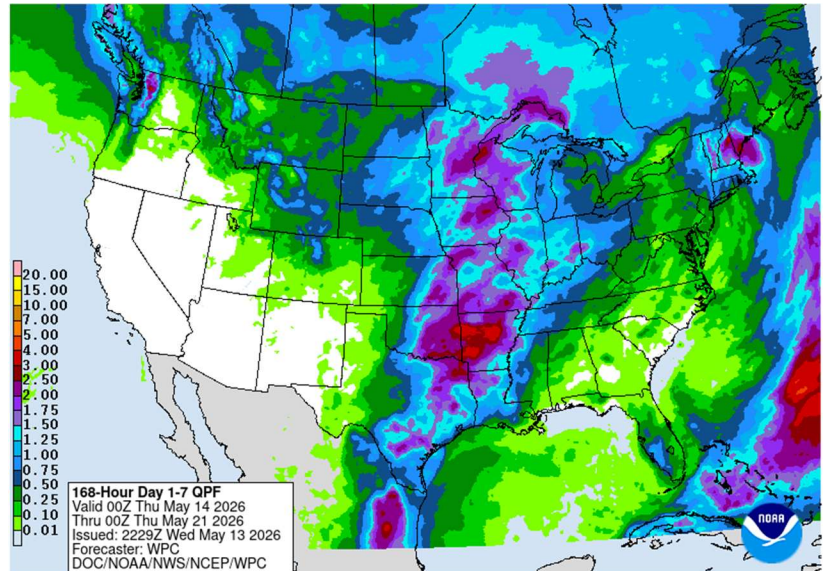


## Weather

The 1-7 day QPF clearly defines the impending pattern shift that we've been discussing this week, highlighting a concentrated corridor of heavy rainfall expected to exceed two inches across the eastern Plains, Missouri, and the western Corn Belt. While this substantial moisture will effectively recharge severely depleted topsoil and potentially help stabilize deteriorating hard red winter wheat conditions, it will comprehensively halt the rapid planting progress observed earlier in the week. Compounding this logistical disruption, following the near-term exceptional heat, nighttime lows are forecasted to drop significantly below normal across the northwestern Corn Belt and central Plains, introducing a notable risk of cold stress and potential frost damage to newly emerged crops as the system progresses.



## Grains

The May WASDE Report added fuel to the soy complex fire. At face value, USDA validated concerns about tightening balance sheets, at least in the US. Carryout projections for both old and new crop soybeans were below market expectations.

Rather than recap every number in the report, I think it is more useful to focus on the key drivers.

USDA now projects old crop carryout 10 million lower than last month as higher crush more than offset slightly weaker exports. More importantly, USDA's first official new crop balance sheet projects stocks tightening further to a relatively snug 310 million bushels, or roughly a 7% stocks-to-use ratio.

On the world side, stocks were left mostly unchanged and notably flat year-on-year both for old crop and for new crop. World soybean production has accelerated dramatically over the past 4-5 years, with 85% of the growth coming from Brazil. World stocks built significantly during that expansion phase, but lower prices over the past couple of years helped demand catch back up with supply. With prices now moving higher again, it will be interesting to see if demand growth can continue keeping pace.

While not dismissing USDA projections, it is important to understand the assumptions embedded in the balance sheet and where risk exists –

### **Bullish risks:**

- US and origin crush margins at historically high values
- Renewable diesel and meal demand trends continue to support crush expansion
- World consumption growth has finally caught up with world supply growth

### **Bearish risks:**

- US acreage is poised to climb due to input economics favoring soybeans over corn
- Favorable planting conditions reduce Prevent Plant risk

- The combination of higher total US acreage and additional corn to soybean switching could add 2-3 million acres to soybean production
- South American production still appears understated by perhaps 3-5 MMT
- US demand, and possibly world demand as well, may prove somewhat optimistic

We are also entering the time of year when market attention increasingly shifts towards US production. Crop conditions and summer weather will likely become the dominant driver for the next 3-4 months.

The market is now pricing a much tighter US soybean balance sheet, while global stocks have stopped moving up significantly. That leaves the market vulnerable to weather risk if problems develop later this summer. However, a 3-5 MMT increase in both the South American crop and the US new crop can loosen the balance sheet notably.

Managed money is now estimated to be long - a record - more than 500,000 contracts across the soybean complex. To put that into perspective, funds effectively own more than double the amount of soybeans left in the United States – and my guess is most of that ownership is in the July contract.

