NESVICK TRADING GROUP, LLC

Friday, August 10, 2018

NTG Morning Comments

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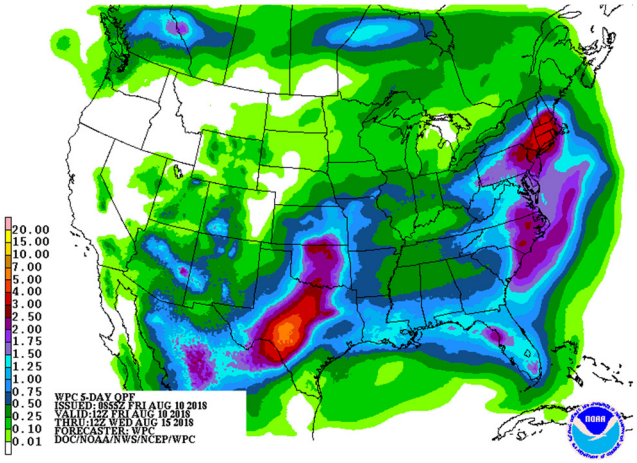
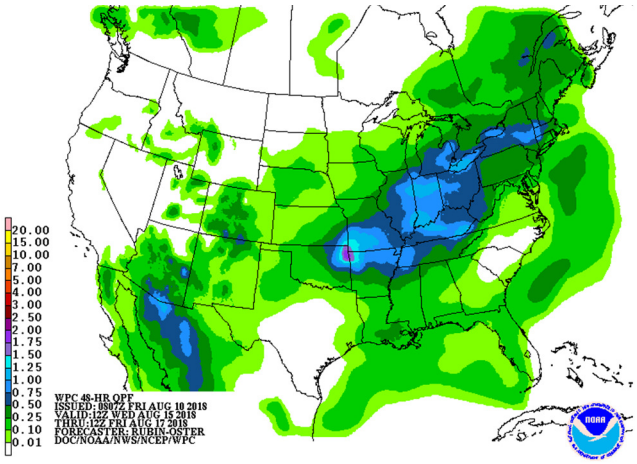
Weather

Rainfall in the Corn Belt will be very limited through Monday. There might be some light and scattered activity in extreme eastern areas, but overall most of the Corn Belt will be completely dry. We'll see rains start to develop in southwestern portions of the region on Monday night and this will move northeastward. The period from 8/14-8/19 should feature a lot of .5-1.5" rainfall amounts for KS, MO, southern IA, southern WI, MI, most of IL, IN, and OH. There will likely be additional rains that fall in these areas during the 11-15 day period as well. The concern at this point has to be the BN precipitation that appears to be locked into place for the Dakotas during the next two weeks and even in parts of NE.



No major heat in the Corn Belt over the next two weeks but we're also not looking at cool weather either. The next two weeks appears to be a mix of modestly above normal and near normal temps. This weekend will be one of the warmer periods of the two week period.



No major changes in international weather forecasts this morning. Rainfall has returned to Europe though the forecast is less optimistic on rainfall totals in Germany/France today. Still looking for mostly BN precipitation through FSU summer grain areas. Australia will also continue to see mostly BN precipitation.

Crops

Big reports today, and otherwise not much else matters. Over the past few days I've gone over the details of my pre-report thoughts. This morning we're just going to roll through the highlights and be on our way.

- I have no problem with the average guess on wheat production. The WQC's tour would imply perhaps a smaller spring wheat production figure, but with condition ratings remaining high I suspect any declines will happen over time.
- I don't expect significant changes to the US wheat balance sheet. EU production will almost certainly be lowered, but will they cut Australia again? Could they actually increase production in Russia? How much of the production losses will be offset by declines in demand? World ending stocks are expected to drop by roughly 6 mmt, but it seems to me that the decline could potentially be less. I just wonder if late-to-the-party wheat bulls might feel a little underwhelmed by what WASDE gives us tomorrow?
- I don't have huge arguments against the average guesses on corn and soybean yields. Condition ratings and correlations to private production estimates certainly point towards higher yields vs. the WASDE trendline calculations. Gun to head, I feel there is definitely upside to both but especially to soybean

yields. NASS has shown a tendency in recent years to be very "aggressive" with their Aug soybean yield projections…and to be honest this has paid off for them.

- Keep in mind it is very rare for NASS to change their acreage projections in Aug. We'll get an update on FSA acres later in the afternoon today, but NASS always has that info already and rarely makes a move at this time.
- I don't expect much change in the old crop corn balance sheet. Both ethanol and exports appear on pace to match the current projections. In the new crop balance sheet, higher production should lead to higher F&R use. It is also highly likely that exports are pushed higher (in part due to lower global wheat feeding). My big question is whether or not the export increase will entirely offset the increase in production? I think it is possible, but unlikely. As such, I'm fairly onboard with the average guess for new crop ending stocks increasing, though it might turn out to be a slightly smaller increase than expected.
- In the old crop soybean balance sheet, look for an increase in the export projection of up to 40 mil bu. The average guess, for some weird reason, is calling for an unchanged ending stocks figure. The old crop carryout will be smaller than expected with this increase in exports. In the new crop balance sheet, I see no justification for any changes to WASDE's prior demand projections. Crush margins have weakened over the past month and there has been no change in trade dynamics. Pulling in the expectations for smaller carry-in along with the average guess on production gives you a new crop carryout estimate which is right near the average guess. However, I again want to point out that I believe it is possible the yield could turn out higher than expected, potentially producing upside to the carryout.

