NESVICK TRADING GROUP, LLC

Wednesday, December 19, 2018

NTG Morning Comments

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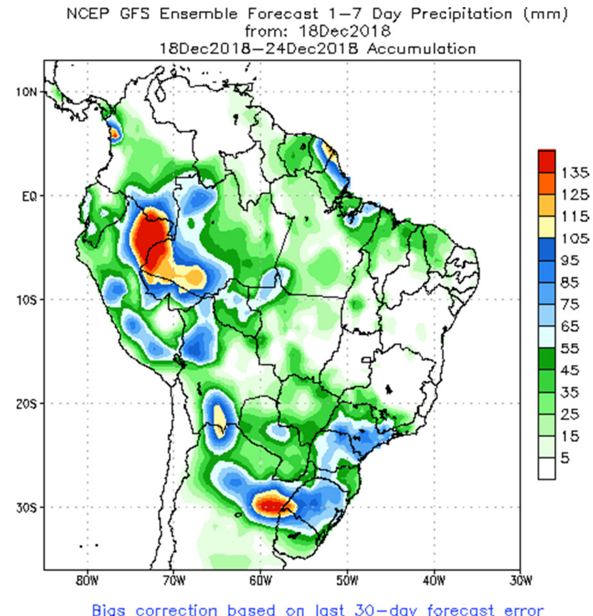
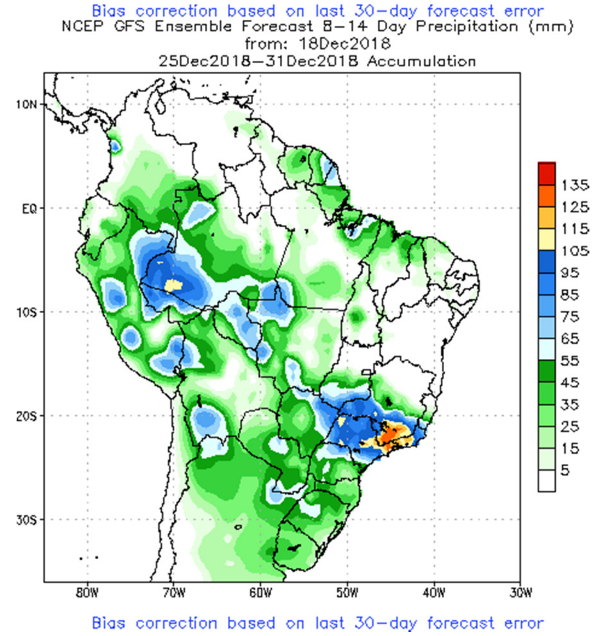
Weather

Rainfall in northern Brazil over the next two weeks will average near to below normal. The driest portion of the two week period will be the next several days, where limited rainfall is expected to fall. We should start to see rainfall gradually pick up this weekend and slowly spread throughout the region during the 6-10 and 11-15 day periods. Two week rainfall totals should mostly range from 2-4” but there will be some locally heavier totals. Heat will be seen before the rainfall arrives this weekend with highs in the low/mid 90s.



Two week rainfall totals in southern Brazil (and Paraguay) should average near to above normal. Rainfall totals should mostly range from 3-6” during this period, and rainfall chances should be seen on a daily basis. We’ve still got some heat on tap for these areas over the next few days with highs reaching into the upper 90s at times and 100s cannot be ruled out.



The two week forecast for Argentina calls for mostly near normal rainfall totals. It will be dry in the region today but we should see additional rains develop later tonight and continue tomorrow. The forecast for this event has turned modestly wetter since yesterday, with expectations for .5-1.25” amounts in the key growing region. Dry weather will return for Friday and likely continue through the middle of next week. We should see some rainfall chances return later next week and additional rainfall will be seen in the 11-15 day period as well. Temps should run below normal for the rest of this week and no significant heat is expected during the two week period.

