NESVICK TRADING GROUP, LLC

Wednesday, April 24, 2019

NTG Morning Comments

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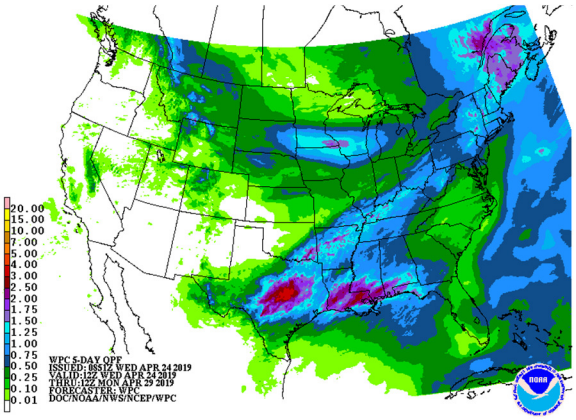
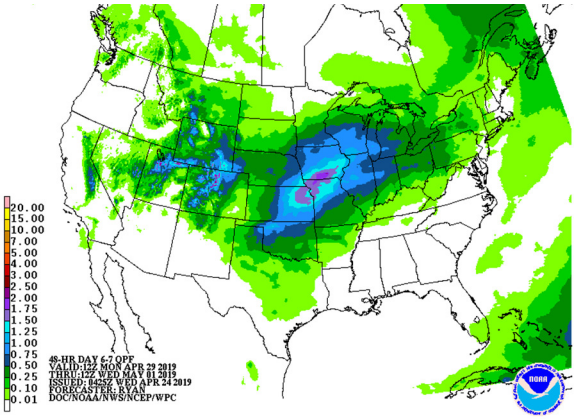
Weather

Days 1-5, then 6-7 to right





The next few days won't be entirely "dry" through the Corn Belt, but we're not looking at big rainfall amounts in the Corn Belt through Friday. Instead, the focus of rainfall over the next few days will remain on the Southern Plains and shift into the Delta later today. We should start to see some showers develop in the WCB on Friday and this will start a period of more active precipitation in the region. You can see in the map showing the 6-7 day period that we're looking at a big system with good rainfall moving through the area. This take place as cooler temps set up in the northern US while warmer temps are firmly in place in the south. Just how exactly this temperature contrast develops will probably dictate precipitation chances in the extended outlook.

Crops

Today and tomorrow we'll be taking a look at recent USDA attache reports on China and EU grain production and consumption. I think looking at both are important in the context of the May WASDE's release of new crop balance sheets. These attache reports will potentially give us a heads up on what to expect from the WASDE release. Today our focus will be the report on China. I'll mainly just provide key excerpts from the report and I'll refrain from giving my opinion on most issues for now, though I will underline comments I found of special interest. All comments directly from the attache report will be italicized.

China's total corn demand in MY 2019/20 is forecast to reach a new record as processors continue to binge on state-owned inventories. However, capacity expansion has quickly outpaced demand for processed corn products.

China's 2019 No. 1 Central Document has signaled that China will shift its overall agricultural policy to promote greater soybean production, meanwhile maintaining self-sufficiency for wheat and rice production. Government subsidies for planting and crop rotation favor soybeans in the battle for hectares in North East China. However, planting intentions in MY 2019/20 remain unclear as many farmers wait for outcomes from trade discussions between the United States and China, and anticipated changes to China's domestic support and trade policies. In this environment, many producers are delaying their planting decisions as late as possible and preparing to plant either corn or soybeans.

MY2019/20 corn production is forecast at 255 MMT, down 2.3 MMT from MY 2018/19 as soybean area expands… MY2019/20 wheat production is forecast at 131.5 MMT, slightly higher than MY 2018/19 on higher

yields. MY 2019/20 rough rice production is forecast at 207.1 MMT, down 5 MMT from USDA's April estimates for MY2018/19, on slightly lower harvested area and lower yields.

On ASF influences – *In normal circumstances, swine industry restructuring and adoption of new genetics takes about 30 months. However, China's ASF situation is unprecedented in complexity, scale, and scope.*

On corn processing subsidies – *Since 2016, provincial officials in Heilongjiang, Jilin, Liaoning, and Inner Mongolia have offered livestock feed millers and industrial processors subsidies to promote corn use, to support prices, and to demonstrate the government commitment to continuing the structural supply-side reform. The subsidy announcements for the upcoming growing season are normally publicized in October and November before farmers begin planting. To date, the MY2019/20 announcement has not been announced. Many industry sources do not expect China's 'Deep Corn Processing Subsidies' to continue.* (Emphasis mine)

MY2019/20 corn consumption is forecast at a record high 282 MMT, up 2 MMT from USDA's April estimates for MY 2018/19, on expanded corn processing more than offsetting lower feed use…..Some local analysts forecast that the pace of corn processing expansion in China will plateau in MY 2019/20 as operating margins fall, and overcapacity begins to weigh on future growth. (Emphasis mine)

On a nationwide basis, expanded broiler and dairy production is projected to partly offset weakening swine feed use. Industry sources project that a recovery in feed demand for China's hog population is difficult to judge because of regional differences in the progression of the disease.

