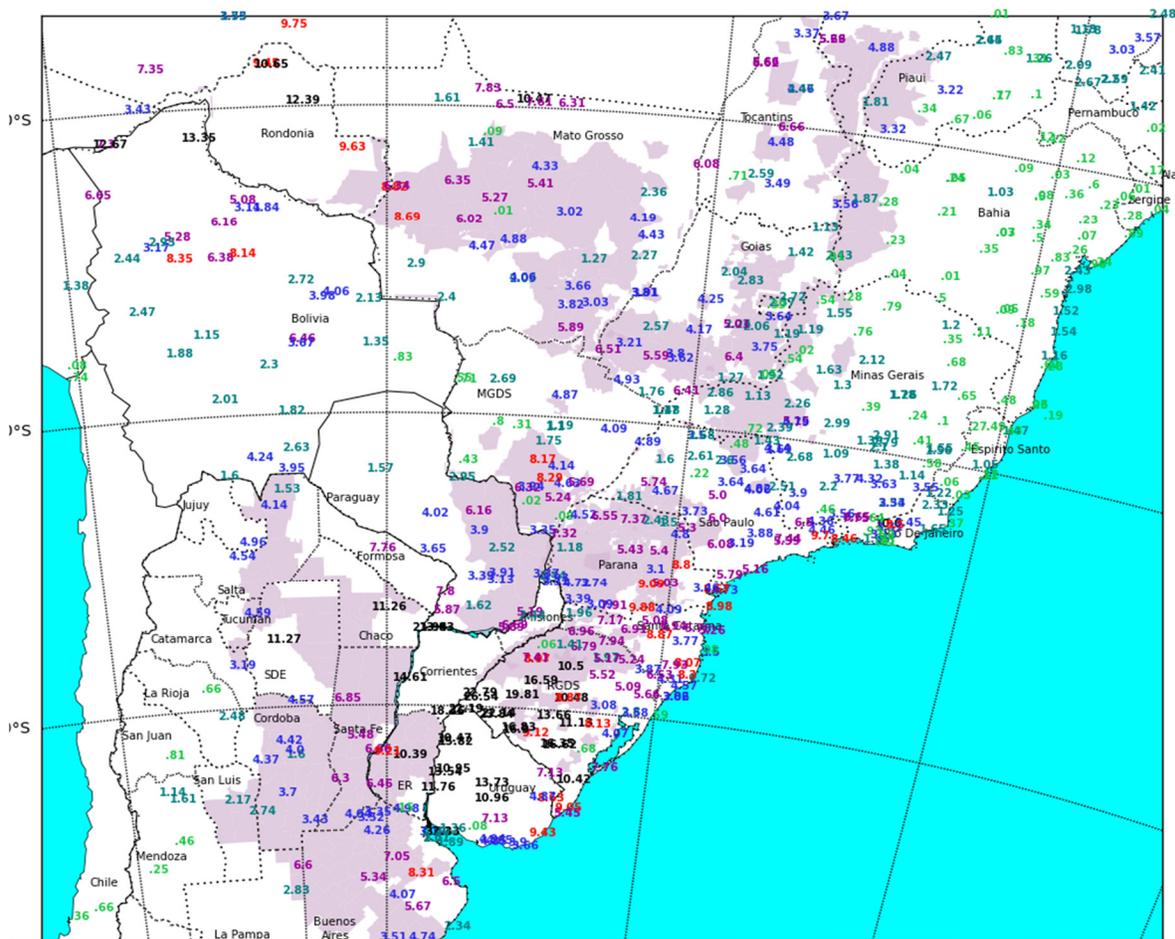


Weather

We've heard a lot about most of Brazil seeing below normal precipitation, but this morning rather than reviewing the forecast I wanted to look at what BN precipitation in Brazil means. The map below displays MTD precipitation in South America (as of yesterday morning, official overnight data not yet available). Key soybean production areas are shaded. Note that despite the BN precipitation totals, most areas in Brazil have seen several inches of rain so far this month. While this may be BN for Brazil, how many US farmers would be complaining with these sorts of precipitation amounts during a 3 week stretch in the summer?

