NESVICK TRADING GROUP, LLC

Wednesday, September 29, 2021
NTG Morning Comments
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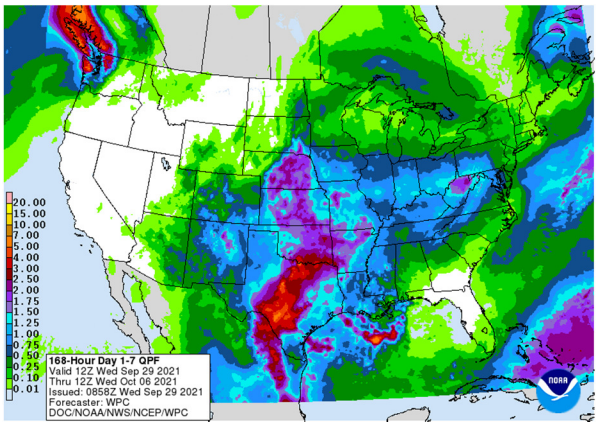
Weather

No huge changes to the outlook, though rainfall totals shown for the ECB have increased relative to yesterday. The 7-day QPF is shown at the right. Rains should start to develop in the Plains today and will become more pronounced tomorrow and Friday. During the weekend, the rains will shift further east into the ECB and surrounding areas. By early next week, we should be looking at a few days of clear weather with the exception of lingering showers in the far east. Temps should continue to average above normal, with new record highs possible.



Crops

We'll wrap up our look at Sep 1 stocks guesses today with wheat. Recall from commentary last week that I'm going to assume an unchanged wheat production figure from USDA in this week's Small Grains Summary. Obviously this idea is controversial, with most analysts favoring a significant reduction in spring wheat production. I'll concede that is possible, but last week I pointed out reasons to expect that NASS might prove more conservative. Additionally, since last week's report, it was pointed out to me that spring wheat condition ratings actually posted upticks during harvest. That might be a sign that harvest results were a bit better than expected, or it could just be meaningless noise. We'll find out on Thursday.

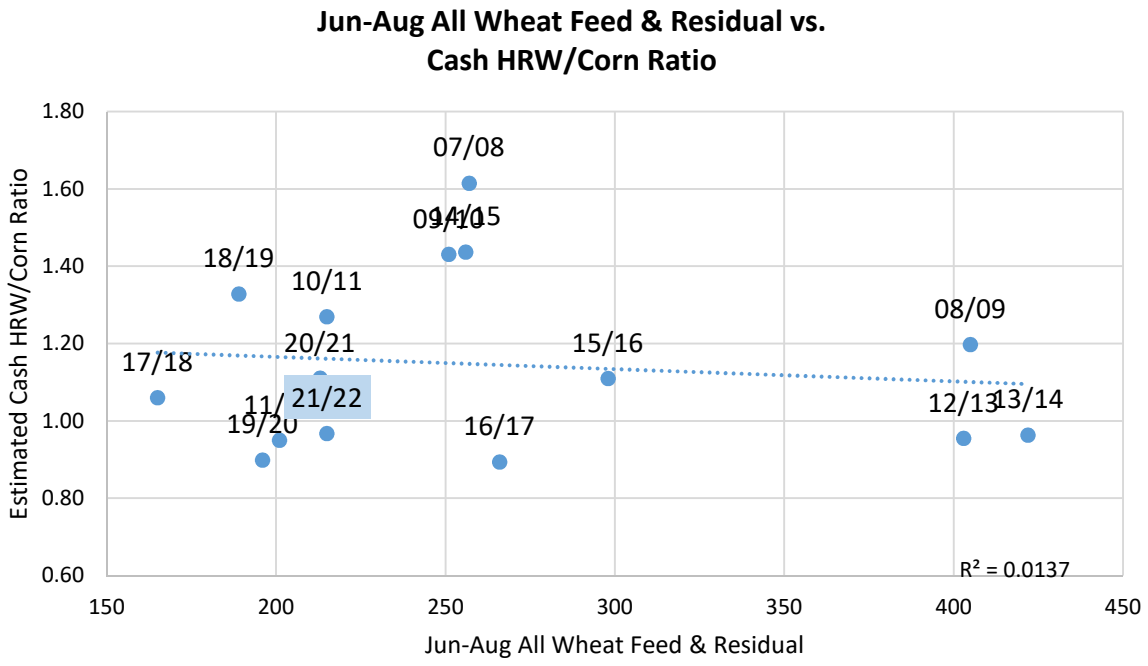
With that assumption in mind, let's start with the end conclusion and work our way backwards to explain the thought process. Here is a breakdown of my current expectation on Sep 1 all-wheat stocks. My guesstimate is relatively close to the average guess, but again that is partly due to my bigger estimate for total production. If you want to believe the average guess on production, then stocks would come in modestly below the average guess…but not by a truly significant amount. There should be limited debate on the trade numbers, and food use is pretty constant.

