NESVICK TRADING GROUP, LLC

Friday, August 30, 2019
NTG Morning Comments
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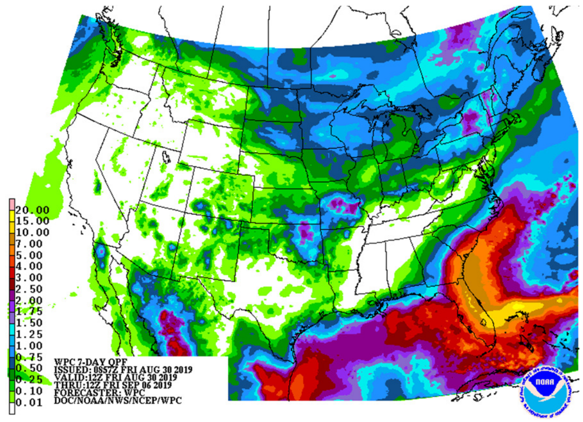
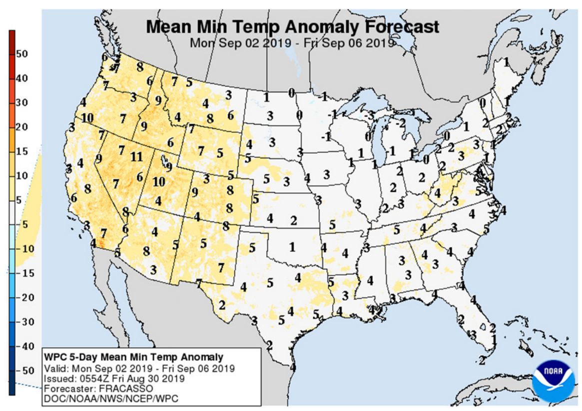
Weather

No big changes to the forecast today. We've got some big rains in southwestern portions of the Corn Belt this morning. Rains will continue in this area through the morning, gradually pushing eastwards. The rain amounts and coverage will probably diminish a bit as it moves east. Some scattered activity will be seen in the Corn Belt during the weekend, but localized areas should pick up some decent amounts. Mostly dry conditions to start next week but additional rainfall chances will be seen next week. Coverage of individual events will be poor but over the course of next week and a few different opportunities, we might see some decent accumulations add up in some areas.



A mix of near to slightly below normal temps are expected over the next week or so. There will certainly be instances where lows dip into the 40s at times in the Northern Plains. Again, our meteorologist Craig Solberg notes "the pattern is nowhere close to indicating anything close to freezing temperatures for any part of the region through at least September 13, and we may see readings go to more normal levels for later in the 11-15 day period".



The forecast path of Dorian has not changed dramatically overnight. It is currently a Cat-2 storm this morning and expectations are for it to reach Cat-4 by making landfall on Monday (which is later than was expected this time yesterday). Model agreement has improved that the storm will turn north before making it into the Gulf, but that means it will be dumping a lot of rainfall on FL. Rainfall totals in inland FL could be 1-2 feet.

