NESVICK
TRADING GROUP, LLC

Wednesday, October 31, 2018
NTG Morning Comments
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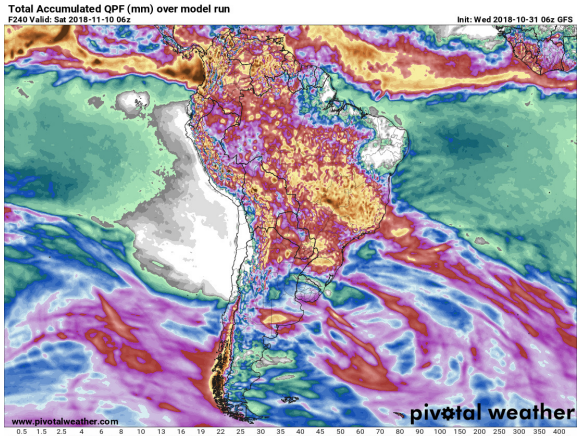
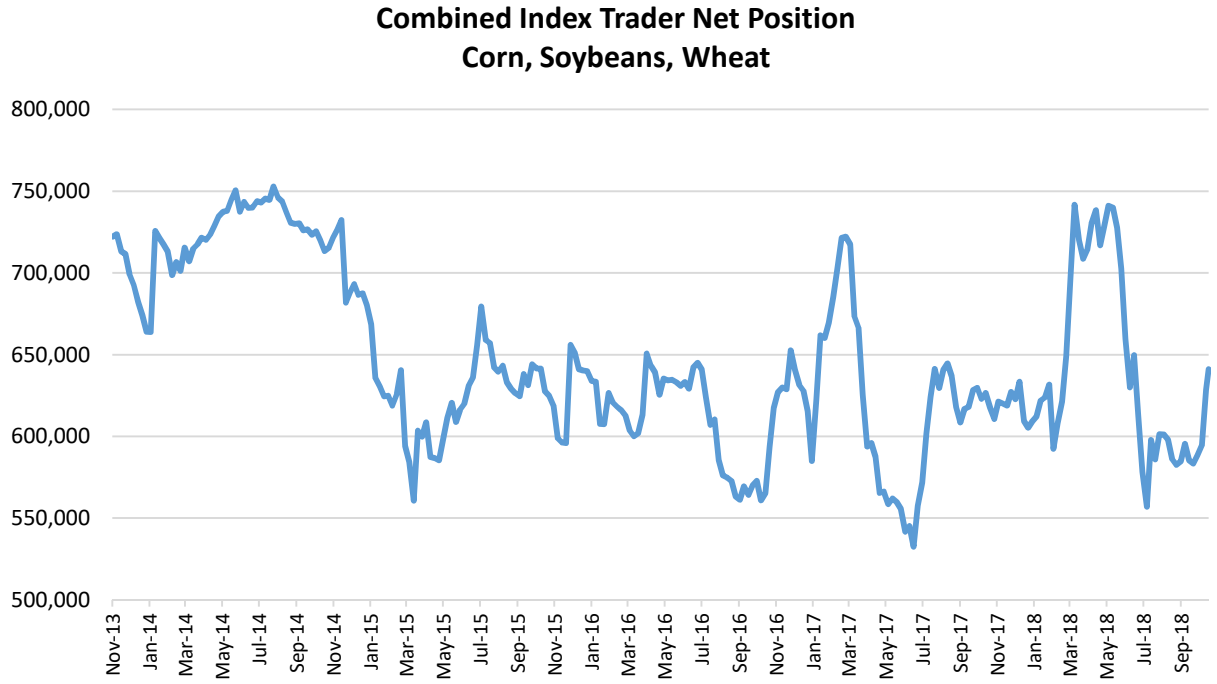
Weather

No changes in the forecast this morning. Active showers in the eastern US over the next week, with some significant totals seen in the ECB over that timeframe. WCB areas should see limited amounts. Two week rainfall totals should run near to above normal through most of Brazil with the exception of the extreme northeast. Very big rainfall amounts could be seen in some southern areas. Argentina should see two week rainfall amounts run fairly close to normal though eastern areas will likely see below normal amounts. No major heat expected in South America, but Argentina may see highs flirt with the 90F level at times.