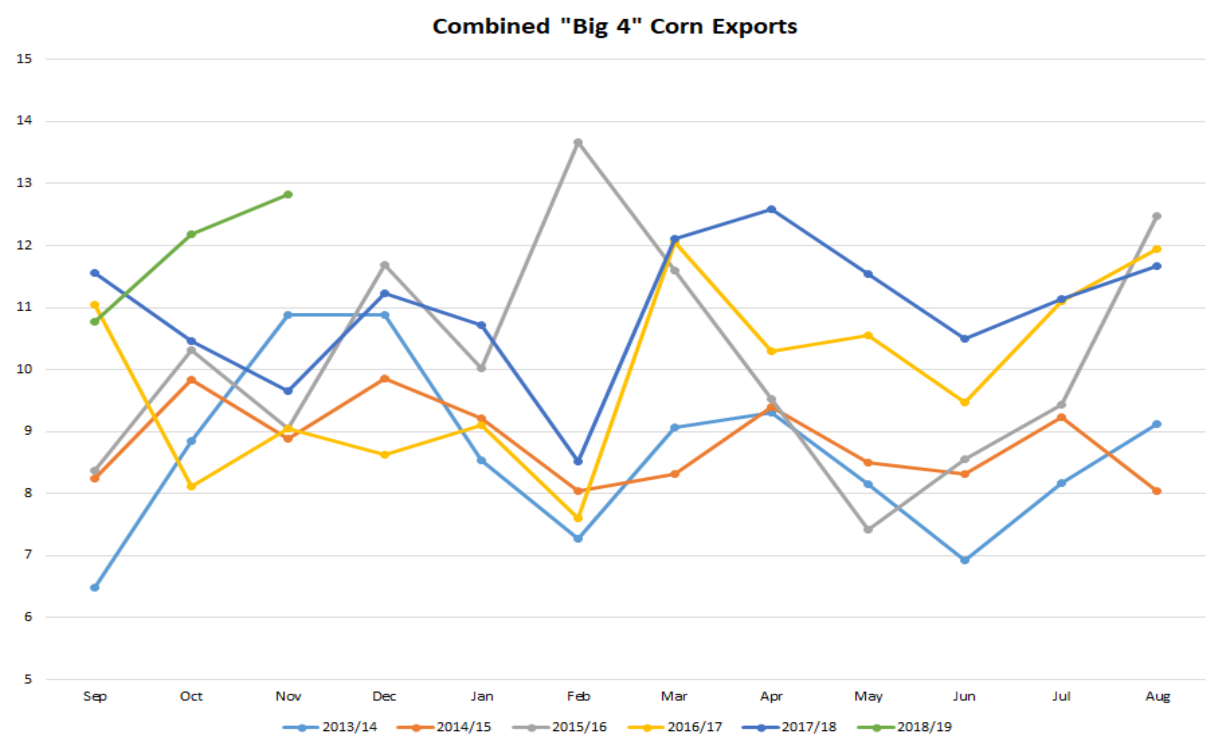
We’re still looking at dry conditions across the US Plains through the weekend. We should see an increase in precipitation chances beyond that as the temperature contrast highlighted yesterday is still in the forecast. The debate is whether or not this increase in precipitation chances will ultimately lead to big precipitation chances in the key feedlot areas in the Plains. The GFS model in particular is showing only limited precipitation chances in the feedlot areas, with better precipitation to the east. There are other models that would expect greater chances for significant precipitation the feedlot areas, however. Still, what is not under debate is that a better set-up for precipitation in the middle of the US is developing. It will simply be a matter of debate where exactly the precipitation develops as we move from event to event.

