NESVICK
TRADING GROUP, LLC

Monday, July 30, 2018
NTG Morning Comments
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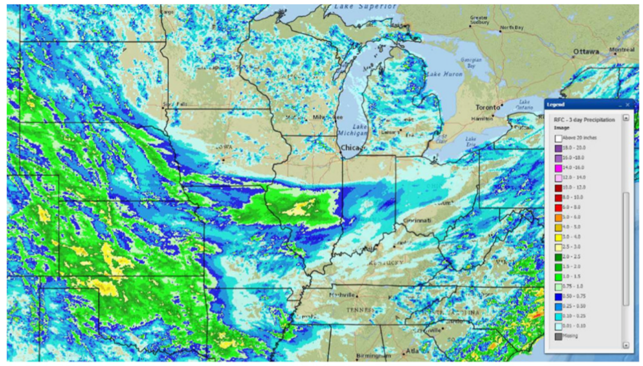
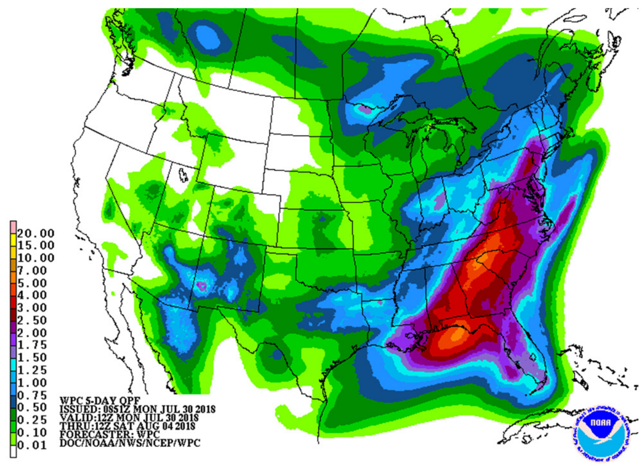
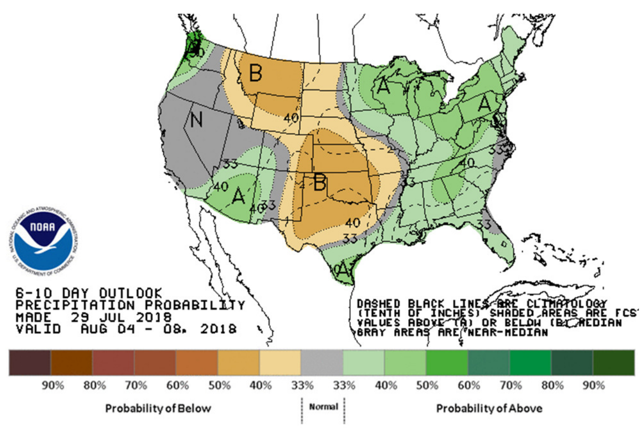
Weather

A warmer and drier overall bias to the forecast this morning compared to what we were looking at on Friday. Rainfall over the weekend has been a little short of expectations. Coverage through NE, MO, and IA has been a bit less than expected. Expectations still call for good rainfall favoring eastern areas today and tomorrow. IL, IN, and OH should expect to see additional .5-1.5" rainfall amounts during this period. There will also be additional scattered rainfall through other portions of the Corn Belt today and tomorrow as well, but coverage will be spotty. From Wed-Fri, rainfall chances for the Corn Belt will be very limited. On Friday, we should see a return of "ring of fire" rainfall potential. As we saw earlier this year, this is a situation where predicting where the rain will fall might be difficult but it is also a situation where some relatively heavy rainfall amounts can be seen. For now, it looks like the best amounts and coverage should favor northern and eastern portions of the Corn Belt. This should continue through the end of the 6-10 day period. The forecast for the 11-15 day period continues to show mostly BN precipitation chances through the Corn Belt. That said, we have to keep in mind that we have a northwest flow aloft and there doesn't appear to be any sort of blocking ridge in the forecast so there is a chance that precipitation chances are being understated right now.


