NESVICK
TRADING GROUP, LLC

Thursday, March 25, 2021
NTG Morning Comments
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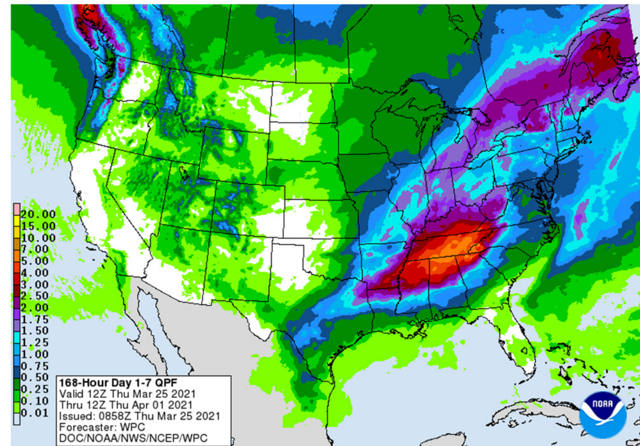
Weather

No big changes to the outlook this morning. We should see active and stormy weather in the eastern third of the country over the next week. A lot of the precipitation shown in the map at the right comes today, but there will be additional showers favoring southern portions of the eastern US during the first half of next week. The Week 2 portion of the forecast should feature mostly below normal precipitation chances for the majority of the US. Mostly near to above normal temps during the next two weeks, with well above normal temps possible during the 11-15 day period.



Crops

Today we'll start thinking about quarterly stocks figures, and we'll go ahead and get corn out of the way. The truth is, nobody should even try to claim a single bit of confidence in a corn stocks estimate. We've seen NASS issue massive revisions to prior number over the past few reports and produce truly unexpected results. All of that will once again be possible next week. To state what should be obvious – I have absolutely no inside scoop on whether NASS will make big revisions to prior stocks figures. All I can do is work with the information I have on hand today. These quarterly stocks figures are all completely unpredictable, but the corn number is especially volatile.

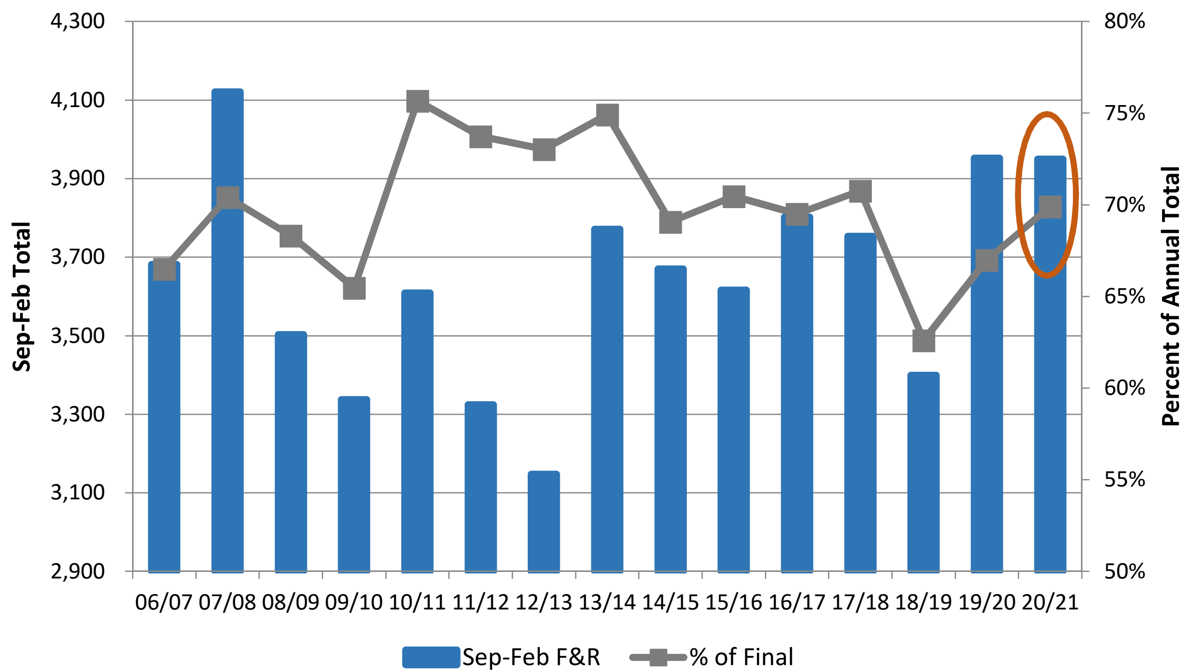
With that in mind, let's review what we know. I've got my projected Dec-Feb balance sheet shown below. There shouldn't be too much debate over most of what is shown. Import and export numbers could vary a little from what I show below because we don't yet have official Feb Census figures, but based on inspections these should be "close enough". FSI is largely driven by ethanol grind, and we have two months of official data to work with there. That should get us close enough. The debate, as always, is F&R.

