NESVICK
TRADING GROUP, LLC

Thursday, November 1, 2018
NTG Morning Comments
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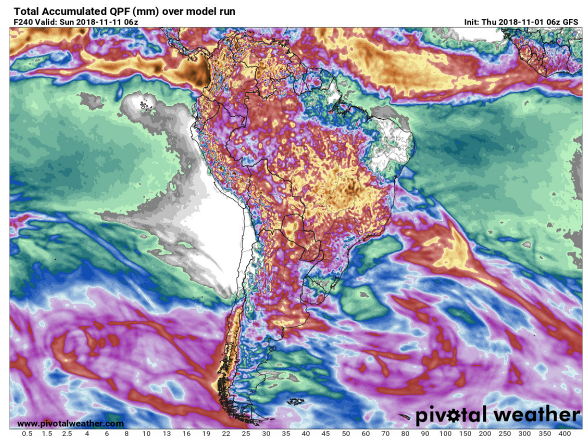
Weather

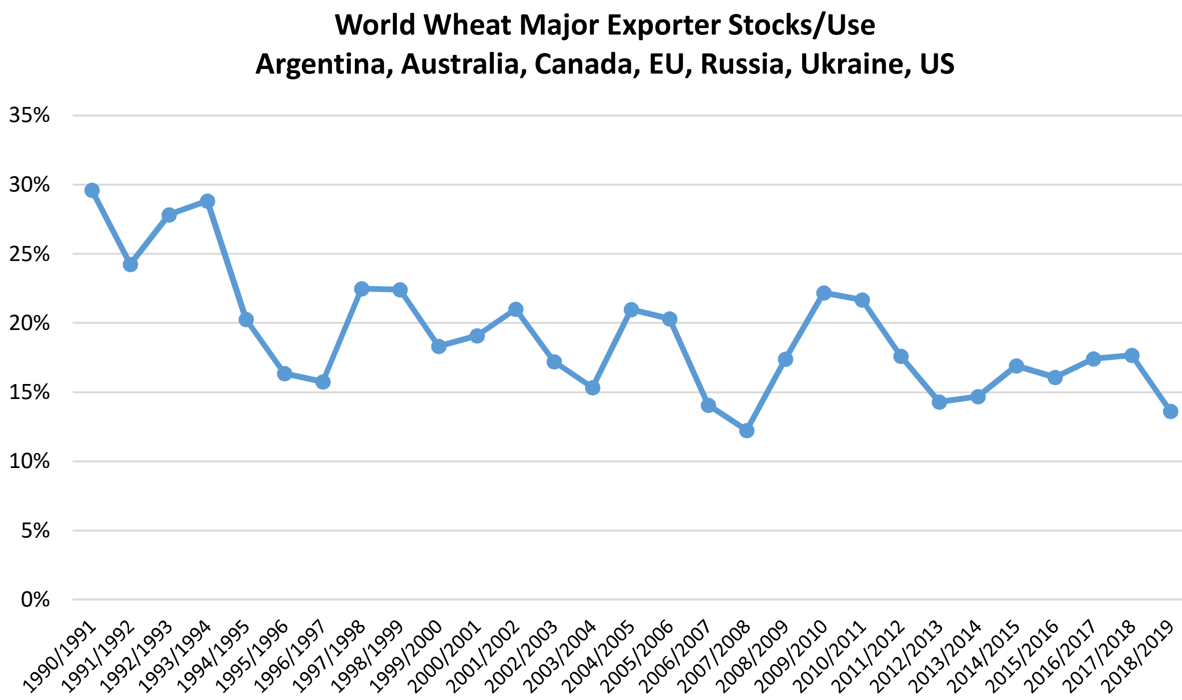


No changes to the forecast. The US will see active showers in the eastern ½ of the country. Near normal rainfall is expected through Brazil over the next two weeks while Argentina will likely average near to below normal. Argentina just saw excellent rainfall this week, however, cushioning moisture levels.

