NESVICK TRADING GROUP, LLC

Thursday, September 20, 2018
NTG Morning Comments
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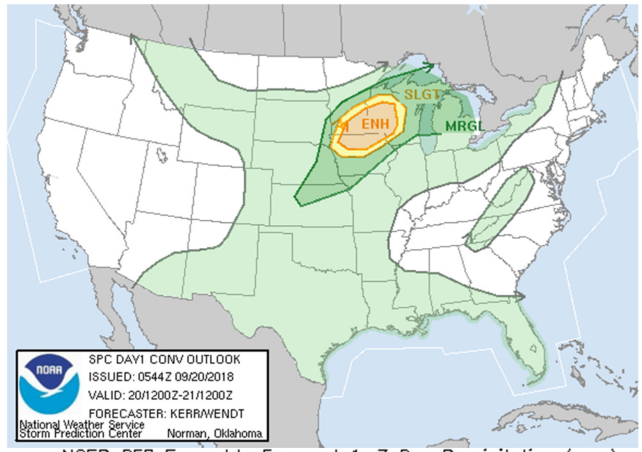
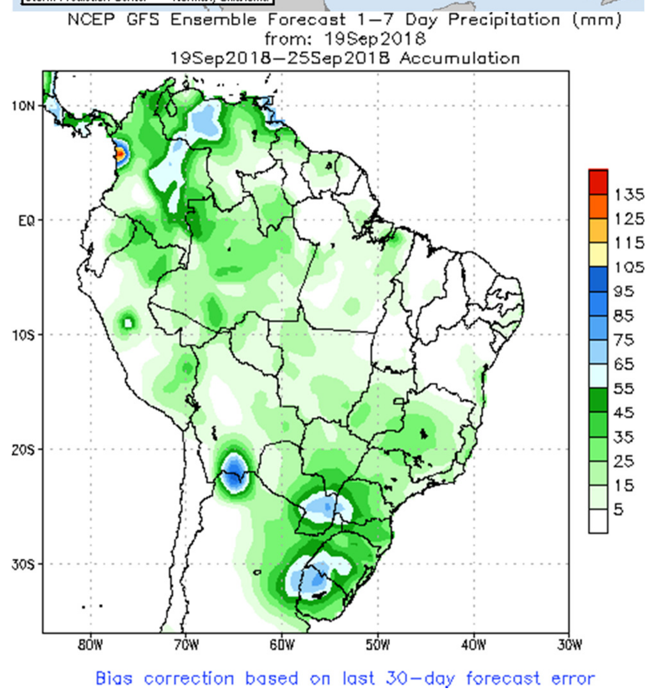
Weather





