NESVICK TRADING GROUP, LLC

Thursday, December 20, 2018

NTG Morning Comments

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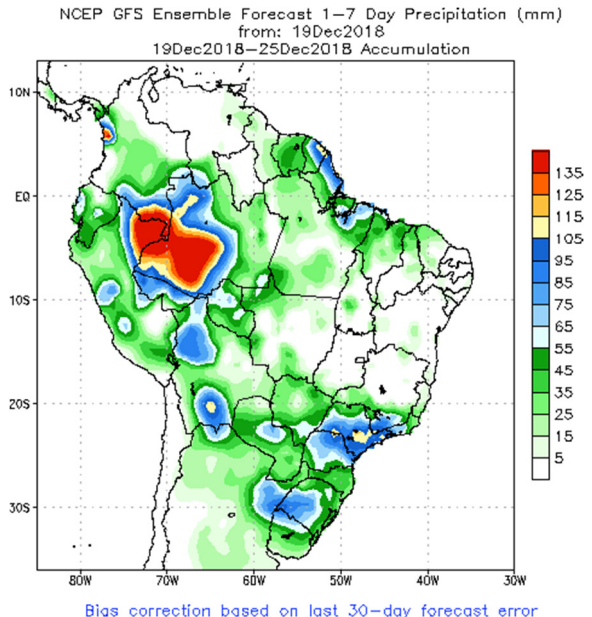
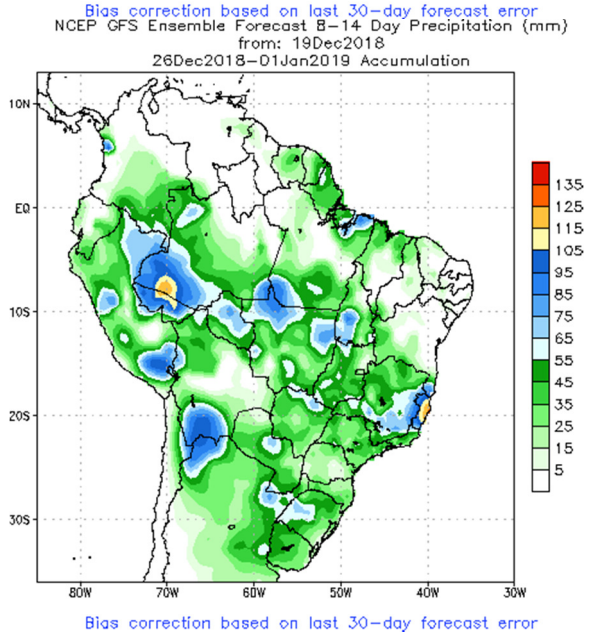
Weather

No major changes in the forecast. Northern Brazil should see precipitation average near to below normal over the next two weeks. Most of the region will see 2-4" during that period, but there will be locally heavier amounts. No major rain is expected in the next few days, but rainfall should start to pick up early next week and coverage will expand through the 6-10 and 11-15 day periods. We'll continue to see heat through this weekend, with highs in the 90-95F area.



Southern Brazil should see two week rainfall totals average near to above normal. Two week rainfall totals should range from 4-6" through a wide portion of the region. There should be rain falling on a daily basis during the two-week period. We've still got some significant heat through this weekend with some 95F+ potential. Next week and beyond, temps should turn cooler.