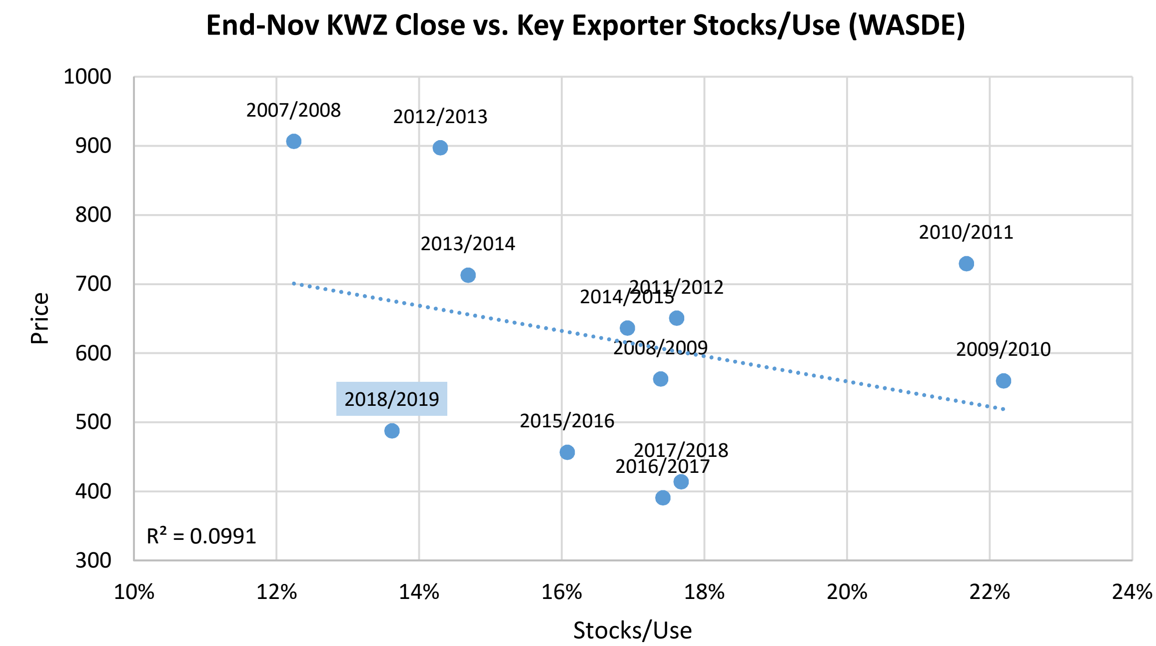
Crops

I've been writing a daily morning wire, in various formats, for a pretty long time now. One thing I've learned over the years is that no crop market gets more people fired up over their biases quite like the wheat market. I don't focus a lot of attention toward the wheat market here, but when I do I typically get more responses than on any corn or soybean articles. That has certainly been the case lately as I have taken a skeptical tone toward the bullish arguments toward wheat. I thought with the recent day-to-day volatility in prices, I'd look at it once more this morning.

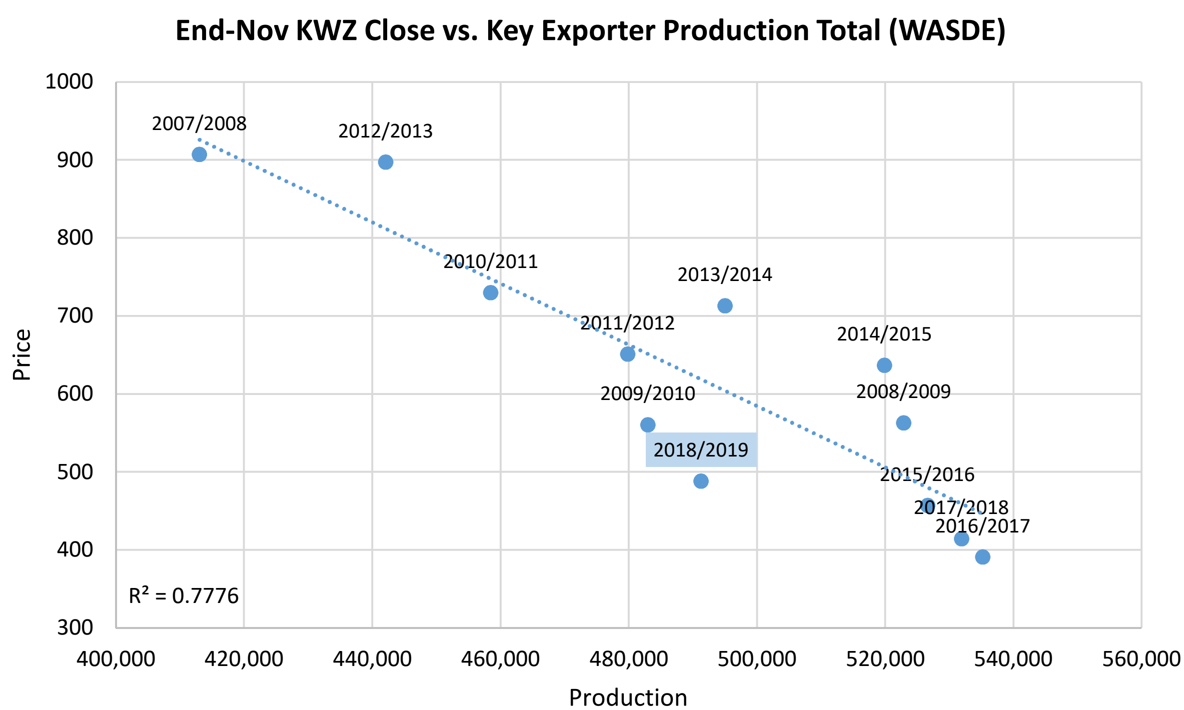
The wheat bulls point towards contracting supplies in major exporters. They are 100% correct…