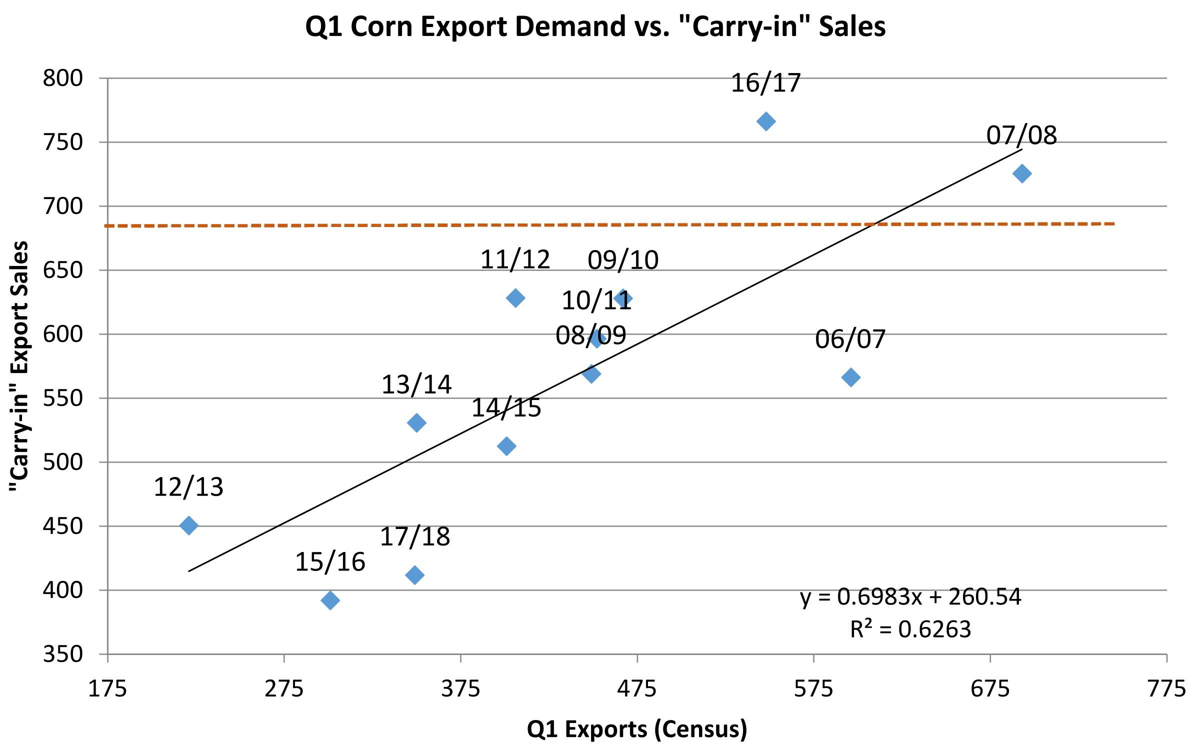
No change to the weather forecast this morning. We've seen a lot of wet weather through the Corn Belt over the past 24 hours and we should continue to see extensive rains today. The map to the right shows the SPC's severe weather outlook for today, indicating where thunderstorms are likely to be heaviest. We'll see rains move southeast as the night progresses, but by tomorrow a lot of the region should be mostly clear. Rainfall will return on Mon/Tues and end Wed in eastern areas. The combination of the two events should produce ~1" rainfall totals through a widespread portion of the region and there will certainly be areas of locally heavier totals. Beyond the middle of next week, the pattern does not look as wet. There will be "some" rain at times, but nothing significant. Temps should continue to be very warm today and tomorrow, but we should start cooling off over the weekend and generally cool weather is expected through the end of the month. It is certainly possible that we will see our first freezing temps of the season at some point before the end of the month.

More good rain in the past 24 hours in northern portions of Brazil, but we should see rainfall amounts in this area decline over the course of the next week. Instead, rainfall will be mainly focused on southern portions of Brazil, where RGDS could see some 5"+ amounts over the next week. Rainfall will expand northward again during the 6-10 and 11-15 day periods again. Northeastern portions of Brazil will remain mostly dry over the next two weeks with only minimal rainfall expected.

Argentina should see mostly dry conditions today and tomorrow, but rains will redevelop in eastern areas by Saturday and there will be several threats for rain next week. Rainfall amounts of .5-1.0" will be widespread but eastern portions of the country will see heavier 2-4" amounts possible. Rainfall will decline again as we move into the 11-15 day period.

