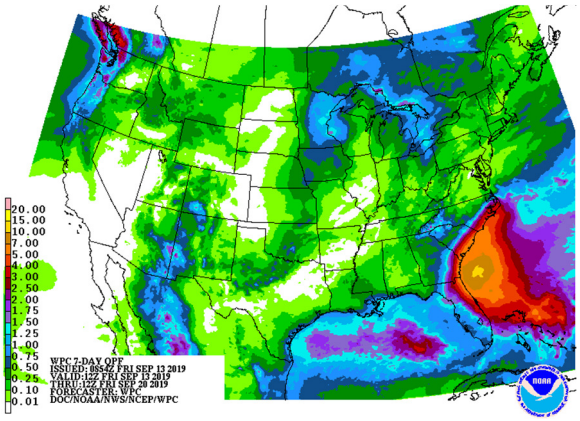
NESVICK
TRADING GROUP, LLC

Friday, September 13, 2019
NTG Morning Comments
www.nesvick.com

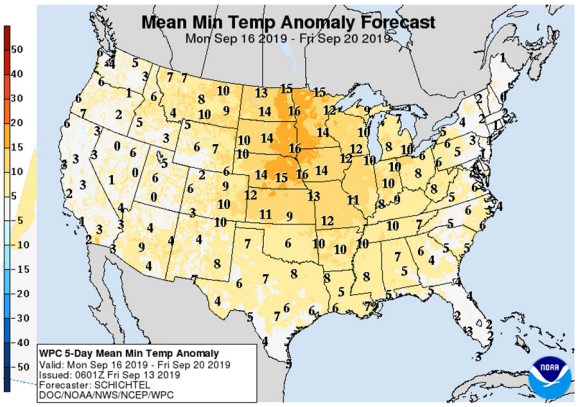
Weather

No big changes to the weather forecast. We've got several days of mostly clear conditions through the Corn Belt. The rains you see on the map at the right in MN and surrounding areas don't come until days 6-7 of the forecast period. Before that, only limited and light rainfall is expected in the region. Some increase in 6-10 day precipitation chances favoring western areas. The 11-15 day period looks mostly BN. The two week forecast continues to feature mostly AN temps through a large majority of the country. No freeze threat appears present through Sep 27 if not beyond.



Crops

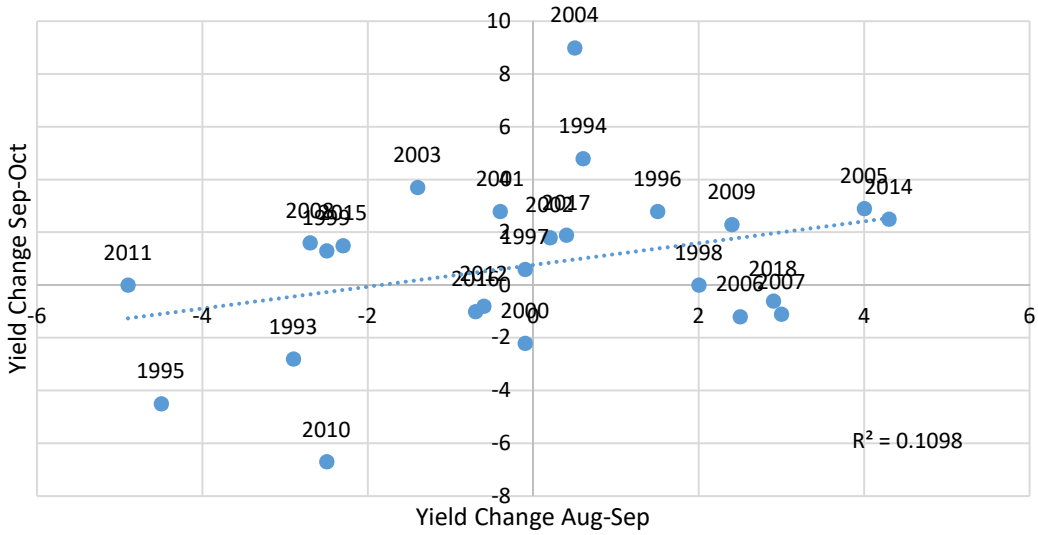
By now you've likely seen the stories noting the Chinese government will allow "some" imports of tariff-free US soybeans (and pork) as a gesture of goodwill ahead of high level talks early next month. My understanding is that there were roughly 1mmt of purchases yesterday, maybe a little more or less. While this is certainly good news, just keep in mind we've been here before. Ask yourself – what has changed to soften either side's stance significantly?



