

Weather

Days 1-3, 4-5, and 6-7 to the right.

I think the first thing worth pointing out in the QPF maps to the right is the expected rainfall totals in the WCB from the first event this week are down considerably from what we were looking at yesterday. You can see in the map at the top right that only light rainfall amounts are expected to fall in NE, SD, and western IA. This seems to be the case because the forecast has the system simply moving through the area much faster and moving a bit further south than previously expected. Rainfall totals in the Plains and the Delta are largely unchanged from yesterday, and perhaps you could argue that ECB rainfall totals have increased slightly.

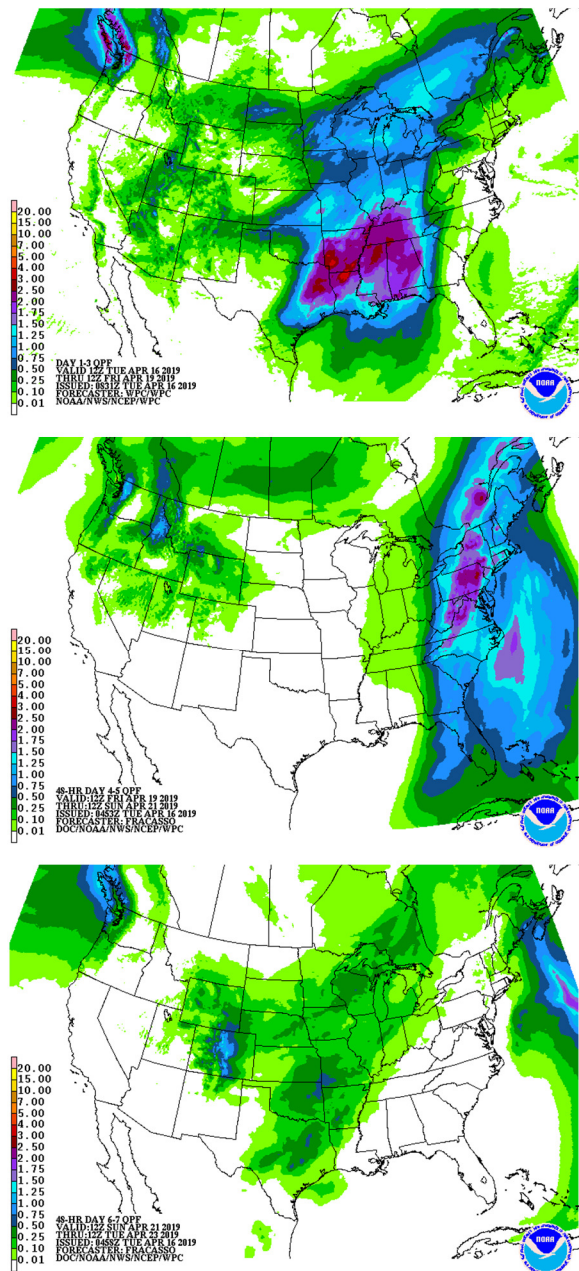
The map to the bottom right shows the next system that is due to affect the Corn Belt. Models are not in good agreement right now so consider this nothing more than a guess from the WPC and it will likely change a lot in the coming days. Look for coverage of rainfall to eventually be less than what is shown in the map but localized rainfall totals will probably be larger.

We've mostly moved past the cold weather. There might be some lingering cool conditions today but for the most part we're looking at a lot of near normal temps through a majority of the country over the next two weeks. At times we'll see temps reach into AN levels.

No changes in international weather to report. In Europe, limited precipitation chances this week but we should see rainfall potential improve solidly next week. Argentina should see a lot of clear weather for harvest progress over the next two weeks. Some on-and-off showers are possible in safrinha production areas in Brazil, but no really big amounts expected. FSU winter grain areas saw rain over the past 24 hours and some additional precipitation will be possible today before mostly dry conditions settle in for the remainder of the two week forecast period.

