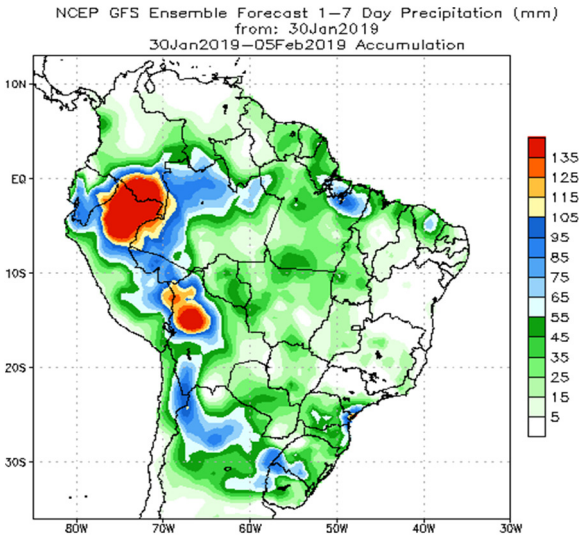
NESVICK
TRADING GROUP, LLC

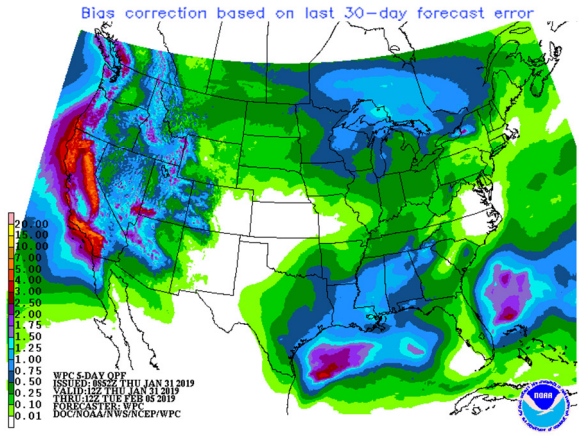
Thursday, January 31, 2019
NTG Morning Comments
www.nesvick.com

## Weather

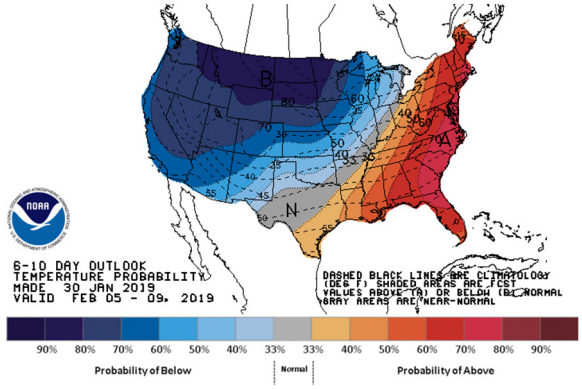
No change in the Brazilian forecast. Mostly near normal rainfall in northern Brazil over the next two weeks. Two week rainfall totals will range from 3-5". We'll see a few more days of dry and hot weather in this areas but rains will start to return to the region later in the weekend and this should be the beginning of a pattern shift that should allow for better rainfall in the area. Southern Brazil should see rainfall average below normal over the next two weeks with totals of 2-3". Look for a daily threat of rain over the next 5 days, but individual daily rainfall totals will be nothing special. Rains will become limited during the 6-10 day period while rainfall should increase again in the 11-15 day period.




Argentina should see near to mostly below normal rainfall over the next two weeks. Rainfall will be .75-2.0" in southern areas and 2-4" in the north during that period. The biggest rains will fall in the next 48 hours, with much more limited precipitation for the remainder of the two week period. No major heat is expected.




Limited precipitation in the US over the next 3 days, but another round of snow for the northern US will be possibly during the weekend into early next week. Temps should be bottoming this morning, though as you can see in the map to the right we're still looking at a lot of BN temps through a big portion of the country going forward. The sharp divide between cold air and warmer air shown on the map could create a situation where precipitation chances become much more active in the deferred forecast.