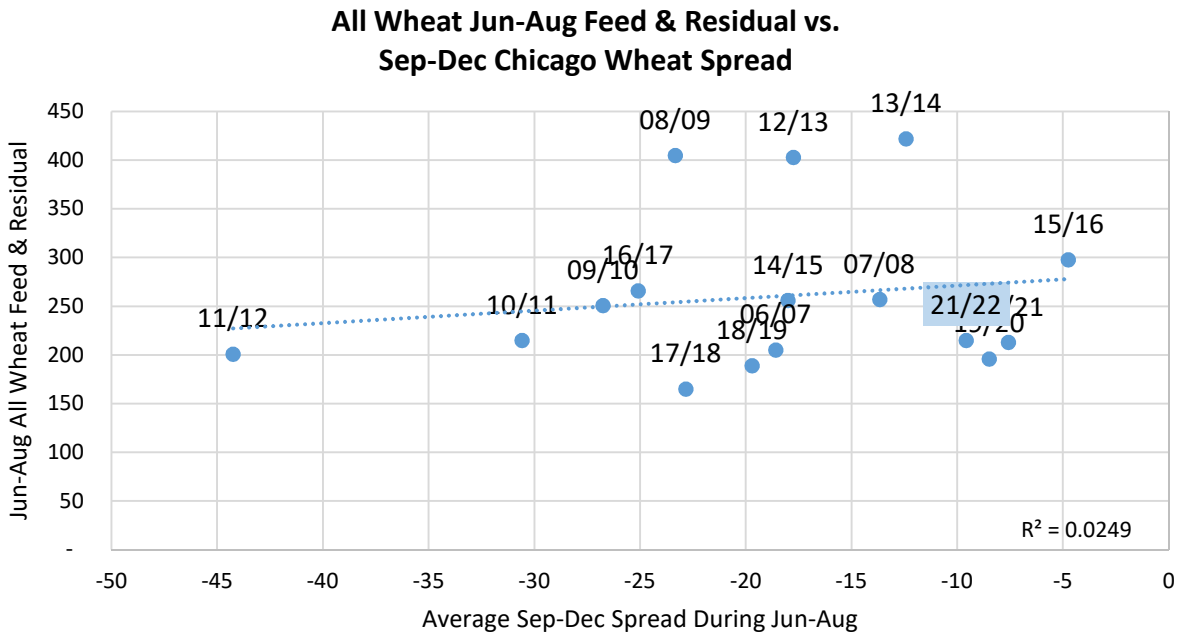
US All-Wheat Quarterly Supply and Demand

	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Carryin (Sep 1)	718	590	752	976	1,181	1,099	1,080	1,028	844
Production	2,135	2,026	2,062	2,309	1,741	1,885	1,932	1,826	**1,697**
Jun-Aug Imports	36	44	27	33	42	41	23	30	**24**
Total Supply	2,889	2,660	2,841	3,318	2,962	3,025	3,035	2,884	**2,565**
Jun-Aug									
Food	235	239	240	238	239	239	238	241	**240**
Seed	4	6	1	1	1	2	4	-	**-**
Feed & Residual	422	256	298	266	165	189	196	213	**215**
Exports	358	253	205	268	292	205	252	271	**250**
Total Use	1,019	754	744	773	697	635	690	725	**705**
Stocks (Sep 1)	1,870	1,907	2,097	2,545	2,267	2,390	2,346	2,158	**1,860**

