NESVICK TRADING GROUP, LLC

Thursday, October 28, 2021

NTG Morning Comments

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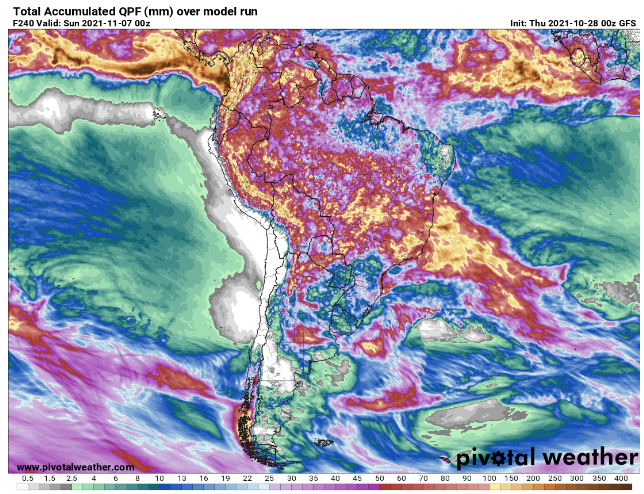
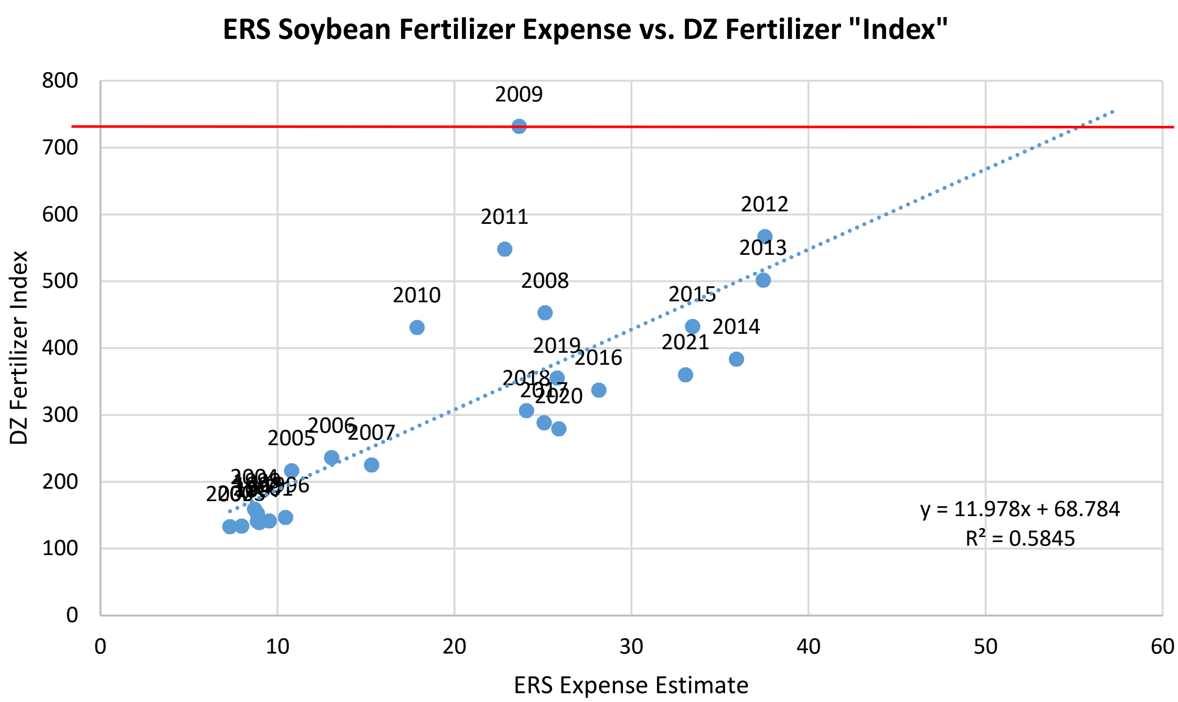
Weather

No changes to the South American forecast this morning. We should see consistent rains in northern Brazil which will maintain planting progress and good crop conditions. Southern Brazil will see mostly below normal rainfall over the next two weeks, but some rains will fall early next week. Argentina will be hot and dry for the remainder of this week but some very welcome significant ran will develop next week, along with cooler temps. Map at the right shows expected 10-day precipitation totals.

