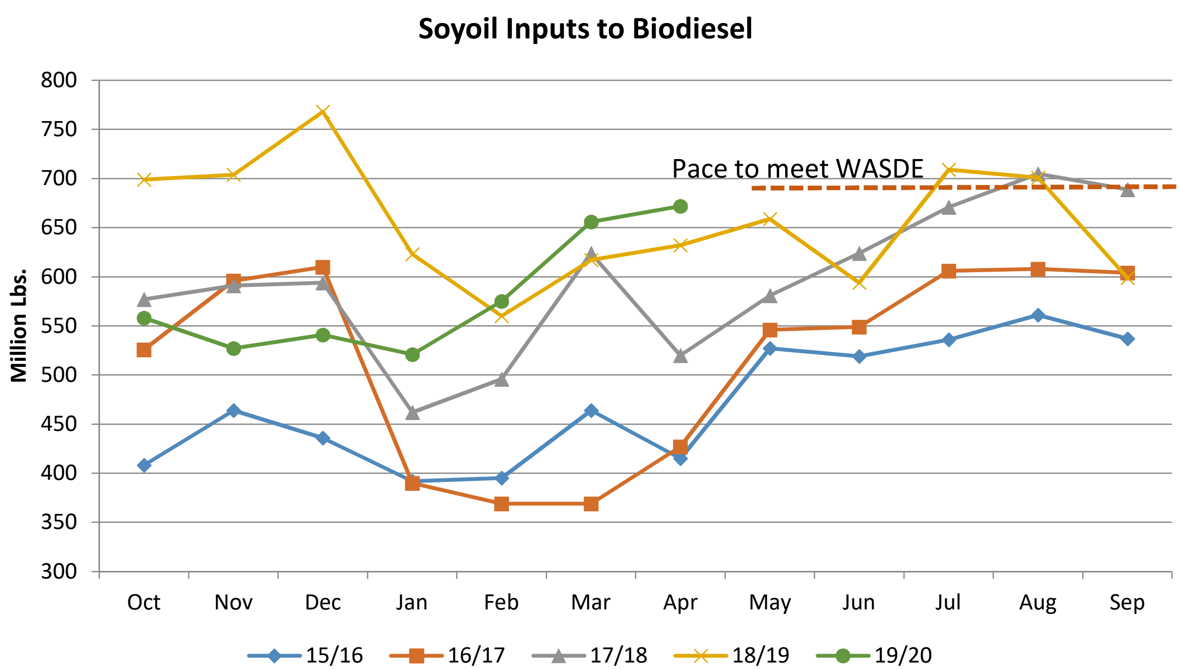
The map below shows the 7-day percent of normal precipitation totals.



