NESVICK TRADING GROUP, LLC

Monday, October 1, 2018
NTG Morning Comments
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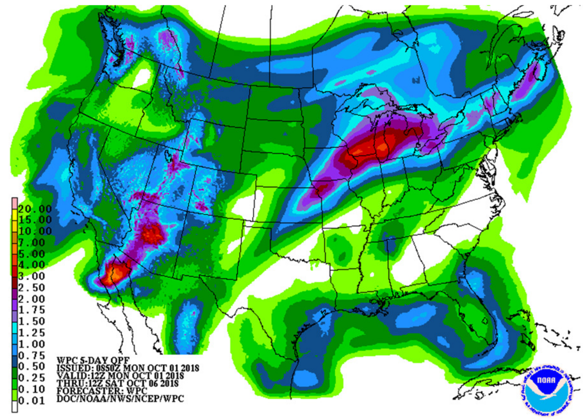
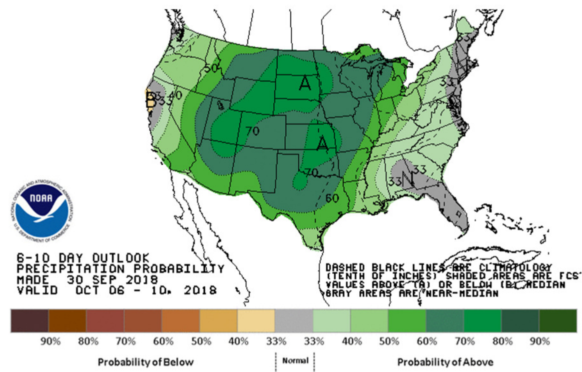
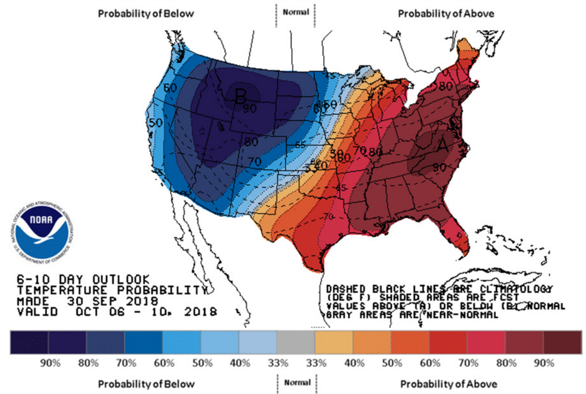
Weather

No major changes to the forecast this morning, as we're still looking at a wet period ahead for much of the Corn Belt. Rainfall was fairly limited over the weekend, but you can see rains on the radar this morning and rainfall today and tonight should be significant. Northern IA, southern MN, WI, northern IL and MI will be favored for rainfall totals of .5-1.5" through today with some locally heavier amounts. The remainder of the region should see very little rain today, and the entire region should see limited activity tomorrow through early Thursday. Starting late Thursday we should see rainfall amounts on the increase again. Starting on Thursday through mid-next week we could see a daily threat of rainfall through a wide portion of the Corn Belt and during this period we could potentially see some flooding threats develop across central areas. There could be chances that cumulative rainfall amounts add up to 4-8" during that period. After Oct 10, there are model indications that the excessive rainfall should start to relax and we could see drier weather return to the area towards the end of the 11-15 day period.





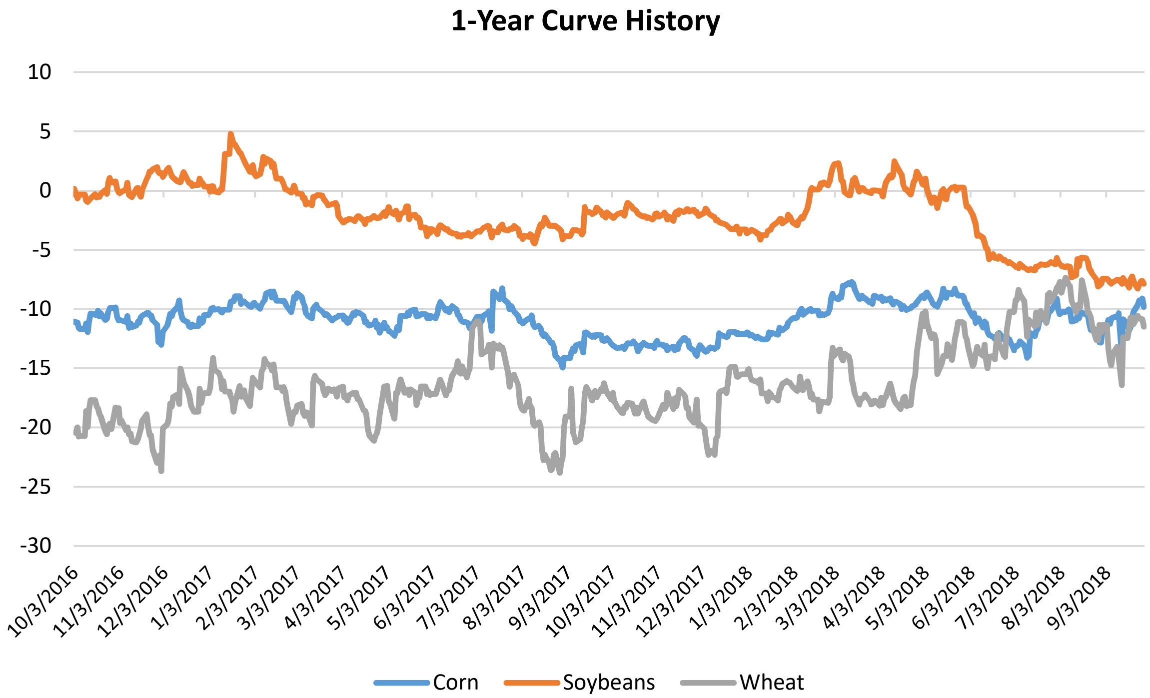
One reason for all of the rain is the temperature set-up, as shown to the right. You'll have a big difference in temps across the middle of the country. You could see some days where temps in the east run 10-20F above normal while temps in the west are running 10-20F below normal.