Crops

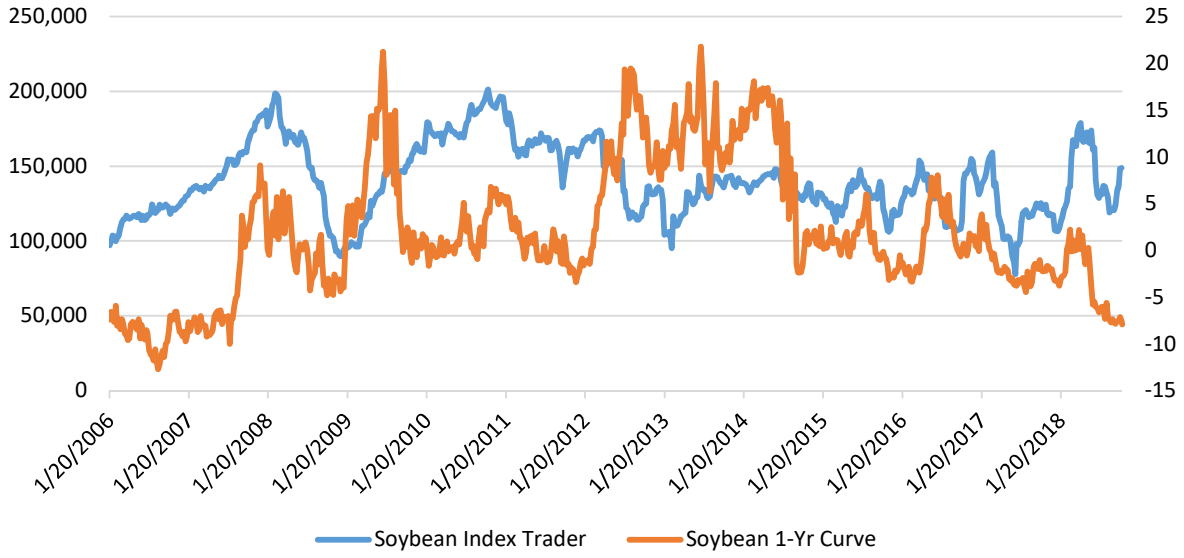
I was looking a bit at COT data yesterday, and I noticed that index traders have been fairly aggressive buyers in the agricultural space in the past couple of weeks. A 5-year chart of the combined index trader net position in corn, soybeans, and Chicago wheat is shown below, and you can see we've seen this jump roughly 50k contracts in just the past two weeks. While not the biggest surge on the chart, it is far from insignificant and certainly explains some of the recent price strength (at times). The unanswered question is…why the interest?



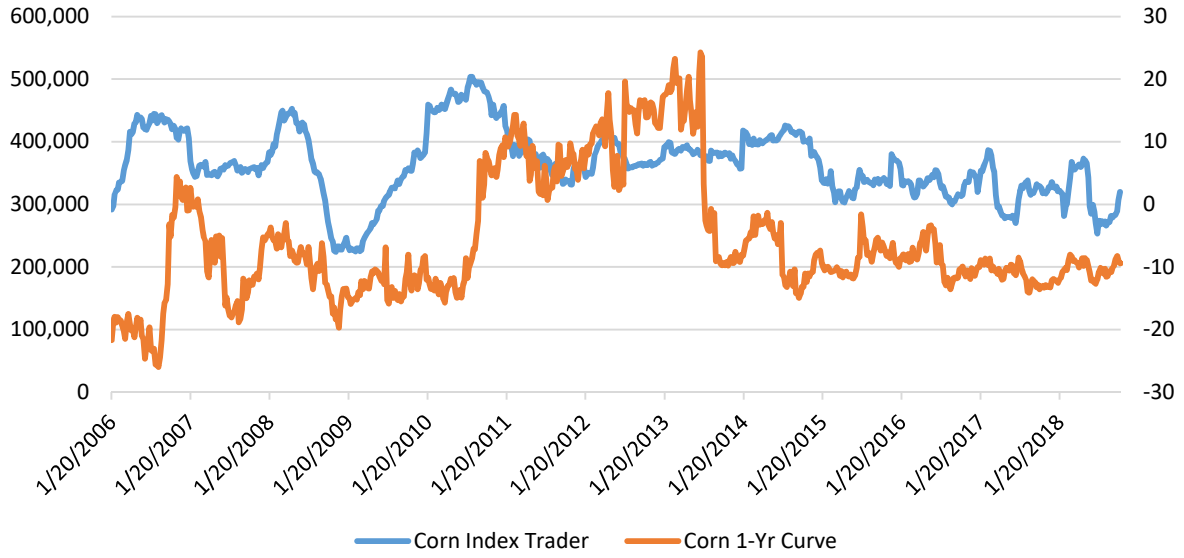
One possible answer, though probably over-simplistic, is that funds are starting to move out of equities and into other markets. The price weakness and VaR models have likely forced funds to liquidate equities and some of that might be flowing into "cheap" assets. It doesn't seem to get much cheaper than grains these days.