US Corn Quarterly Supply and Demand

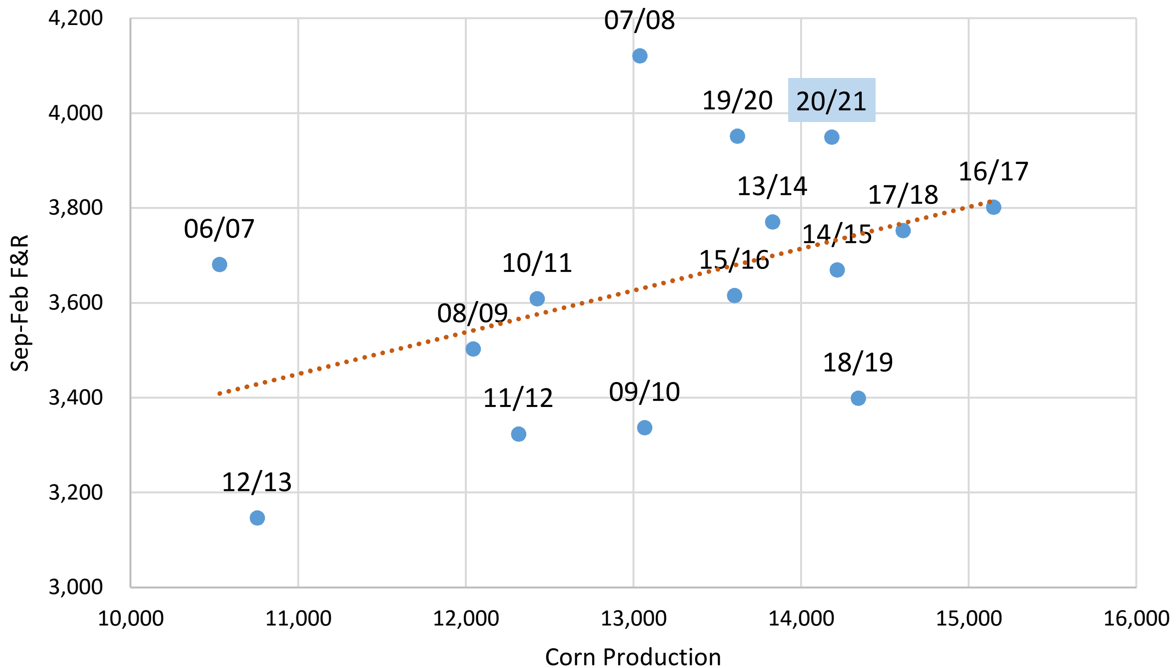
	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Stocks (Dec 1)	8,033	10,453	11,212	11,235	12,383	12,567	11,937	11,327	11,322
Dec-Feb									
Imports	45	7	6	18	12	8	9	9	**6**
Feed & Residual	1,087	1,459	1,445	1,438	1,523	1,497	1,191	1,318	**1,225**
Food/Seed/Ind	1,430	1,602	1,622	1,652	1,711	1,739	1,642	1,712	**1,521**
Exports	161	390	400	341	539	447	500	355	**660**
Total Use	2,678	3,451	3,468	3,431	3,773	3,683	3,332	3,385	**3,406**
Stocks (Mar 1)	5,400	7,008	7,750	7,822	8,622	8,892	8,613	7,952	**7,922**
Stocks/Use -Q	202%	203%	223%	228%	229%	241%	258%	235%	**233%**
Stocks/Use-MYTD	84%	91%	101%	104%	104%	111%	109%	100%	**97%**
H1 Total Use	6,424	7,663	7,709	7,542	8,289	8,030	7,882	7,916	**8,192**

