NESVICK TRADING GROUP, LLC

Wednesday, March 6, 2019

NTG Morning Comments

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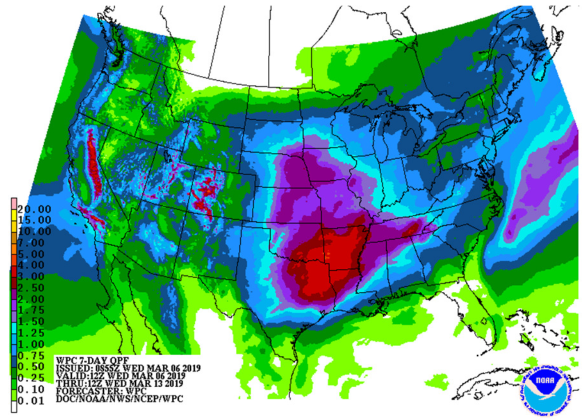
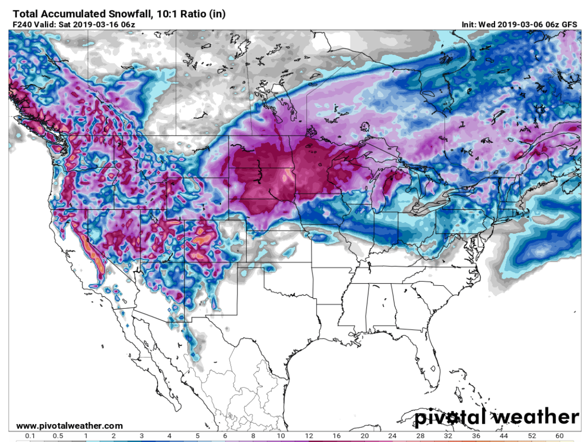
Weather

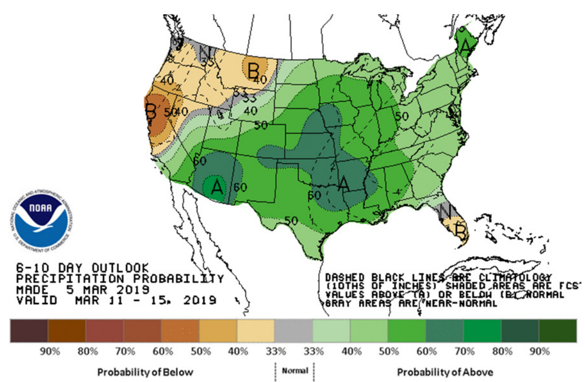
No change to the forecast in Brazil. Near normal rainfall totals will be seen in northern areas over the next two weeks. Rainfall totals here should average 2.5-5.0". Southern areas should see AN rainfall totals over the next two weeks with similar rainfall totals. RGDS might see some locally bigger amounts with the biggest rains coming in the 1-5 day period. Temps will run AN in the north, but nothing extreme. Near normal in the south.



Argentina should see two week rainfall totals average near to above normal. Most areas in the northern half of the country will see 2-4" while the southern half will see 1-2" amounts. Rainfall will be limited today but significant showers will develop later tonight and we'll see rains continue into the weekend. Additional rains will be likely into early stages of the 6-10 day period before tapering off in the 11-15 day period. Mostly BN temps are expected over the next two weeks.