Radar-estimated rainfall for the past three days





We should see below normal temperatures continue through the Corn Belt for the next 4-5 days. Especially cool will be western areas. By Saturday, however, we should start to see temps creeping higher and AN temps should return to the Corn Belt for the remainder of the two-week period. The AN temps don't look like they will be especially extreme, however, with most of the 90+ readings being in western/southwestern areas. Lows above 70 will again become notable in a large portion of the region.

No change in the forecast in the FSU, where mostly BN precipitation is expected in Ukraine and Russian corn areas for at least the next 10 days. AN temps will also be seen. The outlook for Europe is also unchanged, with good rains in southeastern areas as well as Poland. For German, France, and the UK, look for mostly dry conditions with AN temps.

Crops

The prospects for direct payment by the government to offset the effects of the Chinese tariffs are of course a hot topic right now. I understand that the economic backdrop for the farm community is in a lot of doubt right now and I don't want to be insensitive to that, but I had a friend ask if prices this year had really dropped that much more than usual during the typical summer-to-fall seasonal decline and I attempt to show this to the right. The illustrations to the right aren't "perfect". You'll note that I have a column showing the May, June, or July high close for both SX and CZ and I also show the Aug, Sep, Oct low close. I then take the net change and the percentage change for both. At the bottom, I've calculated an average and an average ex-2008, which I think we can all agree was a bit of an outlier year.

For the 2018 numbers, I simply take for the "low" this morning's current price of SX and CZ as I type. I know that we've been lower than this level previously, but I wanted to see how the *current* price stacked up against this typical seasonal decline. In the case of SX, as you can see one could make the argument that we haven't even dropped what we should consider a "normal" amount in percentage terms. The net change does match up pretty closely with normal, however. In the case of CZ, we have not declined a typical seasonal amount in either net or percentage terms.

I'm not trying to imply that tariffs have had no impact on prices, but I'm just bringing up that defining their *exact* impact is probably more art than science. Those trying to predict how exactly the Trump administration will determine payouts are probably wasting their time. In fact, the USDA said in their teleconference they had already determined a basic "cost" of $11 billion, so right now its just a question of how much is allocated to soybeans vs. other crops and programs.

November Soybeans During Summer/Fall

	MJJ High	ASO Low	Net Chg	% Chg
2000	584.00	446.75	(137.25)	-24%
2001	524.50	420.75	(103.75)	-20%
2002	555.00	522.75	(32.25)	-6%
2003	581.75	512.75	(69.00)	-12%
2004	786.50	509.50	(277.00)	-35%
2005	765.75	555.50	(210.25)	-27%
2006	635.25	538.50	(96.75)	-15%
2007	948.75	814.50	(134.25)	-14%
2008	1631.00	858.00	(773.00)	-47%
2009	1089.75	885.00	(204.75)	-19%
2010	1005.00	999.00	(6.00)	-1%
2011	1397.00	1158.25	(238.75)	-17%
2012	1686.25	1492.50	(193.75)	-11%
2013	1330.25	1165.75	(164.50)	-12%
2014	1270.75	910.25	(360.50)	-28%
2015	1037.25	861.75	(175.50)	-17%
2016	1162.75	942.75	(220.00)	-19%
2017	1043.25	924.25	(119.00)	-11%
		Average	(195.35)	-19%
		Avg Ex-2008	(161.37)	-17%
2018	**1053.50**	**890.25**	**(163.25)**	**-15%**

