NESVICK
TRADING GROUP, LLC

Tuesday, December 4, 2018
NTG Morning Comments
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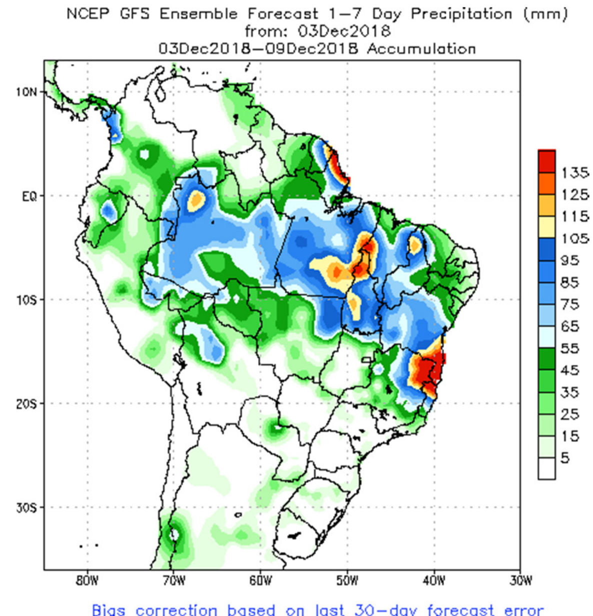
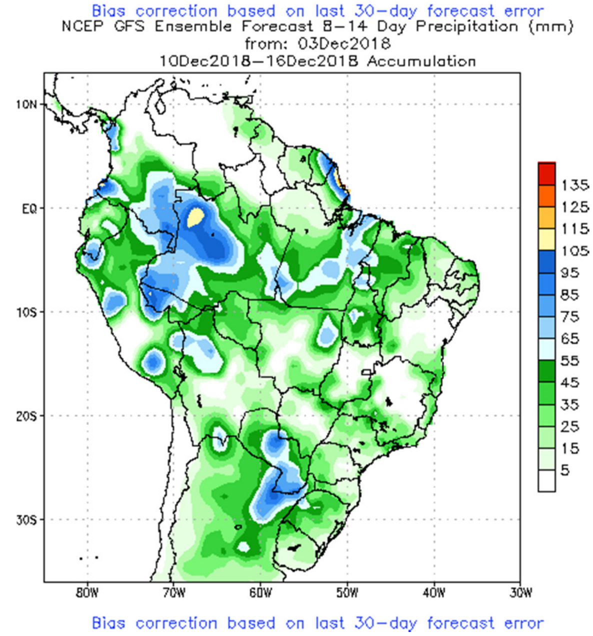
Weather

No significant changes to the forecast. Northern Brazil will see rainfall average near normal over the next two weeks. Two week totals should range from 3-6” in a majority of the area. The biggest amounts will be seen in the next 5 days, with lesser amounts noted in both the 6-10 and 11-15 day periods. Two week rainfall totals in southern Brazil will run near normal as well, but as you can see in the maps to the right the set-up is entirely different. We’ll see limited rainfall amounts in the next ~5 days but we should see a return of excellent rainfall towards the end of the 6-10 day period and should continue through the 11-15 day period. Temps should be pretty cool through this weekend but should probably warm up next week (though nothing extreme).





Argentine rainfall should run near normal over the next two weeks as well. Very limited rainfall is expected through this weekend, but rainfall should pick up in the 6-10 day period and continue through the 11-15 day period. A lot of 1-2” amounts will be seen and locally heavier totals (2-3”) will be seen in spots. No big heat is in the forecast.