In theory, if major exporter stocks/use figures played a significant role in price discovery, we could throw it on a scatter and determine some sort of fair value for wheat. I do exactly that in the chart below, but instead there is virtually no correlation, making this analysis basically worthless.

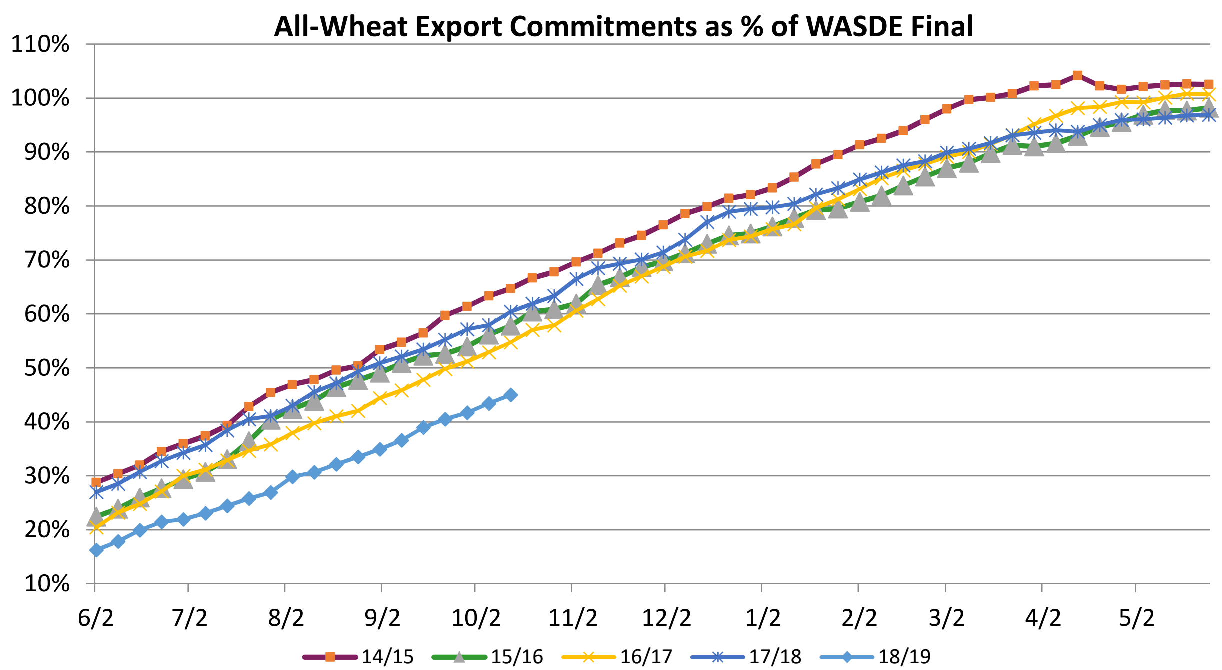


That said, there *is* a good correlation between absolute production totals in key exporters and the price of KWZ. That is shown below, and as you can see the bullish argument does hold some weight here as it would appear that KWZ is probably lower than we might consider “fair value” based on this assessment.



So, strictly fundamentally speaking, the wheat bulls certainly have a decent chunk of data to support their argument. I like to consider myself a fundamental trader as well, so why do I *still* find myself so skeptical about wheat upside here?