MY2019/20 corn stocks are forecast at 182.4 MMT, down 22.4 MMT from USDA's April estimate for MY2018/19, on policy driven demand…..2019 will likely mark the complete disposal of China's excess and ageing corn stocks accumulated during the 2006 to 2016 temporary reserve program….Although China's SAGR (State Administration of Grains and Reserves) is winding down its state-owned inventories of corn, China continues to maintain strategic non-temporary reserves of corn. On March 13, 2019, Sinograin announced plans to procure 800,000 tons of corn as it begins rotating out old-crop supplies from its holdings, and to signal continued government support for corn prices. Industry sources speculate that China plans to procure a total of 3 MMT in MY2019/20. Provincial procurement programs also remain active. (Emphasis mine)

Perhaps my favorite line of the corn section – *China's commercial pipeline stocks and on-farm inventories remain high. Despite reports of massive auction sales, physical movements of China's state-owned inventories remain unreported.* (Emphasis mine)

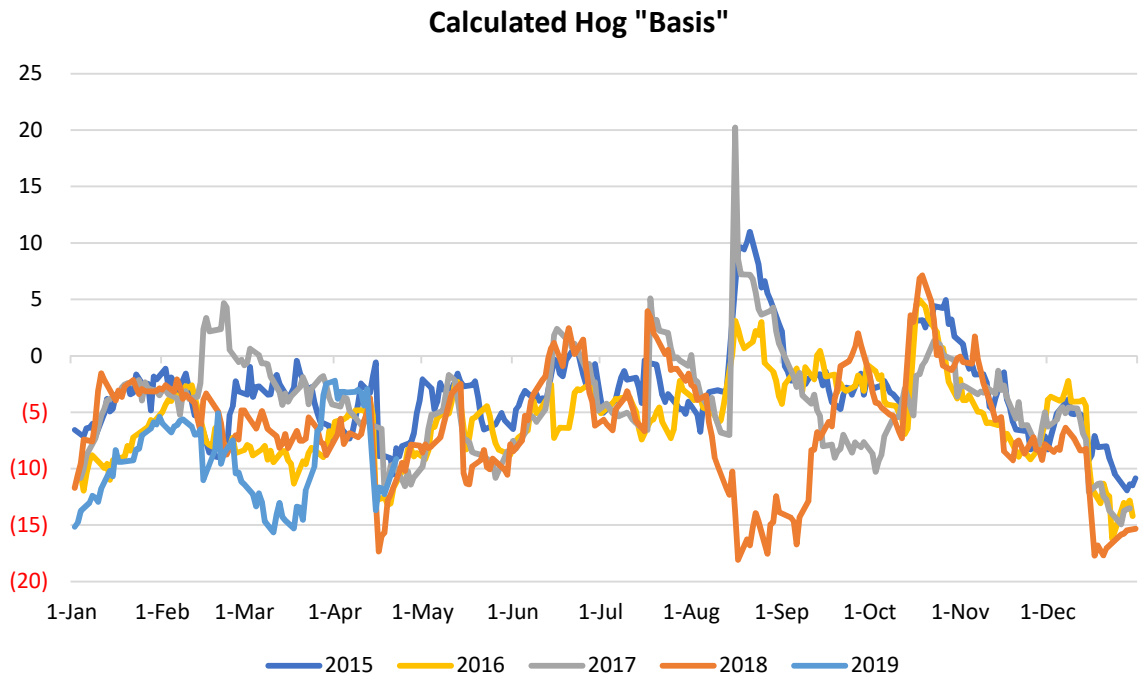
Switching to wheat – *MY2019/20 total wheat consumption is forecast slightly lower at 124 MMT, down 1 MMT from USDA's April estimate for MY2018/19, on lower feed use…..MY2019/20 feed use is forecast at 18 MMT, down 2 MMT from USDA's estimate for MY2018/19 in April assuming normal wheat quality in MY2019/20, and comparatively lower volumes of feed-quality wheat…*

Wheat stocks – *MY2019/20 ending stocks are forecast to jump to nearly 150 MMT, up 9.7 MMT from USDA's April estimates for MY2018/19, on slow demand.*

