NESVICK TRADING GROUP, LLC

Thursday, July 25, 2019

NTG Morning Comments

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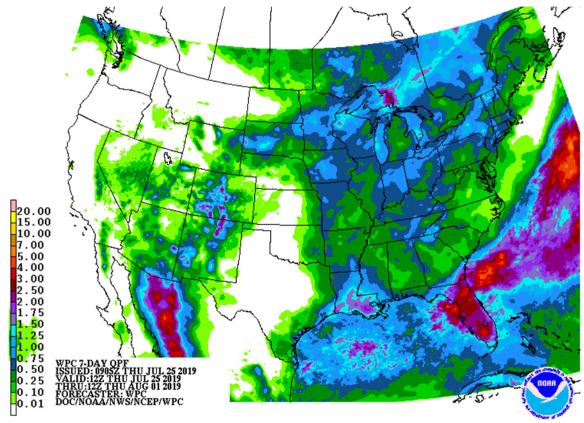
Weather



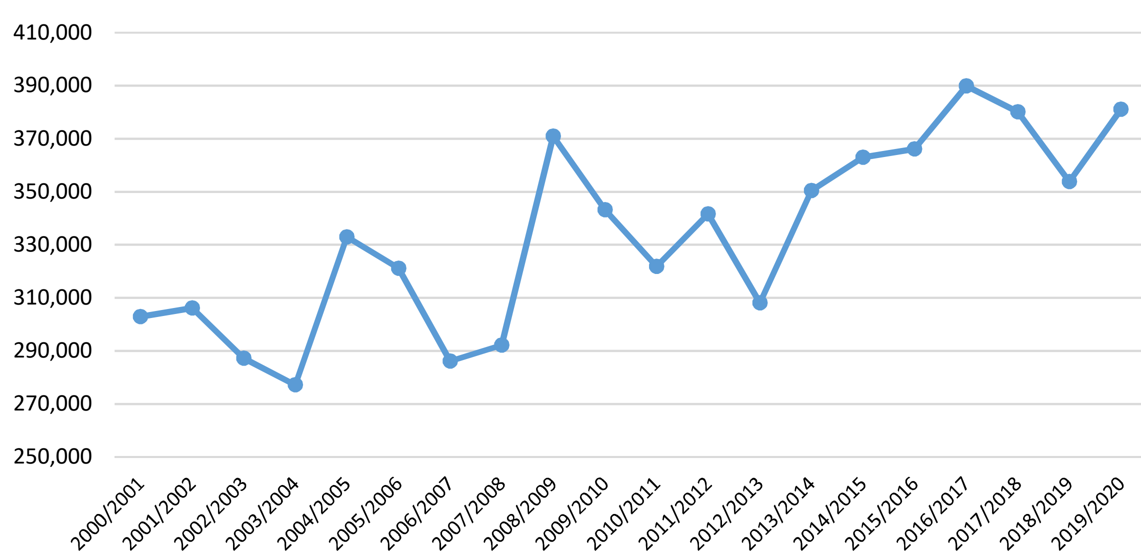
No change in the forecast this morning. We've got another few days of mostly dry weather before some rains push through the Corn Belt during the weekend and early next week. The map at the right is the WPC's best guess for what to expect. Overall, look for coverage to probably wind up less than what is shown but localized rainfall totals could end up bigger. Model agreement on the next 5 days is very poor and even poorer beyond that. This is simply a situation where the computer models are just not going to have a good idea of what to expect in terms of precipitation specifics. What we do know is that a ridge of high pressure will be located in the US southwest which will allow for a northwest flow to bring precipitation chances to the Corn Belt. Exactly when, where, and how much rain will fall in that pattern is difficult to predict.

