NESVICK TRADING GROUP, LLC

Wednesday, May 8, 2019
NTG Morning Comments
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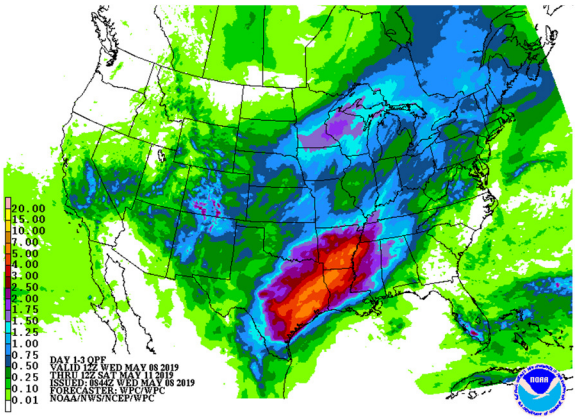
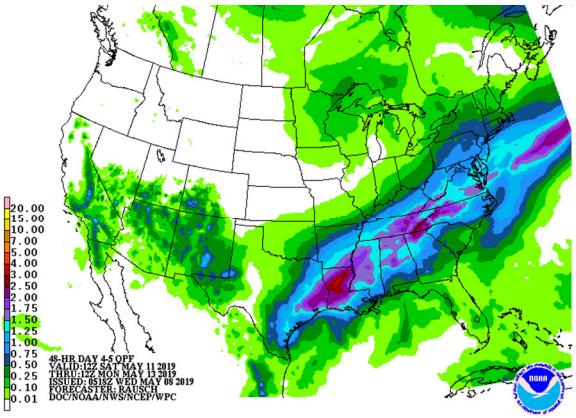
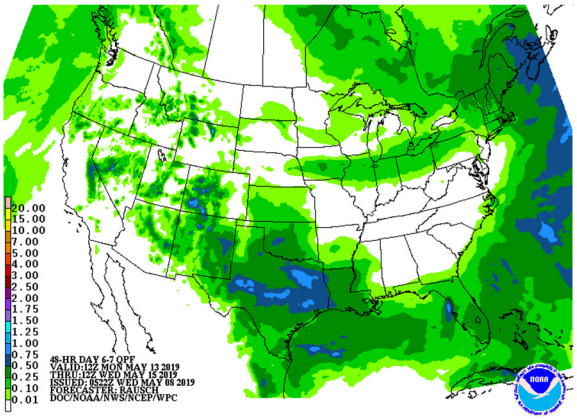
Weather