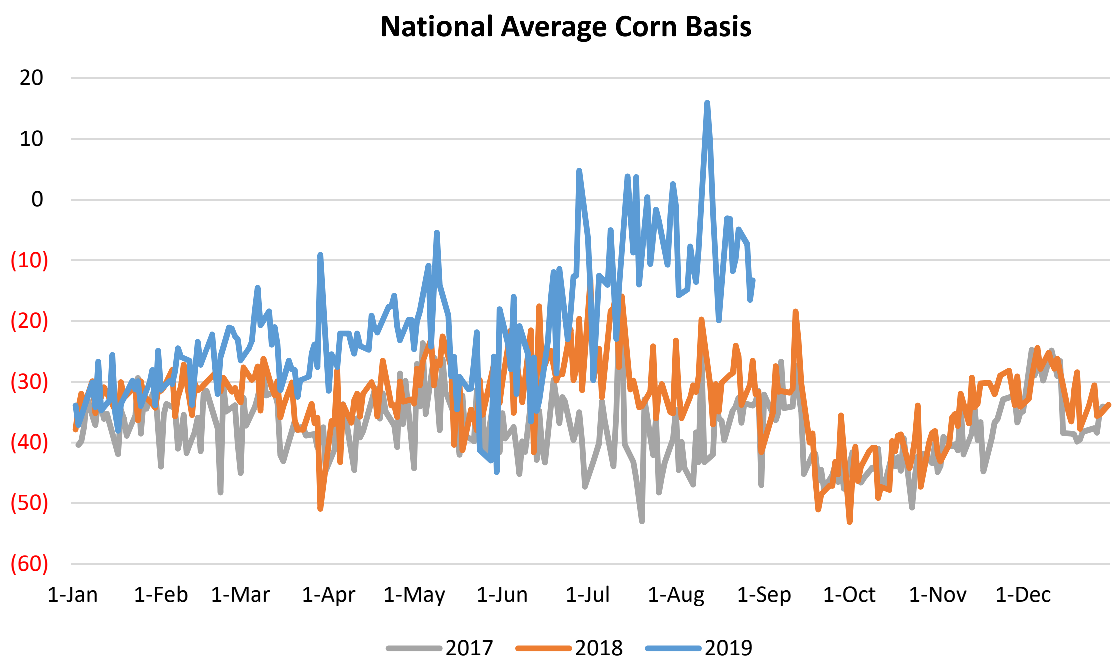
Crops

Not much to say this morning. We've gone over a lot of details on possible demand this fall for corn and soybeans over the past few days. I greatly appreciate all the feedback I've received this week. Please keep it coming. I like to think of this as a dialogue. In all of the feedback I've received this week, there are probably two main points of consideration…and admittedly I don't have good answers on them.

1) **We are looking at a very delayed harvest**. As an example, silage cutting in the eastern Corn Belt is usually about to get started around this time but this is probably still weeks away. Does that change any

of the price implications of the demand scenarios I have discussed over the past few days? Maybe…I'm not entirely sure to be honest.

2) **If demand is so bad and supplies are so big, why is basis so damn high?** Of course the obvious answer is that the farmer, as a rule, is hoarding supplies due to disgust over prices. But what changes that? Is it simply a matter of waiting until the (late) harvest "forces" some movement? Or is it more of a price function? Based on the balance sheet projections, I would typically argue that spreads should be wide but will the market need to keep spreads narrow to move the commercially stored supplies? I really don't have a good answer to any of that. Thoughts appreciated.