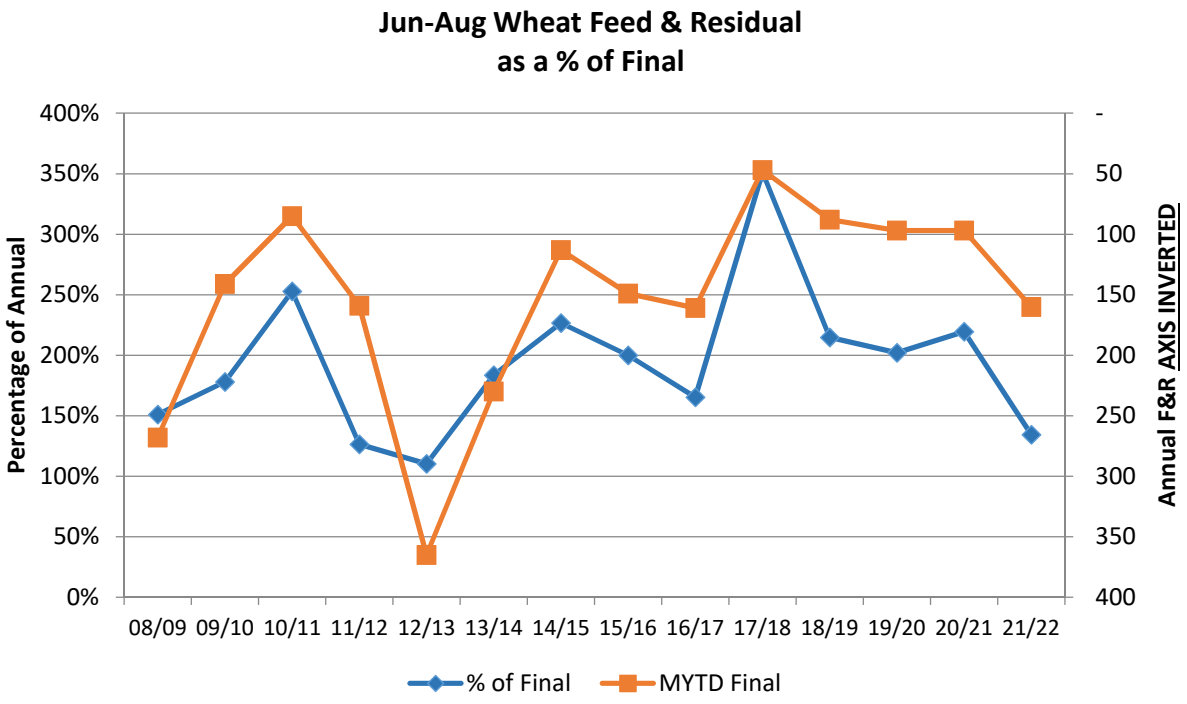
I'll be honest and admit I've never found a really good way of slicing and dicing the quarterly F&R estimates for wheat. In the past I've tried to compare them against the wheat/corn ratio in attempt to determine "extra"

feed consumption. I've also compared the quarterly levels vs. calendar spreads. Both scatter charts are shown below, and both leave a lot to be desired from an analytical perspective. I don't have much faith in either relationship to tell us much about the JJA F&R level. I would simply point out that my estimate highlighted in each chart doesn't necessarily stand out too much.





