NESVICK
TRADING GROUP, LLC

Tuesday, June 27, 2023
NTG Morning Comments
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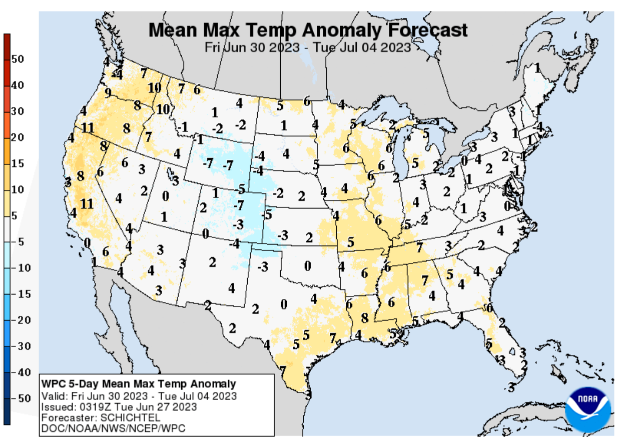
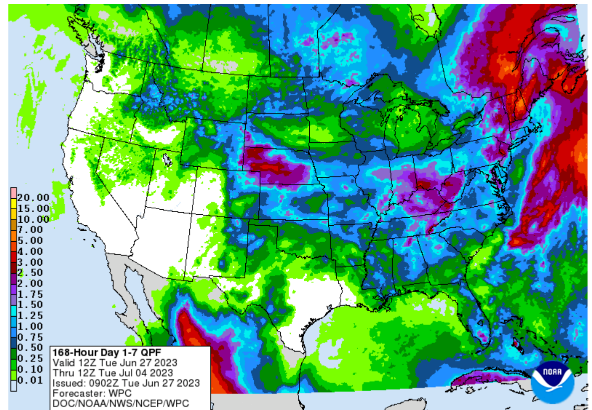
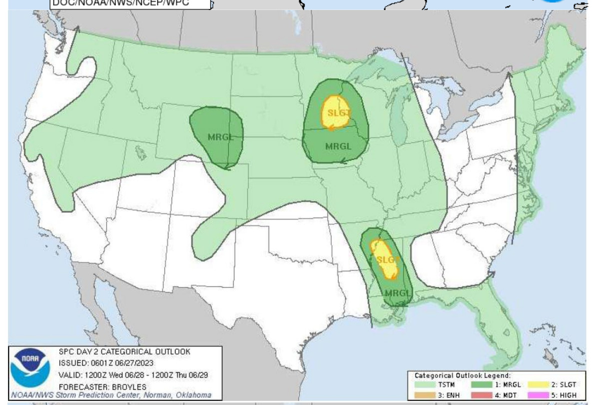
Weather

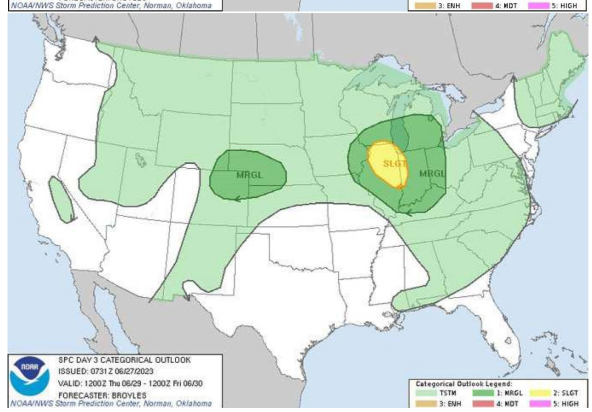
No huge changes, but models overall continue to trend wetter overnight. The 7-day QPF shown at the top right. The next ~48 hours will feature only isolated cases of significant rain in the Corn Belt, but I attached the severe weather outlook for the next two days at the right to show how some areas could see some significant activity. We should see more widespread activity Thu-Sat. As you can see from the QPF, there are a lot of areas that really need rain that should have a good chance of it in the near future. The bottom line is that we have transitioned into a more “normal” summer weather pattern. That won’t mean everyone gets all the rain they want right away, but in time rainfall “should be” closer to normal.

Some near-term heat in MO and surrounding areas, as the map below suggests. These areas missed rains last week so will feel some stress. The heat is not expected to be long-lasting and the QPF would suggest rainfall chances will return to these areas by the weekend.









