NESVICK
TRADING GROUP, LLC

Wednesday, February 14, 2024
NTG Morning Comments
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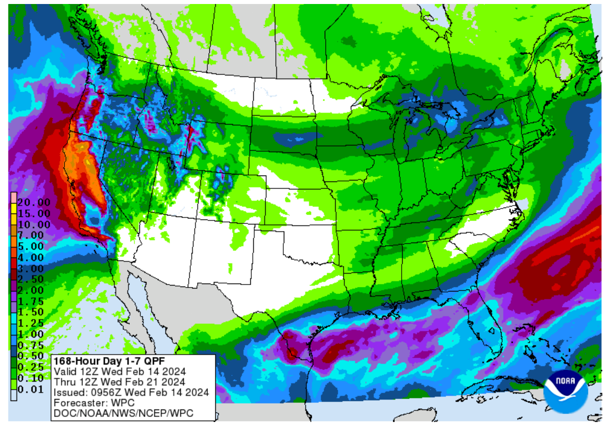
Weather

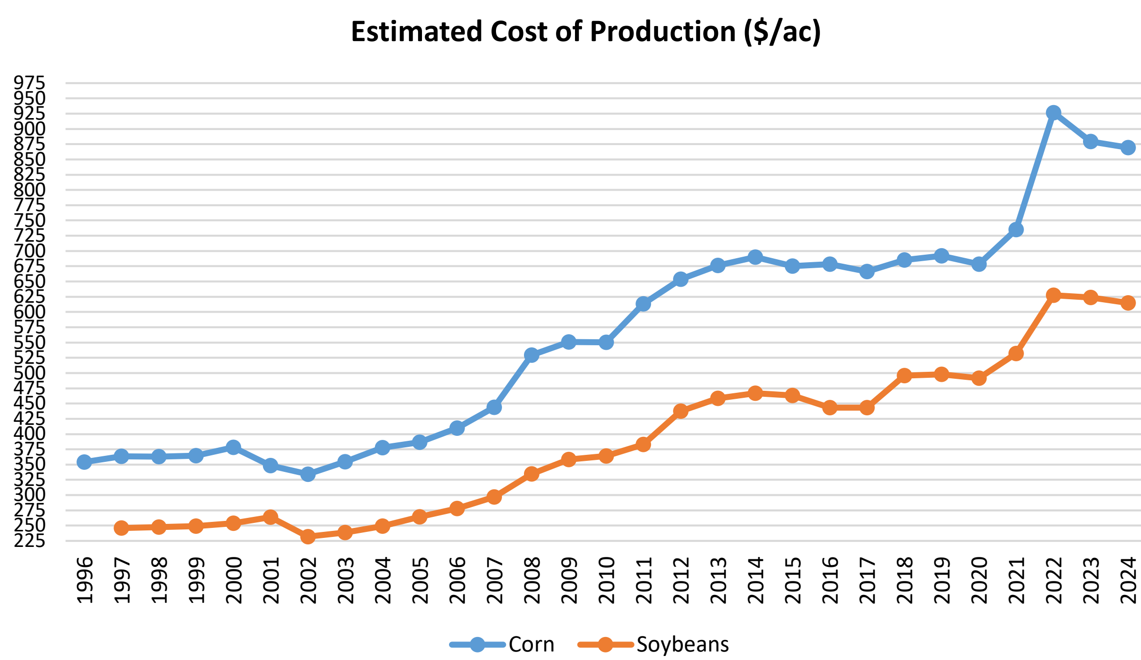


No big changes. Northern Brazil will see limited rainfall chances in the next few days but should see big rains arrive next week. Southern Brazil will see limited rainfall over the next 10 days, but there is good model agreement for an improvement in rainfall for the 11-15 day period. The same can be said for Argentina, where rainfall is limited for 10 days before the 11-15 day period brings rainfall back. In both cases, the combination of prior good rains and mild temps should keep conditions from slipping dramatically. In the US, there is only limited precipitation expected over the next week or so. Temps should be well above normal through the middle of the country over the next week.