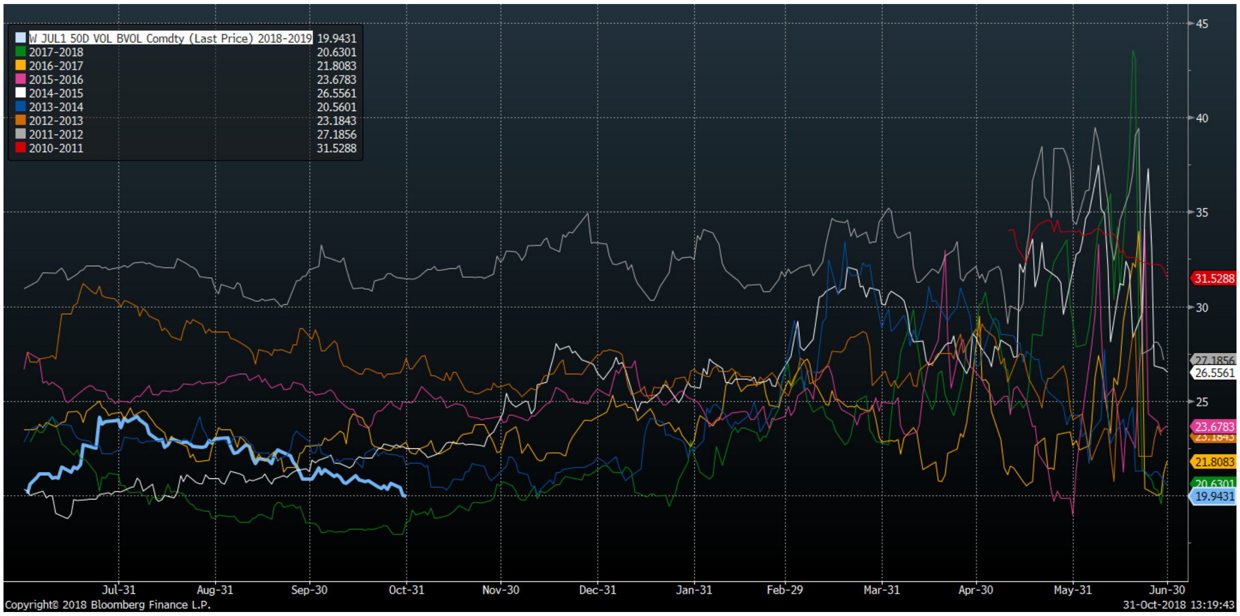
Well, for starters we haven't seen any of the reduced world production lead to an uptick in demand for US wheat (yet) and it appears WASDE is already baking in such an uptick in their projections…



Additionally I look around and see negative corn/soy fundamentals (in my opinion) along with flat funds in wheat, big carries, and solid new crop production prospects (for now). Throw in a shaky chart/technical situation, and my guard is raised.

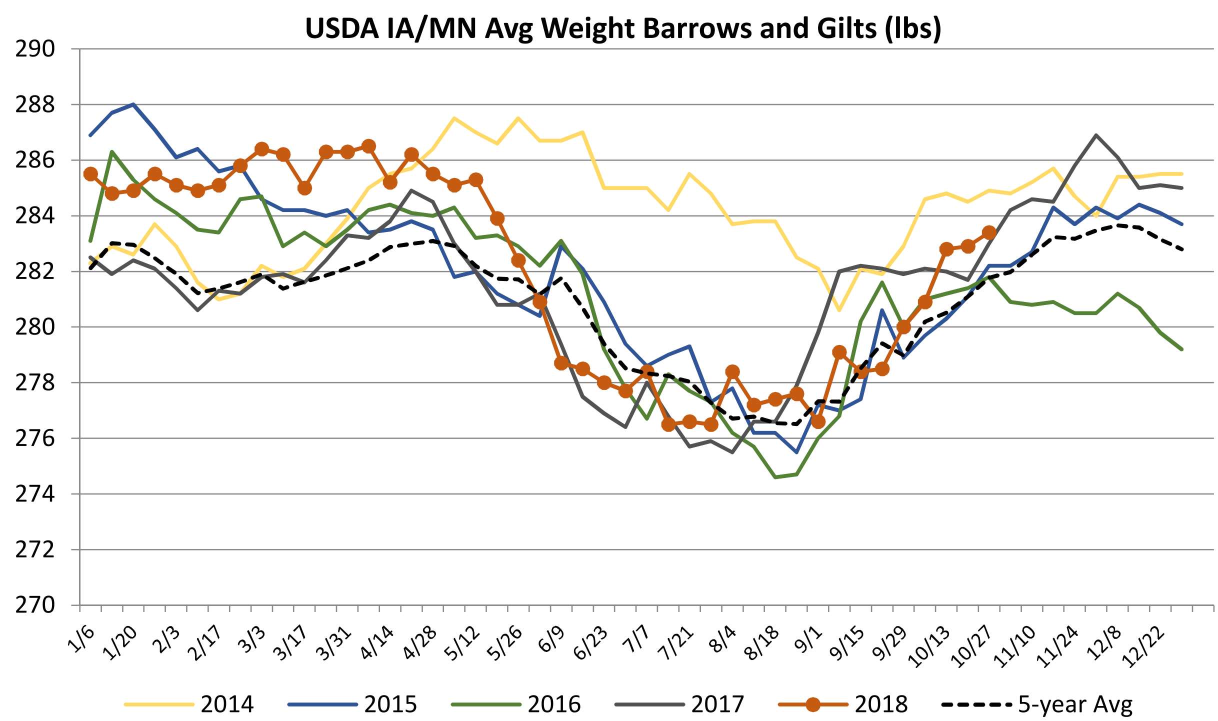
My personal thought on wheat right now is that IF significantly bullish price action is going to develop, it is going to require some sort of significant threat to *new crop* production this spring. In the meantime, I think we'll be resigned to mostly chopping around for quite some time. Just looking at a continuation chart of Chicago wheat (don't have room to include it) and we're right smack in the middle of the range we've seen during the past year here and we're also hanging around key moving averages. The scatter chart above argues against significant further downside but it also doesn't support calls for a big rally either.