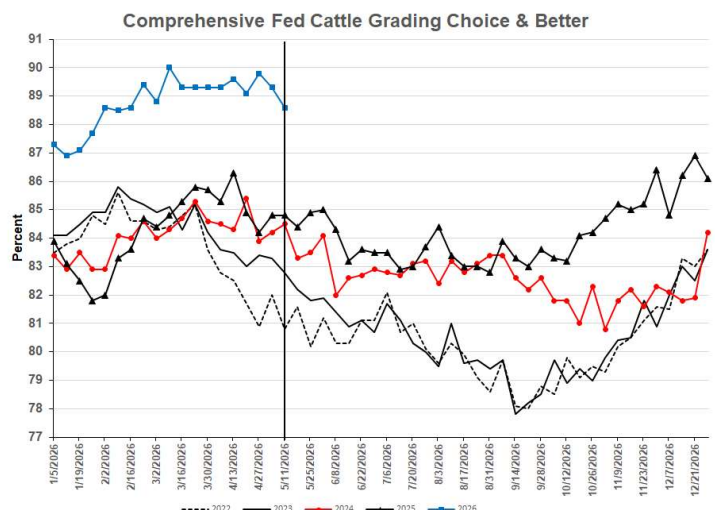
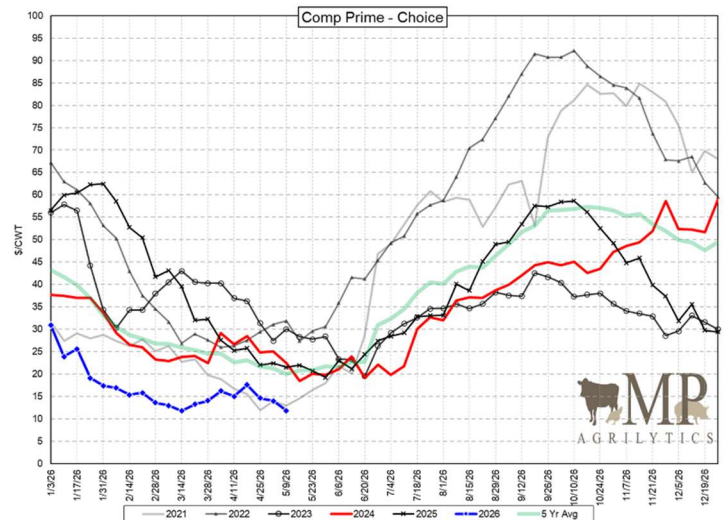
*Grains commentary provided by Mark Ditsch. For questions or comments, Mark can be reached by email at mark@ditschtrading.com or on Trillian at mark@nesvick.com.*

## Livestock

The Choice-Select spread is sitting at \$2.35, down from \$14.97 a year ago. And while it's not the inverted spread that we've seen a few times this year, it's still a clean tell the beef complex is giving us right now. Prime-Choice is on the same track at \$11.87 versus \$21.52 last year, and the historical framing is more striking: P/Ch has been the lowest of any year going back to 2021 for essentially all of YTD, running ~\$10–15 below the five-year average.

The why is in the grading story we've been talking about for months. USDA had Choice & Better at 88.6% last week, with the 2026 line pinned between 88% and 90% all year – well clear of a historical 80–85% band. When nine of every ten carcasses grades Choice or better, there isn't enough Select left to spread against, and the cutout composition confirms it: Select prices are up 18% year-on-year and the "other" category is up 20%, while Prime is up only 10%. Prime supply has surged along with the rest of the quality curve, leaving the premium nowhere to go.

The timing is interesting because we're approaching the normal seasonal lows for both spreads. The five-year average Prime-Choice bottoms in late May or early June near \$20–22 before ramping into a September/October peak in the mid-\$40s as grilling and restaurant Prime demand hit. We're entering that window at ~\$12 – about half the typical trough. Grading has its own seasonal too: 2022 and 2023 both showed 4-5 point declines from spring peaks into late-summer lows, with 2024 and 2025 muted



versions of the same. The catch is weights, which aren't cooperating; they're running ~60 lbs above the 2022–24 average per USDA and ticked back up last week. Heavy cattle keep Choice and Prime production elevated even as grading eases.

The calendar says both spreads should begin to widen, while the supply backdrop says the ceiling is much lower than usual. Even 2021, which started the year not far above where we are now, ran Prime-Choice from ~\$20 in June to ~\$85 by October. I don't see 2026 doing anything close to that. A return to a typical \$40–45 seasonal peak would need either weights to crack or grading to roll over harder than the seasonal pattern alone implies. My base case is modest widening into the summer with a ceiling well short of historical norms.