Crops

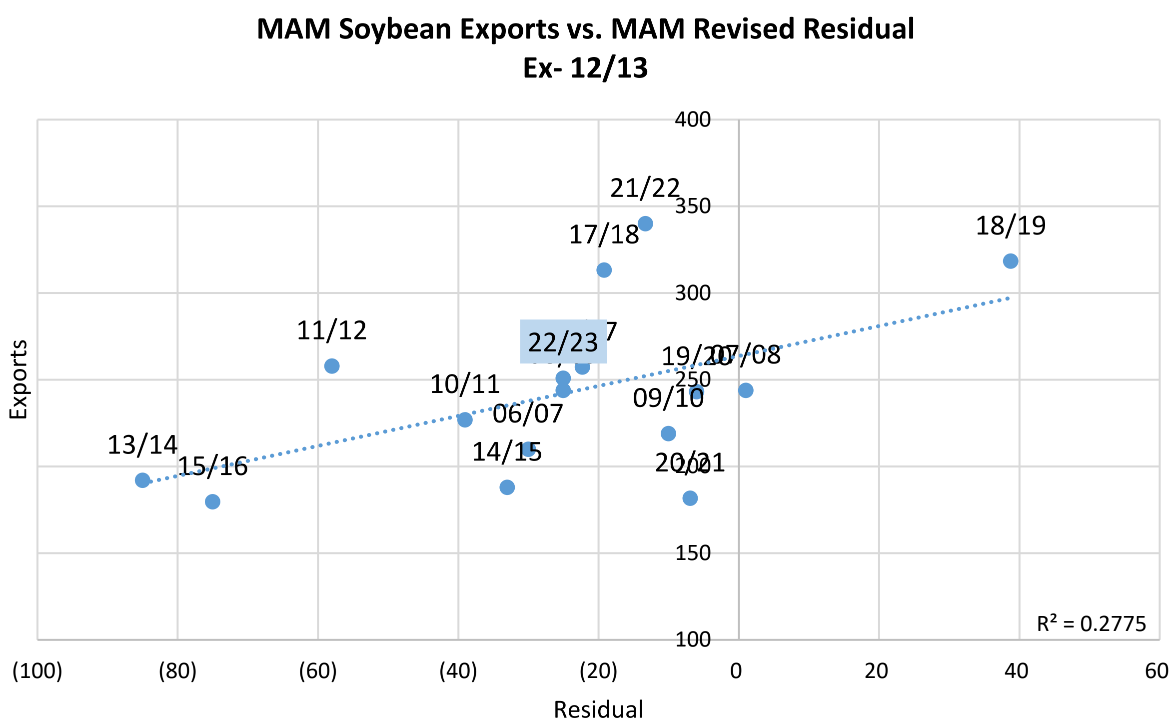
We’ll continue our look at June 1 quarterly stocks this morning with a focus on soybeans. As always, I will concede these estimates are low-conviction.

We know that MAM imports should be fairly small near 3 mb and exports should be ~251 mb. Crush should total somewhere around 575 mb. Of course none of those figures are official, but should be close-enough guesstimates. The question, as always, is seed and residual “use”. Seed use is typically pretty static as USDA uses a standard assumption based on planted area. Using that standard conversion, seed use should be somewhere close to what is shown below.