While I find myself somewhat agnostic towards wheat at the moment, if you feel compelled to participate I would point out that option vol is pretty low right now. A chart showing rolling July Chicago wheat 50D vol is shown on the following page, and you can see current vol is low compared to average and just barely higher than last year. Whatever your bias, holding some long-dated vol is probably not a bad risk/reward set-up here. Either the $4 or $6 side of the range is likely to get tested this spring.
Thoughts appreciated.



Livestock

We got the weekly update on hog weights yesterday and no surprise to see the usual seasonal uptrend continue. We're still running inline with year ago levels, and it will be interesting to see if that continues for the next several weeks as last year featured pretty big weights. With big production schedules on tap for this winter, big weights should equal big production.



Cash cattle trade for the week still appears to be a standoff. There did appear to be some ~180ish trade yesterday, which would seem a bit soft. Still, this doesn't appear to truly be the market yet so I don't think it has any impact on sentiment. Everyone and their brother still calling for +2 cash trade this week. Note LCV went off the board just under 116.

Financials

No major new information to pass along from overnight. Generally speaking it appears most world equity markets are following the US lead higher so far, though Japan was a notable exception. The Chinese yuan has bounced this morning as Chinese leadership continue to make public comments addressing the need to support the economy. I would think that additional fiscal/monetary stimulus would generally be negative for a currency, but we'll see. I think a key interesting development from overnight PMI data is that several Asian economies saw their manufacturing PMIs drop into negative territory. Manufacturing PMIs for Taiwan, Thailand, and Malaysia all fell into contraction in October. All of these countries are part of a supply chain that feeds China, so this would (in theory) be further indication of a slowdown in China. South Korea and Indonesia remain barely above the 50 level.

The key feature of overnight price action is significant and widespread weakness in the dollar. The dollar is weaker against virtually all major peers overnight. I've been looking all over for any particular bit of news to explain the sudden price action, and I have to admit I'm coming up empty. The global PMI weakness noted above I would think would be mildly supportive on its own. Either I'm simply missing something or this is simply a big unwind/reset of the recent price action…profit-taking maybe? There are some interesting developments on the various currency future charts that I've noticed as I scroll around and here are some items worth considering:

- The British Pound, with some newfound optimism towards a Brexit deal, could be putting in a double-bottom here.

- The Euro chart looks a little similar to the BP…a possible double bottom here though not yet as pronounced as what we see in the BP.

- The Aussie dollar remains in a very well defined downtrend against USD. At the time of writing this morning it is flirting with the 50 dma, which has held as resistance *several* times over the past year which makes it worth watching again today.

- I'm not really sure what to make of the chart on the Canadian dollar, other than to note it remains below all key moving averages and appears to be setting lower-highs and lower-lows recently.
- The Japanese yen failed at key moving average resistance a few days ago and, in theory, should move lower if we're getting back to risk-on in equities (TBD). The chart looks negative but certainly solid support below at the 88.00 level (in futures).