*Livestock commentary provided by Zachary Davis. For questions or comments, Zachary can be reached by email at [zdavis@nesvick.com](mailto:zdavis@nesvick.com) or on Trillian at [zdavis@nesvick.com](mailto:zdavis@nesvick.com).*

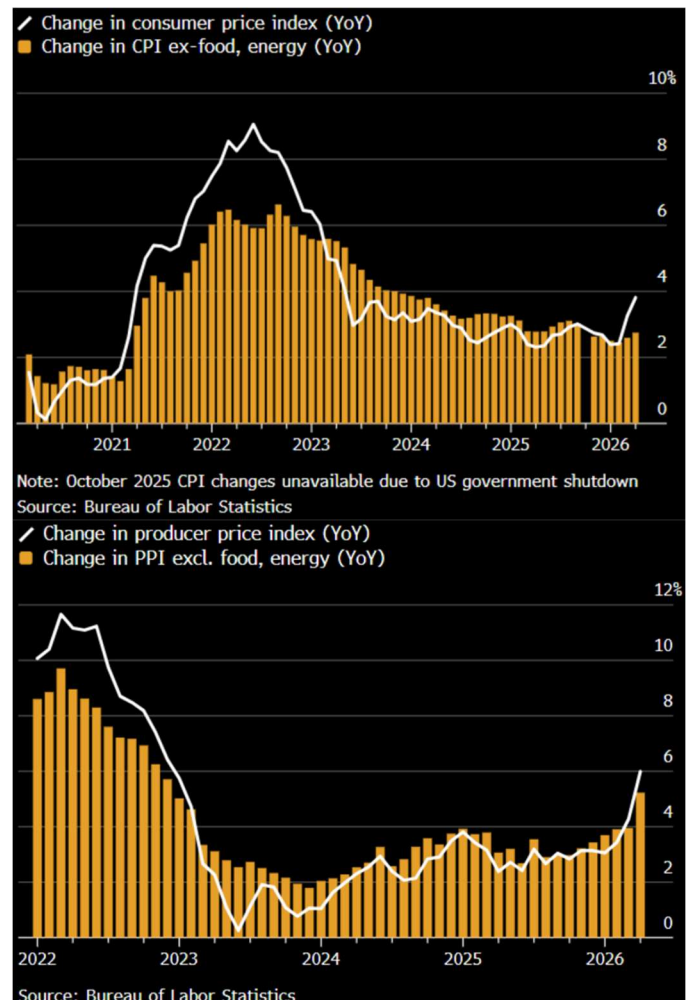
## Macro/Financials

The April CPI hit Tuesday and the headline did the work – 3.8% YoY, the hottest print since 2023, with gasoline up nearly 28% over the past two months. The narrative writes itself: Iran war, gas shock, real wages negative for the first time in three years. But Wednesday's PPI was more interesting. It printed +1.4% MoM and +6.0% YoY – the fastest pace since 2022 – and beat every estimate in the Bloomberg survey. The CPI ran hot on the surface while the PPI ran hot underneath.

Look under the hood of the CPI and the picture cools off, however. Primary rent rose 0.55% and OER 0.53% – roughly double their normal monthly pace – because the BLS finally rectified the October housing panel that got skipped during last year's shutdown. Those two lines make up ~35% of the core basket, and Bloomberg Economics' counterfactual puts core CPI at +0.26% MoM without the catch-up, against the +0.38% actual. Core goods were flat, and the share of core categories running above 4% annualized ticked down to 39% from 42%. The print ran hot, but the underlying impulse didn't.

PPI ran the other direction. Core wholesale prices climbed 5.2% YoY – the biggest gain in more than three years – and the monthly composition is where the alarm lives. Energy did the obvious work (+7.8% MoM on war-driven gasoline), but the more telling lines are downstream: truck-freight jumped 8.1% MoM, the largest move in data back to 2009; trade services rose 2.7% as retailers and wholesalers widened margins to protect against rising inputs; and processed goods for intermediate demand are up 5.6% over the past two months, the steepest two-month run in five years. Pressure has already migrated into freight, margins, and processed inputs.

The producer side typically leads the consumer side by a few months. The counterargument is real – if the Strait reopens and oil settles, the calm core CPI under the shelter quirk is the genuine read and the war contribution rolls off. But freight rates and trade-margin behavior don't unwind on the same timeline as a crude move. Markets got the memo: fed funds futures now price a 50-50 chance of a Fed hike by January 2027, up from about a third just two days ago, and a cut later this year has essentially priced out. The next tell is still a couple weeks out, with May 28's core PCE, but be careful – some



of the components feeding PCE (portfolio-management fees –2.4%, muted healthcare) will mechanically pull the print lower even as the pipeline keeps heating. So a soft PCE wouldn't be the all-clear it looks like.

*Macro/Financials commentary provided by Zachary Davis. For questions or comments, Zachary can be reached by email at [zdavis@nesvick.com](mailto:zdavis@nesvick.com) or on Trillian at [zdavis@nesvick.com](mailto:zdavis@nesvick.com).*

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

- CONAB – 7:00 AM
- Export Sales – 7:30 AM
- Jobless Claims – 7:30 AM
- Retail Sales – 7:30 AM
- Nat Gas Storage Change – 9:30 AM

Thanks for reading,

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