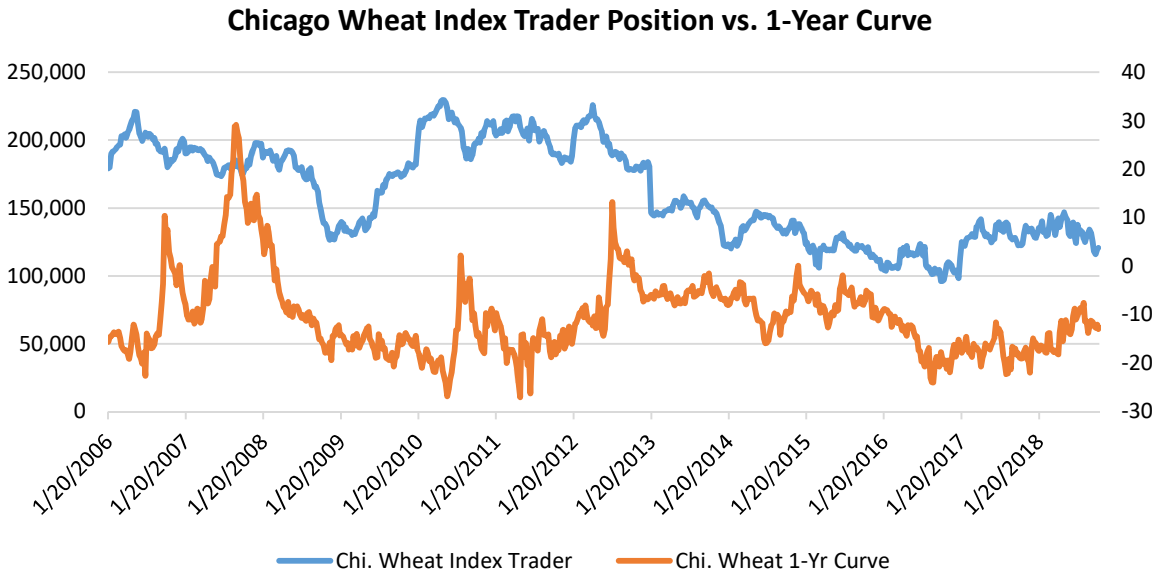
My concern, however, is that without a significant fundamental story pointing towards price upside (depending on your bias…I'm negative to say the least) that this recent buying interest may soon turn to selling pressure. On the following page are charts showing the index trader net position of corn, soybeans, and Chicago wheat. On each chart, I also show the 1-year curve, essentially showing the roll yield for a long-only index trader. While imperfect, there is a general tendency for index trader positions to grow to their largest levels when the roll yield is not dramatic. Interestingly, the recent case in soybeans has seen a big surge in index buying while the curve continues to widen. My concern is that the buy-it-because-it-is-"cheap" thought process might turn expensive when it comes time to roll. And in that case, this buying will reverse course with unsurprising results.