20190124 South American Soybeans
 Precipitation
 Month to Date



I'm not trying to imply that I don't think we've lost *something* on the Brazilian crop. However, I'm simply trying to keep things in perspective. Those types of rainfall totals don't imply pending disaster to me. I would appreciate any push-back you have to offer.

As for the forecast, everything is largely unchanged from yesterday.

Crops

Just one quick chart and we're off to the weekend. The chart below shows spot oilshare with the white line and spot soybean futures in the yellow. Note that the axis for soybean futures (left) is inverted. You can see here that, typically speaking, soyoil gains as a percent of product share when soybean prices are going lower...and vice versa. What is interesting lately, however, is that as soybean prices have rallied (down on the inverted axis) oilshare has also been trending higher. This is a fairly unusual occurrence and begs the question...which one is wrong?



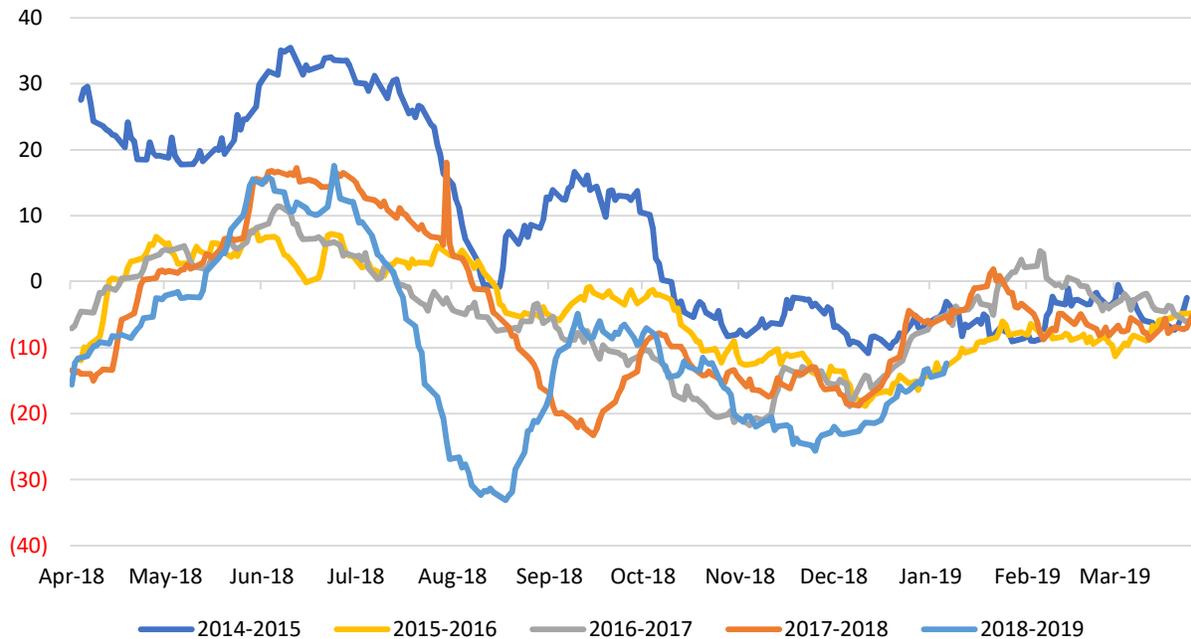
If the market were truly trading the idea that South American crops are getting smaller, then I would think meal would be the leader rather than oil here. The fact that we have generally been seeing the opposite is interesting.

Thoughts appreciated.

Livestock

The following chart shows the seasonal history of April hog "basis", taking the national weighted average hog purchase price (AMS LM_HG203) vs. April futures. You can see that the basis is narrowing this year as it seasonally does, but we're still on the low end of the range over the past several years.

April Hog "Basis"



So clearly basis should be narrowing here, the question is whether this is accomplished by cash rallying towards futures, futures breaking toward cash, or some combination. Well, as we discussed yesterday the carcass value has been soft, bellies aren't providing "leadership", and the seasonal is a bit negative at this time of year. Combine that with the idea that packer margins are already nothing special, and that makes me a bit negative towards nearby futures.