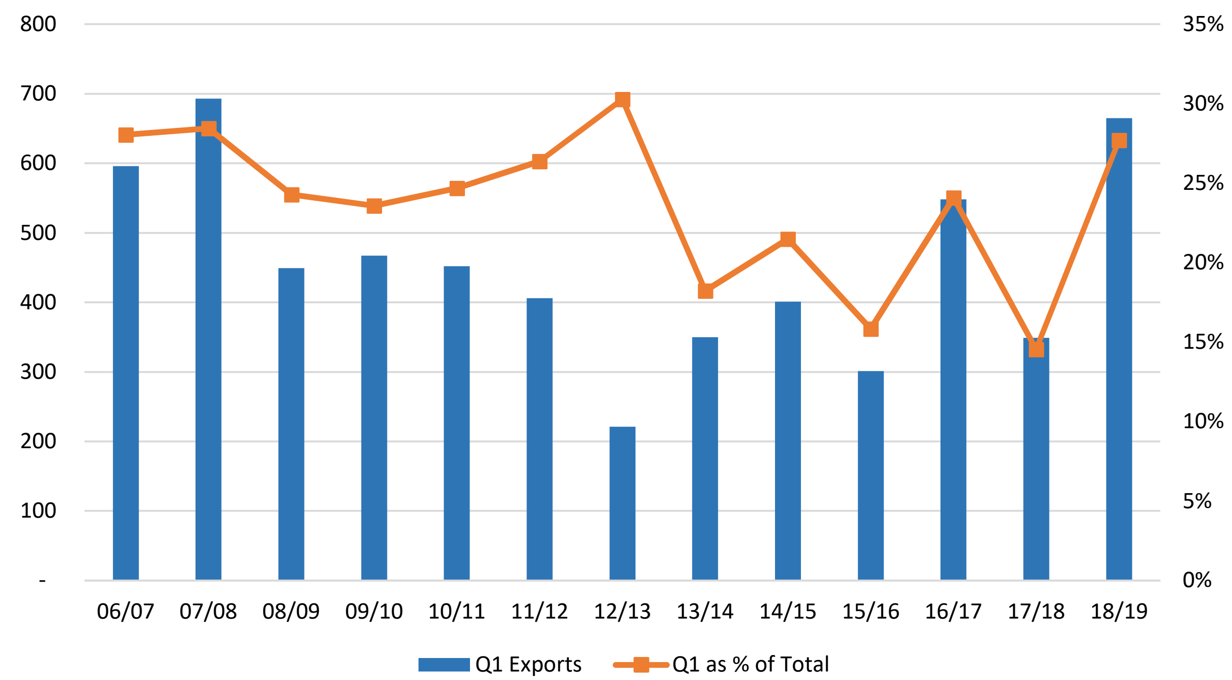
Crops

As promised we're going to look at carry-in sales for corn today for any clues on what it means to Q1 export demand and what that might mean for total 18/19 exports. Total carry-in sales for corn total roughly 17.4 mmt, which is up sharply from only 10.5 mmt at this point last year. This is the third highest carry-in total since 06/07, as shown in the chart below. The chart shows that, as was the case in soybeans, carry-in sales are a reliable indicator of what to expect in Q1 export shipments. This year's carry-in sales level is represented by the dashed line, indicating a very likely strong start to the US export program this year. Unlike soybeans, there is no strong recent tendency for Q1 shipments to exceed the implied carry-in level, but I'm going to be an optimist (you know me) and say we'll squeeze out a bigger export number in Q1 than the trendline would imply. I think this is a reasonable assumption considering big US corn supplies, ample FOB capacity (lack of soy exports), and limited export competition. I'm going to pencil in a 665 mil bu Q1 export figure, which would come in second only to 07/08 as shown below.



The chart below is another way of looking at the Q1 export pace. I show here my guesstimate of 665 mil bu and the red line indicates what that would represent in terms of the MY final estimate. Note that both the 17/18 and 18/19 figures are assuming the most recent WASDE projections. As you can see here, a 665 mb Q1 export figure would look a bit large relative to the WASDE marketing year projection compared to recent years, but in those recent years we've seen a lot of "volatility" in this calculation due to the hit-and-miss nature of Brazilian production and exports. Looking back a little further, the percentage of the total would seem a little on the large side but not very far out of line when looking at the period before Brazil really came on the scene as a major corn exporter.

