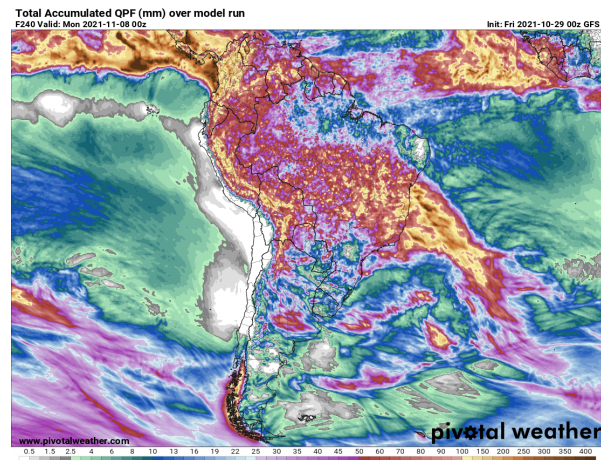


Weather

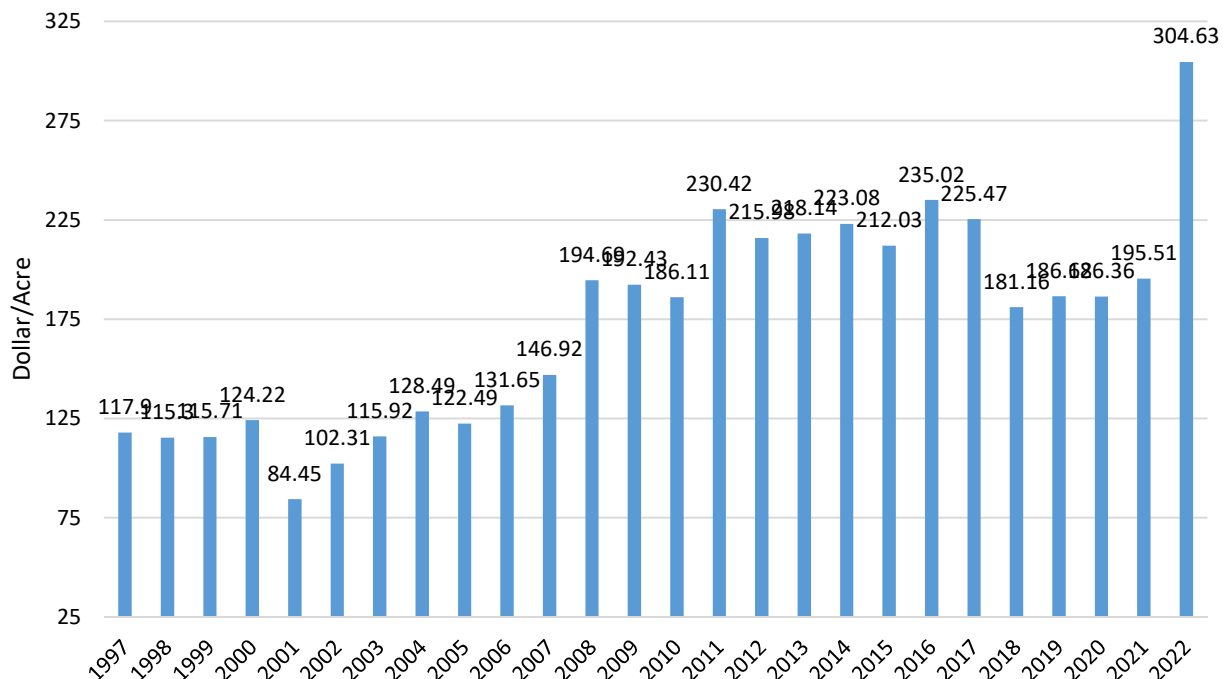
No changes to the forecast. Consistent rains in northern Brazil, with the best amounts in the 6-10 and 11-15 day periods. Not a wet pattern for southern Brazil with mostly below normal rainfall for the two week period. There will be some decent rain there during the first half of next week, however. Argentina will see a continuation of hot and dry weather today and tomorrow, but significant and very welcome rains and cooler temps will arrive during the weekend. The map at the right shows the 10-day GFS precipitation forecast.



