NESVICK TRADING GROUP, LLC

Thursday, January 3, 2019

NTG Morning Comments

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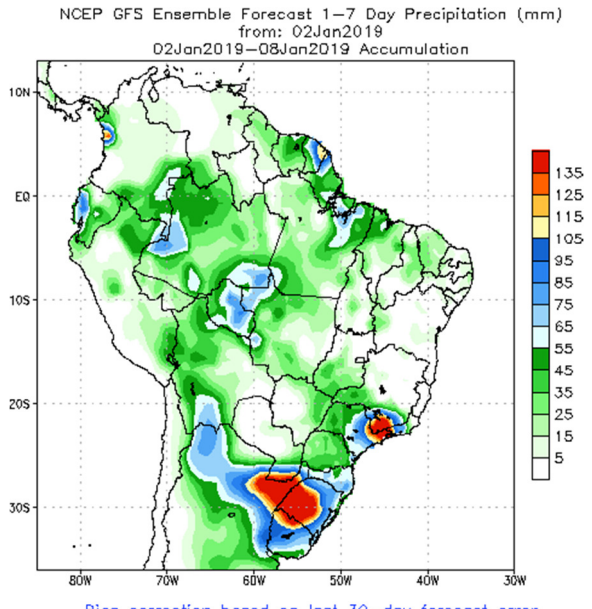
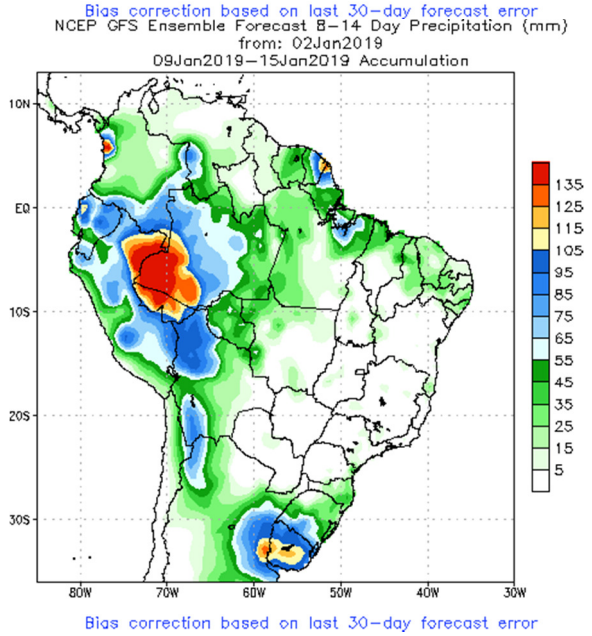
Weather

No significant changes to note this morning. Northern Brazil should see rainfall average mostly below normal over the next two weeks. Two week rainfall totals will mostly be 2-4" though northwestern Mato Grosso will maybe do better and Minas Gerais, Bahia, and far northeastern areas will probably see less. Rainfall will be limited today but we will see an increase tomorrow and during the weekend. Next week looks like it will feature very limited rainfall chances, but another uptick in precipitation is expected during the 11-15 day period. No extreme heat is expected.



Southern Brazil should see near to above normal rainfall over the next two weeks. RGDS should see big rainfall totals ranging from 5-8". Other areas will see rainfall totals range from 2.5-5.0" during this period. We should see a daily threat of rain through Monday, with a downturn in rainfall chances through much of next week. Another increase in rainfall chances should be seen during the 11-15 day period. We'll see a few more days of 90+ heat in the area but it should turn cooler by this weekend and this should extend into next week.