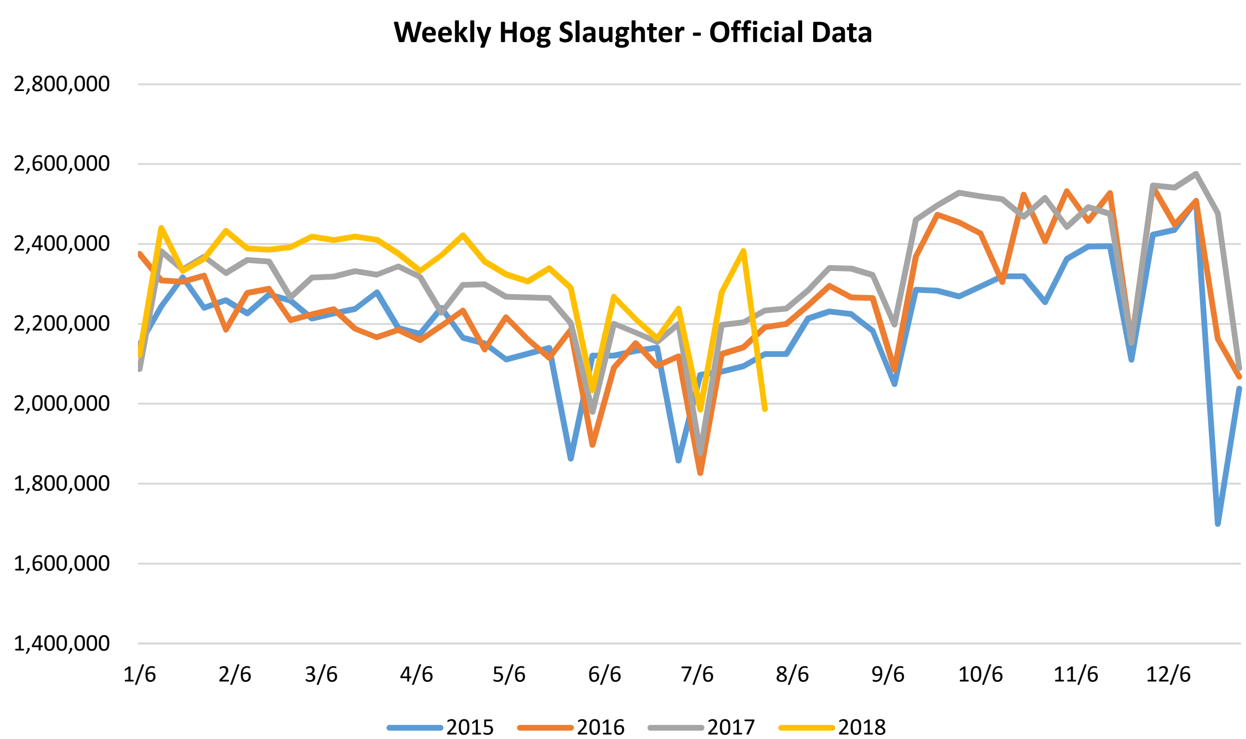
December Corn During Summer/Fall

	MJJ High	ASO Low	Net Chg	% Chg
2000	267.25	187.25	(80.00)	-30%
2001	246.00	203.50	(42.50)	-17%
2002	259.25	245.5	(13.75)	-5%
2003	251.50	213.75	(37.75)	-15%
2004	320.00	201.75	(118.25)	-37%
2005	270.00	196.25	(73.75)	-27%
2006	286.75	235.50	(51.25)	-18%
2007	424.25	336.00	(88.25)	-21%
2008	788.00	372.75	(415.25)	-53%
2009	472.75	306.25	(166.50)	-35%
2010	407.25	404.00	(3.25)	-1%
2011	714.00	587.75	(126.25)	-18%
2012	814.00	716.25	(97.75)	-12%
2013	570.50	428.25	(142.25)	-25%
2014	511.50	320.75	(190.75)	-37%
2015	451.75	361.50	(90.25)	-20%
2016	448.75	315.50	(133.25)	-30%
2017	414.75	344.50	(70.25)	-17%
		Average	(107.85)	-23%
		Avg Ex-2008	(89.76)	-21%
2018	**426.50**	**379.00**	**(47.50)**	**-11%**

Livestock

It sounds like there was some trade at 112 late in the South on Friday. As of now I don't have a good handle on volume, but from what I would guess it doesn't sound especially big. This looks like we'll have another light volume week on our hands, but I won't know for certain until we get the official MPR data later today. Beef has quietly stabilized here, and given the likely outlook for smaller kills it would seem likely that downside in beef prices is pretty limited here. One could make the argument that we're backing up cattle supplies based on some placed-against assumptions vs. the kill…but we've heard that argument for several weeks now and cash has not shown any signs of feedlots being uncurrent. Thoughts appreciated.

Speaking of a smaller kill, last week's hog kill was off sharply due to apparent systems upgrades at Smithfield. The chart below shows the official hog slaughter data but the most recent two weeks are estimates. You can see that the estimate for last week's kill is off sharply vs. last year and normal levels. I'm not entirely sure if we're expecting Smithfield to be back at full force this week or not. Obviously some of this should already be reflected in the hog price, but considering what we know about hog numbers looming this fall this isn't particularly helpful.