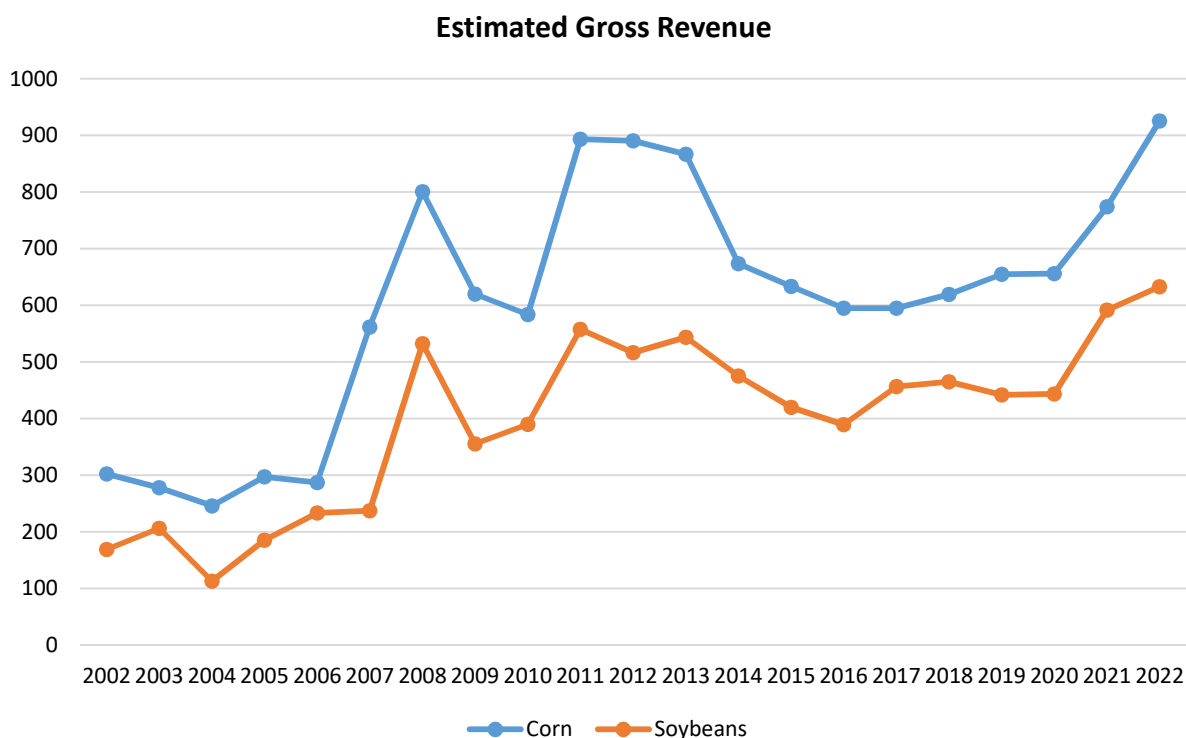
Crops

Let's plug in our guesstimates on cost of production mentioned over the past few days and see what they look like. As a reminder, we bumped up only the fertilizer expense category in the ERS cost of production estimates, and left everything else unchanged. While that is probably unlikely, for now our focus is simply on the impact of higher fertilizer prices. If we take our assumptions, this is the comparison of cost of production for corn vs. soybeans compared to the past several years...

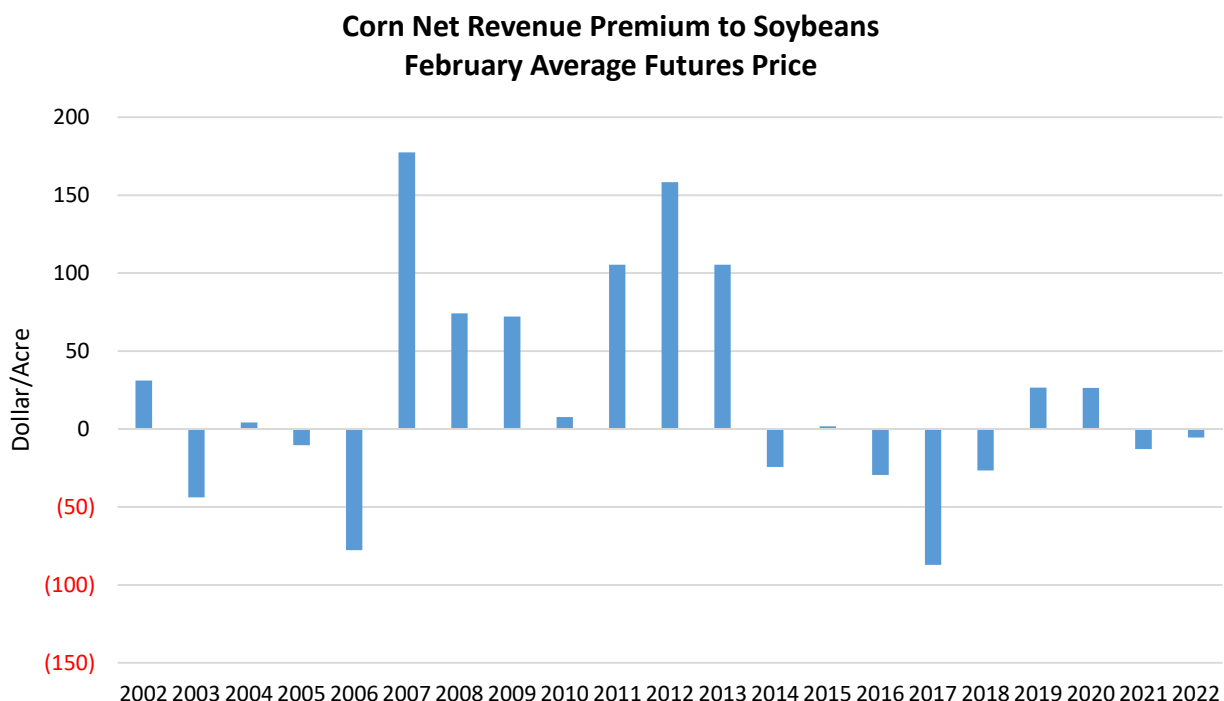
**USDA National Average Cost of Production
 Corn - Soybeans Difference**