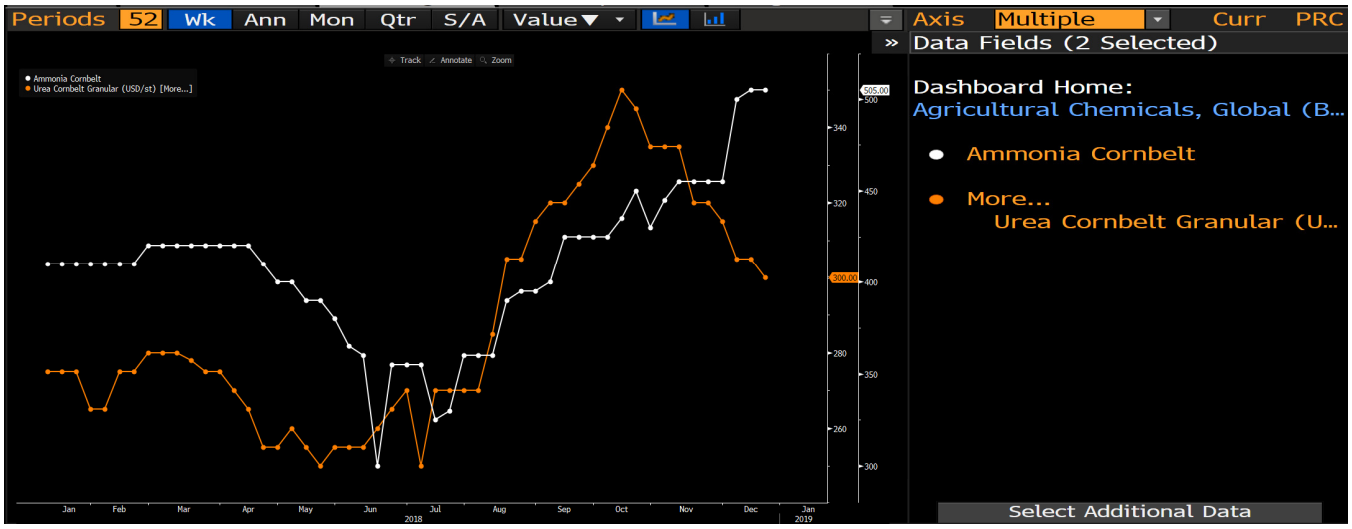


Two week rainfall totals in Argentina will range from BN in the southwest to easily AN in the northeast. Look for two week totals of 5-9" in the northeast, 2.5-5.0" in central areas, and .75-2.5" in southwestern areas. We have big thunderstorms in the region today but they should end soon and the area will be dry through Saturday. Additional rainfall chances will develop early next week. Relatively cool temps are expected going forward.

