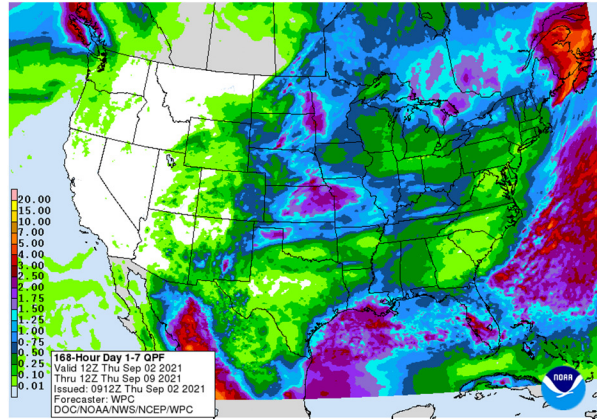


Weather

No big changes. The rainfall shown for the WCB is for today and rains for the remainder of the Corn Belt is largely done by Sunday morning. After that, we should see an extended period of limited precipitation that should last through the 10-day period. An uptick in rainfall chances will be possible for the 11-15 day period. Temps should generally average near to above normal over the next two weeks.

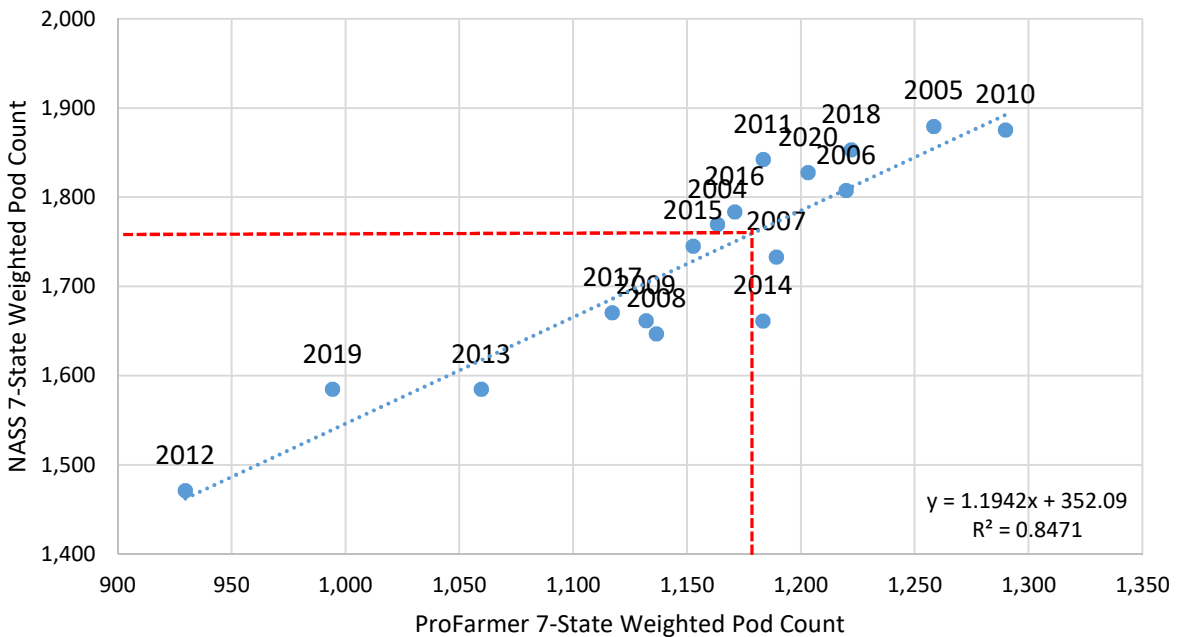


Crops

As I said yesterday, I'll be looking at soybean yields today. There is one major problem, however – we just don't have the same level of data to work with on soybeans as we had on corn. The PF tour only counts pods, which is certainly better than nothing. Still, it isn't really enough to stand on in an effort to make a bold call on the NASS soybean yield.