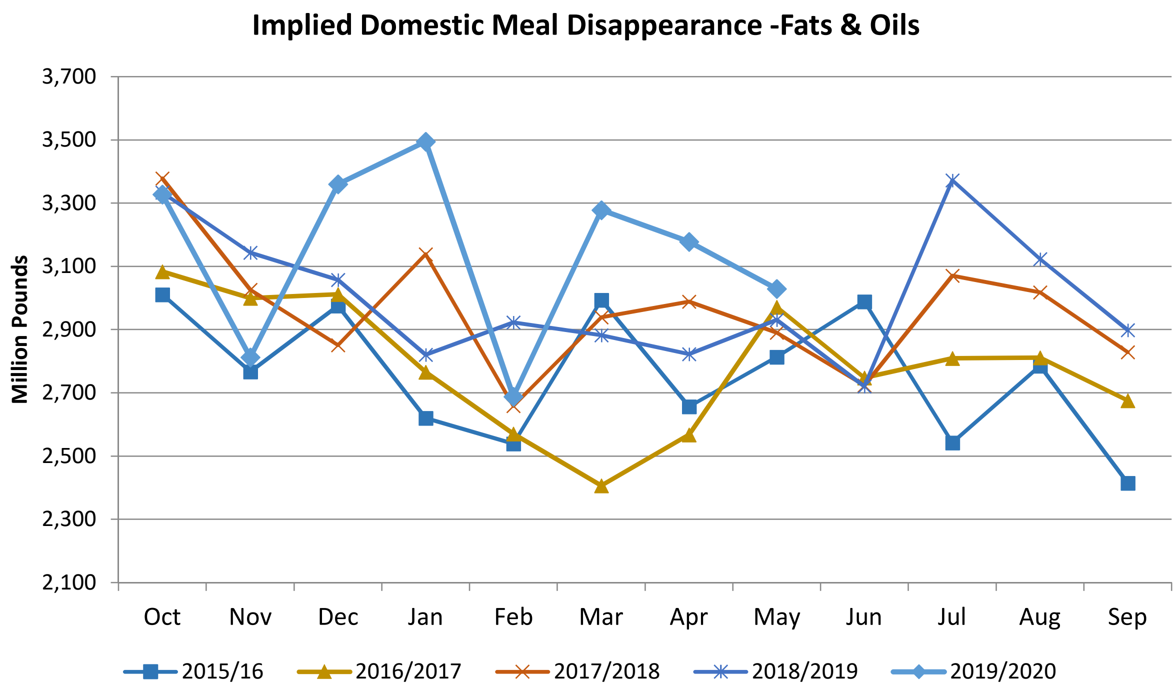
Crops

Today we're going to run through some of the recent data releases. This is a good exercise to go through ahead of our balance sheet discussions in the next several days before the WASDE release at the end of the week.

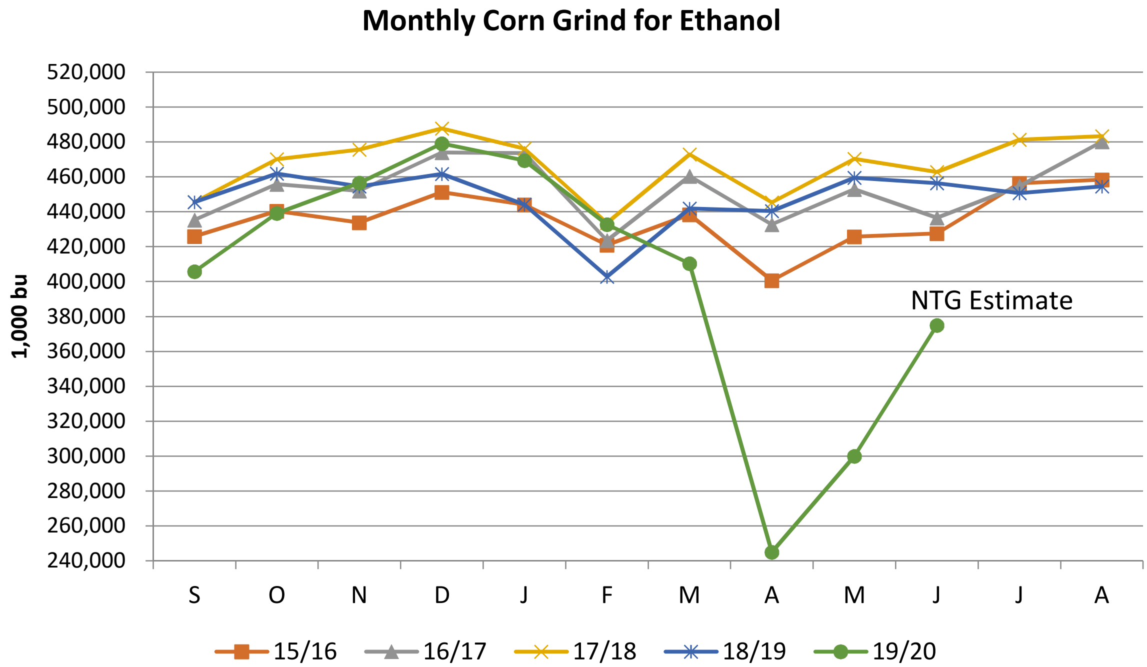
Up first, let's look at the monthly biodiesel production report released last week. EIA is reporting that 672 mil lbs of soyoil was used in biodiesel production during April. As you can see below, this would mark the highest of the year so far. The dashed line indicates the average pace required for the remainder of the marketing year to hit WASDE's biodiesel production forecast. I think that average pace is close enough to current production levels to expect that WASDE is unlikely to change their estimate this week.