Crops

Just a very quick write-up this morning, but something I thought worth spending a bit of time on because I have received a lot of questions on calendar spreads over the past week. I think a lot of people have forgotten that CME is expanding storage rates on corn and soybeans starting with the Dec & Nov contracts, respectively. CME



is changing the month storage rates from 5 cents/bu to 8 cents/bu. This has allowed a lot of the new crop spreads to widen and I've received a lot of questions lately because a lot of people have seemed to forget the news (it was initially reported last July). Let's run through some quick math on full carry and be on our way with the day. For the sake of simplicity, I'm only going to be looking at the storage component of the full-carry calculation today. Obviously full-carry also involves interest rates, but CME isn't changing anything there and thus the YOY changes in spreads we're discussing today really don't involve anything to do with interest rates.

First a comparison on the July-December corn spread. Between the expiration dates of CN'19 and CZ'19 is approximately 154 days and the current daily storage rate is roughly 0.165 cents/bu/day (5 cents/bu/month x 12 months / 365 days). So in terms of storage alone, full-carry in the past for CN-CZ has been roughly 25 cents. Now let's compare that against the new storage rates that will be in effect for the CN'20-CZ'20 spread. We're still looking at 154 days (duh) but the daily storage rate will increase to roughly 0.263 cents/bu/day (8 cents/bu/month x 12 months / 365 days). For the CN'20-CZ'20 spread the new storage only full carry figure will widen to roughly 40 cents. Compared to this year, the CN'20-CZ'20 spread's full-carry will widen by roughly 15 cents when looking at storage only. That is a BIG deal in my opinion. (Friendly update that the CN'20-CZ'20 spread is currently inverted!)

Now let's look at the July-November soybean spread. The difference in expiration dates between the SN'19 and SX'19 contracts is roughly 125 days and with the current daily storage rate we're looking at a storage-only full-carry estimate of roughly 20.75 cents. With the increase in the daily storage rate as described above, the storage-only component of full-carry increases to roughly 33 cents or a net difference of roughly 12 cents.

Of course we're looking at only the July vs. new crop contracts here above, but the same math would be applicable to all calendar spreads from SX'19 and CZ'19 forward.

Bottom line, in well-supplied environments (I think most would agree that is where we stand today) we should see spreads trade wider than we've become "accustomed to" over the past several years.

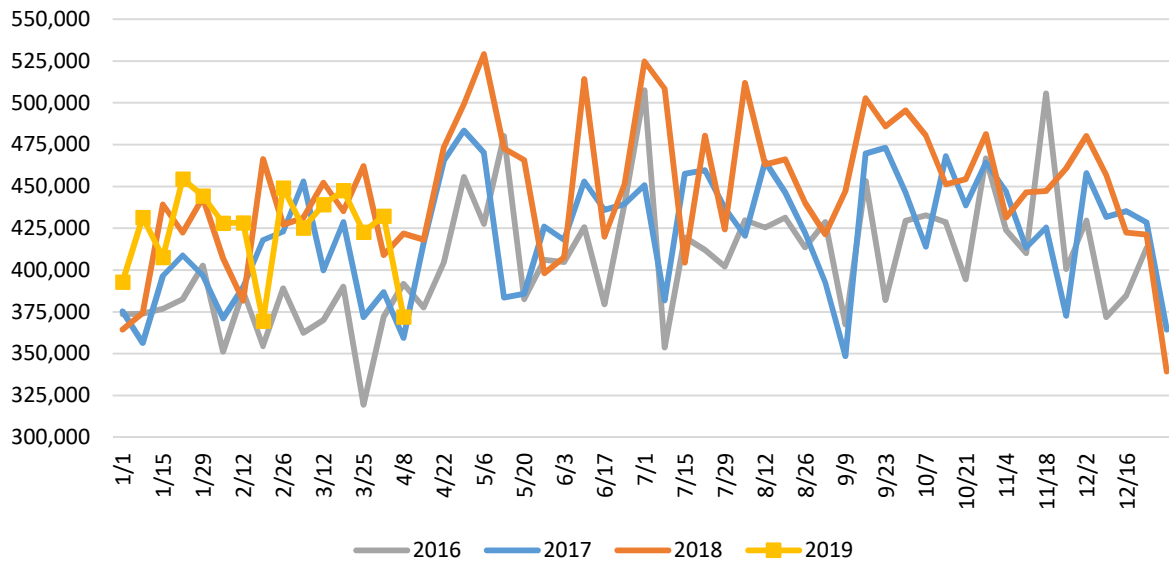
This also has implications for the "investment" world as well. We should continue to see the index trader long-only type of investment demand decline in this environment. Those buying nearby futures and rolling repeatedly will be absolutely crushed on the negative roll implications being *worsened* by the bigger storage rates. Additionally, this might actually be one reason to expect bigger net short positions from the MM crowd as they can park shorts in the nearby contracts and roll into wider carries going forward.

