NESVICK TRADING GROUP, LLC

Tuesday, December 18, 2018

NTG Morning Comments

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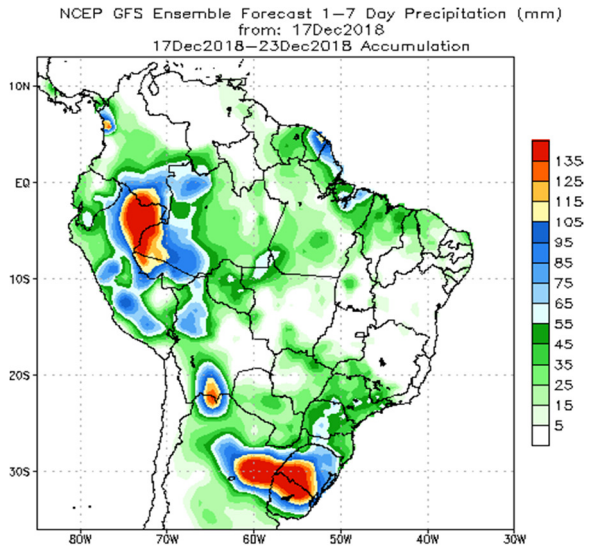
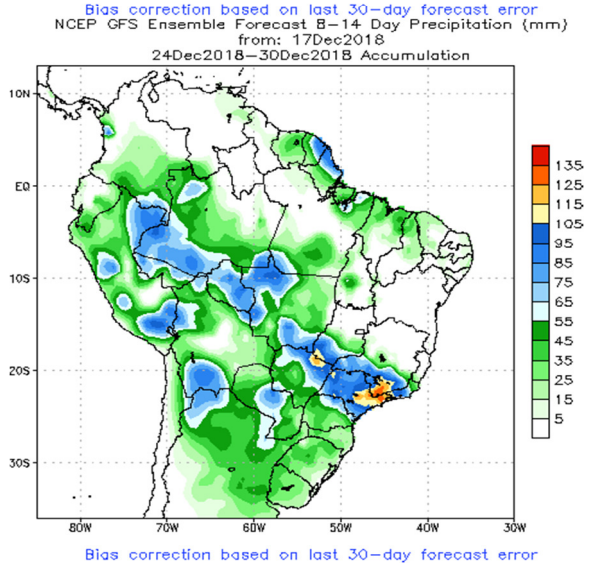
Weather

No significant changes to the South American forecast today. Northern Brazil will see rainfall average near to below normal over the two week period. Rainfall totals in most areas during that period will range from 2-4" but there will be some locally heavier totals possible (extreme northeastern areas will see less). Mostly dry conditions are expected in the near term but rainfall should start to pick up during the weekend and will slowly spread throughout the area during the 6-10 and 11-15 day periods. It is likely rainfall chances will continue beyond the 11-15 day period. We will see 90-95F heat ahead of the weekend.

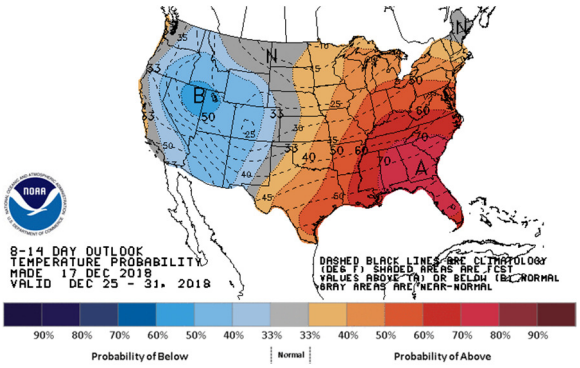


Two week rainfall totals in southern Brazil will range from near to above normal. Two week amounts of 4-6" will be seen in a large portion of the region and rainfall chances will be seen daily. Heat will be seen in the area for the next several days with 95+ heat possible. With rainfall spreading through a wider portion of the region as we get into the weekend, the heat should start to subside a bit.



Argentina should see two week rainfall totals run near to slightly below normal. We still have big rains on tap in northern areas today but going forward we should see more limited rainfall chances. We'll see "some" rains again on Thursday and again early next week. In both cases rainfall amounts will probably be pretty light. Rainfall chances will also increase a bit in the 11-15 day period, but again we're not looking at "big" amounts. Temps should average below normal for the remainder of this week and no big heat is expected in the two week period.

