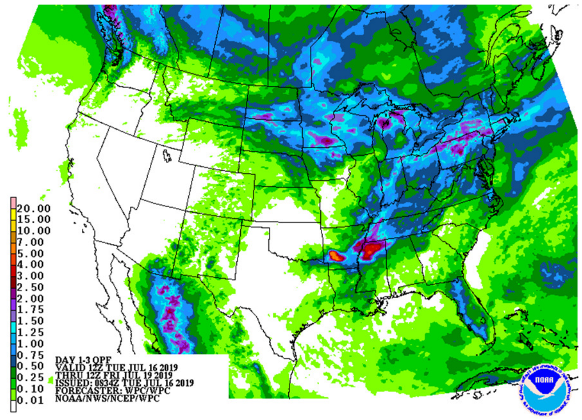
NESVICK
TRADING GROUP, LLC

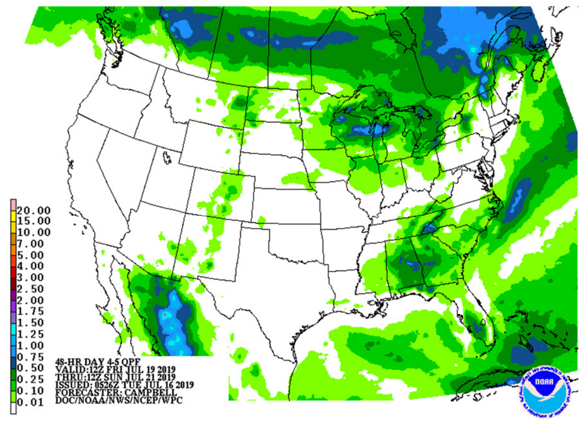
Tuesday, July 16, 2019
NTG Morning Comments
www.nesvick.com

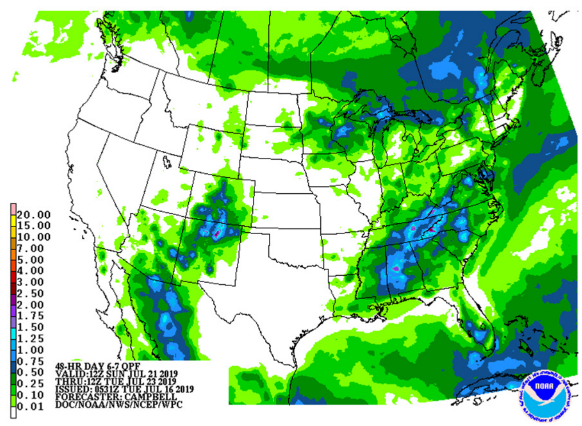
Weather

Maps to the right: Days 1-3, 4-5, and 6-7

Some changes to the forecast vs. yesterday this morning. The overall setup for the next few days is not changed. We will still have the remnants of Barry affecting the ECB and there will still be "ring of fire" rains in the Northern Plains during the next several days. Rainfall from Barry, at least vs my personal expectations, has been a bit of a disappointment so far in the ECB. The rainfall chances aren't yet done of course, so I still have to reserve some judgment for now. One change that is noted in the near term, however, is better chances for rainfall in IA than previously expected. You can see this morning an area of showers on the radar and you can also see showers in NE that will likely work into western IA later this morning. Those should die off fairly early this morning but that is still better than previously thought. Like yesterday we're still expected a ridge of high pressure to build late in the week and reduce rainfall chances through the Corn Belt and build some significant heat. We will definitely see some 90-95F highs during that period and highs into the 100 area cannot be ruled out especially in southwestern portions of the Corn Belt. However, another change in today's forecast is that the ridge of high pressure is now expected to weaken and move southwest 2-3 days earlier than originally thought. That would certainly allow for cooler weather to return to the area. Not necessarily "cool" but something closer to normal. It should also allow for improved rainfall chances. Admittedly, right now none of the computer models are showing big rainfall chances for the 11-15 day period but given how far out they're looking I guess we shouldn't be surprised. The bottom line is that if the new forecast for faster weakening of the ridge is correct, it will mean a faster return to normal temps and improved chances for rainfall.

