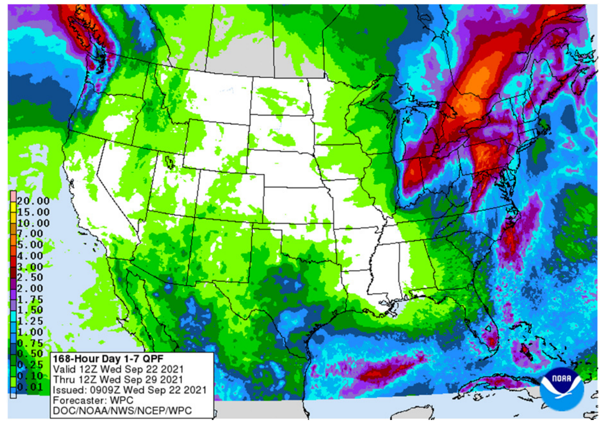
NESVICK
TRADING GROUP, LLC

Wednesday, September 22, 2021
NTG Morning Comments
www.nesvick.com

Weather

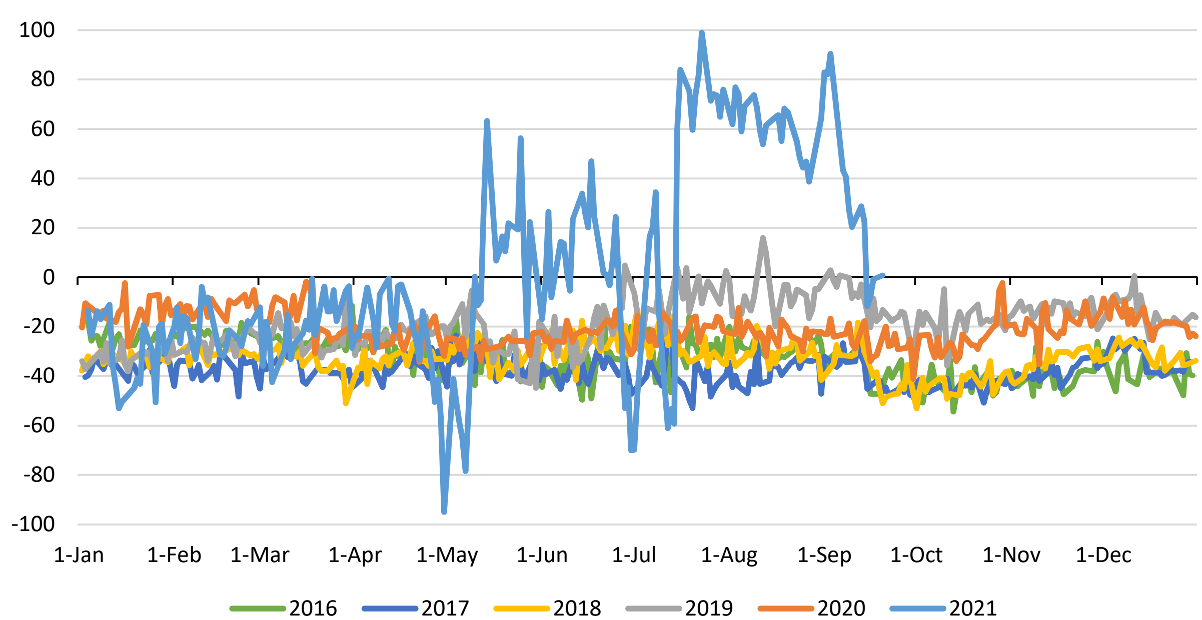


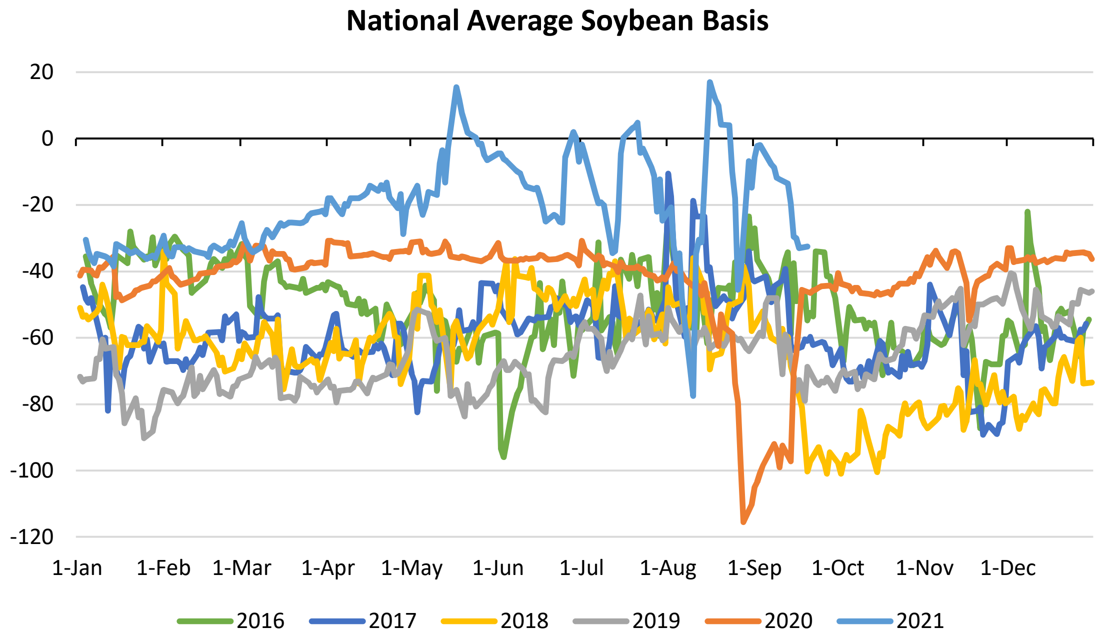
No changes. Mostly dry weather for the majority of the Corn Belt and Plains for the next 7 days. The rains shown in the ECB on the map come in the next 24 hours and the remainder of the timeframe should be dry. Today's forecast does show some wetter trends for the Week 2 period in the Southern Plains, but even there we're not talking huge precipitation chances. There will be some below normal temps in the next few days for the eastern US, but otherwise mostly above normal readings for the next two weeks. No threats for freezing temps for the next two weeks in the Northern Plains.

Crops

We haven't looked at basis in a long while. The charts below are my estimates for "national average" basis, using the MGEX national corn and soybean cash price index vs. spot futures. This year's calculations are a bit more volatile than normal due to the extreme spread volatility…most notably in corn. What stands out to me from the charts now is that basis is starting to *kinda* normalize a little here. Yes, both corn and soybean national average basis are on the high end of the range in the past few years, but we're not looking at a huge gap like we've seen for most of the spring and summer. And, harvest is still yet to get truly rocking and rolling. With a dry and warm forecast for the next two weeks in a big portion of the country, it seems like harvest will really ramp up. I wonder if that push will be enough to truly normalize these basis levels? Don't get me wrong, there will still be regional spots of shortages, I'm just looking at the national average.