So the bottom line is that it looks like we're seeing just a "reset" in currencies this morning but there are some elements of the individual charts that are worth monitoring. I remain cautiously bullish the dollar for now. Remember, interest rate differentials alone should be supportive to the dollar, not to mention some of the economic uncertainty in certain spots (Australia, for example).

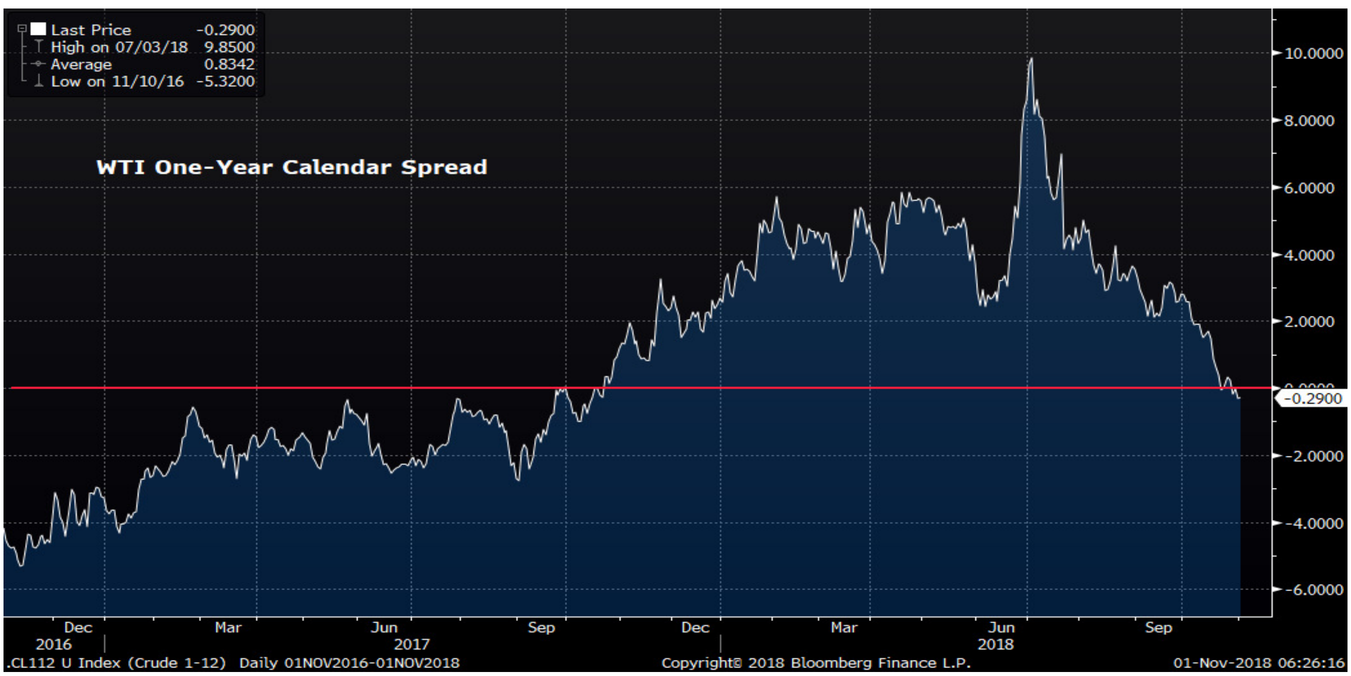
No major economic data is due today, though obviously we have NFP tomorrow. AAPL will report earnings after the close today and they're clearly capable of shaping sentiment.

Energy

China reported Sept trade data overnight, but for the first time in months they resumed offering country-level specifics. Of note in the oil industry, crude oil imports from Iran dropped fairly significantly to 2.13 mmt from 3.28 mmt in the prior month. Interestingly, oil imports from the US were steady (remember, no tariff on US oil) at 1.04 mmt vs 1.13 mmt previously.

Iranian sanctions are officially in-force on Nov 5, but it sounds like crude oil importers South Korea and India have made arrangements with the US for waivers. This will likely allow *some* Iranian crude oil to flow to both destinations, though official word on how much is unlikely to be announced soon.

I know I briefly pointed this out yesterday, but I want to make sure it is known…WTI spreads have moved back into a carry. This is a dramatic shift from what we've seen during much of the bull run, so it should not be taken lightly.



Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- ISM Manufacturing Index – 9:00am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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