Q1 Corn Export vs. Marketing Year Total



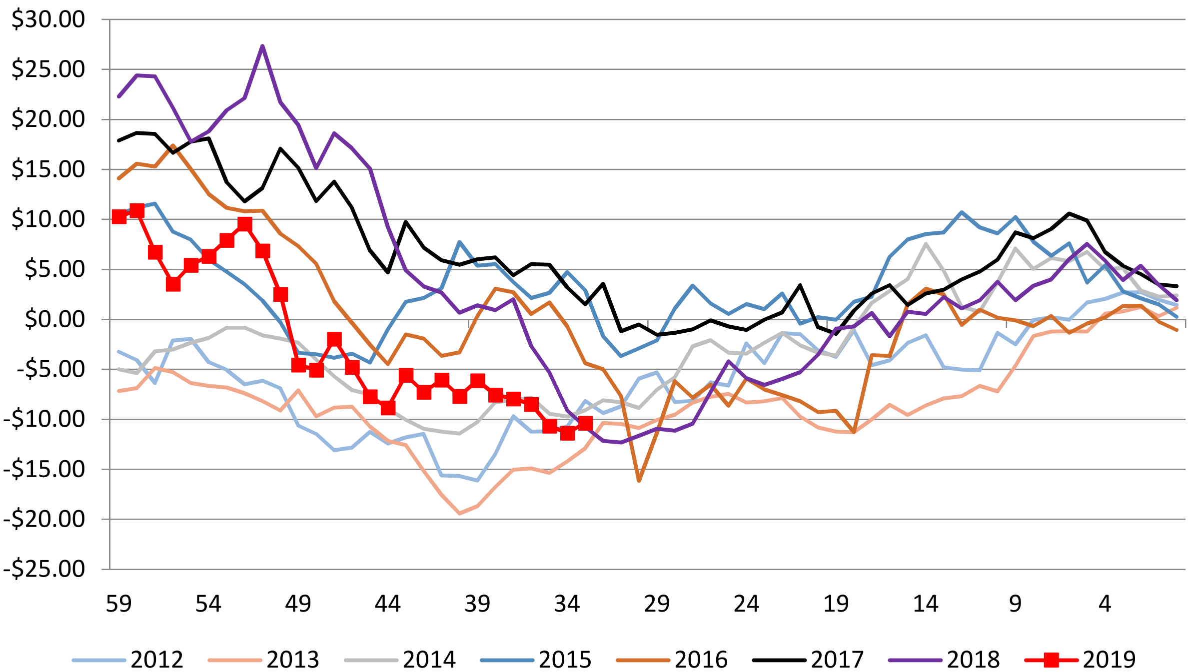
I am personally of the opinion that the Q1 percentage of the marketing year total will decline, not because I think Q1 exports will be dramatically smaller than shown above but rather because I think the marketing year total export figure will be larger than WASDE is projecting. Remember, even if Brazil scores a big crop this upcoming year we won't truly "feel" that competition until Q1 of 19/20. Argentine export capacity will likely be focused towards soy and soy products asap this spring as well. I'm looking for a 2,500++ export figure for corn this year. Thoughts appreciated.

Livestock

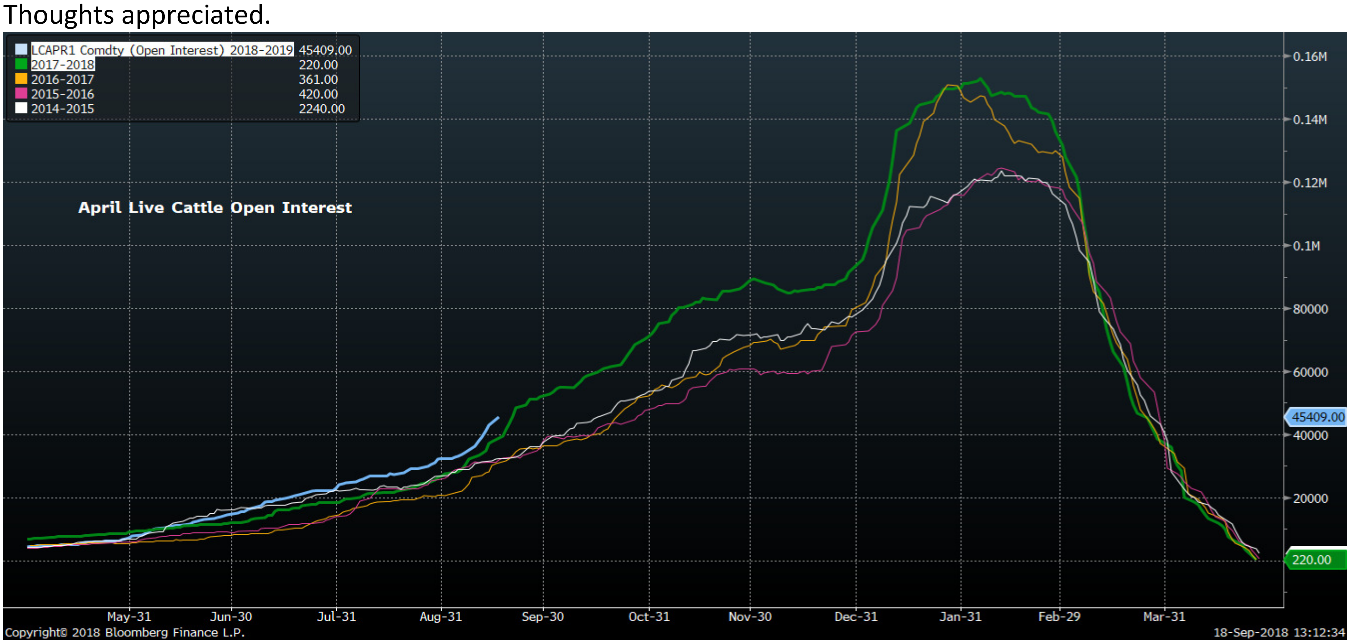
Sounds like there was some limited cash cattle trade yesterday at 110/175. After looking at the MPR volume totals on Monday it seemed like a lot of people were apprehensive about steady/higher cash trade this week, but sentiment now seems to be shifting towards the idea that cash will indeed be steady/higher. Then again, I wonder if we just wait until after COF tomorrow to see what happens.