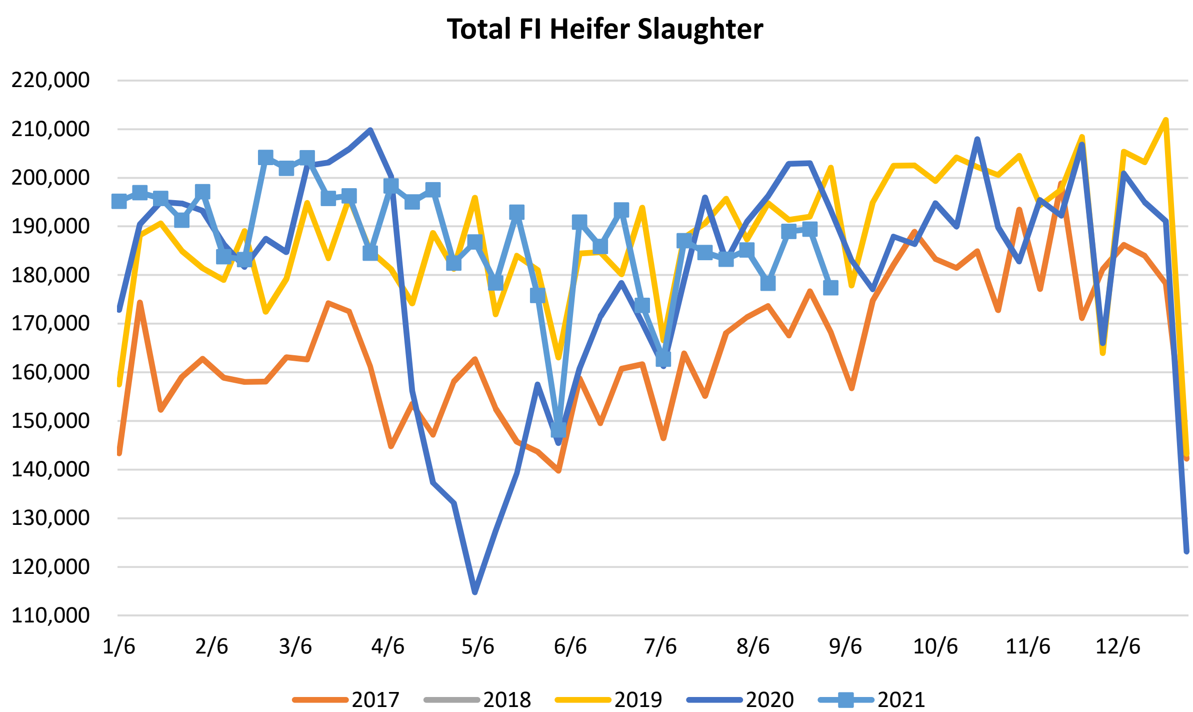
National Average Corn Basis



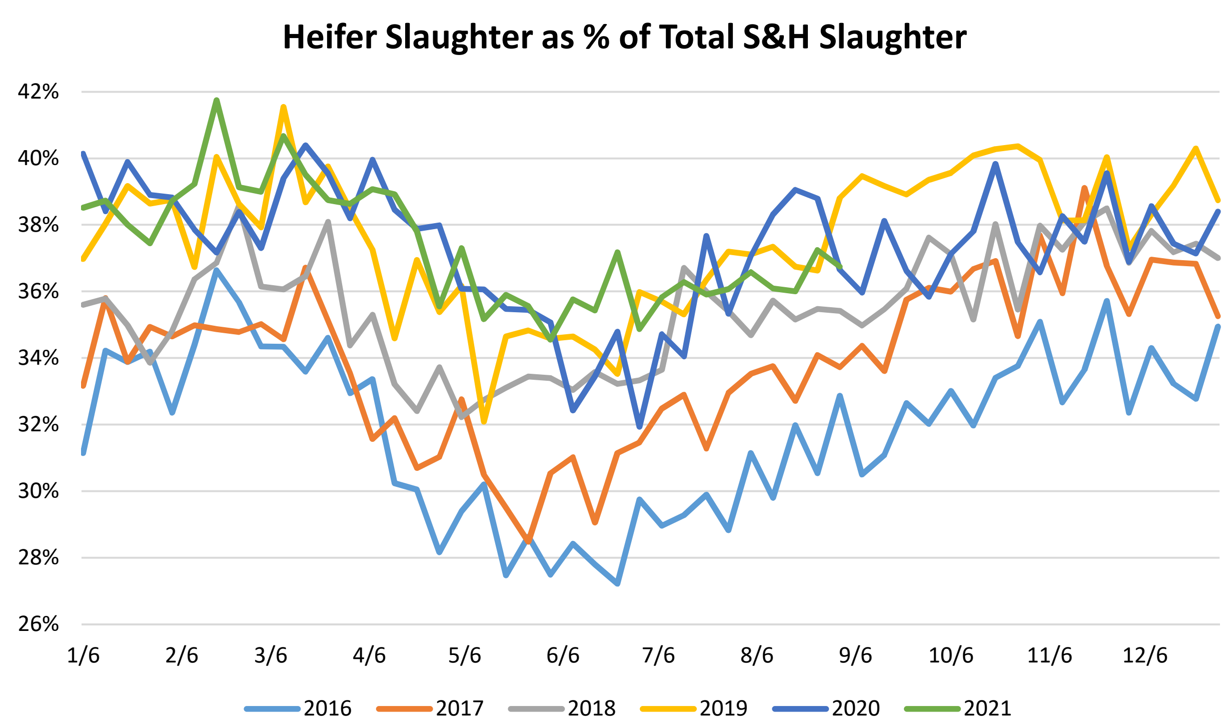


Livestock

We've talked a lot about the cow kill in recent months, but here is another item I think is worth watching going forward. The chart below shows the heifer kill. Prior to the past month, the heifer kill had been running at a pretty aggressive clip. It has slowed down a little lately, but I still think this is something worth watching.



The chart below looks at the heifer kill as a percentage of the combined steer and heifer slaughter. If we want to assume half of calves are male and half are female, you have to hold back a "base amount" of heifers to maintain the herd size. Killing heifers at a greater rate could potentially imply herd liquidation. You can see we've been running at similar levels from 2019 to present, but these levels are higher than the prior three years. At a minimum, this certainly seems to imply there is certainly no growth taking place and with the cow kill running at the rate it is, we can still make a strong argument for ongoing herd liquidation. Thoughts appreciated.



