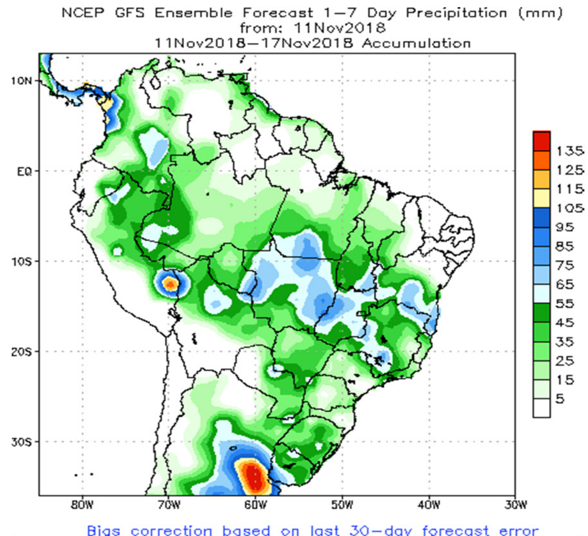
NESVICK TRADING GROUP, LLC

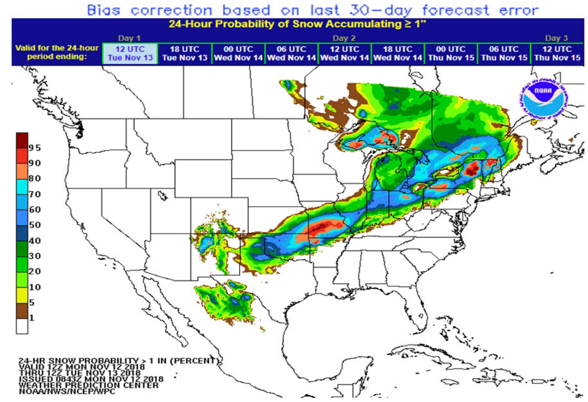
Monday, November 12, 2018
NTG Morning Comments
www.nesvick.com

Weather

No big changes to the forecast this morning. Brazil should see mostly AN precipitation chances over the next two weeks, with the only exception being extreme northeastern fringes of the growing region. In northern areas, a lot of the region should see 4-6" rainfall amounts over the next two weeks. Southern portions of the country will probably see 2-4" amounts. Probably the biggest rains will be seen in the 11-15 day period.



Argentina looks like it will see mostly AN precipitation over the next two weeks as well, though most of that rain will be seen in the first 5 days of the forecast. We've already seen some big rains through the weekend and additional rains will be seen today and tomorrow that could bring another 2-4" amounts. Conditions will clear up later in the week but there will be some additional rains favoring eastern areas this weekend.



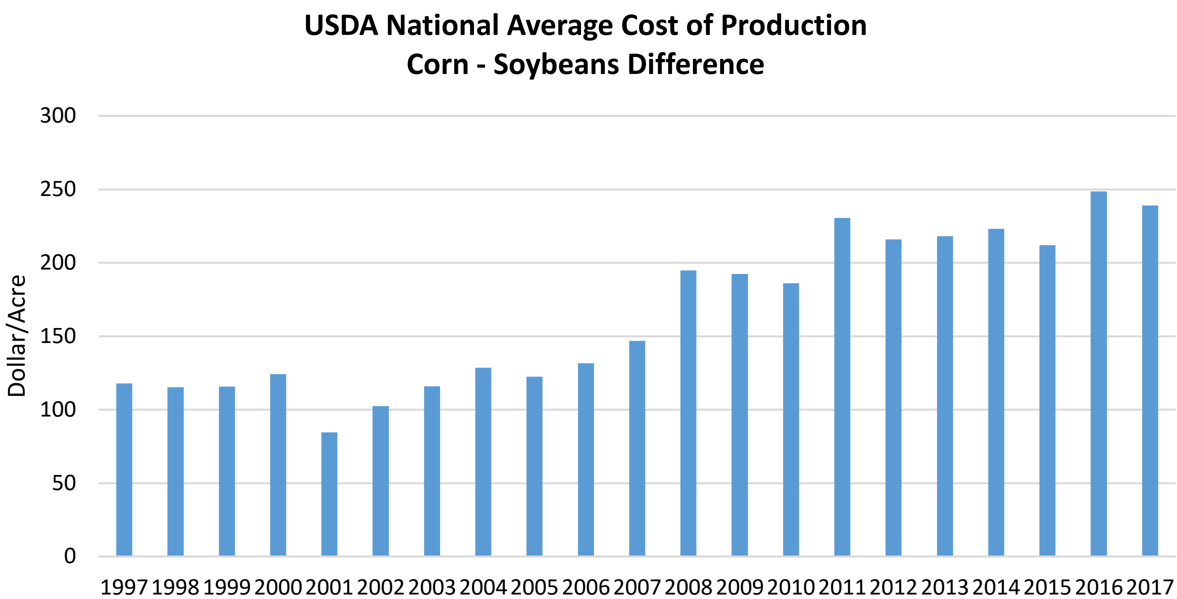
In the US, the main weather feature is well below normal temps across the country for the next 10 days. We should see temps warm back up for the 11-15 day period where some widespread AN temps could be seen. Most of the precipitation over the next 5 days will favor the southeastern US. We'll also see chances for snow stretching from the Southern Plains feedlot areas into portions of the ECB.