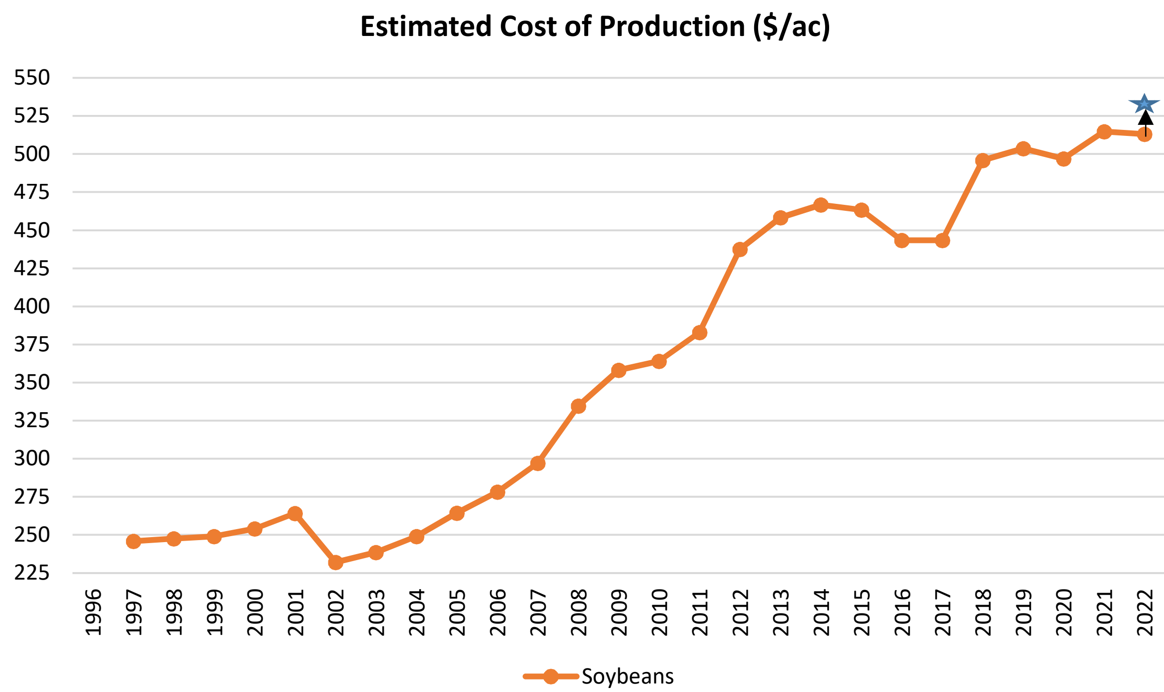


Crops

As mentioned yesterday, I have attempted to come up with fertilizer cost indices for both corn and soybeans that can help put the spot prices for fertilizer into context of a cost-of-production analysis. The index we've developed for corn appears pretty solid. Like anything in this business, I wouldn't expect to be exactly right but it will hopefully get us in the ballpark. For soybeans, after a little work and a lot of trial and error I've done the same thing. As you can see below, however, it does not correspond as well as corn did with the ERS calculation for soybean fertilizer expense. This seems somewhat reasonable. For corn, a large component of the calculation is tied to nitrogen, and obviously that isn't the case for soybeans. That large weighting to nitrogen probably allows the corn index to get closer than soybeans.



The red line once again indicates where my current calculation sits. I do not think the true soybean cost will reach the level implied by the scatter, and I'm simply going to ballpark the fertilizer line-item at a round number of $50. That would represent a ~50% YOY increase from 2021's estimate and would be the third largest YOY increase I have in my data (both 2008 and 2012 saw ~64% increases). If that guesstimate proves to be close to correct, and leaving all else unchanged, it would imply an increase to the ERS's cost of production estimate as indicated with the star below. Certainly an increase, but not to the scope of what we saw yesterday in our corn discussion.