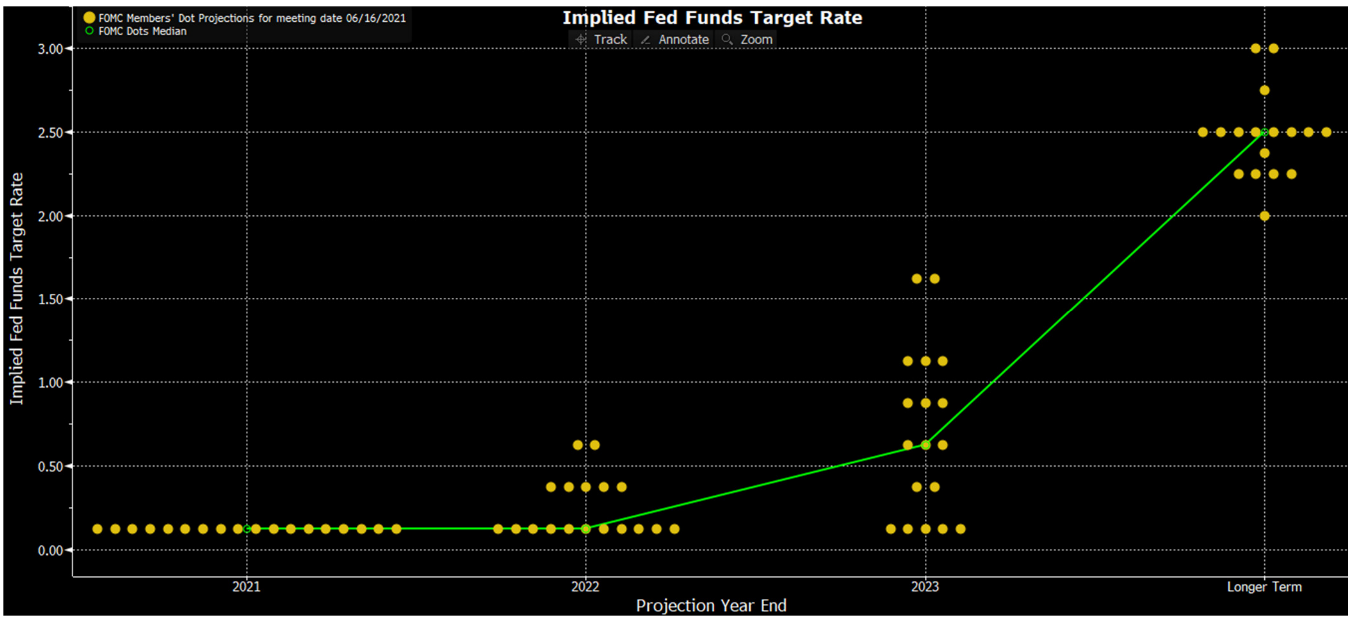
Financials

We have existing home sales to be reported this morning, and that will certainly get a look or two. However, the big ticket item on the agenda today is of course the FOMC statement and press conference from Fed Chair Powell. A few items to watch for:

- Taper "tease" – Powell & Co won't necessarily come out and directly say that a taper is imminent, but they will likely continue to tease the move like they have since the Jackson Hole speech. Fed Chair Powell is likely to say that progress on their stated goals is likely to be met "later this year" and the implication would be that winding-down asset purchases would begin at that time. There is no October FOMC meeting so that sets up the November meeting as the likely official taper announcement – assuming nothing dramatic changes of course.
- Updated Economic Projections – We'll get the FOMC's updated economic projections, and what I'll be watching most closely is the outlook on inflation. While off the highs, recent inflation readings have still come in hot relative to FOMCs most recent projections in June. The FOMC projected median PCE

inflation of 2.1% in 2022 and it would seem pretty likely that this will be revised higher today. It'll be interesting to see if they revise anything for the 2023 projection as well. The FOMC put 2023 PCE inflation at 2.2% in June

- Dot Plot – The dot plot could be really interesting today. IF the assumption on the inflation outlook for 2022 is correct, then it would seem possible that more FOMC participates might feel appropriate raising their rate outlook for 2022. According to a Bloomberg report, it would only take two FOMC members coming off zero in 2022 to pull the median target rate off zero and signal a possible rate hike in 2022 rather than 2023. I would view that as a scenario that would certainly get the market's attention today.



Energy

The EIA weekly petroleum stocks data is on tap for this morning, and that means we got the API release yesterday afternoon. It was no surprise to see another decline in US petroleum inventories, but the size of the decline was again bigger than expected. API showed a decline of 6.1 million barrels in US crude oil inventories. Expectations for this week had been hovering around -2.5 mil. Gasoline stocks were down 0.4 mil and distillates were down 2.7 mil, according to the API. Yet another decline in inventories is a big reason for the overnight bounce in oil-related futures. It is also worth noting that the key moving averages continue to hold as support for spot WTI. Obviously today's EIA release will be initial driver of oil price action this morning, but it should go without saying that the FOMC statement and the subsequent risk-sentiment mood afterwards will be as important if not more important.

Today's Calendar (all times Central)

- Existing Home Sales – 9:00am
- EIA Petroleum Inventories – 9:30am
- FOMC Statement – 1:00pm
- Cold Storage – 2:00pm

Thanks for reading.
David Zelinski
dzelinski@nesvick.com
901-766-4684
Trillian IM: dzelinski@nesvick.com