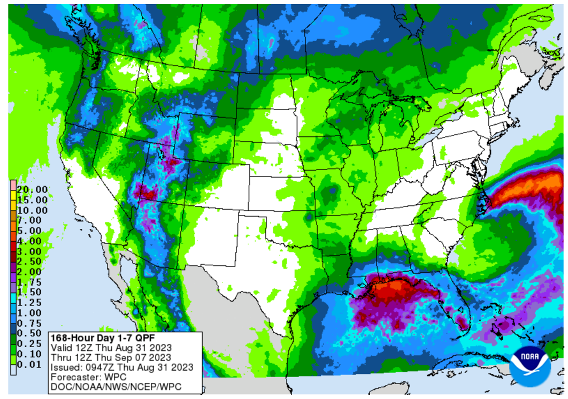
Thursday, August 31, 2023

NTG Morning Comments

www.nesvick.com

Weather



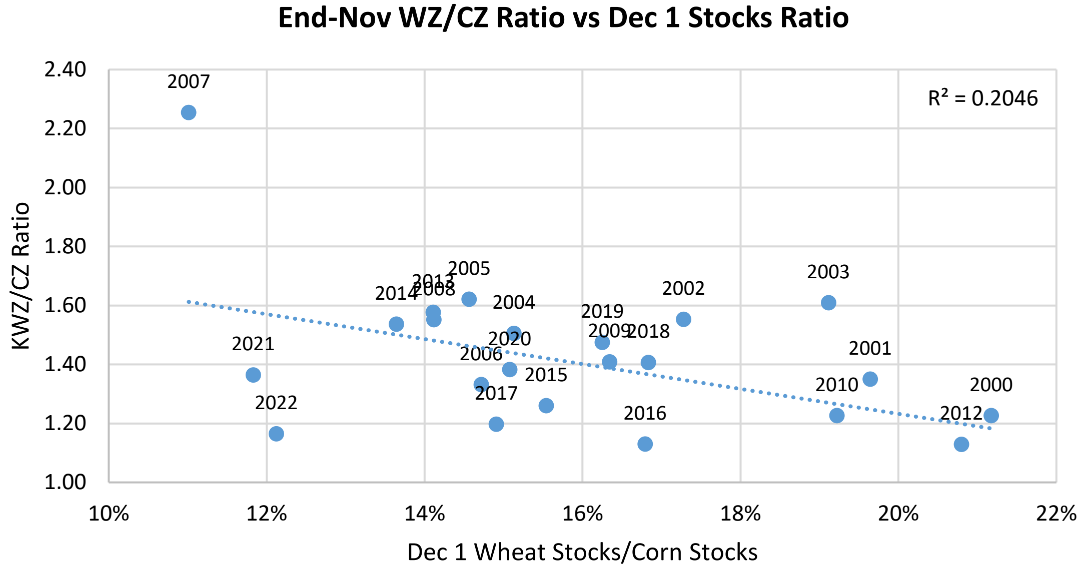
No huge changes. You can see the QPF has added "some" rain to the middle of the country, though obviously that isn't much to get excited about. The general tone of models shifted slightly wetter overnight. There is still virtually zero precipitation expected through the weekend, but models seem to have added a little rainfall for the 6-10 and 11-15 day periods. These are hardly big adjustments, and there isn't any reason to fully buy-in either, but I would still suggest it is important to note the shift in direction. The big weather story over the next few days will be temps. We'll see widespread 90s and maybe some 100s in far western portions of the Corn Belt on Saturday. Week 2 temps will remain well above normal as well, but keep in mind that above normal at this time of year quickly become less exciting, with some of that means highs in the 80s.