The Fats and Oils report showed that official soybean crush for May was 179.6 mil bu, which is maybe a smidge lower than what I was thinking after the NOPA release. We still seem to be easily on pace to at least match WASDE's current 19/20 soybean crush estimate and there is certainly an argument to be made that we will need to see WASDE raise their crush projection. One thing that stood out to me in the F&O report is the level of implied domestic meal disappearance, shown in the chart below. You can see that in most months this year implied domestic meal disappearance has been running well above year ago levels. I'm currently estimating that MYTD implied meal disappearance is running a little more than 5% higher YOY. WASDE's current meal disappearance forecast calls for a slightly less than 4% YOY increase. There might be a need for WASDE to revise their domestic meal consumption forecast higher.

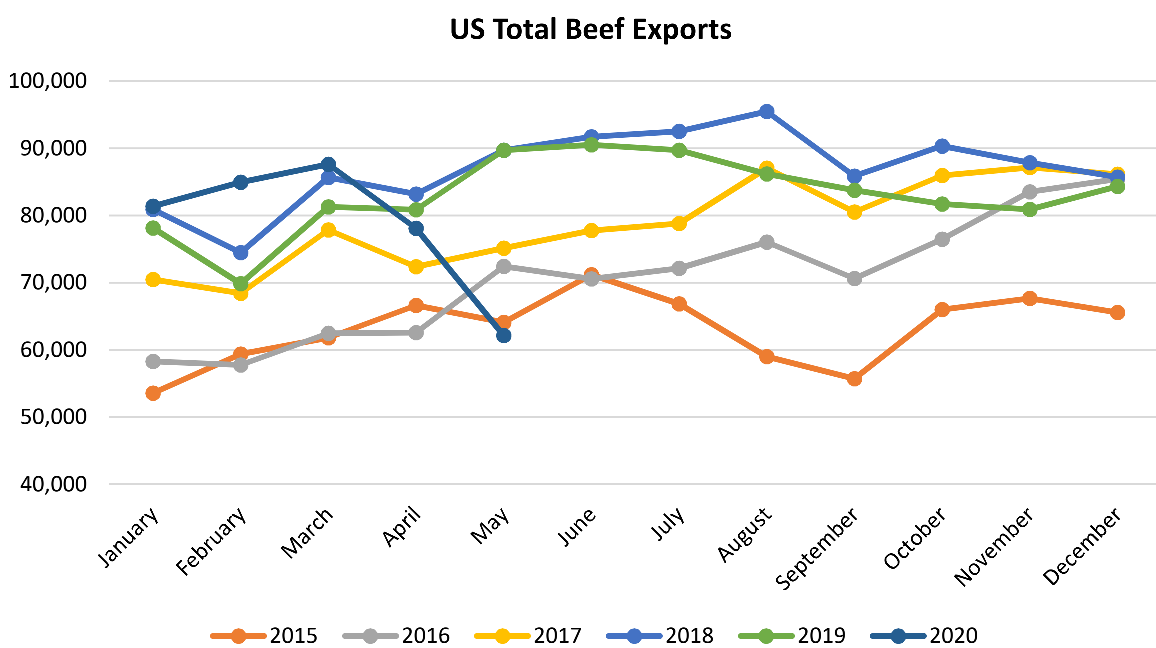


The Grain Crushing report showed corn used in ethanol production totaled around 300 mil bu during May. This represented a decent rebound from the awful April production but, as shown below, this is still miles away from normal. I've also plugged in my current guesstimate for the June corn grind below to show how the ethanol grind has continued to recover. It brings up an interesting conversation on whether WASDE will cut their corn grind estimate again this month. In the end, I am strongly confident that we'll fall short of the current WASDE corn grind guess at the current pace of production. Then again, it might be "close enough" to allow WASDE to punt on the issue for another month or two. My current guesstimate is that we'll eventually need to take another ~50 mil bu off the corn grind but I don't know if WASDE will want to make that move this month considering the changes pending to F&R. Thoughts appreciated.

