# NESVICK TRADING GROUP, LLC

Friday, October 19, 2018

NTG Morning Comments

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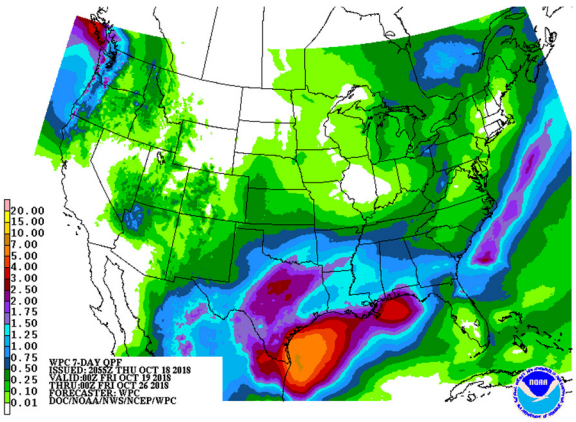
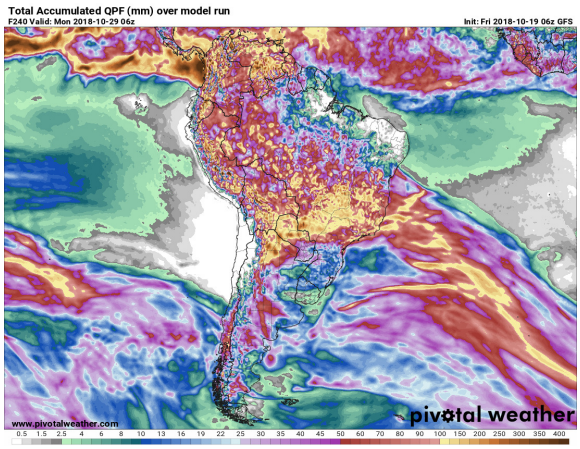
## Weather

No change in the US outlook this morning. The 7-day QPF is shown to the right and you can see some light showers start to move back into the Corn Belt area, but note those come in day 7 of the forecast so we're still looking at 5 days (at least) of wide open weather for the area. This rainfall threat does not look very impressive, with most of the Corn Belt probably seeing under .5" of precipitation and the heaviest rainfall totals favoring eastern areas. Today will be fairly warm but look for a return of cold weather tomorrow and generally BN temps for much of the duration of the forecast period.




No change in the outlook in South America. Brazil is looking at mostly AN precipitation totals in the next two weeks. Northern areas should see widespread 2-4" rainfall totals evenly spread throughout the two week period. Rainfall totals in the south should range from 4-6" with the exception of RGDS which will see 2-4" amounts. No extreme temps in the forecast for now.