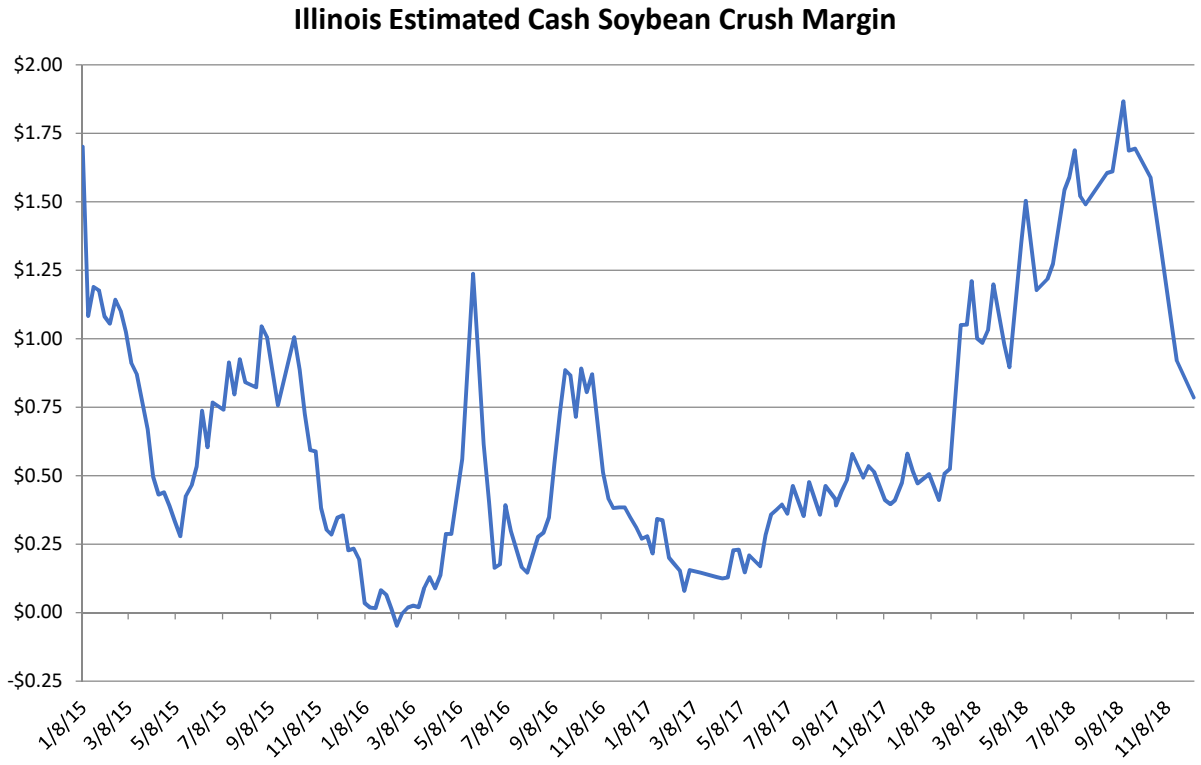


Argentina should see two week rainfall totals run close to normal. There will be some rain in the area today, with additional amounts ranging from .25-1.0". Mostly dry conditions return tomorrow and will stick around through mid next week. Additional rains return Thurs and rainfall chances should continue into the 11-15 day timeframe. Temps should run below normal for the remainder of this week. We'll see briefly warmer temps early next week, but cooler weather by Wed and beyond.

Models are still debating the details of the looming pattern change in the US. As noted previously, we're transitioning into a cool-west, warm-east temperature setup, which means in between we should have increased precipitation chances. The first such chance will likely develop on Christmas day, but for now the models seem to be coming together on the idea that the bulk of precipitation (and heavy snow) will fall north of the main feedlot areas in KS and to the south. NE, SD, and MN seem to be in the direct line of fire for big snowfall amounts and blizzard conditions from this event. There will likely be another significant event that develops in the 6-10 day period, but right now it is too early to tell what area will be most favored for significant precipitation.

Crops

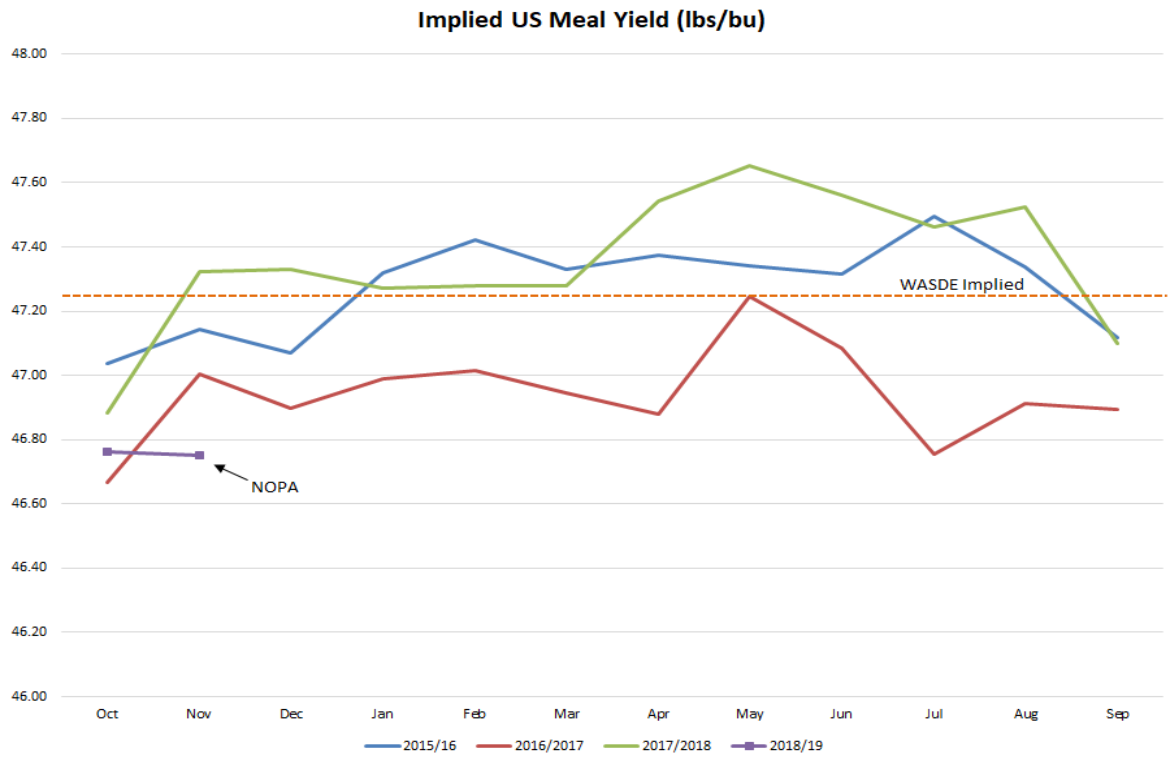
The NOPA crush report was released on Monday, but I'm just getting around to noting a few things of interest. Overall, the report was nothing special. The crush total was a bit smaller than expected, but not by a huge degree. Though only three months into the marketing year, one could certainly maintain the argument that the crush so far is on pace to match the current WASDE projection. I don't expect WASDE to make any changes to its crush projection any time soon (unless they "have to" in an effort to keep the carryout under 1 billion bushels), but I am starting to question whether or not the projection (2,080 mb) is reasonable. The main argument for pushing crush rates to such high levels was the fact that crush margins were astronomically large. As you can see in the chart below that has all changed.