So the attache is forecasting another YOY reduction in corn ending stocks and an increase in wheat ending stocks. Before you get too excited about the potential for a sharp reduction in world corn ending stocks for 19/20, remember that WASDE in May will be producing separate tables and will include an aggregate value for "world less China". Will *that* category show a YOY reduction for corn? We'll see…

Livestock

A quick look at hog "basis" this morning. Considering all the hype and volatility surround LH futures recently, I was expecting to take a look at the "basis" and see something pretty goofy. Instead, we've got the exact opposite. The chart below takes a seasonal view on basis, which I'm defining as the USDA's national weighted spot price minus spot futures. You can see below that after posting some especially weak basis in late winter, we've seen that snap back (due to the rally in pork, which fed a rally in cash hogs). The board of course rallied over that period as well, but basis nonetheless "normalized". Not really what I expected to see, but interesting…



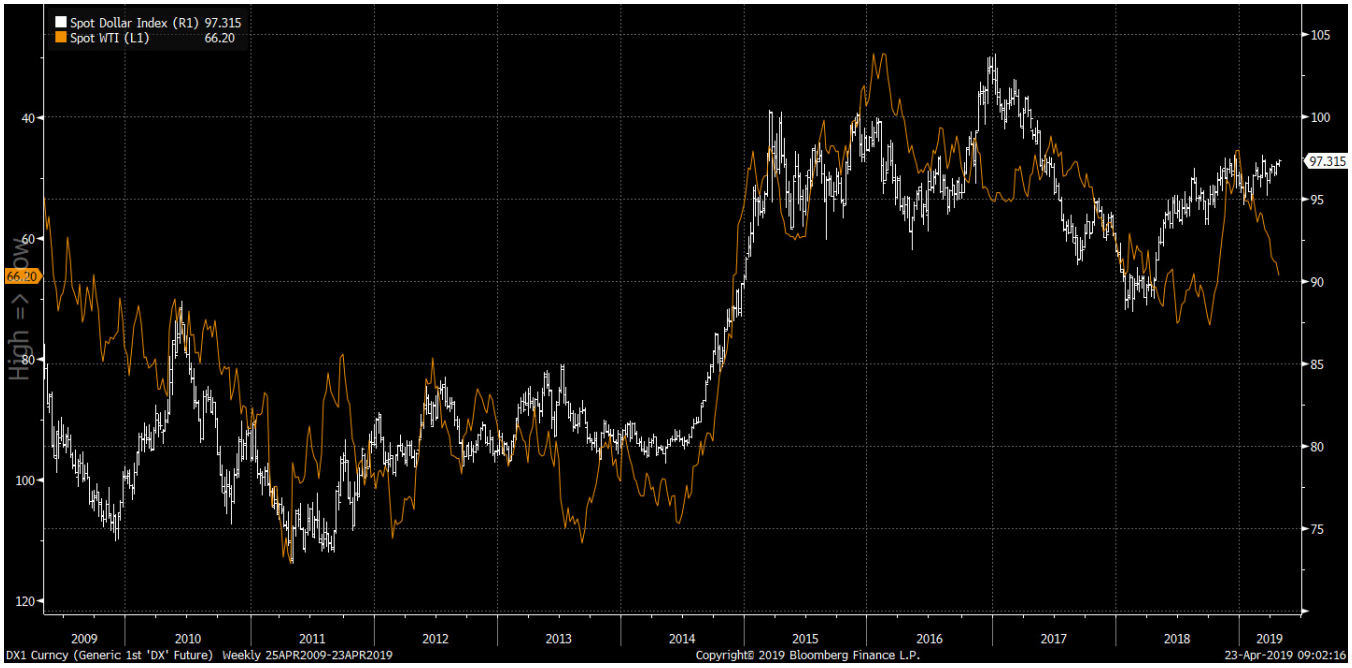
Financials & Energy Combined

Just a quick chart as food for thought this morning. Clearly crude oil is hyped up over the lack of waivers beyond May for Iran's crude oil exports. This of course will tighten global supplies, which the Saudis are likely willing to only partially offset. The real significant concern is that the Iranians could respond with military action in the Strait of Hormuz as discussed yesterday.

The chart below compares WTI futures with the DX futures contract. WTI futures are on the left axis and the axis is inverted. You can see that typically WTI moves lower when the dollar moves higher and vice versa. In this instance, however, I could imagine both moving in the same direction for a change. Crude oil futures could move higher in the tighter supplies and with the geopolitical tension bid. The DX would also potentially benefit

from the geopolitical tension bid and we could see a "shortage" of dollars globally as key world importers are using more dollars to fund their oil import needs.

Thoughts appreciated.



Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am

Thanks for reading.

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