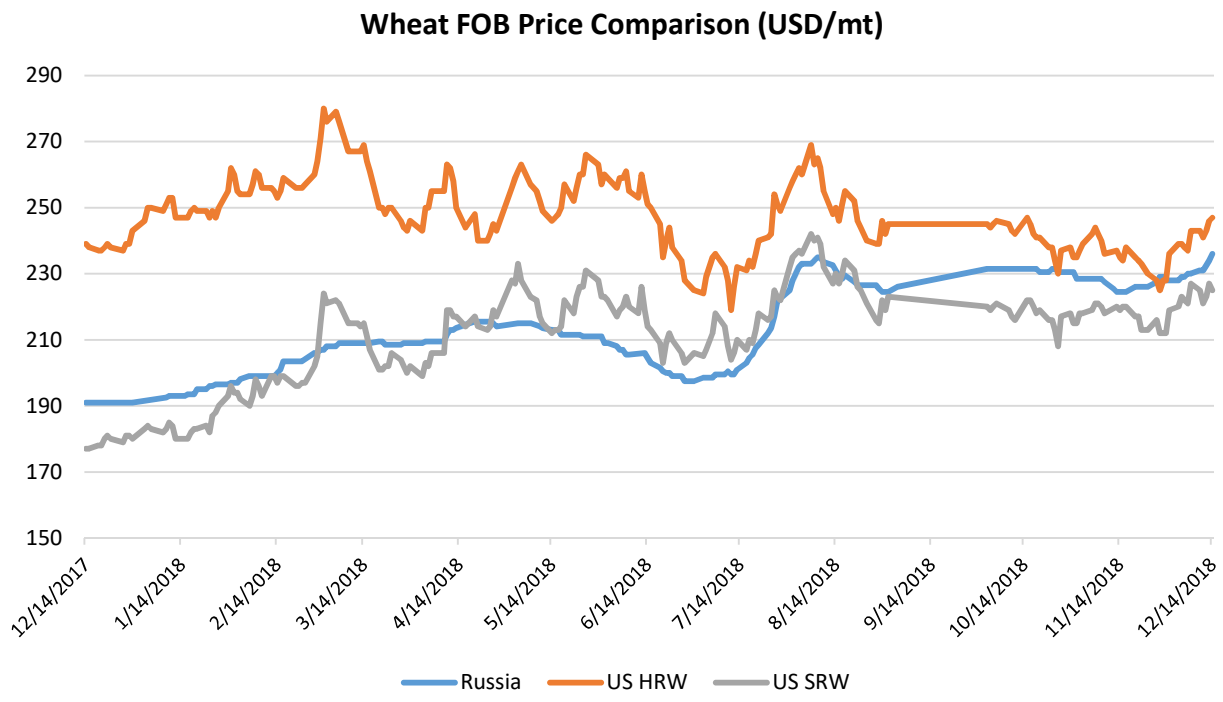
Mostly dry conditions will be seen in the US Plains through the rest of this week. You'll see to the right the temperature outlook for week two of the forecast, and you can see a bit split in the middle of the country between cool and warm conditions. This could create a "battlezone" of air masses that will be capable of producing perhaps some significant precipitation in the Plains next week. It is still too early to call, but there is some potential for big snowfall in major feedlot areas. Forecast models are still showing big differences in their outlooks.



Crops

Just a quick update on world wheat price levels this morning. The wheat market remains "excited" about the looming meeting this Friday between the Russian ag ministry and local wheat exporters. Consider me puzzled as to why this matters so much at this point. MYTD Russian wheat exports already stand at ~22 mmt so the pace of shipments *has to* slow down from this point forward anyway.

Russian wheat prices continue to creep higher, as shown in the chart below. US wheat prices seem to simply follow the Russia market lately. US SRW FOB levels remain at a discount to Russian levels, so it should be no surprise that SRW business has picked up in recent weeks. US HRW prices however remain at a premium to Russian values. While export business has picked up for HRW as well, it hasn't been to the level we've seen with HRW. That is a big reason that WASDE last week cut their HRW export projection but raised their SRW export projection, lowering the total all-wheat export projection in the process.

