NESVICK TRADING GROUP, LLC

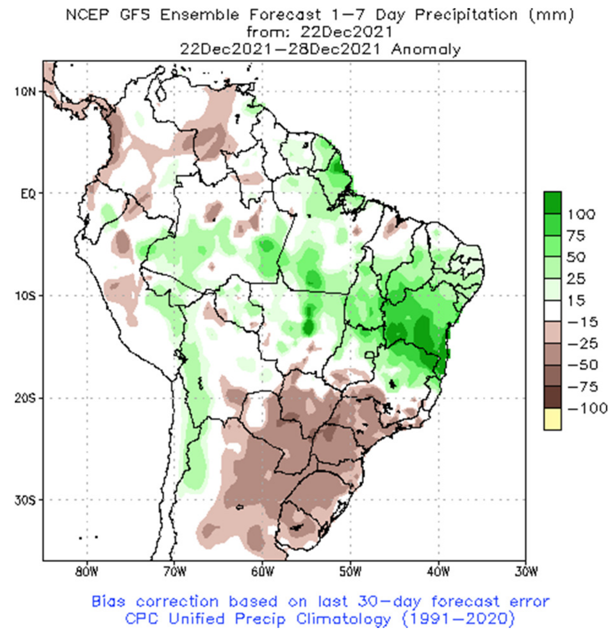
Thursday, December 23, 2021

NTG Morning Comments

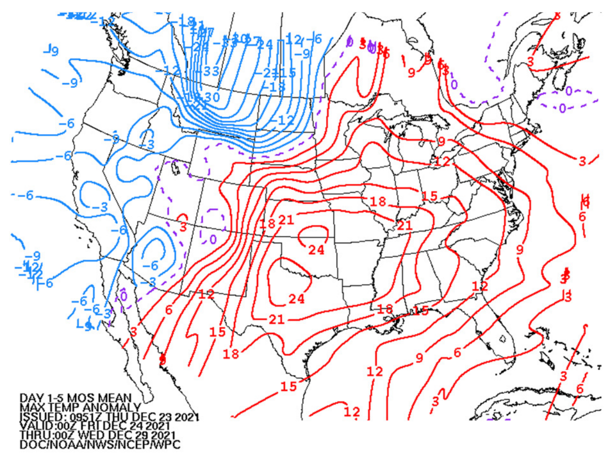
www.nesvick.com

Weather

No changes to the outlook. Northern Brazil is still looking at above normal precipitation over the next two weeks. Rainfall totals could range from 5-10" over this period. Temps should be fairly mild with all the rain around. Southern Brazil is looking at virtually no rain for the remainder of the month. There could be some scattered showers in eastern areas closer to the coast, but it won't amount to much. As we move into January there is a glimpse of some improvement in rainfall chances. The 11-15 day period could see some 1-2" rainfall potential, which would be close to normal and definitely the best rainfall the area has seen in quite a while if realized. Temps will average above normal for the next 10 days with a lot of 90-95F highs. Some highs in the 100s cannot be ruled out.



Argentina is also looking at very limited rainfall chances through the end of the month. Most places will be completely dry and what little rain does fall will be very light. There will be some chances for scattered showers developing in January, but unlike in Southern Brazil this still doesn't look like it will be near normal. Heat is going to be impressive over the next 10 days with highs easily in the 90s and there will be 95-100F readings in a lot of areas next week.



No changes for US forecast either. Mostly dry conditions for at least the next week for the Plains. Chart at the right shows the average departure from normal daily high temp over the next 5 days. A lot of warmth in the Plains as well.