Crush margins aren't weak by any means and I'm not expecting a huge drop in crush rates, but these aren't the types of margins that encourage you to pass on typical downtime and keep going maxed-out either (I would think). I think we need to be prepared for conversations on a lower crush projection at some point in the future…

The only other thing that stood out to me in the NOPA report was another weak meal yield estimate. The chart below shows the monthly NASS Fats & Oils report estimates for meal yields, but for November '18 I'm using the NOPA number we got earlier this week. You can see this is an especially poor start to the year in terms of meal yields, though admittedly we do typically see some improvement going forward. While I would once again expect some improvement going forward, the poor quality of this year's crop will likely weigh on yields

permanently and I think this could make WASDE's meal production forecast questionable. At least initially, I think lowering meal yields will be one excuse for WASDE to maintain their overall crush projection for a while.



Livestock

The Cattle on Feed report will be issued today and as usual I'll lean on my friend Mike Sands' thoughts on what to expect. Newswire expectations are posted to the right. Highlights from Mike's commentary below:

Cattle on Feed

	Avg. Guess	Range
On-Feed	101.7%	101.1-102.6%
Placements	93.3%	89.2-97.7%
Marketings	101.0%	100.7-101.3%

Larger placements of lighter weight cattle in the summer, along with deteriorating feeding conditions in the Central and Southern Plains, likely trimmed November placements to around 92% of last year's large volume.

With projected November marketings about matching net placements, the projected December 1 feedlot inventory is about even with a month earlier and about 101% of last year – a sharp contrast to the 5% and 6% increases posted at the beginning of September and October – but still the largest for that date since 2011.

The smaller March-June placements, particularly in the heavier weight categories, has tempered fall fed cattle supplies and the moderate placement volumes during recent months likely will temper increases in fed cattle supplies in early 2019 as well. However, carrying more of this year's larger calf crop into next year, coupled with continued declines in heifer retention, likely will boost feedlot placements during the first half of 2019 – signaling larger fed cattle supplies in the late spring and summer.

The modest flurry of lighter weight placements this summer, coinciding with the expanding drought conditions in the West and Southern Plains, may have tempered the availability of heavier weight feeders heading into the fall. However, total May-August placements in KS, OK, and TX were only slightly larger than a year earlier, and the movement of lighter weights in those S. Plains states remained modest relative to the forced movement in 2011/12. In addition, continuing record large feedlot inventories, along with muddy feedyards and deteriorating placement margins, likely hampered placement interest in the Central Plains and W. Cornbelt. Despite the modest rebound in fed cattle prices from August lows, early fall spot feeding margins remained deep in the red, while rising feeder cattle prices and modest gains in winter and early spring LC futures limited pricing prospects well below prospective breakevens, further handicapping placement interest. The smaller total placements in late summer and fall likely boosts prospects for larger total placements in early 2019.