Thoughts? Did I miss anything?

Livestock

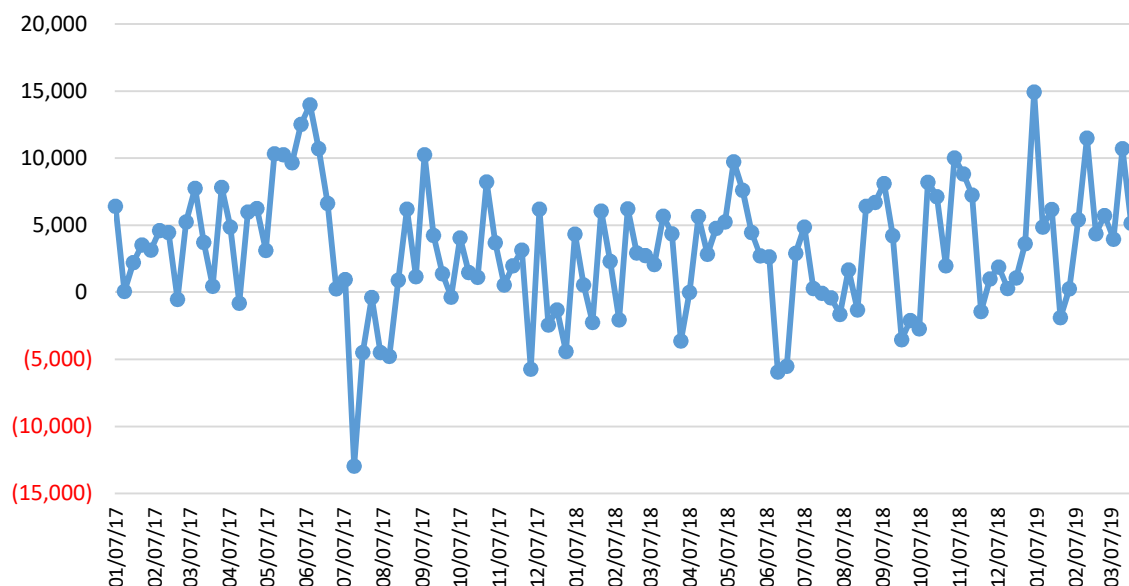
No major surprise to see MPR volume down sharply last week. The chart follows below. Perhaps more importantly, however, is we will seasonally be seeing kills increase steadily going forward and this means the packers will need to get a bit more aggressive going forward. Also, beef prices are acting pretty solidly so the packer should have some margin to work with.

Total MPR Volume
Formula, Grid, Forward, Negotiated



Speaking of slaughter, note that last week's estimate was revised slightly higher. One thing that has been interesting so far in 2019 is how badly the weekly estimated slaughter has been missing the official slaughter. A history of the weekly difference is shown below, and you can see that in all but one instance this year the official kill has been higher than the original estimate. You can see in the past that typically there is a bit of variability between higher and lower. Additionally, the misses so far this year have been pretty big as well. Not sure if there is an explanation to this or not...thoughts appreciated.