When looking at F&R I typically try to take a MYTD look rather than looking quarter-by-quarter. In theory this should reduce some of the quarter-to-quarter volatility, but I'm not sure with all the recent revisions I've been successful lately. The chart below looks at the total Sep-Feb combined F&R over the past several years. If you exclude the 18/19 mess of a year, over time the Sep-Feb F&R total has averaged roughly 70% of the marketing year total. You can see that I'm essentially plugging that level in for my quarterly F&R figure, with the current WASDE estimate as my baseline. Historically speaking, my 1,225 mb F&R estimate for the quarter is relatively small with the average since 06/07 being 1,445 mb. I'm going a little small for Dec-Feb to account for the fact that Sep-Nov F&R was a bit larger than I may have otherwise expected.

Sep-Feb *Revised* Corn Feed & Residual and % of Annual Total



We also know that, in most years, F&R lines up fairly well with overall production. Corn production vs Sep-Feb F&R is plotted below. You could potentially make the argument I'm going too big with F&R but remember that a lot of that was already seen in Dec 1 figure. Unless NASS does want to make a revision to Sep-Nov totals, which is entirely possible, we're already looking at an elevated level. I would argue that my estimate for Sep-Feb F&R is consistent with WASDE's marketing year total. If stocks end up coming in higher than expected, thus F&R lower, then WASDE would likely make a cut to their projection in the April report.



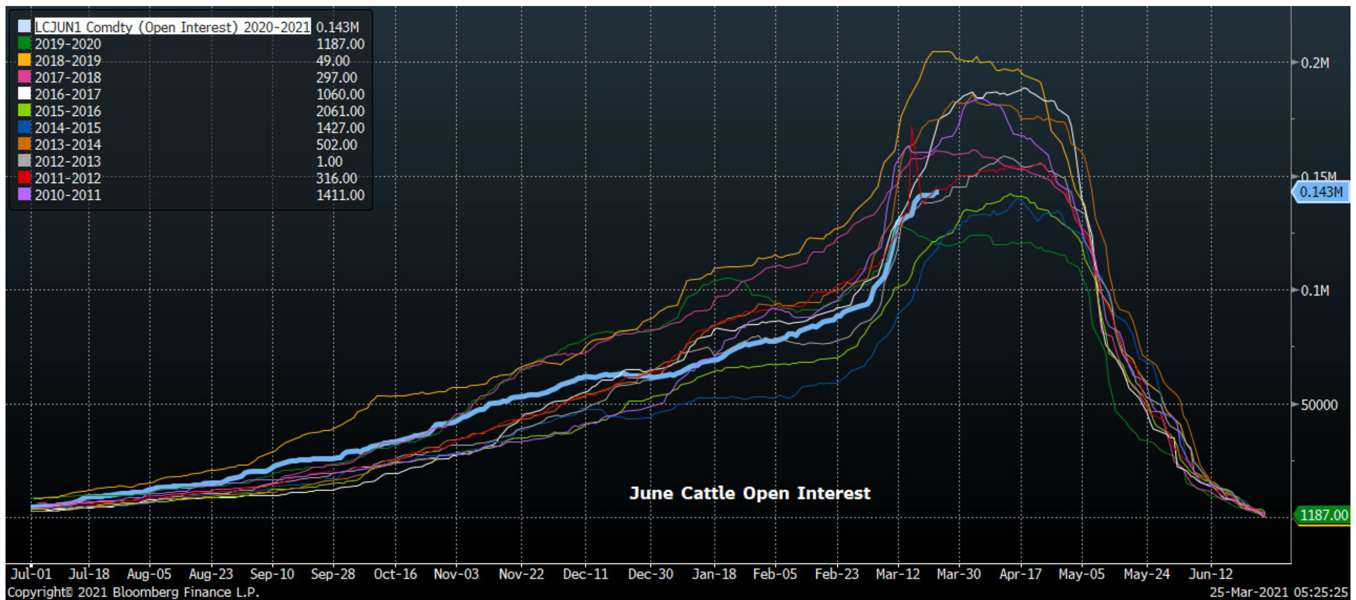
I haven't yet seen any average guesses so I don't have anything to compare my stocks estimate to right now. What I find interesting in the above breakdown is that I have total Sep-Feb corn demand as the second highest on record behind 16/17. I also show Mar 1 stocks as the lowest since 15/16. Thoughts appreciated.