## Crops

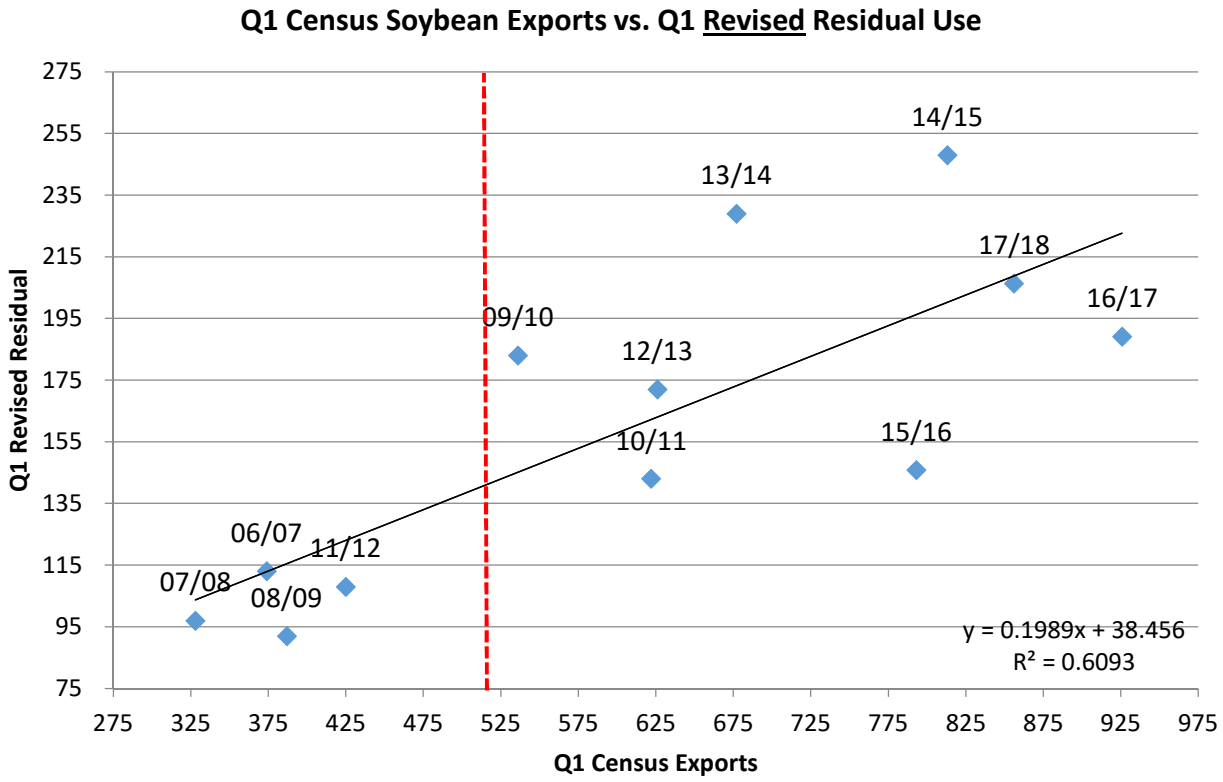
We've got a lot of USDA data schedule to hit next Friday, February 8. We'll get the final word on 2019 crops, quarterly stocks, and WASDE numbers. With that in mind, we'll spend the next 7 session prepping ourselves on what to expect.

Let me first start with a very quick statement on the production figures. I have gone through all my data but the reality is the January report is a bit of a guessing game. The production survey is much larger and I've never found a good way of modeling or predicting change from Nov to Jan (this time, Feb). My personal bias is that corn and soybean production figures should come out slightly smaller than anticipated. **I am assuming a**

**national average corn yield of 177.5 bpa with production at 14,520 mb (Bloomberg survey showed 177.8 & 14,528). My soybean yield guess is 51.5 bpa with production at 4,547 (Bloomberg survey showed 51.7 & 4,564).** I concede these are little more than rough guesses and I'm certainly willing to entertain any suggestions you might have…