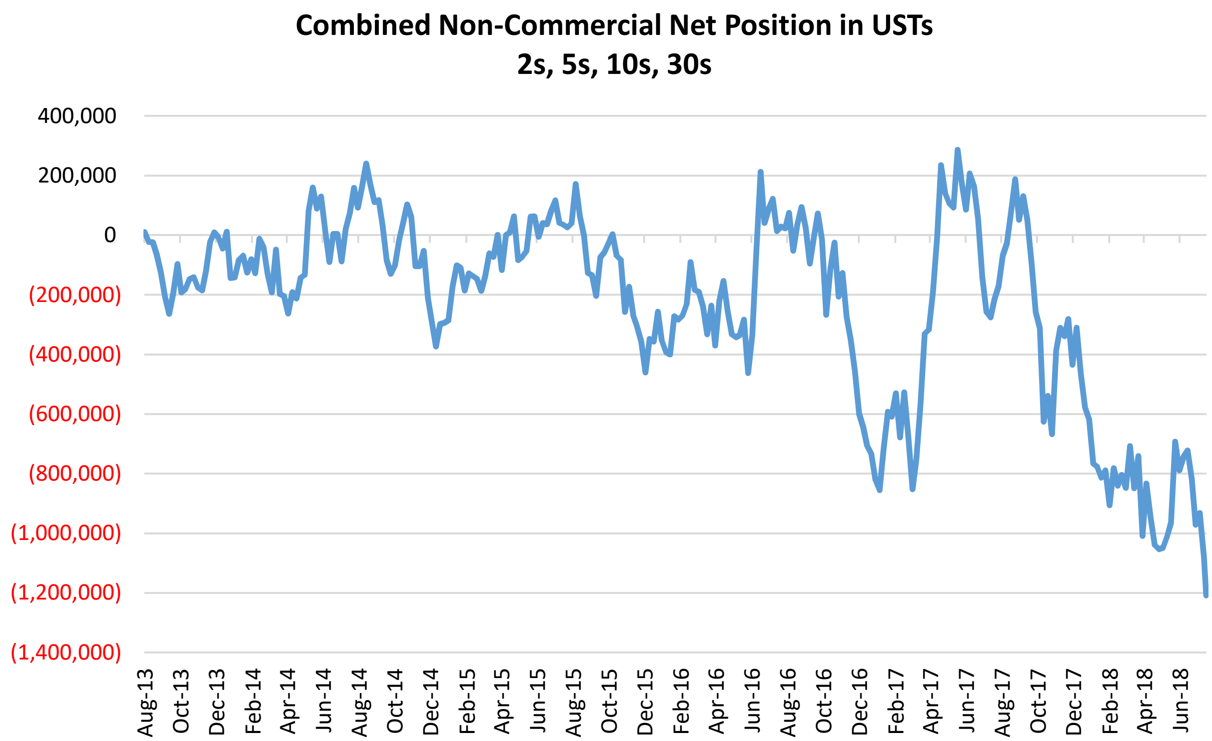


Financials

Relatively quiet markets overnight across equities and FX. The DX is slightly lower overall and the euro is firmer. I'm actually a bit surprised to see the euro firmer this morning as I'm seeing that the European Commissions measure of corporate and household economic sentiment dropped for a seventh straight month. The business confidence portion of the survey dropped to an 11-month low. The outlook for FX price action this week is very cloudy as we have *several* central banks due to issue policy updates this week. Up first will be the BOJ which is due tomorrow. The BOJ is expected to keep its rates guidance unchanged but there are many speculating that the BOJ may adjust their purchases of equities and ETFs. The BOJ once again offered to buy an unlimited amounts of 10Y JGBS last night to maintain their yield target. Also on tap this week is the US Fed. The market is expected no change in rates from the Fed this week, with only a 18% chance of a hike. The outlook for hikes is back on for the Sept meeting, however, with the market pricing in a 94% chance for another 25 bps hike at that time.