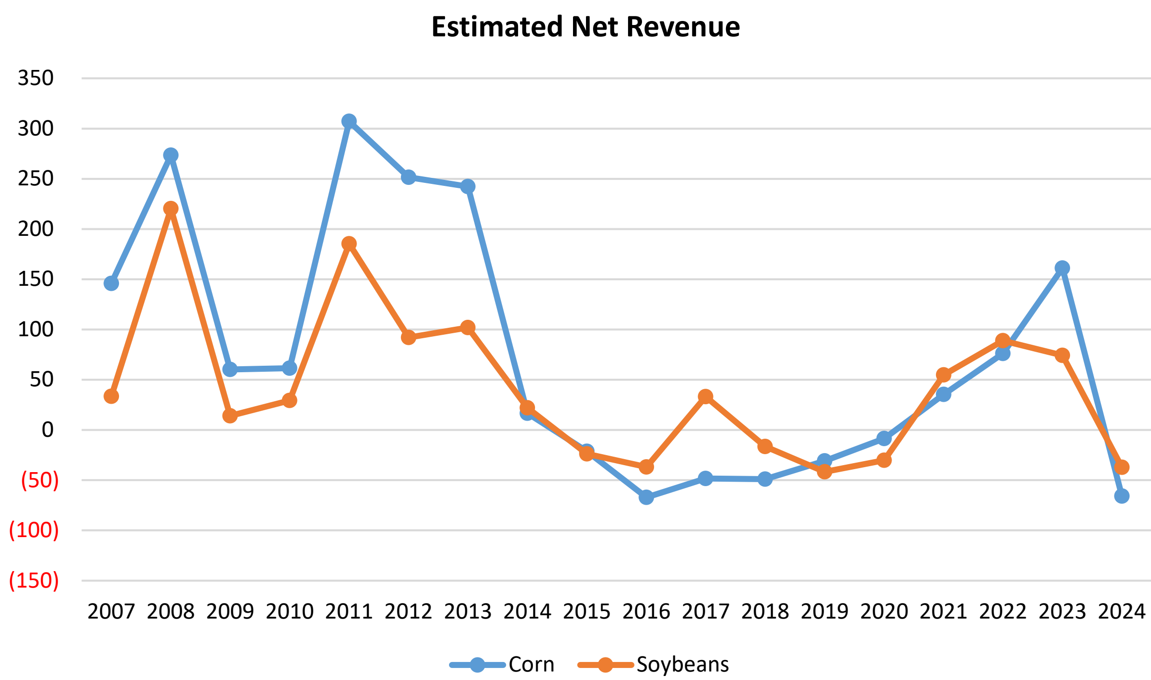
Crops

Its been a while since we've looked at 2024 cost of production projections. With the Outlook Forum acreage estimates due tomorrow morning, today seems like a good time to take another quick look. I won't get too far into the weeds this morning….I've done that previously. We're just going to cover some of the basics.

The chart below looks at the USDA's latest estimates for cost of production for corn and soybeans over the past several years. You can see the USDA is projecting that 2024 cost of production will be down vs. last year…but only slightly. And obviously these are still elevated cost levels compared to pre-Covid years.

