NESVICK TRADING GROUP, LLC

Friday, May 17, 2019

NTG Morning Comments

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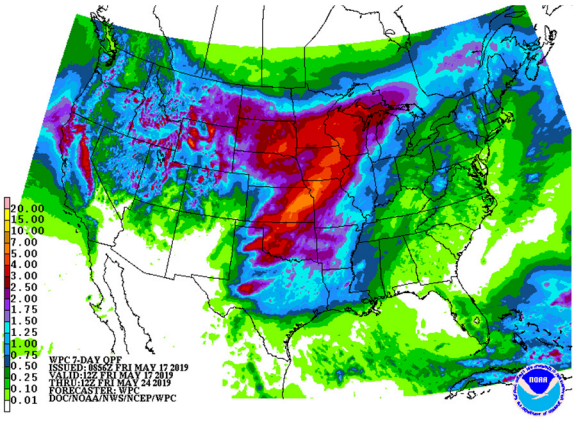
Weather

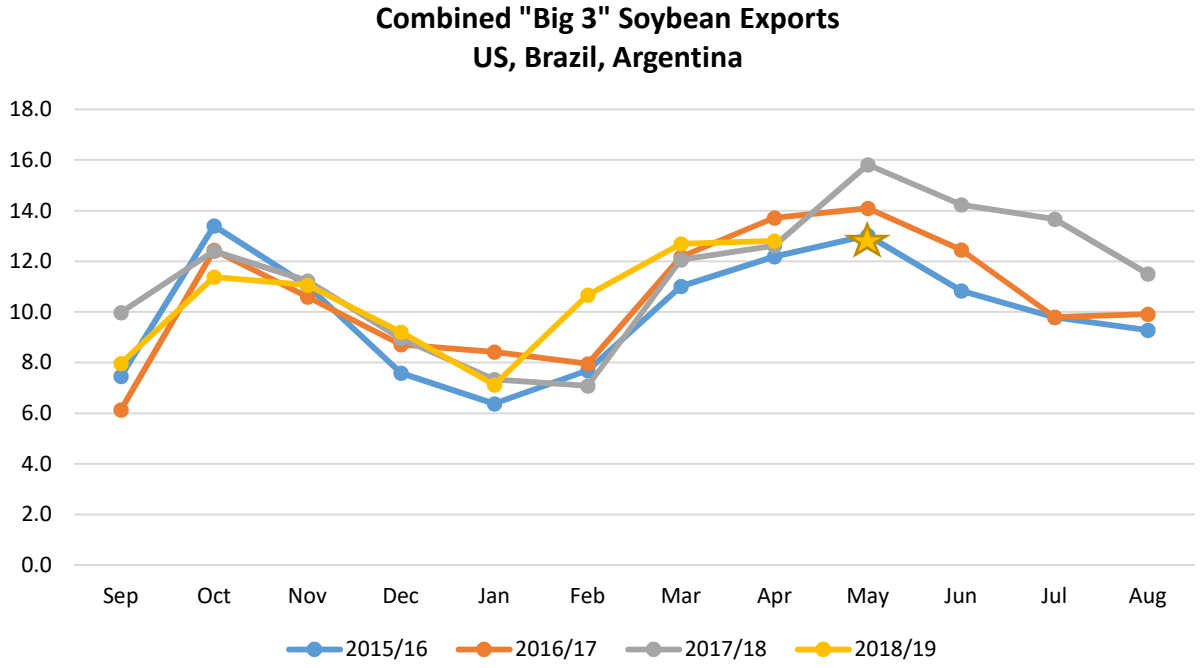
7-day precipitation at right:



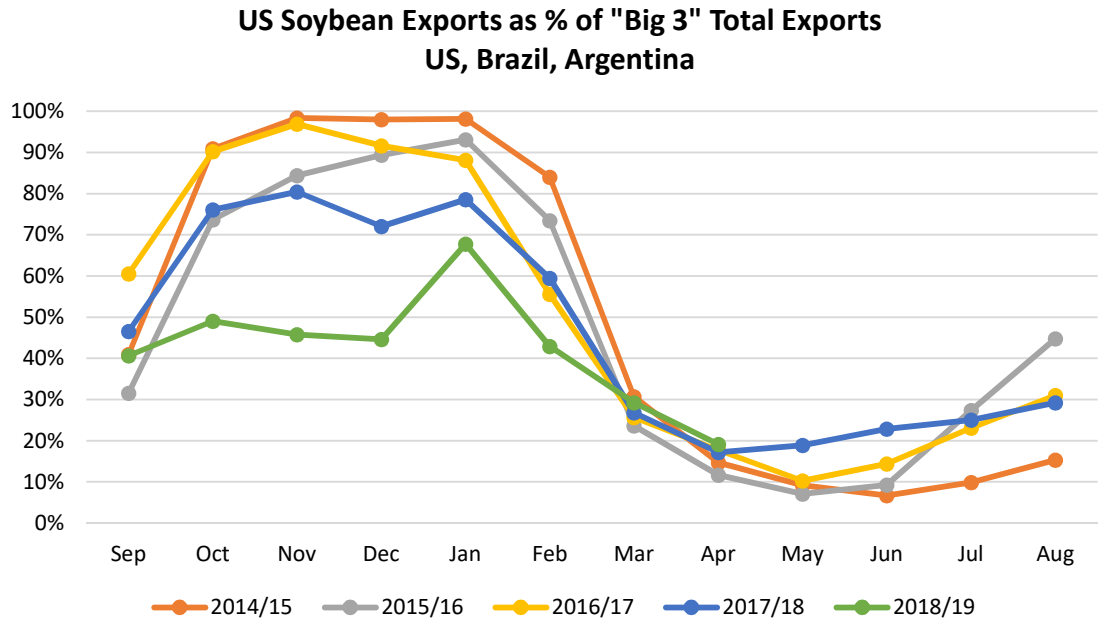
Nothing new to report today on weather. Over the next two weeks we will see almost daily chances for precipitation through the Corn Belt. Temperatures will set up with warmer conditions in the southeast and cooler weather to the northwest which will create an area through the middle of the country with chances for very big precipitation totals.

Crops

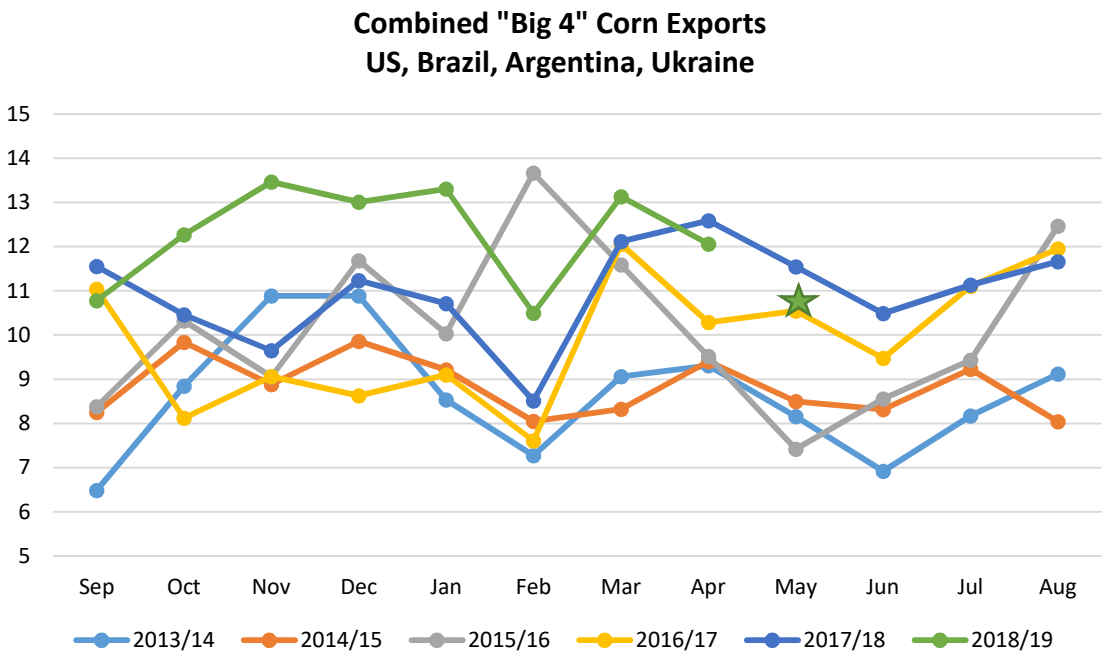
We'll take it easy this Friday and simply look at the global pace of corn and soybean shipments. Starting with soybeans, the chart below takes a look at combined soybean shipments from the US, Brazil, and Argentina. Data through April isn't technically "official", but should be pretty close based on the data we have on hand. You'll note I have a star in place for the month of May. This is where I'm ball-parking May shipments based on the various line-up and other information we have available. So far, world soybean trade has seemed fairly "normal" on a global basis so far this year, but I'm curious as to whether or not this will start to show some more negative signs in the future?



