NESVICK TRADING GROUP, LLC

Wednesday, May 1, 2019

NTG Morning Comments

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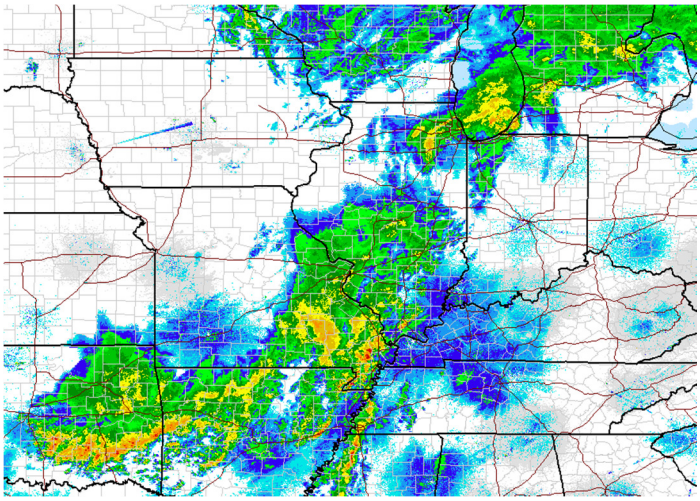
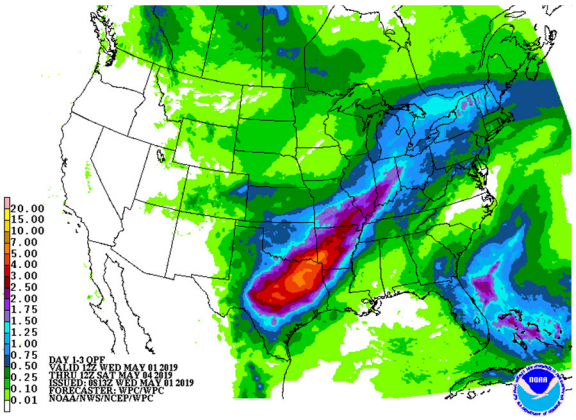
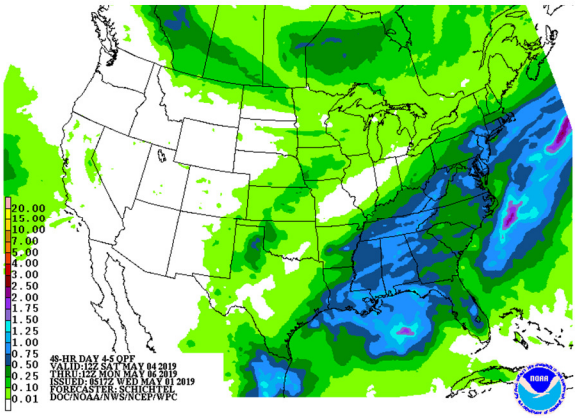
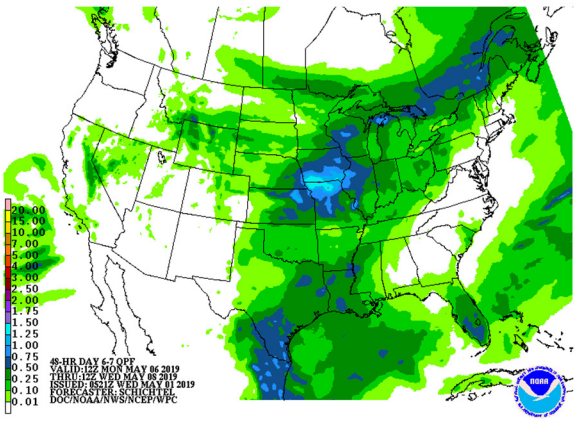
Weather