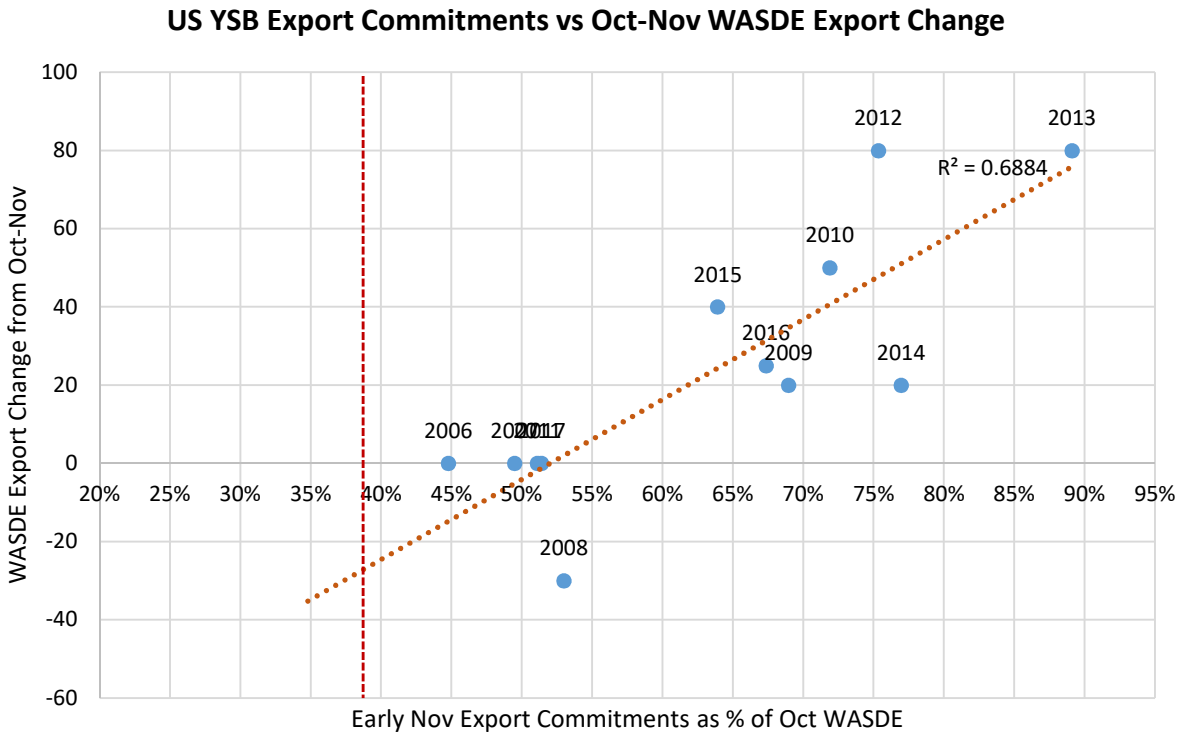



Argentina will see two week rainfall totals run pretty close to normal. Rainfall amounts will mostly average between 1-2", though some western areas will do better and some portions of BA, Entre Rios, and Santa Fe will see lower amounts. Highs in the 60s and 70s will be pretty common during the 10-day period.

## Crops

Yesterday's export sales generated a lot of discussion, though I'm not sure why there was surprise. We've been noting the absence of soybean demand for a while now. I have been discussing the possibility of a cut to the WASDE export projection next month and now it sounds like more are joining the chorus. The debate at this point sounds like the question is not *if* they cut, but by how much. I'm trying to take a look at that this morning.

The scatter chart shown on the following page takes the export commitment level in early Nov as a percent of the Oct WASDE projection vs. the change in the WASDE projection in Nov. The first thing I notice is that a reduction in export demand this early in the season is pretty rare, though obviously we're not dealing with an average year right now. The red line indicates my guess on where US commitments will be in early Nov vs. the Oct WASDE projection…and I feel I'm being pretty generous with that assumption. Based on this look, you could make an argument for a reduction next month of 25-35 mb, which admittedly is smaller than I would have previously thought WASDE would move.




Thus far WASDE has seemed reluctant to accept reality on US soybean export prospects, and the chart above would seem to imply they're unlikely to make a dramatic shift next month, though admittedly nothing is normal this year. The outlook for US export demand remains awful and I'd expect WASDE will gradually, but slowly, lower their projection going forward.

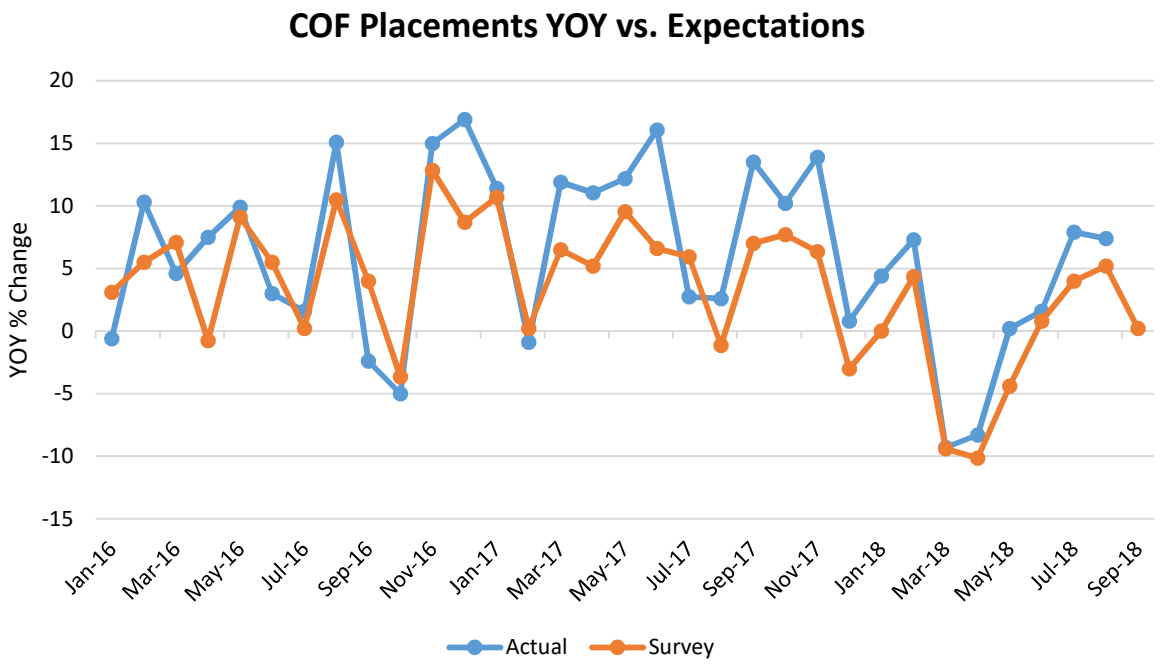
## Livestock

Limited cash cattle activity yesterday, with most of the confirmed trade at $111. Right now it sounds like $111 is bid everywhere though there has been some talk of $111.50 bids that I can't truly confirm. Volume so far this week doesn't appear to be anything impressive, but of course we've still got time today. I would guess that a lot of volume today will wait until after the COF report, but we'll see.