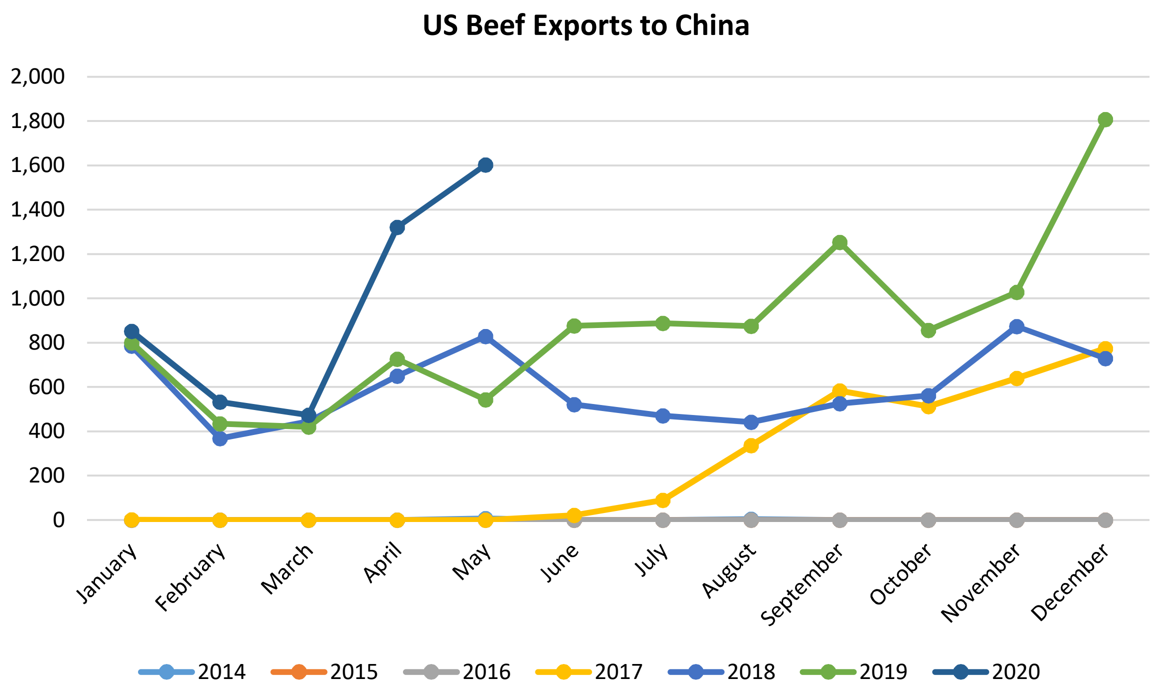


Livestock

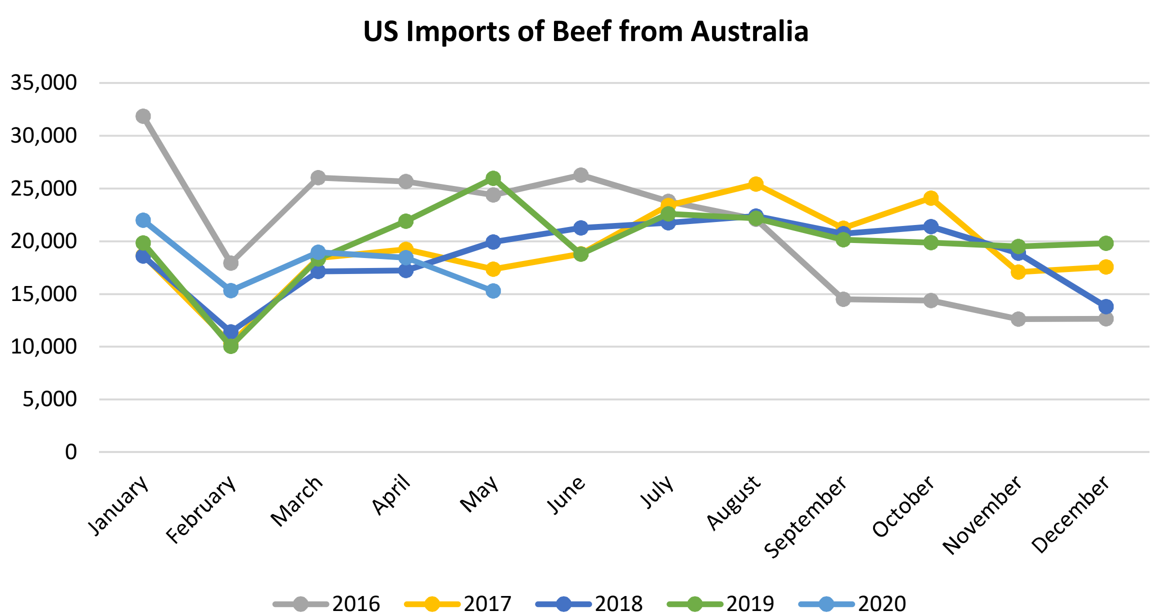
We got Census trade data late last week. I'll look at beef trade numbers today and pork numbers tomorrow. It should come as no surprise that beef exports in May were off sharply. Obviously this comes after the sharp rally in beef prices following the Covid-related packing plant shutdowns.



It wasn't all disappointing news, however. Exports to China were just shy of their record highs.