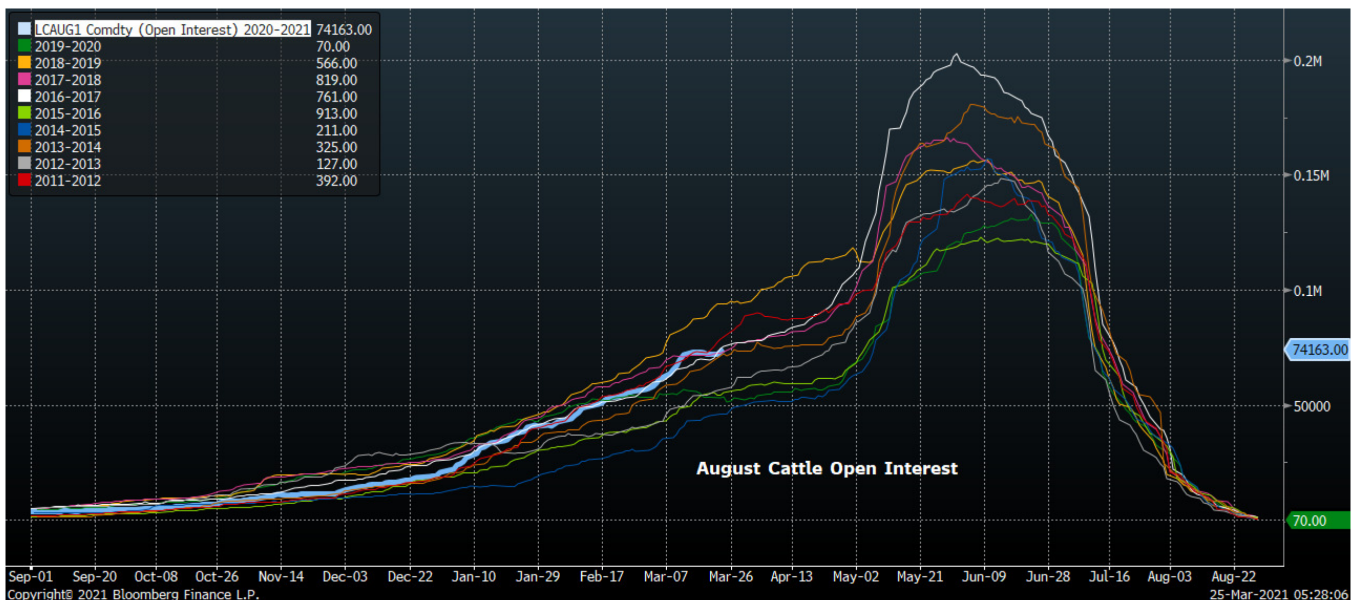
Livestock

Calendar spreads in the cattle complex remain very weak. LCJ is trading under LCM, which to say the least is extremely rare. Some have suggested that part of the perceived problem is that specs and index traders are buying positions along the curve to avoid the cost-of-carry eating them alive as it has at times in the past. Instead of being all spot month, they now stretch positions across the curve. This morning I want to look at open interest for June and August contracts to see if anything stands out.