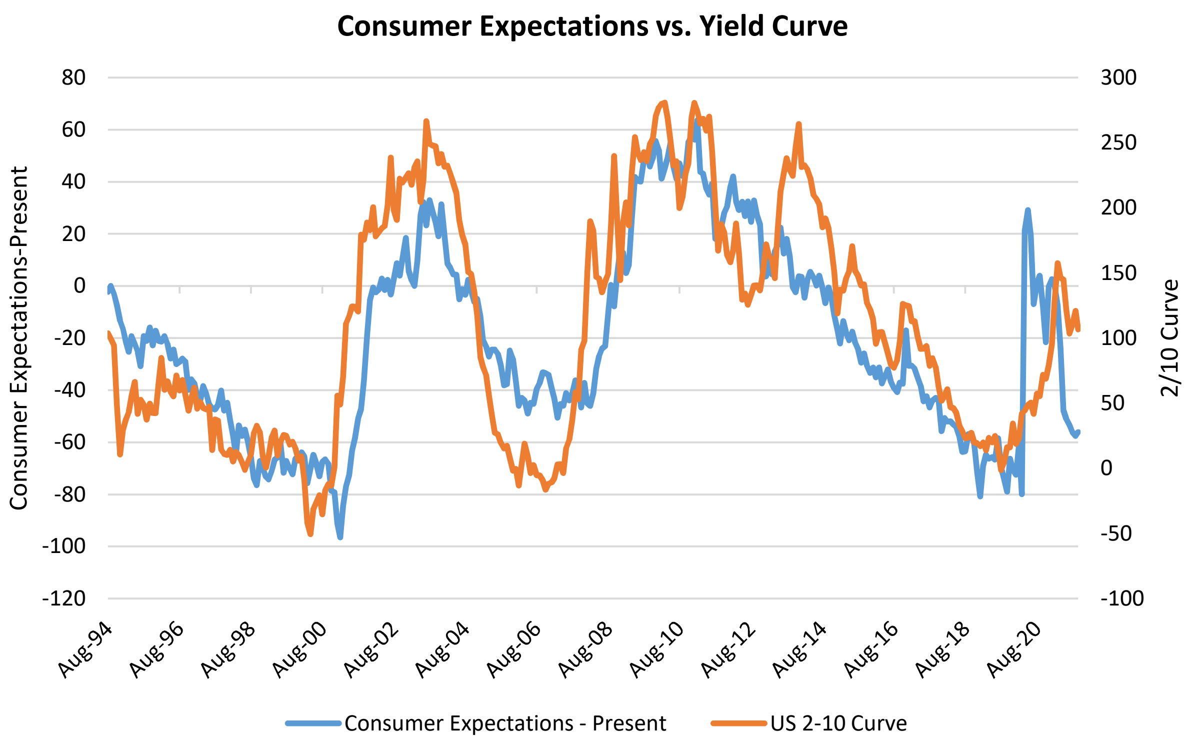
Tomorrow we'll look at these new cost of production guesstimates based on our fertilizer cost assumptions. We'll compare them against current futures prices and get a rough guesstimate on a revenue comparison between the two crops. We'll then later look at what that might mean for the 2022 acreage debate. As always, please feel free to chime in with any comments.

Livestock

I don't have much to talk about here this morning. It is relieving to see slaughter numbers run so well so far this week. We're probably on pace for a 520-525k S&H kill this week which could be the largest in quite some time. It is nice to see no "cooler cleaning" events from packers this week. This is hopefully a sign that some of the labor issues that have been plaguing the market are starting to get resolved. The cutout was a smidge lower yesterday, but it seems most are still looking for upside from here. Seasonally the cutout could continue to bounce into mid-Nov. Cash trade has been active this week, with a lot of the action at 126. Still seems like there is a bit more volume left to see, and we'll see if those who have held out so far are rewarded. LCZ held the first test above the 100-day MA yesterday, but I do think it is worth noting that we're now at the 50% retracement of the break from late-Aug to late-Sep. This area might prove to be a spot where the market consolidates for a moment before deciding upon its next move.