Crops

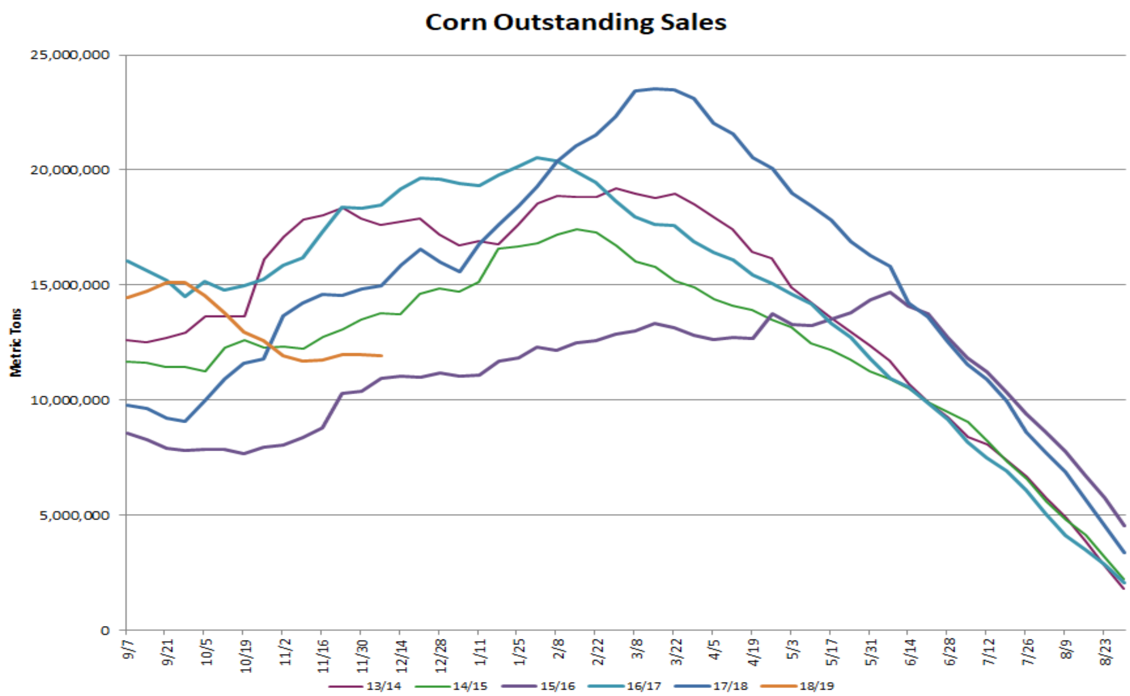
I've talked about soybean export demand prospects too much in 2018, and I refuse to talk about it again until the calendar rolls over (at the earliest). I've probably neglected dialogue on corn export prospects, however, so I want to spend a very short second on that this morning.

We're only one-fourth into the marketing year, and unlike the case in soybeans (where we have a very obvious seasonal tendency) we don't really yet have loads of information to make an informed decision on what to expect for corn. Here is what we do know:

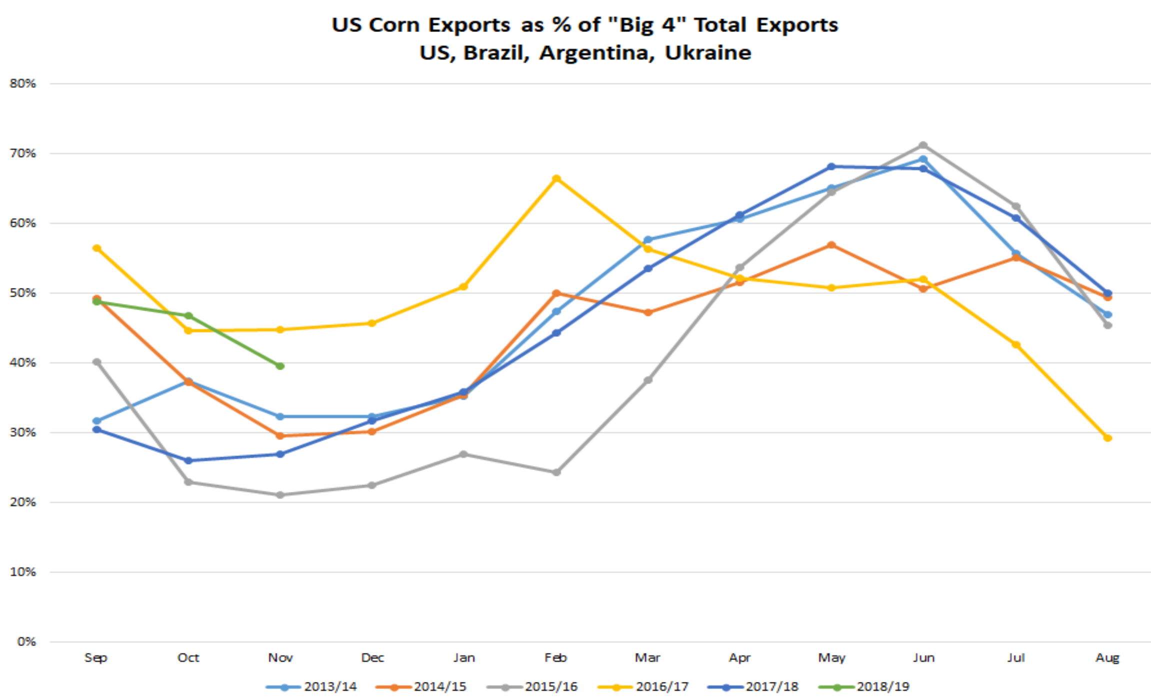
- Entering the marketing year, export commitments were roughly double what we saw at the same point last year. Shipments have followed through, with Sep-Nov shipments thought to be basically double what they were last year (we don't have official Nov data yet).
- Additional good news is seen in the form of total world corn demand. The chart below shows combined "Big 4" corn exports on a monthly basis (shown on in a US marketing year format). The November figure is just an estimate at this point, so it is subject to change, but it current shows very big corn exports in the past few months. The "Big 4" is comprised of the US, Brazil, Argentina, and Ukraine.



