NESVICK TRADING GROUP, LLC

Tuesday, April 23, 2019

NTG Morning Comments

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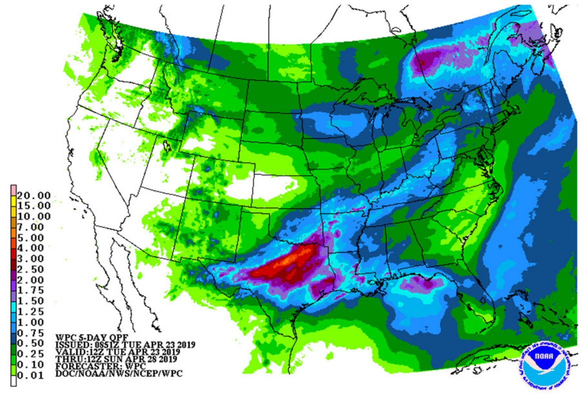
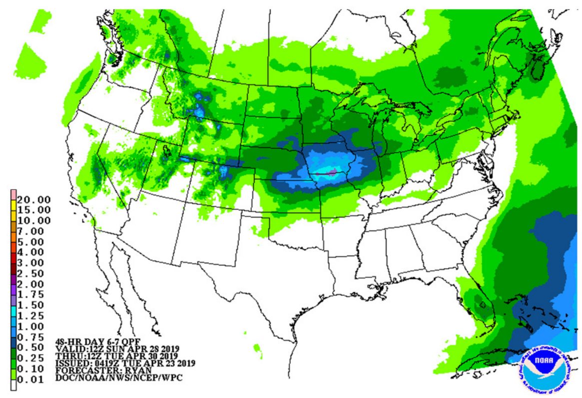
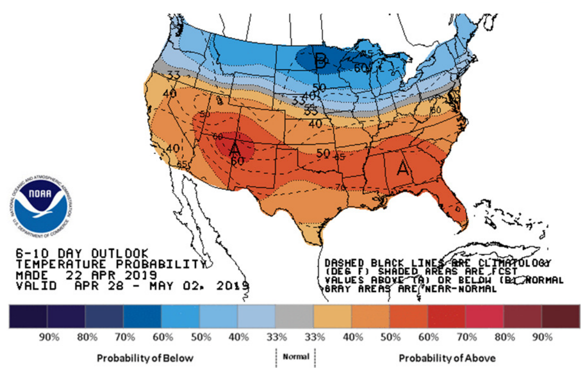
Weather

Days 1-5, then 6-7 to right-

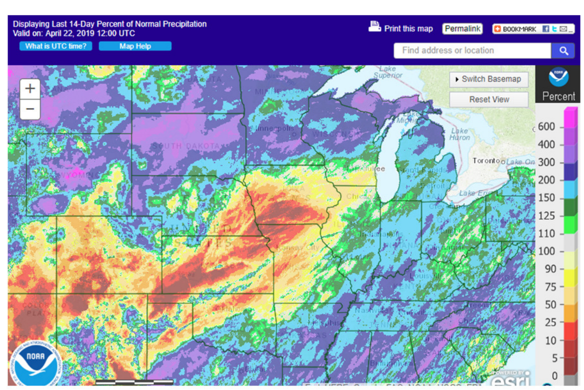




No major change to the forecast overnight. Relatively calm conditions expected in the Corn Belt over the next few days. There will be precipitation, but it will be light and scattered and relatively unorganized during the next 5 days. Instead, the focus for precipitation will be in TX over the next 48 hours before eventually pushing eastward into the Delta and surrounding areas. The extended outlook calls for a more active precipitation pattern in the Corn Belt, and you can see the early stages of this outlook in the map for days 6-7 at the right. We'll see a divergence between cool temps to the north vs. warm temps to the south develop. In between those two zones, essentially through the heart of the Corn Belt, there will be a "battle zone" of these air masses that will produce more active precipitation chances. This pattern should last through the 11-15 day period, creating some pretty solid precipitation totals through a decent chunk of the Corn Belt.