Crops

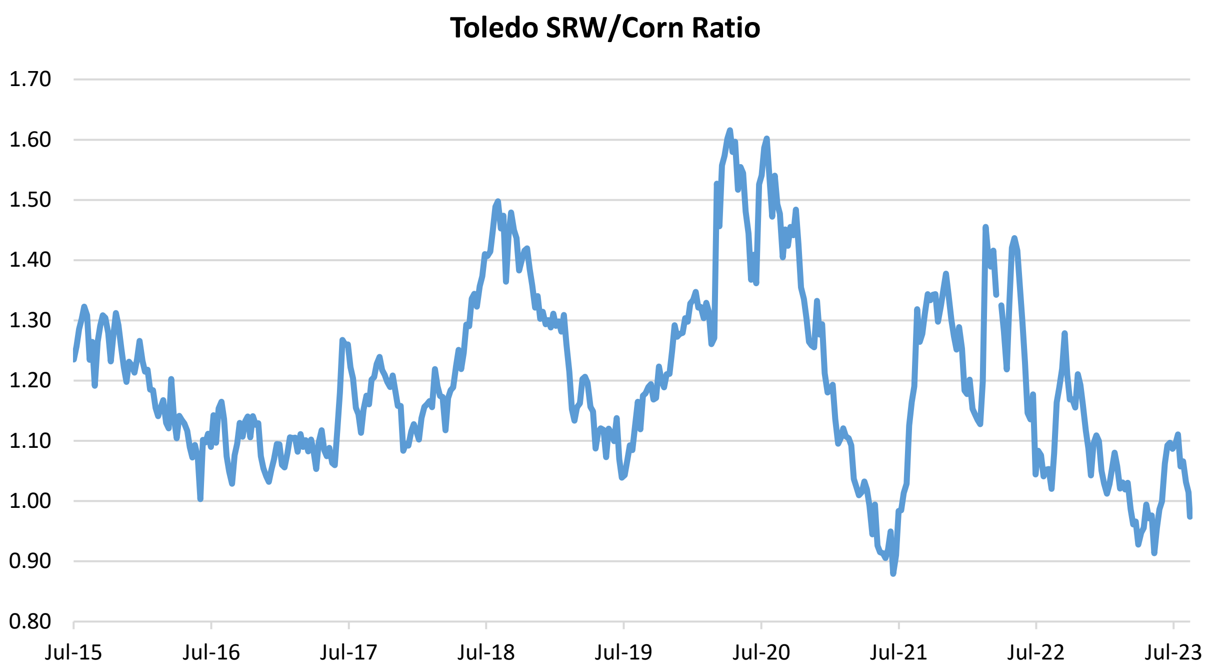
I've received a lot of questions this week about the wheat-corn spread and/or ratio. It seems a lot are wondering if WZ has any value relative to CZ considering the decline in wheat overall and vs. corn recently. Unfortunately, I've never figured out a great way of finding "fair value" for the spread, but we'll take a look at it today anyway.

The chart below looks at the level of the WZ-CZ spread (top panel – white line) and the WZ/CZ ratio (bottom panel – red line). We've definitely moved towards the bottom of the range recently, but not to a point that it truly stands out to me. Just eye-balling the spread chart, I don't know if I'd really be all that interested in entertaining fading this move unless it got closer to that recent low level near 80 cents.

As I've said, I've never found a great fundamental scatter that shows "fair value". The scatter below compares Dec 1 stocks of wheat vs corn against the spread. You can see the R2 is garbage and the scatter is worthless. Nothing to see here.



