NESVICK
TRADING GROUP, LLC

Thursday, May 9, 2024
NTG Morning Comments
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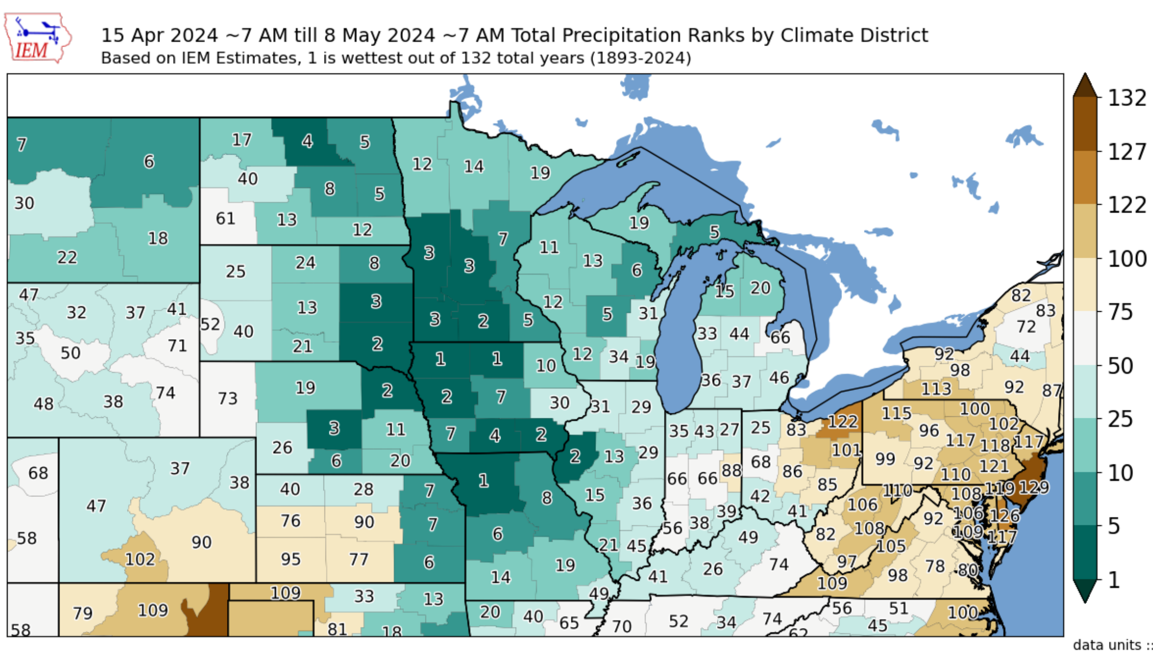
## Weather

There's an old saying that "it takes months to make a drought, but you can break a drought in a few days". That has certainly been the case recently in the western Corn Belt. Drought problems in a big part of that area go all the way back to 2020, but we saw last week's Drought Monitor show the least amount of drought coverage in major U.S. corn growing areas since June of 2022. The new Drought Monitor that comes out this morning will show an even lower drought-coverage figure, due to additional big rains that fell for the week ending May 7. One can see from the map on this page that rainfall in much of the western Corn Belt over roughly the past three weeks has been among the ten highest ever recorded for that period, with a number of spots showing that period to be the WETTEST ever recorded (going all the way back to 1893). Going forward, the weather pattern will not be as wet, with the northern Plains looking at an especially good "window" in the near term for fieldwork to get done as they are completely dry through Monday. Rains will have to be "dodged" in the Corn Belt, and there are some wetter trends in the forecast today for southeastern parts of the Corn Belt with rainfall there now forecast to run above-normal in the 6–10-day period.

Much of the HRW wheat belt has seen their drought worsen over the past three weeks while things have gotten better in the Corn Belt, but a multi-day rainfall threat that begins in that area on Sunday looks to have the ability of bringing much-needed rainfall to much of the region (probably targeting a lot of the area that is driest right now with some of the best totals).