- Despite the strong start to the marketing year, the sales pace has slowed down a bit in recent weeks and outstanding sales are now roughly 3 mmt lower than they were at this point last year.



- So far this year, US corn shipments have comprised a pretty solid share of the above "Big 4" total. The relatively soft outstanding sales at present, however, implies that we might not see as big of a seasonal shift going forward?



All of the above is interesting, but it only shows where we've been and not where we're going. To begin the conversation on where we might be going, I thought I'd take an oversimplified look at current outstanding sales (as pictured above) and what that might mean for shipments for the remainder of the marketing year. I show the breakdown below. It looks a bit "busy", but it is pretty straightforward. The top line show outstanding sales at the end of November for each marketing year shown. The second light shows Census exports from December through the end of the marketing year. The third line shows what the December-forward shipments were vs. the end-November outstanding sales. All pretty simple so far….

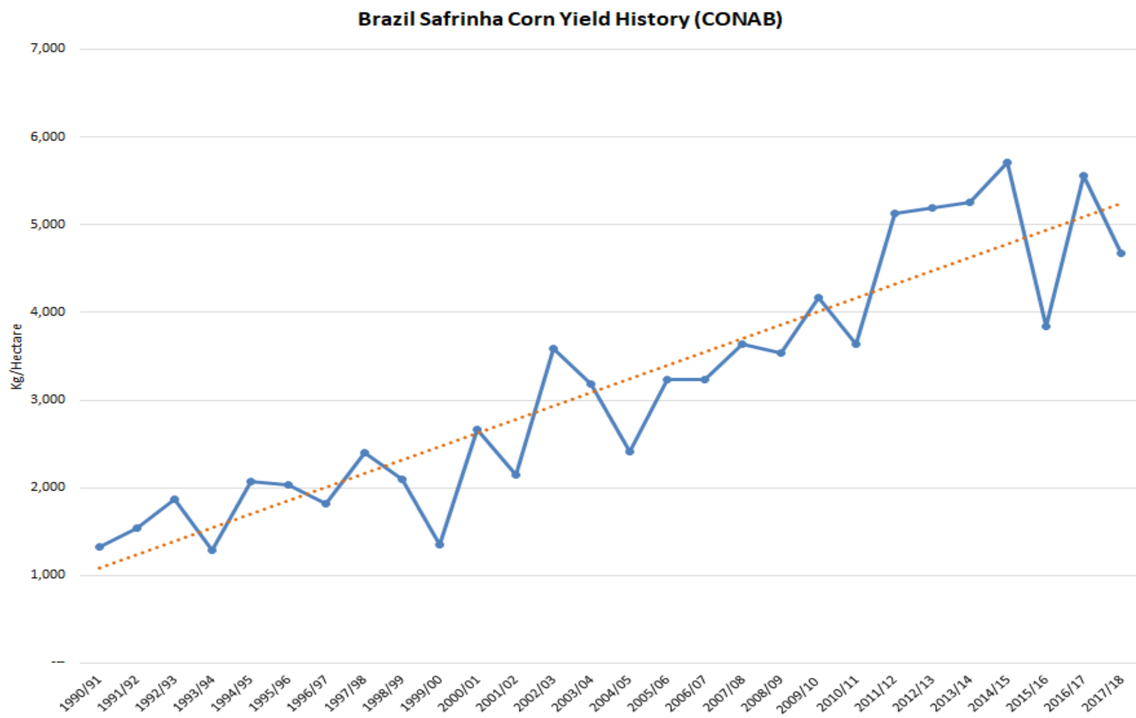
US Corn Outstanding Sales vs. Shipments

	13/14	14/15	15/16	16/17	17/18	18/19
End-Nov Outstanding	705	542	431	728	583	472
Dec-Aug Census Exports	1,567	1,462	1,596	1,745	2,085	
Exports vs. Outstanding	222%	270%	370%	240%	358%	
			Forward Assumptions:	18/19	250%	1,179
				18/19	360%	1,698
					18/19 Sep-Nov Est	631
					18/19 Low?	1,810
					18/19 High?	2,329

