NESVICK TRADING GROUP, LLC

Tuesday, January 12, 2021

NTG Morning Comments

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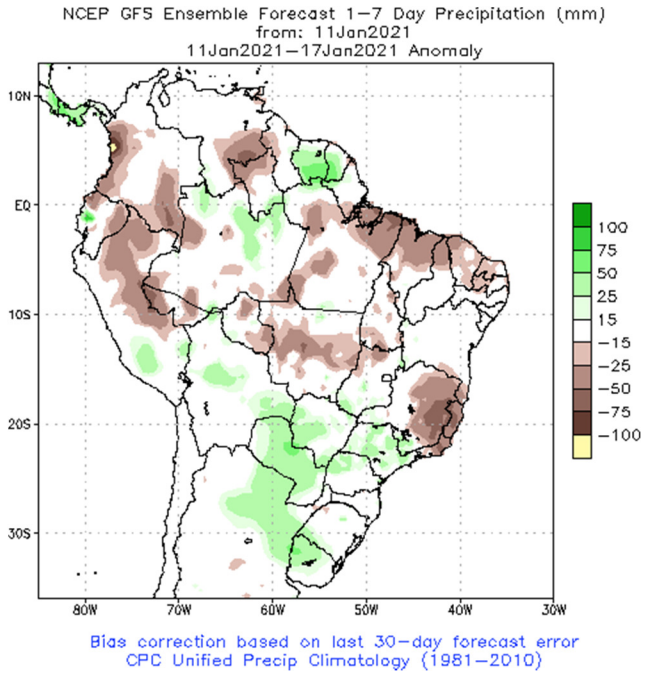
Weather

No big changes to the forecast. Northern Brazil will see near to below normal rainfall over the next two weeks. The best rains will be seen in the next 10 days, with less amounts in the 11-15 day period. Temps will be above normal on a widespread basis for a few days, but should turn cooler later this week. They will turn back above normal for the 11-15 day period.



Southern Brazil will see mostly above normal rainfall over the next two weeks. We'll see active showers today and tomorrow before drier conditions return Thur/Fri. Additional rains will fall this weekend, and there will be additional chances for on-and-off rain through the duration of the two week period. Some 90s for highs today through the end of the week, but modestly cooler beyond that.

Rainfall over the next two weeks in Argentina will be near to below normal. Mostly dry weather for the next few days with some rainfall later this week. The best amounts will favor northern portions of the region. After this weekend, there isn't much rainfall in the forecast for the duration of the two week period, with widespread below normal totals for both the 6-10 and 11-15 day periods. No major heat in the next few days, but we could see heat start to build in the 11-15 day period with some 95+ readings certainly possible.

Crops

We have several USDA reports on deck for this afternoon. We've gone over some of the big-picture issues over the past few days, but I haven't had a chance to cover everything. I'm going to have a quick review of what we've covered and a few other points this morning.

Wheat-

The key item to watch for today will be the winter wheat planted area projections. The average guess calls for planted area of 31.5 mil acres vs. 30.4 last year. It used to be an easy call to bet the under vs. the average guess on winter wheat area, but I think we've finally scraped the bottom of the barrel on wheat acres…especially considering the price rally in wheat we've seen this past year. That said, we also know there is a tendency for NASS to gradually stair-step the winter wheat area estimate throughout the year, so I don't expect them to find all of the increase this time. I'm on-board with the average guess, or maybe something *slightly* higher.

The average guess for Dec 1 all wheat stocks is 1,696 mil bu. My projection, as shown last week, is 1,681 mil bu. So, yeah, I'm slightly lower but all things considered that is basically the same guess. With that in mind, I don't think we're due for a huge surprise on the stocks number.

The average guess for all-wheat 20/21 ending stocks is basically unchanged from the Dec estimate. I don't expect any changes to the demand figures either, other than a few modest possible tweaks based on the Dec 1 stocks figure. With that in mind, I also agree with the average guess for only a minimal adjustment to ending stocks. Bottom line – the wheat portion of today's reports probably won't cause much excitement unless we're wrong about the acreage figures.

Corn –
It should go without saying that the big question mark for today's report is the 2020 production figure. As noted last week, I am assuming a 1 bpa reduction in the yield. If I'm being honest, my bias is that I'm being too conservative with the yield cut. That 1 bpa reduction is what my objective yield data models would suggest, but obviously those aren't perfect. As I scan the cash markets around the country, cash certainly trades much stronger than supplies at those levels would normally suggest. My personal guesstimate for corn production (~14,425 mb) is lower than the average guess (~14,450 mb), but if you put a gun to my head I'd suggest that my gut is actually telling me I should be even lower.

Everything else hinges off that production figure. My expectation for Dec 1 stocks, with my "conservative" reduction in production would be significantly larger than the average guess. There is no way to hold any confidence in F&R projections considering what NASS has done to us over the past year, but what I want to point out to everyone is that even if production is smaller than expected, the Dec 1 inventory figure might still prove to be somewhat close to expectations. Don't be surprised by that sort of thing.