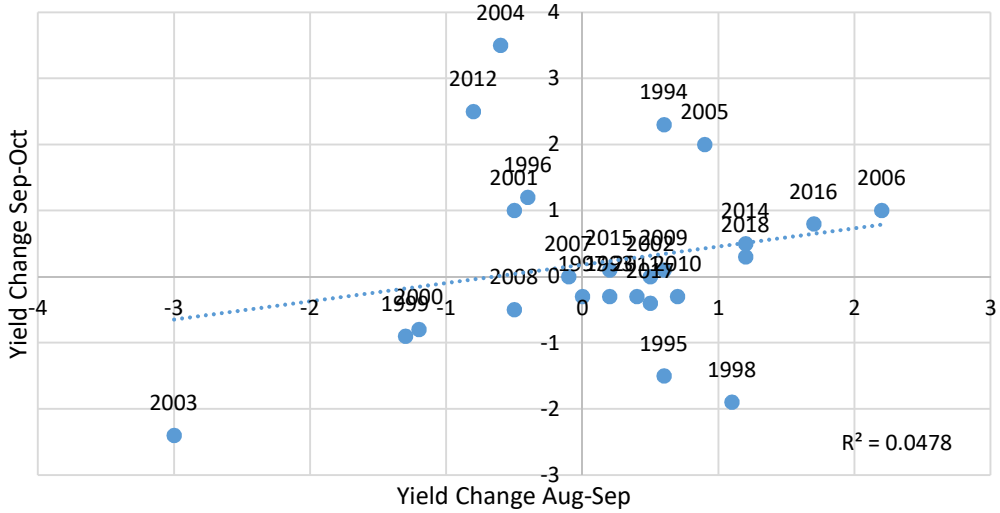
I must have been sent the NASS slide on pod weights a million times yesterday. Yes, implied pod weights did look a bit "stretched", but if you recall my comments from last week that is exactly what we expected. Pod weights will come down in future NASS reports, but that will be at least partially offset by the fact that pod counts always go up from here. Whether or not pod weights go down more than pod counts increase as an offset remains to be seen.

It seems every commentary I have read since the report came out yesterday has had two common themes. The first is – lows are in for corn, soybeans, and wheat. Maybe…I guess I don't have a huge argument other than to note the weather forecast still looks non-threatening from a frost perspective and we are looking at huge carryover supplies in corn and soybeans. I suppose that all rests on how the cash market acts through harvest. We know basis, for now, remains elevated as a general rule. The second is – the market is already dialing in further yield reductions for the October report. Considering the rampant pessimism all summer this doesn't come as any surprise to me, but at the same time I guess I don't quite get it. With an extended frost-free growing season, we typically add bushels late to these crops, don't we? Some will make the argument that NASS's reduction this month vs. Aug is simply a sign of them stair-stepping their estimates lower. However, note the two charts that follow. They show the change in yield estimates from Aug-Sep plotted against the change in yield estimates from Sep-Oct. You can plainly see there is virtually zero tendency for NASS to follow in the same direction, either up or down, in Oct as they did in Sep. My point is that is seems we're ignoring typical harvest weakness and continuing to pound the table that yields "should be" lower. That might be the right attitude, but I'm skeptical