| Survey Summary: | Avg | Low | High | Mln Head | Mln Head |
|---|---|---|---|---|---|
| Cattle on Feed (Oct. 1) | 6.3% | 5.6% | 7.4% | 11.498 | 10.813 |
| Placements (Sept.) | 0.3% | -3.3% | 5.0% | 2.155 | 2.150 |
| Marketings (Sept.) | -3.1% | -4.1% | -0.7% | 1.727 | 1.783 |

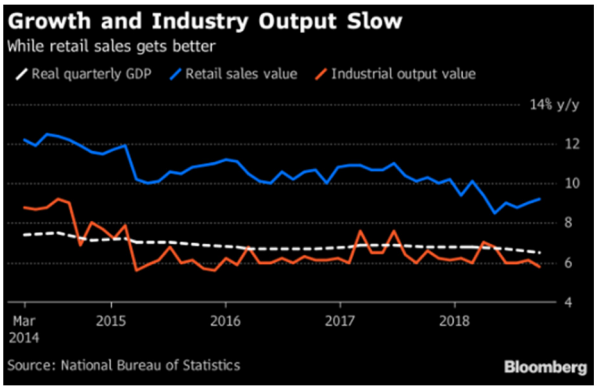
We have the COF report on tap this afternoon, and to the right you'll see the breakdown of newswire expectations. Note that expectations call for a very modest YOY increase in placements but our own Mike Sands is projecting a modest YOY *decline*. Mike notes "*larger placements of lighter-weight cattle earlier in the summer and abundant late summer grass in other areas, along with deteriorating feeding conditions in the Western Corn Belt, likely trimmed late summer placements to around 99% of last year, which would be the first year-over-year decline since April*".

So Mike is taking a modest under vs. expectations on placements, but I suppose I should point out that over the past two years there has clearly been a tendency for placements to come in higher than expectations. The chart below plots the actual YOY change with the blue line and the survey guess on placements with the orange line. There are exceptions, but the rule is to expect the over. We'll see if this month is different….




## Financials

The same overseas storylines are present this morning. In Asia, Chinese economic data was soft with GDP +6.5% which was lower than expected and the slowest level since 2009. Industrial output was also soft at +5.8% vs. expectations for +6%. Retail sales were solid, however. Chinese equity markets sank initially overnight but did rally after "verbal intervention" by government officials saying they will continue to support the economy. Though it is an interesting storyline, I do think we're spending too much time looking at Chinese equity markets. The level of participation in China with equity markets is nothing like we have in the US. The 10yo that made your iPhone does not have a 401k. A meltdown in equity markets does not have the same ramifications in China as it does in the US.



