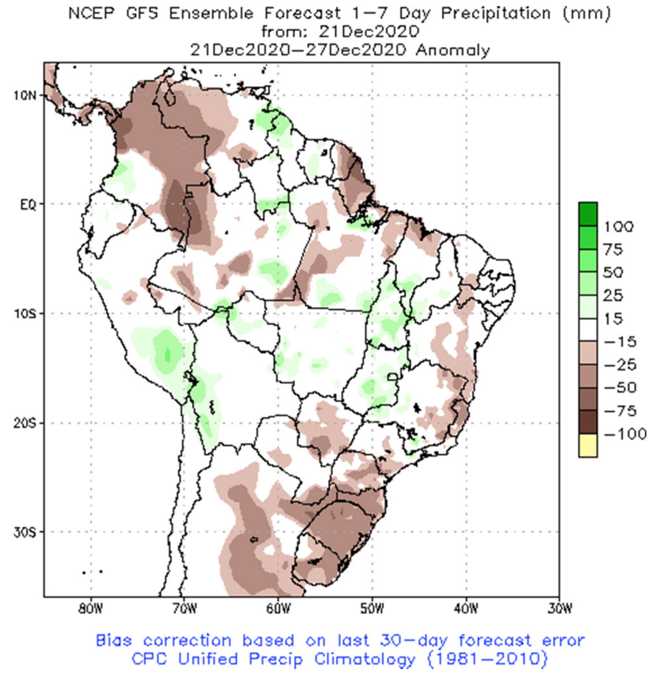
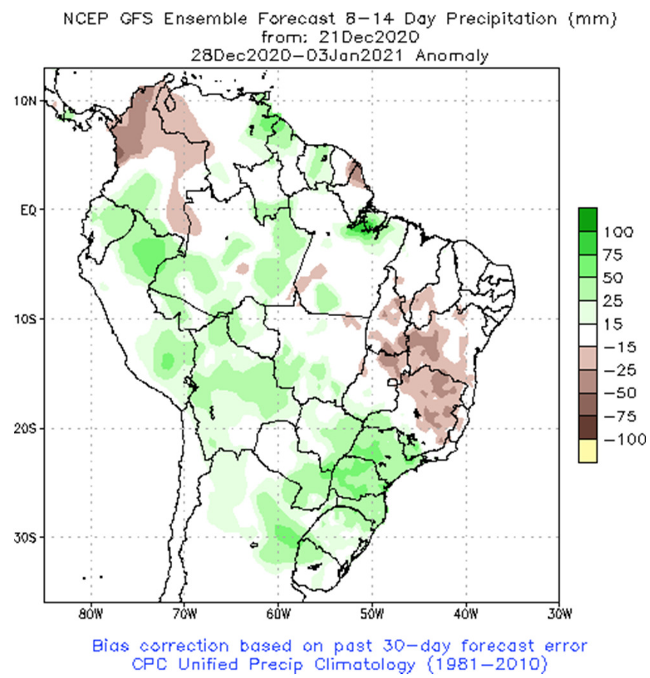
Weather

Rainfall in northern Brazil over the next two weeks will run near normal. The biggest totals in the two week period should probably be seen in the next 5-6 days. Around 12/28 we should see a decline in rainfall chances with near normal totals at best through the end of the two week period. No major heat in the near term thanks to the persistent rainfall chances. Some above normal readings should start to pop up again toward the end of the month.



Southern Brazil should also see near normal rainfall totals for the two week period. RGDS might be an exception with below normal amounts. Dry weather is expected today through at least Saturday and probably into early next week. Rainfall will eventually return next week, however, with some good amounts falling in the second half of the forecast period. Temps will warm up moderately this weekend with some mid 90s possible. Cooler temps should return as rainfall chances arrive next week.



Argentina should see two week rainfall totals mostly below normal. Dry today with dry conditions through at least Friday. Some rains will be seen this weekend but that should be seen mainly in western portions of the country. Some more widespread rainfall chances will be seen Tues/Wed but the best amounts and coverage will favor northern portions of the country. Rainfall should then diminish again late in the 6-10 day period and should remain limited through the 11-15 day period as well. We should see high temps in the 90s starting tomorrow and lasting almost through the end of the month.