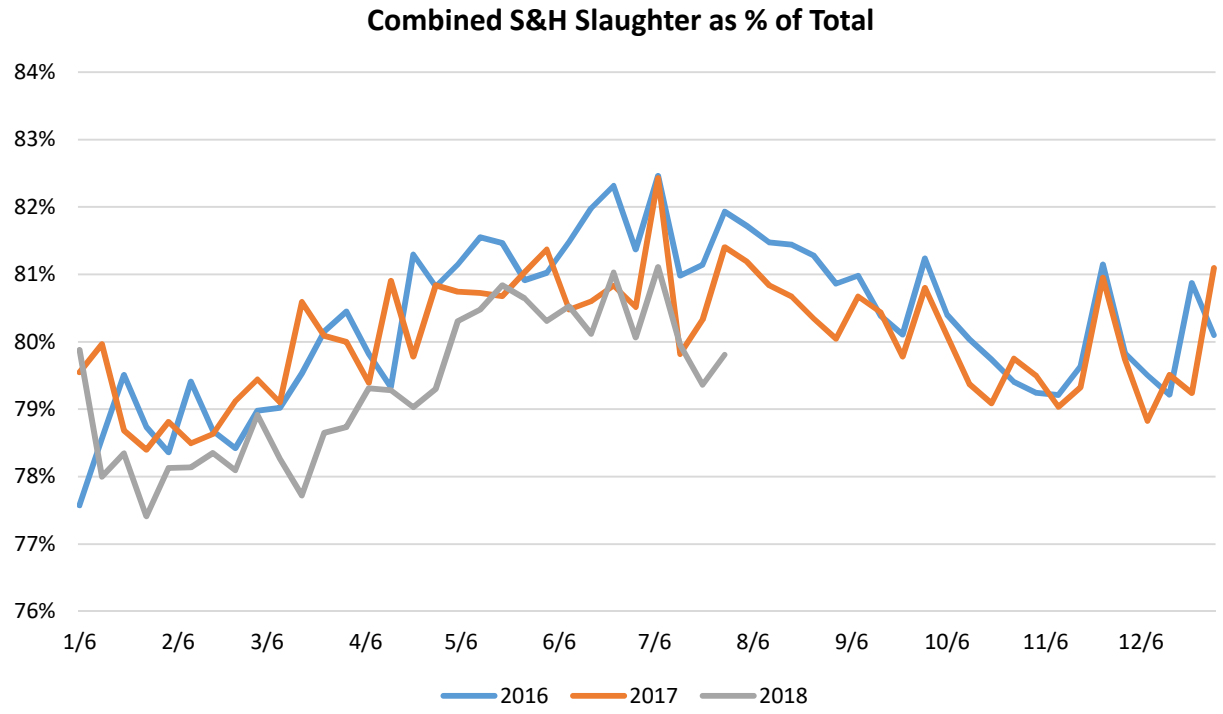
Also keep in mind this is the first report where there is no lock-up for journalists. That will mean information dissemination will be slower and trickier. Look for a lot of volatility right around the report's release. Good luck today.

Livestock

Sounds like we've picked up some decent cash volume in the north yesterday. The range of trade is described as 109.50-112.00, but sounds like most of the volume was 110.00ish. Nothing yet to report in the south, but would expect trade there to be a bit firmer.

One interesting item mentioned by the guys at MP Agrilytics is that there has been several ICE raids in MN and NE over the past few days. Labor will continue to be an issue going forward, and with big numbers in the pipeline (especially in hogs) we don't need to see any significant labor constraints.