The charts follow on the next page, and I have to be honest – I don't think these support an argument of a big spec position lurking in these deferred contracts. In the first chart, June OI looks very solidly average and only recently pushed ahead of year ago levels (lots of speculative liquidation at this time last year). It is still early for the August contract, but nothing stands out as unusual there either.

So my only point this morning is that we shouldn't be blaming calendar spread underperformance on presumed irrational buying in the deferred contracts.

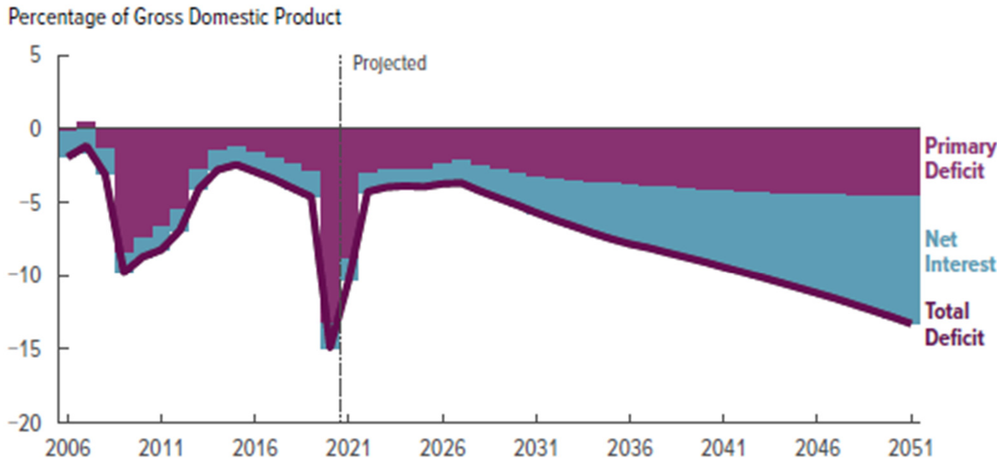




Financials

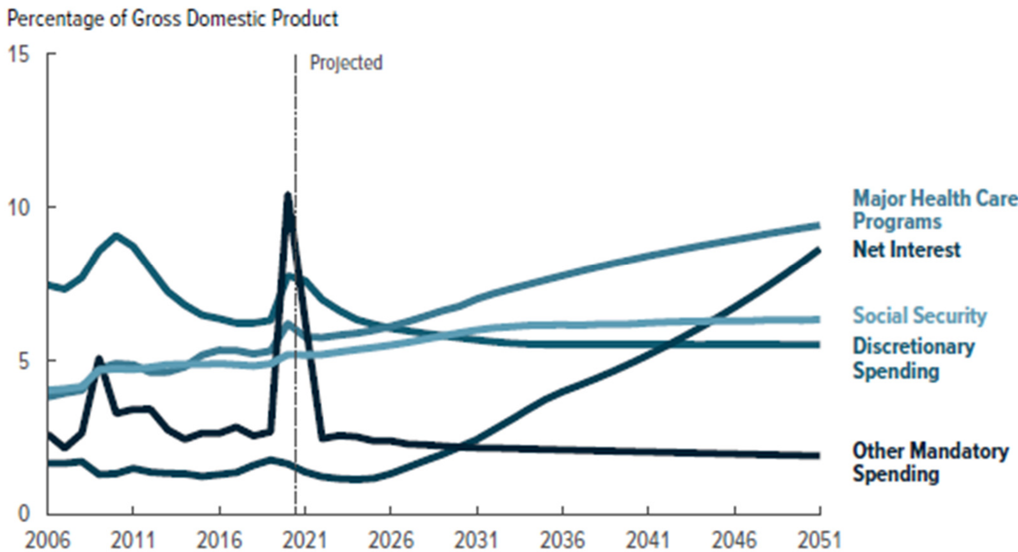
A comment from Treasury Sec Yellen in her Congressional testimony yesterday got my attention. I'm pulling this from an AP report yesterday: *Responding to a question from Sen Richard Shelby, R-AL, Yellen said the persistence of low interest rates have changed her views on federal debt. Lower rates have made it easier for the federal government to cover the interest costs on the debt, she said. In fact, the government's interest payments as a proportion of the economy are unchanged since 2007, when the debt was equal to just 35% of output, Yellen said.*