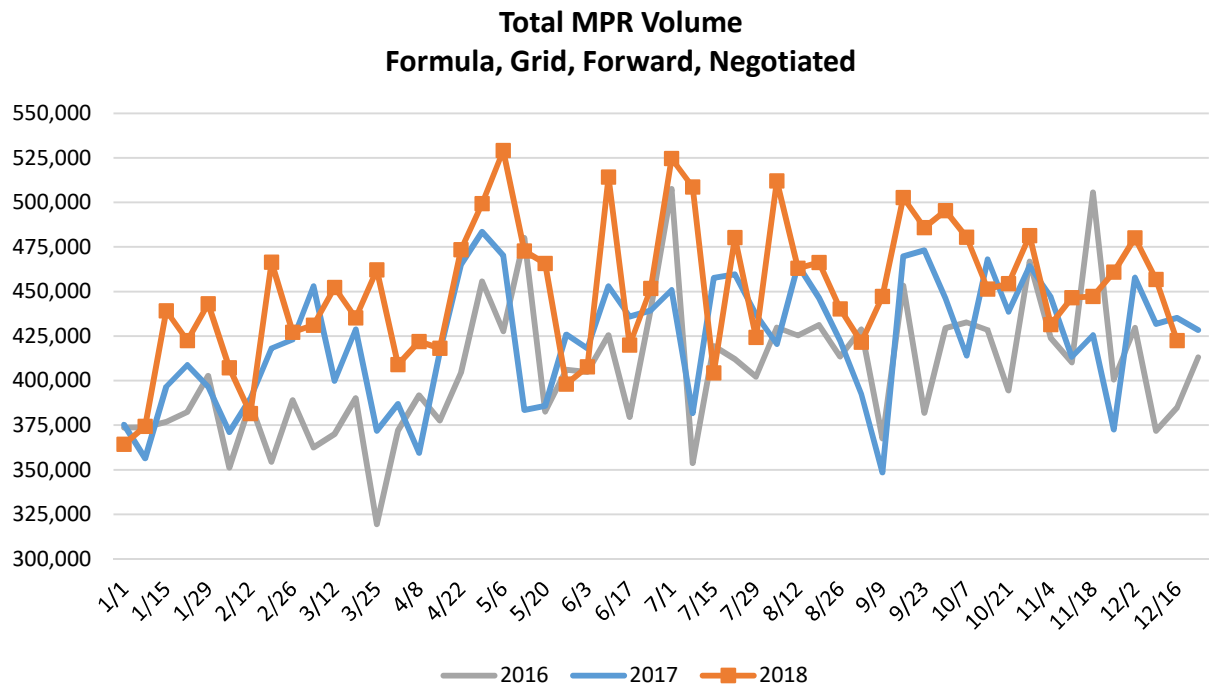


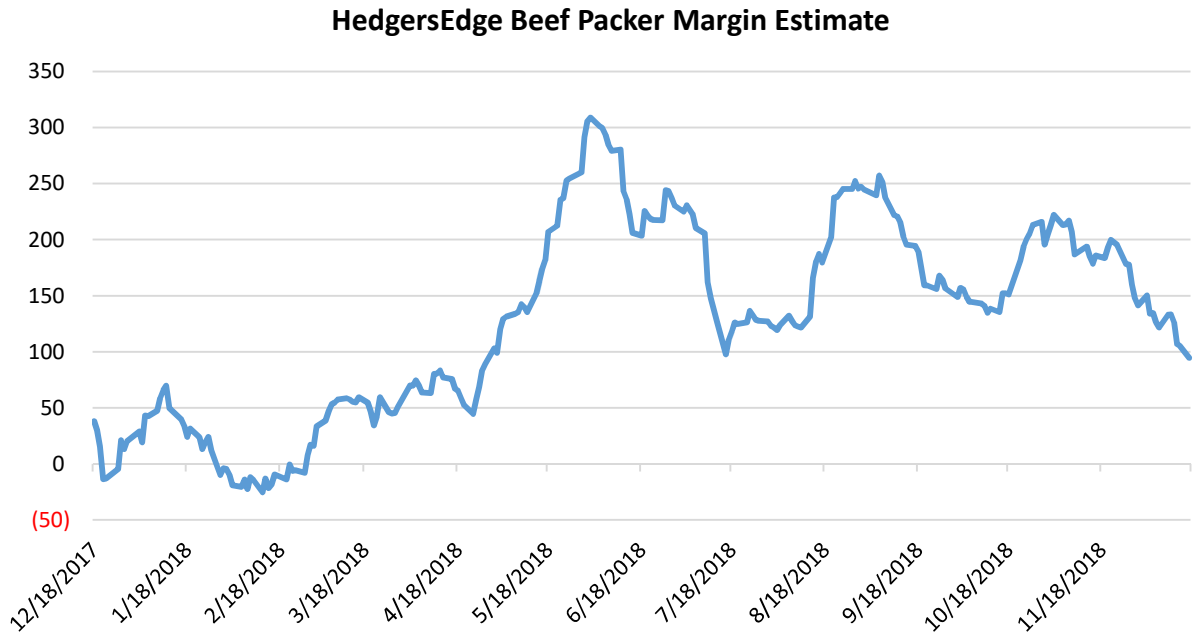
I have no idea whether the looming meeting will produce any fireworks in terms of price reaction, but US wheat prices have essentially run away from HRW business as Russian supplies shrink. Perhaps WASDE was a bit premature with their HRW cuts last week, but it is hard to be optimistic for a significant increase in business as long as US prices maintain a premium over Russia.