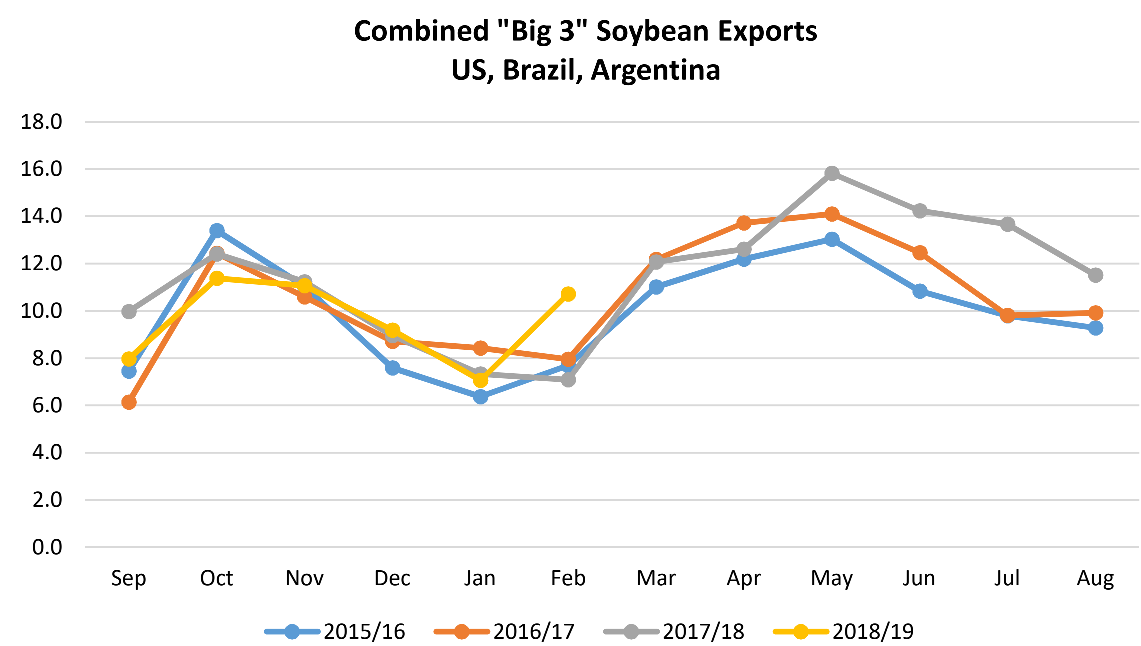
No major changes to the US this morning, with the active precipitation pattern continuing. Today will be mostly dry in the middle of the country but showers will start to develop Delta tomorrow and this will expand through the weekend producing some very big amounts. In addition to the rainfall in the southeast, we'll be seeing significant snow accumulations in the Northern Plains. The map at middle-right is admittedly hard to read. It shows the GFS's projection for 10-day snowfall totals. While the scale is difficult to read, note there are spots in portions of the Dakotas and MN that *might* see up to 2' of snow from this event. Active precipitation chances will likely continue during the 6-10 day period, as indicated at bottom-right. There are some indications that precipitation should diminish during the 11-15 day period, but for now it would seem likely additional precipitation would follow behind it.