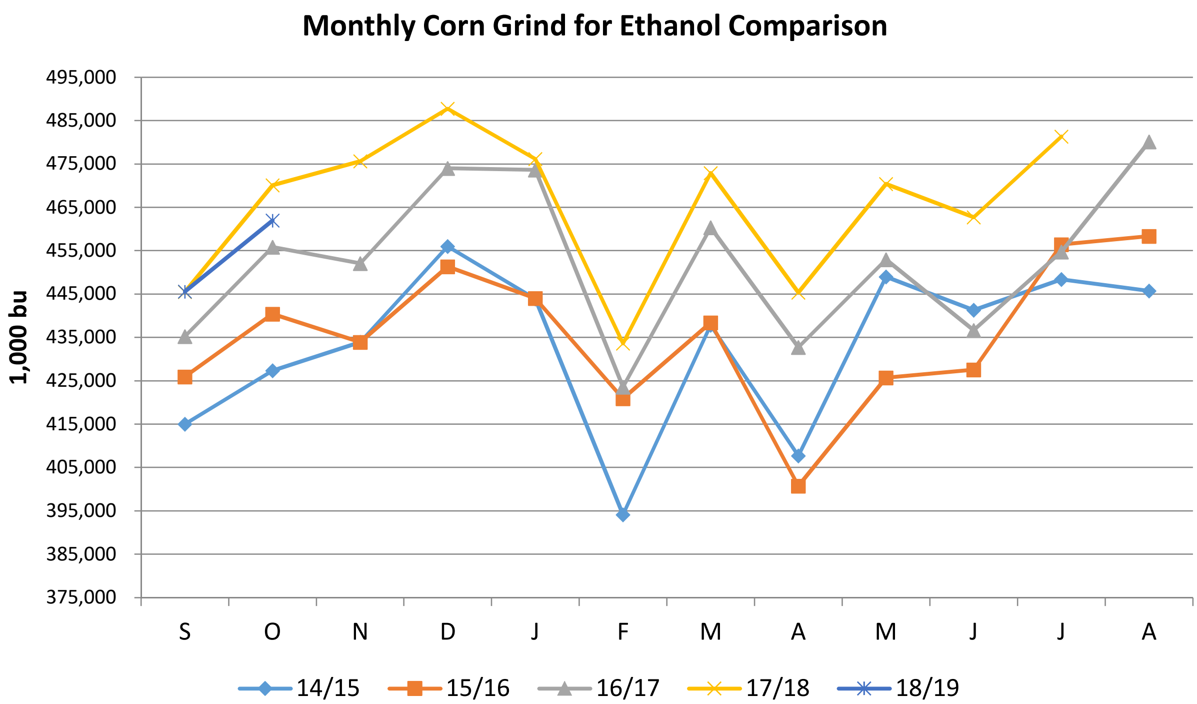
Crops

Still a lot of confusion over what the trade “deal” will actually mean this morning. The only comment I’ll today is this…Trump & Co went “all-in” on agricultural purchases coming “immediately” yesterday. If for some reason, that *doesn’t* happen, Trump & Co will likely feel betrayed and it will make for a difficult negotiation process. South American beans *are* cheaper going forward, but this would still be an inexpensive way for the Chinese to keep President Trump at the table. I simply think the Chinese “have to” make some sort of purchase soon to keep the hope flowing…at least if that is their goal. We’ll see.

Government-level purchases of US soybeans will likely rally CBOT temporarily, but it does nothing to change the overall over-supplied global market I described in my special report from last Friday. Any purchase of US soybeans by the Chinese is just missed business for the Brazilians, and their premium levels will likely get hammered in the process. Brazilian offers were already off sharply yesterday, and if the Chinese government does “encourage” some buying of US soybeans for political purposes (as I suspect they will), this should only serve to weaken Brazilian offers further. The world is oversupplied with soybeans…that has not changed.