Soybean Index Trader Position vs. 1-Year Curve



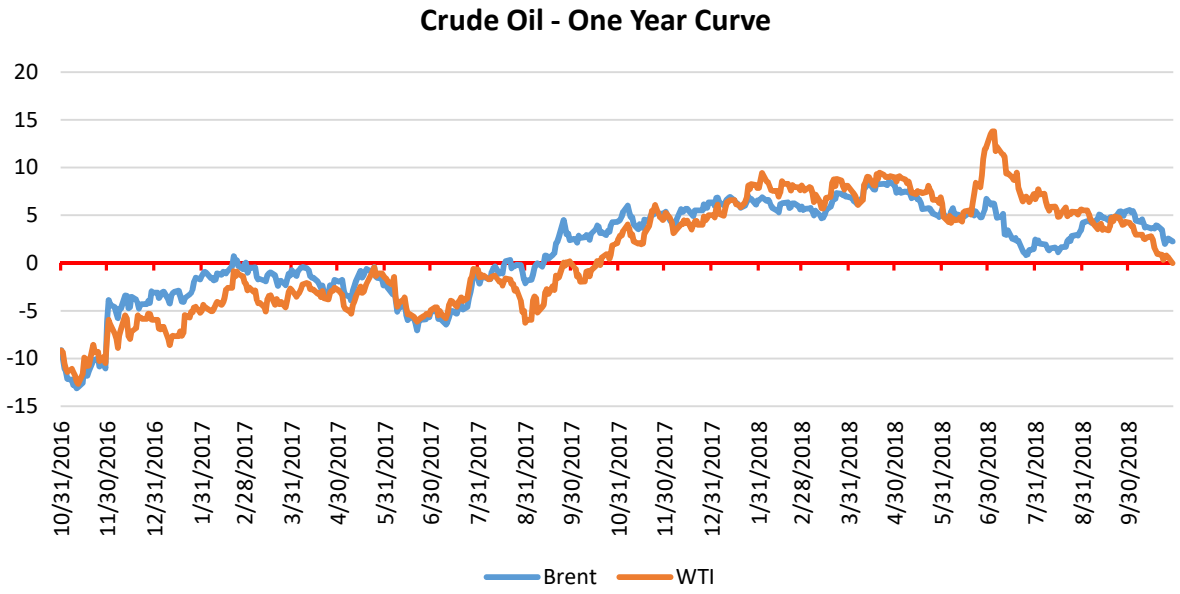
Corn Index Trader Position vs. 1-Year Curve





Also consider there isn't much that points towards interest in "commodities" as an asset class either. The chart below shows the Bloomberg Commodity index is sitting in the middle of the range it has held now for years (and failed at key MAs).