Livestock

No major surprises in the weekly data. I won't include the chart here this week, but grading continues to score new highs. The prime/choice grades now represent roughly 82% of graded production, which is pretty impressive depending on your viewpoint. MPR volume, as shown below, was relatively light last week.

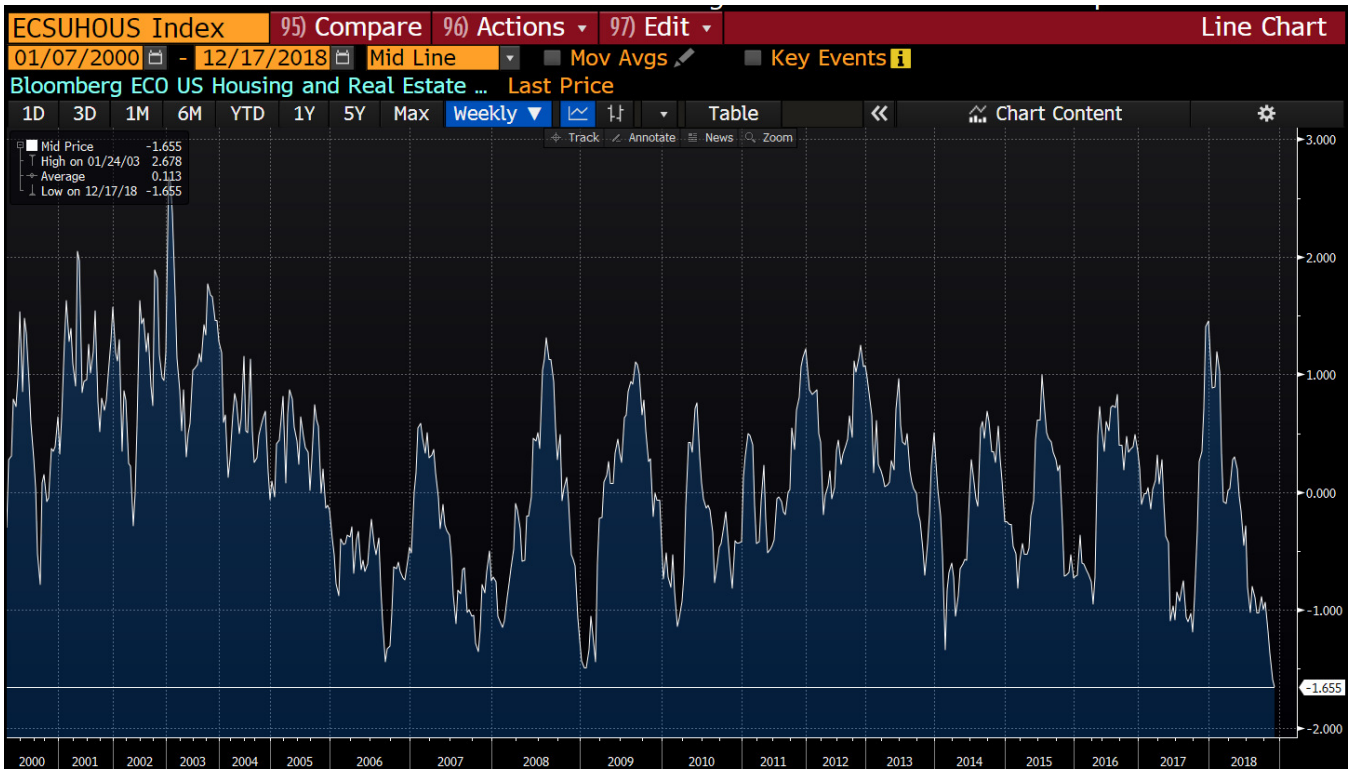
Considering that packers are buying for short kills the next two weeks, we could see some relatively "light" volume totals add up over the next few weeks. Of course one could make the argument that margins are still strong, but as I've noted before I think the packers almost feel "entitled" to a certain margin level these days. While still positive, the HedgersEdge packer margin shown below shows we're looking at some of the weakest margins since earlier this year which might weigh on packer sentiment.





