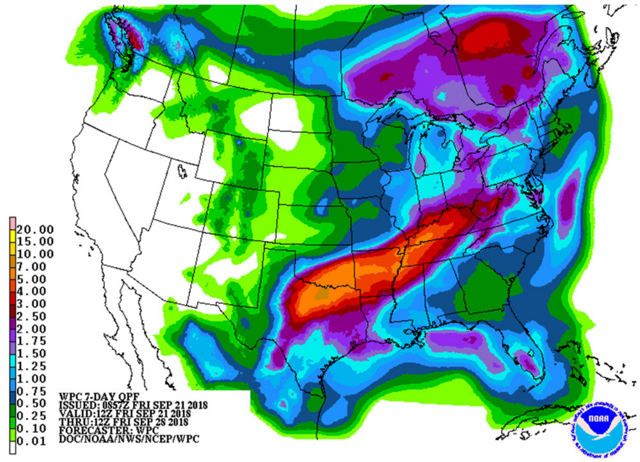
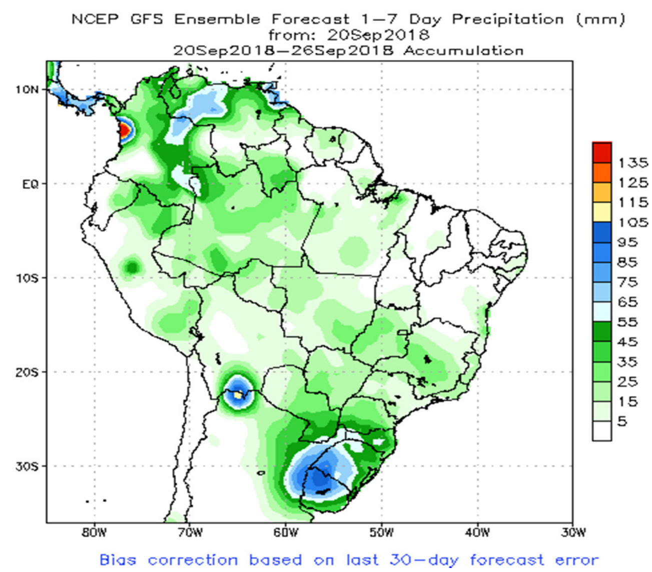
NESVICK
TRADING GROUP, LLC

Friday, September 21, 2018
NTG Morning Comments
www.nesvick.com

Weather

The Corn Belt is probably not looking at a lot of rain today through the weekend, with any rains favoring just southeastern areas. We should see rainfall redevelop for Mon/Tue. This system will move very quickly through the area meaning most rains will be no better than .25-.75". There will be chances for severe weather with this event, however, so there will be locally heavier totals. Another fast-moving system will production light rainfall amounts Wed/Thu. There is not good model agreement beyond the 6-10 day period. Temps should remain warm today but we should see cooler weather in western areas and this should spread through the area early next week. It is entirely possible to expect some freezing temps to be seen in the next 10 days or so.





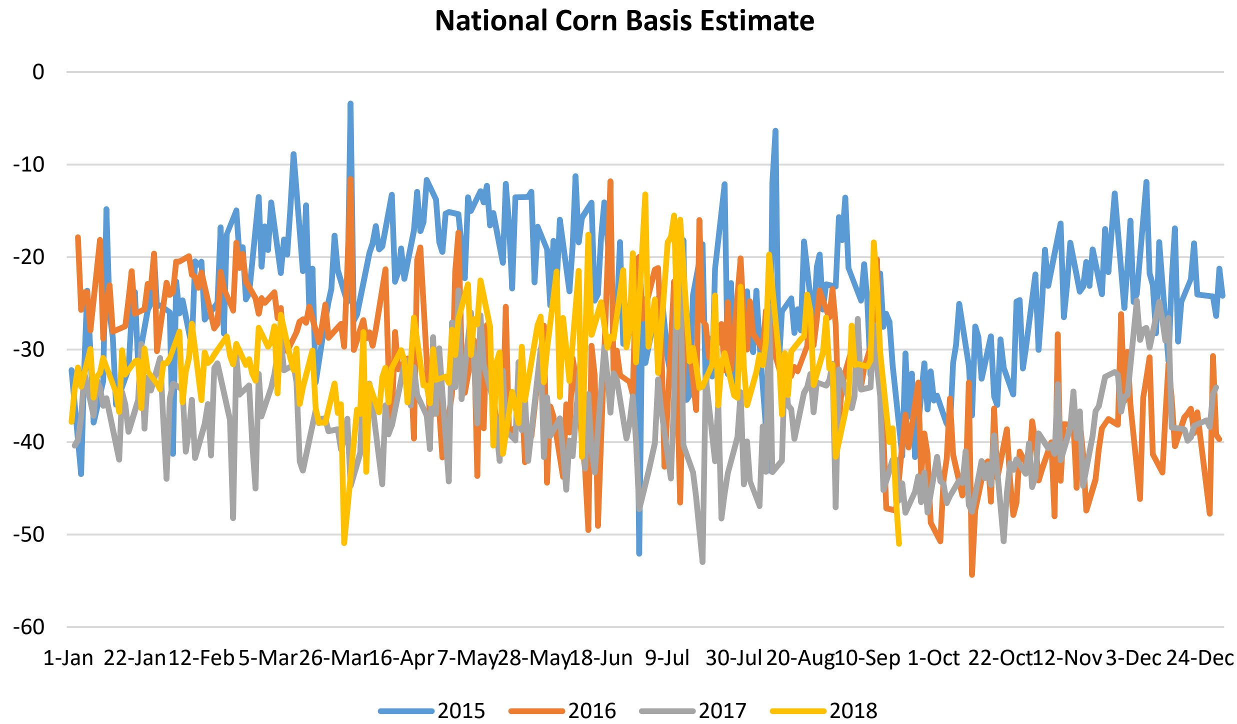
No changes in South America. Big rains are expected in Southern Brazil over the next two weeks, with some 6-8" amounts possible in portions of RGDS. Northern Brazil will be mostly dry over the next 5 days but should gradually a pick up in rainfall after that.

