NESVICK TRADING GROUP, LLC

Friday, September 28, 2018

NTG Morning Comments

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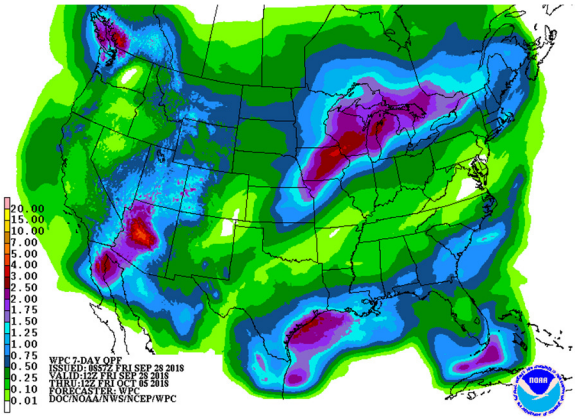
Weather

No changes in the forecast this morning. Rainfall in the Corn Belt will be limited over the weekend except for an area stretching from IA through WI and northern IL. As you can see to the right, this will in fact be the most favored area for rainfall chances over the next week. The 6-10 and 11-15 day forecasts also continue to call for above normal precipitation chances through a widespread portion of the US. Temps will be cool in northern portions of the country while most of the remainder of the country should see AN levels.

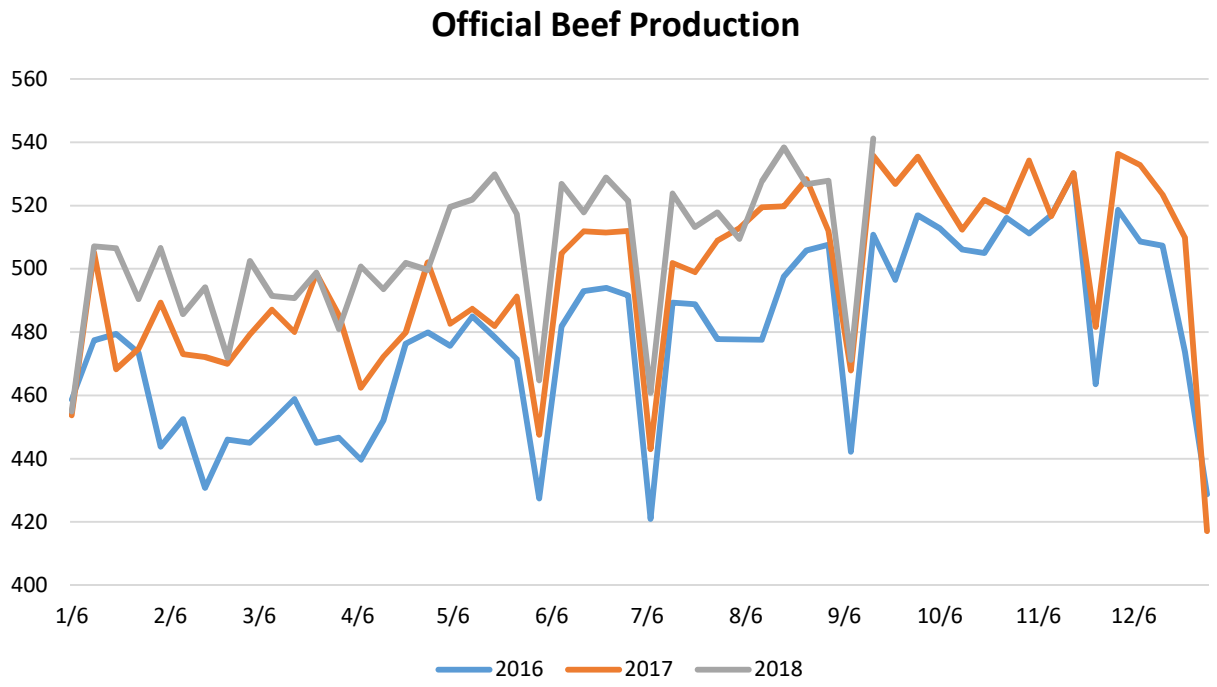


Crops

Highly unpredictable USDA reports on tap today, but I've reviewed all of that already so I have very little new to pass along this morning. Clearly spec traders are leaning short right now, though some of the price buoyancy of the past week has likely been a lightening up of positions ahead of month/quarter-end and today's reports. The chart setup for both corn and soybeans are similar in my opinion. Charts of December corn and November soybeans follow, and they're basically the same. We've bounced off recent lows and have broken minor trendline resistance lately. That might give some incentive for further upside, but we also have important MA resistance levels above. We could also simply be on the verge of just setting another lower-high…who knows? Keep in mind our comments from earlier in the week noting the typical seasonal bounces in the fall. I think the market is also growing *a little* worried about the weather forecast slowing down harvest. I don't necessarily think there is any reason to be concerned regarding production losses, but if harvest slows we could see basis firm (and already have in some spots) and this could potentially support some bottom picking on the board too. Just thinking outloud here. We'll see what the reports give us today and go from there….good luck.