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







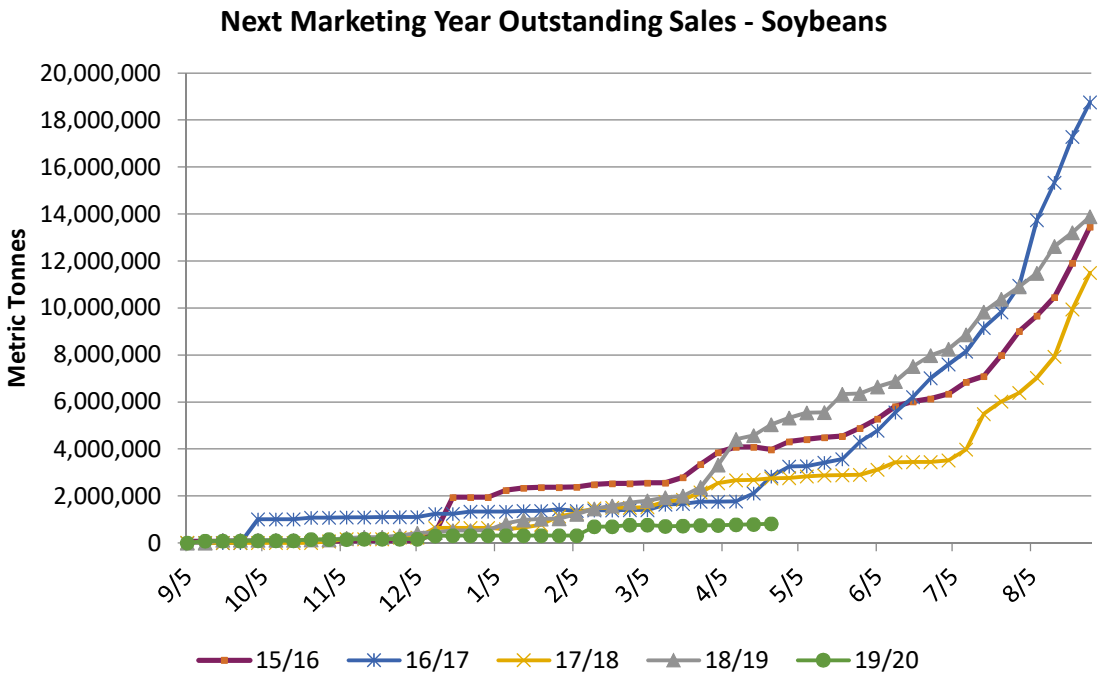
Over the past few days we've seen the WPC taper their expectations for rainfall chances in the Corn Belt this week. Today is no different. You'll likely notice in the map at the top right that rainfall expectations for central IL and some surrounding areas has been dialed back a bit for the next 3 days. That said, with the threat of severe weather still present in the region, it is still possible that rainfall chances exceed these new expectations. On the radar this morning you can easily see a big area of rainfall slowly making its way eastward through the Central US. This is the start of the wet 3-day period shown at the top right. You can see, however, that by days 4-5 (middle map) most of the middle of the country has returned to mostly dry conditions. You can also see that mostly dry conditions will remain during the 6-7 day period (bottom map) with the exception of some scattered and light showers. It is likely that dry conditions would continue another few days beyond the maps shown here as well, probably adding up to ~6 days of mostly clear weather through the Corn Belt. This will also be accompanied by a brief but significant warm up in the middle of the country around Wednesday next week. This should produce some of the best conditions for planting we've seen in some time. However, as was the case yesterday, models are still showing the likelihood for another uptick in rainfall chances in the 11-15 day period. We should see similar pattern features as we saw earlier in the month that helped produce the above normal precipitation through the Corn Belt, and that would lead one to believe that it is likely that wet weather would reassert itself at that time.

Crops

We'll spend the next few days looking at balance sheet prospects ahead of Friday's WASDE report. As I'm sure you know, this will be our first "official" look at WASDE new crop balance sheets and, while we do have something of a baseline in the form of the Outlook Forum balance sheets, there is just a lot of guesswork that goes in to trying to predict these initial forecasts. Complicating matters again this year is that we simply don't know what WASDE will assume in terms of trade with China. I guess we should assume that WASDE will continue with their supposed assumption of continued tariffs, but then again their old crop forecast under that assumption has been questionable at best.

So, let's start with the old crop balance sheet. As I noted last week, I think WASDE "should" cut their crush projection slightly though I'm torn as to whether or not they will. I think for Friday I'm going to assume no change to the prior WASDE crush estimate for 18/19, but I also wouldn't be surprised by something like a ~10 mb reduction. In the case of exports, I have argued pretty consistently for months now that WASDE remains too high with their estimate. I think the point in time has come where they can no long ignore reality and I think they will cut their old crop export projection. Below you'll see my "baseline" assumption which calls for a 50 mb reduction in 18/19 exports. In the end, I still believe final exports will probably prove to be even smaller (sub 1,800?) but of course I don't expect WASDE to be quite as aggressive for now.

Turning to the new crop balance sheet, again note from the comments yesterday that WASDE is almost certain to use the same yield starting point as shown in the Outlook Forum - 49.5 bpa. Planted area will be adjust to match the Prospective Plantings report of 84.6 million. While we haven't seen any "official" guess on harvested area, I'm going to assume harvested area of 83.8 million based on the planted area projection. From there, we're left to guess what to expect on demand figures. If I'm correct that WASDE will leave their old crop crush projection alone, I think it is reasonable that they stick pretty close to the Outlook Forum's crush projection for 19/20 of 2,105 mb. I also think the Outlook Forum's seed+residual estimate of 130 mb is probably in the ballpark of what to expect on Friday. That leaves the export projection as the main sticking point on Friday. As you can see below, the current view of 19/20 export demand is not looking very good right now. Also, as mentioned above, I think it is reasonable to assume that WASDE will say they are assuming a continuation of tariffs in their projection. With that in mind, vs. the Outlook Forum's export projection of 2,025 mb I think it is reasonable to assume WASDE could be 75-100 mb lower. In my baseline scenario below, you'll see I'm guessing something near a 1,950 mb export projection for 19/20.