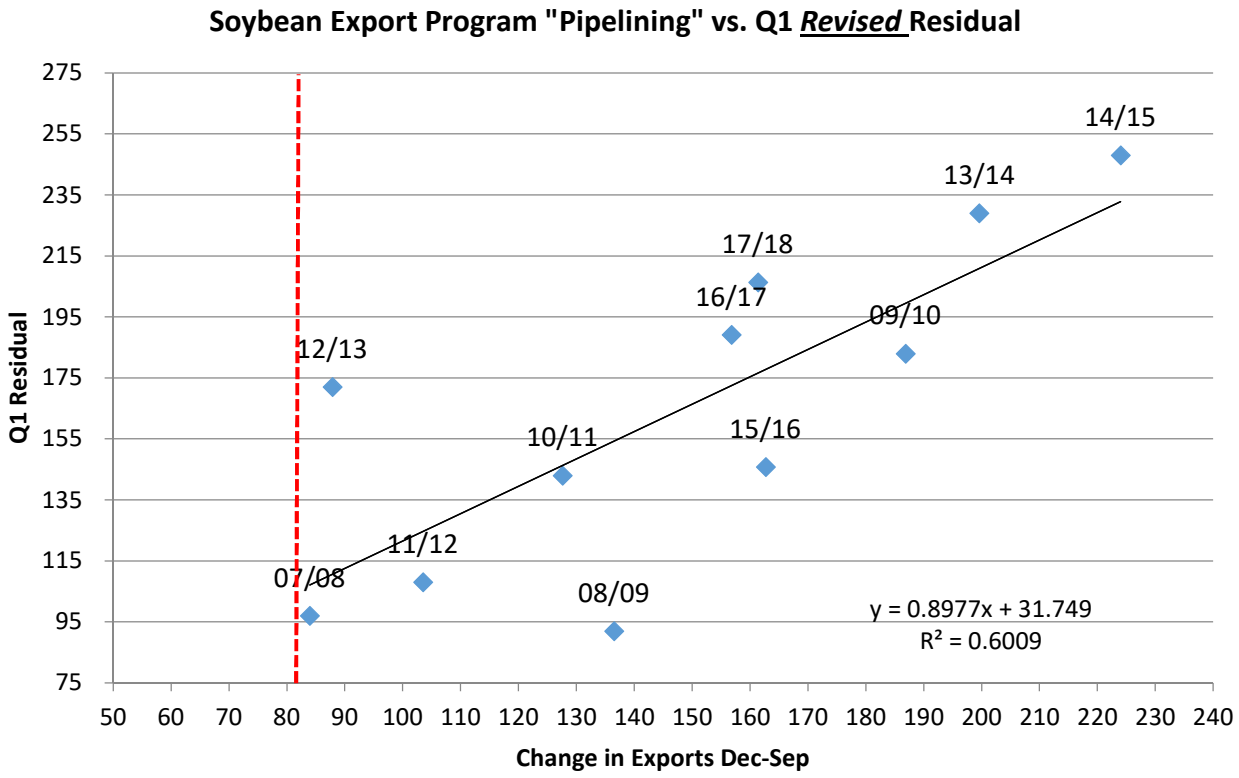
Today we'll focus our attention on Dec 1 soybean stocks. Believe it or not, modeling Q1 soybean residual use is *typically* not that difficult to pull off. As with everything related to soybeans this year, however, things might be a bit more complicated than usual.

As shown below, Q1 exports and Q1 residual are usually pretty decently correlated. The red line in the chart below shows where this year's Q1 exports stood (we don't have complete official Census data, but let's just say I'm being generous)…easily the lowest level of exports we've seen in several years. This should imply a relatively low residual demand estimate.




Another tool that we can use to estimate Q1 residual "use" is estimating the amount of "pipelined" soybeans. We're trying to account for the amount of soybeans in transit to various export terminals, as the varying amounts have proven to be a significant influence on the residual estimate. Typically we measure the level of "pipelined" soybeans by noting the difference in US exports during Dec vs. Sep. Typically, Dec exports are bigger than they are in Sep as new crop supplies are just starting to trickle out at that time. Measuring the difference gives us at least an indication of what might be in transit and/or pipelined. Again, we don't have an official Dec export number from Census right now but based on inspections the difference between Dec and Sep shipments

is the smallest I have in my series dating back to the 06/07 marketing year. As shown below, this would favor odds of a small Q1 residual figure.