That is obviously quite a big premium to plant corn vs. soybeans. Remember, the idea here is a national average, with individual operations obviously looking much different. However, cost is just one side of the equation....what about revenue. Well, to come up with a guesstimate on revenue we have to make a lot of assumptions. For now I'm plugging in national average yields of 178ish and 52ish. I'm also plugging in an estimate of national average basis against current CZ'22 and SX'22 futures values. With my estimates in place, I come up with gross revenue estimates that look like this...



So while costs for corn have gone up considerably in our assumptions, our assumptions also show that estimated gross revenue would be up sharply for corn based on new crop futures values as they sit today. So what does the comparison of net revenue look like? That is shown below. I'm surprised to see that new crop corn futures are doing a pretty good job of keeping track with the rally in fertilizer prices. On paper, the net revenue difference isn't dramatically different compared to what we saw last year, and it actually favors corn a little more than it did last year.



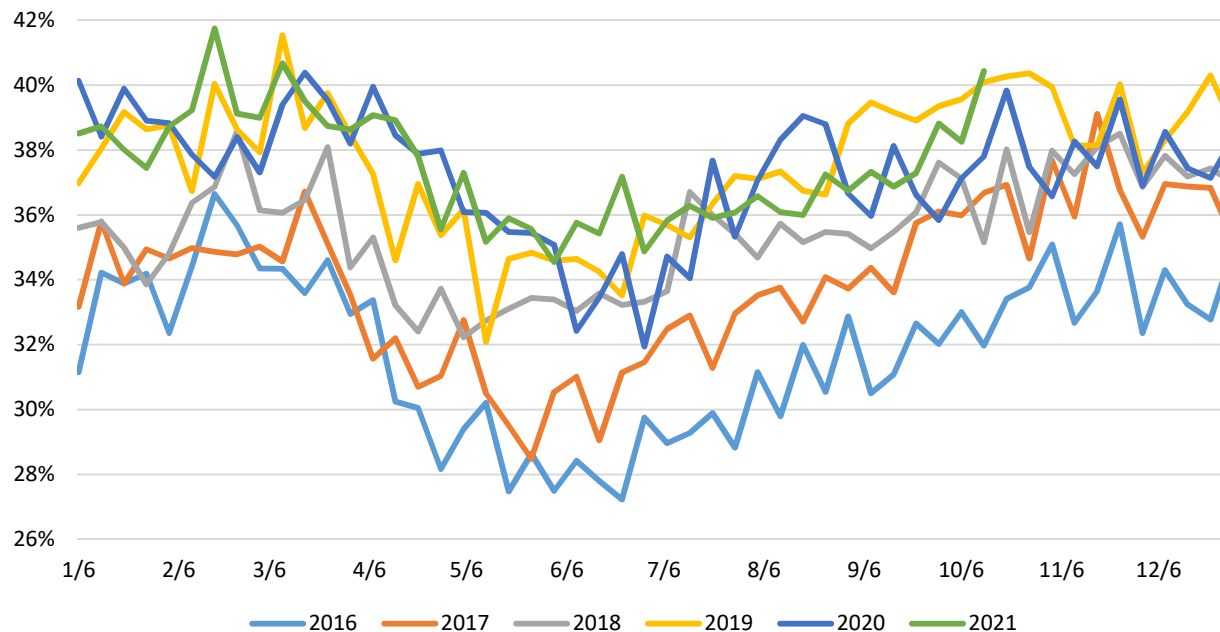
On Monday we'll look at what this net revenue comparison might mean for acreage numbers. As always, please feel free to hit me with your thoughts.

