NESVICK
TRADING GROUP, LLC

Monday, August 31, 2020
NTG Morning Comments
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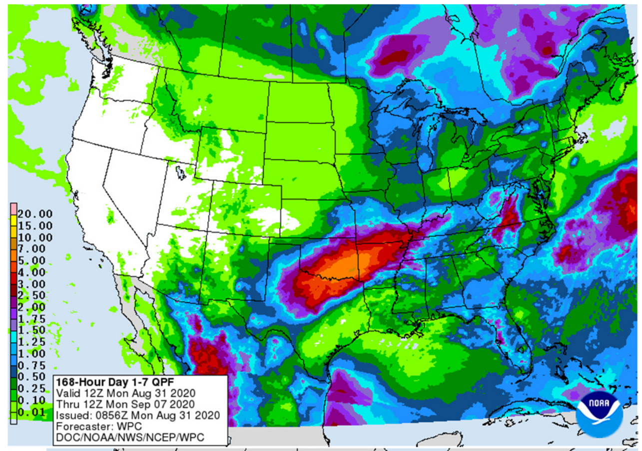
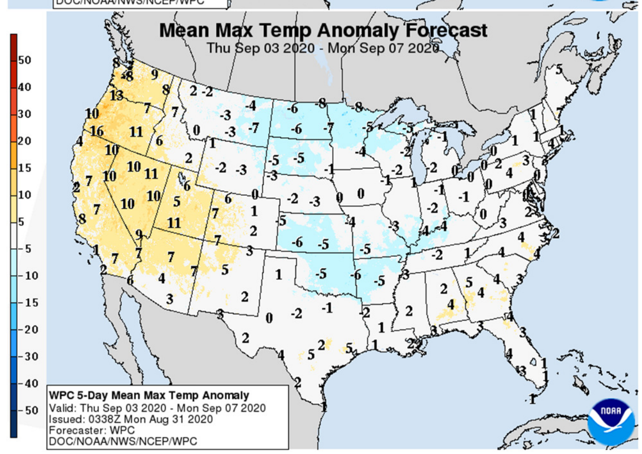
Weather