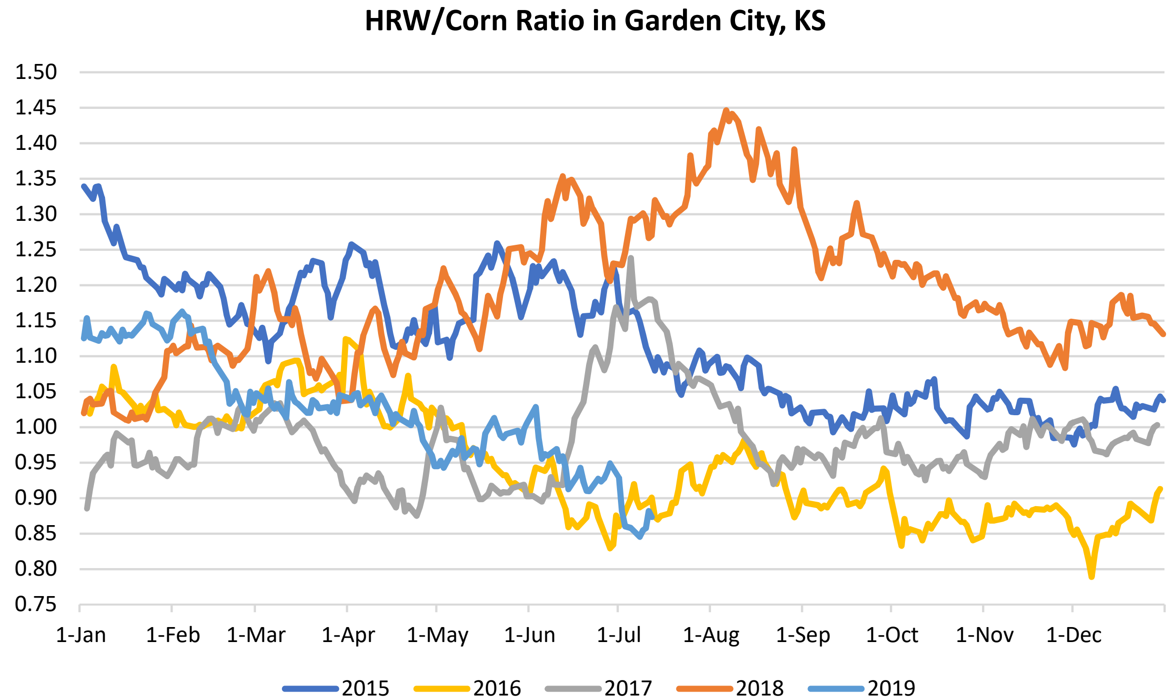






Crops

This is nothing new…we've discussed this before. Just thought it might be worth a quick update. I want to look over the wheat/corn ratio in the Southern Plains this morning. The chart of the ration for Garden City, KS follows below. Over the past few weeks I've heard a lot of reports of feedlots booking wheat. I can't remember the last time I've heard this many reports of wheat feeding. I typically have a rule of thumb that these reports are exaggerated, but clearly *something* is going on.



As you can see HRW is now trading well under corn values in Garden City and the ratio is near its lowest level in the past five years. The 16/17 season, which as you can see had similar price levels as this year at this time, was the last year that we saw "significant" wheat feeding according to WASDE. WASDE put 16/17 all wheat feed & residual at 156 mil bu which is right inline with their projection for this year (150 mil bu). Might be some upside to that figure depending on how long the ratio stays at this level…but ultimately that will depend on the final outcome of the corn crop. If you've been hearing similar stories on wheat feeding, please let me know. Or, if you suspect the opposite I'm interested to hear that as well.

Livestock

Coming into the week the consensus opinion seemed to be that cash trade would probably be steady this week. Following yesterday's MPR breakdown from last week, there seems to be a divergence in opinions that has developed. On one hand, the new opinion is that cash trade volume last week was bigger than expected and with soft boxes the packers can slow kills This would lead to a weaker cash trade argument. The other opinion is that despite last week's strong cash volume, the packer doesn't have any more leverage than usual and that cash trade is still likely to be steady this week. I find myself riding the fence at the moment, seeing the logic in both arguments. However, if pressed, I would look at packer margins simply following along with seasonal patterns with the near term weakness and coming off from still relatively high levels. I would think a break in the board would be necessary to break cash this week, but spec length is largely absent from the futures market at the moment as the liquidation has already run its course. For now I guess I'm going to reluctantly side with those that still believe cash trade can be steady this week, but I'll admit to having little confidence.