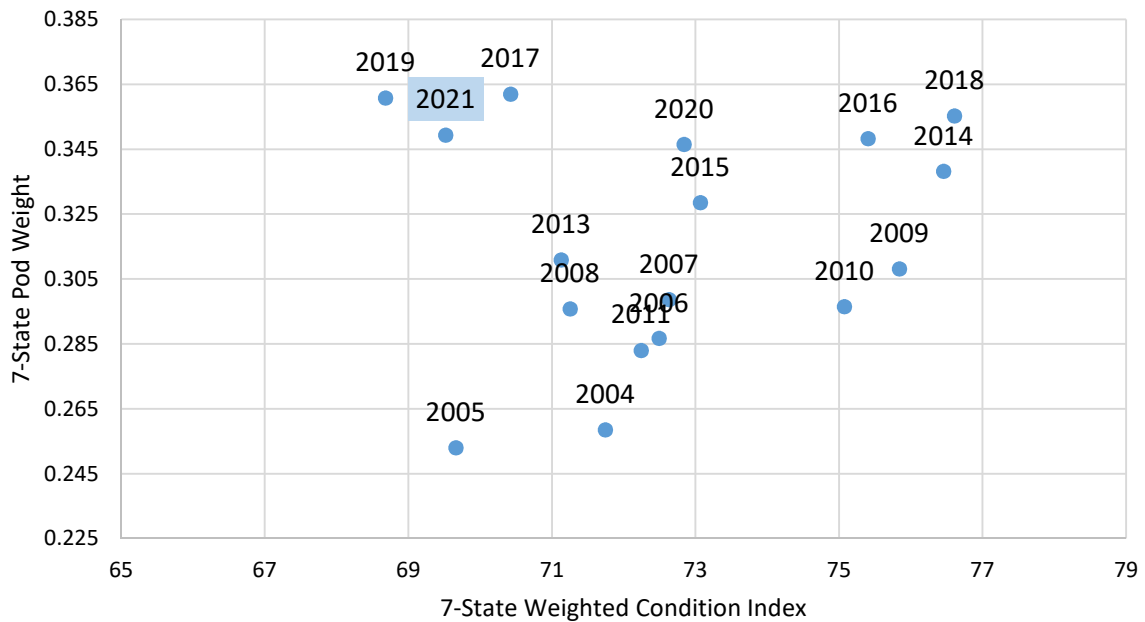
PF's pod counts do a very good job of indicating what to expect from NASS on pod counts in the Sep report. The chart is shown below. There is a very strong relationship between PF pod counts and NASS, and the red lines on the chart indicate this year's PF tour findings and what to expect from NASS. It is interesting to see that PF's overall pod count is really nothing special. Pretty much middle of the pack in recent years. It might also be worth noting that 2018, 2019, and 2020 all saw NASS pod counts come in higher than the trend below would have suggested. Let's round our assumption UP vs. the trendline, but only slightly.

ProFarmer Pod Counts vs. NASS Sep Pod Count



If a guesstimate on pods in hand, all we need to guess the yield is some sort of indication on pod weights. Here is where we truly fall short with anything concrete to lean on. I have never found any “good” way of modeling pod weights. And with limited objective yield data at this point in the year, we’re really flying blind. The chart below takes a look at pod weights vs. condition ratings. Generally you can see there is a modest tendency for higher conditions to support higher pod weights. The 2021 highlighted print shows the latest condition rating for this year’s crop vs. what I approximate for a pod weight necessary to match the Aug NASS 7-state yield based on our pod count assumption above.

7-State Weighted Condition Index vs. 7-State Pod Weight (Sep) Ex-2012



Our immediate first thought has to be – oof, condition ratings wouldn’t necessarily imply that sort of pod weight. Well, maybe – maybe not. We can see similar years like 2017 and 2019. Both were years with relatively “smallish” pod counts. Lower pod counts can, at times, lend themselves to higher pod weights.