Financials

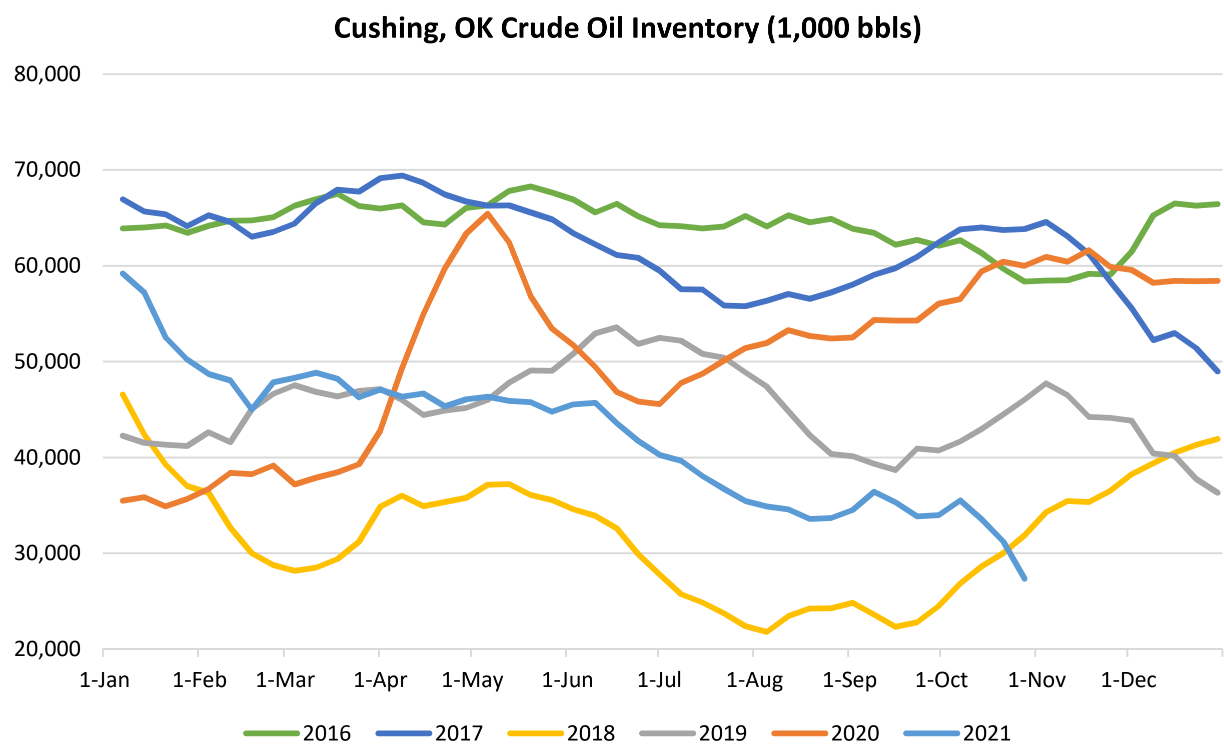
I pointed this out recently but I wanted to update it quickly this morning considering we just got updated consumer confidence figures and the yield curve has seen a pretty sharp flattening move here. The chart below compares the Conference Board's consumer expectations index vs. the present conditions index. With the "spread" of these indices negative, it essentially implies the consumer is expecting less favorable conditions in the future compared to right now. This lines up very well against the 2-10 yield curve over time, and right now the consumer confidence spread would argue for further downside in the yield curve.



A flatter yield curve also makes sense if you're of the belief that central banks are starting to lean more hawkish. Yesterday we saw the BOC surprise the market with an end to QE and hawkish forward guidance on rates. If the Fed starts to feel compelled to start to turn up the heat on forward guidance eventually (due to ongoing inflation problems) then the front end of the curve should certainly perk up. A big IF, for sure, but not outside the realm of possibility.

Energy

Quick chart from yesterday's EIA dump…while overall US crude oil stocks increased it is worth pointing out that Cushing stocks declined further. This is near the tightest level in the past 5 years. Also, we're clearly bucking the trend for modestly higher inventories at this time of year so far. As long as Cushing stocks remain "tight", we should continue to see WTI spreads remain inverted.



Today's Calendar (all times Central)

- Jobless Claims – 7:30am
- Export Sales – 7:30am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.
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