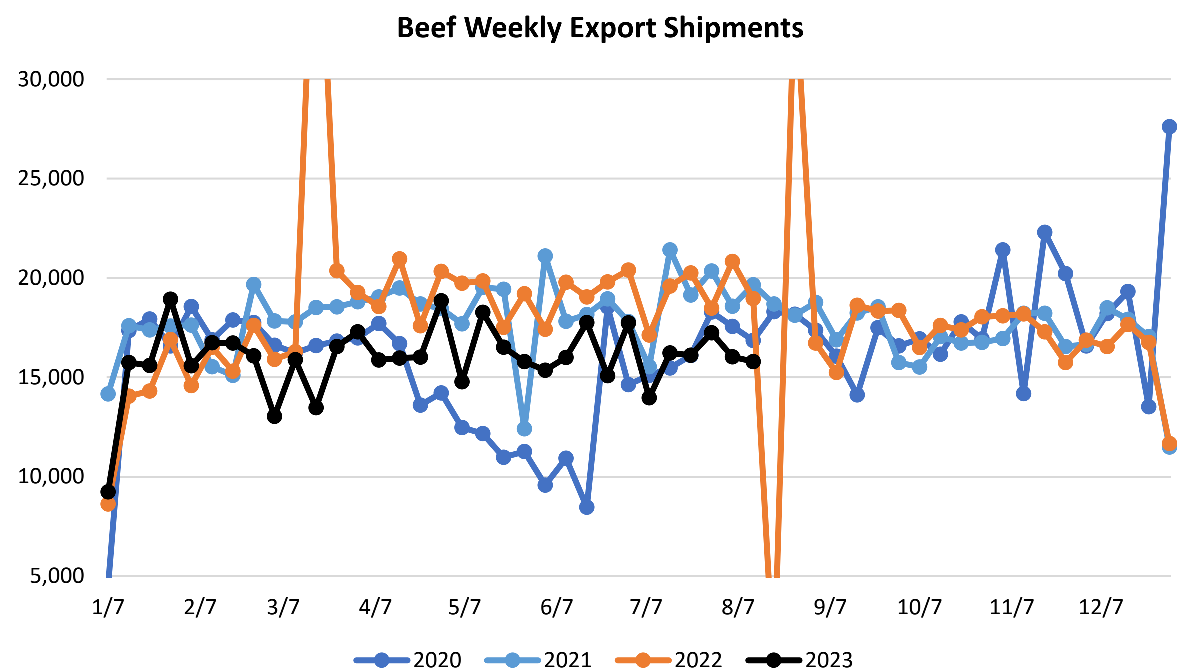
We also know that US wheat values are largely uncompetitive globally, so the only good outlet for SRW would be domestic demand and perhaps bigger-than-usual feed consumption? On that front, note the chart below. This looks at the cash SRW/corn ratio in Toledo on a pound-to-pound basis. I think it is interesting to see that wheat is just now getting to even with corn in this particular calculation.



Admittedly, Toledo isn't necessarily the feed capital of the world so a different spot might look different. Toledo just happened to the quotes I had handy. Bottom line, I have no good answers for those interested in the spread down here. I personally want nothing to do with it. My off-the-cuff opinion is that the spread likely has some potential for a bit further downside here, but as SRW is getting close to feed level it should find some support on the margin.