At right: Days 1-3, 4-5, and 6-7







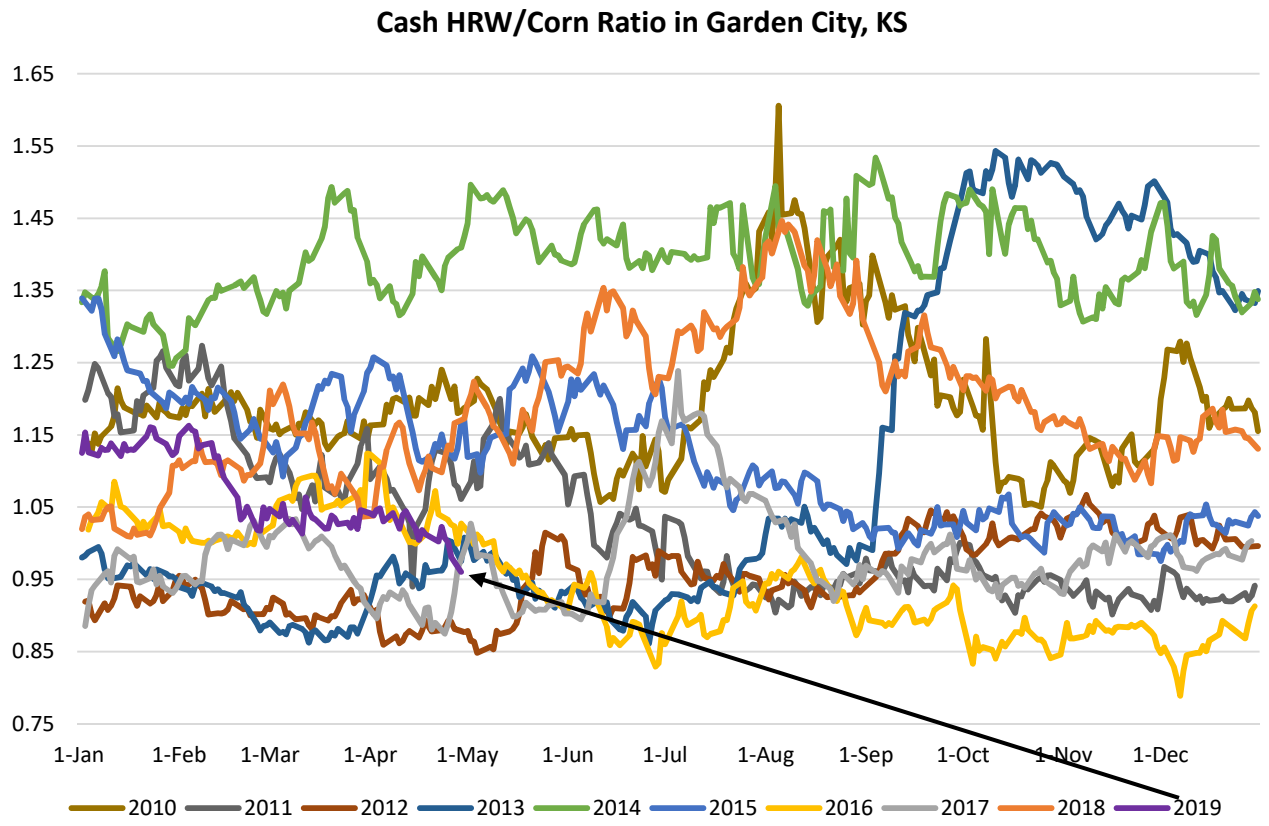


No major changes to the near term forecast this morning. As you can see from the map at the top right, we've still got a few more days of heavy rainfall expected to stretch from the Southern Plains into the ECB. The Southeastern US will see another couple of days of only modest precipitation chances before the rain eventually move into that area for this weekend (indicated in second map at right). Note that the WCB will not see "significant" precipitation during the next five days, though there will be some scattered showers around and temps will remain cool which will prolong drying efforts. The map at the bottom right shows the next chance for precipitation through the WCB, showing rains moving in for Mon/Tues of next week. There is improved model agreement on the positioning of these rains for southern IA and northern MO (and surrounding areas).

