NESVICK
TRADING GROUP, LLC

Thursday, January 24, 2019
NTG Morning Comments
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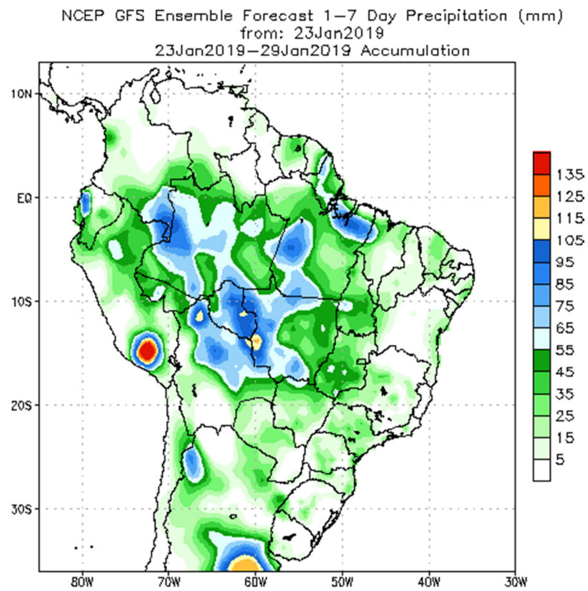
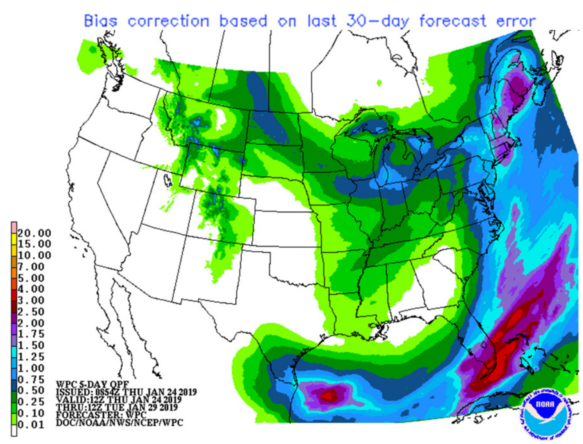
Weather

Rainfall should be mostly BN in northern Brazil over the next two weeks. Look for two week totals to range from 3-5" in western areas and 1.5-3.0" in eastern areas. The 6-10 day period should be the driest timeframe, with some slightly more active shower chances in both days 1-5 and 11-15. Southern Brazil will also see mostly BN precipitation over the next two weeks. Look for 1-2" totals in RGDS and Paraguay and 2-4" amounts elsewhere. Look for some decent heat in the next few days with highs into the mid 90s and maybe even some upper 90s.

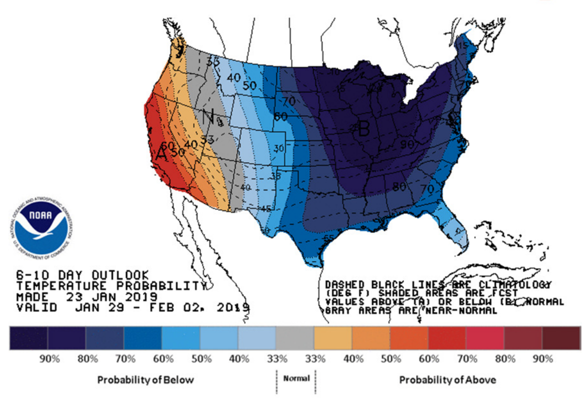


Argentina will see two week rainfall totals run mostly AN with only BN readings in the far north/northeast. Two week rainfall totals in the heart of the region will range from 3-6" and rainfall chances will likely be a daily occurrence between now and the end of the month. Temps should be pretty cool most of the time, though some spotty 90s might pop up every now and then.



You can see there isn't a lot of precipitation expected in the central US over the next several days. The band of precipitation shown stretching from the Dakotas into northern IL/IN/OH will likely mostly take place from Sun/Mon. This area should see some significant snowfall totals.

No change in the outlook on US temps. Over the next ~10 days, the northern US should see temps MUCH below normal. Some areas should see temps run 20+ degrees below normal and that will certainly lead to areas where sub-zero daily highs are noted. The worst of the cold weather will probably be seen from Jan 29-Feb 1. It does appear that the 11-15 day period could see temps turn slightly "warmer", though in the north/northeast we should still see temps averaging below normal.