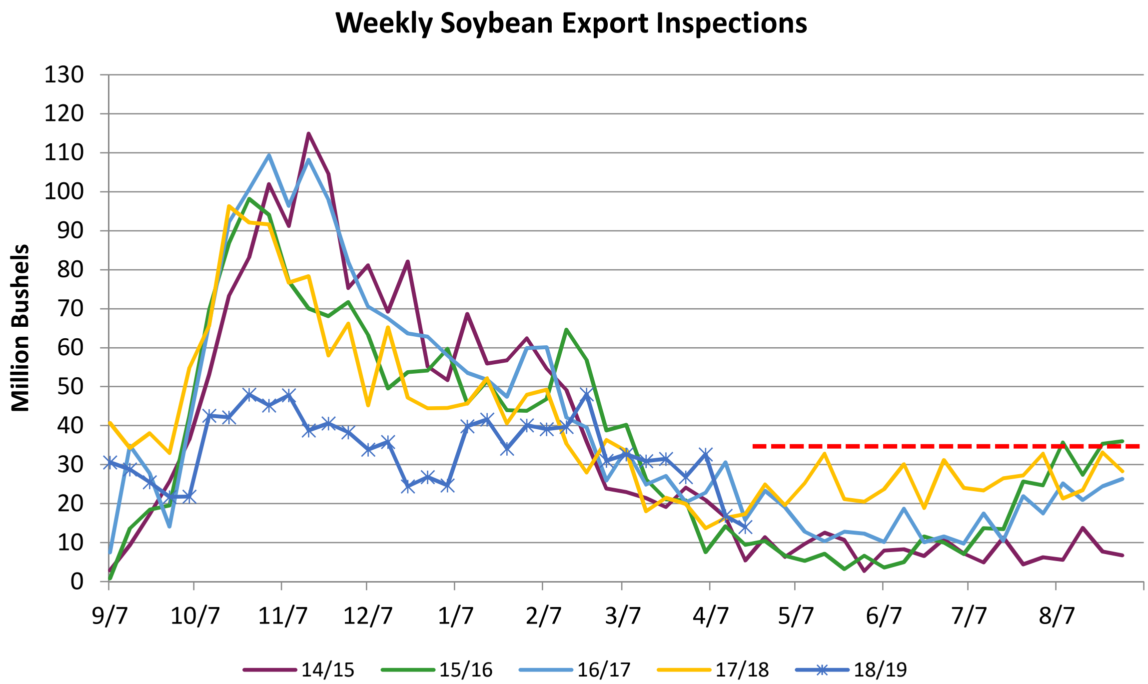
Map at the bottom right shows the 14-day percent of normal precipitation. This indicates where we're likely to see some of the most aggressive planting progress this week. I've actually heard some complaints about overly dry conditions from central IA, though clearly they appear to be on tap for improved moisture in week 2 of the forecast.



If I had to guess right now, I'd ballpark next week's planting progress anywhere around 15-18% complete. That would compare with 17% last year and ~26% on average.

Crops

While not a big surprise, yesterday's soybean export inspection total definitely got some attention. As you can see in the chart below, the weekly inspection figure was the smallest of the year so far. This is an interesting development considering current outstanding sales are perhaps record big for this time of year. Perhaps this supports the argument that the world is simply more forward-covered than usual…implying shipments going forward will not "keep up" with what you might expect relative to the sales level.