Beyond the next 7 days, I still don't get the sense that many forecasters have much confidence in what to do. Clearly all the NWS 6-10 and 8-14 day maps show a continuation of the active precipitation pattern with cool temperatures. The NWS's monthly update also showed mostly AN precipitation and BN temps for much of the country for the month of May. Everything seems to be pointing in that direction right now…yet at the same time I just don't sense a high degree of confidence.

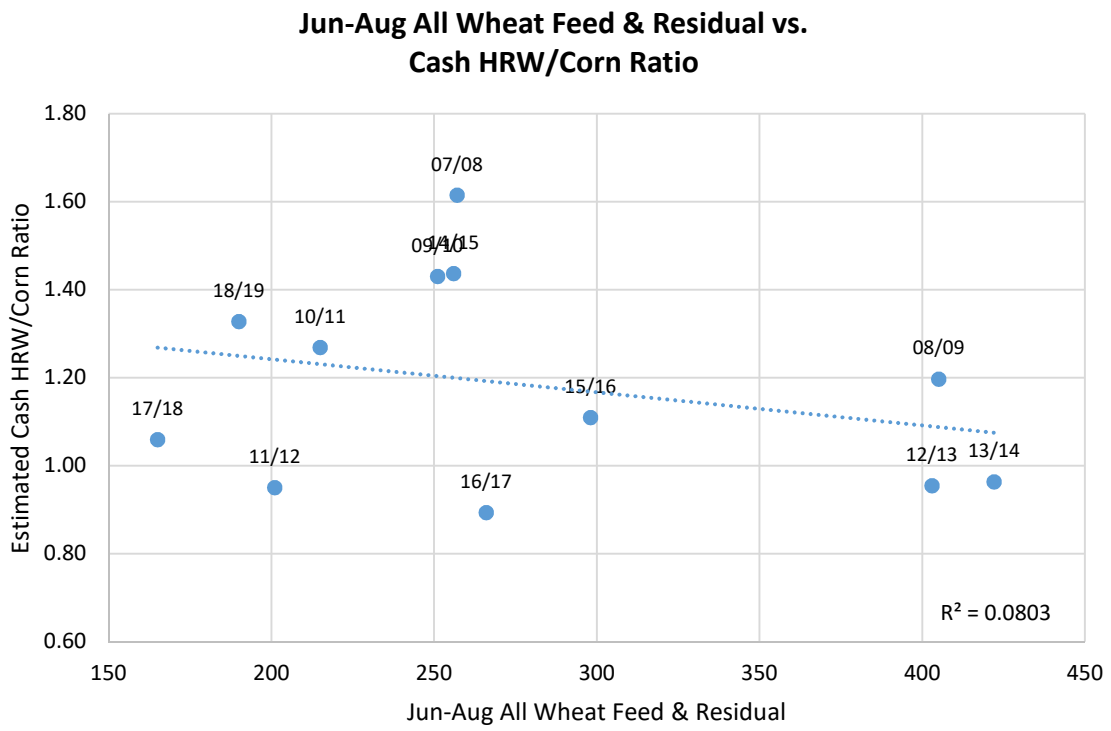
Crops

I didn't get a ton of feedback on the KW-C discussion from yesterday. However, I did get a lot of questions on whether or not feed demand for *wheat* might increase with prices at current levels. Indeed, cash prices in the Southern Plains (the "swing" area for potential wheat feed demand) have followed along in unison with the futures spread. The chart below shows the ratio of cash HRW vs cash corn (adjusted on a per-pound basis) in Garden City, KS. While not unprecedented, it HRW is certainly near the lower end of its range vs. corn values.