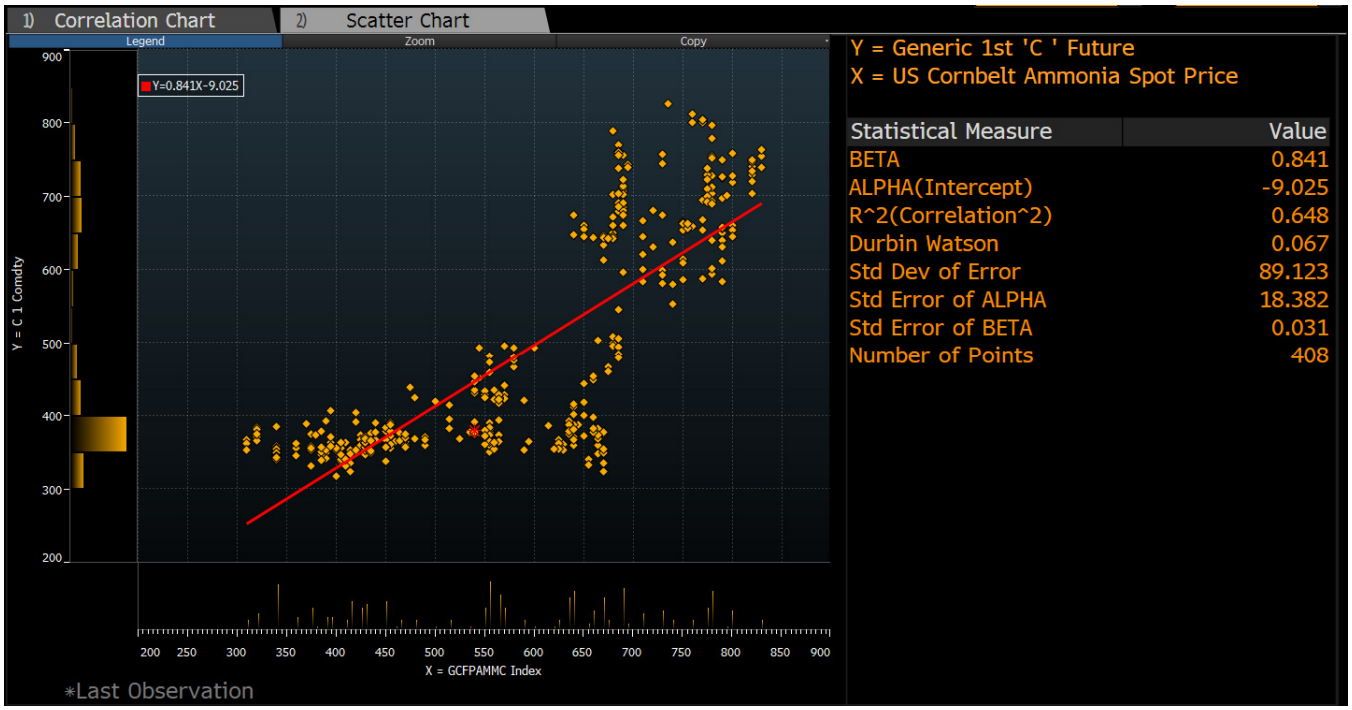
Crops

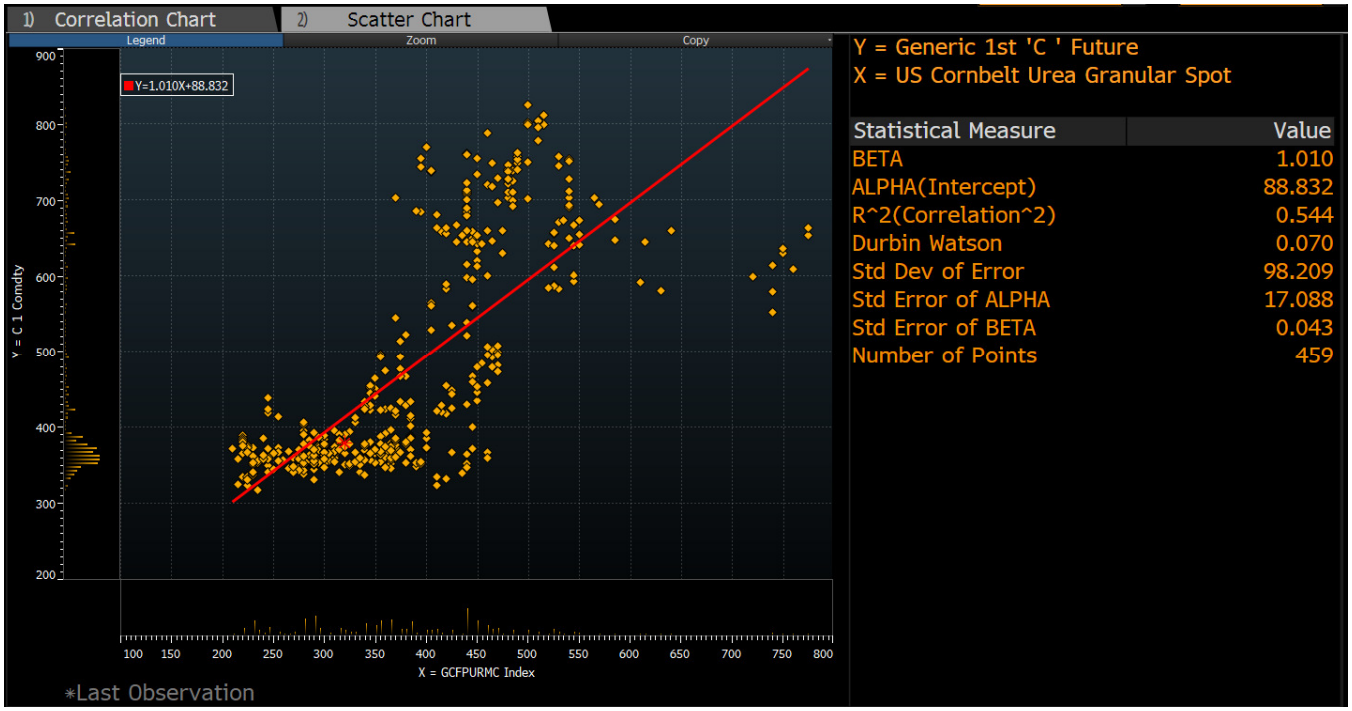
I was asked a random question a few days ago…*"will higher nitrogen costs support corn futures?"* I am the furthest thing from an expert on fertilizer prices, so this stood out to me. Is there a correlation between corn and fertilizer prices?