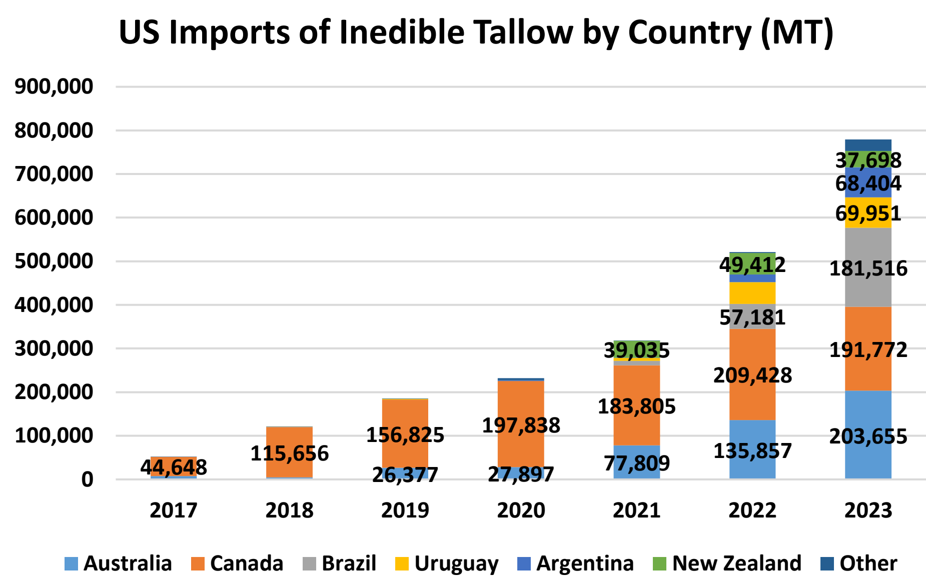
Below and well-below-normal rainfall is still forecast for safrinha corn areas of Brazil with completely dry conditions in the north. Heavy rains will be noted in Rio Grande do Sul for tomorrow through Monday before rains become more limited again for the rest of the 15-day forecast (though not "dry" even then). A very dry 15-day forecast for Argentina will favor corn and soybean harvesting. The forecast is still not wet enough in FSU winter wheat areas to eliminate dryness concerns; sub-freezing temperatures there for this morning and again tomorrow morning will not be nearly as extensive as was recorded this past weekend.

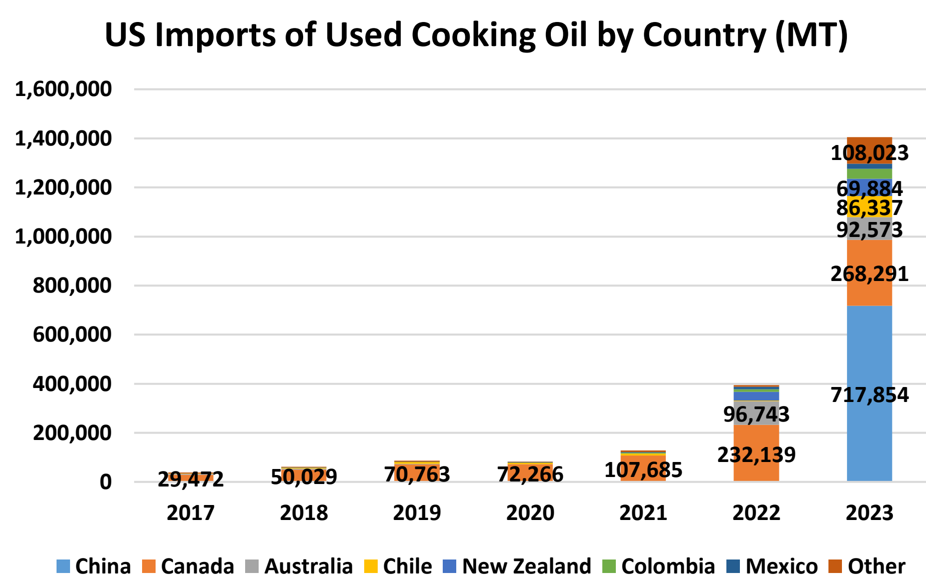


## Grains

Last week we discussed how soybean oil as a percentage of total inputs to biodiesel/biofuels continued to decline due to the increased usage of other feedstocks (tallow, yellow grease, etc.). I am hoping to provide further context with today's commentary.

The US has been importing inedible tallow and used cooking oil ("UCO") at a record large pace. UCO imports have increased by nearly 250% while tallow imports have increased by nearly 50% from 2022 to 2023. The primary exporters of UCO are China (~50%), Canada, and Australia. While Australia, Canada, and Brazil are the primary exporters of inedible tallow to the US. US production of inedible tallow has remained relatively flat since 2016 suggesting that future growth must come from imports.