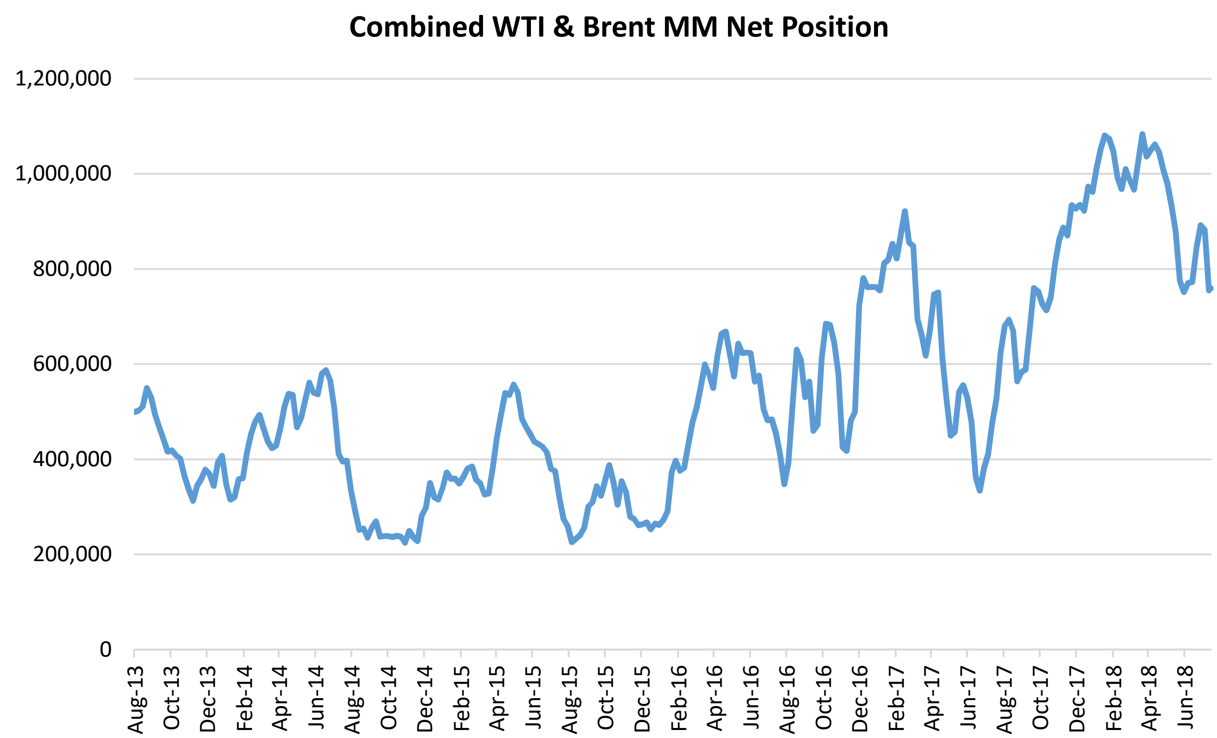
President Trump was making the rounds on Twitter over the weekend and one item of interest is that he has threatened to shut down the government if there is no deal on securing funds for "border security". In the past he has mentioned the need for $25 billion in border-wall funding. This is an interesting move for Trump as Senate Majority Leader McConnell had previously said on Friday that a shutdown is "not going to happen" and that action on funding a border wall would "probably" wait until after the midterm elections. That said, the initial estimate on when the next government shutdown could be if no new spending bill is passed is Oct 1. The question is whether the Trump administration believes a government shutdown would be good for campaigning pre-midterms or not.

Meanwhile the net short in USTs just continues to grow and grow into bigger and bigger records….



Energy

Crude oil futures are trading higher this morning. I'm seeing there are some production shutdowns in the North Sea due to addition strike actions, but interestingly WTI is still leading the advance this morning while Brent is playing catchup. It sounds like there is still no resolution to the shipping issue at the Bab el-Mandeb strait, with several Saudi oil tankers reportedly making u-turns after being headed to the area previously. Friday's COT report didn't show any major adjustments in spec positioning. The chart below shows the combined MM net position in WTI and Brent, and as you can see the positioning was basically steady last week. The WTI net position was a bit smaller (net selling) while the Brent net position was a bit larger (net buying) and the two basically offset each other.



Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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