Before answering that question, let's take a quick look at what Corn Belt nitrogen prices have done lately. Here I'm posting indices provided to Bloomberg from the private source Green Markets. I can't speak to their accuracy, but I have no reason to believe it's incorrect. We've heard from many people noting that fertilizer prices have been moving sharply higher, and this confirms that move. Interestingly, this shows urea prices have backed off significantly in recent weeks but they remain elevated.



So what about potential correlation? I was actually surprised to see there was a halfway decent correlation. The scatter charts are shown below. Each of the data sets above is plotted against spot corn futures in the scatters below. I used rolling *spot* futures instead of rolling new crop futures to avoid "complications" due to roll at expiration. I looked at weekly values dating back to 2010. You can see that there is actually a *decent* relationship here, which makes sense but I still was surprised…





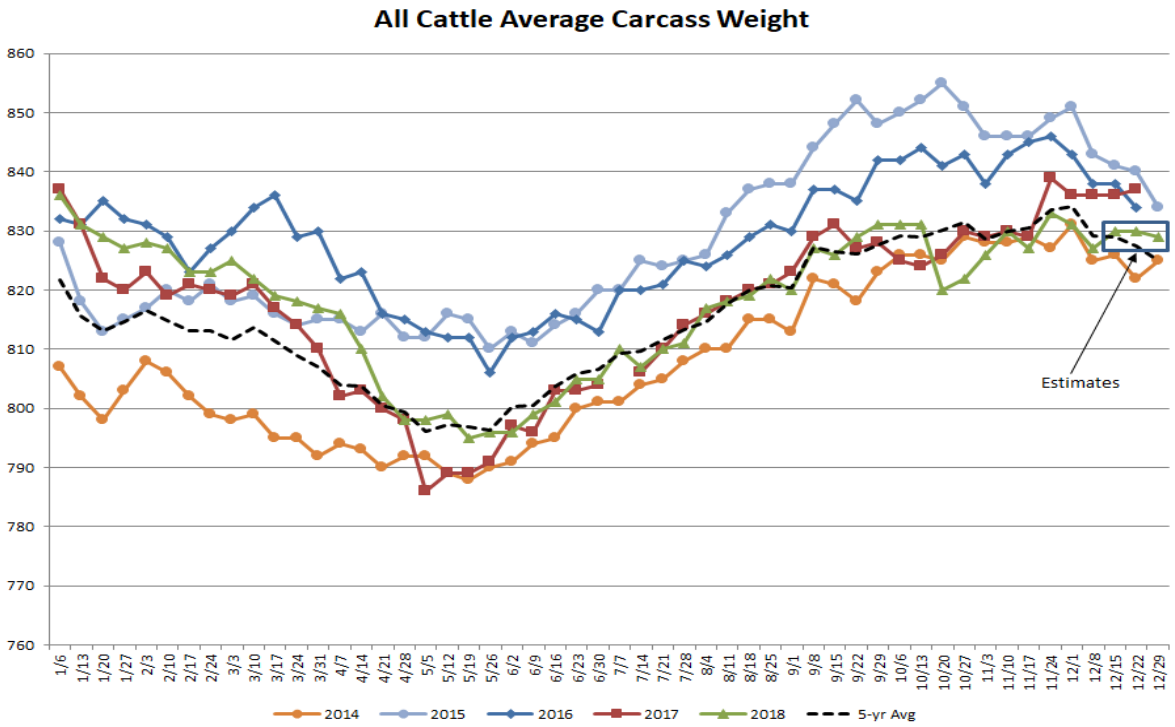
Rounding back to the original question that prompted this look – can high nitrogen prices support corn futures here? I suppose that depends on your outlook for fertilizer prices…but if prices remain elevated at these levels or move higher it would seem reasonable to conclude that this *might* provide some support for corn. Thoughts appreciated….especially on the outlook for fertilizer prices. I suppose this is another good time to point out that corn prices (relative to soybeans) have done nothing to work towards adding a significant degree more area in 2019 that everyone seemingly has already counted on….