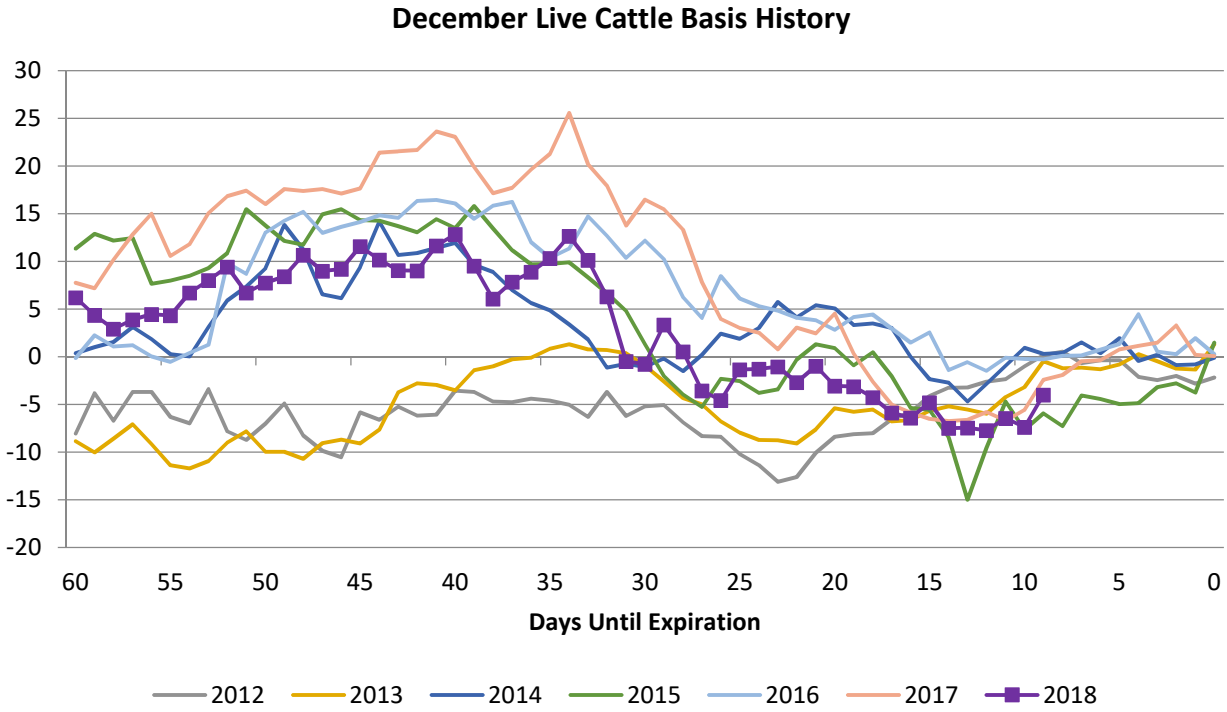
Also not the chart on the following page showing the darling of the commodity sector, crude oil, is now flirting with negative roll yields for the first time since summer 2017. Might this actually spark *less* interest in commodities as an "asset class" rather than more?



Remember…cheap can always get cheaper. Thoughts appreciated.

Livestock

Last week's big cash rally produced a pretty sizeable basis adjustment…



We could perhaps make an argument that basis is still a bit wider than normal, but generally I think we're pretty close to the mark for this timeframe. So, IF cash is going to trade $1-2 (or more) higher this week like most seem to believe, it is interesting to see the board trading so sluggish out of the gates. The 116 level in LCZ certainly looks like an interesting spot to watch here. We've seen volume surge since breaking-out above that level which would leave late-to-the-party longs potentially vulnerable for a washout below. It appears to be a solid spot of support, and if we assume everyone is correct on their higher cash call it probably "should" hold. Still, expect to find stops below that level if it gets tested.

It sounded like some rumors of very small 114 trade took place yesterday in the north. Definitely not the strength some have been expecting, but I haven't seen anything "official" either.

Financials

October has clearly been a difficult month for US (and global) equities, but things for now appear to be ending on a solid note. The 2600 area on the SPX, coinciding with the lows seen earlier this year, appears to be a solid area of support for the market. We have to keep in mind that the underlying fundamental factors supporting US equities haven't truly changed…yet. US Q3 GDP was +3.5% which is slower than the 4.2% seen in Q2 but still very strong compared to the structural growth rate. While interest rates continue to creep up and influence highly rate-sensitive portions of the market (housing, autos) the remainder of the economy appears to be booming. Consumer confidence hit a new high as reported yesterday. Inflation figures are not alarming at this point. A tight labor market should eventually lead to higher wages and higher inflation…but we've been saying that seemingly forever now. I actually think the biggest *short-term* risk to the market right now is midterm elections next week. Next Tuesday could be a wildly volatile day/night as results are tallied. On the following page I've included RCP's maps of the Senate and House races. This is definitely going to come down to the wire, and there will be big market reactions.