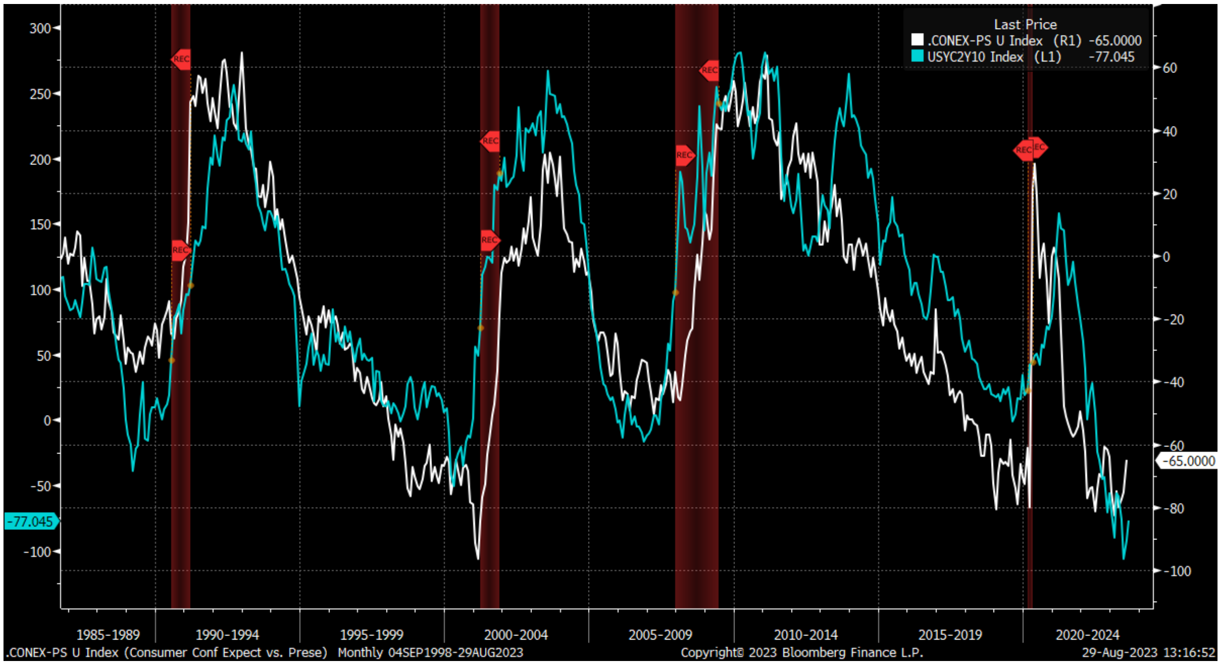
Livestock

Export sales numbers due this morning. I would anticipate that beef numbers continue to look relatively soft. The chart below looks at weekly beef export shipments. If you recall this time last year is when we had the goof-up with the export reporting system and that is why there are a weird few weeks at this point in time on the 2022 line. You can (hopefully) see in the chart that weekly beef shipments in the past several weeks have been running well below levels seen during the past two years. I would fully anticipate that shipments will remain sluggish in the coming weeks. US beef prices are expensive and it seems the competition is getting cheaper (such as Brazil, as noted yesterday). It also appears that Chinese beef demand has slowed on the margin.