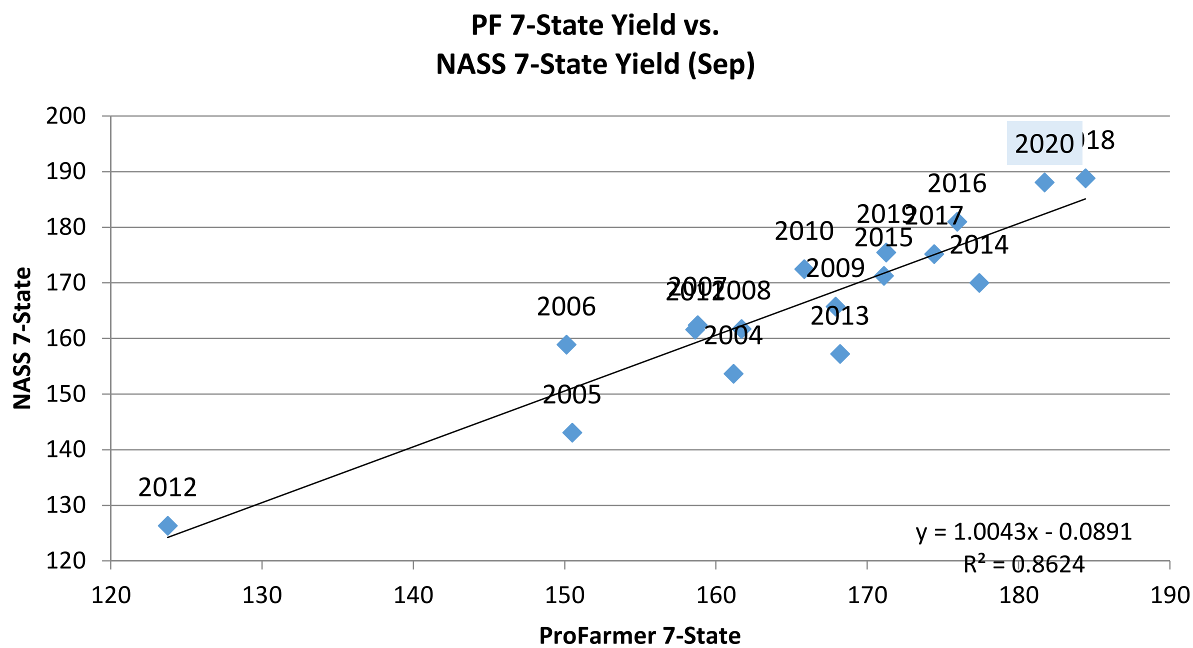


No huge changes to the forecast over the weekend. As has been the case for several days, the outlook for rainfall chances in the WCB for early this week has trended lower and lower. The 7-day QPF is shown at right and you can see that during this period only very limited rainfall is expected to fall in the WCB this upcoming week. Odds are there will be very big areas that see no rainfall during this stretch in the WCB. Rainfall totals in the ECB aren't anything to get excited about either, with the best rains this week easily in the Southern Plains and portions of the Delta. There are some hints of some wetter weather developing for the 6-10 day period in the Corn Belt. No big changes on the outlook on temps. Mild temps expected over the two week period, with much cooler weather expected in the Week 2 period. There will almost certainly be a few spots getting into the mid to upper 30s for lows in the 11-15 day period.