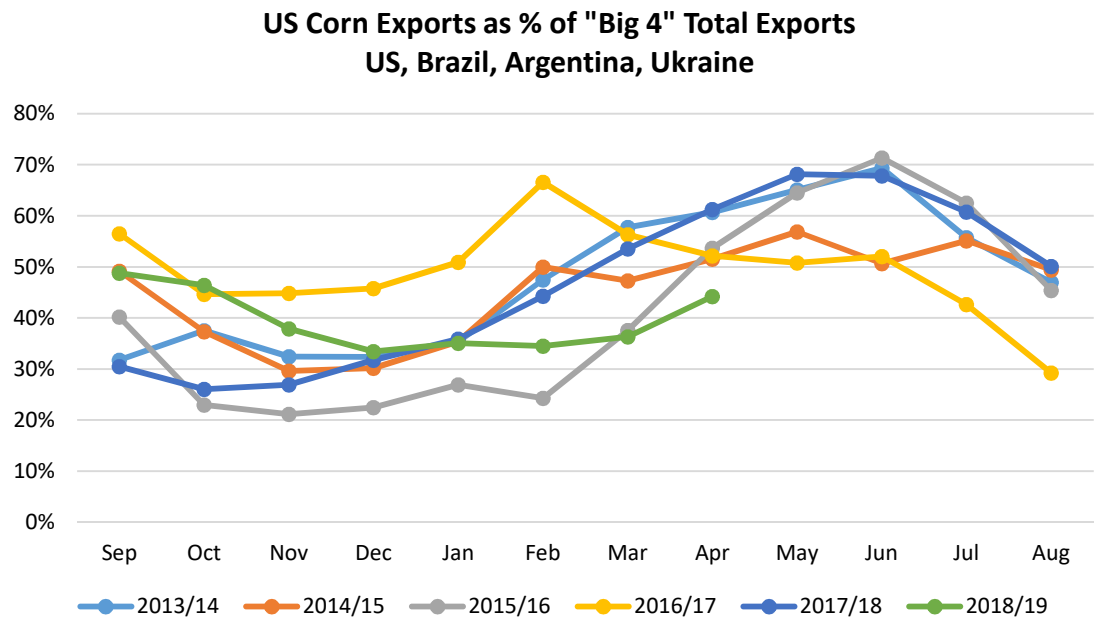
Despite the normalcy of overall global demand, US market share in soy trade has been anything but normal-



The chart below gives a similar view of corn trade. Here we're looking at the "Big 4" – US, Brazil, Argentina, and Ukraine. You can see that global corn trade was exceptionally strong during the fall and winter. For the month of April and my projection for May we're likely seeing trade come back down to Earth a bit. I would expect global corn trade in the 19/20 season to be a bit lower as EU corn imports should decline somewhat (WASDE -3 mmt YOY, I think that is conservative).

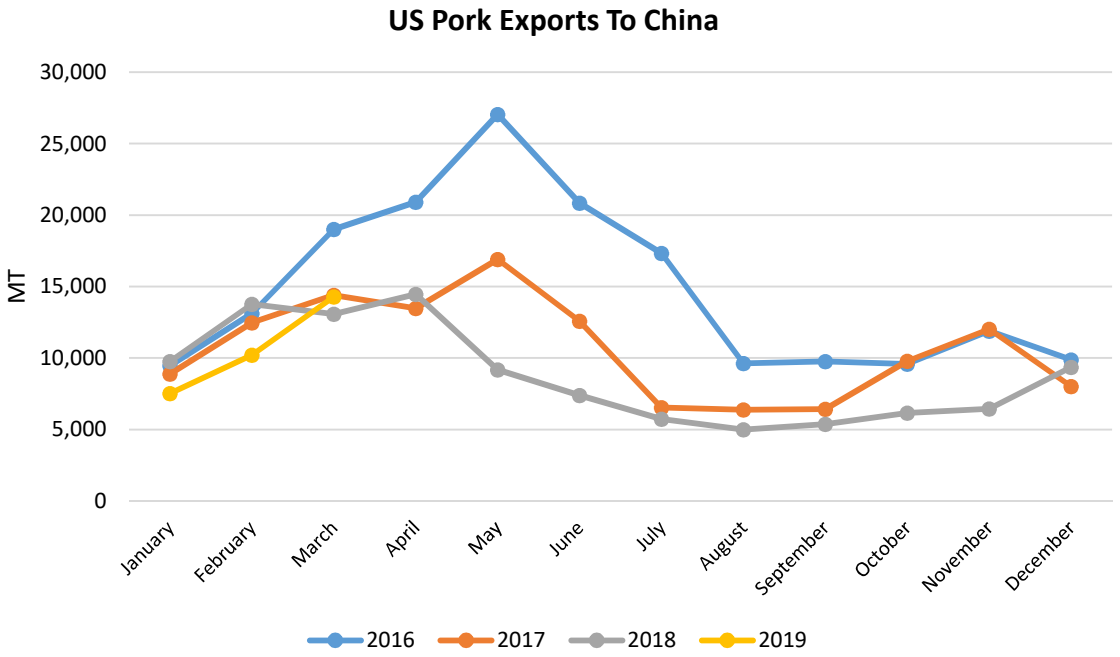


Even if demand is steady, we have big increases in South American production this year that mean US market share might struggle –