That's cool…I guess. I suppose she hasn't seen the latest CBO update on the current projections for the federal debt. Their latest report was issued on March 4. The charts below are literally on pages 1 and 2 of their report:



After decreasing as the effects of the 2020–2021 coronavirus pandemic wane, deficits grow, largely because net spending for interest increases rapidly in the last two decades of the projection period. Deficits exceed their 50-year average of 3.3 percent of GDP in each year of that period.

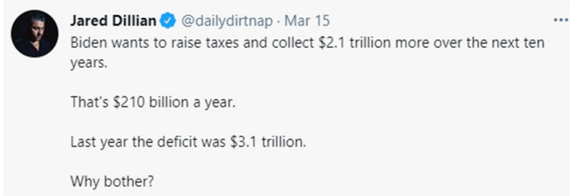
Spending Federal spending grows from an average of 21.3 percent of GDP over the 2010–2019 period to an average of 29.7 percent over the 2042–2051 period in CBO's projections.



Net spending for interest, measured as a share of GDP, begins to increase in 2025 and more than triples over the last two decades of the projection period. Spending for the major health care programs and Social Security increases in almost every year of the period.

So with current projections on simply mandatory spending, Yellen's lack of concern on interest payments today quickly becomes a concern down the road. And obviously the CBO isn't accounting for a $3-4T infrastructure bill or whatever "stimulus" bill they come up with next.

Let's not bother discussing possible tax increases. There is really no point. I like these two points made on Twitter earlier this month. Jared is a friend. Never met Gundlach but I have a feeling we probably wouldn't get along…