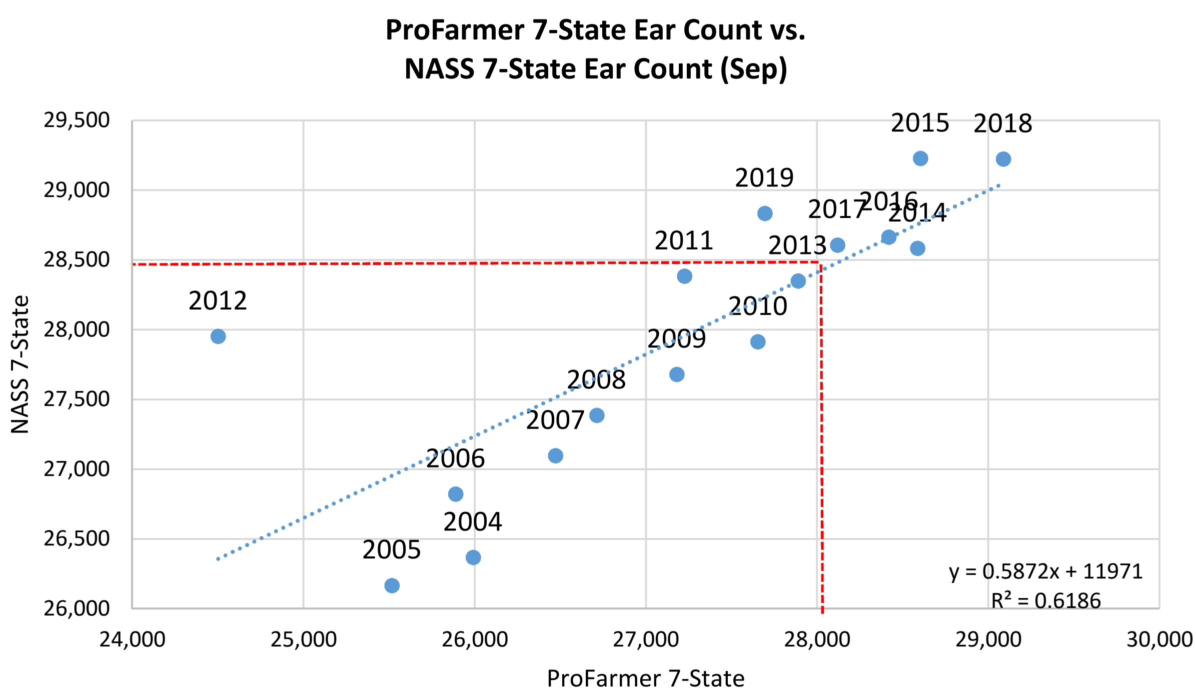
Crops

Well, it's probably about time to start discussing production prospects again. Today I'll look at yield prospects for corn and tomorrow I'll cover soybeans. Before diving in on yields, let me point out that I expect no major changes to acreage from NASS in their Sep report. There is certainly an argument to be made that acreage might decline based on FSA numbers, but historically NASS doesn't make any adjustment until the Oct report. I'm simply assuming they'll continue with that tendency this year. There is also an argument for potentially lower harvested area in IA due to the derecho, but the simple fact is I have no way of quantifying any possible change so I won't just make up a number (like many other "analysts" do). In either case, I don't think any possible change in the upcoming report will be nationally significant.

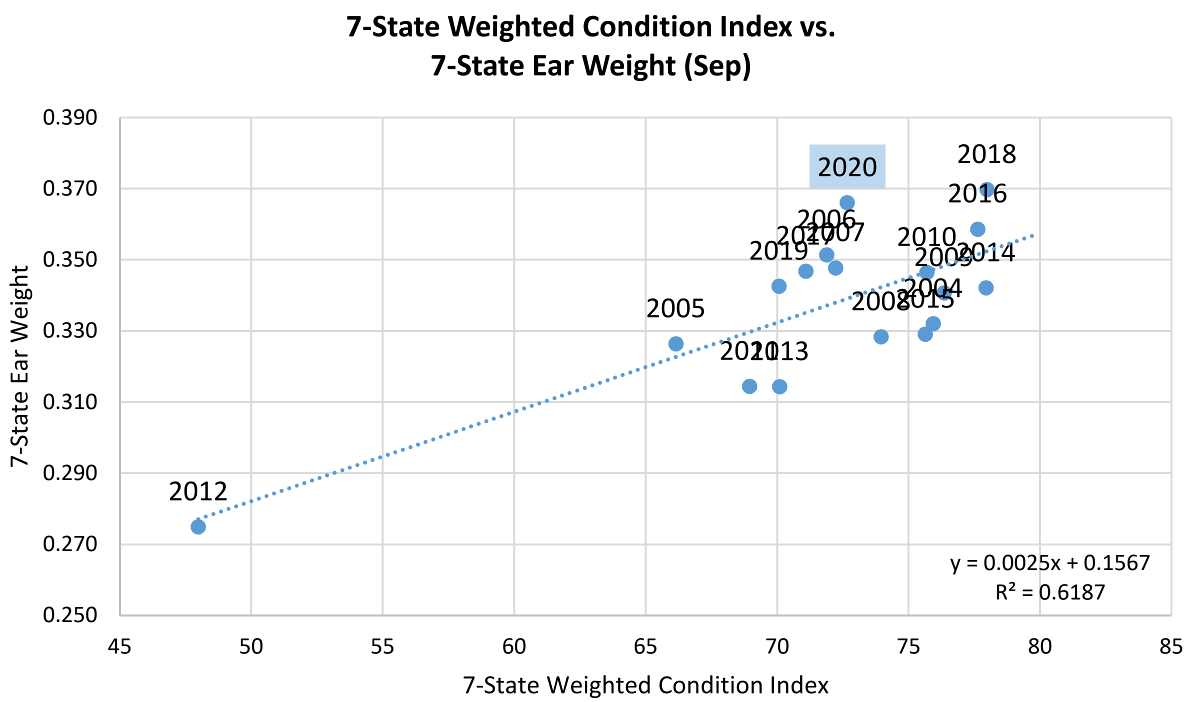
So where to begin in trying to dissect corn yields? I'll start with the ProFarmer crop tour. Let's throw away their national average yield guesstimate and instead focus on the individual state-level data released each night during the tour. If you simply compared the 7-state weighted average of the reported state yields by ProFarmer on an individual level and compare those to the NASS 7-state weighted yield for the same states, the relationship is pretty strong. The chart below shows the recent history, and the highlighted 2020 point shows this year's PF 7-state weighted yield vs. the Aug NASS 7-state weighted yield for the same states. With just a quick glance you can see that the PF 7-state yield would imply something modestly lower than what NASS gave us in Aug. Now, that being said, I would caution that in both 2018 and 2019 NASS's Sep estimate was still higher than the PF-implied figure…so that doesn't necessarily mean NASS has to move significantly lower next month. However, it at least argues with strong certainty that the yield isn't getting any bigger from here.