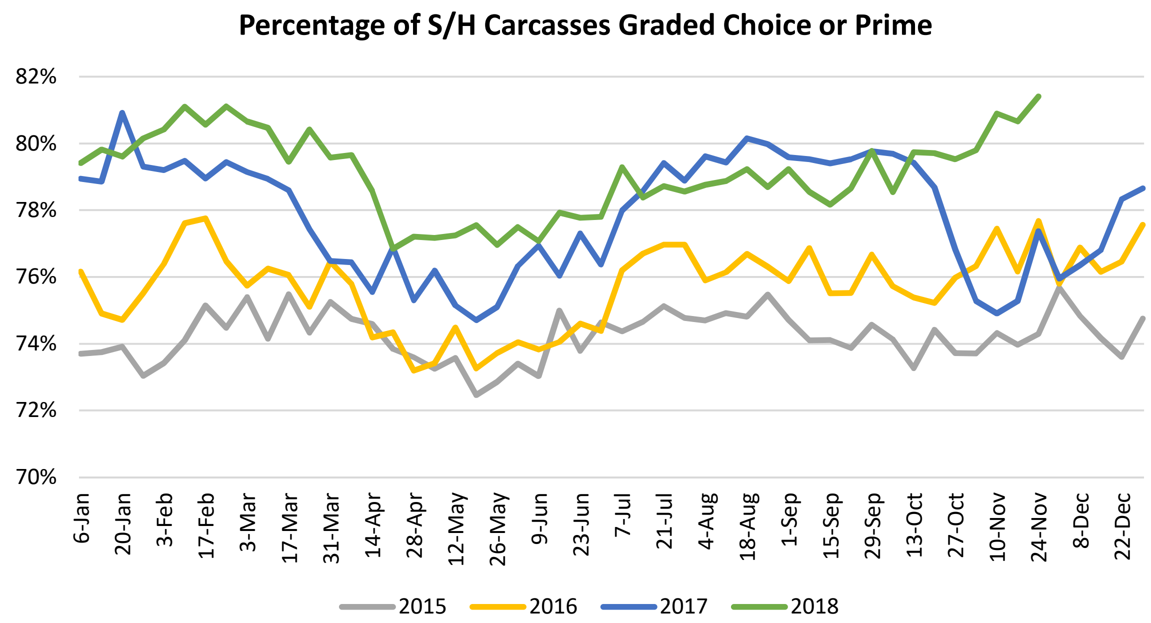
Nothing new today otherwise, and other than the excitement over the trade "deal" we're in the middle of what is typically a very slow season for newsflow. Yesterday NASS issued their Fats & Oils and Grain Crushings reports. The Fats & Oils report didn't show anything significant…the overall soybean crush was a little smaller than I had penciled in following the NOPA release but nothing major. Implied domestic meal consumption was up roughly 1% YOY.

The Grain Crushing report showed the corn grind in ethanol production at roughly 461 mb, which is smaller than I would have expected based on the weekly production figures. MYTD corn grind, admittedly only 2 months, is off slightly YOY despite the current WASDE projection for a YOY increase. It is not an insurmountable deficit, but still something I'll be watching closely. Sorghum use in ethanol production is running slightly larger than last year, perhaps explaining why the corn grind isn't quite what we might have otherwise expected.