Crops

We're continuing with a look at some too-early guesses on 21/22 balance sheets this morning. Today we'll quickly tackle my take on the corn balance sheet. The usual disclaimers I mentioned yesterday all apply here today as well. We're still not certain on corn production for last year so making guesstimates for next year seems like an exercise in futility. Still, we've got to start somewhere. And that is all this is…a starting point for conversation.

Like yesterday, I'm mainly going to let my numbers speak for themselves. You'll notice I'm again tweaking some old crop demand projections. While the past few weeks have shaken my confidence a little, I'm still of the opinion there is modest upside to the corn ethanol grind this year. The pace of export sales in corn also argues there could be upside there as well.

In 21/22 balance sheet, the first column shows my acreage projection noted last week which is based on current futures prices. With 92.7 mil acres and a trendline yield, one can make the argument that the corn balance sheet would be sufficiently supplied…though not an excess either. However, if we were to trim some acres away to give to soybeans the balance sheet (shown in the pink column) tightens significantly even with a trendline yield.

US Corn Supply and Demand (Million Bushels/Million Acres)

	USDA 13/14	USDA 14/15	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Oct	**USDA 20/21 Dec**	**NTG 20/21**	**NTG 21/22**	**Less Acreage**
Planted Acres	95.4	90.6	88.0	94.0	90.2	88.9	89.7	**91.0**	**91.0**	**92.7**	**90.0**
Harvested Acres	87.7	83.1	80.7	86.7	82.7	81.3	81.3	**82.5**	**82.5**	**84.9**	**82.2**
Abandoned Acres	7.7	7.5	7.3	7.3	7.5	7.6	8.4	**8.5**	**8.5**	**7.8**	**7.8**
Yield	158.1	171.0	168.4	174.6	176.6	176.4	167.5	**175.8**	**175.8**	**179.0**	**179.0**
Carryin (Sep 1)	821	1,232	1,731	1,737	2,293	2,140	2,221	**1,995**	**1,995**	**1,602**	**1,602**
Production	13,829	14,216	13,602	15,148	14,609	14,340	13,620	**14,507**	**14,507**	**15,197**	**14,714**
Imports	36	32	67	57	36	28	42	**25**	**25**	**25**	**25**
Total Supply	14,686	15,479	15,401	16,942	16,939	16,509	15,883	**16,527**	**16,527**	**16,824**	**16,341**
Feed and Residual											
Total Feed and Residual	5,036	5,314	5,131	5,470	5,304	5,430	5,827	**5,700**	**5,700**	**5,800**	**5,700**
Food, Seed, and Industrial											
Corn for Ethanol Fuel	5,134	5,200	5,206	5,439	5,605	5,378	4,852	**5,050**	**5,100**	**5,225**	**5,225**
Other FSI	1,367	1,367	1,429	1,446	1,452	1,415	1,430	**1,425**	**1,425**	**1,450**	**1,450**
Total FSI	6,501	6,567	6,635	6,885	7,057	6,793	6,282	**6,475**	**6,525**	**6,675**	**6,675**
Total Domestic Use	11,537	11,881	11,766	12,355	12,361	12,223	12,109	**12,175**	**12,225**	**12,475**	**12,375**
Exports (Census)	1,917	1,867	1,898	2,294	2,438	2,065	1,778	**2,650**	**2,700**	**2,500**	**2,500**
Total Use	13,454	13,748	13,664	14,649	14,798	14,288	13,887	**14,825**	**14,925**	**14,975**	**14,875**
Carryout (Aug 31)	1,232	1,731	1,737	2,293	2,140	2,221	1,995	**1,702**	**1,602**	**1,849**	**1,466**
Stocks/Use	9.2%	12.6%	12.7%	15.7%	14.5%	15.5%	14.4%	**11.5%**	**10.7%**	**12.3%**	**9.9%**

So, taking yesterday's and today's balance sheets together, some observations:

- Soybeans still have a demand-rationing job to do right now
- Even if soybeans can "buy" 90 mil acres, the balance sheet would still be somewhat tight with a trendline yield
- If corn "gives" acres away to soybeans, the balance sheet there can tighten notably as well.