Crops

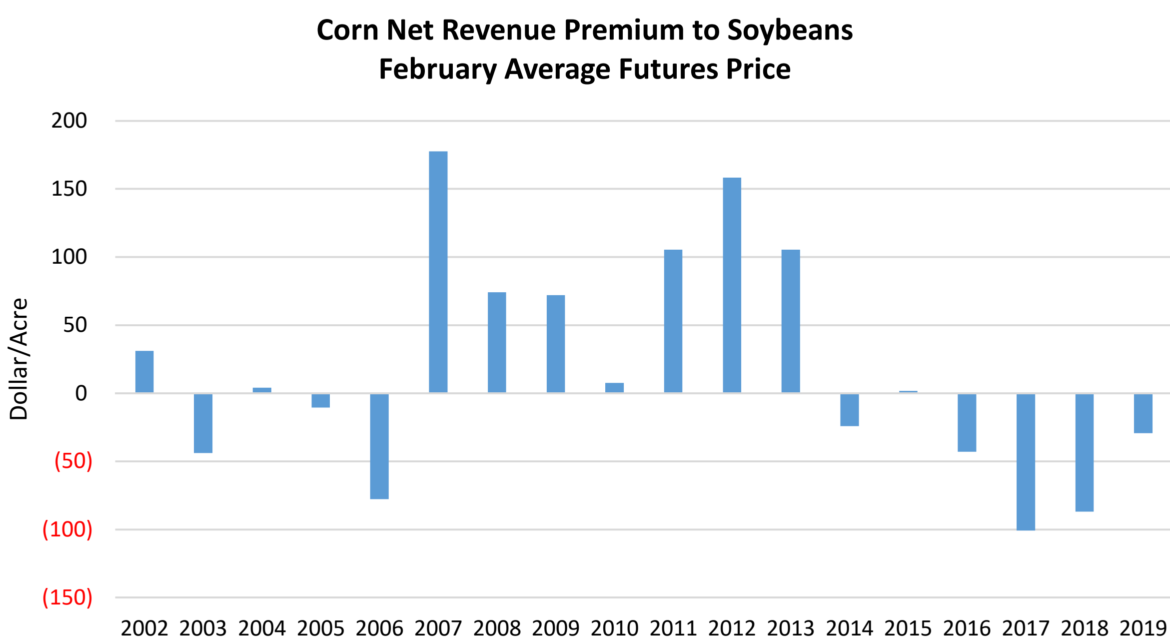
One thing that seemingly everyone can agree on these days is that US corn area in 2019 "should" increase at the expense of soybean area. I'm not even sure that it would require a US-China deal for this to be market consensus. But, just because something "should" happen doesn't mean it will happen. I'm not yet convinced that the market is sending the appropriate price signals to encourage an acreage switch for 2019. There is still plenty of time for that yet, but it doesn't appear to me we're there yet.

I'm hoping for some feedback today. When all is said and done, I'm just a nerd with some spreadsheets. I don't know what is really driving the decision for planting in 2019 so I'm hopeful you'll respond with what your current thoughts for your situation are right now. Everything will of course be kept confidential, but it will help me in hopefully assisting you guys going forward.