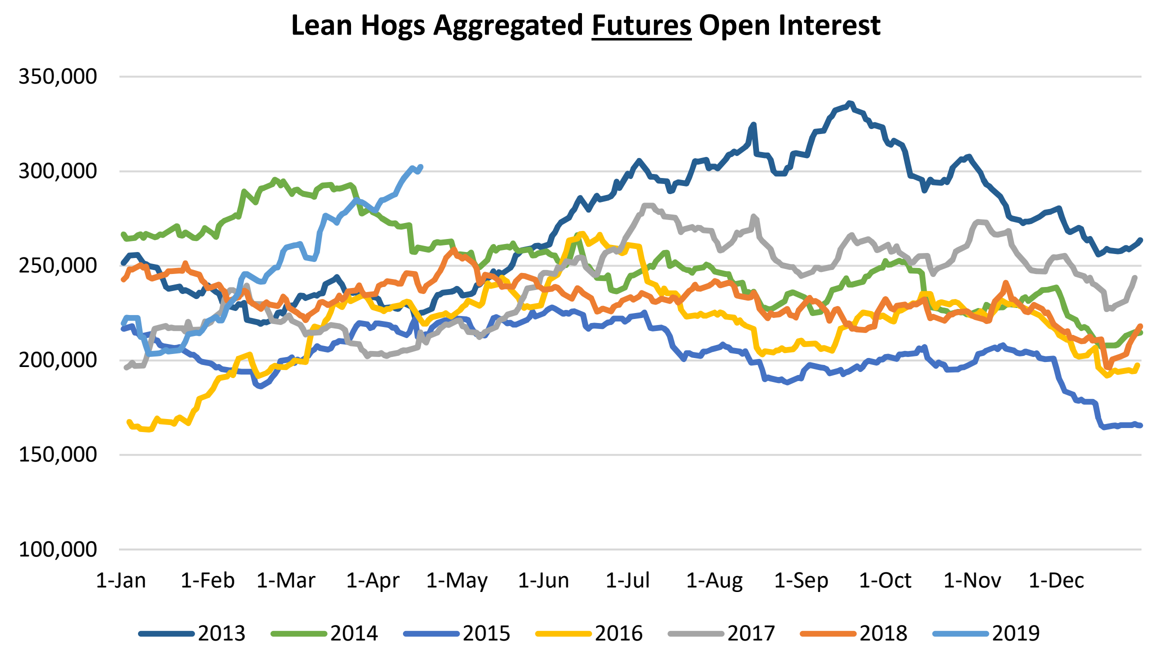


The red line shown on the chart represents what inspections need to average going forward in order to match the current WASDE projection for 18/19 exports. This factors in Census exports through Feb and an assumption on the Census equivalent on Mar-Apr inspections so far. You can see this level has been achieved in one-week instances at times during this point in the year, but averaging such a high level during the summer months has not been done. I suppose WASDE will remain reluctant to show major reductions to their export projection in the near term, but the evidence is really starting to pile up (in my opinion) that the final word on US 18/19 exports will be a good bit lower than WASDE's current projection.

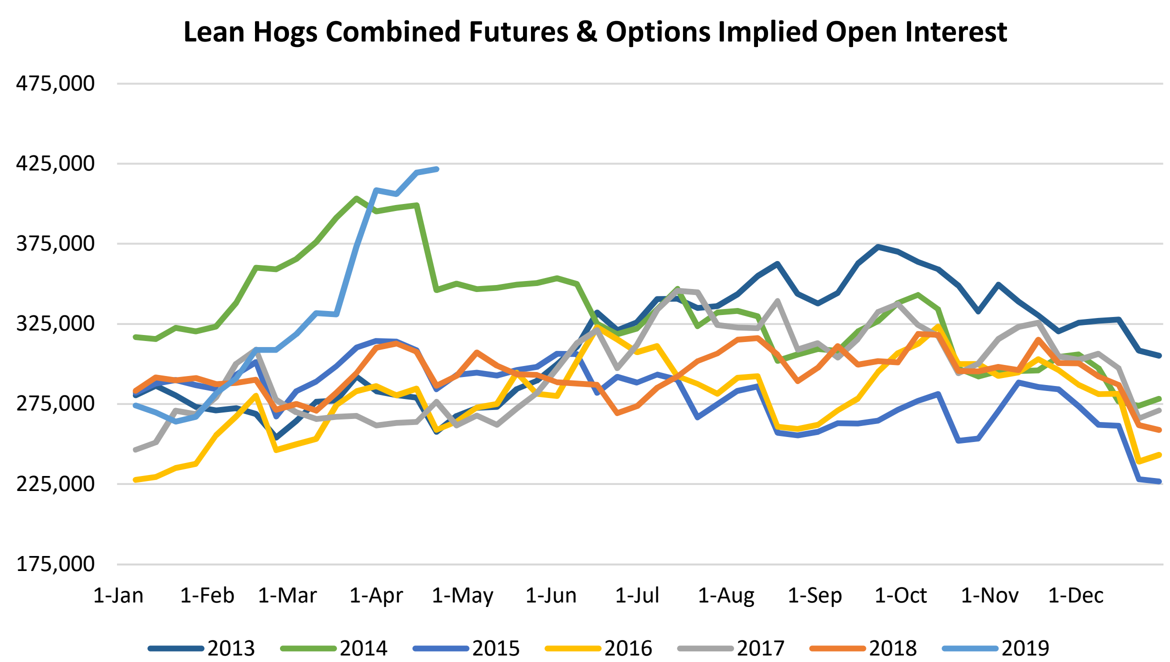
Livestock

As expected, yesterday's breakdown on MPR volume for cash trade last week showed big numbers, leaving the packer in what should be a fairly comfortable position for now. That said, given the time of year the packer of course has to be getting more and more cattle bought so I also don't think this makes anyone believe the packer has all the leverage either. Early calls for this week's cash trade have been for higher action, but we'll just have to wait and see.

A quick lesson in looking at things from different angles this morning. The first chart below shows aggregated futures open interest in lean hogs over the past several years. You can see the current OI is certainly above average and the biggest for this time of year that we've seen in several years. Still, it is by no means a record yet.



This second chart also takes a look at aggregated open interest, but instead here we're looking at the weekly COT data which allows us to take a combined look at the futures OI as well as the implied OI via options. Here you can see a sharp difference compared to above. We've seen combined F&O OI jump sharply in recent weeks and is now sitting at its highest level in several years.



I just thought this was interesting to look at…not sure it is really actionable. Definitely helps to explain the massive option vol.

Financials

No significant new information to pass along this morning. Markets are relatively calm, with the dollar a bit firmer and US equity futures slightly lower at the time of writing. Keep in mind that Japanese financial markets will be closed starting next week, and this is raising some concern about liquidity in the yen. In economic data we only have new home sales this morning. Earnings releases of note include KO, TWTR, PG, VZ, and SNAP.