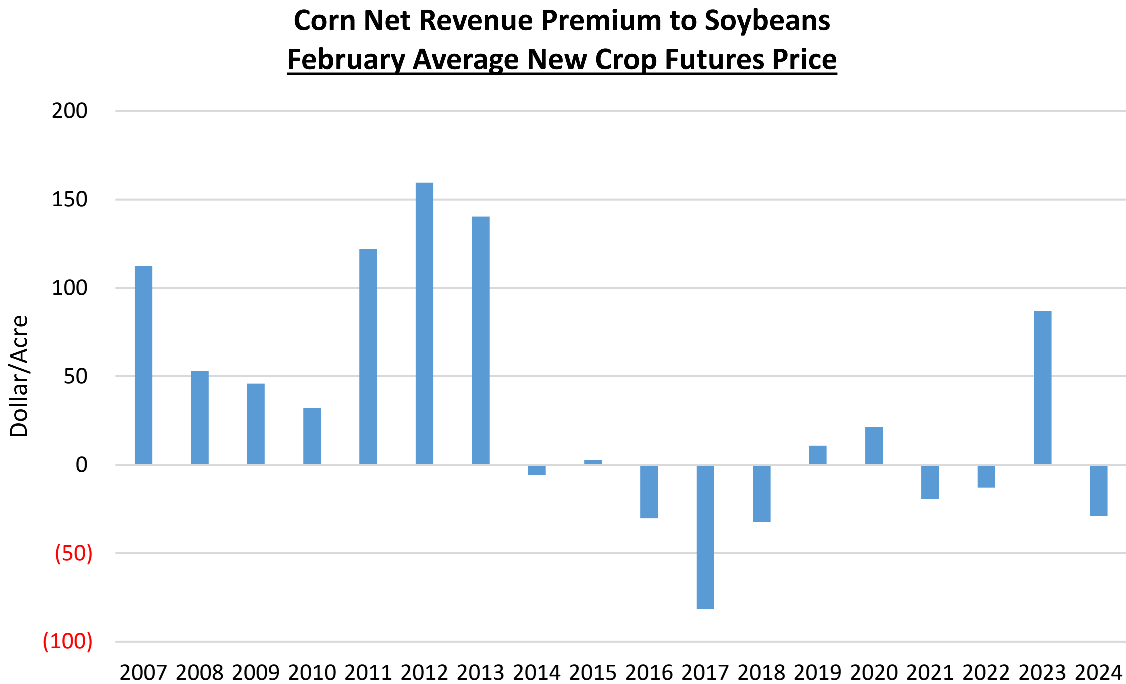


When we take the current new crop futures prices combined with guesstimates on average yields and basis levels, we can come up with a guesstimate on gross revenue per acre. And if we take that guesstimate on gross revenue per acre and subtract the cost of production estimates shown above, we can get a guesstimate on net revenue. The chart below looks at net revenue calculations at this point in time based on February average futures prices. The 2024 print just uses the current futures price at the time of writing. In both cases, the estimate for net revenue is among the weakest we've seen over this timeframe.



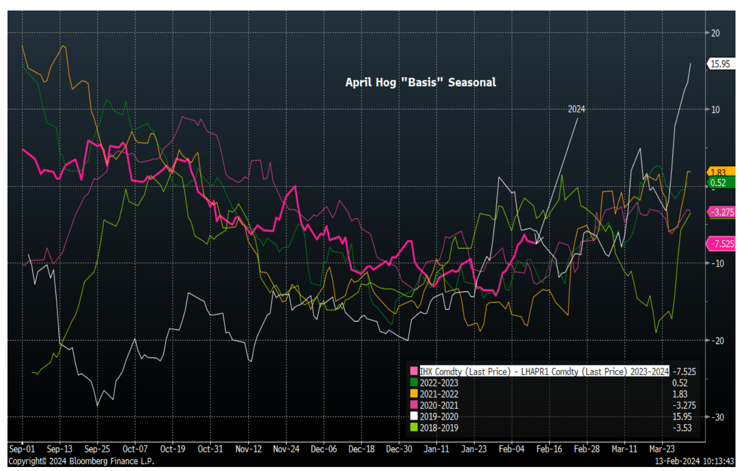
The chart on the following page is a slightly different spin on what is shown above. This takes the difference between the estimate for net revenue for corn vs. net revenue for soybeans. While the net revenue estimates for both crops are negative, the corn net revenue is worse than soybeans. While it isn't the biggest difference shown, it is the widest in several years. With that in mind, it continues to make sense to expect to see some reduction in corn area this year with some switching to soybeans.

We'll look at some actual guesstimates on acreage tomorrow morning. The USDA numbers will be out tomorrow morning as well. I'm not sure I'll have my comments out before their numbers or not, but I'll try.



Livestock

As you all know by now, I don't spend much time thinking about the hog market. I try to stay inside my lane as best as possible, and hogs aren't even in a nearby zip code to my lane.



That being said, I happened to notice that Feb hogs went off the board yesterday. With that roll, I wondered what "basis" might look like vs. the April contract. The seasonal view on basis is shown at the right. I'm using the CME's lean hog index as my cash quote. Before anyone sends me a nasty email, I know there are problems with the CME index…but it also how the contract is cash settled whether we like it or not. So I'm just going to stick with it for now.

The basis seems to be within the normal range vs. the April contract for now. No scoop here, I'm afraid.