NASS Corn Yield Changes
Aug-Sep vs. Sep-Oct



NASS Soybean Yield Changes
Aug-Sep vs. Sep-Oct



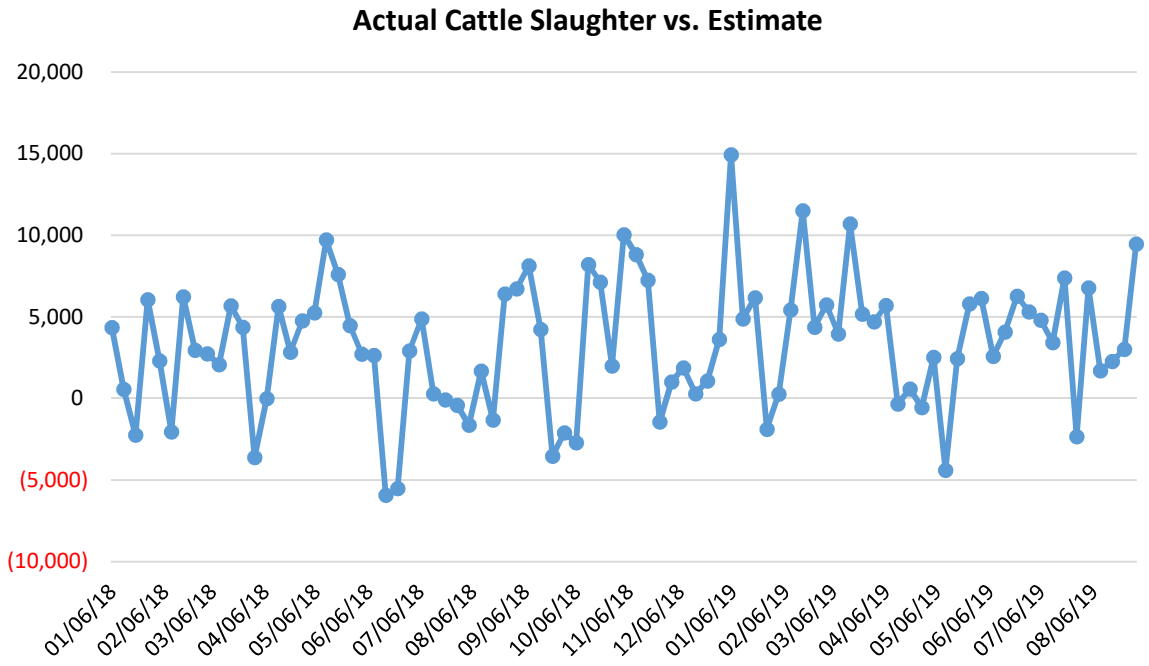
By the way, FAS updated their acreage numbers after the close yesterday. Just from a quick glance at the numbers, I don't see anything that stands out suggesting NASS needs to make any major adjustment… of course I didn't see anything suggesting that last month either.

Livestock

Again, the main headline from overnight is that China will allow for some tariff-free imports of US pork. That comes as no surprise considering the headlines of yesterday. Remember yesterday there were newswire

articles suggesting China could purchase up to 2 mmt of US pork. That number is simply too big to be realistic (I think!) but there are definitely signs there could be some improvement here. The timing and the total tonnage remains the big question mark that I am simply in no position to answer. We'll just have to see what happens.

An under-reported item from yesterday came from the official slaughter data for the week ending Aug 31. The chart below shows the difference between the original estimate cattle slaughter and the official data that comes out roughly 2 weeks later. Here you can see this latest data showed a significant upward revision to the kill, which obviously begs the question why was the kill so under-reported during an especially tough time for the cattle market? It continues to look like the industry is doing a pretty decent job of moving cattle here despite the plant loss. Also, weights yesterday continue to show feedlots appear very current.