I was flipping through LC basis charts yesterday, and at first nothing really stood out. After last week's cash trade, Oct basis was basically near even and inline with norms at this point before expiration. Looking out to Dec/Feb/Apr and even beyond, we can make the argument that basis is a bit stretched wide but even then we're not looking at levels that we haven't seen before and in most cases we're sitting at similar levels vs. last year at this time. For an example, here is April basis:

April Live Cattle Basis History

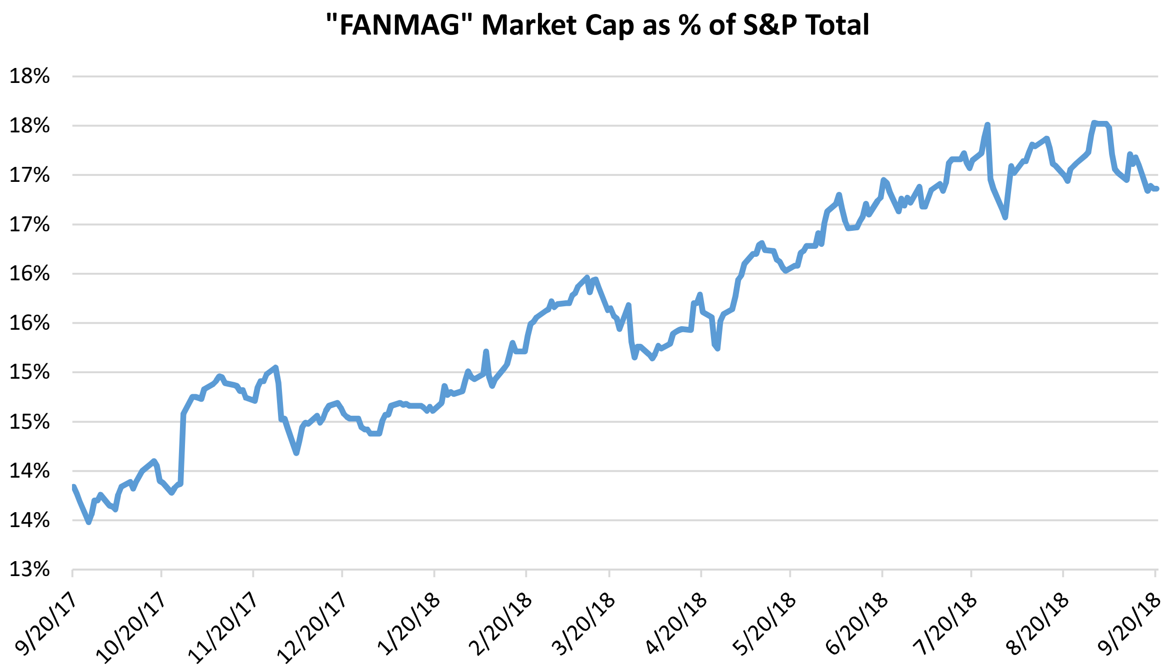


The comparison vs. last year catches my attention because it appears that, like last year, open interest in the 2019 contracts is growing more quickly than usual. A chart showing the seasonal progression in April LC (to keep things the same) is shown below. You can see that OI is running above year ago levels, which were clearly above the prior several years. I suppose one could make an argument that speculative buying interest in these deferred contracts (ASF concern-related?) is pushing the basis a little out of whack at this time of year. Thoughts appreciated.