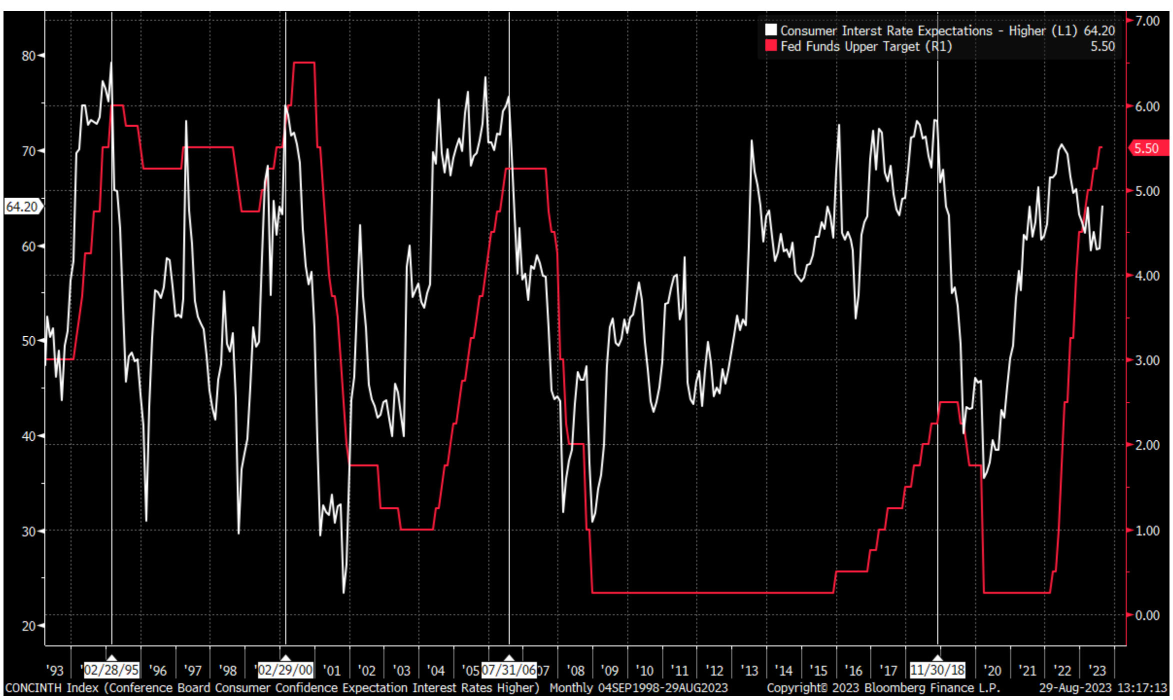


Financials

A bit of a lull in economic releases this morning before we get a deluge of market moving numbers tomorrow morning. Today I just want to post a few that stuck out to me when look through some the Consumer Confidence internals released earlier this week. In addition to their headline confidence figure they produce a Present Situation index and an Expectations index. The white line in the chart below looks at the spread between these two figures. The blue line is the 2/10 yield curve, and obviously the two move together a lot of the time. I think it is interesting that the latest spread between the two figures ticked sharply higher last month and seems to have bottomed over the past few months. If so, it is a likely indication that the deeply inverted yield curve has likely bottomed as well.



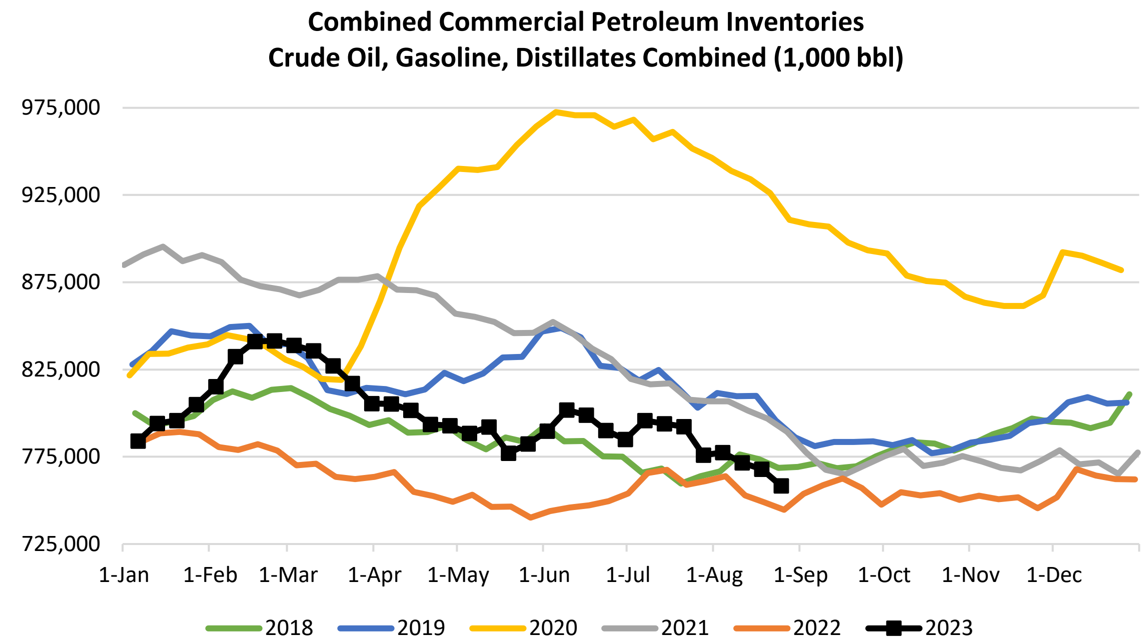
This second chart is really just for fun. The white line shows the Conference Board's index on those expecting higher interest rates. It will probably come as no surprise, but the index of those expecting higher interest rates peaks normally at the same time interest rates themselves peak. In other words, nobody really sees the top in rates coming. The index right now is elevated for sure, but well off recent highs and not as high as other interest rate peaks. Maybe the market is actually looking ahead for a change?



One item of interest today will be the Fed's preferred gauge of inflation, the PCE deflator. This release doesn't normally generate a ton of surprises considering we have a lot of other pricing data available now, but it is something to keep an eye on today.

Energy

A big decline in crude oil stocks reported again yesterday. The chart below looks at combined oil, gasoline, and distillate inventories. We're getting pretty close to the very low levels seen last year. Admittedly, this is about the time when inventories are at their worst, but definitely something to keep an eye on here.



Today's Calendar (all times Central)

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

Thanks for reading.

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