Crops

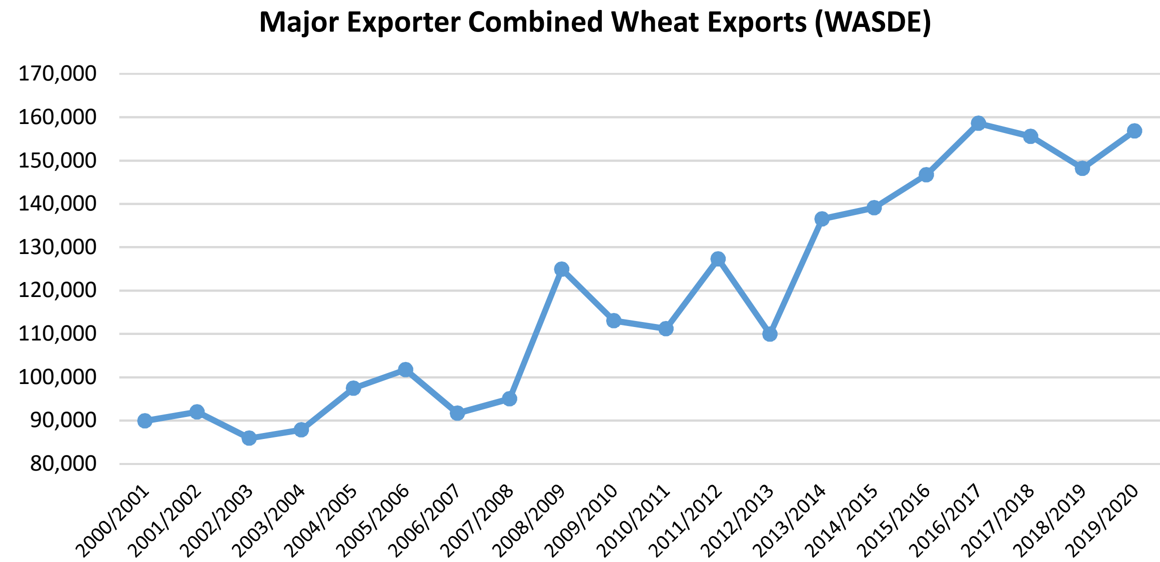
You may have seen yesterday that SovEcon cut their estimate for Russian wheat production to 73.7 mmt yesterday, which now puts them right inline with WASDE's current estimate. I thought it might be worth getting a frame of reference for wheat supplies among the "major exporters". WASDE considers Argentina, Australia, Canada, the EU, Russia, and Ukraine to major exporters, and in the charts below I'll also include the US in that list.

First chart below shows WASDE forecast for combined wheat production in these countries. There might be some further downside to the Russian projection, but to WASDE's credit they've been in front of the reductions so far. Australian production probably also has some additional downside. Still, it is highly like that major exporter wheat production is up significantly YOY, with much of that increase coming from the EU.

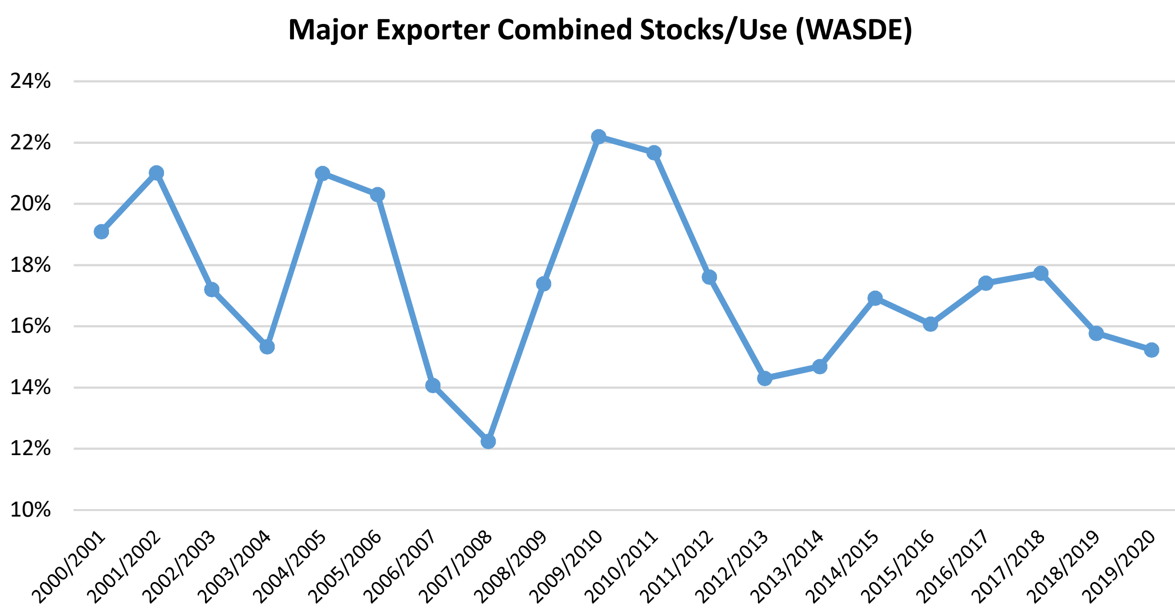
Major Exporter Combined Wheat Production (WASDE)



As you would probably expect with bigger production, the available exports from these countries is expected to go higher. Total exports is charted below, and you can see WASDE is looking for a pretty hefty YOY bump in exports. It is interesting, however, that imbedded in this figure is a lower YOY export projection for Russia… which definitely makes sense in my opinion. Again, WASDE might also have to walk back its Australian projection as well.