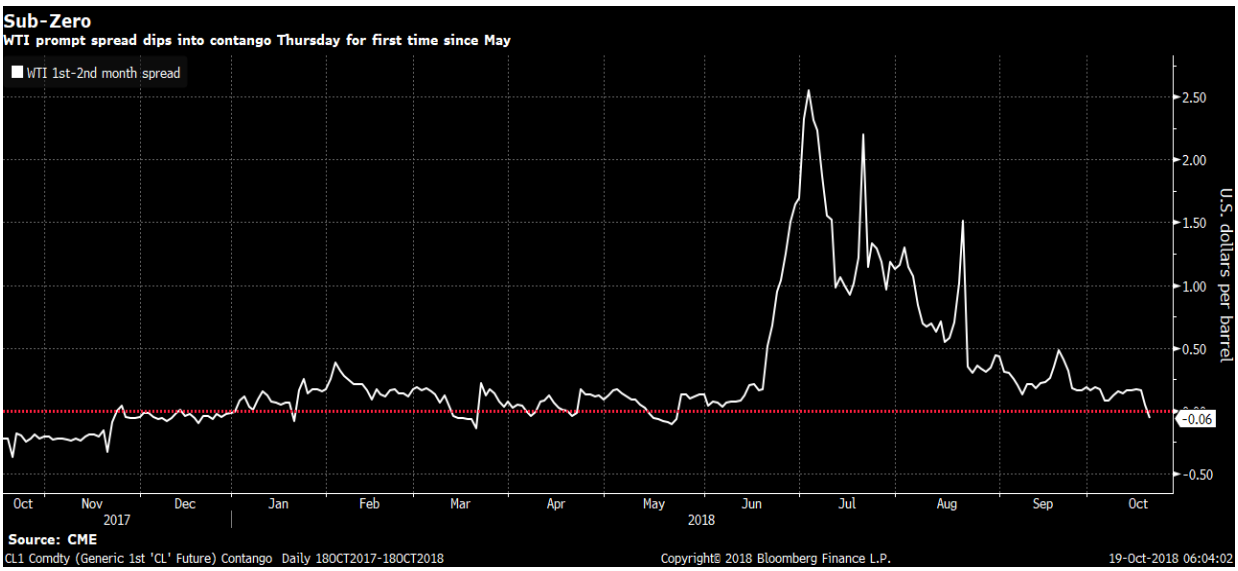

The other overseas storyline is Italy, where bond yields continue to spike as the EU balks at the Italian government's budget proposals. Italian officials apparently have a Monday deadline to "explain the obvious

significant deviation" from EU fiscal rules. The euro itself remains under heavy selling pressure and after stalling at the 100 dma it seems a test of the 1.14 level is likely in the not too distant future.

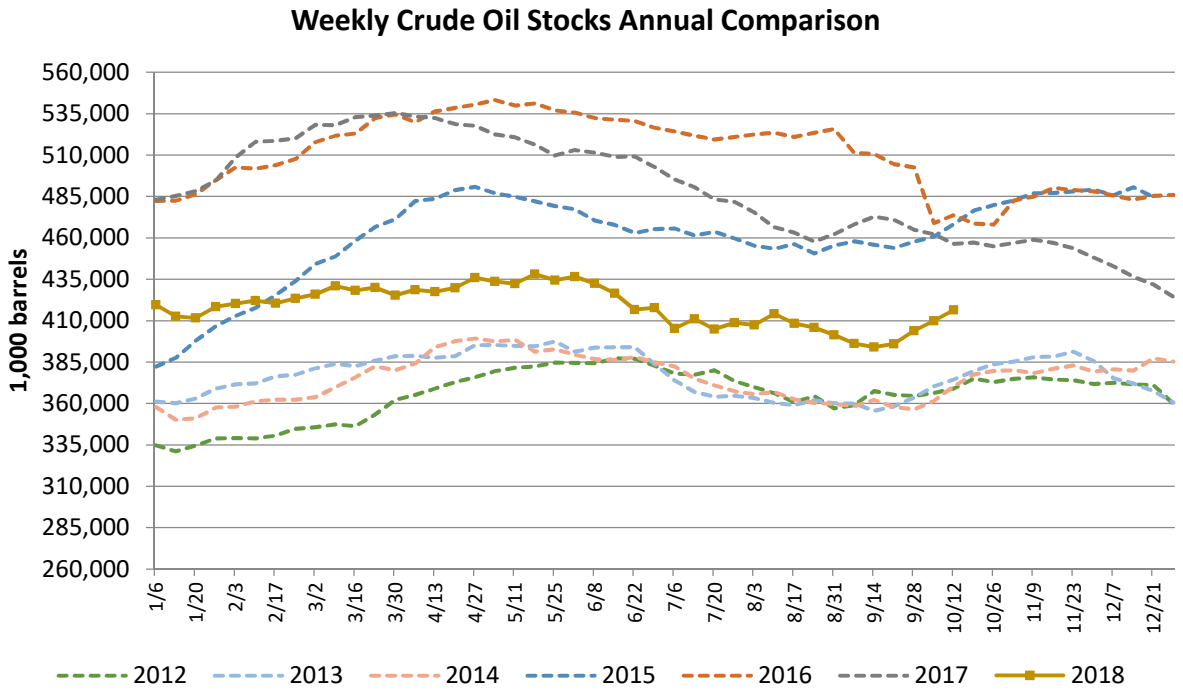

There is nothing new to report, that I'm aware of, on the Khashoggi drama. President Trump is promising "severe" consequences, but for now it doesn't appear that arms sales to the Saudis will be stopped. What else are we going to do?

## Energy

I noted earlier in the week that the one-year WTI calendar spread was dipping close to even money, but this morning note that the 1st-2nd month spread is now back in contango for the first time since May.



WTI futures are off about 10% from their highs and are flirting with several key MA support levels right now. It'll be interesting to see what this afternoon's COT data shows, but it is unlikely to capture all of the selling pressure we've seen lately. The selling pressure has largely been kicked off by the recent surge in US oil inventories, but note the chart below showing a seasonal comparisons. With the exception of last year, we've entered a time of year where US crude oil inventories typically move higher.




**Today's Calendar (all times Central)**

- Existing Home Sales – 9:00am
- Baker Hughes Rig Count – 12:00pm
- Cattle on Feed – 2:00pm
- A few Fed speakers during the session

Thanks for reading.

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