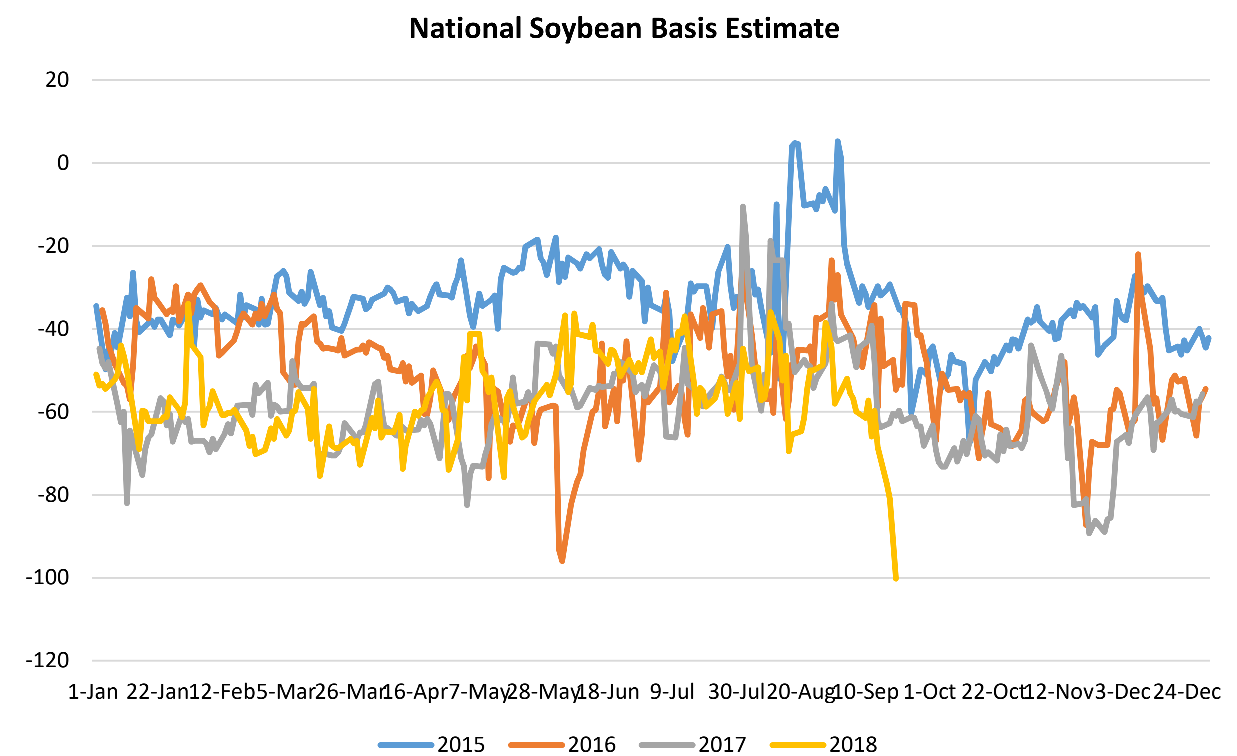
Argentina is likely to be mostly dry today, but rainfall will return to eastern areas tomorrow and there will be multiple rainfall threats next week. Rainfall amounts of .5-1.0" will be widespread through the country but areas in the east should see locally heavier totals. Rainfall chances will likely decline again as we move into the 11-15 day timeframe.