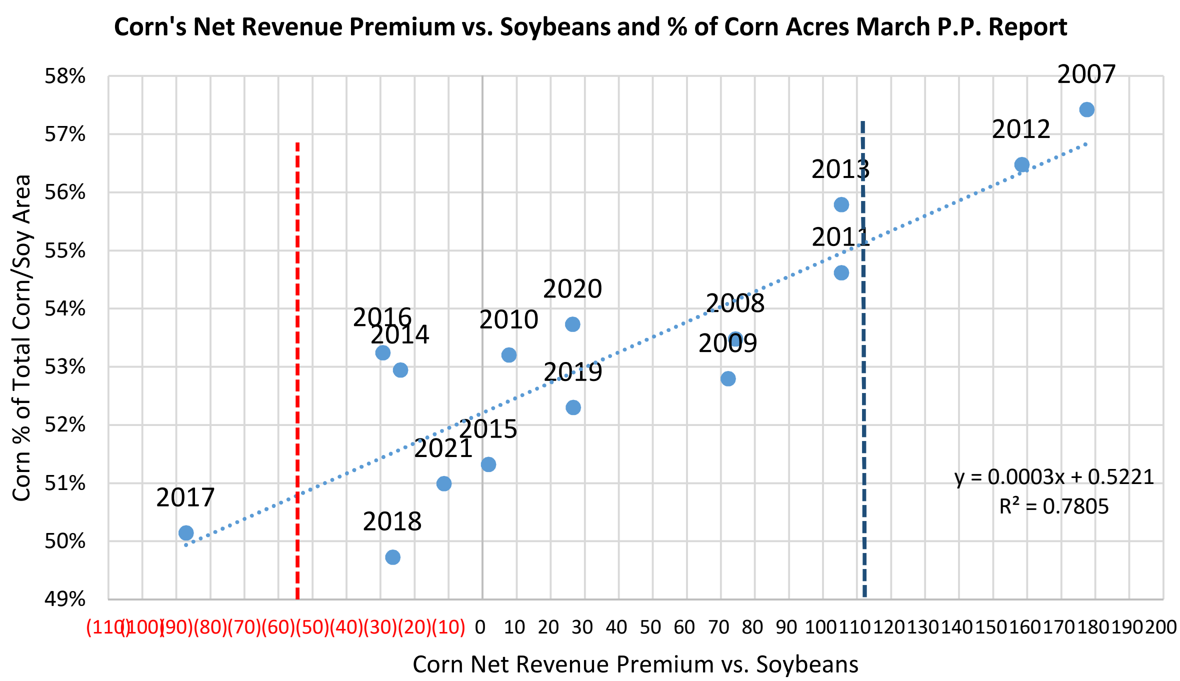
Crops

For most of this week I've been taking a few shots at the latest ERS cost of production projections this week. However, I need to make two points before moving on.

1) ERS cost of production forecasts are not due to be updated again until June, meaning this is the final number we'll get prior to the March Prospective Plantings report.
2) These ERS cost of production forecasts have actually been fairly reliable indicators of the corn-soybean acreage mix in the March Prospective Plantings report.

The chart below is an attempt to support #2 above. This shows the net revenue comparison (as shown in yesterday's comments) vs. the percentage that corn acreage represents of the total corn + soybean acreage pie.

While it isn't perfect, you can see there is a very strong tendency for the net revenue projections, which are largely based on ERS cost of production figures in addition to my own assumptions as described yesterday. With this in mind, I have a hard time completely dismissing the ERS's cost of production figures.