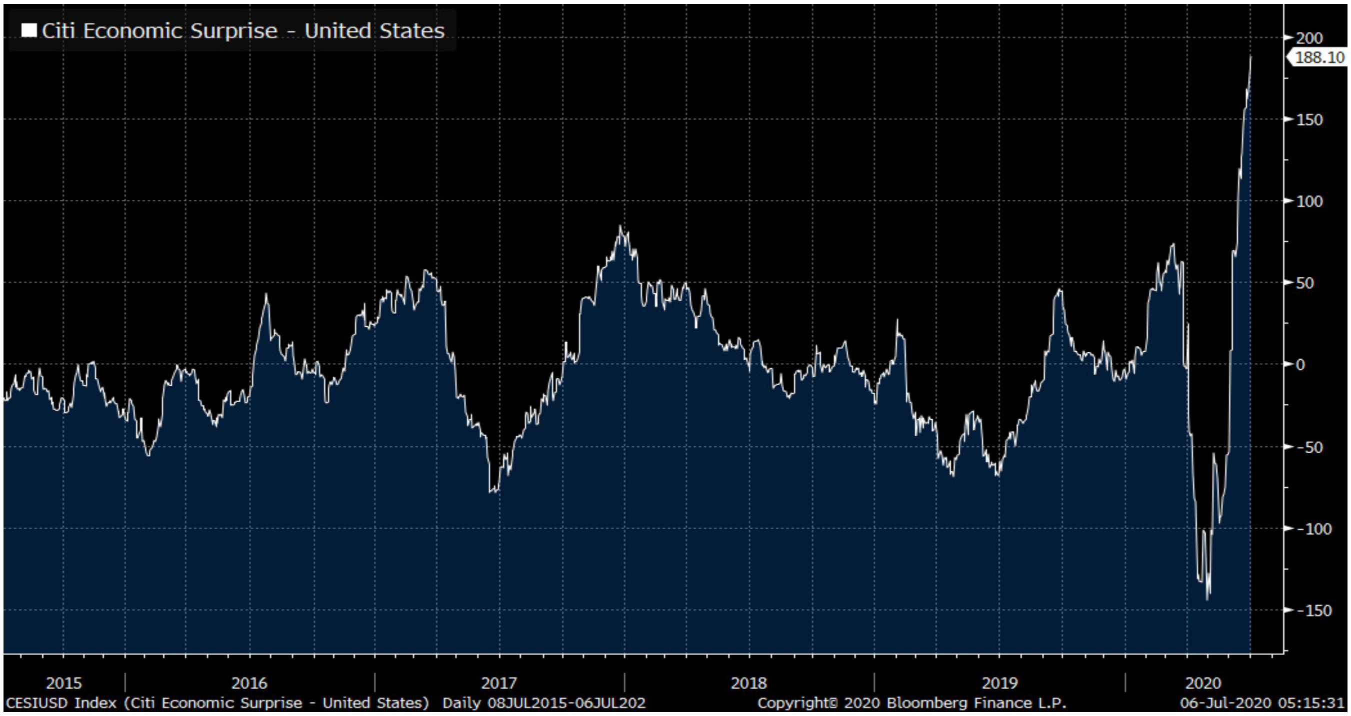


Also, I've been saying for a while now that we should start to see a sharp decline in imports from Australia. This comes as Australian slaughter is declining due to herd rebuilding and as Australian beef prices rally. We might be starting to see the initial signs of this showing up in the trade data. Note the chart below. If I'm right about Australian production and prices, we should continue to see imports from Australia fall further vs. normal levels.