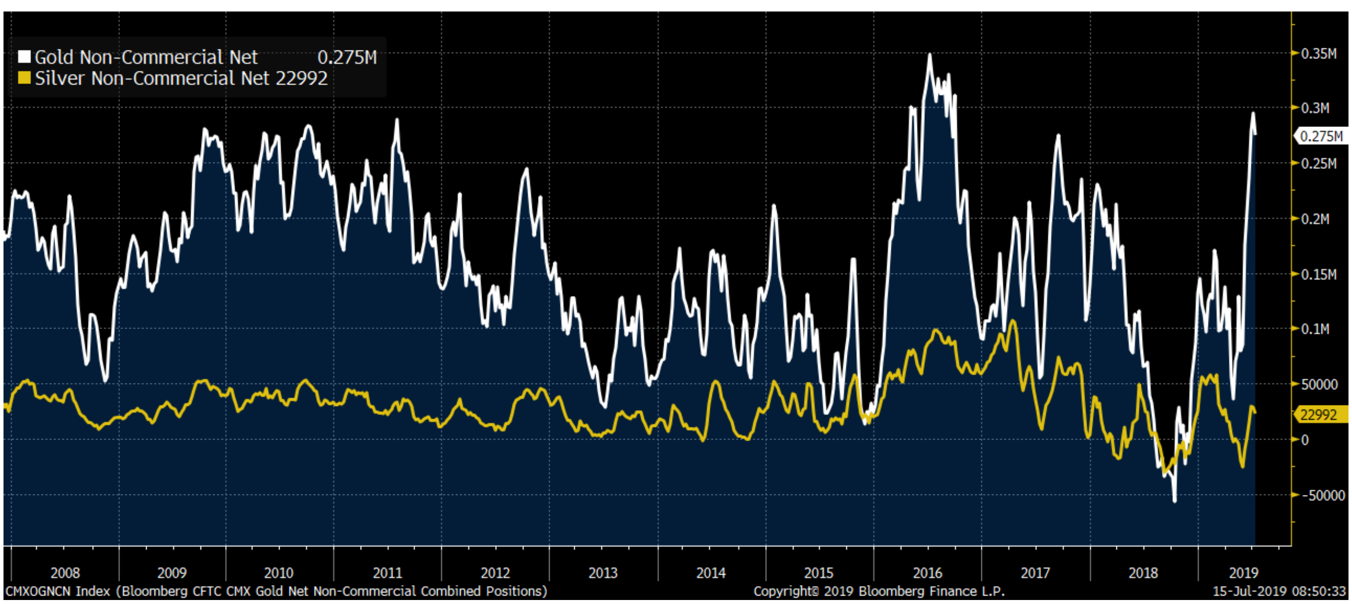
Interesting to see that the pork cutout has, at least for the moment, stabilized and stopped moving lower. This is typically when the cutout peaks in the year…could we be putting in a counter-seasonal low here instead?

Financials

No significant new information to pass along this morning. Treasury Sec Mnuchin is, unsurprisingly, trying to sound upbeat on US-China trade negotiations. He said there is a chance he and USTR Lighthizer could travel to Beijing soon if phone conversations this week progress nicely. Despite his seemingly relentless optimism, other storylines argue to remain skeptical. Obviously President Trump took to Twitter yesterday to point out his passion for tariffs. Additionally, the South China Morning Post is running an article this morning noting the new face on the Chinese side of negotiations is much more "hawkish" and that it is likely the Chinese can now just wait and see what happens with the 2020 election.

On tap today we have US retail sales and industrial production this morning and we also have earnings reports from several of the big name banks. Fed Chair Powell will be speaking in Paris around noon US CDT and several other Fed officials will be making the rounds today as well. What might be the most interesting event of the day will come in DC where executives from GOOGL, FB, AAPL, and AMZN will all testify before the House antitrust panel.

It dawned on me yesterday that I've never spent much time paying attention to COT numbers for gold or silver. In the recent past this hasn't mattered, but with renewed interest in precious metals as all central banks seem hell bent on pushing interest rates lower and lower, precious metals COT numbers will probably start to matter more and more going forward. I've charted the non-commercial net position for both gold and silver futures below. I was a little surprised to see how quickly positioning in gold has zoomed to a relatively "stretched" position. Silver has bounced sharply as well, but not quite to the degree as gold. That makes sense considering our discussion on the gold/silver ratio a week or so ago. A "stretched" long position is no reason to not be bullish to a particular commodity, but it is something to consider in the short term here.



Energy

WTI futures are trading slightly higher at the time of writing this morning after giving up a chunk of its recent gains yesterday. What was once resistance is now support, with the market bouncing off MA levels that I previously thought would hold as resistance. Offshore oil production is coming back online, but very slowly. The most recent update I've seen shows about 69% of the offshore oil production remains shut-in, down from 73% on Sunday. There have also been some refinery operations that have been affected, but flooding should subside soon enough to allow at least partial resumption of operations by the end of the week. Of course WTI price action over the next 24 hours will be largely influenced by the weekly inventory reports. API will be out with their guess this afternoon. The Bloomberg survey calls consensus a 2.75 million barrel decline which would be the fifth straight week of declines.

Today's Calendar (all times Central)

- Import Prices – 7:30am
- Retail Sales – 7:30am
- Industrial Production – 8:15am
- NAHB Housing Market Index – 9:00am
- Several Fed speakers, including Fed Chair Powell (he speaks around noon)

Thanks for reading.

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