Battle for the Senate 2018

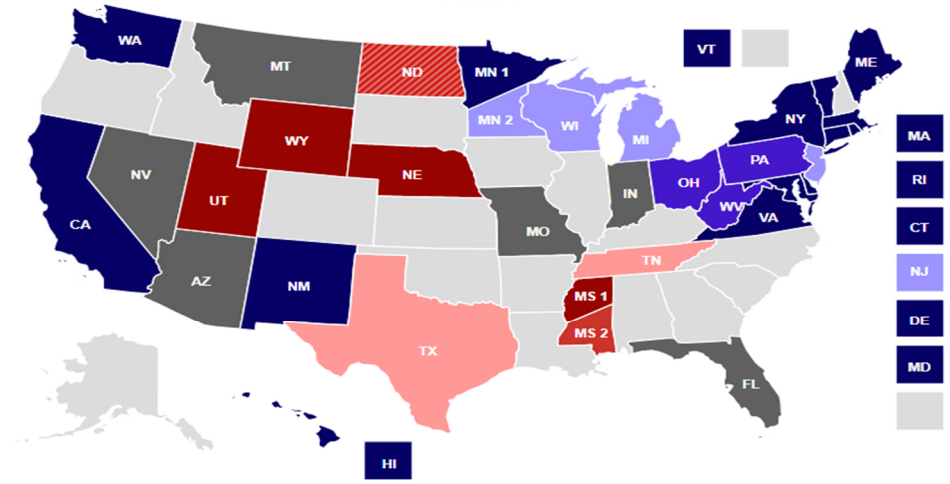
RCP Senate Map Race Changes | Senate No Toss Ups Race Changes | RCP House Map Race Changes | RCP Governor Map Race Changes | Governors No Toss Ups Race Changes

44 Democrats * | Toss Ups 6 | Republicans 50

37 Safe or Not Up | 3 | 4 | 6 | 2 | 2 | 46 Safe or Not Up

51 Seats Needed For Majority (Create Your Own Map)

Likely Dem	Leans Dem	Toss Up	Leans GOP	Likely GOP
PA: Casey (D) OH: Brown (D) WV: Manchin (D) Safe Dem Seats	MI: Stabenow (D) MN2: Smith (D) NJ: Menendez (D) WI: Baldwin (D)	AZ: Open (R) FL: Nelson (D) IN: Donnelly (D) MO: McCaskill (D) MT: Tester (D) NV: Heller (R)	TN: Open (R) TX: Cruz (R)	MS2: Hyde-Smith (R) ND: Heitkamp (D) Safe GOP Seats



Battle for the House 2018

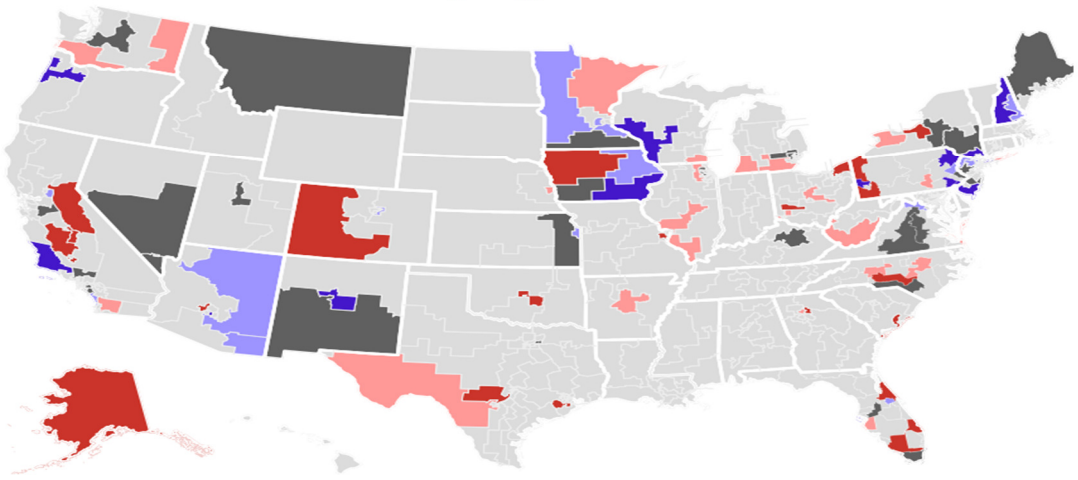
RCP Senate Map Race Changes | Senate No Toss Ups Race Changes | RCP House Map Race Changes | RCP Governor Map Race Changes | Governors No Toss Ups Race Changes