Actual Cattle Slaughter vs. Estimate

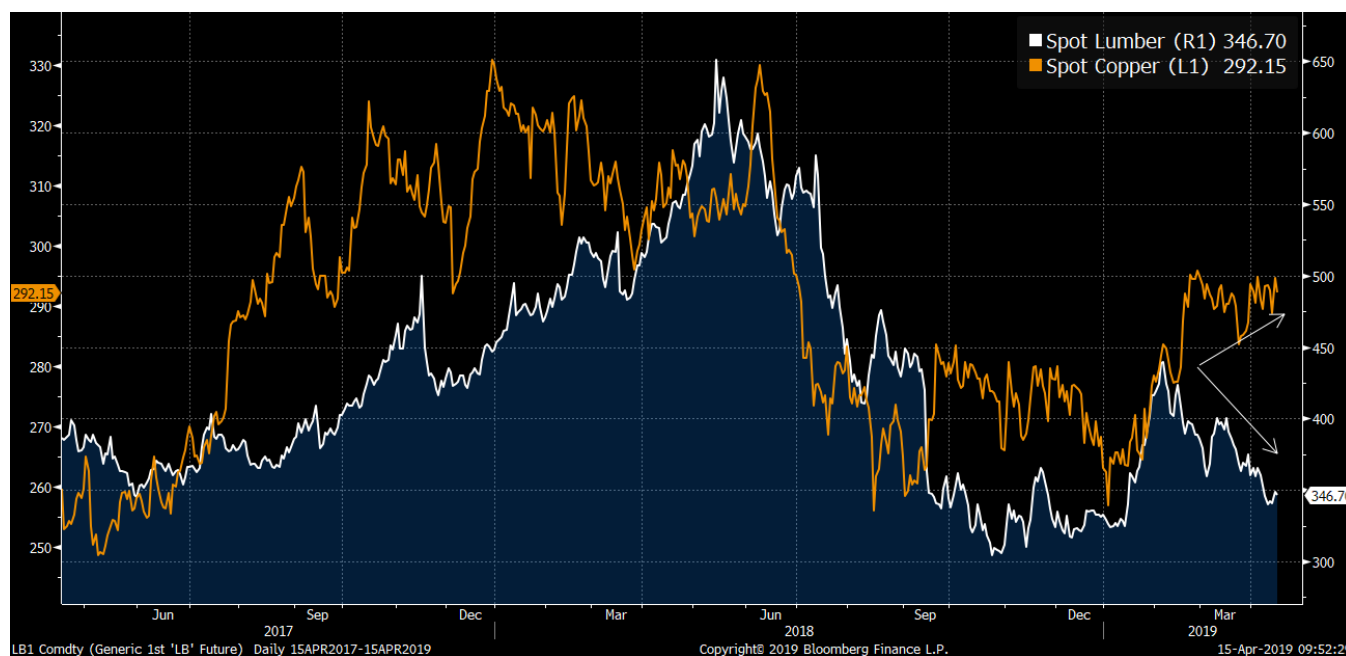


Financials

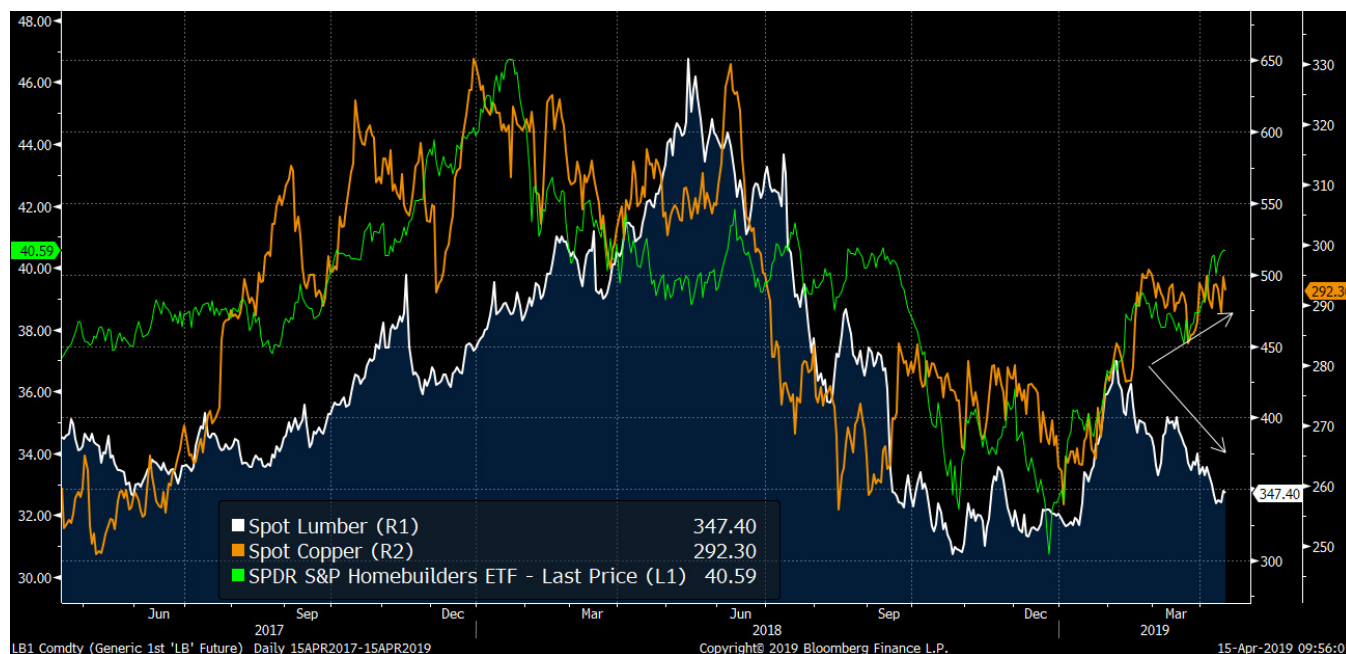
It's a busy week of earnings as the season really gets underway. On tap today we have BAC in the morning and NFLX after the close. BAC isn't likely to be much of a market mover on its own (though EPS did beat expectations), especially since we've already seen JPM, C, and GS report. NFLX, however, can certainly drive sentiment tonight so be on guard.

US equity futures are riding the good vibes from the solid banking sector earnings higher this morning. There also seems to be a good deal of optimism towards Chinese economic data looming later in the week. We've seen the Chinese government flood their economy with stimulus, and I'm guessing the market believes that it will show itself in some of the data. Due from China this week are reports including industrial production, retail sales, and GDP. If these numbers are solid look for equities to make yet another surge higher.

We've seen an interesting divergence spring up between two commodities that are supposedly good indicators of the economy. A chart of lumber and copper futures is shown below. You can see over the past two years they've tracked fairly closely together but here lately we've seen the two markets move independently. Copper futures have been grinding higher steadily through 2019 while lumber has stumbled since the surge at the beginning of the year. Which one to believe or is the truth somewhere in the middle?