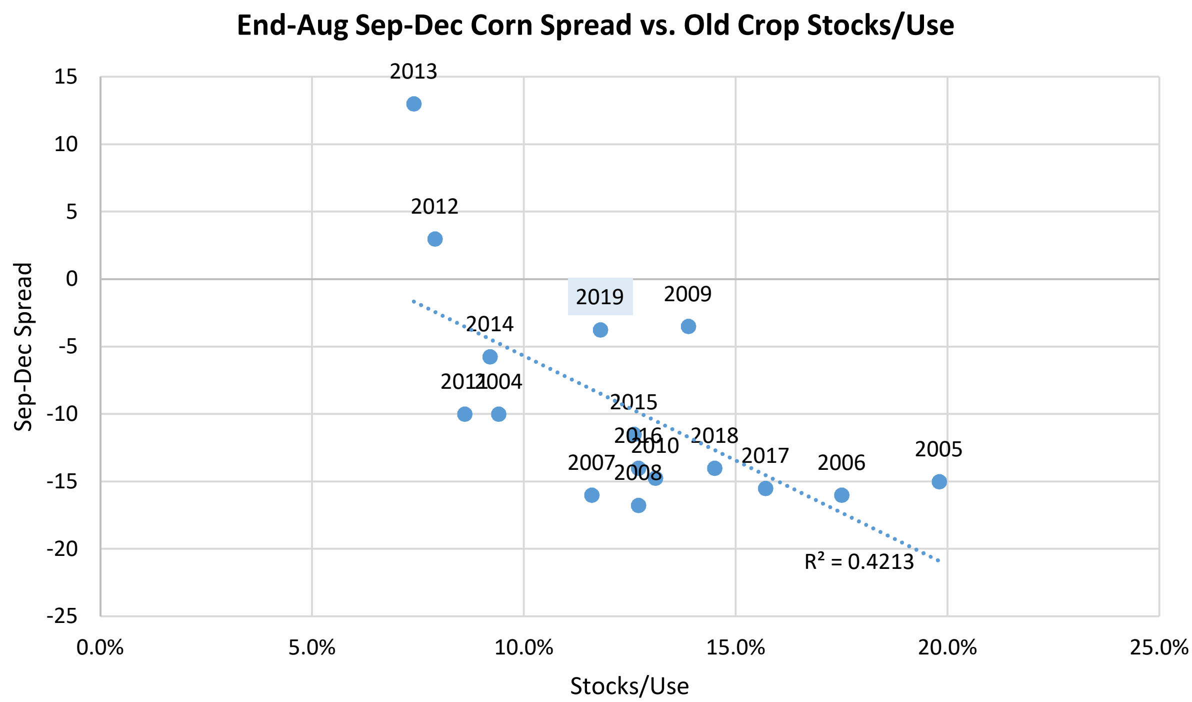
Perhaps worth noting that precipitation in FSU winter grain areas has been pretty solid thus far this season. The current forecast calls for additional solid precipitation chances over the next 10 days.

Crops

A friend asked yesterday for my thoughts on the Sep-Dec corn spread. Considering the current trading environment, my initial reaction to any request for comment these days is a shoulder shrug and a "I dunno", but upon looking into the spread a little I think it might warrant some consideration…

The first thing I looked at was where we stood as a percent of full carry. Depending on whatever interest rate you wanted to assume, one could argue for FC on the spread somewhere between -17 and -20 compared to the current value of the spread at the time of writing of roughly -4. Then I went to look at a chart of the spread this year compared to prior years. That chart is shown below. The first thing that stands out of course is that this year's spread is trading at a higher value at this point in the year than in years past. I would also note that this -4 area in this year's spread appears to be a halfway decent area of resistance for the spread to perhaps sell against?

Then I looked at a history of the underlying values to try to determine what a good "fundamental" value near expiration might be. The scatter chart below plots the spread value at the end of August (into FND for Sep) vs. the final old crop stocks to use figure. You can see that in the ultra-tight supply years of '12 and '13 we saw the spread trade at significantly higher values, but otherwise we were mostly lower than the current spread value. Based on the scatter I would ballpark a potential target zone of anywhere between -10 to -15 for the spread. Note in the 2019 data point I'm using the last Dec WASDE estimate on 18/19 stocks/use.

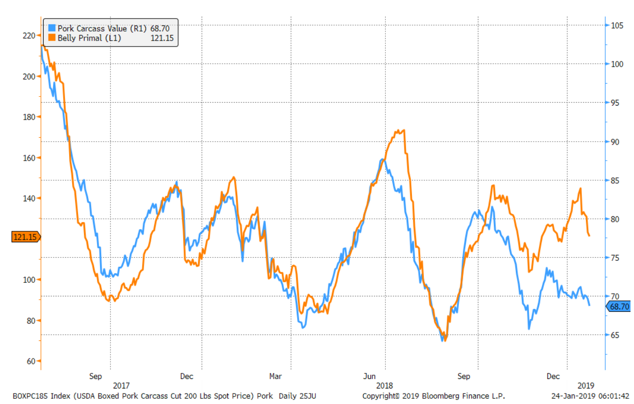


As usual, of course, we have a lot of issues to deal with before we get to August. Obviously we've got the China trade negotiations and this could dramatically alter the fundamentals on corn or other markets. And of course we obviously have no idea what the future holds for 2019 production prospects. Still, the prospects for the spread seemed interesting enough for me to pass along this morning. Thoughts appreciated.

Livestock

An interesting scoop from Mike Sands – from what he has heard the state-level COF surveys did not go out due to the government shutdown. That means that even if the government is surprisingly reopened soon, we are not going to have a Jan COF report by next week. Whether or not the report is simply skipped or if they try to back-fill with information remains to be seen. I would personally bet that we just go without Jan COF data.