Livestock

Nothing major truly stood to me in yesterday's official slaughter data report. Cattle weights are still running behind the seasonal pace of increases, so that is something to consider. Still, if anything stood out to me it was the chart below showing total official beef production hitting a multi-year high for the week ending 9/15. I think this is important in the context of our earlier discussions this week on record total meat in storage and especially low competing meat prices. Hog slaughter has been off the past few weeks due to hurricane related problems, but don't expect that to remain depressed for long. Bottom line…a lot of meat is coming down the pipeline….

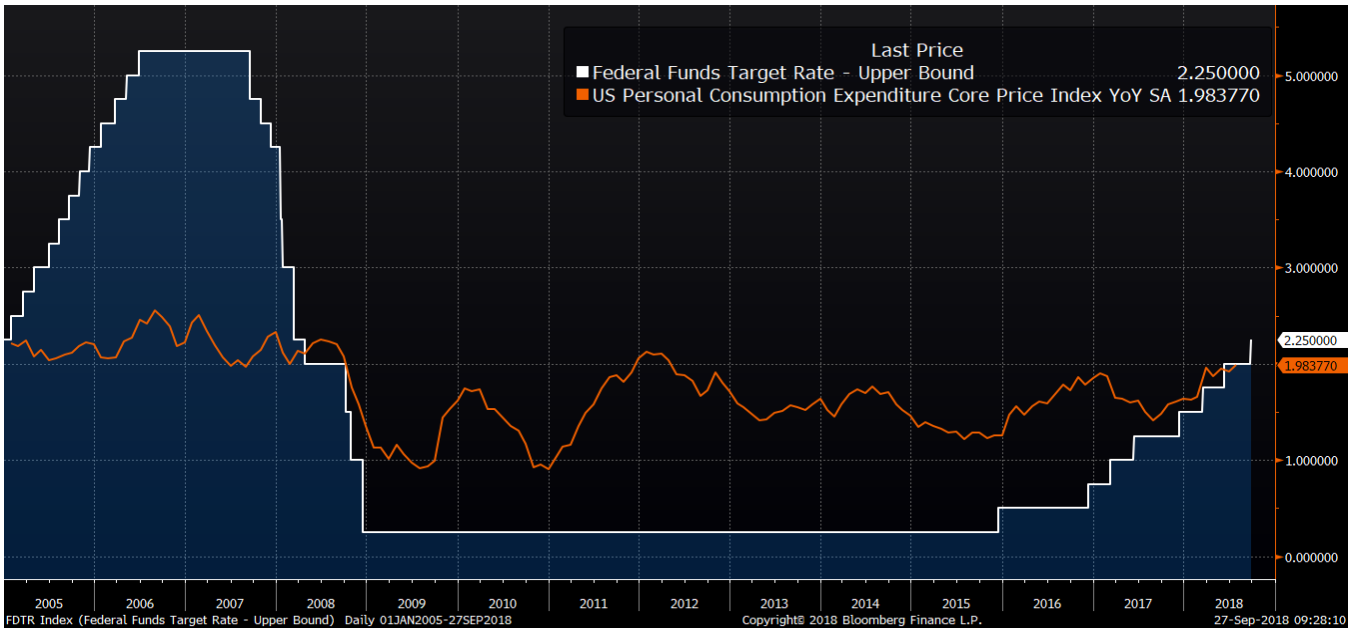


The H&P report didn't appear to contain any major surprises either. Most of the figures were inline with expectations. This continues to point towards ongoing supply expansion in the hog industry, which over the long term could be modestly negative. That said, hog futures were down sharply yesterday, likely in anticipation or in fear of larger numbers than we got. I've seen some analysts call for a sharply lower open, and while they might be right I'd be willing to bet we've mostly already traded the negative implications of this report with yesterday's move lower. I wouldn't be surprised to see virtually no reaction on the board today.