Note the percentages in the third line. It would seem about half the time they're in the mid-200% area and the other half a little more than the mid-300% area. In the part of the breakdown labeled "Forward Assumptions", I'm producing guesstimates on Dec-forward shipments based on 250% and 360% of current year end-Nov outstanding sales. At the bottom of the breakdown, I add those to the estimate for Sep-Nov shipments MYTD of roughly 630 mb (November numbers are not yet official).

Using this oversimplified look, I can come up with a range of 1,800-2,300 mb for final US corn exports. You'll likely notice immediately that even that high end of that range would come in under the current WASDE projection. However, given the likelihood that overall global corn demand is up (less wheat feeding, for one thing) I'd be ok with fading that upside number *a little* higher.

What is important to me is understanding why the big range from 250% of outstanding sales to 360% in recent years. That answer should be pretty obvious….Brazilian safrinha production. You can see that both 15/16 and 17/18, where Dec-Aug shipments were very strong relative to end-Nov outstanding sales, also were recent years in which safrinha production was hit with below trend yields.



My overall bias is to take the under vs. WASDE's current corn export projection, though based on the above I have to keep in mind that can change if Brazil's crop is threatened. In the meantime, don't expect WASDE to move much with their estimate any time soon. As the calendar progresses and we know more about Brazil's production potential, we can really start to form a strong bias on exports. And based on current price levels, I would think that the price move potential, in either direction, is fairly significant.

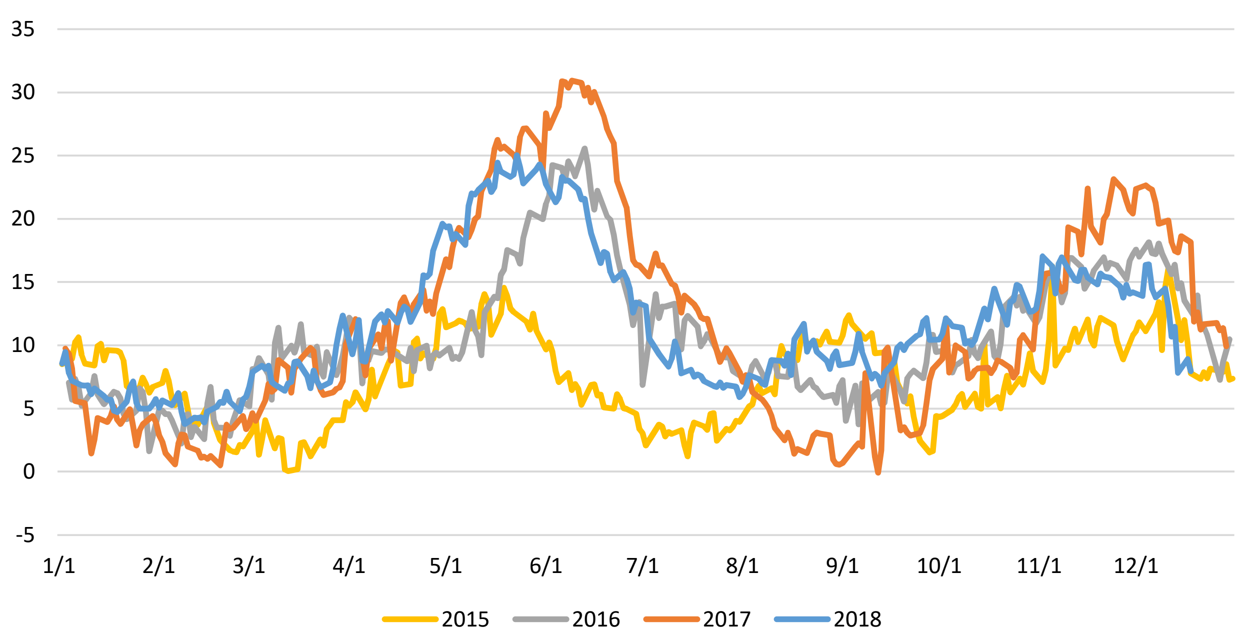
It should also go without saying that this does not assume significant Chinese imports….amuse yourself with those rumors if you want but for now I'm ignoring it.