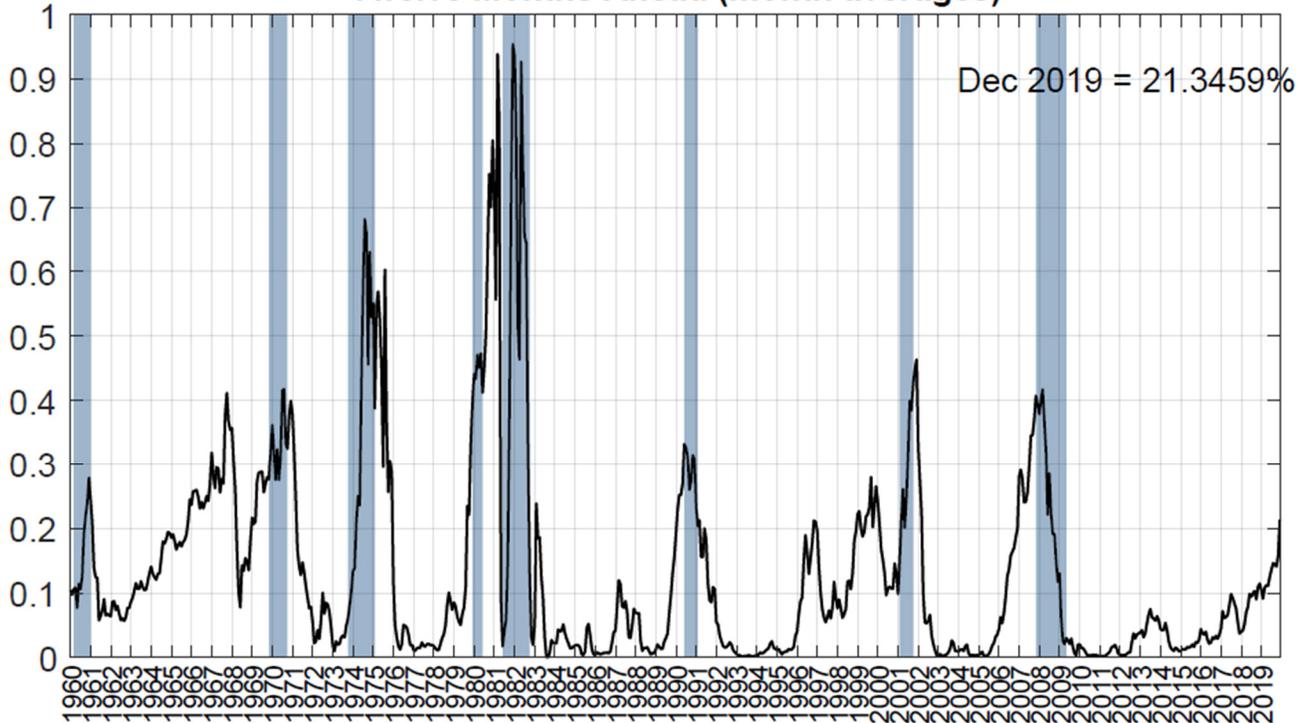
I understand the hope and allure of the ASF story, I just wonder if we've jumped on that too soon?

Thoughts appreciated.

Financials

Here is a new chart that I just learned existed. The NY Fed produces an index that measures the probability of a recession starting within the next 12 months. The chart is shown below. The shaded areas are actual recessions, and you can see the current index is now showing a 21% chance of a recession within 12 months (through Dec 2019). You can see this is the highest reading of the index since right before the financial crisis.

Probability of US Recession Predicted by Treasury Spread* Twelve Months Ahead (month averages)



While there have definitely been some “false alarms” at times, the track record of this index when it gets to elevated levels should not be dismissed in my opinion. I wouldn’t quite say we’re elevated right now, but let’s keep an eye on this going forward.