Taking the PF data bit further, we can show that PF's ear counts line up very well with NASS's objective yield data in their Sep report. The chart below shows the relationship and the red lines indicate where PF's ear counts were this year and what that might imply from NASS next month. Again, however, we should probably shade the ear counts to something modestly larger than the specific implication of the chart below.



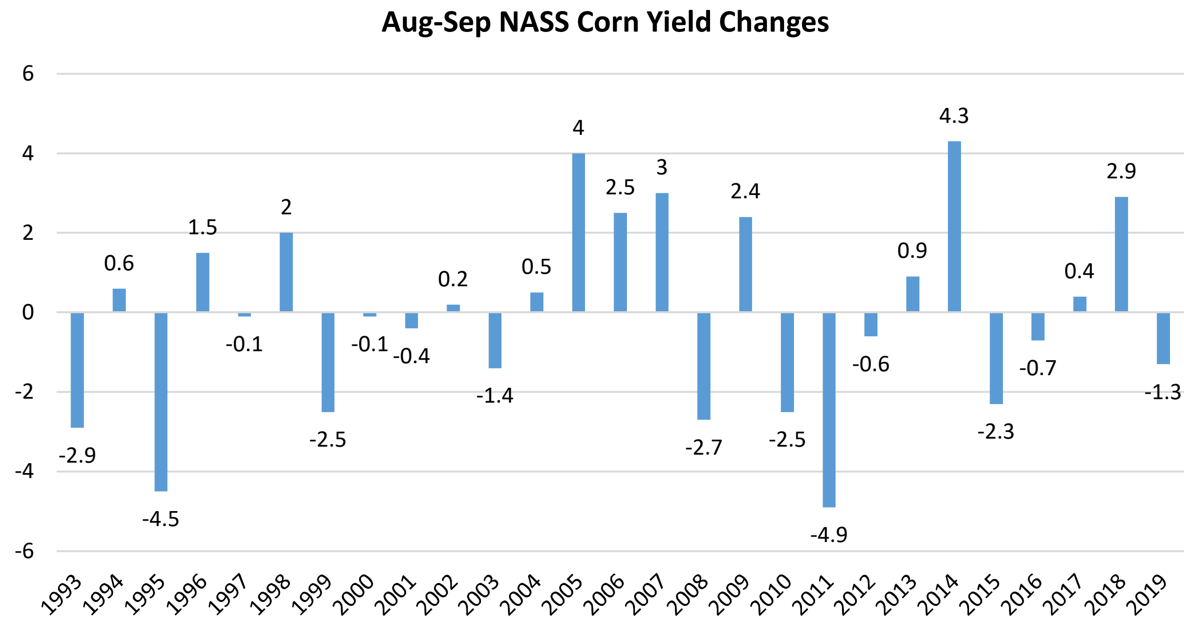
So let's err on the side of modestly higher ear counts than shown above…that is still only half of the equation. We have to come up with a guesstimate on ear weights. There is not a great way to model ear weights, but for now the best I've found is to compare them against condition ratings. The chart below takes the Sep NASS 7-state weighted ear weight vs. the 7-state weighted condition index for Week 35 (end-August). The relationship is far from perfect, but its manageable.