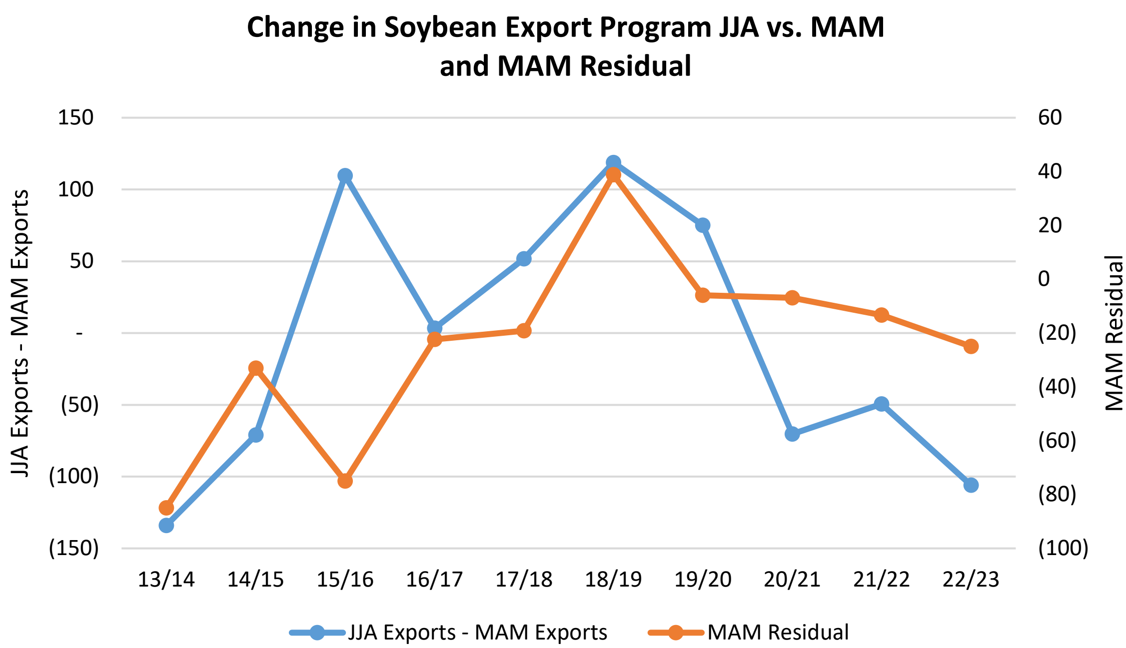
US Soybean Quarterly Supply and Demand

	17/18	18/19	19/20	20/21	21/22	22/23
Mar-May						
Imports	6	4	4	4	4	**3**
Crush	526	516	555	532	555	**575**
Exports	313	318	243	182	340	**251**
Seed	76	74	85	90	87	**87**
Residual	(19)	39	(6)	(7)	(13)	**(25)**
Total Use	896	948	877	797	968	**888**
Stocks (Jun 1)	1,219	1,783	1,381	769	968	**801**

I'll concede there is no exact science to figuring out residual "use". One thing that has worked at times in the past is a comparison of MAM exports vs MAM residual. The chart comparing the two is shown below. Typically, the bigger the export program during the quarter, the bigger residual figure we see. My estimate for exports this year is somewhat in the middle of the pack, and that is one reason my residual estimate is where it is.



The chart on the following page looks at soybean export "pipelining" between MAM and JJA and its impact on the MAM residual. The 15/16 marketing year is a big exception, but in most other years we can see that when exports in JJA are strong relative to MAM, we usually have larger MAM residuals and vice versa. This year I'm expecting that JJA exports will be sharply lower than during MAM. The current low level of outstanding sales would certainly support this thought process. With that in mind, it would seem reasonable to expect a small (bigger negative) residual figure for the MAM quarter. The 22/23 figures shown on the chart are not official…they're just my assumptions. This makes sense because the small export program should mean fewer beans in transit which, in theory, means more beans get counted in stocks. One could make the argument, based on this comparison, that my residual figure is too big perhaps.