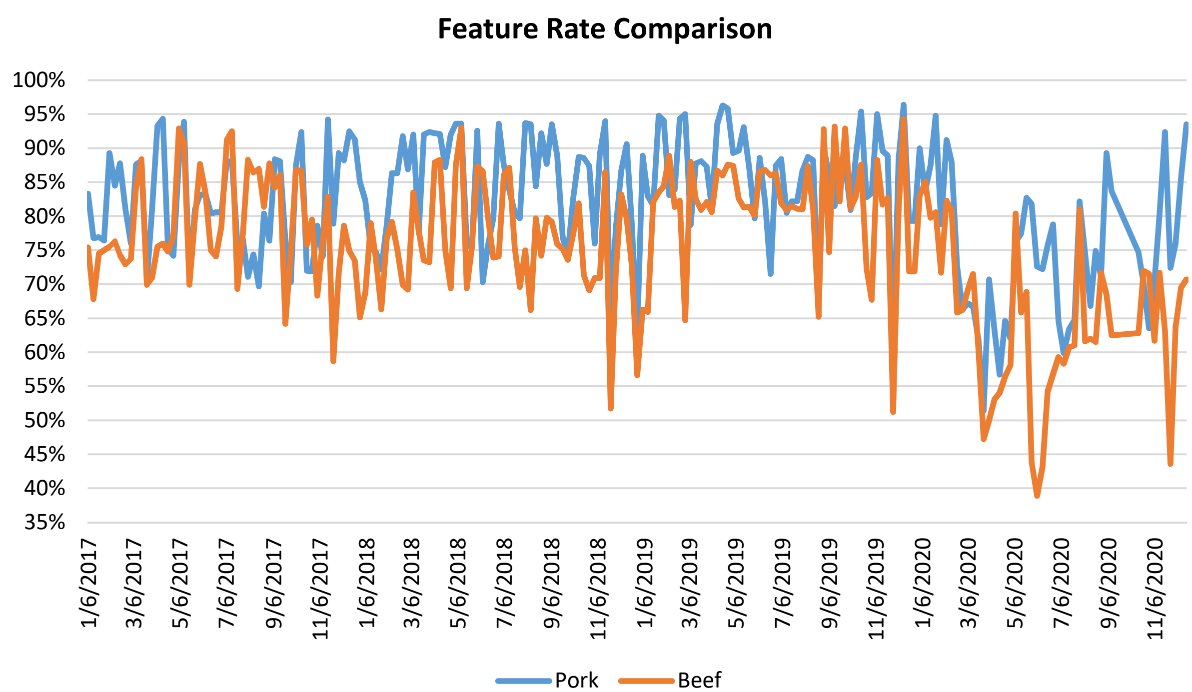
Bottom line, it appears we will have <u>zero</u> margin for error with the 2021 crops, which should keep new crop futures values elevated with some risk premium well into the summer months.

Please feel free to pass along your thoughts and opinions.

Livestock

I received only one comment back on my note from yesterday, but it echoed the point I was trying to make with those two charts. The comment – *"Dude…feeders are either there and we have massive placements to catch up OR they are not and the data is just crap."* This particular responder went on to point out that his current bias was that the data is crap and the backlog of feeders is not as bad as the data might suggest…but who knows? Thanks for any feedback.

This isn't particularly market-moving information, but every so often I like to look at the weekly data on retail features/specials/advertisements on beef and pork. The chart below stood out to me this week, showing the feature rates on both pork and beef in the past few years. The feature rate is *"the amount of sampled stores advertising any reported item during the current week, expressed as a percentage of the total sample"*. It should come as no surprise that there was little need to advertise any meats during the initial lockdown days earlier this year. Interestingly, the level of pork advertisements has picked up to pre-Covid norms. Beef, however, is not quite back to pre-Covid advertising norms. I don't know if this means anything. Again, it isn't a board-moving issue. Just something I found interesting…