Crops

We all know that basis is weak, but I thought I'd just illustrate this morning *how* weak in the grand scheme of things. To do this, I'll be using the MGE/DTN's national corn and soybean cash indices. Comparison charts showing the national corn/soybean index vs. rolling spot futures is shown below. It shouldn't come as any surprise to anyone here, but I think this really illustrates well what basis is doing on a national level. I've only included 4 years on the chart to help keep it easy to read, but "national" soybean basis is the weakest in at least a decade. The corn basis level, while weak, isn't exactly unheard of with similar readings noted back in 2010 as an example.

Again, nothing here that should surprise anyone, just thought it was interesting enough to illustrate.


National Corn Basis Estimate
0
-10
-20
-30
-40
-50
-60
1-Jan
22-Jan
12-Feb
5-Mar
26-Mar
16-Apr
7-May
28-May
18-Jun
9-Jul
30-Jul
20-Aug
10-Sep
1-Oct
22-Oct
12-Nov
3-Dec
24-Dec
2015
2016
2017
2018


National Soybean Basis Estimate
20
0
-20
-40
-60
-80
-100
-120
1-Jan
22-Jan
12-Feb
5-Mar
26-Mar
16-Apr
7-May
28-May
18-Jun
9-Jul
30-Jul
20-Aug
10-Sep
1-Oct
22-Oct
12-Nov
3-Dec
24-Dec
2015
2016
2017
2018

Livestock

We have the Cattle on Feed report this afternoon, and shown to the right are the newswire survey estimates for today's data. As usual, I'll lean on my good friend Mike Sands this morning who has forgotten more about COF data than I'll ever know. Mike notes:

Cattle on Feed

	Avg. Guess	Range
On-Feed	105.2%	103.0-105.9%
Placements	105.1%	102.4-107.0%
Marketings	100.3%	99.8-102.0%

"Although seasonally tight feeder cattle supplies may have continued to temper movement into feedyards in August, along with eroding feeding margins and record feedlot inventories in the Central Plains, the lingering dryness plaguing the Southern Plains and West likely spurred increases in lighter weight cattle, boosting August feedlot placements near 106% of last year."

"Improving moisture conditions in the S. Plains is boosting prospects for wheat pasture and other fall grazing programs, although similarly favorable prospects last year at this time deteriorated rapidly in October and November and limited numbers of cattle on wheat pasture in late fall – and could be repeated. Still, prospects for larger wheat acreage, favorable planting conditions, and favorable early growth could boost January 1 wheat pasture inventories by 400,000 head or more above last year's limited volume. Those larger wheat pasture inventories, in turn, may temper late fall feedlot placements, but boost availability next winter and early spring".

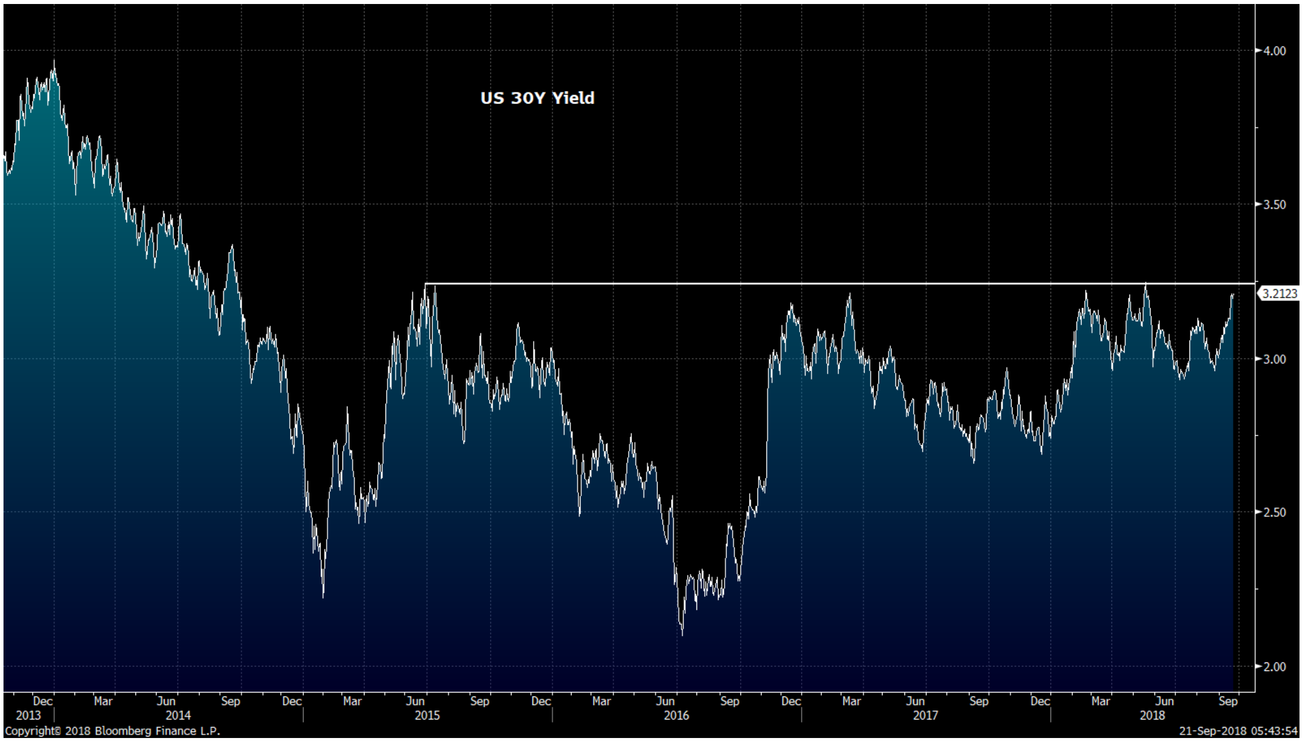
"Larger numbers of long-day cattle – over 120 or 150 days on feed – are more reflective of lighter weight placements, rather than delayed marketings. Although Jul-Aug marketings slipped below earlier expectations, carcass weights have advanced at about a seasonal pace, while the percentage of Choice cattle in the slaughter mix slipped below a year earlier, tempering lingering concerns regarding marketing "currentness". Aside from regional differences, total fed cattle supplies likely peaked in early summer and are working seasonally lower into late summer and fall – a sharp contrast to the last couple of years."