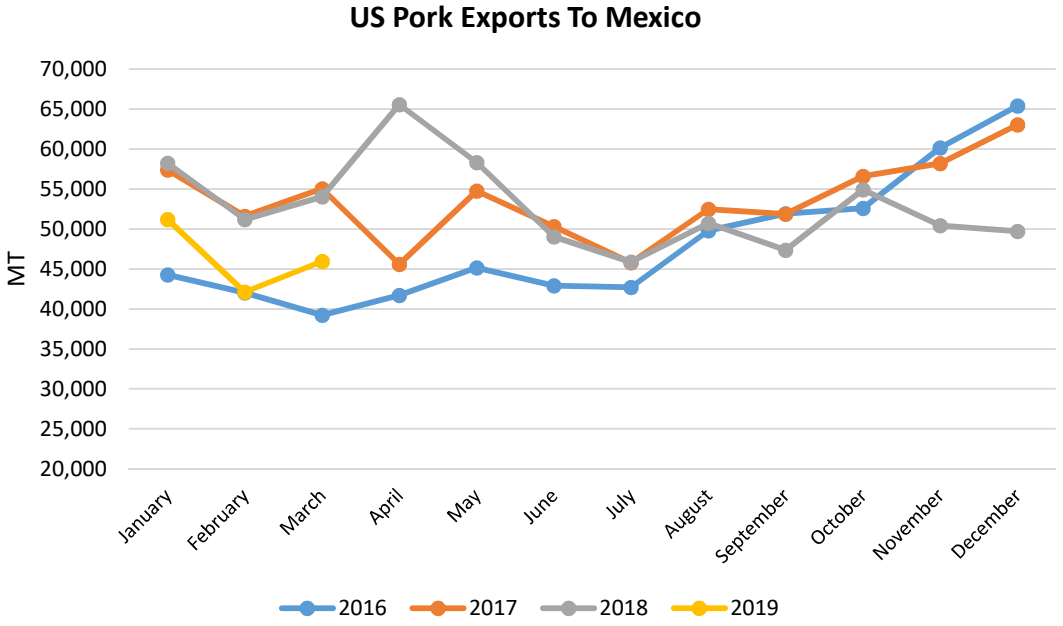


Livestock

US Census trade data for March is more than a week old at this point, but better late than never I hope. I wanted to look at pork shipments to China and Mexico quickly this morning. The first chart below shows monthly shipments to China over the past few years. Before looking at this chart yesterday, I really had not thought about a seasonal factor in China's pork imports in recent years. This year appears to be simply following that seasonal pattern of shipments higher into the spring. Starting in summer, seasonally one would *normally* think shipments should taper off a little. Maybe with the ongoing trade tensions that might again be the case, but considering what should be a looming massive shortage of pork in China I'm guessing we might see counter-seasonal strength. Keep in mind that pork imports from the US are currently facing taxes of roughly 62% (50% "retaliatory" tariff plus the usual 12%) and yet shipments remain fairly "normal".



China holds the top spot in terms of current outstanding sales, and #2 is Mexico. You can see in the chart below shipments to Mexico are running well under year ago levels. Some of this might be due to price sensitivity… prices are clearly well above year ago levels (when prices were extremely low). Still, I will argue that the retaliatory tariffs Mexico still has in place certainly don't help. Mexico is charging a 20% tariff on US pork in response to the US steel and aluminum tariffs. USMCA seems to be going nowhere in Congress. If/when resolved, that "should" support US pork demand.



Financials

No major new information this morning. Markets have a risk-off tone due primarily to headlines suggesting Chinese government officials are not interested in additional talks with the US at the moment. A state-run media blog post said "without new moves that show the US is sincere, it is meaningless for its officials to come to China and have trade talks". If this proves to be accurate, the next chance for any meaningful progress might come next month at the G-20 meeting when Trump and Xi will have an opportunity to meet. Otherwise there is very little new to report on this morning.

Energy

Crude oil futures remain supported by tensions in the Middle East…as we discussed yesterday. I don't have any new info on that front today. AAA out yesterday with their Memorial Day driving forecast. AAA is expecting 42.8 million Americans will drive, fly, or travel by boat, train, or bus this year during the holiday weekend. That is up 3.6% YOY. Most of those travelers of course will be drivers, expected at 37.6 million (1.3 mil from last year). AAA's estimate of national average retail gasoline is now $2.86/gallon. Although for most of the spring US retail gasoline prices have been running above year-ago levels, we've seen prices level off here in the past few weeks and that level is now slightly below last year's at the same time. Recall the EIA is forecasting the summer average for retail gasoline will average about 3% lower than last year.

Today's Calendar (all times Central)

- U of M Consumer Sentiment – 9:00am
- Baker Hughes Rig Count – 12:00pm

Thanks for reading.

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