Interestingly, despite the uptick in production expectations WASDE is showing stocks/use declining when the major exporters are viewed together. Again, EU stocks are expected to increase but elsewhere you're looking at mostly steady or lower ending stocks figures. With higher feed use expected (from the bigger supplies) it actually drops the stocks/use ratio. It will be interesting to see how WASDE tweaks its demand projections if they do proceed with further production cuts in Russia and Australia.

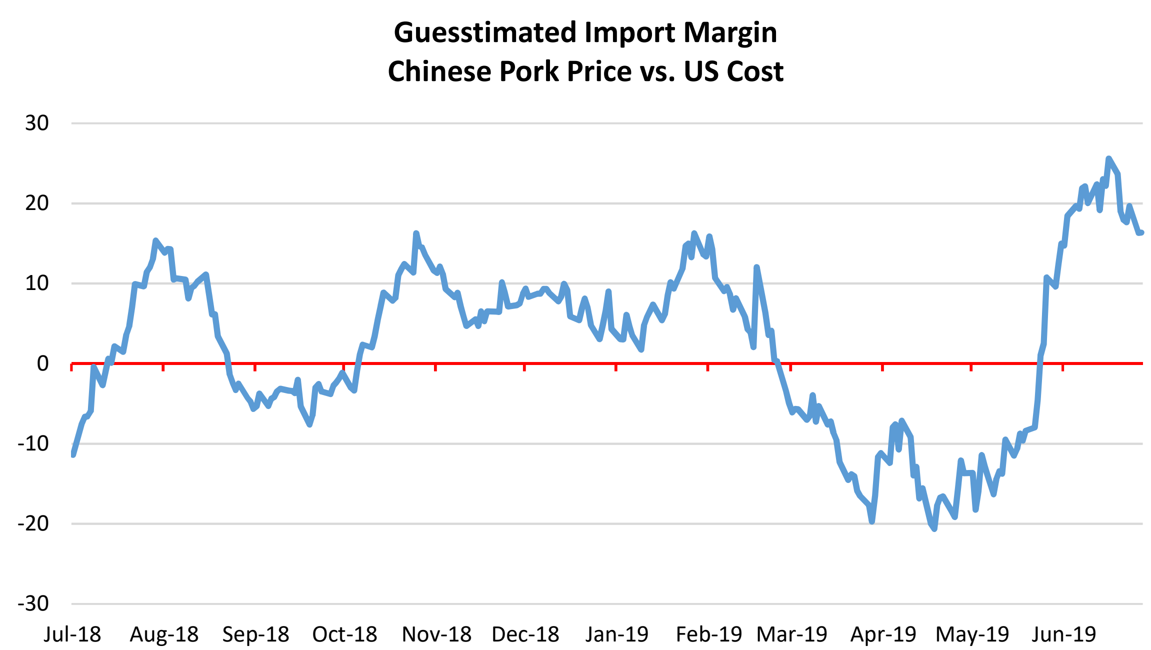


Bottom line – no real "story" here for the moment. Need to keep a close eye on Russian production estimates which, for now, continue to trend lower. As noted yesterday this could keep a floor under the world FOB wheat price. US price levels are premium to the rest of the world so there is still some *potential* downside to US wheat prices, but if GASC and others are putting in a floor I would say downside is pretty limited.

Livestock

Just one quick chart this morning. I learned yesterday that China's Ministry of Commerce issues a weekly update on wholesale pork prices, somewhat similar to what we get here from USDA. I did some math to convert the price and it looks like Chinese pork prices would be roughly the equivalent of 162/cwt. That is obviously a long way off from the current USDA quote for the pork carcass value of ~80/cwt.

I then wanted to take a look to compare that Chinese price vs. what US pork would cost for import. For the US calculation, I'm again taking the pork carcass value and adding the 62% tariff. I then add $15/cwt for transportation costs…if you have a different estimate please let me know. The spread between these two values is shown below.