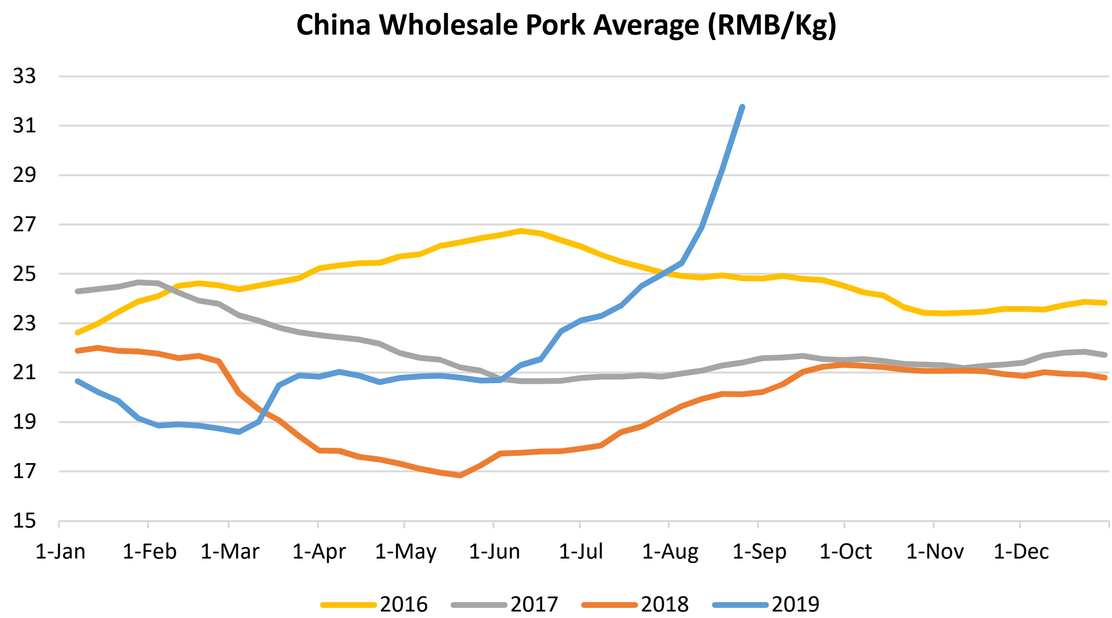


A lot of moving pieces here has me feeling less "in control" of what prices will do here. In addition to the points above, we also have Trump's "giant package", Argentine default (and farmer hoarding), Brazil crush margins getting smashed, etc. Not to mention nobody has a damn clue about the crop size yet. In times like this just remember to focus on controlling what you can control.

Livestock

Still hearing very light cash cattle movement so far this week. Most trade in the north yesterday around 106, which continues the trend of slightly weaker prices as the week has progressed. Maybe some 103 in KS on small volume, but I don't know if that really set the tone on prices for the week. We got 14 deliveries against LCQ at Syracuse.

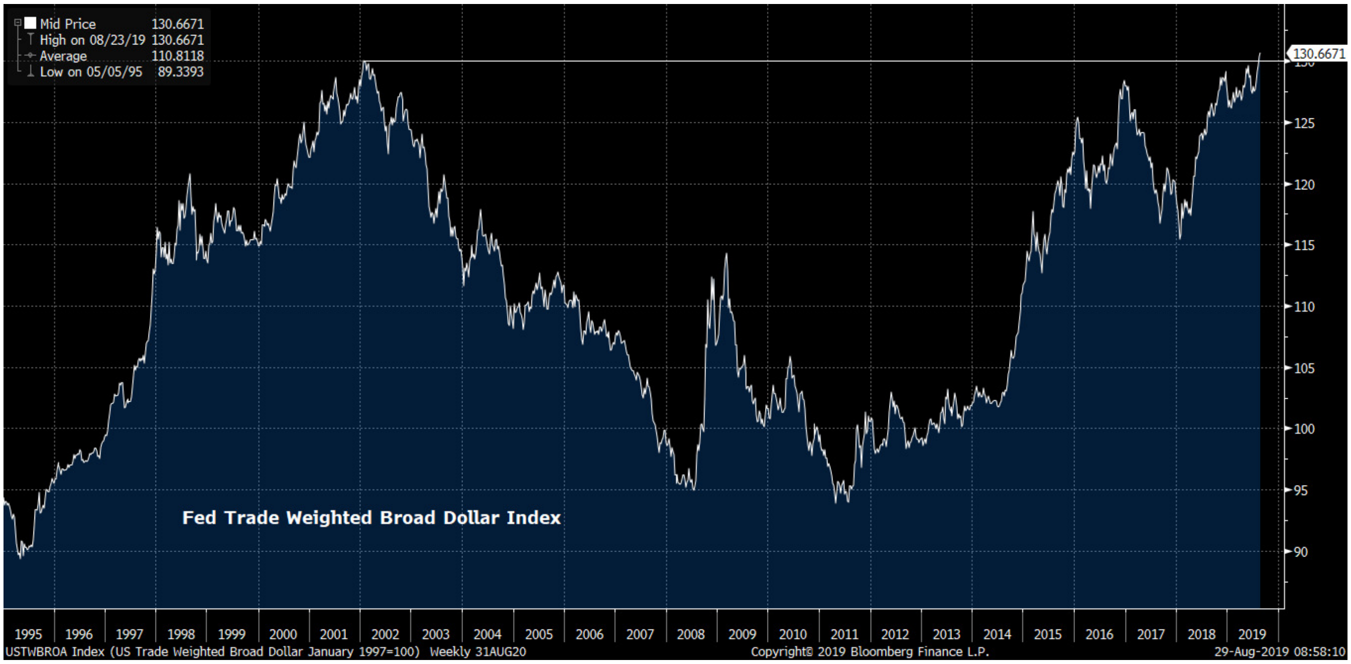
This doesn't necessarily have to impact US futures, but Chinese pork prices continue to skyrocket. You've probably all seen some of the videos of customers fighting over pieces of pork at a supermarket. We've also seen some stories suggesting in some areas you need "meat tickets" to buy pork, with the local government essentially rationing supplies. No telling how this will all end, but it would seem we've clearly reached a tipping point in terms of pork prices/supplies in China. The government has also announced they will be selling stocks and/or reserves, but I bet that has already been taking place. Again, this doesn't necessarily matter to US prices unless imports start to ramp up significantly…we'll see.