You'll see I have a 2020 point highlighted. This is getting a bit in the weeds, but what this is attempting to show is the ear weight necessary to hit the Aug NASS 7-state yield if we were to assume something slightly higher than the PF-implied ear count as noted above. Also note that the 7-state weighted condition index shown for 2020 is last week's Week 34…I obviously don't have today's Week 35 reading yet (but it should probably be lower, right?). The bottom line here is that conditions would imply that, unless ear counts are significantly bigger than the PF-implied level, ear weights are unlikely to be big enough to maintain the NASS 7-state yield level from the Aug report.

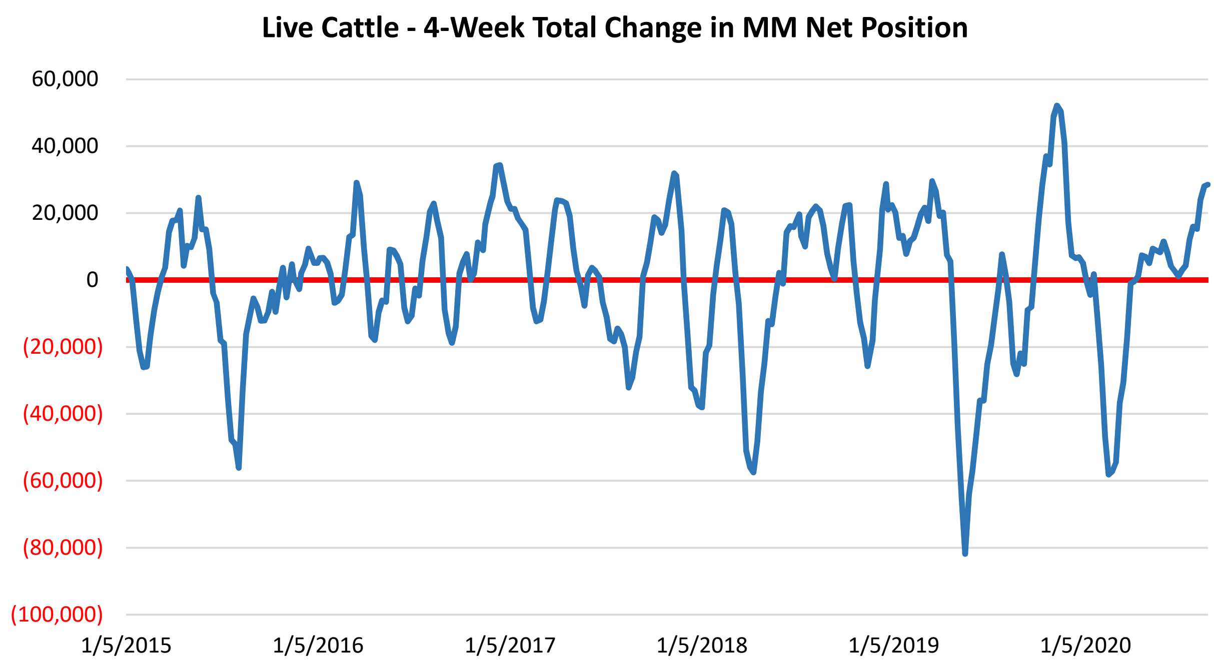
I won't go too far into the weeds on my math here, but – using all of the above information on ear counts and trying to factor in a reasonable ear weight – **I'm coming up with a possible reduction in 7-state corn production of roughly 350 mil bu vs. the Aug NASS estimates. All else being equal, it would potentially knock off roughly 4 bpa on the national average yield from the Aug NASS 181.8 bpa estimate. Just put me at a round-number guess of 178 bpa for national average corn yield.**

I'll concede that this sort of reduction is probably a bit aggressive relative to what we know about NASS. You can see in the chart that this sort of yield reduction from Aug to Sep would be unusual…though not unprecedented. I'll go with 178 because that is what my objective yield data is showing…but I'll concede that NASS is more likely to end up higher than that. Still, the point is that the crop is likely to get smaller in the next report. Thoughts and comments greatly appreciated.