As for the balance sheet, again it falls back on the production number almost entirely. With a smaller production figure, WASDE will most likely lower their annual F&R estimate. That might depend on the stocks number, but it seems a reasonable bet that lower production will be at least partially offset by lower F&R demand. The other demand figures are highly likely to be left unchanged. I suppose there is a chance that WASDE could cut their ethanol grind projection, but with 3 months of official grind data on the books I think they're more likely to leave it alone unless they need to cut demand due to a bigger than expected cut to production. The average guess on ending stocks seems cuts ending stocks by 100 mb despite the average guess for production being down "only" 50 mb. That seems wrong to mes. Even if production is slightly less than expected, ending stocks might still end up close to the average guess. Throw that out the window if production is significantly less than expected.

Soybeans-
I suppose the same can be said for soybeans as I said for corn above – production is the obvious critical issue here. However, I feel more comfortable in believing that a big surprise on soybean production is less likely than a possible surprise in corn. I do anticipate that soybean production will be revised modestly lower, but I also feel that NASS probably had a pretty good handle on production with their November report and thus don't anticipate a big move. The average guess on soybean production calls for a ~15 mb reduction, and I suppose I don't have any major argument against that.

I showed in my commentary last week that usually Q1 residual consumption is large when Q1 exports are large. Well, we've seen record large Q1 export shipments and that favors a large residual figure. We also have an ongoing big export program for the month of Dec, which should mean a sizeable amount of "pipelined" soybeans as well. Both of these factors favor a big residual figure in the stocks calculation, and the average

guess for Dec 1 stocks (2,929 mb) doesn't seem to be taking that into consideration. My money is betting the under on the Dec 1 stocks figure.

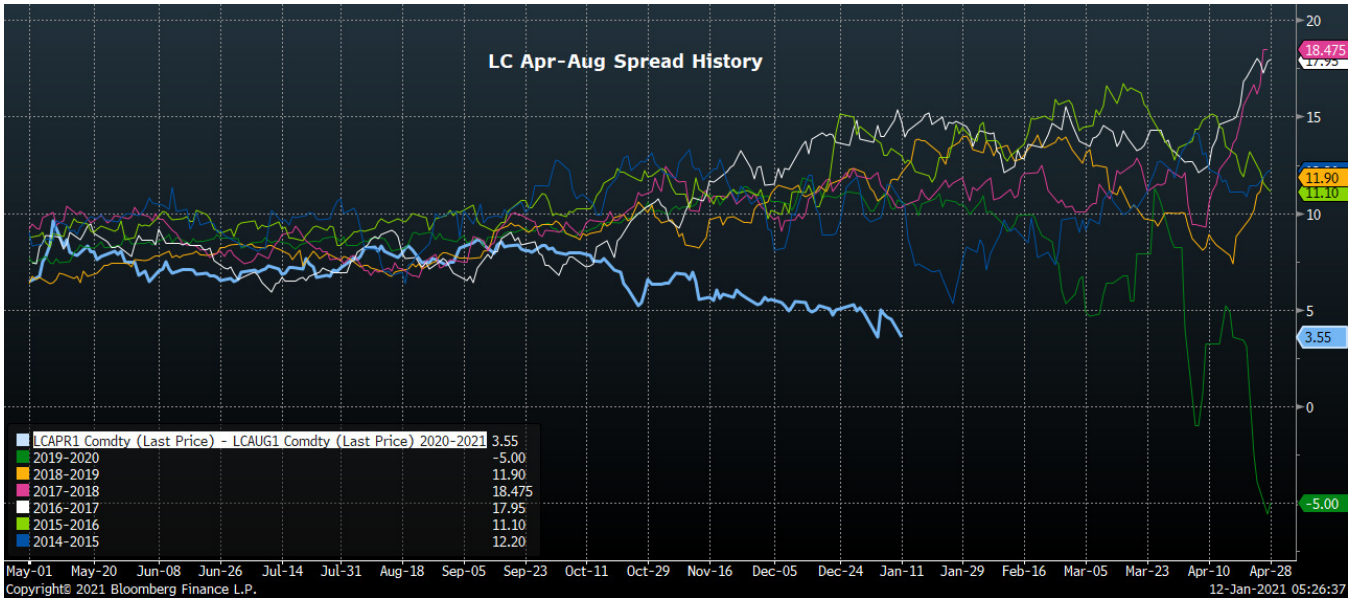
As for the balance sheet and demand projections…I don't have much insight to provide here. WASDE already seems to be at their "pipeline" level based on their unwillingness to confront reality in their demand projections. With that in mind, I don't think they'll raise any of their demand figures. So if the average guess for a 15 mb reduction in production is correct, the average guess on ending stocks (-36 mb) is probably too low.

World Production, etc-
I'm not expecting any huge adjustments here. Newswires are showing expectations for 1.5 mmt reduction in both Brazil and Argentine soybean production. I think that is a bit too aggressive and I'd be very surprised if they cut these figures by more than 1 mmt each. The newswire expectations also call for cuts to South American corn production which are also probably too dramatic.