Both series above argue for a below average residual estimate, but there are other considerations this year that make me question just *how* small the residual might be. For starters, we still have some soybean fields that were unharvested as of Dec 1. In theory, respondents are supposed to estimate the amount still in the field as storage, but I think we can all agree that is a questionable thought-process. We also have a lot more "unconventional" storage this year, with a lot more on-farm stocks and a lot of *that* in the temporary "silo-bags". Those factors probably should mean I should "fudge" my residual use estimate a little higher than I would otherwise estimate.

The breakdown below shows my best guess for US Dec 1 soybean stocks. Interestingly, this basically comes in right inline with the Bloomberg survey average guess. If you look at the history of residual use estimates, however, you can see I'm actually coming in near the high side of recent history. I feel the risk to my projection below is for a smaller residual than I'm penciling in and thus higher than expected stocks (assuming production inline with expectations).

US Soybean Quarterly Supply and Demand

| | 06/07 | 07/08 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Carryin (Sep 1) | 449 | 574 | 205 | 138 | 151 | 215 | 169 | 141 | 92 | 191 | 197 | 302 | 438 |
| Production | 3,197 | 2,677 | 2,967 | 3,361 | 3,331 | 3,097 | 3,042 | 3,358 | 3,927 | 3,926 | 4,296 | 4,411 | 4,547 |
| Sep-Nov Imports | 2 | 2 | 3 | 3 | 4 | 3 | 4 | 7 | 8 | 6 | 5 | 6 | 5 |
| Total Supply | 3,648 | 3,252 | 3,175 | 3,502 | 3,486 | 3,315 | 3,216 | 3,506 | 4,027 | 4,123 | 4,498 | 4,718 | 4,990 |
| **Sep-Nov** | | | | | | | | | | | | | |
| Crush | 459 | 467 | 420 | 445 | 443 | 412 | 452 | 446 | 439 | 471 | 485 | 495 | 530 |
| Exports | 374 | 328 | 387 | 536 | 622 | 425 | 626 | 677 | 813 | 793 | 926 | 856 | 524 |
| Seed | - | - | - | - | - | - | - | | - | - | - | - | - |
| Residual | 113 | 97 | 92 | 183 | 143 | 108 | 172 | 229 | 248 | 146 | 189 | 206 | 195 |
| Total Use | 946 | 892 | 899 | 1,164 | 1,208 | 945 | 1,250 | 1,352 | 1,500 | 1,409 | 1,600 | 1,557 | 1,249 |
| Stocks (Dec 1) | 2,701 | 2,360 | 2,275 | 2,339 | 2,278 | 2,370 | 1,966 | 2,154 | 2,527 | 2,715 | 2,898 | 3,161 | 3,741 |
| Stocks/Use | 286% | 265% | 253% | 201% | 189% | 251% | 157% | 159% | 168% | 193% | 181% | 203% | 300% |

## Livestock

Just a quick look at the LC chart this morning. LC futures are a technical beast right now, chewing into new highs on a seemingly relentless basis. As an old trader friend of mine has said many times – "there's nothing more bullish than new highs". If that is true, then it must be hard to find a more bullish market than nearby LC futures right now. The chart below takes a look at the weekly continuation in LC. You can see that not only do current nearby futures seem to keep grinding higher, we've seen the long term trendline violate, tested, and held recently. I would perhaps argue that we haven't yet put in a higher-high on this chart, needing a move beyond 130 to do so. Still, the chart is very clearly constructive.

The one thing that "bugs" me a little here is the *presumed* size of the spec position in LC here. While we haven't had any COT reports in several weeks, the volume and open interest, combined with overall commentary, lead me to believe the combined index-trader and managed-money long position in LC is probably record large. As you can see below, aggregate open interest is pretty elevated here. As long as there is nothing to derail the

optimism here, things can continue to look up. I am just concerned about the potential for a reversal in sentiment….