No major new information to pass along in cash markets. Cash cattle trade yesterday was mostly 122-123, though again it doesn't appear volume has been anything impressive. The board remains reluctant to break despite the weak basis…so does that allow cash trade to end up better than expected this week? Meanwhile pork remains very weak and bellies aren't providing much support any more. Seasonally speaking, pork prices should typically decline further through March. With pork packer margins already weak, the potential for weaker pork prices might weigh on the cash index here in the near term.



I was looking for more information on Chinese hog numbers yesterday and I stumbled across the following data on Chinese sow inventories. The data comes from JCI and is likely imperfect but probably the best we can hope for.

Interesting to see that sow liquidation in China is not really a new thing. For various reasons, this shouldn't be a huge surprise. We've seen a growing trend for a more "industrialized" production effort, which means more production from fewer numbers (in theory). Also in 2017 and 2018 we saw pig prices plummet which led to additional sow liquidation. And here recently of course we have the ASF epidemic and who knows when the liquidation will run its course? This is one chart I'll be monitoring closely in the months ahead…when the sow stocks stop moving lower and/or start to tick up a little, we might be nearing the end of the liquidation cycle. That, in theory, could mean a rebuilding of the herd would be about to start which might tighten nearby pork supplies. While we've been hyping the ideas of big Chinese pork imports forever, *that* might be the catalyst we're really waiting on to see something real happen. Thoughts appreciated.

Financials

On tap this morning we have an ECB meeting and press conference and this will definitely have a big impact on FX trade initially today. The ECB is in a bit of a tough spot here. They've stopped adding to their balance sheet, though reinvestments will continue. However, obviously anyone who has looked at Eurozone data lately can see that economic growth has stalled and inflation remains nowhere to be found. We will have PMI out overnight which could also drive price action, but the ECB will not be updating their official economic outlooks for today's press conference. All of the above would seem to imply that we should expect no change in overall policy from the ECB and the official statement will likely probably remain mostly unchanged as well. There is some debate over whether the ECB will say economic risk are skewed to the downside, but I'm willing to bet they leave this alone for now. Instead, I simply expect ECB President Draghi to take a dovish tone in his comments at the press conference. There is where the real FX fireworks should be seen. The bottom line from his comments should be that the ECB will likely find it extremely difficult to even consider raising interest rates this year. Whether or not this bias is already factored into the Euro price level remains to be seen, but I would anticipate there being some possible downside here this morning.

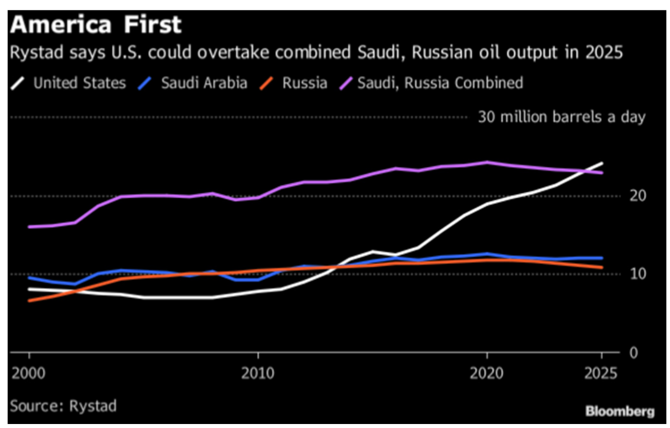
As for the overnight PMIs…the data is uninspiring. Here is a quick rundown of some key numbers:

- Japan's manufacturing PMI fell to 50.0 from 52.6 in Dec. According to Markit's report this ends the "longest expansionary run for over a decade".
- French Composite PMI remained in contraction at 47.9 vs 48.7 in Dec.
- Germany Composite PMI 52.1, which is actually up from Dec. However, the manufacturing component fell to 49.9 (50-month low) and into negative territory.
- Total Eurozone Composite hit a 66-month low of 50.7, just barely showing growth. Services index was 50.8 (65-month low) and manufacturing was 50.5 (50-month low)

I would say that none of these figures would inspire a great degree of confidence in the central bank overlords of these areas. That should lead to further dovish commentary and actions. Perhaps the stories detailing the death of the dollar have been greatly exaggerated??

Energy

According to private energy analyst group Rystad Energy the US will produce 24 mbpd of crude, condensate, and natural gas liquids. As you can see in the chart to the right, according to Rystad projections this would exceed the *combined* output of Russia and Saudi Arabia. Rystad noted that capital spending would need to be $150-190B each year between now and then for the necessary investment into adding new production. They are also assuming a US oil price near $58/bbl in their projections. Still, the ongoing shift to become a net exporter of energy continues to roll forward.



Today's Calendar (all times Central)

- Jobless Claims – 7:30am
- Markit PMI – 9:00am
- EIA Natural Gas Storage – 9:30am
- EIA Petroleum Inventories – 10:00am

Thanks for reading.

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