204 Democrats | Toss Ups 32 | Republicans 199

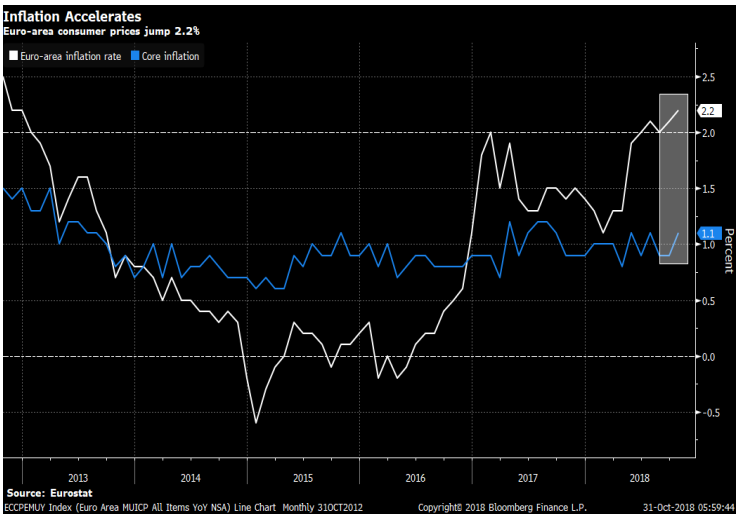
173 | 15 | 16 | 32 | 25 | 22 | 152

218 Seats Needed For Majority (Recent Race Changes)

Likely Dem (4R)			Leans Dem (10R)			Toss Up (3D, 29R)			Leans GOP (1D)			Likely GOP (1D)		
AZ9	CA24	FL13	AZ1	AZ2	CA7	CA10	CA25	CA39	AR2	CA50	FL16	AKAL	AZ8	CA4
IA2	NH2	NJ2	CA49	CO6	FL7	CA45	CA48	FL15	GA6	IL12	IL13	CA21	CA22	CO3
NM1	NY3	NY18	IA1	KS3	MN2	FL26	FL27	IA3	IL14	MI6	MI7	FL6	FL18	FL25
OR5	PA5	PA6	MN3	MN7	NH1	IL6	KS2	KY6	MN8	NC2	NC13	GA7	IA4	MO2
PA8	PA17	WI3	NJ5	NJ11	PA7	ME2	MI8	MI11	NE2	NY1	NY11	NC8	NY24	OH10
			VA10			MN1	MTAL	NC9	NY27	OH1	OH12	OH14	OK5	PA14
						NJ3	NJ7	NM2	PA10	TX23	VA2	PA16	SC1	TX21
						NV3	NV4	NY19	WA3	WA5	WI1	TX22		
						NY22	PA1	TX7	WV3					
						TX32	UT4	VA5						
						VA7	WA8							



The dollar is higher this morning, but only modestly so. Interesting data out of Europe overnight, with relatively strong headline inflation of 2.2% but core inflation of "only" 1.1%. Remember the ECB's inflation target is "close to but not more than 2%", which we seem to have reached on a headline basis but core continues to lag. It makes the ECB calculus on monetary decisions a bit more uncomfortable as well. On one hand the GDP numbers reported earlier in the week showed very clear signs of slowing economic growth, implying they need to maintain loose policy. On the other hand headline inflation has reached their target and, for now, ECB staff projections call for further gains in 2019. It raises some questions about how aggressive they might be in "normalizing" policy, but I wonder if the more important question is whether they want to fall so far behind US monetary policy? The rate differential between the US and Europe is astronomical right now. The chart to the immediate right shows the spread between US and German 2yr yields. To the best of my knowledge, this has never been wider. Europe might not want to quickly normalize policy, but it also might not want to see this divergence grow even wider as it would seem to me that could create some problems.



On tap today we have the ADP employment report. Expectations call for an increase of 187k, which would seemingly be on par with what we've experienced now for quite some time. Earnings releases are due today from companies including BG, YUM, and GM.