Not sure it necessarily means much of anything, but Chinese bond markets have been acting a bit "off" lately. As you can see below, 10yr China yields have been rising pretty sharply since the end of March. The latest bump higher has been in reaction to Politburo comments suggesting a "less dovish" monetary stance forthcoming. I find that a bit "humorous" considering we've just seen China unleash a huge round of stimulus on the market in order to prop up their economy, so "less dovish" from what we've seen lately isn't saying a whole bunch. Additionally, those comments have come well after the rally in yields originally started. Not sure what, if anything, this means, but I think this might be something to keep on the radar going forward.

Energy

With the Iranian threat to close the Strait of Hormuz yesterday, I thought a quick refresher might be in order. I've pulled up the EIA's report on world oil "choke points", and suggest you do a quick Google search for more details. Unfortunately, the last update of the report was 2016, but I would assume the data isn't hugely different. As shown from the EIA below, the Strait of Hormuz accounted for roughly 28% of all seaborne oil trade volume in 2015.

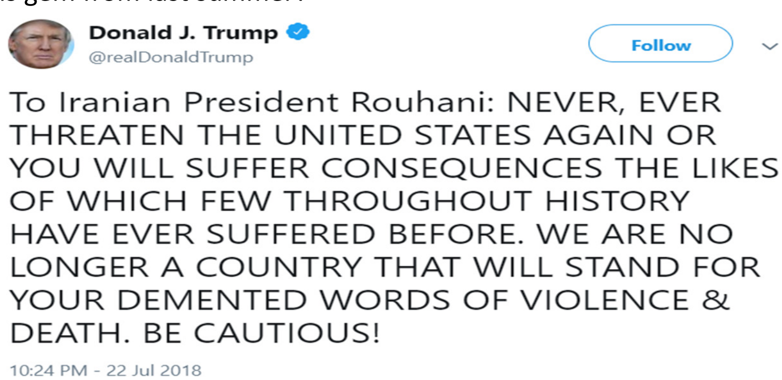
Table 1. Volume of crude oil and petroleum products transported through world chokepoints and the Cape of Good Hope, 2011-16 (million b/d)

Location	2011	2012	2013	2014	2015	2016
Strait of Hormuz	17.0	16.8	16.6	16.9	17.0	18.5
Strait of Malacca	14.5	15.1	15.4	15.5	15.5	16.0
Suez Canal and SUMED Pipeline	3.8	4.5	4.6	5.2	5.4	5.5
Bab el-Mandab	3.3	3.6	3.8	4.3	4.7	4.8
Danish Straits	3.0	3.3	3.1	3.0	3.2	3.2
Turkish Straits	2.9	2.7	2.6	2.6	2.4	2.4
Panama Canal	0.8	0.8	0.8	0.9	1.0	0.9
Cape of Good Hope	4.7	5.4	5.1	4.9	5.1	5.8
World maritime oil trade	**55.5**	**56.4**	**56.5**	**56.4**	**58.9**	**n/a**
World total petroleum and other liquids supply	**88.8**	**90.8**	**91.3**	**93.8**	**96.7**	**97.2**

Note: Data for Panama Canal are by fiscal year.
Sources: U.S. Energy Information Administration analysis based on Lloyd's List Intelligence, Panama Canal Authority, Argus FSU, Suez Canal Authority, GTT, BP Statistical Review of World Energy, IHS Waterborne, Oil and Gas Journal, and UNCTAD, using EIA conversion factors.[4]

According to the EIA's report – "*At its narrowest point, the Strait of Hormuz is 21 miles wide, but the width of the shipping lane in either direction is only two miles wide, separated by a two mile buffer zone.*" That would certainly seem to qualify as a chokepoint. EIA goes on to say "*Most potential options to bypass Hormuz are currently not operational. Only Saudi Arabia and the United Arab Emirates have pipelines that can ship crude oil outside of the Persian Gulf and have additional pipeline capacity to circumvent the Strait of Hormuz. At the end of 2016, the total available crude oil throughput pipeline capacity from the two countries combined was estimated at 6.6 mbpd, while the two countries combined had roughly 3.9 mbpd of unused bypass capacity.*" They add "*relatively small quantities, several hundred thousand barrels per day at most, could also be transported by truck if the Strait of Hormuz closed*". That data is old (2016), but I doubt it has changed by a substantial amount. The Strait of Hormuz accounts for 18.5 mbpd of oil traffic and the available pipeline capacity to circumvent a problem is only 3.9 mbpd. Needless to say, this would get a lot of attention if the Iranians really did try to create a problem.

Everyone remember this gem from last summer?



Today's Calendar (all times Central)

- New Home Sales – 9:00am

Thanks for reading.

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