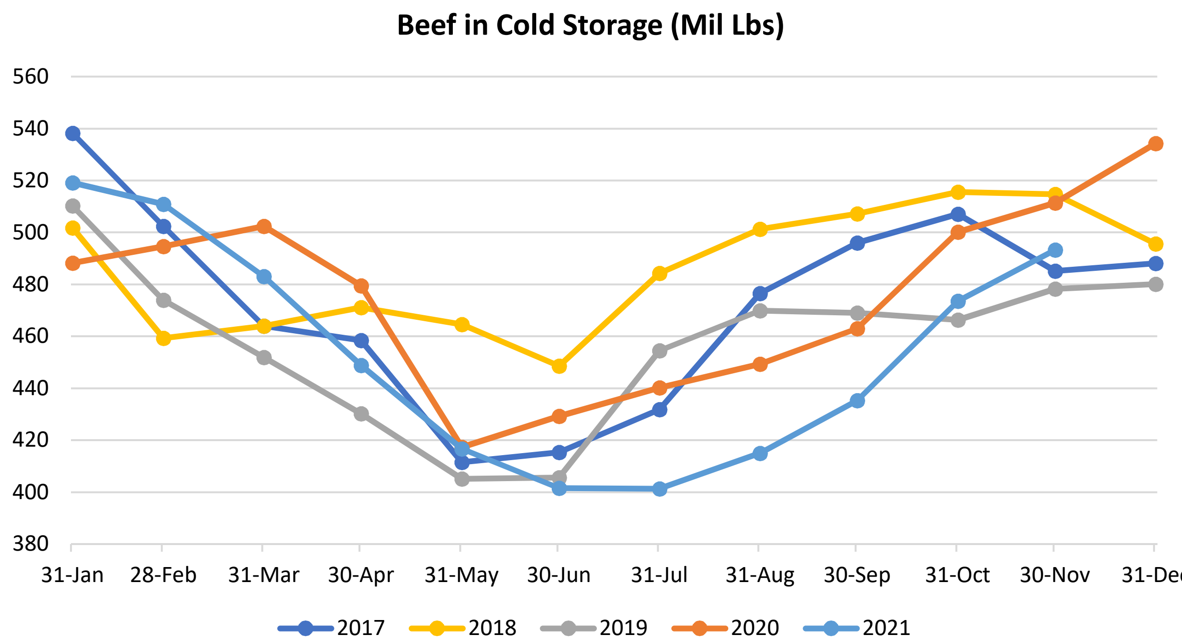
You'll notice two lines on the chart. At right, the blue line shows the net revenue calculation using the ERS cost of production figures as-is. As I showed yesterday, the net revenue calculation based on these figures was the largest in several years. **Based on the scatter plot above it would imply corn should represent roughly 55% of the corn and soybean acreage pie. If we assume a relatively conservative 179 total acreage mix for the two crops, that would mean corn acreage of 98.5 million and soybeans of 80.5 million.** If that sounds more than a little crazy, I agree with you…but that is what it is spitting out.

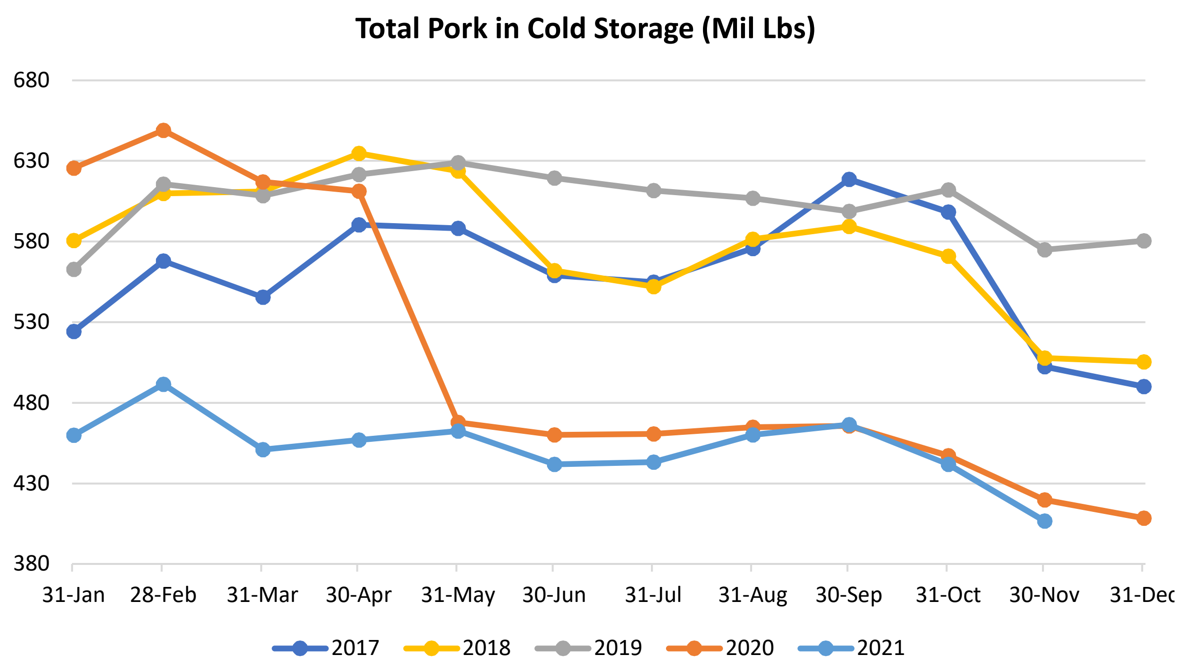
The red line above shows a very rough guesstimate of where the net revenue calculation would come in using my fertilizer price indices that I have described in previous commentaries. Obviously this would be a big difference from the ERS's implied acreage figures. **Using the same 179 million total acreage mix, this would calculate to roughly 90.5 million acres of corn and 88.5 million acres of soybeans.**