Livestock

Not much to report on cash cattle yesterday. Bids/offers pretty quiet. There were some Twitter rumors of some 118 trade in IA, but I never picked up anything confirmed on that. I still remain concerned the packer doesn't have his desired margin right now, and combined with the short kill weeks ahead this could lead to weaker cash.

Nothing new in hogs to report either. Futures have been weak in the past few sessions, but this appears mostly due to technical selling and I don't have much fundamental news to pass along. Weekly hog weights are moving along in their normal tendency.

I've talked about the strong choice+ grading over the past few weeks, but one thing I haven't pointed out is its influence on the choice-select spread. You can see the C/S spread is on its lowest level for this time of year in the past several years. I suppose the strong grading would potentially mean this spread is softer than normal going forward? We've certainly entered new territory in terms of grading.



Financials

A big day for financial markets as the FOMC is due to give its policy statement this afternoon and of course Fed Chair Powell will head to the podium and answer a lot of questions. On paper, Fed Funds are pricing in "only" as 62% chance for a rate hike today and that's about as close to 50-50 as we've been in a loooong time. However, I think while the board is not pricing in "strong" odds of a rate hike, most traders and analysts do actually believe the Fed will stay the course with a rate hike today.

Instead the debate for today rests on what changes the Fed might make in its economic projections and how the dot plot changes. Looking at the economic projections first, it seems unlikely we're due to see big changes in their outlook on the unemployment rate (unchanged in recent months). Core CPI has dipped a bit since last quarter, but only slightly and hardly enough to convince the Fed that something has materially changed. Their figures for 2018 should reflect slightly better GDP and maybe a modest revision downward in inflation.

Everyone will closely follow the dots this afternoon, looking for a downward shift in the median and/or average dot. One thing that does make trying to predict this a bit more difficult than usual is that newly sworn-in Fed Governor Michelle Bowman will submit her forecast for the first time at this meeting.