As you can probably tell from the above commentary, Mike doesn't appear impressed with prospects for placements during November. With a 92% guess, he is taking the under vs. the consensus estimate noted above. However, I also find his comments about this leading to potentially larger placements in early 2019 equally important.

Also on tap today is the quarterly H&P report. Again I've got a breakdown of newswire expectations posted here. I don't have a strong bias vs. any of the numbers shown here. Obviously I think most are clearly looking for "more" hogs, whether or not they match the expectations as shown to the right remains to be seen. Perhaps of most interest might be revisions to prior numbers.

	Estimate
All Hogs & Pigs	102.7%
Kept Breeding	103.0%
Market Hogs	102.6%
Market Hog Wts:	
Under 50 lbs	102.5%
50-119 lbs	102.7%
120-179 lbs	103.0%
180+ lbs	102.5%
Pig Crop	102.4%
Pigs/Litter	100.7%
Sep-Nov Farrowing	101.7%
Dec-Feb Farrow Int	101.9%
Mar-May Farrow Int	101.7%

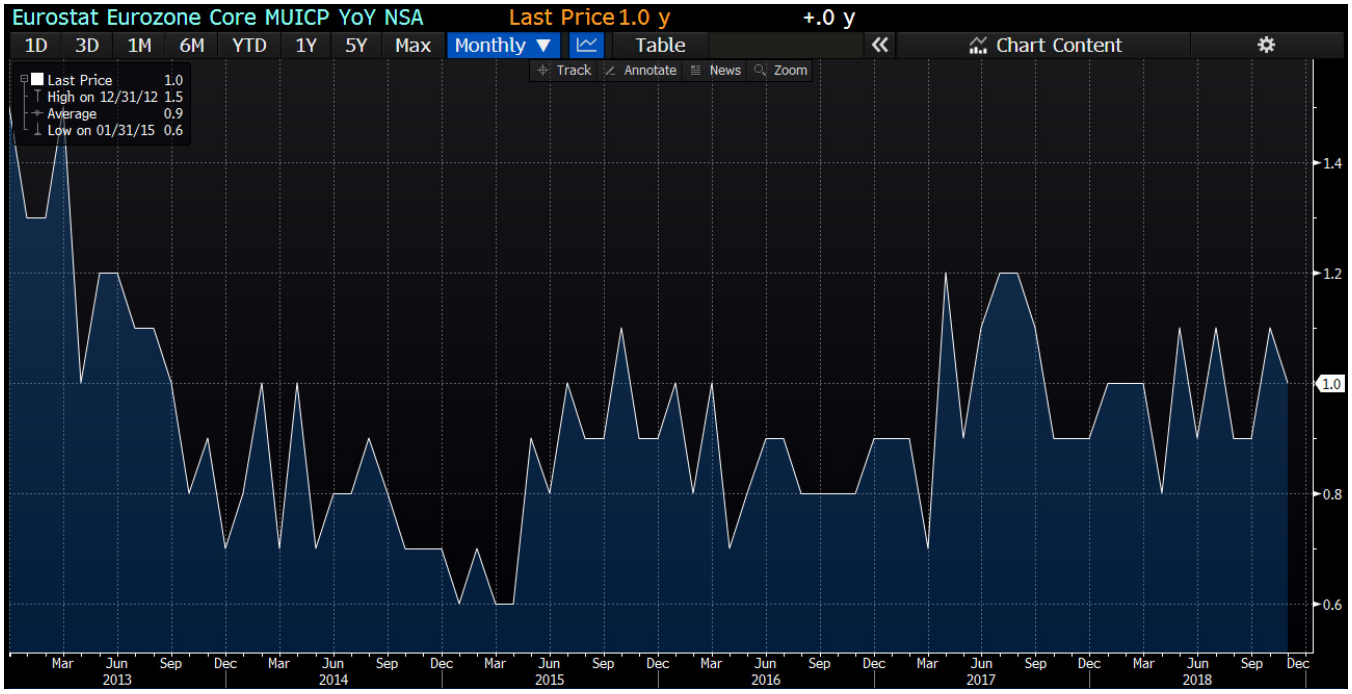
Financials

Despite the supposedly more-hawkish-than-expected Fed, the dollar is sharply weaker at the time of writing this morning. This is partly due to a surprise rate hike from the Swedish central bank overnight – their first rate hike in seven years. The BOE will announce its new policy statement this morning, but no change is expected and there will be no press conference. The BOJ left their policy unchanged overnight.