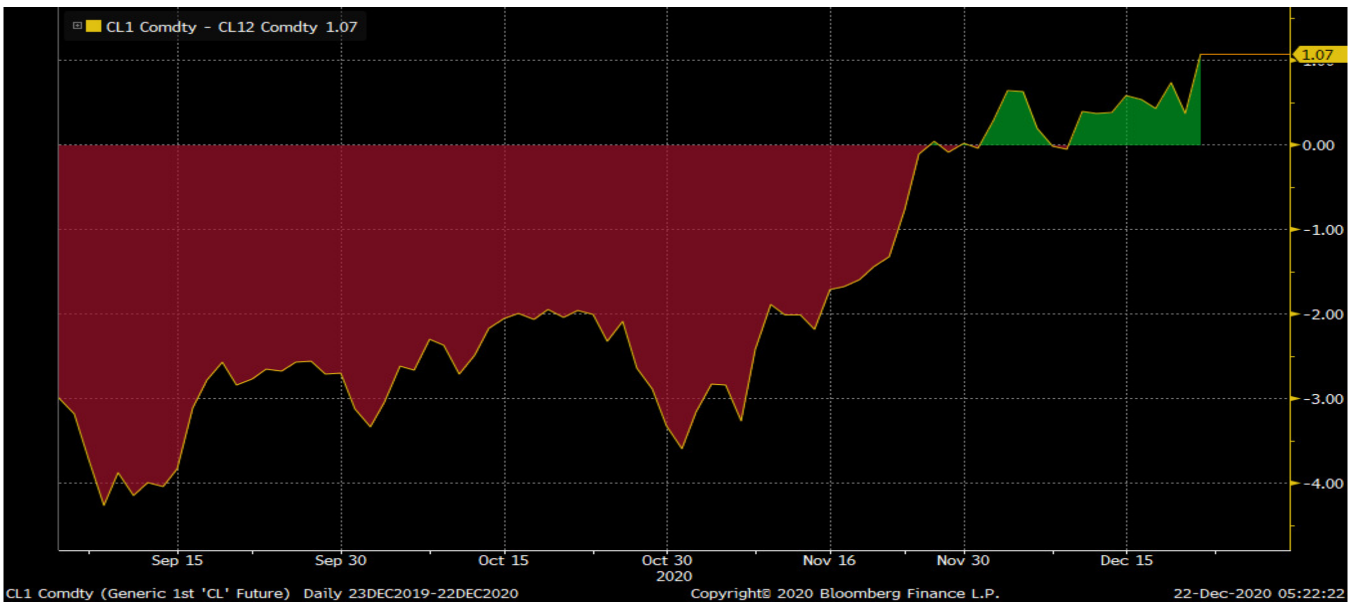
Financials

A lot of gloom and doom on the tape since the weekend, and that is nothing new for 2020. I asked yesterday "what has changed?" I still stand by my assessment that nothing has really changed and any market corrections here in the short term will be simply that….a correction. For Exhibit A on why nothing has truly changed, see the chart below. The white line in the chart shows an estimate of the combined Fed, BOJ, and ECB balance sheets (BOJ and ECB converted to USD terms). Obviously the trend in bigger balance sheets has been upward since the turn of the century, but it was kicked into overdrive this year. The yellow and orange lines show spot gold and the SPX, respectively. This is old news, but obviously the central bank actions have been highly supportive to asset prices…I could have picked others but I just stuck with these two obvious ones. So, if you're worried about some "mutant strain" of Covid suddenly, what do you think the central bank response will be? Balance sheet expansion is going nowhere. Nothing has changed. Don't trade the hyped headlines.

Some interesting economic data on tap for this morning. The third revision to Q3 GDP will be released. By this point we shouldn't be too surprised by anything on this report. More importantly, I'll be closely watching the consumer confidence and existing home sales reports. The housing market continues to be en fuego thanks to low interest rates and on-and-off stay-at-home measures. It will be interesting to see how consumer confidence fairs with renewed hype surrounding the Covid Xth wave in the past month (I've lost count of what wave we're on).

Energy

Oil futures are lower again this morning at the time of writing. The first article I saw when sitting down this morning to look at oil markets was discussing the "mutant strain" of Covid and fears it will hit fuel demand. Despite the flat price weakness this morning, I think it might be more instructive to look at what the calendar spreads are doing right now. I have two charts on the next page. The first chart looks at the spot WTI calendar spread, simply the rolling 1st and 2nd contracts. Here you can see that the spreads have been relatively steady over the past few days. It was weaker yesterday but has regained those losses and then some at the time of writing this morning. The second chart shows the one-year calendar spread in WTI. Again, we have this calendar spread printing new highs at the time of writing this morning. The calendar spreads don't seem to be confirming all the fear and doom and gloom of the headlines, and I think that is worth noting today.



Today's Calendar (all times Central)

- Q3 GDP Revision – 7:30am
- Consumer Confidence – 9:00am
- Existing Home Sales – 9:00am
- Cold Storage - 2:00pm

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684

Trillian IM: dzelinski@nesvick.com