Two things to point out from this:

1) The easy thing to spot from the chart above is that the import margin for US pork is very strong <u>even after accounting for the tariff</u>.
2) Interestingly, this is a somewhat new development. Note that in the spring there was no import margin after the tariff. That was when a lot of traders, myself included, were scratching our heads at the hog market weakness despite the ASF situation. This shows us that the market wasn't ignoring the ASF situation, but rather the US simply wasn't priced to reap the rewards of it. Now we are.

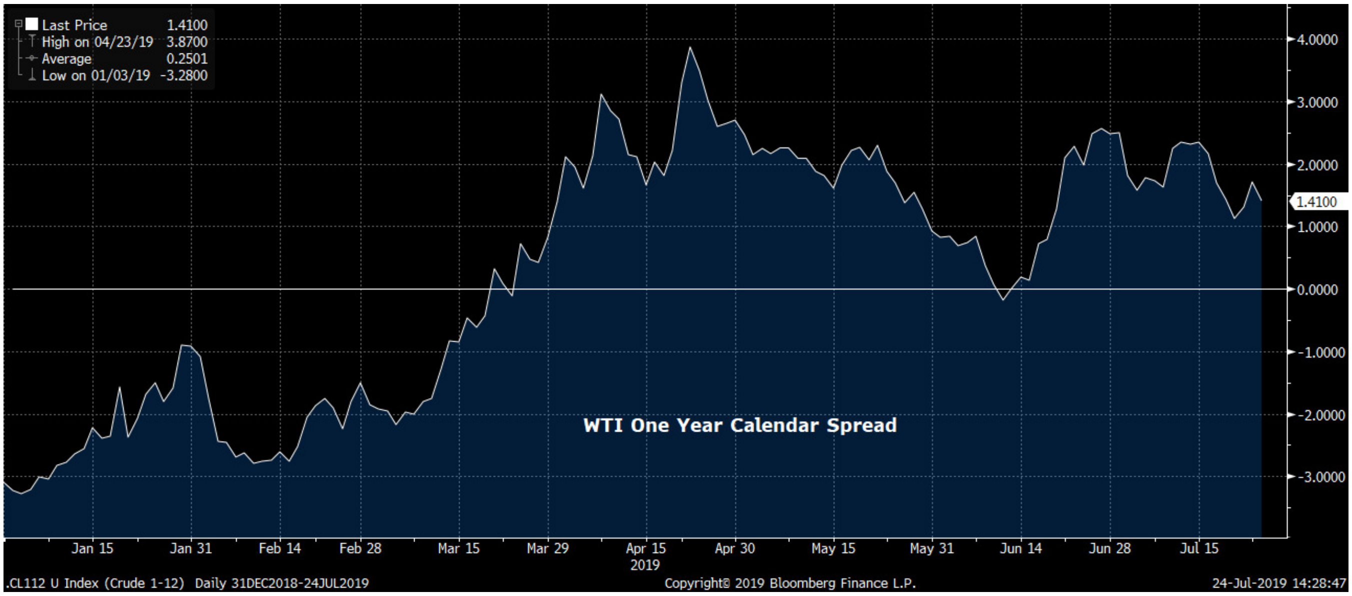
But for how long? I'll be watching this chart very closely going forward.

Financials

The big item on tap for this morning will be the ECB's policy statement and of course the press conference that follows. As noted yesterday, PMI data was mostly very soft around the Eurozone but especially in Germany (manufacturing). Inflation is nowhere to be found either, with the latest update being ~1.3% vs. the ECB's 2% goal. The ECB's rates are already negative but a push further in negative territory is likely. As noted yesterday I would expect a mention about the resumption of QE and some other aggressive measures. Most seem to be thinking the ECB will refer to a restart in QE in Sept, but the surprise today might be an *immediate* restart to QE and/or an increase in bond purchase limits. Looking at a chart of the Euro, an "aggressive" ECB could push us into new lows. One other chart to keep your eye on is the EuroStoxx banking index (shown below). The European banking industry appears to be on life support and a continuation of negative rates or more-negative rates will not help that situation. Today should be very interesting and the risk of the ECB doing something "big" following the weak data is probably underappreciated. Good luck out there today.

Energy

Just a quick chart this morning. Keep an eye on the calendar spreads. Even with yesterday's surprisingly large drawdown in crude oil inventories, futures trade soft and calendar spreads were weaker. Not the chart below showing the 1-year calendar spread in WTI. The market is still inverted but that narrowed a bit here recently. Note just a month or so ago the spread tested even-money before the market rallied back. Will it hold on the next test?



Today's Calendar (all times Central)

- Durable Goods Orders – 7:30am
- Export Sales – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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