Importantly this is taking place right ahead of the summer months. In marketing years where overall wheat feeding could be described as large, it is usually the JJA quarter that really sets the tone. Unfortunately, the HRW/corn ratio is still a poor predictive indicator of whether or not JJA wheat feeding will be large. How poor? Just check out the scatter below. I'd be hard-pressed to argue there is any relationship shown in the chart. Instead, what stands out to me below in the years with big wheat feeding in JJA is what corn supplies looked like at the time. In 2008, 2012, and 2013 June 1 corn stocks were all well below the "average" level from 2000-2018 (and 2012 and 2013 were definitely well below average). With that in mind, I'm still inclined to believe that the main contributor to increased wheat feeding is a tightness in corn supplies more than a contraction in the HRW/corn ratio. That being said…I'm definitely open to any thoughts or ideas that might indicate that this year could prove different. Certainly optimism is growing towards the HRW crop (strong crop ratings and positively commentary from crop tours) while concern is mounting for corn production (wet outlook for planting season).

This might push the spread even narrower in the near term, perhaps incentivizing some bigger wheat feeding than we might otherwise expect in a year with "ample" corn supplies? Please…thoughts appreciated.



Livestock

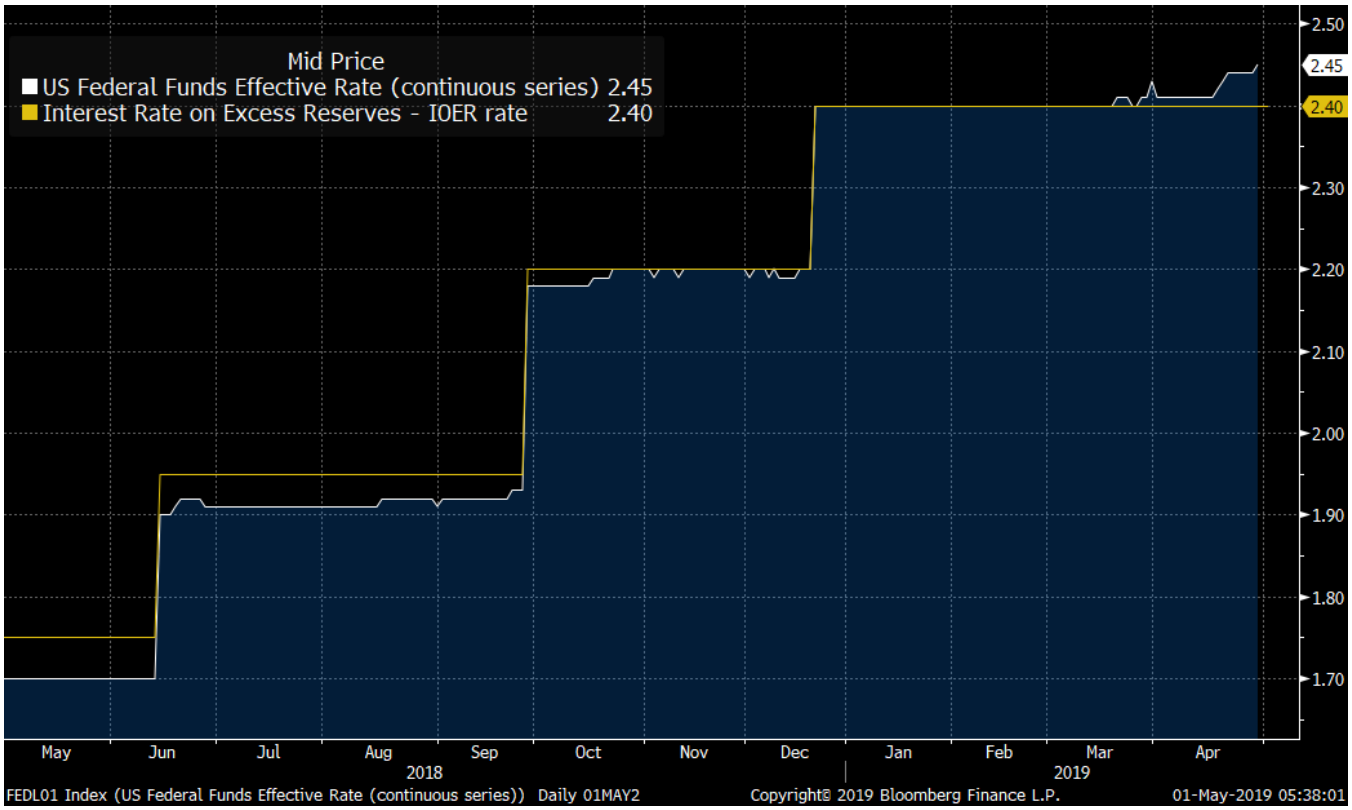
We saw cash trade in the south turn pretty active late yesterday with a lot of cattle trading at 123. I honestly am not sure what expectations for cash were for the week, but I'm pretty sure that 123 is on the lower end of most guesses. There might have been some 200 trade in IA as well yesterday but I think that came well ahead of the 123 in the south. There is also some talk that some 122 might have also traded in the south even later yesterday, but I can't confirm that. One good friend tells me that trade in the south could already be done for the week. In hindsight, maybe the weaker cash action this week should make some sense. As noted previously, the estimated % of COF hedged on the board was sitting at very high levels. The weaker board allows the feeder to pick up the profit on that hedge at a fairly strong basis level maybe?