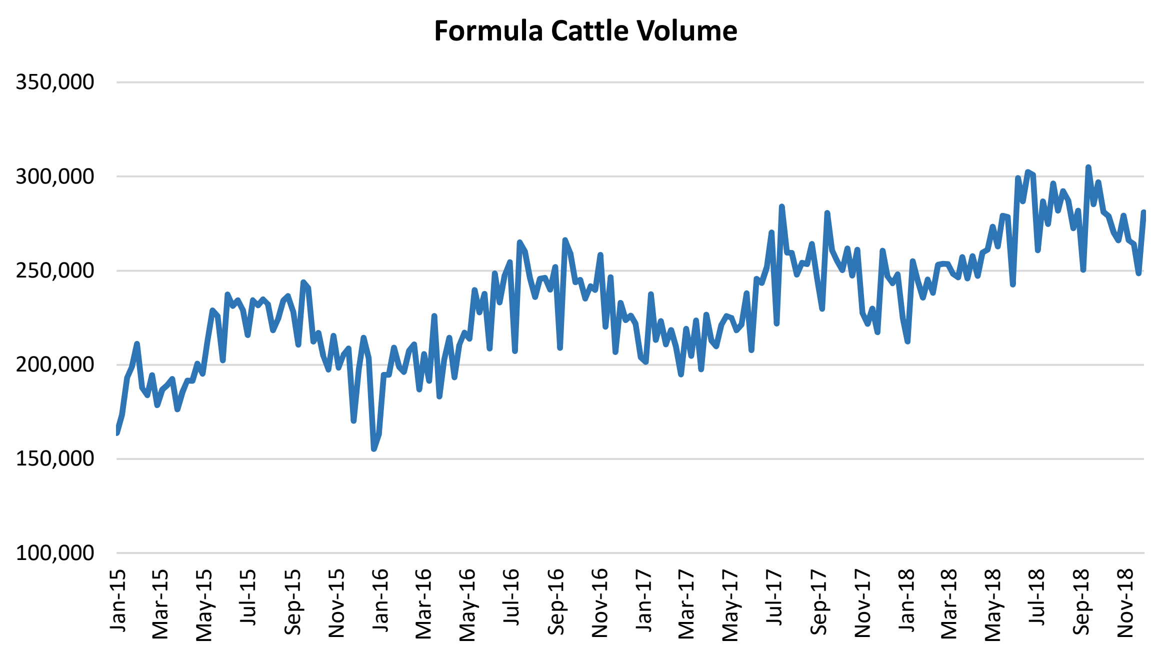


Livestock

Just a few charts from yesterday's USDA data dump. Up first, I remain impressed by US grading levels. The chart shows below we put in a new high for the percentage that graded prime or choice this year. This is also the highest overall level I have in my data series which dates back to 2009. Again, I don't necessarily think this will produce a price influence, but I do find it interesting. Considering how US consumers use beef, do we really "need" this much choice/prime production? Does this encourage imports of "ungraded" product (cheaper) from Mexico and others? Just asking…I honestly don't know.



Total MPR volume last week was definitely bigger than I personally expected, though I'll admit I never had a good pulse on it last week. Once again packers relied on formula commitments as it sounded like negotiated action was pretty limited. This has been a fairly consistent theme on weeks when negotiated action has been a bit more "combative". Whether or not this gives the packer any leverage looking ahead remains to be seen. The packer is still looking at healthy margins and would presumably be incentivized to continue kills at an aggressive pace.