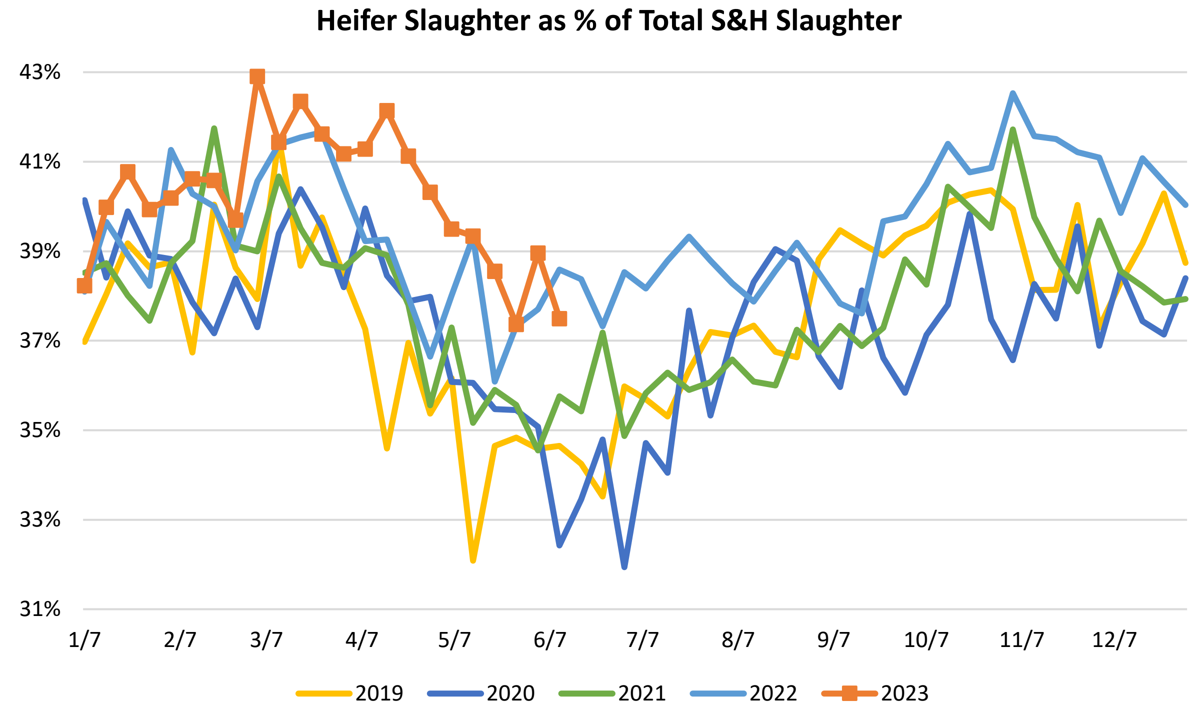


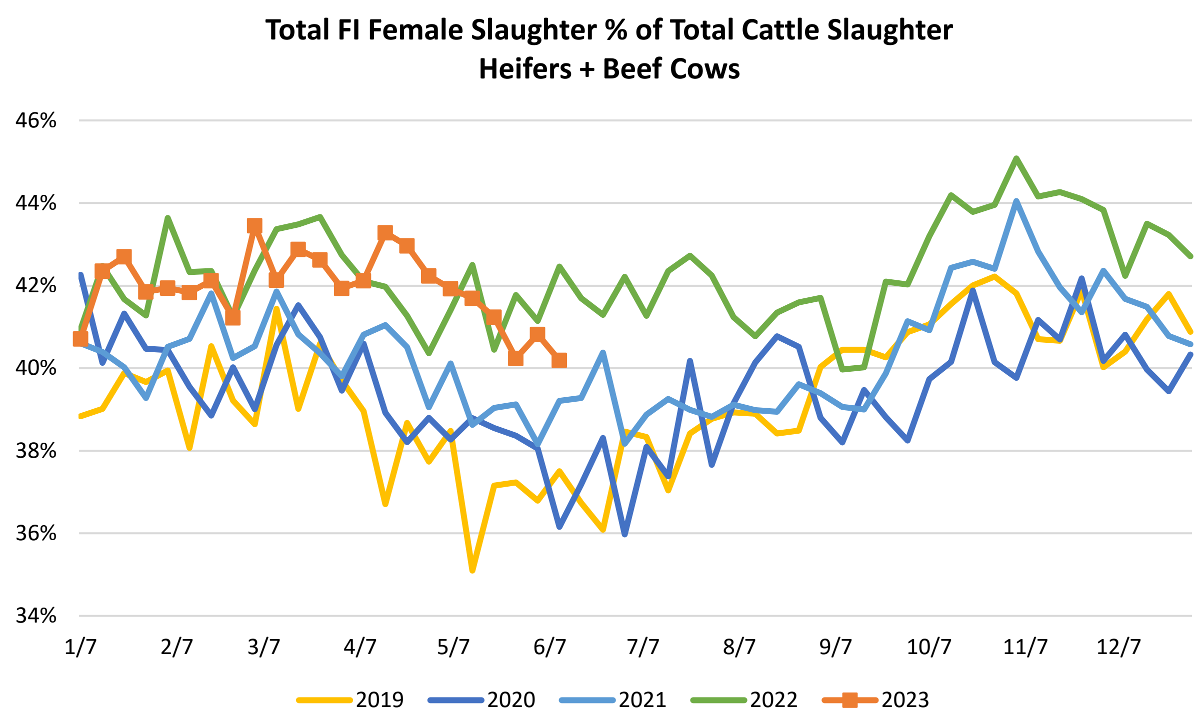
My guesstimate on June 1 stocks is basically the same as the average guess from the Bloomberg survey. Thoughts appreciated.

Livestock

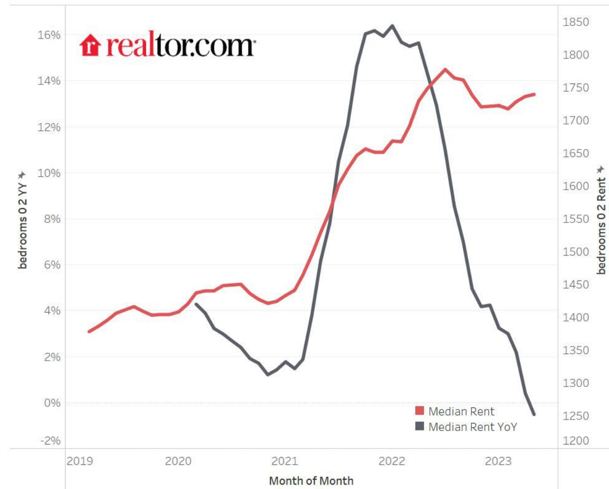
I mentioned yesterday that placements should slow down further in the months ahead because we've, in theory, pulled-ahead some feeder supplies and placed a higher percentage earlier in the year than we normally do. I mentioned that doesn't even account for the fact that, at some point, it would seem reasonable to expect that we start to see some heifer retention. We clearly haven't been retaining heifers yet. In fact, so far this year the numbers have implied further liquidation. However, recent numbers might be suggesting that the liquidation *might* be slowing down.