Financials

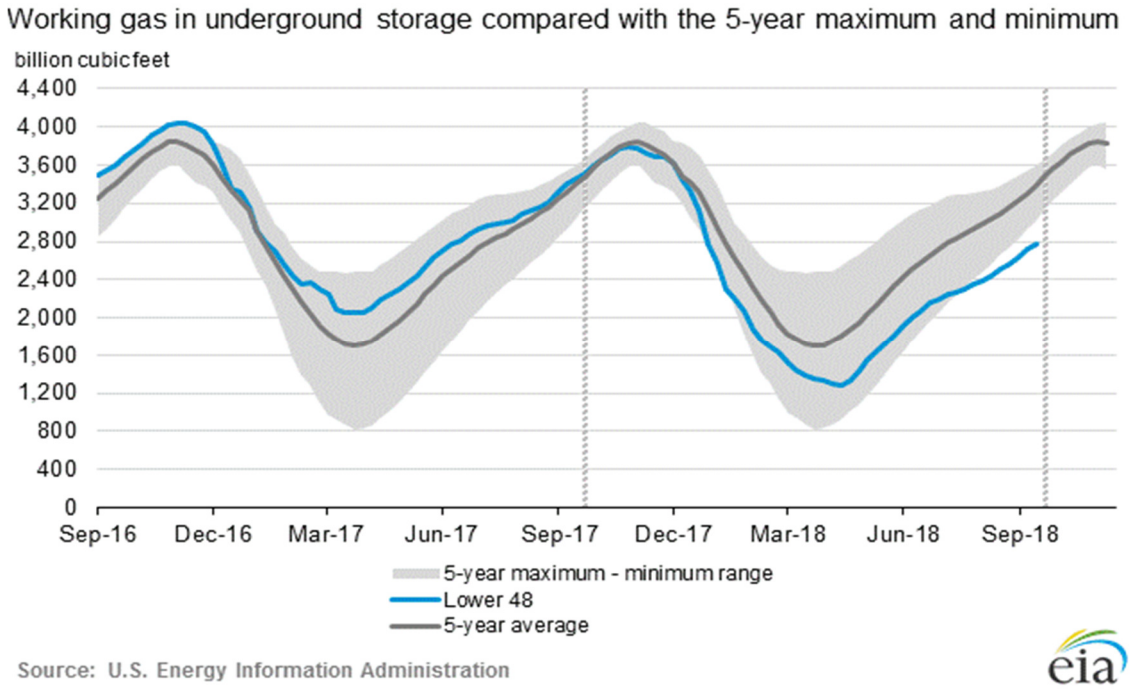
Interesting news out of Europe this morning. Yesterday we noted that the Italian government was looking at a higher debt level in their budget proposal, and this is blowing out Italian yields at the time of writing this morning. This is weighing on the Euro, but so is word that EU core inflation was only +0.9% as well, certainly a disappointment for the ECB. This has the dollar sharply higher, as well as US bonds in a somewhat risk-off tone to the morning. US equity futures are slightly lower.

Here is something that has probably been overlooked by most in the financial "media"…**for the first time since the financial crisis the US is now looking at POSITIVE REAL INTEREST RATES.** Real interest rates aren't something that have seen a lot of attention lately, but as a reminder the real interest rate is essentially the nominal interest rate minus the inflation rate. For example, if nominal rates were 2% and inflation was 1%, the *real* interest rate would be 1%. Lately, it has been the opposite, with nominal rates maybe 1% but inflation 2% resulting in a *real* interest rate of *negative* 1%. In the chart below, I show the Fed Funds rate (upper bound) vs. the Fed's "preferred" measure of inflation, the core PCE. You can see that after Wednesday's rate hike, rates are now running higher than inflation. The core PCE will be updated this morning, so in fairness it could out higher than expected (expected 2.0%) and thus make my "excitement" here meaningless. The difference, for now, is pretty small so it is unlikely there are major near-term market ramifications here. Still, the trend is now in place….



Energy

The natural gas analysts that track the flows ahead of the weekly EIA inventory report are typically very good at their job, so seeing a build of "only" 46 bcf yesterday vs. the consensus guess of +61 took me a little by surprise. It was the biggest miss on the estimate in absolute terms since the first week of 2018. As shown below, the seasonal inventory build is developing much more slowly than normal, potentially setting up the stage for an interesting winter as we move into the seasonal drawdown period. The forecast still calls for mostly AN temps in the key northeastern consumption region, so perhaps this "problem" goes away on its own, but this is something to keep an eye on for those of you looking for a little adventure…



Today's Calendar (all times Central)

- PCE – 7:30am
- Chicago PMI – 8:45am
- U of M Consumer Sentiment – 9:00am
- Small Grains Summary – 11:00am
- USDA Quarterly Stocks – 11:00am
- Baker Hughes Rig Count – 12:00pm

Thanks for reading.

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