My personal bias, and this is definitely a bias rather than anything I can prove, is that NASS will likely stick with a pod weight as shown above and maintain the 7-state yield relatively steady this upcoming month. That said, I do think there is possible upside to the overall national average yield. As stated yesterday, it feels to me that some southern states’ yields were a bit pessimistic and some of the Corn Belt states outside of the 7-state area shown above were also a bit light (WI & MI?). With little confidence, I’m going to call for a very slight uptick in soybean yields to near 50.5 bpa vs. 50.0 last month. That being said, I’ll admit there is probably a higher chance of a modest *decrease* vs. Aug than I would have originally expected before digging through this in detail. It’ll be interesting what we get from StoneX and Informa (among others). Thoughts very greatly appreciated.

Livestock

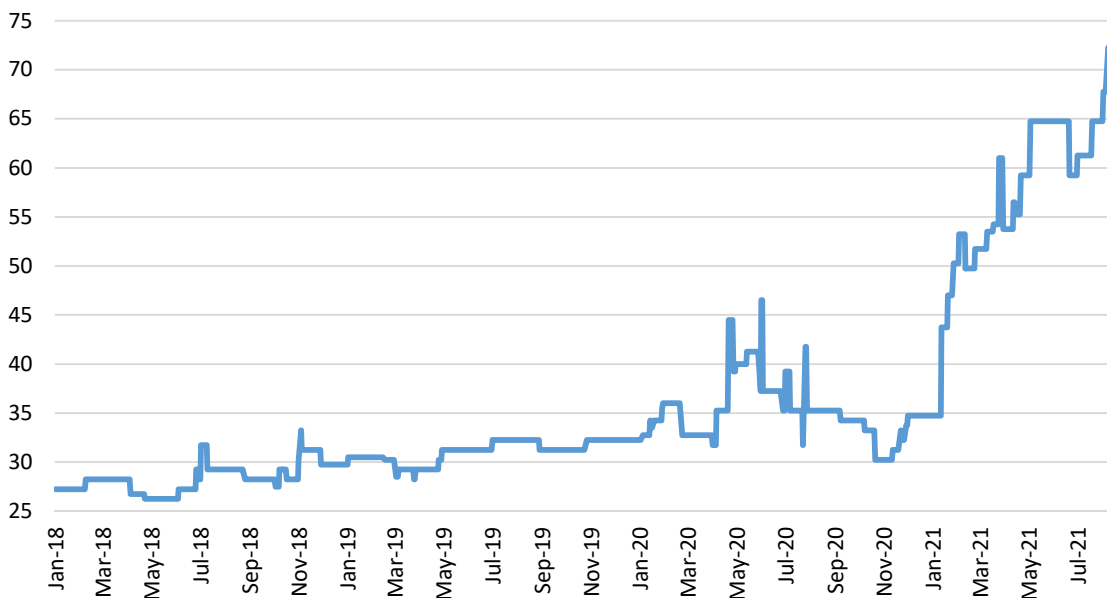
Packer margins remain sky-high, though they've backed off just a touch here as beef prices have rolled over modestly. Obviously the high price of beef is the biggest part of the strength in packer margins, but I do think it is worth discussing the drop value for a moment too. The by-product drop value has been moving relentlessly higher since the Covid smackdown. We've now almost doubled from pre-Covid levels.