One disclaimer – Remember, these are just calculations in a spreadsheet. Obviously there are supply issues that get in the way of securing fertilizers regardless of the price. I can't account for that situation in my calculations, but I understand it exists. This is merely meant as a general framework to guide our thoughts on acreage potential.

Livestock

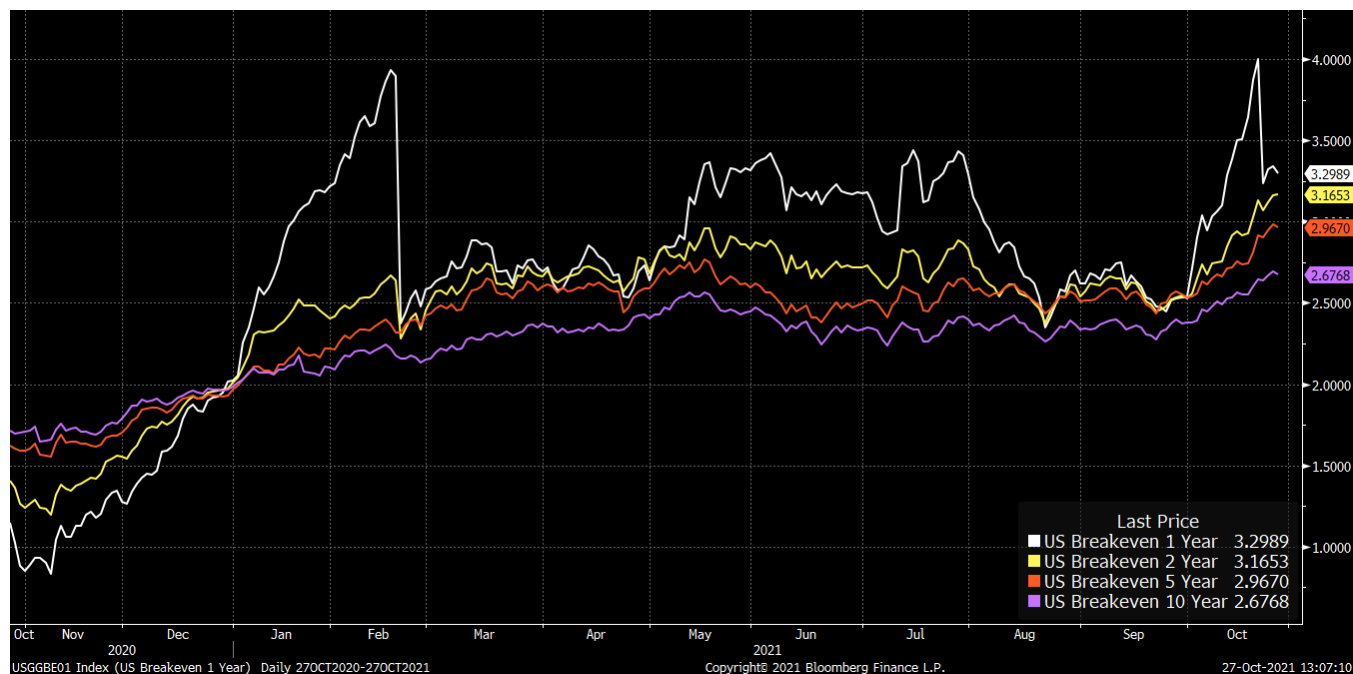
Not much new to pass along this morning. Obviously the Oct contract got beat up yesterday ahead of its expiration today. I think some would argue this weakness and it's discount to current cash trade is a problem of CME delivery specs, but I'm not well-informed enough to convincingly make that argument myself. Cash trade was again active yesterday and we've seen pretty good volume on the week. Prices up about 1.80 on average according to our friends at MPA. The kill this week has been running a solid clip, which is good to see. A lot of that is non-fed cow kill but that continues to support our argument for ongoing herd liquidation. Nothing stands out from the weekly official slaughter numbers, but the total amount of heifers killed last week was somewhat large. Note the chart on the next page showing heifers as a percentage of the total S&H kill. It has been running relatively high all year and moved above 40% last week. A high heifer kill is yet another indicator of herd liquidation. That is a slow-motion process as it pertains to big adjustments in cattle supplies, but clearly the trend is heading in that direction.