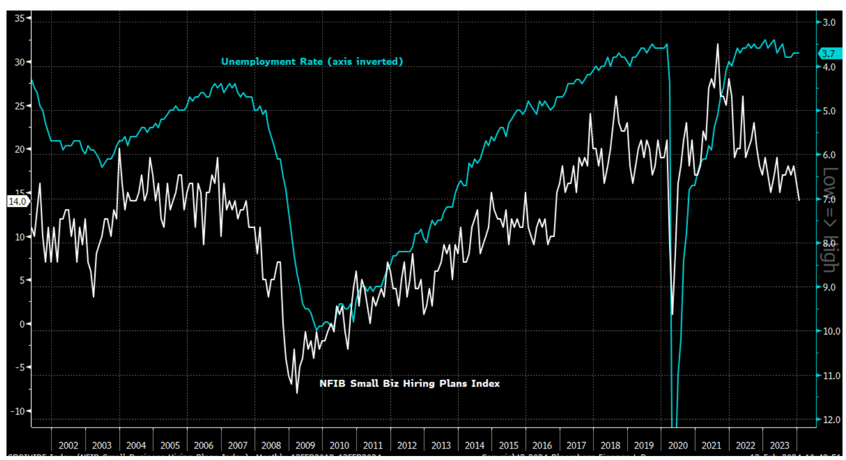
Financials

Yet another "hot" economic release yesterday with CPI. While I might normally be tempted to nit-pick portions of the report to suggest it wasn't quite as hot as it might seem…I really struggle to do that this time. Importantly, the core services portion of CPI was the biggest contributor to the strength and that is definitely an area that the Fed has been highlighting as a focus. March rate cut odds are now basically zero and the chances for a May rate cut are now weaker than 50-50. The futures market is currently pricing in June for the first rate cut. I guess I can't muster up much of an argument against that.

Yet I still can't help but feel conflicted. Yes, employment and inflation data has been very strong…and those two elements are obviously at the core of the Fed's mandate and demand the most attention. However, other readings on the economy are less robust. This is creating a lot of internal mental debate for me.

Yesterday we got another very good example of this. Though obviously overlooked by the CPI release, the NFIB's Small Business Optimism index was released. The first chart at the right shows the headline index. You can see that small business optimism, at least as measured by this survey, is the lowest since the GFC. It is even lower right now than at the peak of the pandemic.

The second chart is one I've shown several times before. This shows the unemployment rate with the blue line (axis inverted). The white line shows the small biz hiring plans index. While it isn't quite as weak as the overall optimism index, it is still below levels seen prior to Covid. Additionally, you can see there is usually a good correlation between the two. That correlation, obviously, has broken down lately.

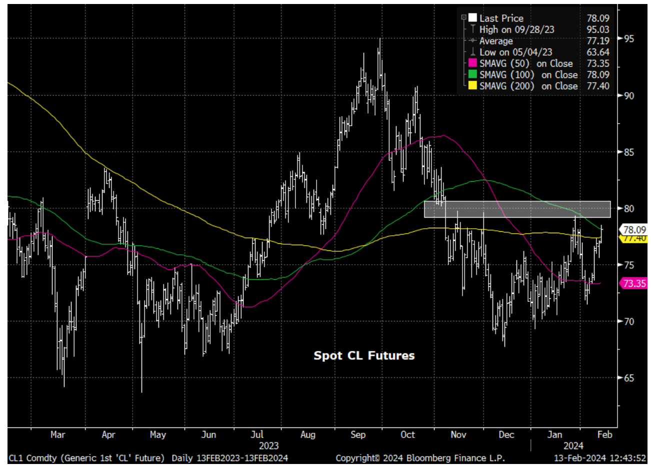


If small business are the true heartbeat of the economy, yesterday's NFIB release doesn't appear especially strong. Yet, we also continue to get "hot" data from the BLS on inflation and employment. I'm not really sure what to make of it….thoughts appreciated.

Energy

A pretty solid bounce yesterday in WTI futures…which honestly came as a bit of a surprise to me. I might have thought the hot CPI and subsequent risk-off action might have knocked it down a peg. Seems a lot of people were highlight OPEC demand projections as a key reason for the strength. OPEC is looking for bigger demand growth than the IEA, with OPEC projecting a 2 mbpd increase this year. OPEC also promised to be "very preemptive, proactive". However, it is also worth noting that OPEC also released January production numbers and Iraq was not hitting their quota. Most of the decline in OPEC production in January was due to problems in Libya, which is not bound by the quotas.

The only thing that really sticks out to me right now is the chart, as shown to the right. On this latest bounce in futures we're right back up to the key resistance level we've now failed at several times here. Maybe this time will be different, but my bet is for another failure unless we get some sort of significant escalation in the Middle East.



Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- Several Fed speakers throughout the day
- PPI revisions at some point during the day…not exactly sure when

Thanks for reading.

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