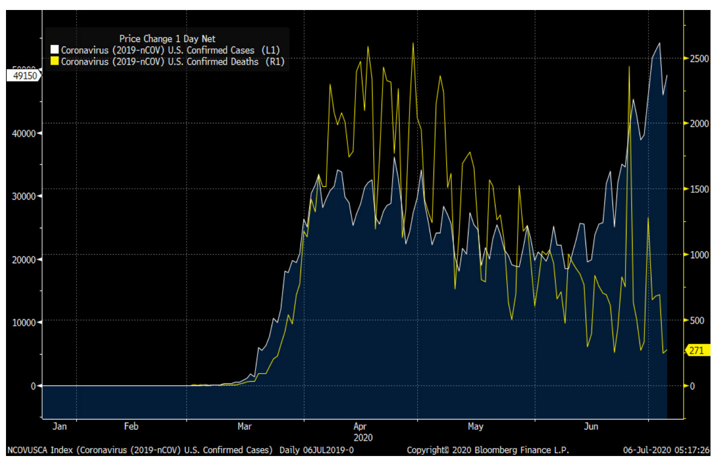


Financials

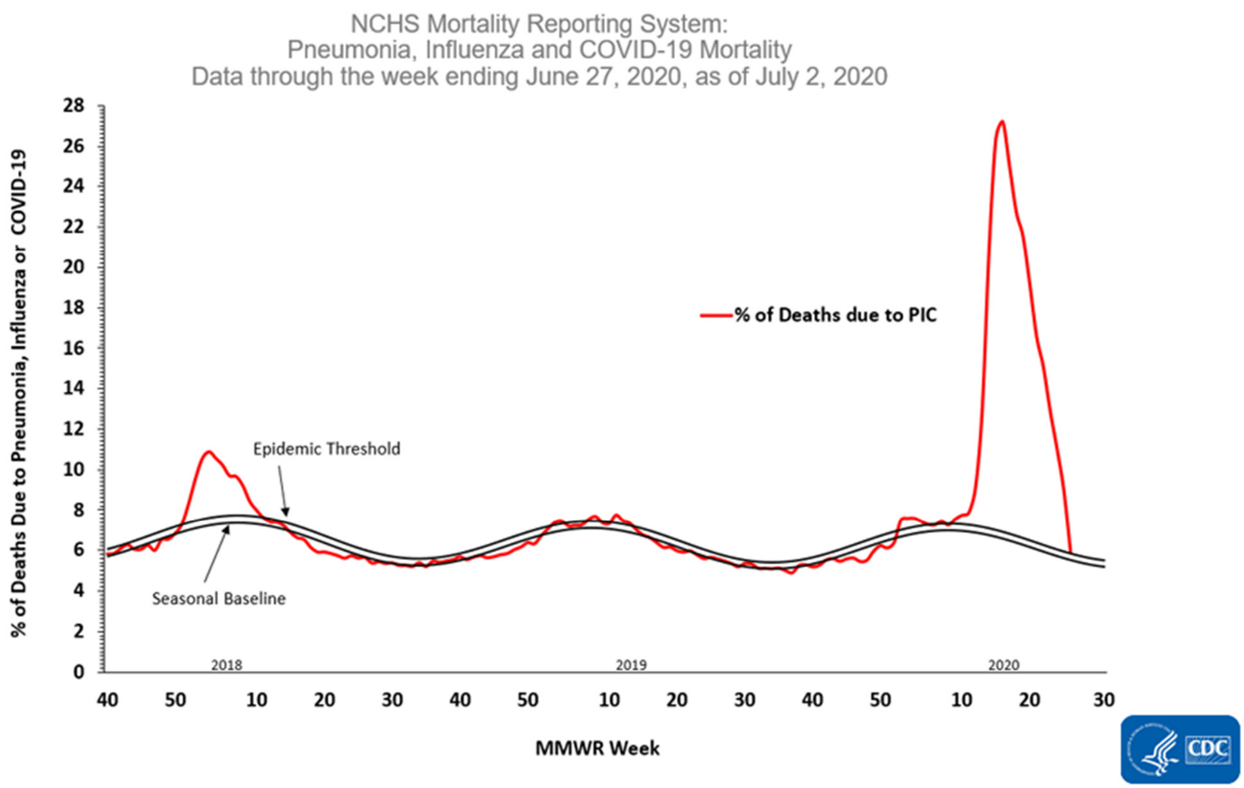
US equity futures continue to march higher overnight. While many can scratch their heads over the market's strength even as US virus counts continue to creep up, I think the simple fact of the matter is that economic data releases have very consistently been *hammering* expectations. The chart below is one I've shown before. It shows Citi's "economic surprise index" for the US. This is basically a measure of how strongly actual economic results are comparing against expectations. Relative to expectations, this is the best economic data we've had in years.



While we're on the topic of Covid, let's look at the latest data. US total case counts continue to trend higher, as you can see with the white line at the right. However, new deaths continue to trend lower. This weekend posted some of the lowest daily death totals we've seen since very early in the outbreak. I saw an interesting article posted on Twitter this weekend suggesting that Covid might even lose its "epidemic" status as the death rate is right at the threshold where the CDC technically classifies it as an epidemic. The chart on the following page is pulled straight off the CDC's website and you can see what I'm talking about. The CDC classifies something as an epidemic depending on the percentage of deaths related to that problem on a seasonal basis. You can see the