The chart below is the exact same chart but I've added XHB which is the homebuilders ETF. Again you can see that all three have tracked relatively closely over the past two years. In the past several weeks, however, XHB is certainly taking its cue from copper and performing well right now. On tap today we have the NAHB housing market index, and this will be worth watching. If the number proves to be a disappointment, might it imply lumber is the leading indicator of the two? Just thinking aloud here...



Energy

The EIA released their monthly Drilling Productivity Report yesterday, giving a glance at US shale production efforts. The EIA lowered their estimate for April oil production to 8.38 mbpd from 8.59 mbpd in the prior month. May production is expected to average 8.46 mbpd.

Region	Oil production thousand barrels/day			Gas production million cubic feet/day		
	April 2019	May 2019	change	April 2019	May 2019	change
Anadarko	573	567	(6)	7,507	7,489	(18)
Appalachia	131	135	4	31,862	32,215	353
Bakken	1,374	1,385	11	2,716	2,730	14
Eagle Ford	1,422	1,429	7	6,853	6,883	30
Haynesville	44	44	-	10,522	10,754	232
Niobrara	742	764	22	5,580	5,649	69
Permian	4,094	4,136	42	13,890	14,117	227
Total	8,380	8,460	80	78,930	79,837	907

Today's Calendar (all times Central)

- Industrial Production – 8:15am
- NAHB Housing Index – 9:00am

Thanks for reading.

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