New YTD lows in cattle futures yesterday. The weak cash trade in the south after the close probably doesn't inspire a ton of confidence in price action today either. The chart on the following page takes a look at June futures and also shows the MM net position (F&O) over the past year. Shown on the chart, from roughly the start of the year we've seen about 60k contracts of net buying in LC futures overall. This recent breakdown in prices has wiped out any profits that buying once thought it had. Obviously we should expect to see this MM position come sharply lower over the next two reports.

Financials

No major economic data from overseas that I've noticed this morning. UK reported a weak manufacturing PMI report. The PMI fell to 53.1 from 55.1 previously. We've seen a lot of stockpiling in UK manufacturing efforts ahead of Brexit, which ultimately should lead to some serious weakness in manufacturing once these stockpiling efforts have run their course. There is some evidence in the overnight figures we might be nearing that situation soon.

Otherwise, the focus is almost exclusively on the US today. We get the ADP employment change report first thing this morning and this sets the stage for Friday's NFP release. The ADP figure has been pretty consistent recently, averaging +200k over the past six months. After that, we get the ISM manufacturing index which will certainly be capable of moving the market. And of course, the headline event this afternoon will be the FOMC rate announcement. Thankfully there will be no press conference following today's announcement. This of course means that a policy change is highly unlikely despite President Trump's latest tweets. Fed funds futures are pricing in 0% chance of a rate hike and only 2-3% chance of a cut. The Fed's official fed funds rate is 2.25-2.50%, but as you can see below (next page) the *effective* fed funds rate has been creeping slightly higher. That is what is leading some to think the Fed might cut interest on excess reserves today, also charted below. In theory, a cut to the IOER should halt the higher creep of the effective fed funds rate. It seems analysts are pretty split on this… some think they will cut IOER today and others think they will wait until June to make the change. IOER is less well understood by the general public so Fed changes to policy on that rate might just complicate their message. Still, just be on guard for this…



Energy

Crude oil futures are slightly lower at the time of writing this morning. Most of this modest weakness can likely be attributed to the API inventory release which showed crude oil stocks +6.8 million last week. Expectations for today's EIA release were calling for only +1.8 higher inventories. The API showed both gasoline and distillates slightly lower on the week which would basically fall inline with expectations for those products.

No major new information to pass along. The apparent "coup" attempt in Venezuela doesn't look like it had much success. It will be interesting to see what this means for the opposition and those who support them (like the US).

Today's Calendar (all times Central)

- ADP Employment Change – 7:15am
- ISM Manufacturing Index – 9:00am
- EIA Petroleum Inventories – 9:30am
- FOMC Policy Announcement – 1:00pm
- Fats & Oils and Grain Crushings – 2:00pm

Thanks for reading.

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