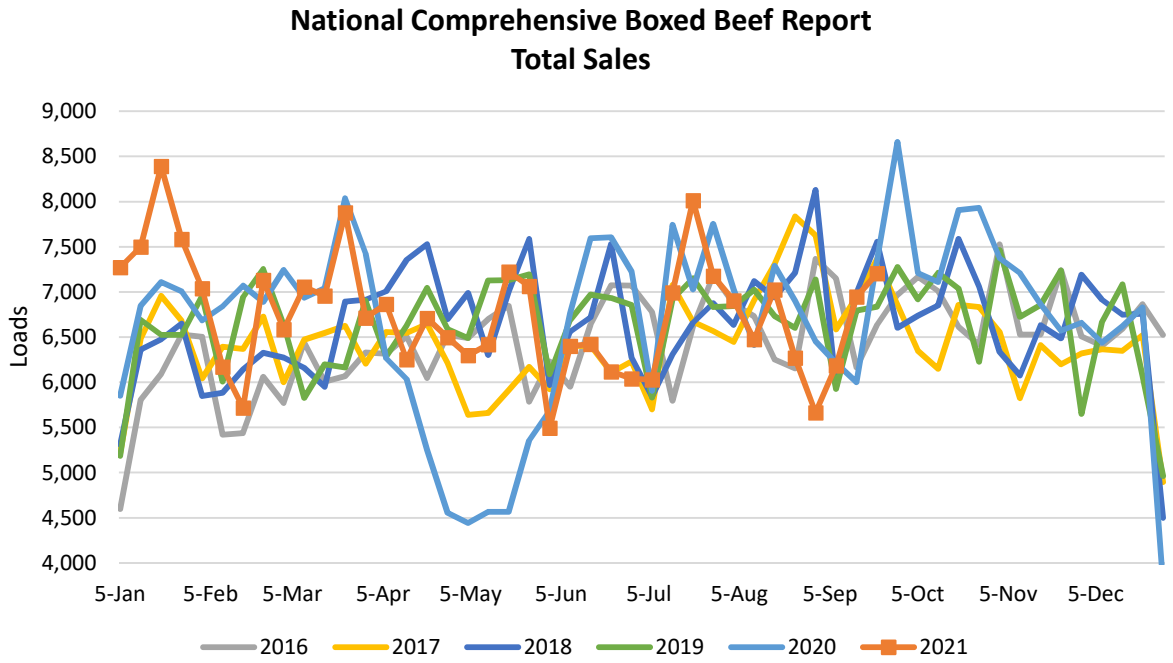
What we do know is that WASDE is looking for a very big annual F&R estimate, at least big relative to recent years. Typically when we have a big annual F&R total, the JJA quarter actually represents a relatively small percentage of total use. You can see in the chart below this relationship. Keep in mind the right axis showing the marketing year total F&R figure is inverted to help illustrate the point. The 21/22 figure is my guesstimate shown above. The point here would be that even if my relatively "small" F&R figure is realized, it would not necessary mean WASDE should feel compelled to change their annual projection.