## Financials

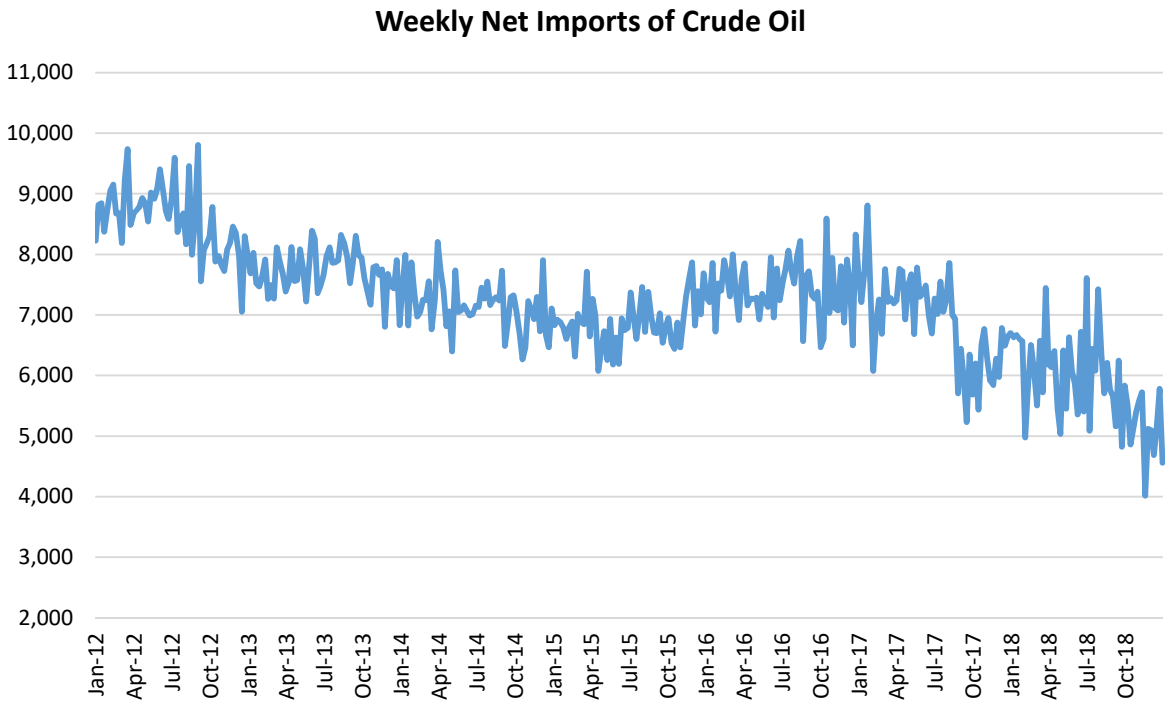
The chart below is "busy", but a good exercise for some food-for-thought. I thought the Fed statement and commentary from Fed Chair Powell was about as dovish as anyone could have "hoped" for yesterday. The Fed is essentially, for now, calling quits with their tightening policies. With that in mind, I wonder aloud if it is time to play the UST steepener? No, the 2-10 spread has not actually inverted yet, but as you can see below the curve has been flattening relentlessly during the Fed's tightening cycle. If…big IF…the Fed's tightening cycle has indeed run its course, is it time to perhaps take the other side of this despite the fact it never actually inverted? I think it is worth considering…