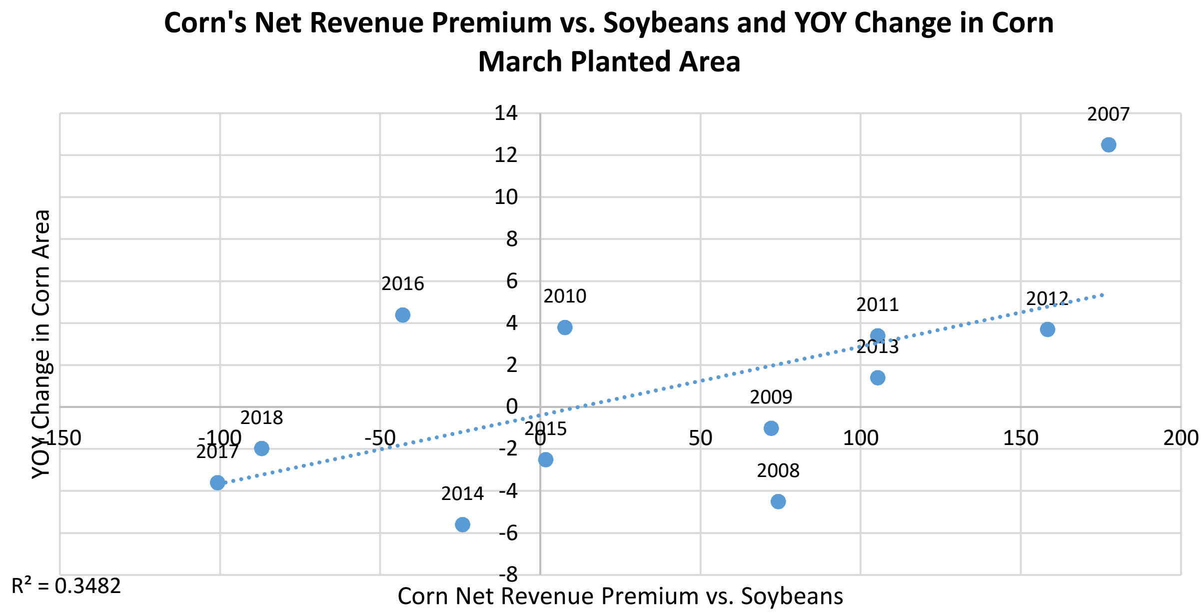
The first chart below shows the difference in national average gross cost of production between corn and soybeans. The chart shows that corn has continued to get more and more expensive to grow relative to soybeans over the years. The USDA has not published data for 2018, but I have no reason to suspect this trend has reversed and based on what I'm hearing on fertilizer prices for I might suspect it has actually intensified for 2019 calculations.