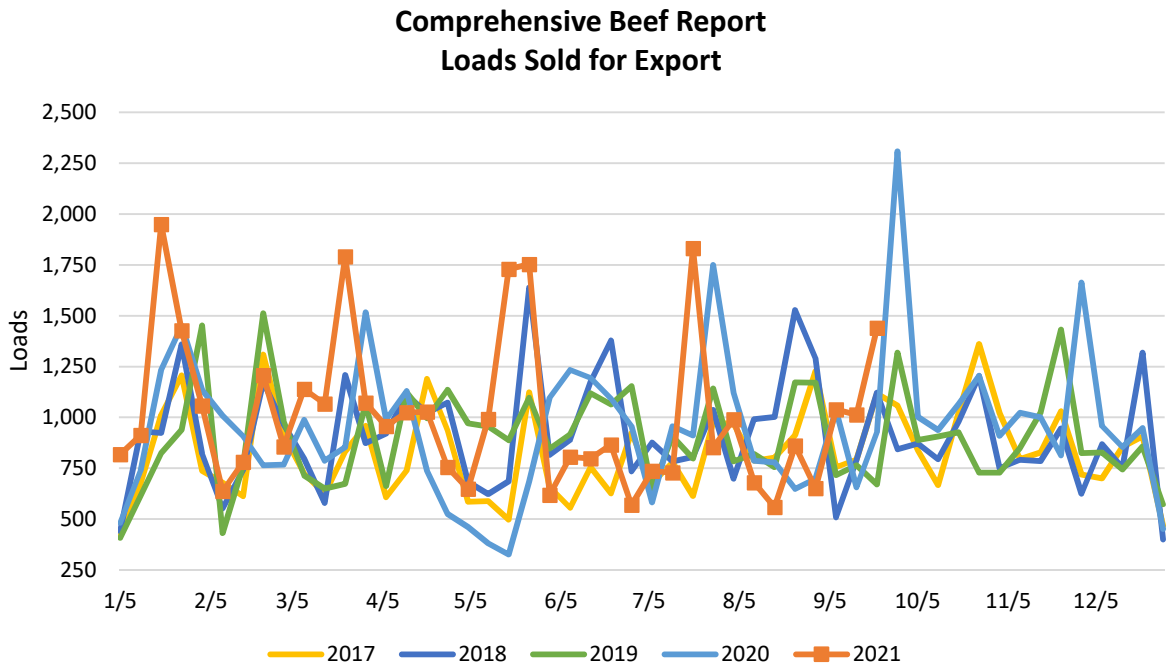
Livestock

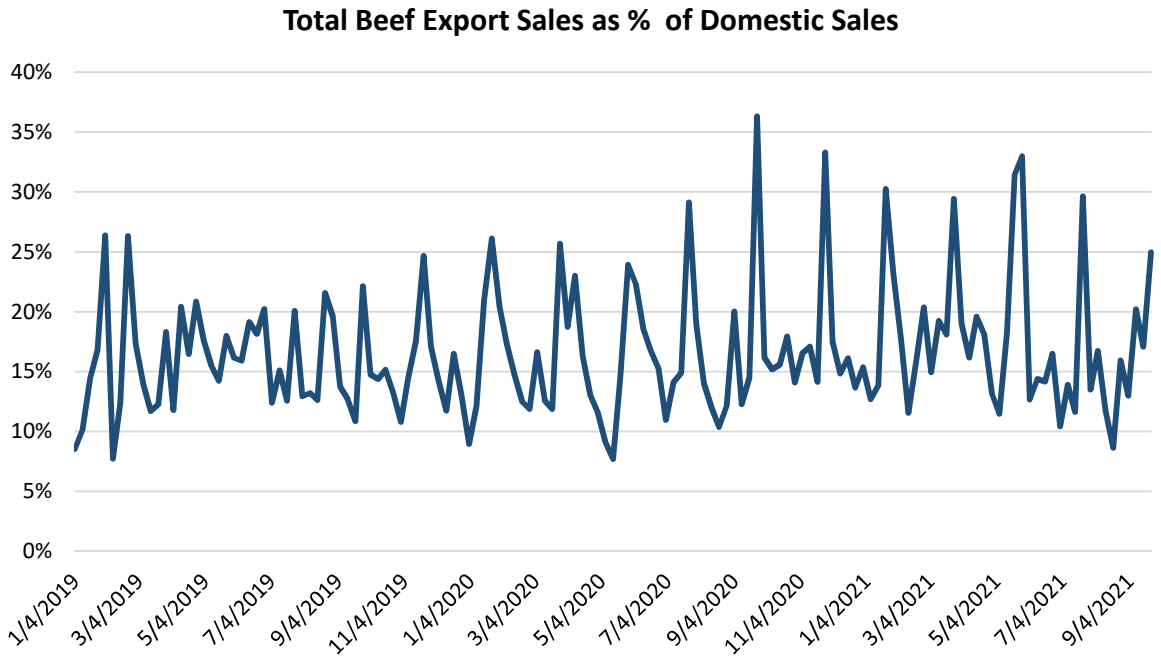
Interesting to see LCZ still skating the 200-day MA in the past few days. It seems the market has had every possible reason to breakdown this week. A "bearish" COF report, risk-off in macro, light slaughter numbers, questionable cash trade, etc. Yet, for now, the 200-day MA holds. As noted previously, we've seen a lot of spec selling in the past several weeks. I wonder if the market is a bit "sold out" momentarily here?