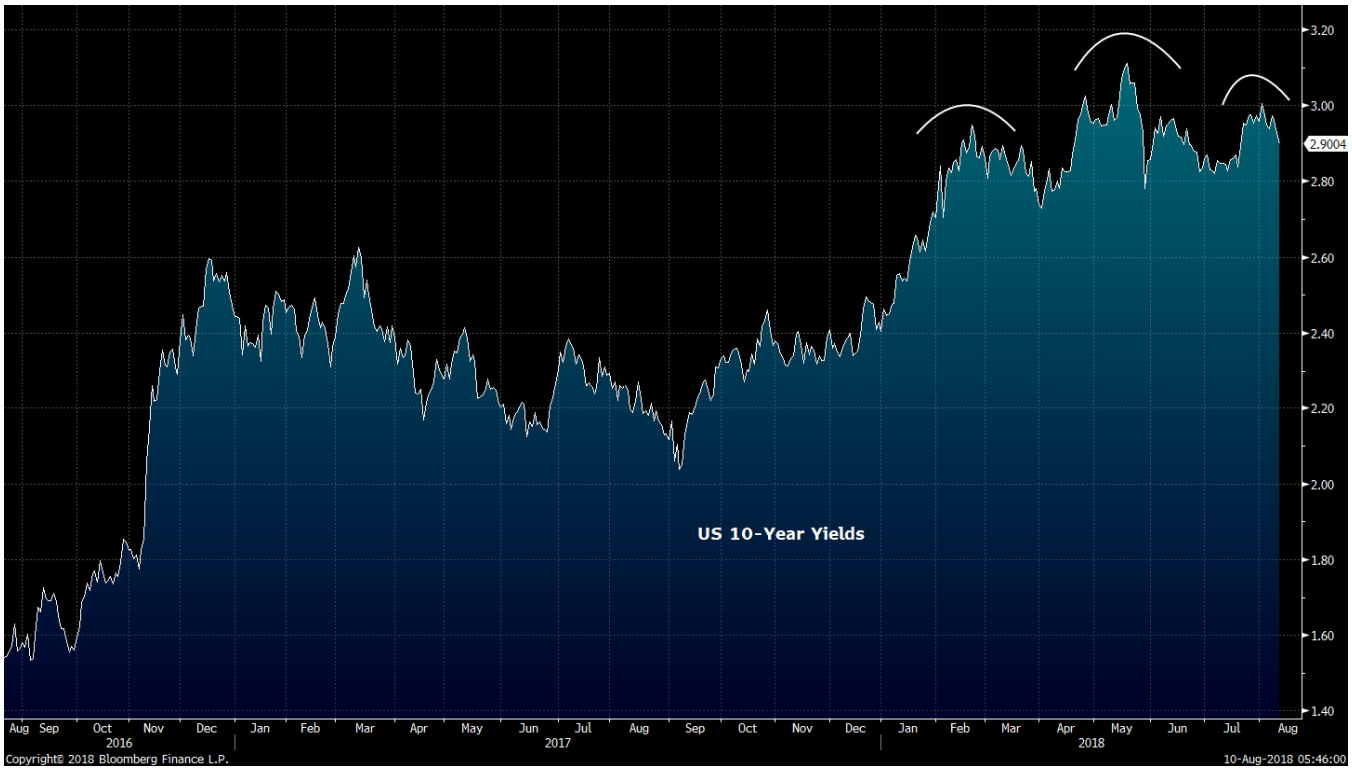
Nothing major stood out to me yesterday in the release of the official slaughter data. Cattle carcass weights continue to move in step with the seasonal pattern higher and I didn't see anything of significance to report on that. It stands out to me that the cow kill remains very large and that steers & heifers are maintaining a smaller than usual percentage of the overall slaughter. Then again, this has been the case for much of the year so its not exactly news to anyone at this point.



Financials

The main story overnight is that we're finally starting to get some concern over FX and specifically the weakness in the Turkish lira. We've been keeping an eye on the Chinese yuan for possible contagion issues, but it looks like the lira is going to be the winning horse in this race. The lira is off *sharply* overnight and is now down about 36% YTD against the dollar. There are a few reasons for the spooked-out markets overnight. One reason is that Turkey's credit rating is expected to be downgraded. One other reason is that Turkish President Erdogan will be issuing an address later today, and while he could seek to sooth tensions with the US and ease sanctions…well, that doesn't appear to be his style. And thirdly, reports have surfaced suggesting the ECB is "concerned" on several EU banks' exposure to Turkey. This is likely a big reason the euro is also sharply lower at the time of writing this morning. Italian bond yields are higher while German yields are lower in a flight to safety. That said, the move in Italian yields isn't anything overly alarming, especially considering how things have moved recently.

On tap in the US we have CPI data, and like we saw yesterday in PPI it is likely that energy readings in the past month keep a lid on the upside here. There are no major earnings releases today. The market will closely watch Erdogan's address and we'll see what happens from there. One chart I saw on Twitter this morning that has my attention…US 10-year yields. You could make an argument we *might* be forming a H&S top there….



Energy

The IEA issued their monthly oil market outlook overnight, and its tone seems to be slightly more "relaxed" than some of the recent reports. The IEA said fears about global oil supplies have lessened as production has increased in several locations. They did continue to sound cautious, however, with ongoing losses in Venezuela and Iranian sanctions their main concerns at the moment. One note did catch my eye…they IEA said demand growth "slowed dramatically" in the second and third quarters. They did say it should rebound after that, but I think that is worth noting. They did increase their 2019 oil demand estimate slightly.

Today's Calendar (all times Central)

- CPI – 7:30am
- WASDE & Crop Production – 11:00m
- Baker Hughes Rig Count – 12:00pm

Thanks for reading.

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