Livestock

Not much stood out to me in the weekly COT numbers, but I did notice the following…

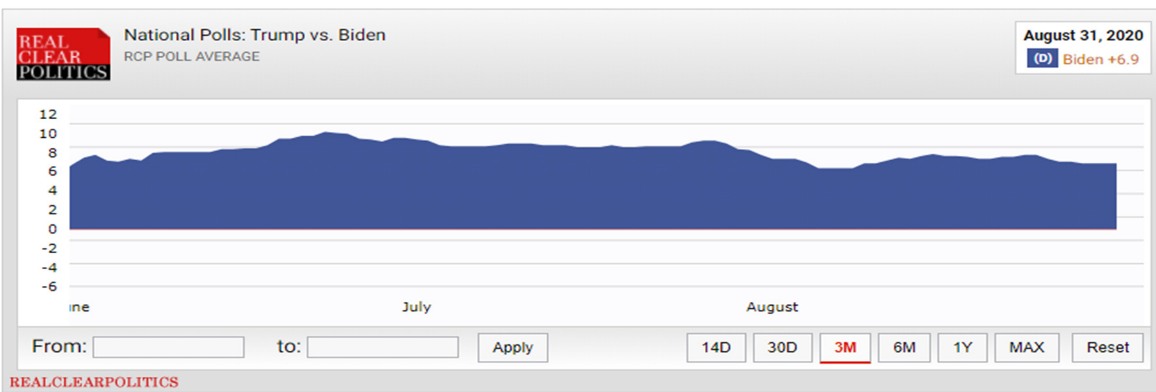


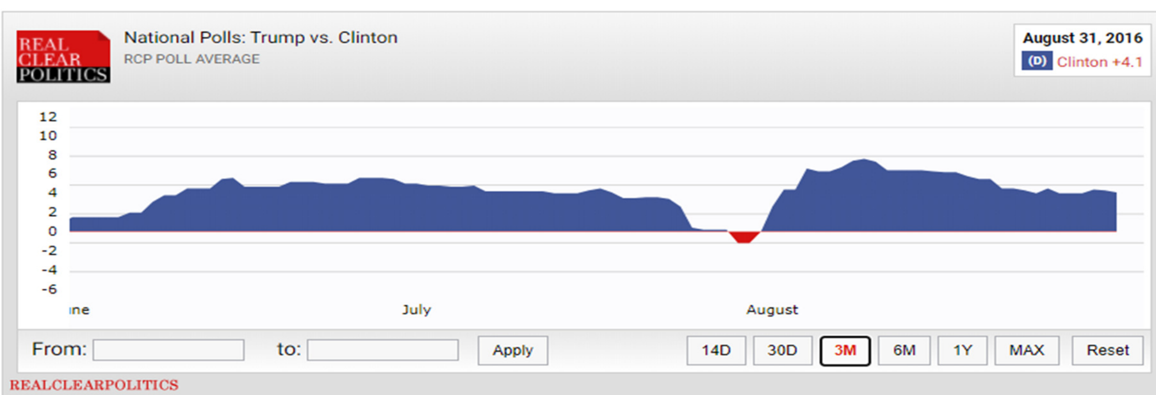
The past four weeks have seen net buying of almost 30k contracts of LC for MM traders. As you can see in the chart above, while that is not a record buying spree it is certainly near the top end of the typical range in terms of 4-week running totals. This might be of heightened importance right now considering the technical damage we just did on the charts late last week. Prices rolled over through trendline and key MA support levels late last week. Also keep in mind this is the seasonal period of Oct contract rolling/liquidation. All of this might mean some trouble for those late-to-the-party MM longs shown on the chart.

Financials

I don't have much new to say here this morning as markets continue to do a lot of the same things we've been discussing. Equities continue to grind higher thanks to massive central bank stimulus. The USD is torn between huge amounts of liquidity but also supported by the inflows into the US equity market. Gold and silver are supported by the huge levels of liquidity but real rates continue to consolidate as mentioned last week which takes away a supportive element. It makes for boring commentary – but things are simply doing what we've been pointing towards for a while now.