The first chart on the next page looks at the heifer slaughter as a percentage of the total S&H slaughter. You can see how elevated it was earlier in the year. It has come off in the past several weeks. Part of that is just the seasonal tendency, but I think that is wort noting. It is still elevated, for sure, but something to keep an eye on. Perhaps more important is the second chart, which combines heifers and beef cows for an estimate of the total female kill. It remains elevated, but I find it interesting that we're basically on the lows of the past year or so. It might just be temporary, but maybe the liquidation push of supplies is nearing the end?


Heifer Slaughter as % of Total S&H Slaughter
43%
41%
39%
37%
35%
33%
31%
1/7
2/7
3/7
4/7
5/7
6/7
7/7
8/7
9/7
10/7
11/7
12/7
2019
2020
2021
2022
2023

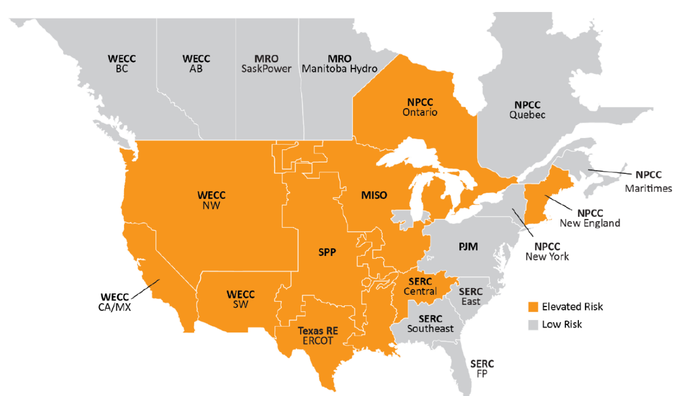

Total FI Female Slaughter % of Total Cattle Slaughter
Heifers + Beef Cows
46%
44%
42%
40%
38%
36%
34%
1/7
2/7
3/7
4/7
5/7
6/7
7/7
8/7
9/7
10/7
11/7
12/7
2019
2020
2021
2022
2023

Financials



An interesting report from Realtor.com yesterday. While their data is relatively new, they reported a decline in May national average rent compared to last year. This would be the first YOY decline in rent in their data set, which started in 2020. The decline was -0.5% YOY for 0-2 bedroom properties. The chart shown to the right was pulled from their website. While the YOY value was slightly lower, you can see that rents themselves remain elevated and actually increased a little compared with the prior month. I'm not sure if this is truly "big" news or not. If sustained, it could be a big deal. Rents comprise a big portion of CPI, so weakness in rents would go a long way towards allowing CPI to back off further. On that front, Realtor.com did point out several interesting tidbits that would seem suggestive that rents might have, at a minimum, stalled. They point out that Q1 2023 saw a surge in newly completed multi-family units, which pushed the rental vacancy rate to its highest level in the past two years. They also pointed out recent survey results that showed fewer independent landlords are planning to increase rents for lease renewals. So this is some good news for lowering inflation levels…we'll see if it has any staying power…

Energy



Seasonal Risk Assessment Summary	
High	Potential for insufficient operating reserves in normal peak conditions
Elevated	Potential for insufficient operating reserves in above-normal conditions
Low	Sufficient operating reserves expected

Figure 1: Summer Reliability Risk Area Summary

The North American Electric Reliability Corporation issued a report on electric supply issues for this summer. In its report the NERC said **all areas are assessed as having adequate anticipated resources for normal summer peak load and conditions**. However, they point out several areas that will have "elevated" risk if certain conditions take place that are a bit outside of "normal". Those areas are shown in the map at the right. Obviously that covers a majority of the country. I won't go through all of the issues they cite here (I can send you the report if you want it) but a consistent issue is the questionable nature of supply from solar and wind combined with potential for above normal temps.

Today's Calendar (all times Central)

- Durable Goods Orders – 7:30am
- New Home Sales – 9:00am
- Consumer Confidence – 9:00am

Thanks for reading.

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