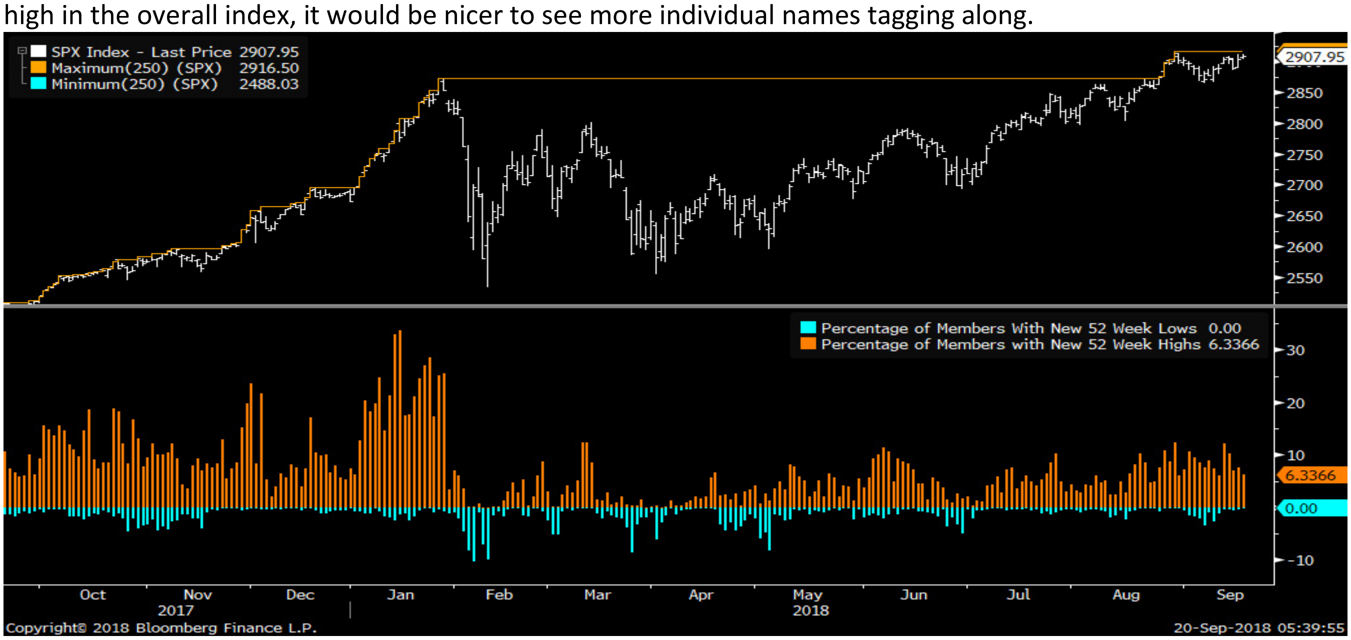


Financials

The S&P is on the verge of pushing into new record highs yet again this year, but I find it interesting to note that our usual leaders in the late-stage of this rally are not the primary drivers. The "FANMAG" stocks of FB, AAPL, NFLX, MSFT, AMZN, and GOOGL have actually been trailing the overall index so far this month, as shown below.



While I would view the market's strength in the absence of leadership from these companies a good, healthy sign, I do also think it is worth pointing out that the percentage of S&P 500 members at their 52-week highs is once again lower than the last time the overall index was at its highs. If we want to cheerlead another all-time high in the overall index, it would be nicer to see more individual names tagging along.



Energy

Crude oil futures are slightly higher at the time of writing this morning. I don't see any major new information to pass along from overnight, but one thing I haven't yet mentioned this week is the looming OPEC+ meeting in Algiers this weekend. The current supply-cut deal technically expires at the end of this year, unless it is replaced with a new agreement. When the group decided in June to allow for production increases, they did not specify specific output levels for individual countries. The thought process is that the group will continue to talk about keeping the production "cuts" in place into 2019, despite the fact that Russia just announced a new post-Soviet high in production. Production declines in Venezuela and more recently Iran have given the Saudis and Russians cover to increase their own production. Iran's oil minister has threatened to veto any new supply agreement developed at this weekend's meeting if it is "a threat to Iran". They very clearly see the Saudi and Russian efforts to use US sanctions against Iran as a means to garner more market share. Iran clearly feels increasingly isolated within OPEC, and its most consistent ally in OPEC has been Venezuela and they obviously are in no position to put pressure on the group right now.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Philly Fed Index – 7:30am
- Jobless Claims – 7:30am
- Existing Home Sales – 9:00am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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