Financials

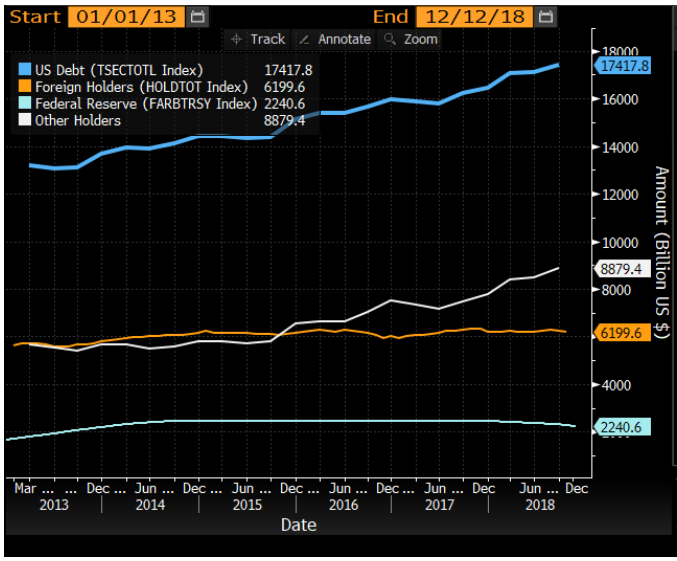
The only US economic data of note today is housing starts. Housing data has been abysmal to say the least recently. Yesterday's NAHB housing market index once again came in under expectations, and a look at the housing sector "eco-surprise" index is shown below. Essentially this measures how data is performing relative to expectations. You can see that this is the worst the index has been dating back to 2000, which of course includes the housing crisis of 07/08. Eventually expectations will catch up to reality, but we're clearly not there yet. So long as housing data continues to underwhelm, look for the chorus of those trying to pressure the Fed to slow its rate hiking cycle to grow louder.



With the soft data yesterday and the parade of those "suggesting" the Fed not hike rates tomorrow growing longer, the market-implied probability of a rate hike continues to decline. I think it was just yesterday when we noted rate hike odds were roughly 75%, but this morning as I look the implied odds are roughly 67% for a rate hike tomorrow. That's about as close to 50-50 as we've been in a long time. If I had to bet, I'm guessing we *will* get a rate hike tomorrow but the median/average dot for 2019 will come down. The average dot for 2019 (as of the 9/26 meeting) showed basically two additional rate hikes in 2019. Current Fed Funds futures are basically pricing in *none*.

You may see some articles noting that Chinese holdings of US Treasuries declined yet again in October. This is true, but China remains the largest foreign holder of USTs and the monthly decline was "only" about 1%...hardly anything that raises alarm bells in my opinion. As I look through some of the US debt data, what stands out to me is how much "other holders" of USTs have picked up in the past two years. A breakdown is shown on the following page. Obviously Fed holdings are in a slow but modest decline, and you can see that foreign holdings

of USTs have been fairly steady. Yet, as the US debt grows this means *someone* is stepping up to own more USTs. I think it will be interesting to find out who the other holders are and, more importantly, what are they taking assets away from in order to hold more USTs? Thoughts appreciated.



	01/2013*	12/2018#	Change	
	Amount	Amount	Amount	%
1) US Debt	13171.0	17417.8	4246.8	32.2
2) Other Holders	5657.7	8879.4	3221.7	56.9
3) Foreign Holders	5622.1	6199.6	577.5	10.3
4) Federal Reserve	1662.9	2240.6	577.7	34.7

*US Debt data is as of 03/31/2013.
Foreign Holders data is as of 01/31/2013.
#US Debt data is as of 09/30/2018.
Foreign Holders data is as of 10/31/2018.

Energy

WTI futures are off sharply at the time of writing this morning, trading under the $50/bbl mark for the first time since Oct 2017. Admittedly we initially sank below the $50 level late in yesterday's session as US equities were getting pounded, but the selling pressure in oil has intensified overnight despite the bounce (for now) in US equity futures. Global equity markets have been weak overnight, following the US performance yesterday. In addition to the weak equity performance yesterday, the EIA forecast further increases in US shale oil production in January. Also, private data provider Genscape reported information suggesting that oil inventories at Cushing are increasing further. Weekly EIA data has shown Cushing supplies have been increasing since bottoming in early August and are now at their highest level since January.

As I scroll around the newswires this morning, I don't see anything "new" to report from overnight. Today we'll get the Saudi 2019 budget, and this could be interesting to watch as it might be important to see what oil price levels they're assuming in their revenue figures. We'll also get API inventory data this afternoon as a precursor to the EIA numbers tomorrow.

Today's Calendar (all times Central)

- Housing Starts – 7:30am

Thanks for reading.

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