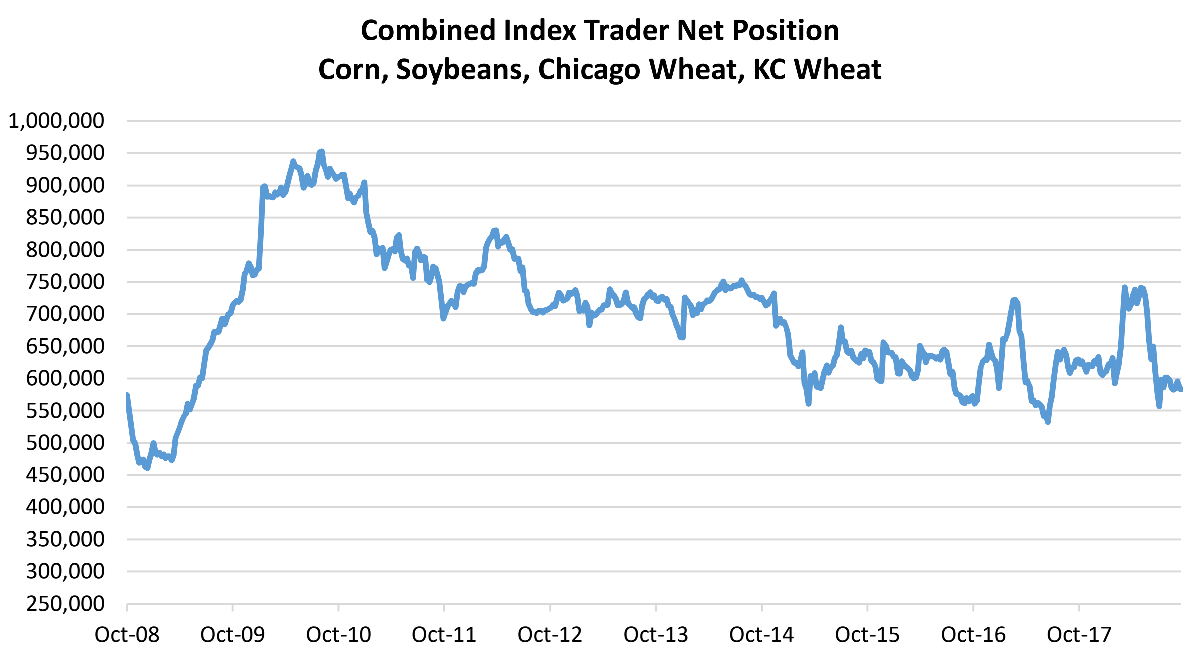
Crops

I saw a comment on Friday from a major investment bank suggesting that some "passive" money flow could move towards the ag space to mark the new month/quarter. Their thought process seemed to simply think we could see some reallocation, and as ags have been an obviously weak market it could get some additional investment directed at it. Admittedly, they would be in a better position to know this than I, but my original reaction to that comment was to think "why"?

I know I've brought this up recently, but I just want to point out one more time that the spreads in the ag markets remain fairly wide. A chart of the recent history of the 1-year calendar spread in corn, soybeans, and Chicago wheat is shown below. This shows the rolling history of the spread between the spot month and the contract one year forward in percentage terms. A reading of -10 on this chart would mean that the "passive" investor would be losing 10% on simply rolling from the spot contract to something over the course of the year.