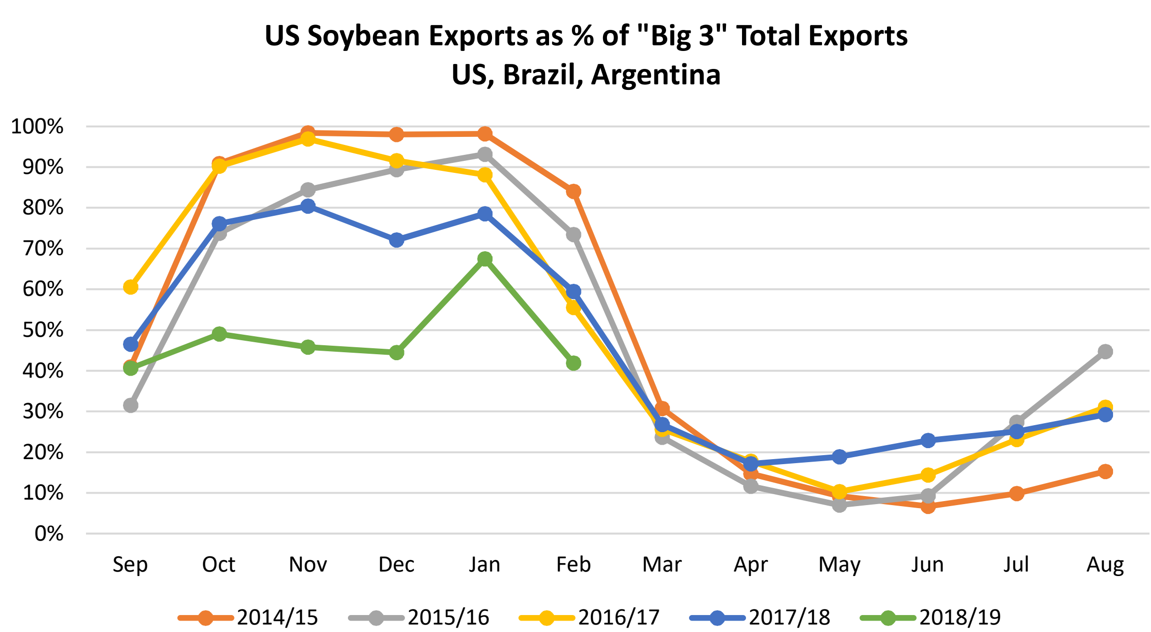


Crops

Just a few quick charts for perspective this morning. I wanted to update with February "global" trade data for corn and soybeans. Keep in mind not all of the data I'm providing here this morning is truly "official" yet. We've got official Brazilian numbers for February but that's it. For the US, I'm making assumptions using inspections data and for Argentina and Ukraine I'm using port and/or line-up data.

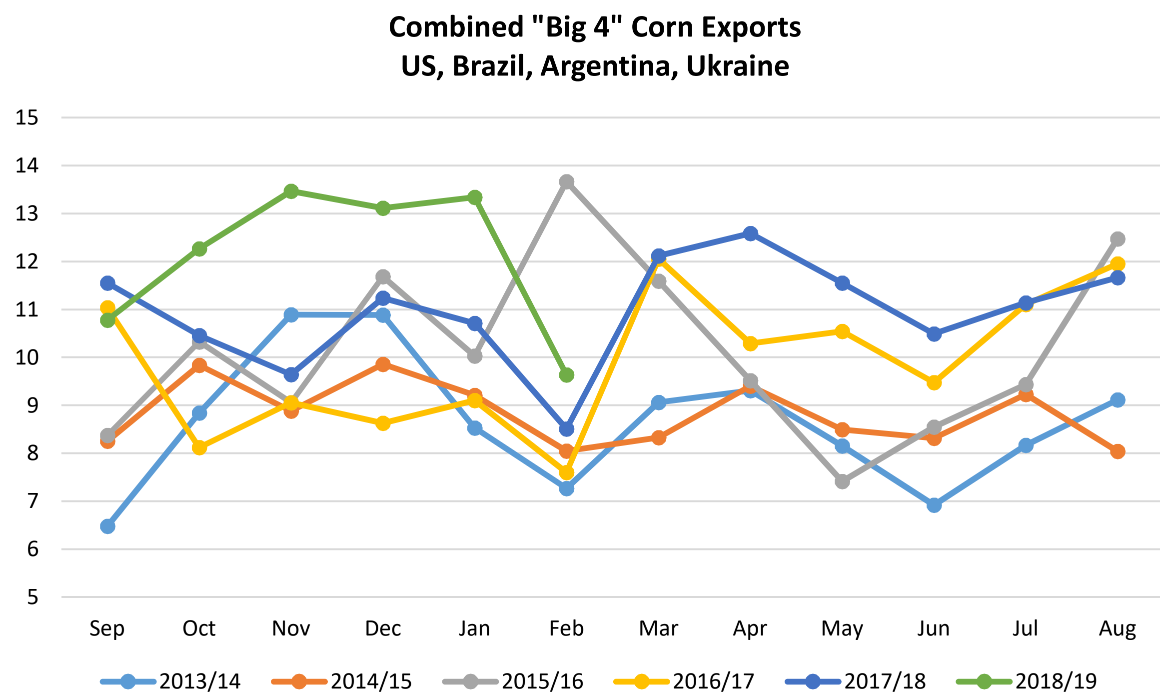
The first chart below is the combined export total for the "Big 3" soybean exporters – US, Brazil, and Argentina. I'm estimating total Feb shipments at roughly 10.7 mmt, of which the majority comes from Brazil where exports (official data) were a record 6.1 mmt. US exports were also fairly solid seasonally speaking thanks in part to the Chinese government's political purchases during the trade negotiations. Despite the solid uptick in US shipments, you can see in the second chart below that the US percentage of total shipments is still well below average as Brazil continues to dominate the action.