A lot of moving pieces today. Please let me know if you feel I've missed anything here. Good luck.

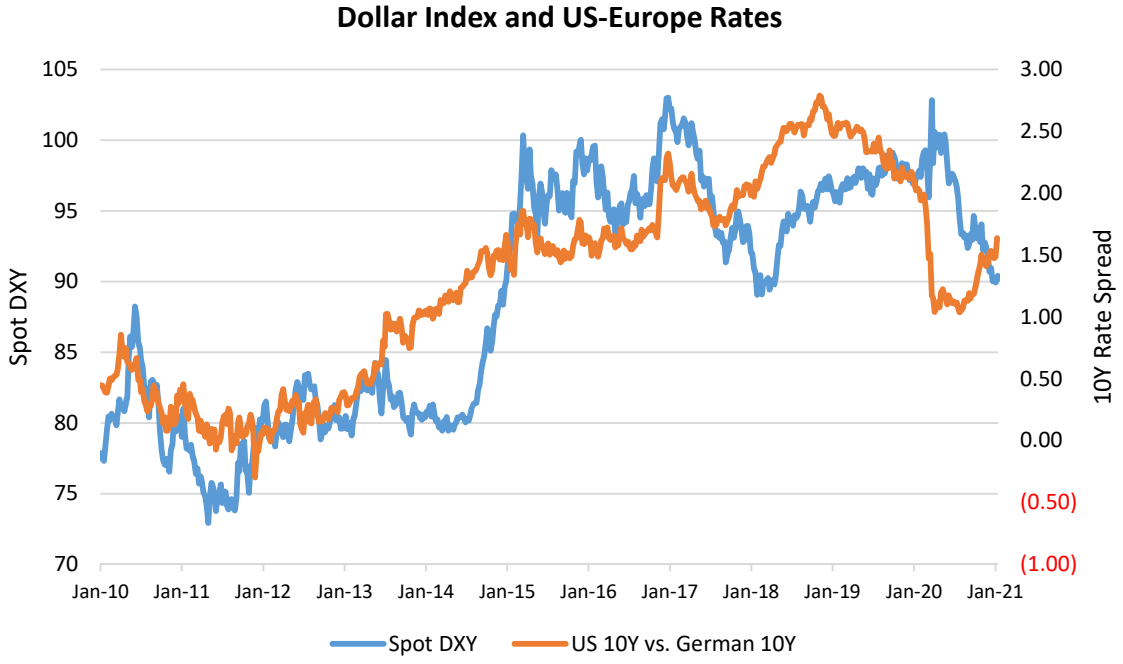
Livestock

I don't have much smart to say on these markets today. I haven't felt particularly "tuned-in" on the livestock markets lately, so I've basically been throwing charts in here and hoping you guys respond with some interesting thoughts. I'm doing that again this morning, noting the weak performance of the Apr-Aug spread. The past 5 years of the spread action is shown below, and you can see the current performance of the spread is currently much weaker than usual. I understand that we could have solid placed-against numbers for early in the year, but this spread seems abnormally weak to me. If I were to take the history of the spread back a few more years, we'd find some years with weaker spreads, but that was a different world so I'm not sure how relevant that would be. Any thoughts on this? I'm a bit stumped.



Financials

As noted yesterday, US yields have been relentlessly moving higher over the past several weeks. On a global level, bond yields have been rising as well, but none quite so fast as what we've seen in the US recently. This is an interesting development that I suspect *might* be capable of having an impact on the FX market. The chart below looks at the rate differential between US 10Y yields and the same for Germany (representing Europe, in general) with the orange line. Again note that US yields have been rising steadily against German yields in since mid-2020 and particularly aggressively here lately. The blue line represents the spot DXY index, which of course is largely comprised of the Euro. While the relationship isn't perfect, there is a general tendency for the dollar to strengthen when US rates are rising and/or strong relative to German/European rates. I find it interesting that US rates are firming substantially against German rates right as the DXY nears technical support. Might this be a potential catalyst for correction/bounce in the dollar? And considering the dollar has seemingly dictated a lot of price action lately, might that move snowball into a bigger correction across markets? It doesn't seem like any of that is happening right now, with equities higher yet again this morning. Bond yields are higher yet again this morning and the dollar is steady at the time of writing, so maybe there is nothing to this.



Energy

I feel like I'm on "inverse watch" with WTI these days. The chart on the following page is the same one I've shown a few times lately, tracking the rolling first and second contract spread. You can see this morning the spread has narrowed in to trade +/- even money. Considering the ongoing demand problems with gasoline and jet fuel consumption, this is very telling price action. On tap today we have the EIA' Short Term Energy Outlook.

Today's Calendar (all times Central)

- WASDE, Crop Production, Quarterly Stocks – 11:00am
- EIA STEO – 11:00am

Thanks for reading.

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