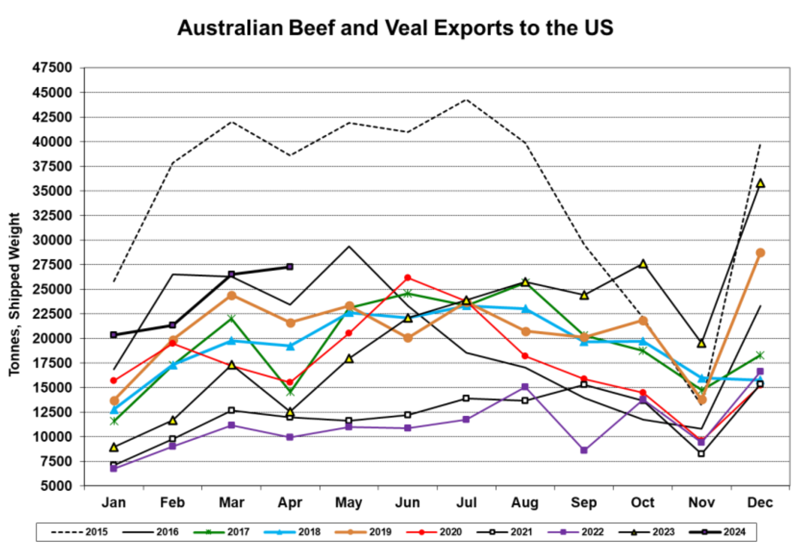


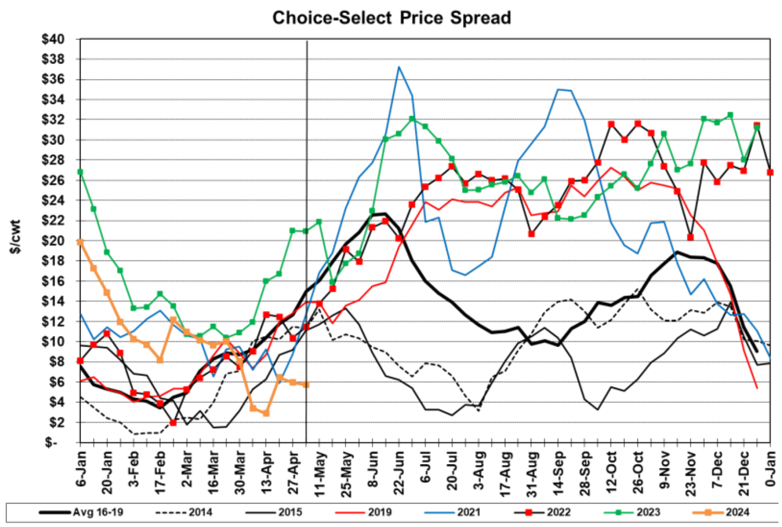
The below chart shows that domestic UCO remains the cheapest alternative to soybean oil. This becomes even more apparent if you also include the carbon credits that California is providing for tallow and UCO. Things can change rapidly for feedstock selection due to political reasons and cost. If the California carbon credit is modified then that could change the current "pecking order" for inputs to biodiesel/biofuels. Today, soyoil is competitive to both tallow and imported UCO prices. Seasonally, demand for both renewable and biodiesel should rise sharply.


## Livestock

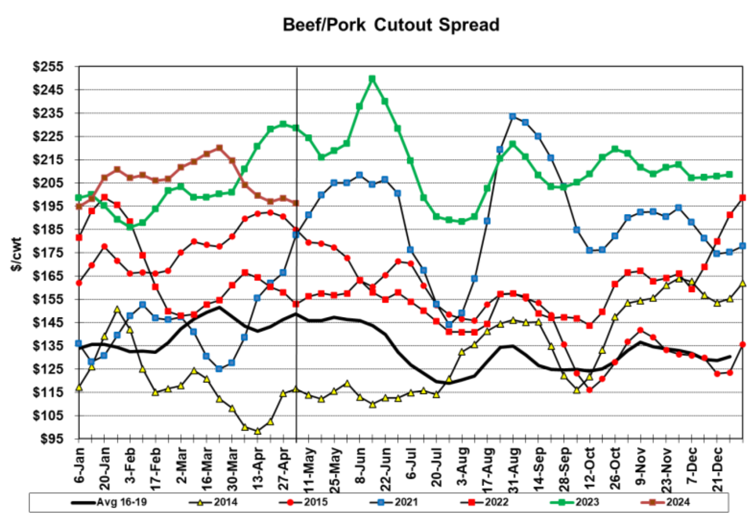
Last week USDA reported US beef imports from Australia in March were up 117% from last year. Australian shipments to the US the last couple of months suggest that imports during April and May (which will not be reported for another 30-60 days) will remain large. Australian shipments to the US in March, (which will arrive from mid/late March through mid/late April) were up more than 150%. And, April shipments to the US were up over 200%. While beef purchases from Brazil have slowed, imports from Oceana, Central America, and Canada will remain on an upward trajectory.



By most measures the beef market has under-performed expectations for several weeks. Another symptom of that lackluster performance is the unusually narrow Ch/Sel price spread which has hovered around $4-$6 in recent weeks—far below last year's strong advance during April which ranged around $20-$22 at the end of the month. Much of that shortfall is related to the counter-seasonal weakness in middle meat values (rib and loin cuts) and fat trim (50s and 65s). While a modest advance in cutout values and a modest increase in the spread is possible into late spring, the window of opportunity for retailers to book that product and schedule merchandising and promotional efforts is closing rapidly. Absent those featuring and promotional programs, prospects for a sustainable advance in cutout values is doubtful.




The price spread between the beef and pork cutouts has narrowed sharply in recent weeks, a counter-seasonal decline during a period when the spread typically widens as beef prices rise in relation pork. However, the narrowing spread in recent weeks is a result of the counter-seasonal decline in the beef cutout from the late March peaks. Typically, such a narrow spread would suggest that pork prices are high relative to beef and would spur renewed interest in beef feature efforts. While that could still be the case, the narrow beef/pork spread has mostly been the result of lower beef prices rather than surging pork values—again raising issues regarding beef movement and consumer off-take.



**Today's Calendar (all times Central)**

- Initial Jobless Claims – 7:30am
- Export Sales – 7:30am
- 30-yr Bond Auction – 12:00pm

Thanks for reading.

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