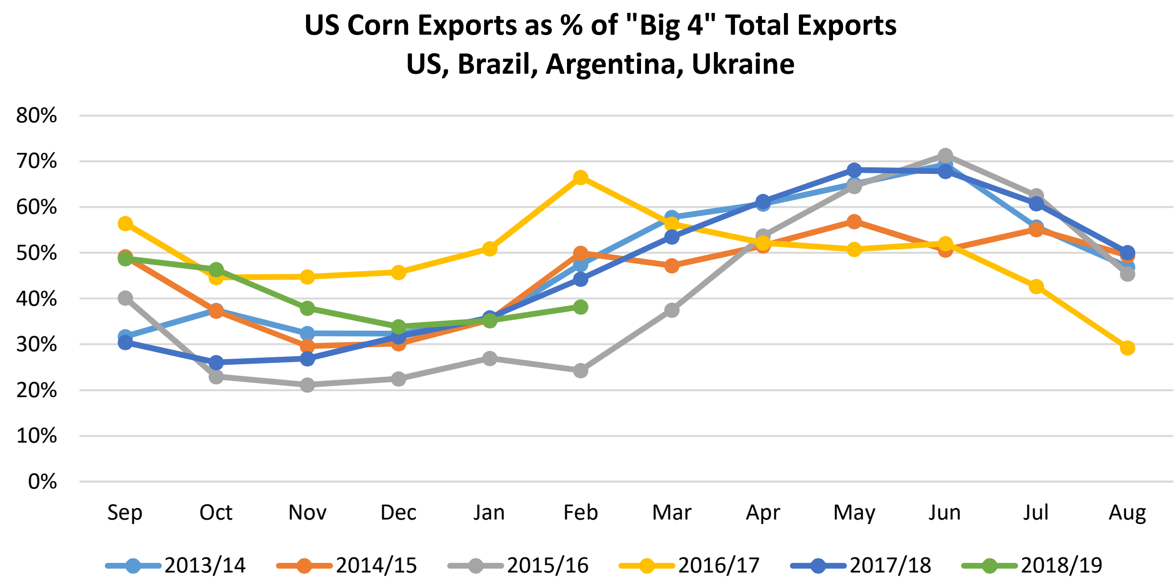




The one question that comes to my mind in looking at the first chart is…is current demand really bigger than normal or are we "borrowing" demand from the future? On one hand, perhaps one could argue that the Chinese purchases are mainly for restocking, implying that the big demand is "real". I would point out, however, that we've seen newswire articles note Sinograin is trying (unsuccessfully?) to sell these cargoes to private crushers already. We can also see that Chinese meal prices continue to sink lower and lower and crush margins remain under pressure. With all of that in mind, I would be of the opinion that we've "borrowed" demand from the future with this surge in exports. I'm open to your thoughts…

Looking at corn, I've plotted "Big 4" shipments below. The Big 4 is the same as above but with the addition of Ukraine. We also have a bit of a different scenario here, with HUGE export totals so far during the US marketing year that have just now dropped off. Of course with February being a short month you'd expect the total to drop off and the Feb total is still bigger than most others on the chart. The USDA appears to clearly be expecting big export demand to continue as they continue project solid US exports for the remainder of 18/19 and the 19/20 figure is fairly optimistic as well. Considering that EU imports are likely to be down sharply (assuming normalization of both wheat and corn production this year – that could change), I find myself in the camp of those that believe that total corn import demand will likely "normalize" in the months ahead. As such, we have to ask whether the US is in position to garner an above average percentage of the total. That history is shown on the second chart below. Considering Argentina appears well on its way to an excellent crop and Brazil's safrinha production prospects appear solid for the moment (though it is still very early), I'm guessing US market share will actually underwhelm going forward.