A quick look at Monday's Comp Beef volumes this morning. The first chart below looks at the total sales volume from the Comp Beef report. Pretty solid…one of the best in several weeks. Still, not necessarily anything huge either. A solid overall week for beef sales but nothing to get too excited about yet.



Perhaps more interesting is the level of export sales shown in the report. The first chart shows the total export loads sold and the second shows exports as a percentage of total sales. Obviously pretty solid export sales have been a big factor in the beef movement here recently. I think that is interesting to see as beef prices have been on a seasonal dip. Is this latest surge in export interest an indication that buyers see value at these price levels?

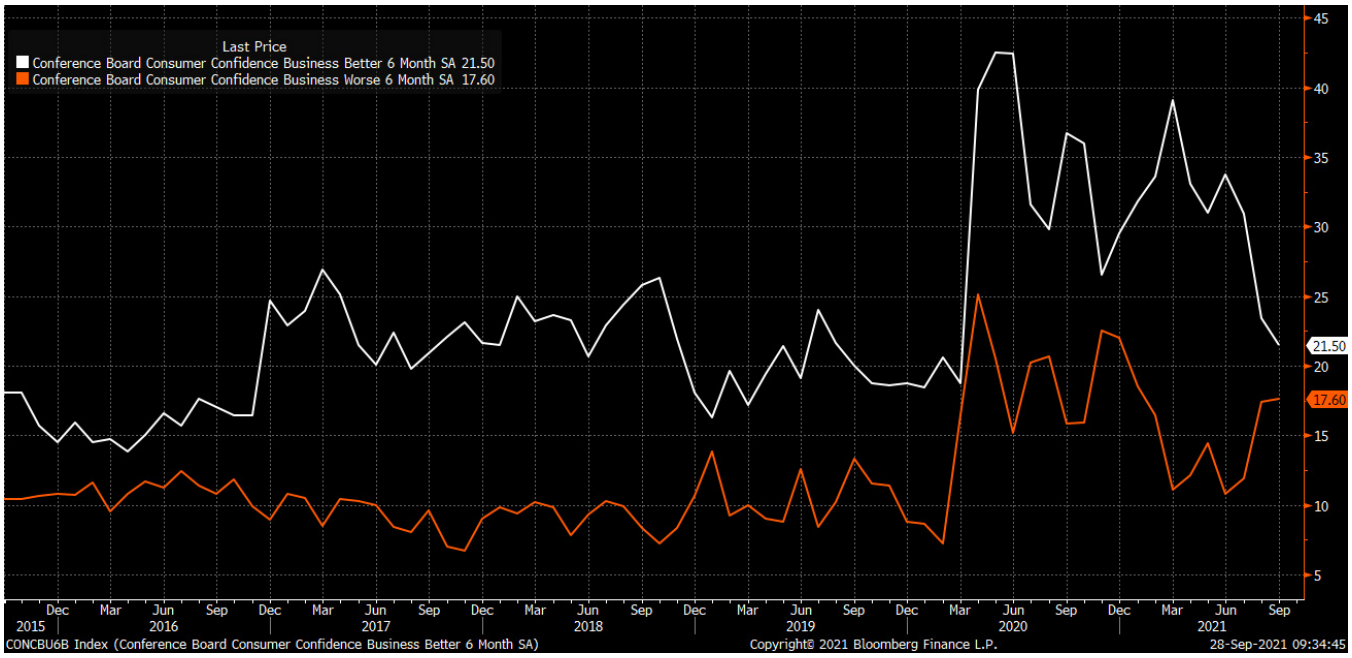




Financials

A rebound in markets this morning though there is nothing truly new in the news. ES futures have yet again bounced off the 100-day MA. On tap today we have an ECB Forum, at which Fed Chair Powell, ECB Pres Lagarde, BOE head Baily, and BOJ head Kuroda will all speak. Central bankers have a way of calming markets, and having them all in on setting could be just the thing equities needed. It also probably doesn't hurt that the rally in energy prices seems to be taking a breather this morning.