I guess I have to admit when looking at this chart that I'm surprised the spread isn't wider on corn and soybeans. While this is still a negative environment for the passive "investor" in ag, at least it hasn't gotten worse in corn and wheat over the past two years. That cannot be said for soybeans, where the 1-year roll is the weakest is has been in over a decade. The bottom line, in my opinion, is that the ag space remains an area that will be unappreciated by the passive investing community.



Livestock

Active cash cattle trade on Friday with most of the action around $111. Packer margins remain strong despite beef being relatively flat recently.

The big news this morning for the livestock industry is the announcement of a NAFTA deal. We don't have a ton of details on the agreement at this point, but I am seeing Bloomberg report that Canada has agreed to eliminate its "Class 7" milk pricing system. We're told that the "new measures will prevent Canada's system from spilling outside its borders" but I haven't seen any details on how. This will very likely be cheered as good news for the livestock industry as a whole this morning. Look for a stronger open out of the box today.

One story that likely won't get much attention today but I do find interesting is word out of China that the government will be lifting restrictions in one area where ASF was found last month. The local governments in Henan and Liaoning provinces will lift restrictions on transportation of pigs effective Oct 1 and it sounds like the disease is believed to be contained in the area. We'll need to keep a close eye on whatever information we can get from the area, but this would appear to be good news. That being said, on Friday there was a new case of ASF reported in another area so this is hardly the last we'll hear about it.

Financials

We have a big risk-on morning on news of the official NAFTA deal. According to wires I've seen, President Trump apparently wants to call the new deal "USMCA" for US-Mexico-Canada Agreement…but that doesn't have the same ring as NAFTA in my opinion. Regardless, markets are cheering on the news with a bit rally in equities and rallies in both the Mexican peso and Canadian dollar. I do find it somewhat interesting that the deal doesn't resolve the dispute over US tariffs on steel and aluminum imports from Canada and Mexico…or the retaliatory tariffs each country has placed on the US. It did guarantee that no new tariff could be imposed for 60 days and during that period "the United States and Canada shall seek to negotiate an appropriate outcome based on industry dynamics and historical trading patterns".

Autos were a key sticking point in the negotiations as well. The new deal says that Canada and Mexico won't be affected by auto tariffs unless exports top 2.6 million units annually. As expected the deal calls for cars to have 75% of their content originate in the US and Mexico, up from the current 62.5% level. The new deal calls for 40% of a car to come from workers whose pay averages more than $16/hour.

Global bond markets are in the toilet this morning. US bonds are soft due to the risk-on sentiment following the USMCA deal. European bonds are still under pressure as the market awaits word on what the EU will think of Italy's budget proposal. PMI data in Europe was a bit soft overnight, but the unemployment rate for the Euro-area came down to its lowest level in over 10 years. It is also worth noting that starting this month, the ECB's APP (asset purchase program) will be halved to €15B. Also keep in mind that the ECB "anticipates" that buying will end after December ("subject to incoming data", of course). Starting this month, the Fed will also likely be liquidating assets at a faster pace. Recall the Fed established a schedule for the max reductions on a monthly basis. As you can see to the right, the cap on reductions to the balance sheet going forward will be

Table 2 Statement regarding reinvestment in Treasury securities and agency mortgage-backed securities

The schedule of monthly caps consistent with the Committee's September 20 decision and the June 2017 addendum is as follows:

	Monthly caps on System Open Market Account (SOMA) securities reductions	
	Treasury securities	Agency Securities[1]
Oct - Dec 2017	$6B	$4B
Jan - Mar 2018	$12B	$8B
Apr - Jun 2018	$18B	$12B
Jul - Sep 2018	$24B	$16B
From Oct 2018[2]	$30B	$20B

$50B each month up from $40B over the past several months. The bottom line is that the global bond markets will be receiving even less help from central banks starting this month as policy slowly "normalizes".

Energy

No major new information to pass along for the oil markets this morning. Crude oil futures are slightly higher at the time of writing, benefitting from the risk-on sentiment. I'm seeing reports from oil tanker tracking services that many Iranian tankers are "failing" to send transponder signals, making it harder to track Iranian oil shipments as sanctions loom. Of course that could just be a coincidence, right?

There will be an energy conference in Moscow starting on Wednesday, and that could produce some potentially interesting headlines. The market will be looking for clues whether Russian officials will hint towards further production increases, but Russian production is already at post-Soviet highs. This is perhaps even more interesting after seeing reports that President Trump spoke with Saudi King Salman on Saturday. Officially the two discussed "the stability of the oil market" and "strategic partnership between the two countries". Unofficially, we're all betting that Trump is asking for lower oil prices.

Today's Calendar (all times Central)

- ISM Manufacturing Index – 9:00am
- Export Inspections – 10:00am
- Fats & Oils, Grain Crushing – 2:00pm
- Crop Progress – 3:00pm

Thanks for reading.

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