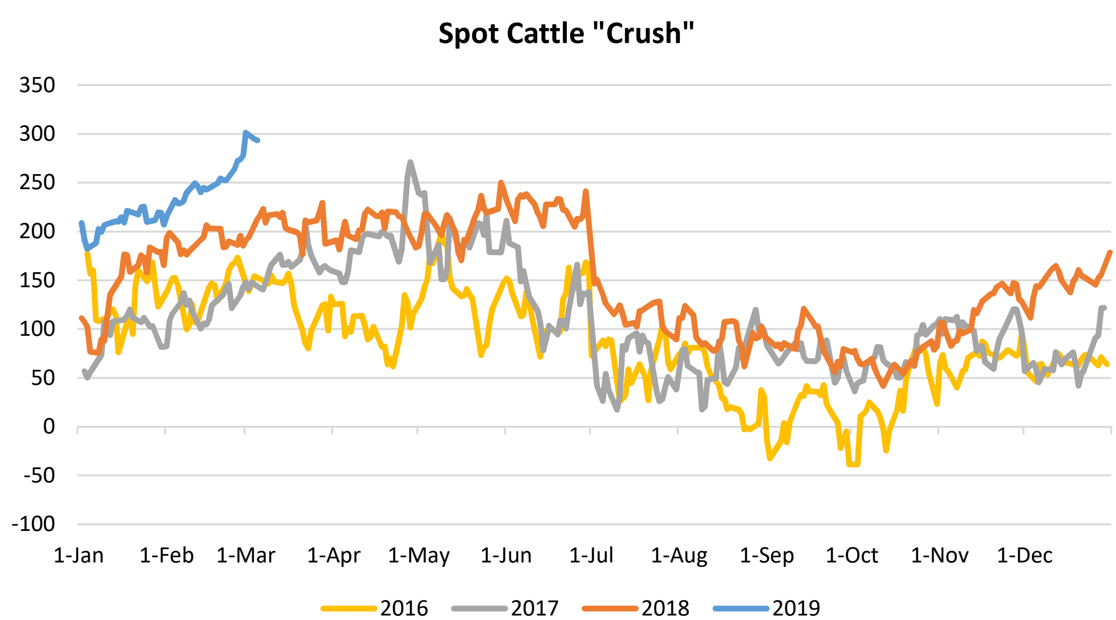




Bottom line, I can still see lots of headwinds against US export demand for corn and soybeans going forward. Unless, of course, China comes to our rescue…

Livestock

I'll admit upfront that I'm not exactly sure where to go with this. I was simply scrolling through some charts and data yesterday and realized I hadn't looked at cattle "crush" estimates in a while. The "spot" cattle crush that I calculate is charted below, and you can see that we're in somewhat rare territory at present. For clarification, I'm using the CME feeder cattle index and spot CBOT corn vs. 6th month LC futures (and I also have an assumption for "additional" costs).



Are fats a little rich vs. their "inputs" right now? I don't have any answers this morning, just questions. Thoughts appreciated…

Financials

Yesterday the US Treasury issued its monthly budget statement. The US government budget deficit for the first four months of the fiscal year (Oct 1) totaled $310B vs $176B last year. The higher deficit reflected greater spending in areas such as Social Security, defense, and interest payments on debt. Of course revenues have been weaker due to tax cuts. An AP report showed individual income taxes down 3% YOY in the same period and corporate income taxes down 23% YOY. Revenue is up on …tariffs. Revenue from tariffs is unsurprisingly up 91% YOY…just ignore the fact that the tariff is paid for by the US importer and not the exporter. The AP report brings up the reminder that the government's debt limit is back in effect. It had been briefly suspended but now we are facing the cap again. The Treasury is apparently already taking "special measures" to avoid tripping the debt ceiling and the CBO is forecasting we might make it to Sept before really having a problem with it again.

On tap today we have some important economic data. First up will be the ADP employment report, which of course sets the stage for Friday's NFP release. Job gains have been on "autopilot" over the past several months and the consensus guess is looking for more of the same…+190k. Also on deck this morning is the release of the Dec trade balance. The consensus estimate calls for the trade deficit to widen to a new record level…hardly what President Trump probably wants to see.

Energy

The weekly EIA inventory report is due this morning, with expectations call for a build of 1.5 million barrels in crude oil stocks. API reported their estimate yesterday, showing a much larger than expected build of 7.3 million barrels.

Seeing a Bloomberg article this morning highlighting a research note forecasting that Chinese oil consumption will peak in 2025, which apparently is 5-8 years earlier than previously thought. The Chinese government is certainly incentivizing electric vehicles and they are in the process of building more high-speed rail. I can't comment on whether the report is accurate or not, but the idea of Chinese consumption peaking has to get the oil market's attention as China has been the driving force behind demand growth for the past ~20 years.

Today's Calendar (all times Central)

- ADP Employment Change – 7:15am
- Trade Balance – 7:30am
- EIA Petroleum Inventories – 9:30am
- Fed Beige Book – 1:00pm

Thanks for reading.

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