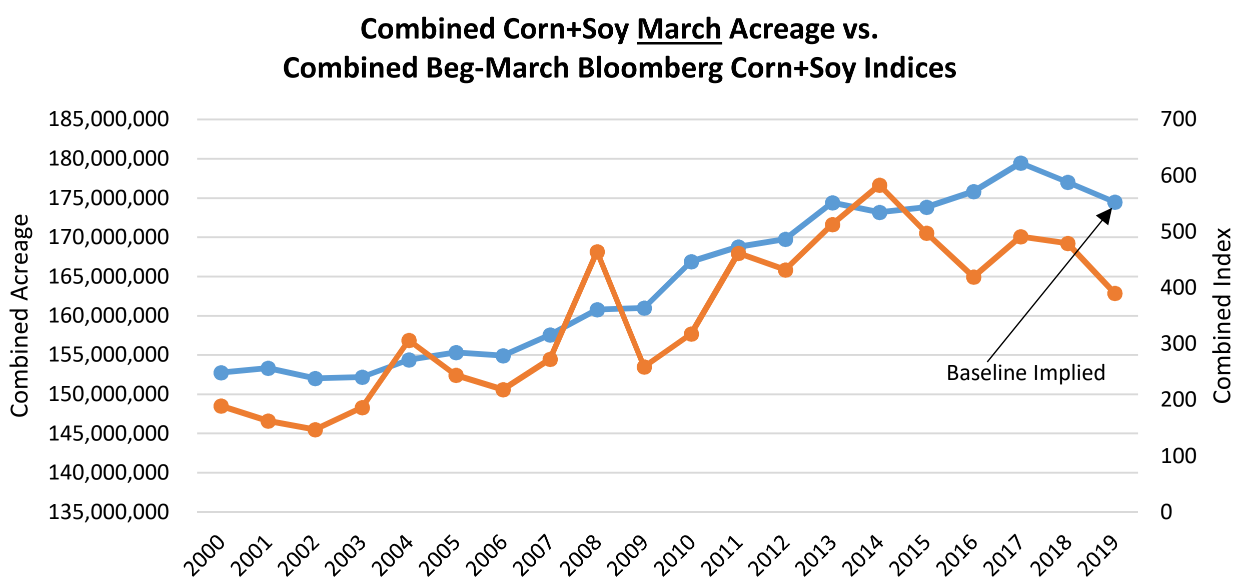
This next chart takes USDA estimates on cost of production vs. February average prices for CZ and SX with basis assumptions to try to calculate a net revenue comparison between corn and soybeans. For 2018 and 2019, I'm simply assuming 1% YOY gains in gross cost of production for both crops. For 2019, I'm simply using current CZ9 and SX9 prices. You can see that based on my calculation corn is still a loser vs. soybeans. I have seen other similar calculations from smart people showing corn a small net winner, but the point here isn't to get bogged down with the math details. The point here is that the net revenue comparison is extremely close right now.



The scatter chart below shows the net revenue difference calculation above plotted against the YOY change in corn area in the March Prospective Planting report. The relationship is not conclusive, but for now I think the prices differences are not arguing in favor of a big shift towards corn planting away from soybeans.



Nothing in the above is really screaming at me that corn will gain a lot of acres at the expense of soybeans. USDA's baseline scenario published a little more than a week ago shows they are initially projecting corn to be a big winner, but what stands out to me more from their number is an overall decline in planted area. Note the chart below which shows combined March estimates for corn + soybean area in blue. For 2019, I'm using the baseline projection scenario. The orange line shows the Bloomberg corn + soybean index, as an indication of price levels.