That second scenario seems to be somewhat closer to what I have been thinking for a while now. That being said, I still do want to warn that the ERS's projections have proven to be a useful tool in the past. This also illustrates that CZ'22 futures have done a lot of work in attempting to "buy" acres for 2022. **Maybe the truth might be somewhere in the middle?**

Livestock

Just a quick look at Cold Storage numbers this morning. Charts follow on next page.

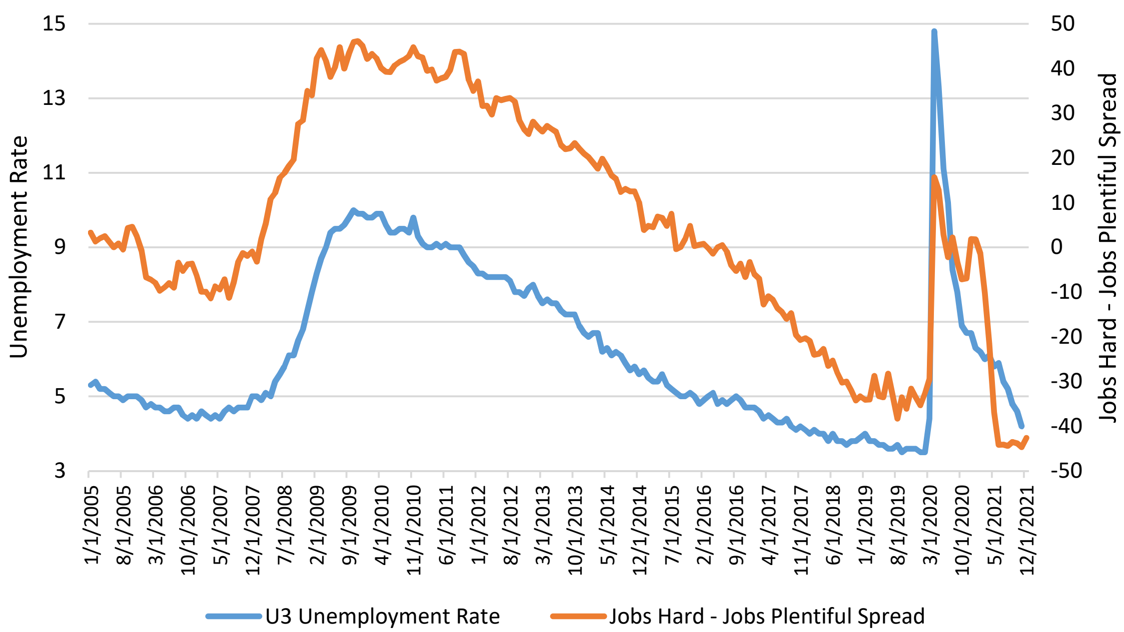




Financials

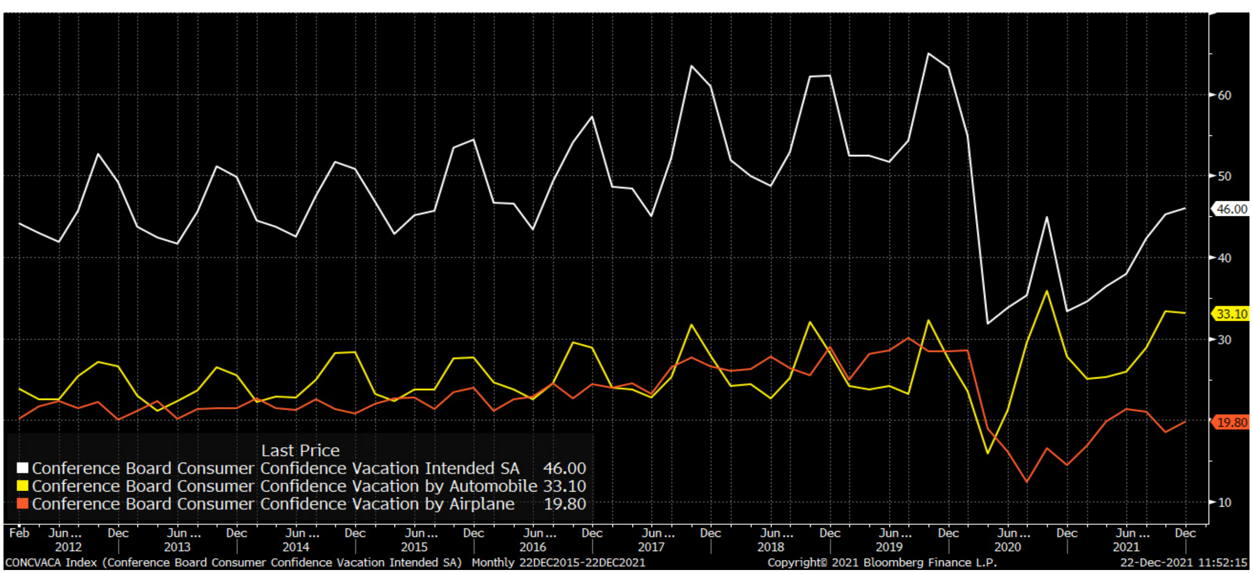
One tidbit from yesterday's economic data. The Consumer Confidence figure was stronger than expected coming in at 115.8 vs 111.0 expected and 109.5 in the previous month. Thoughts for purchases on appliances, new cars, and new homes all up-ticked as well. The employment figures remained strong as well. The chart below compares the spread between Conference Board's "jobs hard to get" vs "jobs plentiful" indices and the official U3 unemployment rate. You can see there is a strong correlation between the two. The Conference Board's spread remains very low and continues to imply further reductions in the unemployment rate ahead.

Unemployment Rate and Consumer Confidence



Energy

Another chart of interest from the Consumer Confidence numbers. I like to look at the vacation intention numbers every couple of months. US vacation intentions last month hit their highest since the pandemic started, which is the good news. The bad news is that it remains well under pre-pandemic norms. Those vacation plans continue to favor traveling by car rather than plane.



Today's Calendar (all times Central)

- Jobless Claims – 7:30am
- Export Sales – 7:30am
- PCE – 7:30am
- U of M Consumer Sentiment – 9:00am
- EIA Natural Gas Storage – 9:30am
- Cattle on Feed – 2:00pm

Thanks for reading.

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