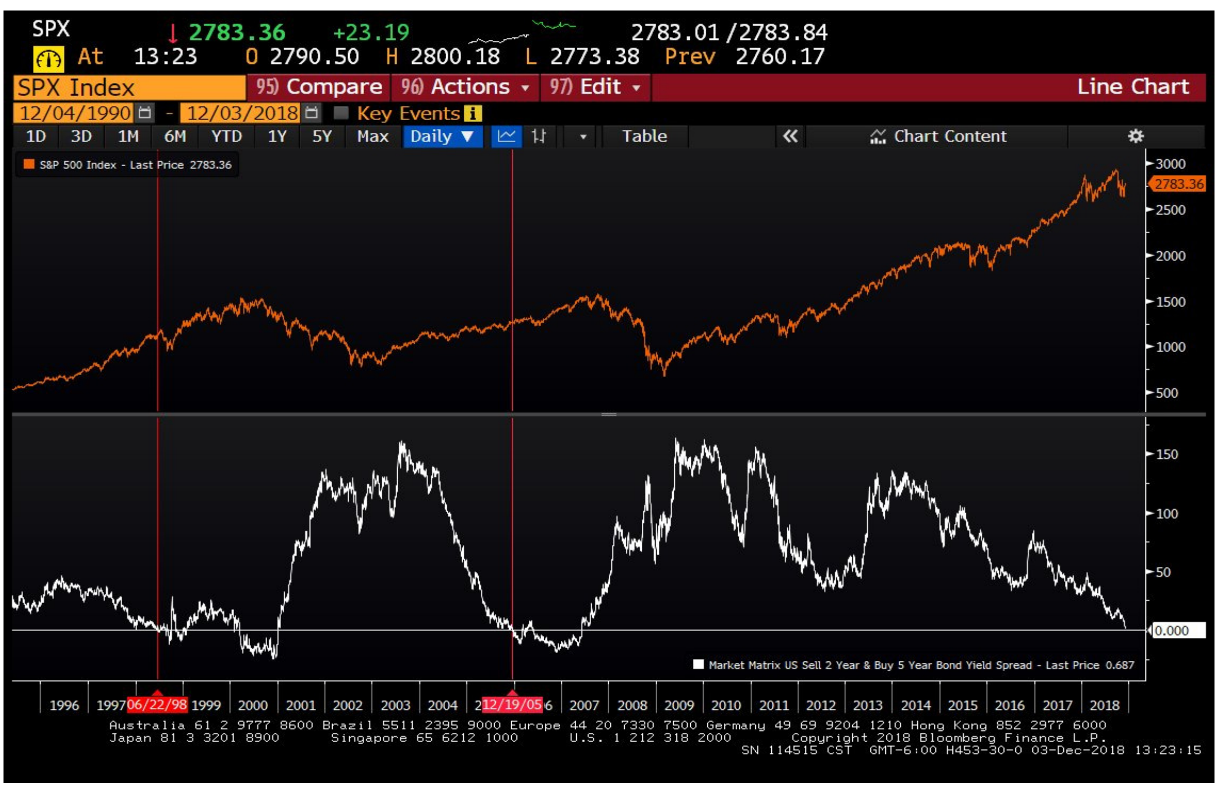
Financials

US equity futures are off a bit this morning, in large part due to the ongoing confusion on what exactly was in the trade “deal”. The Trump administration has certainly done itself no favors in their communication efforts thus far. Still, I think you still see signs of hope in the deal in other parts of the market…the AD is sharply higher still and the USD is much weaker as examples.

The yield curve is a big focus of the market this morning. This comes after 2s-5s finally inverted yesterday. We saw 2s-10s push to new lows yesterday and we are probably not too far away from inverting there either. This is setting off all sorts of recession warnings from various analysts. I’ve even pointed it out here in the past that an inversion in 2s-10s has usually been followed by a recession.

And while I do stand by that comment, I see an excellent point made on Twitter this morning by @sentimentrader that there is a big lag time between yield curve inversion and the second order effects of recession and a retreat in the equity market. The chart below is one I pulled off their Twitter feed, and this shows the 2s-5s curve in the white at the bottom. The horizontal red lines indicate the last two times this curve initially inverted. You can see that in both cases equity markets continued to march higher for another *two years* before rolling over.

I firmly believe that markets move faster these days than they used to, and so I wouldn’t necessarily get stuck on a two-year lag here. The point is, we *might* still have a long way to go before the curse of the yield curve inversion really bites.



Energy

Crude oil futures are higher at the time of writing this morning as the market works towards pricing in some sort of production decrease from OPEC. UAE's oil minister is hitting the wires this morning say the market "needs" an output cut and that he is "optimistic" all countries will join an OPEC+ agreement. I don't see where he makes any reference about how much he believes should be cut. The Saudi oil minister is on the wires this morning too, though for now he is being a bit more reserved with his commentary. He said that the Russians agree to an output cut "in principle" but it's "premature" to say what will be agreed to in Vienna. He also neglected to mention an estimate on the size of a potential cut. I continue to believe the Saudis were intentional about ramping production higher in the short term to point towards an impressive number they could later cut from production at the meeting this week.

Today's Calendar (all times Central)

- Not much…NY Fed briefing at 9am

Thanks for reading.

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