One quick aside on yesterday…it is true that Chinese buyers were in the US market sniffing around for additional purchases but I'm told nothing traded. We'll see if they come back soon, but sounds like they're looking to wrap up the 4-5 mmt rumored purchase total ahead of talks next week.

Livestock

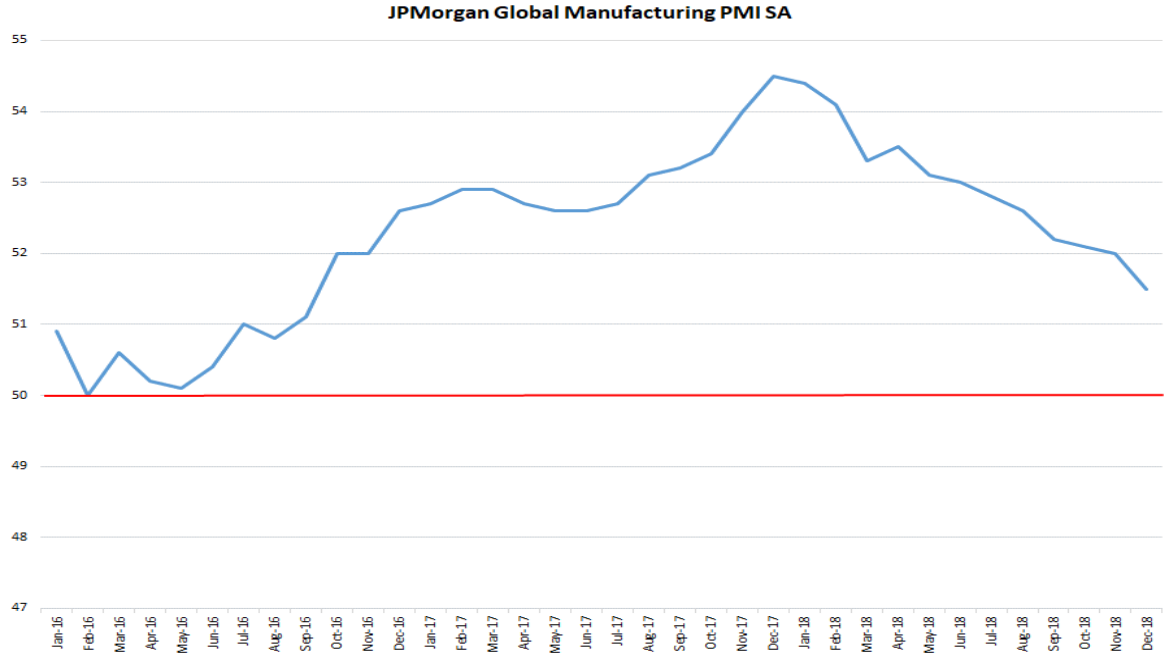
Nothing new to report on cash yet this week. Most still calling for higher cash trade. Showlists were technically higher this week vs. last, but I don't view that as a good indication of anything.