USDA By-Product Drop Value

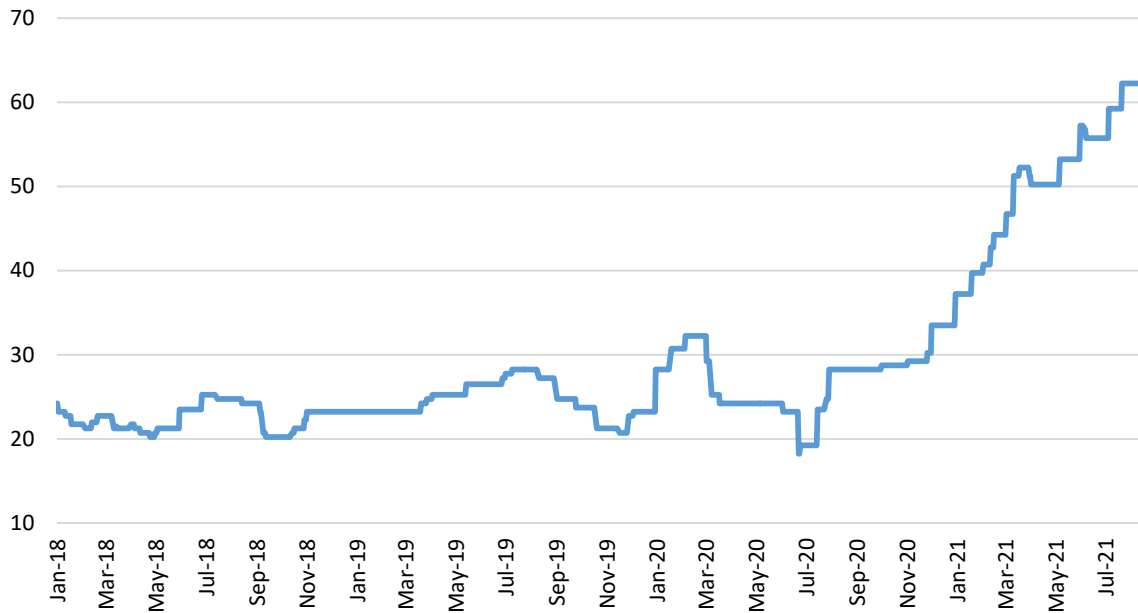


While not the entire move, the strength in tallow prices has been nothing short of phenomenal. The two charts below look at the drop value tallow prices. In both cases, they have easily doubled from pre-Covid levels.

USDA Tallow, Edible



USDA Tallow, Packer Bleachable



We'll look at tallow use in biofuel production tomorrow to help explain the shift in tallow prices.

Financials

Yes...equities are higher again this morning. There isn't much on deck in terms of market-moving economic data today. Instead, the fireworks will be saved until tomorrow with the NFP release. Yesterday's ADP release was nothing special and came in lower than expected. Of course, the same thing happened last month and the NFP still exceeded expectations. A strong NFP release tomorrow could be the trigger we're waiting for to get an actual taper confirmation from the Fed...rather than Powell's wishy-washy nonsense from last week. Of course a soft NFP could be an excuse for the Fed to simply keep teasing the taper for a while longer. Tomorrow will likely be a volatile day...but in the meantime, today might prove to be fairly boring.

Energy

The chart on the following page shows a weekly continuation of NG futures. We have shot sharply higher in the past couple of months and we're testing the highs set in late 2018 right now. It seems we always hear of some hedge fund blowing up whenever natural gas makes a big move like this...wonder when that will surface this time. The big story for natural gas right now is the European market. European gas prices are skyrocketing. European futures hit a record high yesterday and have more than doubled in the past year. Flows of gas from Russia and Norway both are running lower YOY. The flows from Norway will remain tight due to maintenance issues. Flows from Russia could improve as the new pipeline, Nord Stream 2, could start sending more gas to Europe later this year. Russia is suggesting it might fill domestic gas storage, however, which could lessen their available supply for export. The current European situation is combining with the production outages in the US to make for an explosive situation right now. As of yesterday, we still had about 83% of US offshore production shut due to Hurricane Ida. That still was a solid improvement from the day before, however, and it is likely that US production could be normalized relatively soon.



Today's Calendar (all times Central)

- Jobless Claims – 7:30am
- Export Sales – 7:30am
- Trade Balance – 7:30am
- Factory Orders – 9:00am
- Durable Goods Orders – 9:00am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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