By the way, this index is largely based on the spread between the 3-month bill rate and the 10-year note rate. Perhaps that might be the more important spread to watch rather than 2s/10s?

Energy

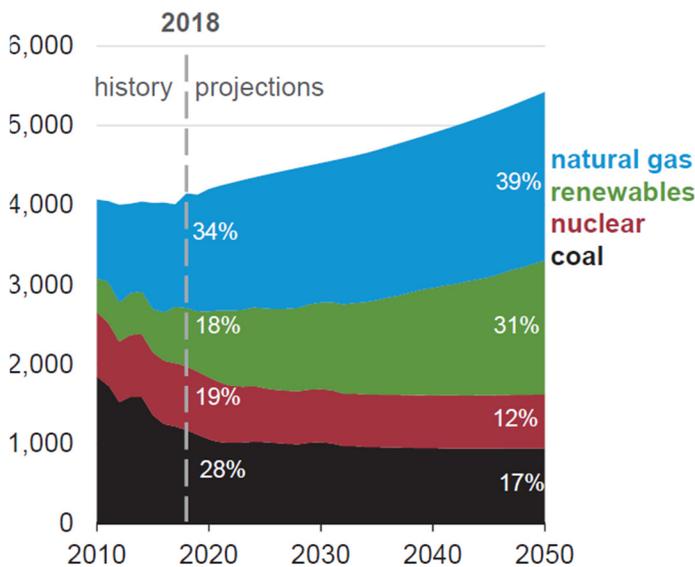
Yesterday the EIA issued its Annual Energy Outlook which “represents EIA’s best assessment of how US and world energy markets will operate through 2050”. The report was 83 pages long and full of interesting graphics I could choose from for today, but I thought the chart below might be of some interest. This shows EIA’s long term projections on the share of US electricity generation by fuel. You can see that EIA continues to expect less demand from coal, but interestingly it is the “renewables” sector that sees the greatest growth going forward according to their outlook. The chart on the right shows this broken down further, and solar energy is expected to be the overall big winner. The EIA’s report notes:

- Assumptions of declining costs and improving performance make wind and solar increasingly competitive compared with other renewable resources in the reference case. Most of the winder generation increase occurs in the near term, when new projects enter service ahead of the expiration of key federal production tax credits.

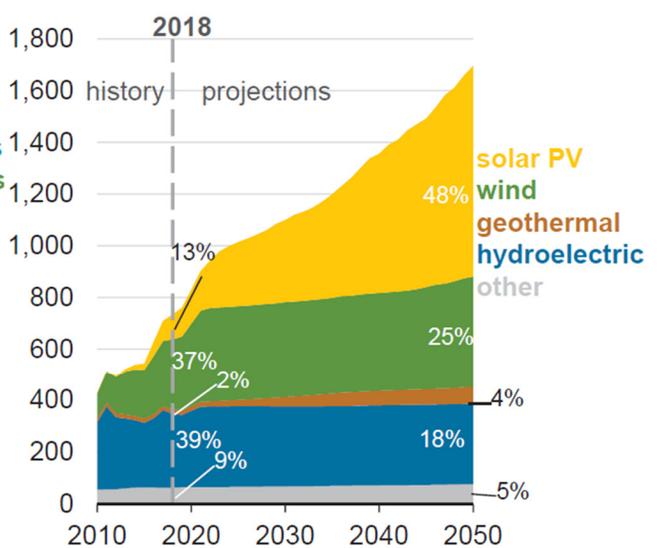
- Solar Investment Tax Credits (ITC) phase down after 2024, but solar generation growth continues because the costs for solar continue to fall faster than for other sources.

Electricity generation from natural gas and renewables increases, and the shares of nuclear and coal generation decrease—

Electricity generation from selected fuels (Reference case)
 billion kilowatthours



Renewable electricity generation, including end-use (Reference case)
 billion kilowatthours



U.S. Energy Information Administration

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Today's Calendar (all times Central)

- New Home Sales – 9:00am
- Baker Hughes Rig Count – 12:00pm

Thanks for reading.

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