The Senate passed the stopgap spending bill that will keep the US government funded through Feb. The bill will move to the House today, where it is expected to pass. President Trump is expected to sign the bill. Otherwise, no new information to pass along. By now we've all seen what the Fed did/said yesterday. The yield curve continues to flatten.

Yesterday was the last day of the ECB's net asset purchases. The purchases began officially in March 2015, but ECB officials started dropping hints of their own QE program in Dec '14 and Jan '15. I thought for fun this morning we'd look at what the ECB has accomplished with their program. Up first, the chart below shows the Euro Stoxx 50 index, which covers 50 major stocks from 11 different Eurozone countries. You can see that the overall European equity market, at least as measured by this index, is basically still at the same spot from which we started talking about the ECB's QE in early 2015.

One of the ECB's stated goals was to raise Eurozone inflation to "close to, but not over, 2%". Eurozone core CPI is charted below, and you can see this has never really tested anything "close to" 2% since early 2015. That said, at least the inflation level is modestly higher from where we started QE…



So the ECB hasn't been especially helpful in supporting equities or firing up core inflation, but there is no doubt they've been successful in suppressing Eurozone bond yields. The chart below shows the spread between 10-year yields in major European economies vs. the US. You can see that France and Germany both have seen their yields remain well under US levels and that spread has only widened over time. Italy this year has dealt with its own budget issues that has seen that spread snap back, but before that started the ECB was successful there as well.

You can see, however, that the spread between even French and German vs. US yields has modestly narrowed in the past several weeks. Does the end of the ECB's asset purchase program mean that spread between US and Europe will "normalize"? I'm not sure I even know how to answer that considering I'm not quite sure what normal is anymore. That said, one important thing to keep in mind is that the ECB will still be reinvesting redemptions from their current assets. The breakdown of expected 2019 redemptions from the ECB's website is shown here, and you can see we're looking at pretty significant redemptions. Altogether, monthly reinvestments will probably average almost €18B per month in 2019. Far from "tightening" monetary policy at this point.

– APP redemptions

Expected monthly redemption amounts for the asset purchase programme (APP) over a rolling 12-month horizon

€ million	ABSPP	CBPP3	CSPP	PSPP	APP
Nov 18*	**643**	**983**	**735**	**4,758**	**7,120**
Dec 18	*851*	*1,137*	*257*	*12,288*	*14,533*
Jan 19	*947*	*2,792*	*834*	*21,029*	*25,602*
Feb 19	*641*	*2,388*	*120*	*8,783*	*11,932*
Mar 19	*615*	*1,777*	*529*	*10,894*	*13,815*
Apr 19	*484*	*1,212*	*447*	*21,111*	*23,254*
May 19	*372*	*908*	*273*	*15,319*	*16,872*
Jun 19	*878*	*2,907*	*205*	*7,138*	*11,128*
Jul 19	*446*	*2,307*	*1,039*	*17,488*	*21,280*
Aug 19	*365*	*452*	*0*	*4,542*	*5,359*
Sep 19	*521*	*3,239*	*1,117*	*10,361*	*15,238*
Oct 19	*401*	*1,590*	*592*	*29,024*	*31,607*
Nov 19	*872*	*1,715*	*769*	*13,034*	*16,390*

*Actual redemption, based on month end data.
ECB estimates in italics. Figures may not add up due to rounding. Figures are preliminary and may be subject to revision.
Note: Realised redemptions may differ from estimated redemptions.

No overall point to my commentary this morning. The ECB was certainly successful in keeping Europe together over the past few years with their massive QE program (not pictured above – unemployment down). Still, some things did not work out quite as well as hoped. Inflation could never gain the traction they hoped for and equity markets have given back all gains. Given Europe's leveraged exposure to China, uncertain trade relationship with the US & UK (their #1 and #2 trading partners), and the very questionable political backdrop, there are still a lot more questions than answers with Europe heading into 2019. Here in the US, the Fed might be shifting a bit more dovish, but too many hurdles remain in Europe for long-term optimism towards the Euro in my opinion.

Energy

The first thing that stands out to me this morning when I look at the screen is the fact that crude oil is getting hammered while NG is rallying sharply. This weird sort-of "spread" is an interesting dynamic and one I'll admit I haven't quite figured out yet. I don't see any significant "news" to pass along this morning. OPEC appears to be feeling pressure about stabilizing prices and they've decided they *will* publish the country-level details of the production cuts tomorrow. Recall they agreed to a collective 1.2 mbpd reduction starting in January. The Saudis have already said they will cut roughly 322k bpd.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am
- Cattle on Feed – 2:00pm
- Hogs & Pigs – 2:00pm

Thanks for reading.

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