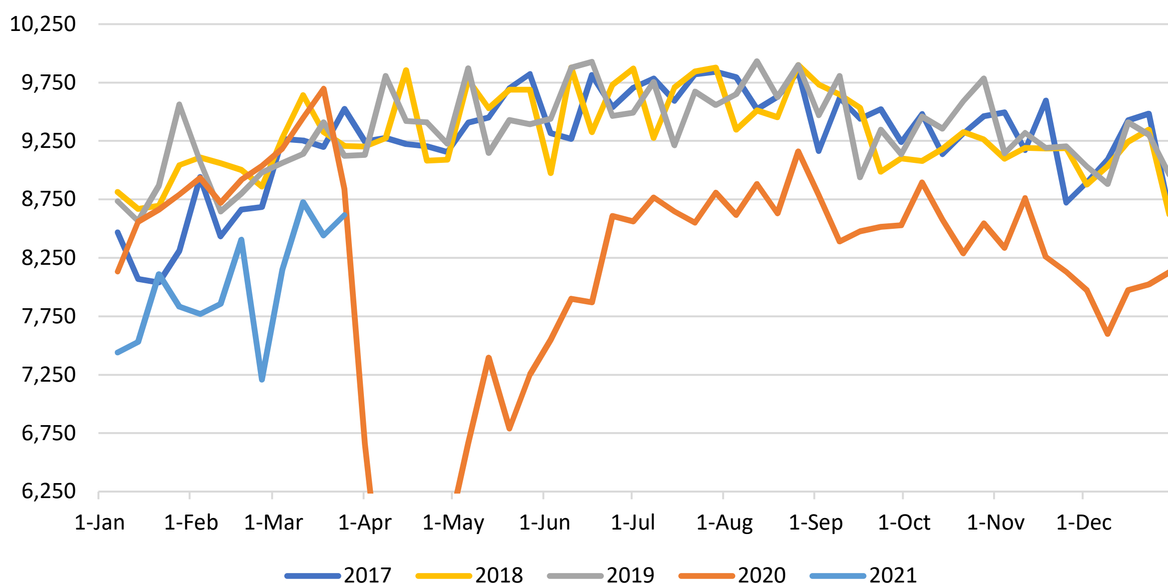


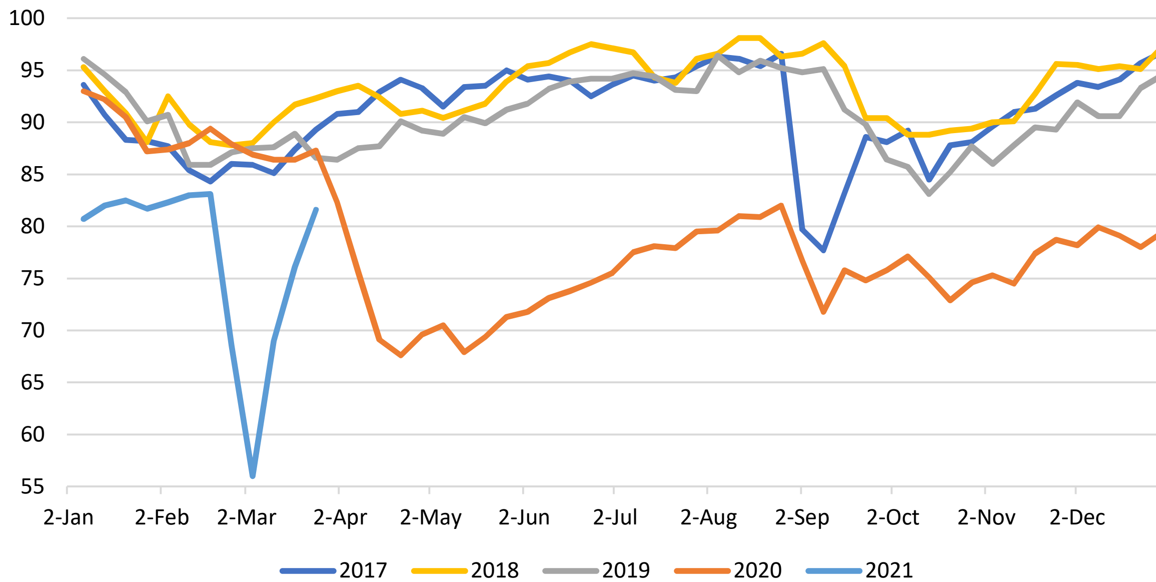
Jared wrote in his newsletter yesterday (The Daily Dirtnap – you should subscribe) *"This should be clear to everyone here, but most of this debt is being financed by the Fed….once we learn we can issue an unlimited amount of debt, what will we do then?"* It also makes me chuckle at all this talk about when might the Fed taper bond purchases? They're not going anywhere.

Imagine the Democrats pick up seats in the mid-terms and the climate agenda really gets going? What do deficits start doing then? Not to pick on the Dems…the Reps clearly don't care either.

Energy

Checking up on our two weekly points of interest from the Wednesday EIA release. Up first, motor gasoline products supplied continue to gradually increase. Seasonally speaking we should see increasing demand through mid-summer. I still expect gasoline consumption to get back to near-normal levels by that point, but we'll just have to wait and see. The second chart looks a refinery utilization, and you can see we're still running well below normal levels. Crack spreads are off their recent highs but still on the high-side of the normal range for this time of year, so I'd still think there will be a push to resume normal operations as gasoline consumption levels push higher.





Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- Core PCE Revision – 7:30am
- GDP Revision – 7:30am
- EIA Natural Gas Storage – 9:30am
- Several Fed speakers

Thanks for reading.

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