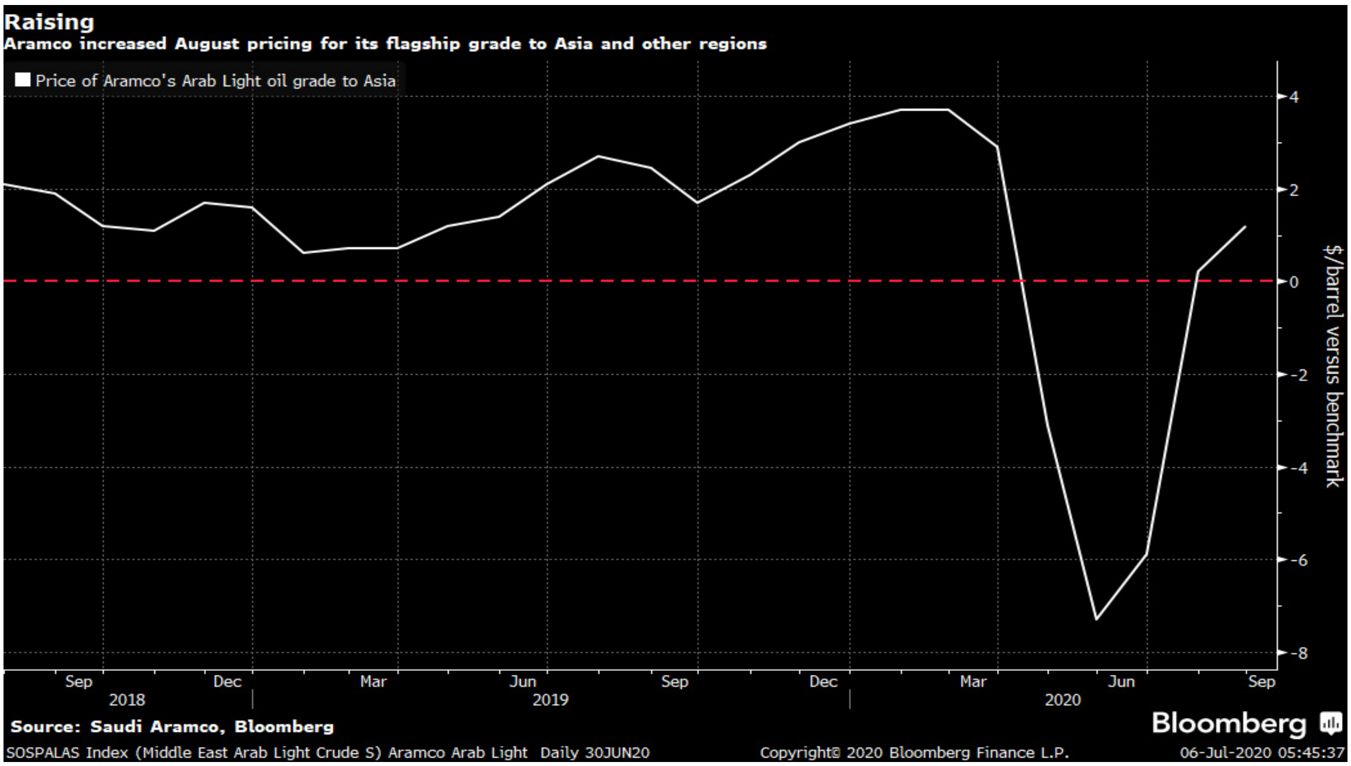
current death rate is approaching that threshold now. The CDC does note that they expect the death toll to rise as additional death certificates are filed and that could keep the death rate above the threshold for now. Still, I think this is very important to keep in mind and it is certainly different from the narrative you see from most media at the moment.



On tap today we have the ISM Services index. I have no strong read on what to expect from this morning's release other than to note that economic data has consistently been better than expected lately. The consensus estimate is for the index to reach the 50.0 level vs 45.4 last month. Otherwise, I see little new to report this morning. There seems to be some excitement over Chinese equity markets as well this morning. State-sponsored media has been hyping a bull market there and the Shanghai Composite has hit its highest level since early 2018. If the market really wants to get excited about a bull market in China, we know this can have add-on effects besides simply equity markets.

Energy

WTI futures are modestly higher at the time of writing this morning. I don't see much energy-specific news to get excited about this morning. I do see an article noting that the Saudis are raising oil prices for August shipment to Asia, the US, and other destinations. The Saudis are boosting the premium vs. the Middle East benchmark to $1.20/bbl in August vs. the current $0.20/bbl premium charged this month. This is not a surprise, however, and I doubt it has had any influence on the futures market. I only bring it up because it is an just another sign that the oil market is somewhat normalizing since the quick price war between the Saudis and the rest of the world. The chart below is a good illustration of how quickly the price war started and now appears to have finished. This shows the Saudi premium/discount offered to Asian buyers vs. the Middle East benchmark. You can see the Saudis cut prices dramatically for several weeks in an effort to move oil and undercut competition. At that same time, however, they secured production cut agreements from virtually everyone and they've relented with the price war are somewhat close to normal on their pricing method.



Today's Calendar (all times Central)

- ISM Services Index – 9:00am
- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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