Heifer Slaughter as % of Total S&H Slaughter



Financials

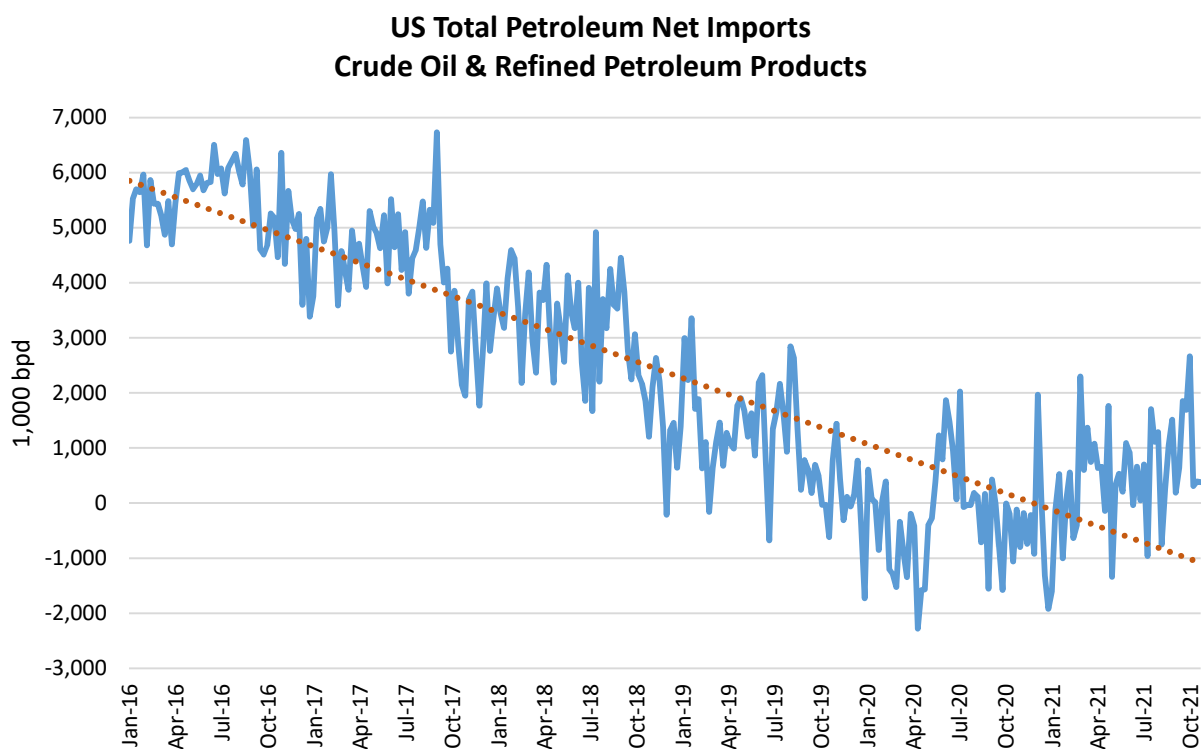
I think this an interesting chart. This essentially shows forward inflation expectations. What I find interesting is that the inflation expectations from 2, 5, and 10 years are all pushing into new highs and breakout out of their recent consolidations. The market is certainly not pricing in transitory inflation right now.



US equity futures are lower at the time of writing this morning in part due to disappointing earnings results from APPL and AMZN. European stocks are lower as well in part due to higher than expected Eurozone inflation readings. Eurozone inflation was +4.1% YOY vs. +3.7% expected. Core CPI was +2.1% and is the highest level recorded in nearly 20 years. Eurozone GDP also did beat expectations at +2.2%.

Energy

Just a quick chart this morning to show how US petroleum dynamics have shifted. Over the past several years the US was seeing a sharp reduction in net imports of oil and refined petroleum products. Even before the pandemic hit last year, there were some weeks where the US was a net exporter. In 2020, the US was a consistent net exporter. Some of that was certainly induced by weaker domestic consumption. The trend has reversed a bit in 2021, however, with the US shifting back to becoming a net importer. I guess we can argue about whether the 2020 net-export situation was simply a pandemic coincidence or whether the change in 2021 is due to shifts in policy.



Today's Calendar (all times Central)

- PCE Deflator – 7:30am
- U of M Consumer Sentiment – 9:00am
- Baker Hughes Rig Count – 12:00pm

Thanks for reading.

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