Financials

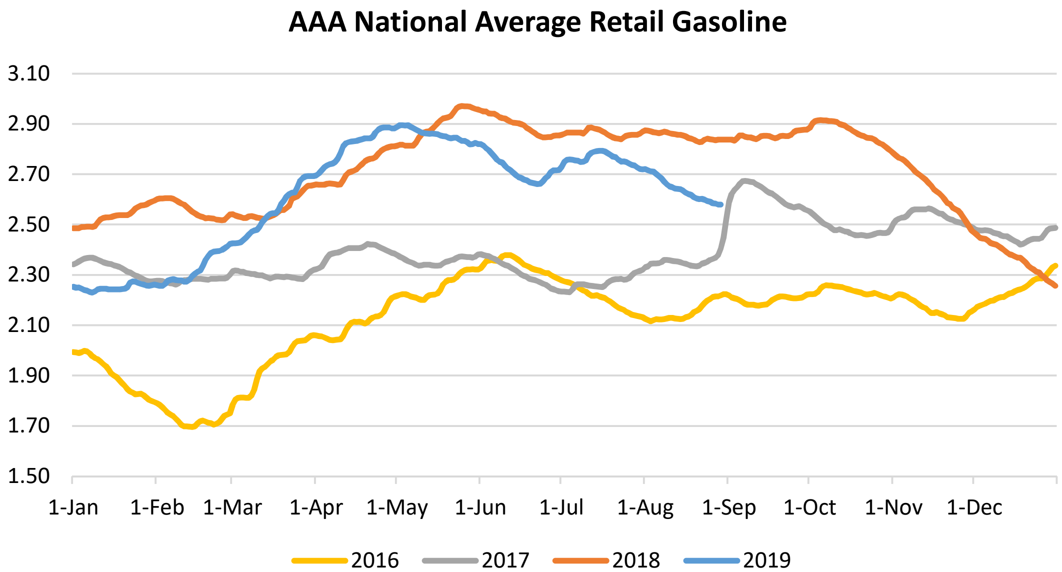
Nothing new to report this morning. Equity futures continue to surge higher in overnight trade, though I would caution that this level in ES has capped advancements so far this month. Trade "hope" seems to be a big factor in the renewed equity market optimism, with a phone call between the two sides apparently scheduled for today. Otherwise, the headlines this morning are all the same old news…

The strength in the dollar just took another step forward this week. The chart below shows the Fed's trade weighted dollar index calculation – vastly better than the simple DX futures (which mainly weights the Euro). You can see on the weekly chart that the dollar is breaking out to the upside and this is certainly a situation we should keep an eye on. For major importers this is a problem as trade settled in USD (virtually all trade) is more expensive. Those countries with USD-denominated debt also probably are not enjoying this situation. Major exporters to the US, such as China, are less squeezed by this. That said, China does definitely rely on imports of oil/energy and other items that are settled in USD, which is problematic. No guarantees that this breakout is sustained, but if so this could have some big impacts on markets. Obviously the Trump administration is not keen on seeing the dollar appreciate further, and ongoing strength would raise the prospects for some sort of intervention.



Energy

Retail gasoline prices have been steadily moving lower in the past few months, as shown below. We are now fairly well below year ago levels and, assuming no major disruptions from Dorian, we should be below 2017 levels at this pace soon. The EIA is projecting further price declines through the end of the year and is looking for relatively stable retail gas prices through 2020.



Today's Calendar (all times Central)

- PCE Deflator – 7:30am

- MN Chicago PMI – 8:45am
- U of M Consumer Sentiment – 9:00am

Thanks for reading.

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