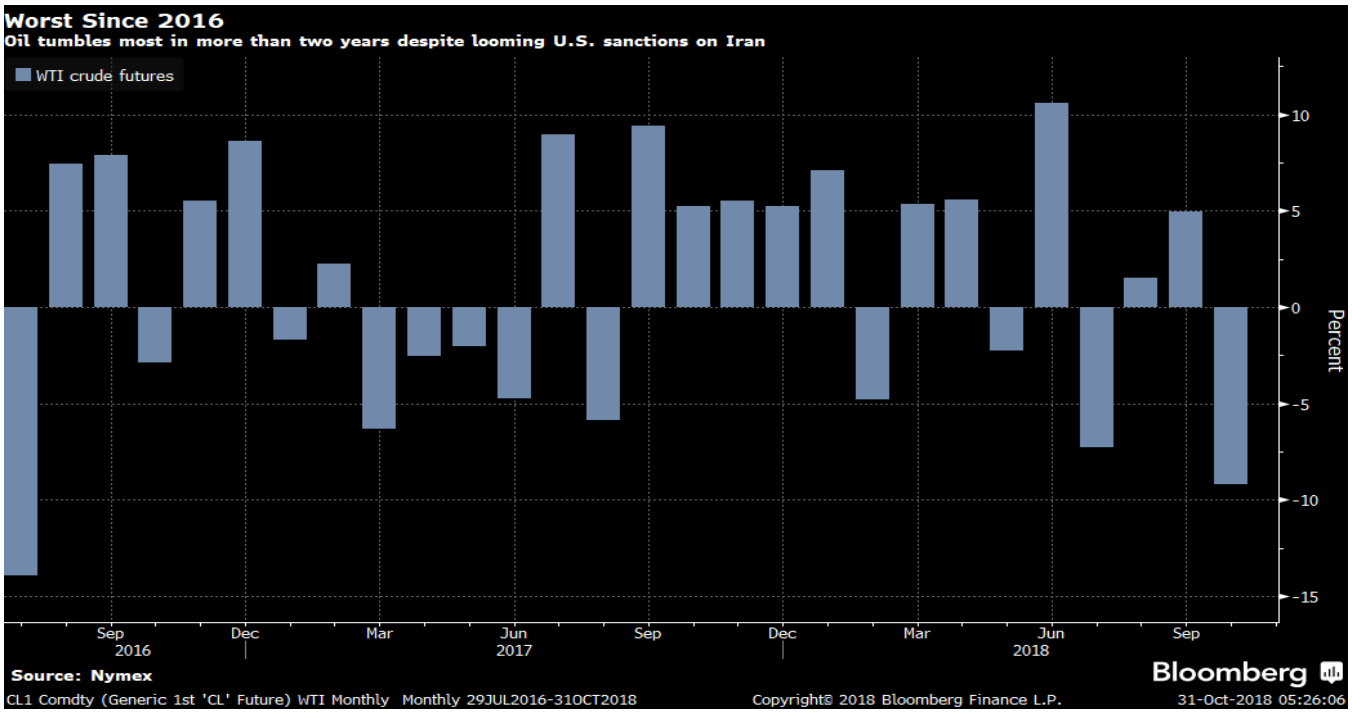
Energy

On tap today we have the EIA inventory release. Expectations are for today's report to show a build of 3.2 mil barrels. Yesterday's API release was slightly larger with a 5.7 mil barrel build noted. Both gasoline and distillate inventories are expected to decline, and that was the case with the API numbers as well.

The Russian's have apparently followed-suit on oil production increases. Unofficially, some reports suggest production in October will be 11.41 mbpd which would be a new post-Soviet production record. September

production was officially estimated at 11.368 mbpd and the official number for October could be released as soon as Friday.

Crude oil bulls will be happy to see the month of October in the rearview mirror. WTI futures are down roughly 8% on the month and, as shown below, are posting their worst monthly performance since July 2016. Despite the sizeable build in inventories reported by API yesterday afternoon, crude oil futures are higher at the time of writing this morning as they benefit from a newly restored "risk-on" sentiment.



Today's Calendar (all times Central)

- ADP Employment - 7:15am
- Chicago PMI – 8:45am
- EIA Petroleum Inventories – 9:30am

Thanks for reading.

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