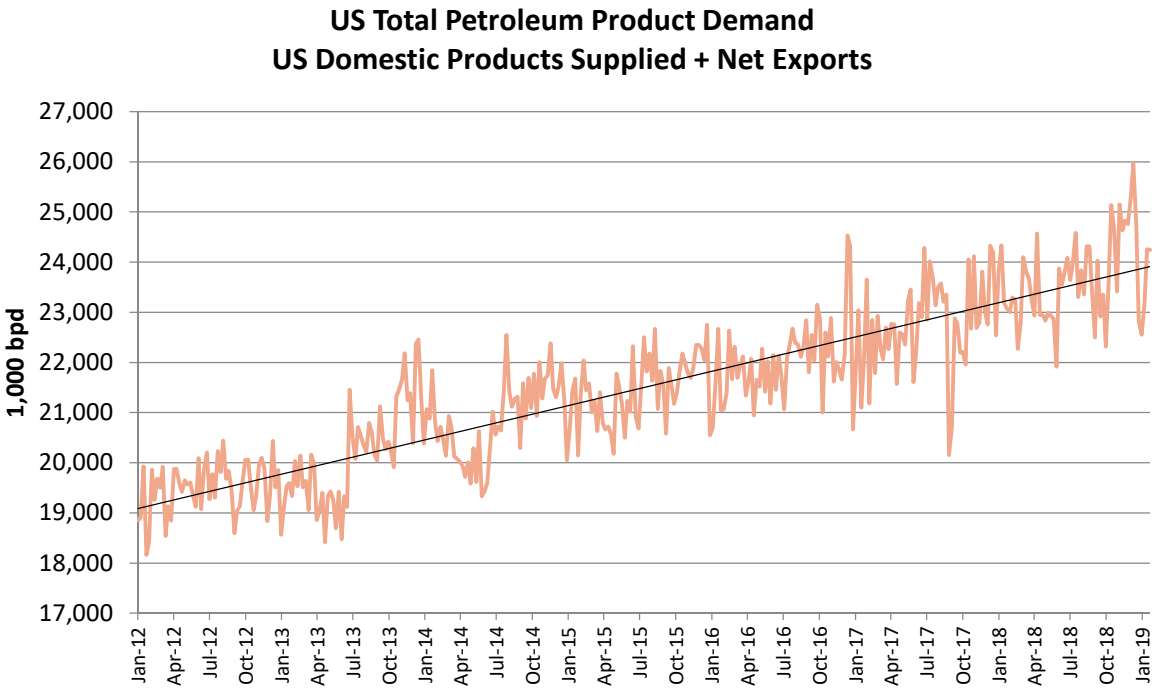
No major information to pass along from overnight. Chinese manufacturing PMI contracted for the second straight month with a print of 49.5 for January. That was up 0.1 from December, but still under the 50 level. Services PMI was still very strong, however, posting a 7-month high of 53.6. AMZN reports earnings today, and GE might be of interest as well.

## Energy

Simply restating the obvious here, but I still enjoy tracking the data on US net imports of crude oil. While note quite at the recent lows, the downtrend in US net imports is something I guess I'm still not quite used to. Also keep in mind that the US is a net exporter of refined petroleum products. The second chart below shows a combined level of total US petroleum product demand, accounting for both domestic products supplied and net exports. There is a little bit of double-counting there as we still import *some* petroleum products, but I still think the trend is accurate. In theory, this would seem to be a good time to be a US refiner, but the refiner ETF (CRAK)

has followed oil prices lower in recent months. Admittedly, CRAK is down "only" 5% in the past 6 months while WTI is down roughly 15%.



**Today's Calendar (all times Central)**

- Jobless Claims – 7:30am
- Export Sales – 7:30am
- Chicago PMI – 8:45am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684
Trillian IM: dzelinski@nesvick.com
Bloomberg IB: dzelinski2@bloomberg.net

**DISCLAIMER:**
**This communication is a solicitation for entering into derivatives transactions**. It is for clients, affiliates, and associates of Nesvick Trading Group, LLC only. The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. These materials represent the opinions and viewpoints of the author and do not necessarily reflect the opinions or trading strategies of Nesvick Trading Group LLC and its subsidiaries. Nesvick Trading Group, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such.

Officers, employees, and affiliates of Nesvick Trading Group, LLC may or may not, from time to time, have long or short positions in, and buy or sell, the securities and derivatives (for their own account or others), if any, referred to in this commentary.

There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. Nesvick Trading Group LLC is not responsible for any redistribution of this material by third parties or any trading decision taken by persons not intended to view this material.