So my baseline guesses are presented in the balance sheets below. Interestingly, the average guess for the 19/20 soybean yield is up vs. the Outlook Forum. There is virtually zero chance of that happening, but essentially that ~25 mb difference in my baseline production figure and the Bloomberg survey guess is the difference between my 19/20 carryout guess and the average guess from the survey (940 mb). I'm slightly larger in my guess for the old crop carryout than the survey guess, but I'd bet most of the attention is focused on the new crop numbers. I'm going to take the under vs. the survey guess on n/c ending stocks, but not with a lot of conviction.

US Soybean Supply and Demand (Million Bushels/Million Acres)

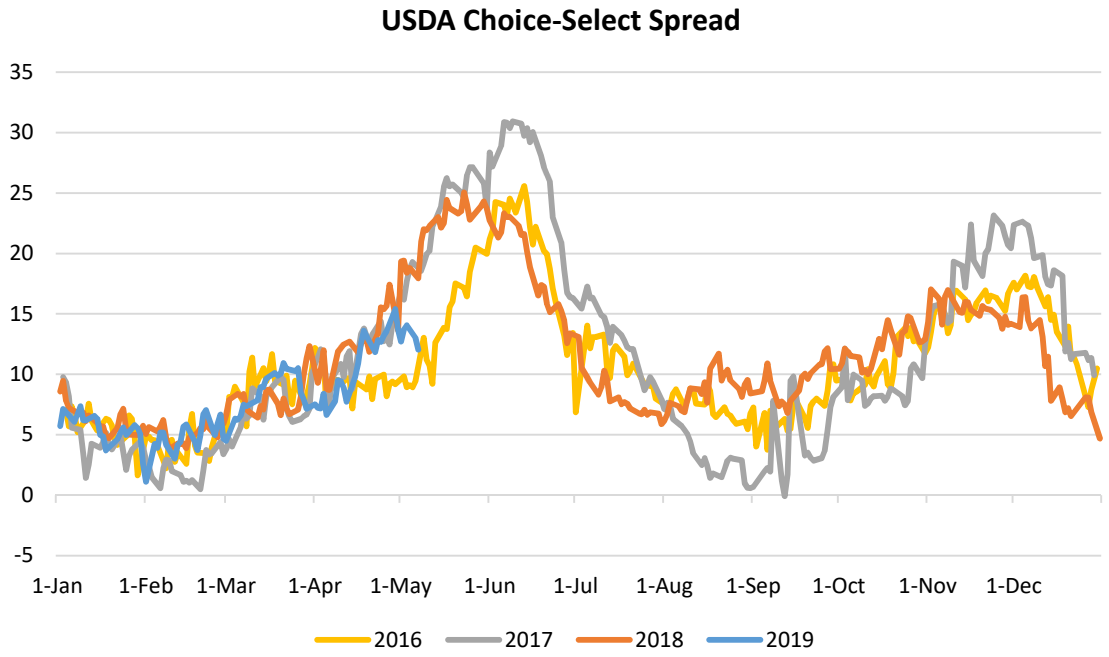
	USDA 14/15	USDA 15/16	USDA 16/17	USDA 17/18	**USDA 18/19 Apr**	**Possible? 18/19**	**Forum 19/20**	**Possible? 19/20**
Planted Acres	83.3	82.7	83.4	90.1	**89.2**	**89.2**	**85.0**	**84.6**
Harvested Acres	82.6	81.7	82.7	89.5	**88.1**	**88.1**	**84.3**	**83.8**
Abandoned Acres	0.7	1.0	0.7	0.6	**1.1**	**1.1**	**0.7**	**0.8**
Yield	47.5	48.0	52.0	49.3	**51.6**	**51.6**	**49.5**	**49.5**
Carryin (Sep 1)	92	191	197	302	**438**	**438**	**910**	**943**
Production	3,927	3,926	4,296	4,411	**4,544**	**4,544**	**4,175**	**4,148**
Imports	33	24	22	22	**17**	**15**	**20**	**20**
Total Supply	4,052	4,140	4,515	4,734	**4,999**	**4,997**	**5,105**	**5,111**
Crush	1,873	1,886	1,899	2,055	**2,100**	**2,100**	**2,105**	**2,105**
Exports (Census)	1,842	1,936	2,174	2,129	**1,875**	**1,825**	**2,025**	**1,950**
Seed	96	97	105	104	**98**	**98**		**100**
Residual	50	24	36	8	**31**	**31**	**130**	**30**
Total Use	3,861	3,943	4,213	4,296	**4,104**	**4,054**	**4,260**	**4,185**
Carryout (Aug 31)	191	197	302	438	**895**	**943**	**845**	**926**
Stocks/Use	4.9%	5.0%	7.2%	10.2%	**21.8%**	**23.3%**	**19.8%**	**22.1%**