So the bottom line is Mike is taking a modest "over" vs. the average guess on placements and on-feed…but not to the point that would likely get the market fired up on Monday morning.

Financials

Not a ton of major new information to pass along this morning. The BP is the big mover overnight, weakening sharply EU officials have apparently rejected the latest offers from the UK and there is starting to be a growing chorus of those believing a "no deal" Brexit is likely. This is also weighing on the Euro, but in addition we got weak Eurozone PMI figures overnight. The composite PMI fell slightly to 54.2 from 54.4 previously and the manufacturing component hit a 2 year low.

I'm glued to my charts on rates. As an example, below is the chart of 30Y yields and you can see it is very close to a potential breakout higher. I'm on the edge of my seat waiting to see if something will "pop" here, as I think it will have big ramifications across our quote screens. I've been thinking the higher yields should be supportive to the dollar, but we've seen DX weaken as the Euro has rallied recently. The Euro chart is shown below, and you can see it has posted what might be a *potential* breakout above the 1.18 level, but significant resistance at the 200-day MA lies not far above. The other question is what would be the effect of (potentially) higher rates on US equities which relentlessly march higher?


US 30Y Yield
4.00
3.50
3.2123
3.00
2.50
2.00
Dec 2013
Mar
Jun 2014
Sep
Dec
Mar
Jun 2015
Sep
Dec
Mar
Jun 2016
Sep
Dec
Mar
Jun 2017
Sep
Dec
Mar
Jun 2018
Sep
Copyright© 2018 Bloomberg Finance L.P.
21-Sep-2018 05:43:54


Last Price 1.18460
High on 02/16/18 1.25795
Average 1.19388
Low on 08/15/18 1.13275
SMAVG (50) on Close 1.16416
SMAVG (100) on Close 1.17060
SMAVG (200) on Close 1.19764
1.26000
1.24000
1.22000
1.19764
1.18460
1.18000
1.17060
1.16416
1.16000
1.14000
1.12000
1.10000
Oct
Nov 2017
Dec
Jan
Feb
Mar
Apr
May 2018
Jun
Jul
Aug
Sep
EC1 Curncy (Generic 1st 'EC' Future) Daily 21SEP2017-21SEP2018
Copyright© 2018 Bloomberg Finance L.P.
21-Sep-2018 05:52:42

Energy

Nothing new today. Crude oil futures are higher again as the market continues to price lower Iranian oil supplies. We have the OPEC meeting this weekend and Iran has threatened to veto any decisions. I'm not sure what difference that makes at this point, however, as the Saudis and Russians are clearly in control. The chart that Bloomberg has produced (shown to the right) shows what I mean. Despite the supply cut agreement still being in place, the Russians are clearly happy to respond and take advantage of Iran's lost market share. The Saudis haven't (yet) increased oil production to all time highs but they have added roughly 500k bpd to production since May. Iran is clearly not pleased by either development, noting it is in violation of the agreement from June. The Saudis would argue that lost production from Iran (and Venezuela) can be met by other OPEC members…but of course they're in the convenient position of having the most spare capacity in the group to do so. I don't look for much of substance to come out of this weekend's meeting, but it should make for some interesting headlines.

Today's Calendar (all times Central)

- Markit US PMI – 8:45am
- Baker Hughes Rig Count – 12:00pm
- Cattle on Feed – 2:00pm

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684
Trillian IM: dzelinski@nesvick.com