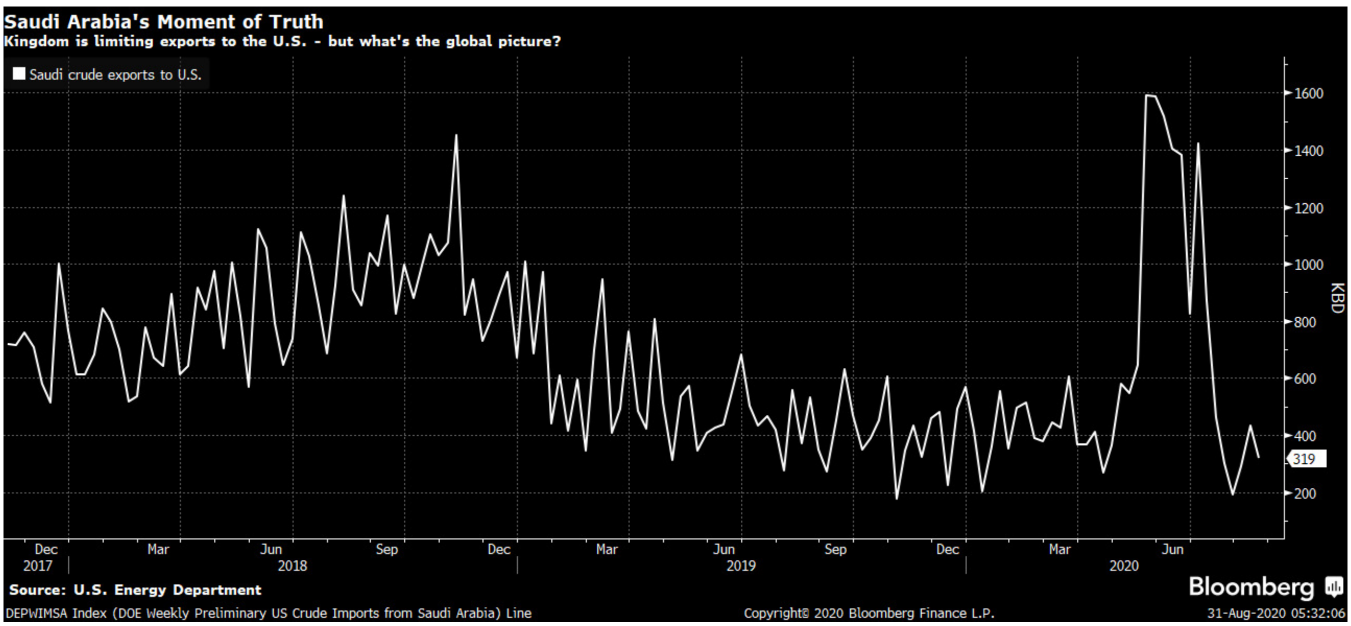
A busy week of data on tap. We have the ISM survey tomorrow morning…we'll speak on that a little more tomorrow. Later in the week we get the monthly payrolls data. Of more interest to markets however might be polling on the presidential race. RCP is still showing Biden with a sizeable lead, but the gap has certainly narrowed in the past few weeks. Shown below is a comparison vs. the Clinton-Trump campaign in 2016. At this point in time Clinton held a 4 point lead vs. Trump compared to Biden's current 7 point lead. That brief period of Trump being in the lead in 2016 was during the Republican National Convention at that time. This is only meant to show that Biden's current lead is not insurmountable.





Energy

Just a quick chart as food for thought this morning. The chart below shows weekly US crude oil imports from Saudi Arabia. You can see the huge surge we saw earlier in the year as the Saudis went on the offensive in an effort to crush US shale. Since then, with US shale definitely on the ropes, imports have contracted to somewhat low levels. We should get unofficial estimates of OPEC oil production later this week, so it will be interesting to see how Iraq and Nigeria performed in their efforts to catch up to compliance with the production cuts. I'm going to guess they haven't made a ton of progress.



Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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