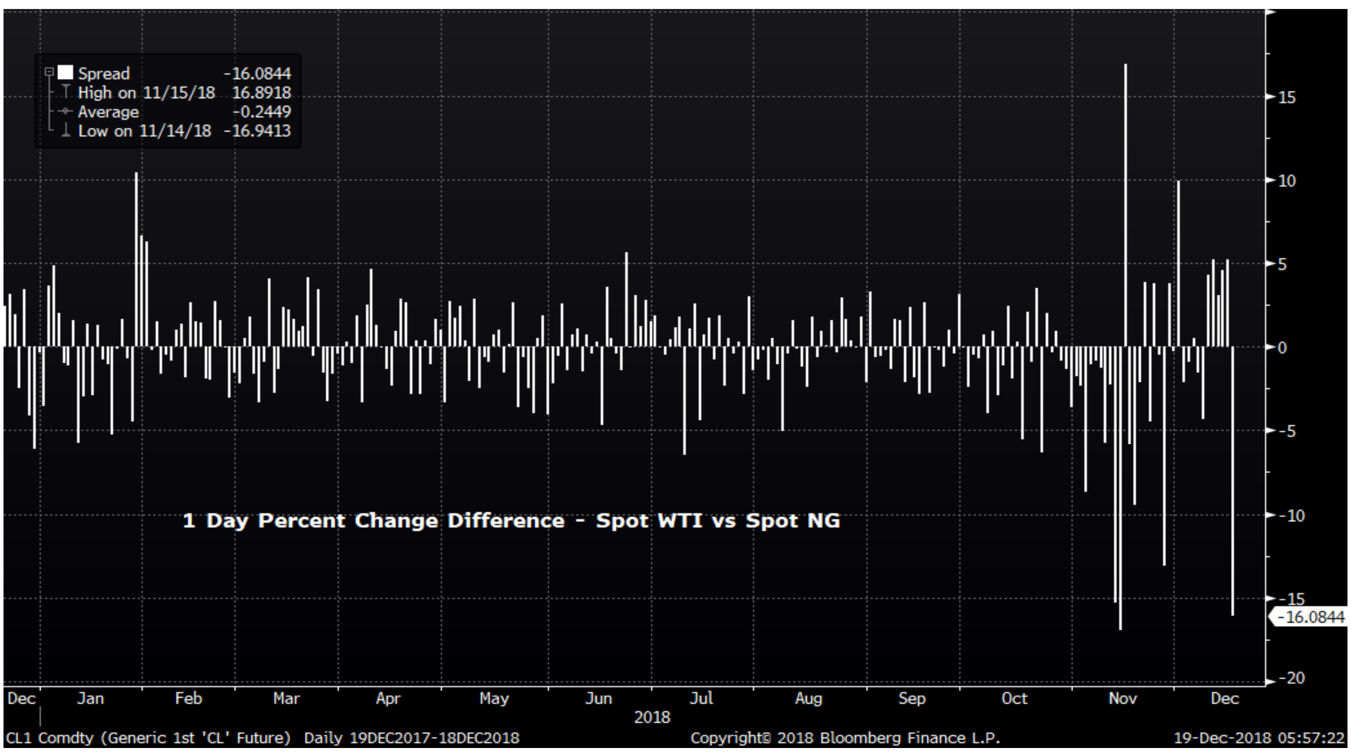
Generally, most equity bulls are hoping for a "dovish hike", where the Fed hikes rates but signals a more dovish outlook in 2019 with either their economic projections or dots. As mentioned above, I don't think they're going to be helped by the economic projections this time around, so all eyes should be on the dots. In terms of their policy statement, one potential move could be to drop the language suggesting "further gradual increases", and they could add some statements about slowing global growth or financial conditions.

US equity futures are bouncing this morning, likely in anticipation of the "dovish hike" happening this afternoon. World equity markets are mostly higher at the time of writing as well. There doesn't appear to be a ton of other news to report this morning. The Euro is stronger not just due to expectations for a "dovish" Fed, but also because the European Commission has decided against disciplining Italy over its budget after compromised was reached yesterday. Italian bonds are sharply higher at the time of writing this morning as well.

In DC, another stopgap funding bill is in the works that would keep the government running through Feb 8. This might be the only way to avoid a shutdown this week, though it is unclear whether President Trump will sign it. He has signaled a willingness to compromise to avoid a shutdown, so we'll see.

Energy

On tap today we have the weekly inventory data. Yesterday's API report was negative, showing a 3+ million barrel increase in US crude oil inventories vs. expectations for a decline. US crude oil futures are slightly lower at the time of writing this morning. I found yesterday's price action interesting, with crude oil getting smoked once again at the same time NG rallied sharply. In the chart below I compare the 1-day percent change difference between spot CL and spot NG. You can see that yesterday's move between the two commodities was similar in scope as the "rogue wave" that supposedly happened after blowing out OptionSellers who knows who else. Interestingly, nobody seems to be pointing to a fund blow-up yesterday…yet.



Today's Calendar (all times Central)

- Existing Home Sales – 9:00am
- EIA Petroleum Inventories – 9:30am

- FOMC Announcement – 1:00pm

Thanks for reading.

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