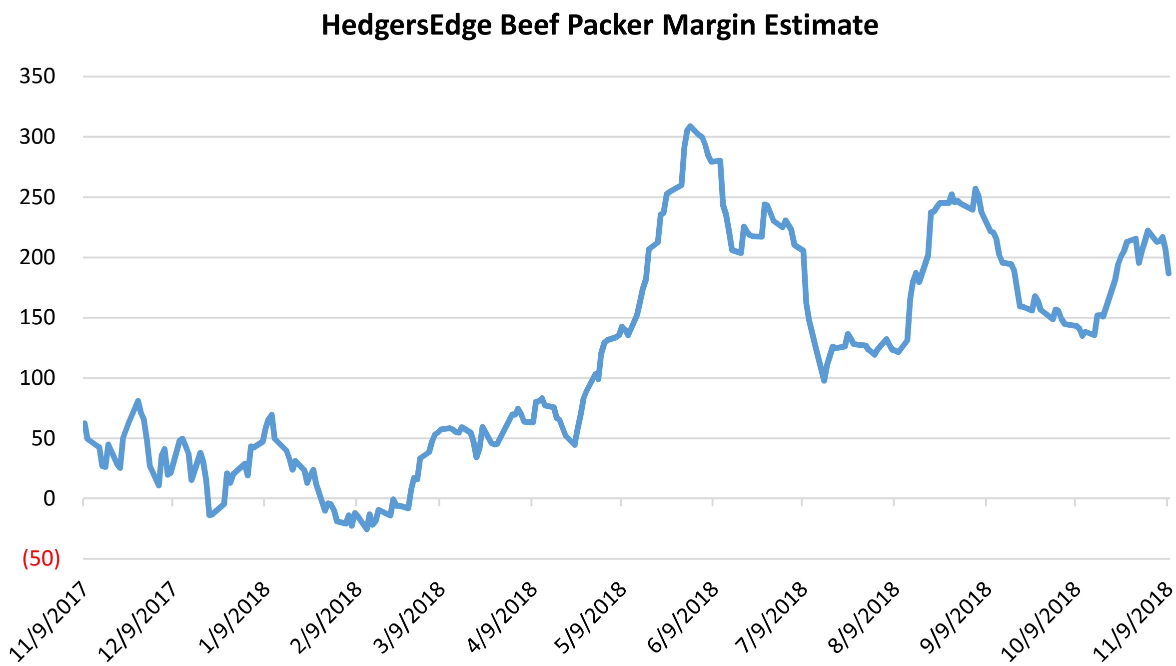


Certainly the lower price trend would partially argue in favor of lower planted area, but at the same time I have a hard time believing total planted area (all crops) will be down considerably when we're definitely concerned about creating *revenue* in this environment.

So again, I ask for some help here. If you've put some pencil to the paper for 2019 and have begun to make some initial determinations, I'd love to hear what you're thinking.

Livestock

Cash cattle trade last week has to go down as a pretty big disappointment for the bulls. Everyone was looking for 1-2 higher trade. Instead, our friends at MPA are reporting mostly 113-115 trade with an average of 113.73, though we'll know for certain with the official data is released later today. Official MPR volume has seemed to be larger than expected over the past several weeks so it will be interesting to see if that remains the case again this week. Hard to argue the packer is desperate for inventory with some of the totals we've been seeing lately. Beef prices were weaker last week, and as I noted last week the "defensive" margins the packers were looking at might have been a reason the packer never really felt the need to "push" for cattle. In talking with some friends last week, there is almost a feeling the packer feels "entitled" to a certain margin level, and unless that margin is at that level or higher they might just back off from the cash market briefly. Packer margins are definitely strong from a historical perspective, but they're off their highs of the year and I have to wonder if the softness in beef prices of late will keep the packer "uninspired" here?



Financials

Due to the Veteran's Day holiday, we don't have any major economic releases to contend with in the US today. That said, there is plenty of activity in overnight price action this morning, especially in FX where the Euro and Pound are getting drilled this morning. Obviously when you wake up in the morning and see big moves in those two you know there is some sort of Brexit headline affecting the market, and the news today is that UK PM's supposed Brexit deal that had everyone exit probably will get voted down with even disapproval from those in her own party. This weakness in the Euro/Pound (among others) has pushed the dollar to new 2018 highs this morning. The other interesting FX-related headline from the weekend is that China's PBOC dropped a pledge to allow the market to play a larger role in setting the RMB exchange rate in their latest quarterly monetary report. This has some believing that the PBOC will perhaps become more aggressive in supporting the currency as it flirts with the 7.0 level vs. the USD.

The lame-duck Congress will get back together in DC this week and they'll need to get to work in order to pass important spending bills ahead of what will likely be a very bitter and contested Congress starting in 2019. Stopgap funding for portions of the government ends Dec 7, so we'll need another spending bill to be passed before then or else we'll have a *partial* government shutdown. President Trump has, at times, tied his border wall to the spending bills so it will be interesting to see if that slows things down at all here.

Energy

Crude oil futures are modestly higher at the time of writing this morning as the Saudi oil minister said over the weekend that OPEC needs to cut about 1 mbpd from their October production levels. This is a quick U-turn from their prior push to pump more oil to offset losses from Iran and others. This is interesting timing as it comes right in front of the official OPEC and IEA monthly projections due to be released later this week. It has been expected that both might paint a somewhat bearish picture of demand for 2019, so the Saudis seem to be trying to get ahead of that data. It is also worth noting that the meeting this weekend didn't produce any "official" change in policy and Russia's energy minister said "we have to wait and see how the market is unfolding". Combined the Russians and Saudis added about 2 mbpd of production between May and October in response to pressure to offset looming reductions in Iranian supplies.

Today's Calendar (all times Central)

- Basically nothing…

Thanks for reading.
David Zelinski
dzelinski@nesvick.com
901-766-4684
Trillian IM: dzelinski@nesvick.com
Bloomberg IB: dzelinski2@bloomberg.net

or short positions in, and buy or sell, the securities and derivatives (for their own account or others), if any, referred to in this commentary.

There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. Nesvick Trading Group LLC is not responsible for any redistribution of this material by third parties or any trading decision taken by persons not intended to view this material.