Due to the government shutdown we won't be getting the weekly view on official slaughter data today. This included the official kill totals as well as the weight breakdown. I'm more interested in the weight breakdown right now due to the poor feedlot conditions especially in NE but also in surrounding areas. The weekly slaughter estimate data that comes out on Fridays *does* given an estimate on weights, and I've updated the chart below with the past few weeks of estimates. You can see that, at least according to the estimates, weights have managed to hold fairly steady in the past few weeks. I think most analysts are betting the under vs. these figures…



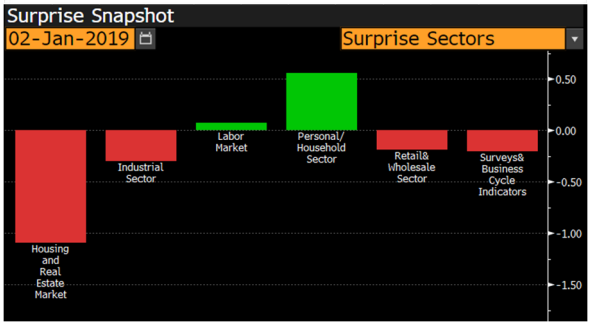
Financials

I pointed out several PMI prints yesterday, and I guess it is worth noting that there is actually a global aggregate PMI print that is put out by JPM and Markit. A chart showing the data follows below. You can see that global manufacturing is still technically in expansion, but the growth has slowed sharply in recent months and the global PMI is at its weakest level since September 2016.



And here is a chart comparing Chinese PMI data (specifically imports) vs. US durable goods (ex-trans). This is pulled from the WSJ's Daily Shot twitter feed. This shows that the poor Chinese data will likely feed into weaker US durable goods orders in the coming months. We get the next durable goods print early next week, and if this chart is to be believed, we should be looking for a relatively soft number.

On tap this morning we have the ADP employment release. The second chart shown to the right shows that the labor market along with personal/household consumption are the only portions of the US economy that are meeting or exceeding expectations lately. The ADP employment survey has been stuck right +/-200k jobs added each month during 2018, and the consensus estimate for today's number falls in that area at +180k. The US market could certainly use some good news…we'll see what we get.



US equity markets, and equities around the world, are getting hammered this morning. The main catalyst seemed to be yesterday afternoon when AAPL cut their guidance and noted weakness in their business in China. What makes this interesting is this is the first time AAPl has cut its revenue outlook in almost 20 years. Still, the AAPL news doesn't explain all of the wild moves overnight. FX markets were especially violent. The yen is still up sharply at the time of writing and the Aussie dollar was down very sharply earlier though at the time of writing it has clawed back a decent chunk of those losses. US Treasuries are once again bid this morning.

Energy

Nothing new to report in the oil complex this morning. Considering the volatility in equities and FX overnight, crude oil has posted a fairly quiet overnight session. Bloomberg is reporting that OPEC oil production fell 530k bpd in December to 32.6 mbpd. According to their report, this would be the biggest one-month decline in production since January 2017 when the group first started their efforts to support oil prices. As you would expect, the Saudis led the charge accounting for 420k bpd of the production cut. Libyan production fell as well, however, due mainly to storm related problems. Iran cut 120k bpd which was basically offset by Iraq's increase of 130k bpd. Iranian production has declined roughly 25% since the reintroduction of US sanctions.

Today's Calendar (all times Central)

- ADP Employment Change – 7:15am
- Jobless Claims – 7:30am
- ISM Manufacturing Index – 9:00am

Thanks for reading.

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