I like to skim through the monthly consumer sentiment figures for some details on the trends in sentiment. I'll simply present a few charts below with limited commentary as they mostly speak for themselves. The first chart shows responses on expectations for business conditions in the next 6 months. You can see that the percentage of respondents expecting better business conditions is at the lowest level since the pandemic, while those expecting worse conditions is ticking up a little and remains above pre-pandemic norms. The second chart shows expectations for the labor market, whether or not more jobs will be available in 6 months or less. You can see that those expecting more jobs are at the lowest since the pandemic started and those expecting fewer jobs is moving higher and also remains well above pre-pandemic levels. The final chart looks at expectations for various purchases over the next several months. Expectations for auto purchases and homes is depressed vs. pre-pandemic levels. Expectations for appliance purchases are not especially robust either. None of these really adds up to strong consumer sentiment or potential for strong demand.


Last Price
Conference Board Consumer Confidence Business Better 6 Month SA 21.50
Conference Board Consumer Confidence Business Worse 6 Month SA 17.60
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2015 2016 2017 2018 2019 2020 2021
CONCBU6B Index (Conference Board Consumer Confidence Business Better 6 Month SA)
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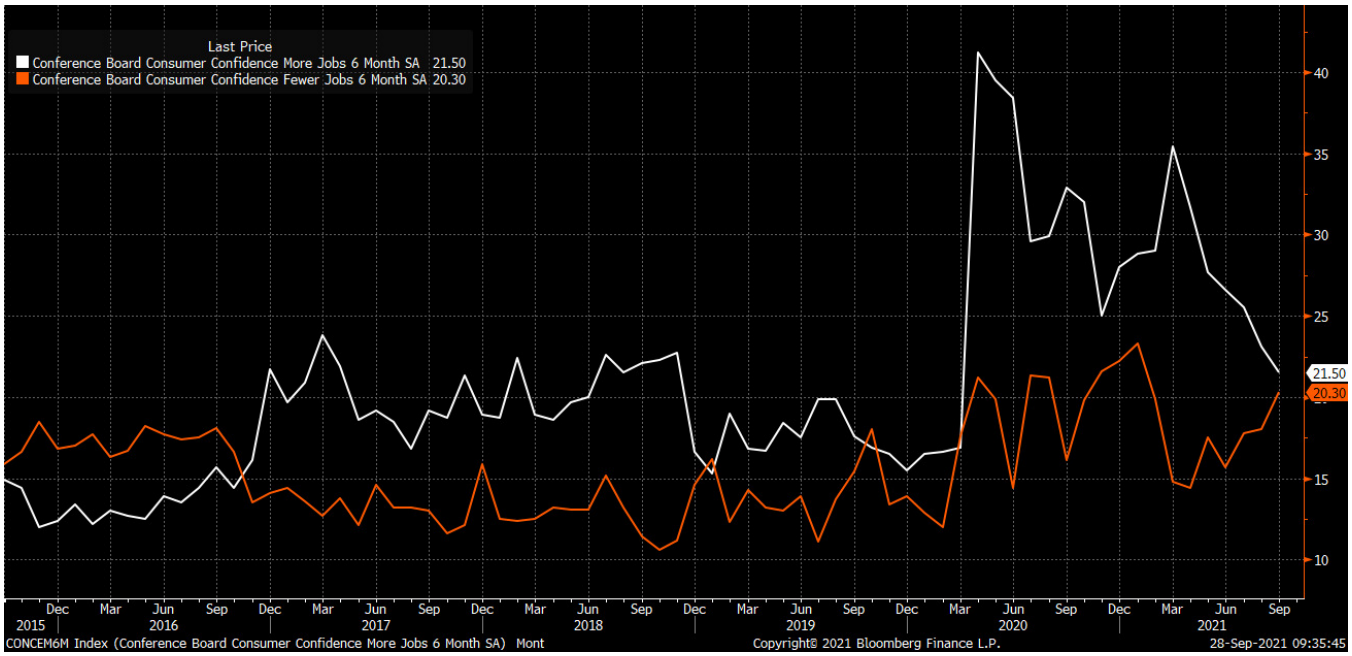
Last Price
Conference Board Consumer Confidence More Jobs 6 Month SA 21.50
Conference Board Consumer Confidence Fewer Jobs 6 Month SA 20.30
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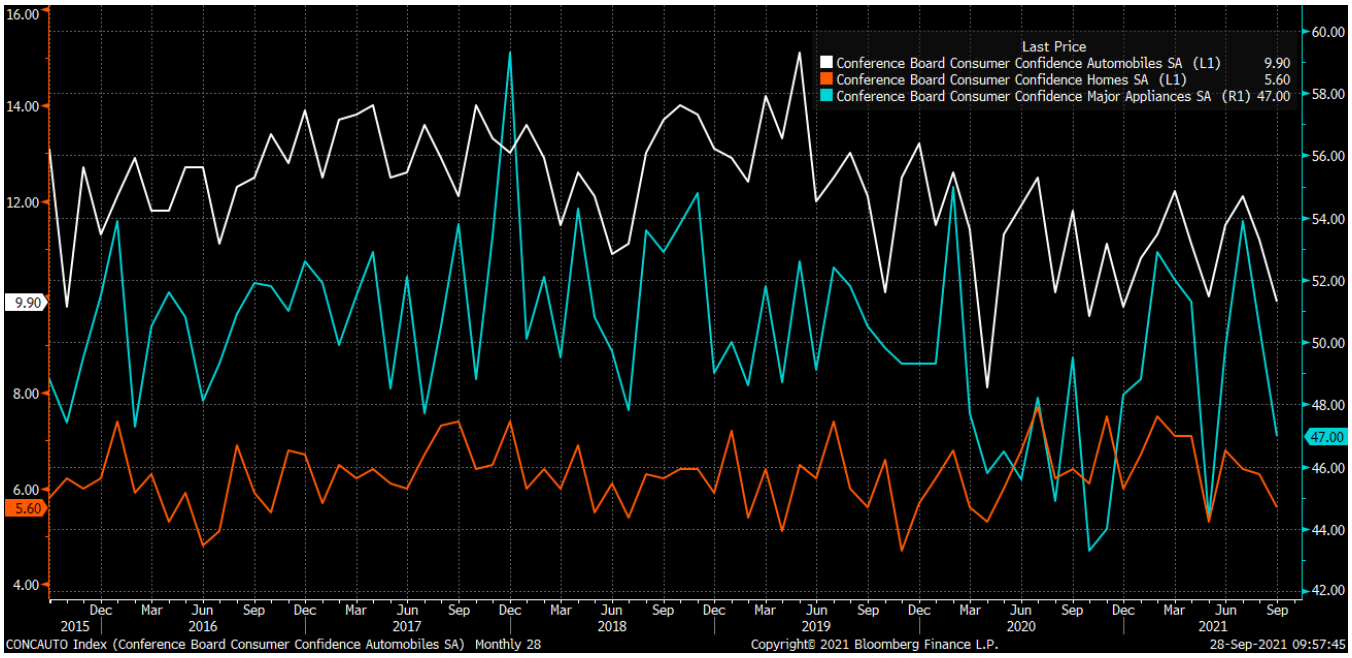

Energy

Oil and energy prices in general are weaker this morning. For oil specifically, the "big" news is yesterday's API release which showed a surprising building crude oil inventories. The API release showed a 4.1 million barrel increase in oil stocks for last week vs. expectations for another 2 million barrel decline. We've seen 7 consecutive weeks of inventory declines in the EIA data, so it will be interesting to see if the EIA follows the API with bigger stocks. We know that they don't always move in the same direction. The API release also showed significant increases for both gasoline and distillate inventories. EIA's data on combined oil, gasoline, and distillate stocks have been down for 9 straight weeks, so this would be an abrupt shift. Watch for some market fireworks as that report is released this morning.

Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- Several central bank leaders speak at ECB forum

Thanks for reading.

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