Looking briefly at world numbers, I would expect 18/19 Brazil production to remain unchanged at 117 mmt but I think it is possible we see a 2-3 mmt increase in Argentine production from last month's 55 mmt estimate. It will be interesting to see if WASDE lowers their estimate of 18/19 China imports (probably not) and I'll be very interested to see what they project for 19/20 Chinese imports.

Thoughts appreciated…

Livestock

Some modest cash cattle trade yesterday, with a lot of the volume taking place in the South near $120. Some of this is for forward delivery of course. One thing that I haven't spent much time on lately is the soft price action in beef prices lately. Choice boxes are off sharply from the highs set late last month. Some seasonal weakness isn't completely abnormal, but the degree of weakness we've seen here is a bit stronger than we might expect. Also note the choice-select spread below. The choice-select spread seasonally continues to strengthen through the first half of summer but it has already started backing off in a big way recently. Might the usual seasonal surge in the choice-select spread be much less pronounced than usual?



Financials

Not much new to discuss this morning. US equity markets remain a mess. Of course part of this is hype surrounding the breakdown in trade talks (nothing new on that to report this morning) but as mentioned earlier this week there were some signs of exhaustion in the equity market to begin with. Overnight there was some "decent" economic data out of Germany, with factor orders beating expectations. You might add in the Iranian news as something that might weigh on market sentiment – Iran said it will resume uranium enrichment within 60 days if Europe fails to find a way to continue to buy its oil. Of course this is not easily done with virtually all world oil trade settled in US dollars. The likelihood of the Europeans figuring this out over the next 60 days when they've already spent years looking at it seems pretty low to me at this point, so I would expect the Iranian tension to increase going forward. All this geopolitical risk has heightened at a time when the equity market was looking a bit frothy, leading to the sudden reversals we've witnessed this week.

No major economic data is pending today. A handful of earnings releases to keep an eye on, with today's headliner probably being DIS. ECB President Draghi will speak this morning and separately Fed Gov Brainard will speak as well.

Energy

The EIA issued their Short-Term Energy Outlook report yesterday. In the report, the EIA upped its forecast for US oil production 2019 to 12.45 mbpd from 12.39 mbpd previously. They also increased their forecast for 2020 US crude oil production to 13.38 mbpd vs. 13.1 mbpd in their prior estimate. A few other bullet point highlights:

- *EIA forecasts that crude oil production in the Organization of the Petroleum Exporting Countries (OPEC) will average 30.3 million barrels per day (b/d) in 2019, down by 1.7 million b/d from 2018. In 2020, EIA expects OPEC crude oil production to fall by 0.4 million b/d to an average of 29.8 million b/d. Production*

in Venezuela and Iran account for most of the OPEC output declines in 2019, and 2020, but EIA expects these declines to be partially offset by production increases from other OPEC members.

- *EIA forecasts global oil inventories will decline by 0.2 million b/d in 2019 and then increase by 0.1 million b/d in 2020. Global demand outpaces supply in 2019 in EIA's forecast, but global liquid fuels supply then rises by 1.9 million b/d in 2020, with 1.5 million of that growth coming from the United States. Global oil demand rises by 1.5 million b/d in 2020 in the forecast, up from the expected growth of 1.4 million b/d in 2019.*
- *For the 2019 summer driving season, which runs from April through September, EIA forecasts that US regular gasoline retail prices will average $2.92 per gallon (gal), up from an average of $2.85/gal last summer. The higher forecast gasoline prices primarily reflect EIA's expectation of higher gasoline refining margins this summer, despite slightly lower crude oil prices.*

Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- 10yr Treasury Auction – 12:00pm

Thanks for reading.

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