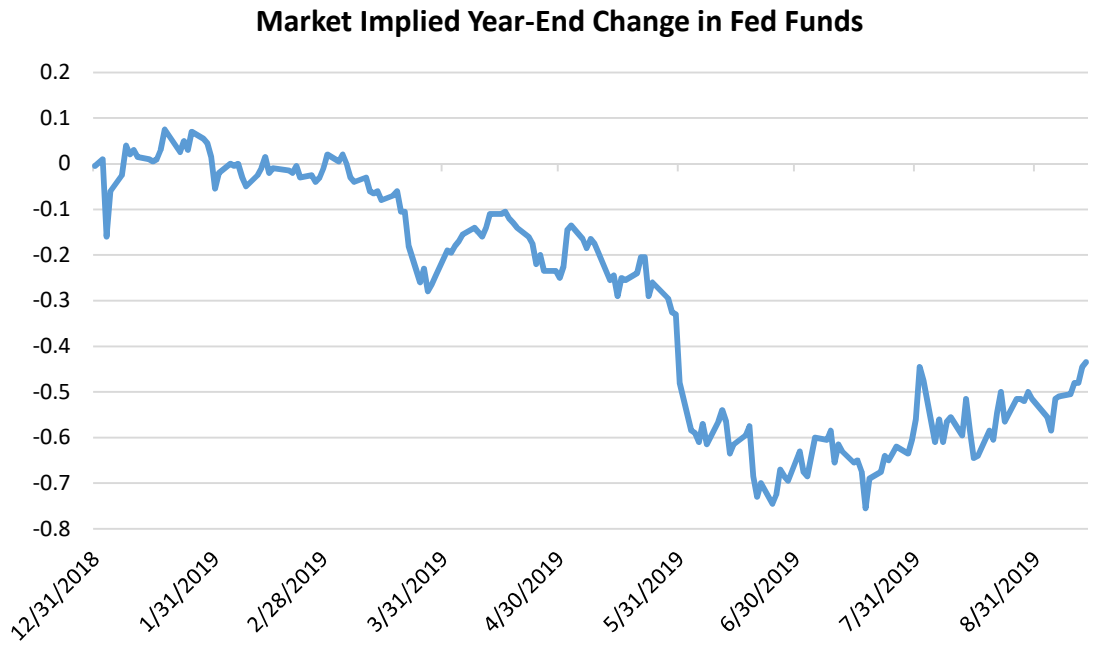


Financials

Yesterday was an absolutely crazy day. There were double-reversals posted on several charts yesterday in some of the wildest price action I've seen in a while. And considering the year we've had…that's really saying something. In terms of headlines this morning, there isn't much new to report. Again, the word that some US soybean and pork imports will be allowed tariff-free into China is good news on the trade negotiations front. And yesterday we had talk of an "interim" trade deal (whatever that means) that was later denied but now it is being accepted as true again…who knows? Otherwise, I don't see anything else new that sticks out on the headlines this morning. Retail sales will be reported this morning and that could potentially be a market-mover.

One thing I find interesting about the sudden improvement in US-China relations is the optimism it creates for the economy ultimately undermines President Trump's desires for additional rate cuts. Again yesterday he took to Twitter to blast the Fed for not cutting rates further. As the market is pricing in optimism for US-China trade talks, it is also reducing odds for further Fed rate cuts. The chart below shows what the market is pricing in

terms of a change to the Fed Funds rate by year end. We're still looking at 100% odds for a rate cut next week, but beyond that you can see the market isn't pricing another full 25 bps cut by the end of the year. Will the optimism created by Trump's interim trade deal derail his hopes for lower rates?



Energy

The IEA is out with their monthly update and their figures show OPEC has a tough task ahead of them if they expect to support prices. The IEA is projecting demand for OPEC oil in the first half of 2020 will be 1.4 mbpd below the group's current (as-of Aug) production level. The IEA said that although global stockpiles have not grown recently, they believe increased production in countries such as Brazil and Norway could mean that 2020 inventories being to build again. The IEA said *"The challenge of market management remains a daunting one well into 2020….Soon, the OPEC+ producers will once again see surging non-OPEC oil production with the implied market balance returning to a significant surplus and placing pressure on prices."*

Today's Calendar (all times Central)

- Import Prices – 7:30am
- Retail Sales – 7:30am
- U of M Consumer Sentiment – 9:00am

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684de

Trillian IM: dzelinski@nesvick.com
Bloomberg IB: dzelinski2@bloomberg.net

DISCLAIMER:

This communication is a solicitation for entering into derivatives transactions. It is for clients, affiliates, and associates of Nesvick Trading Group, LLC only. The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. These materials represent the opinions and viewpoints of the author and do not necessarily reflect the opinions or trading strategies of Nesvick Trading Group LLC and its subsidiaries. Nesvick Trading Group, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such.

Officers, employees, and affiliates of Nesvick Trading Group, LLC may or may not, from time to time, have long or short positions in, and buy or sell, the securities and derivatives (for their own account or others), if any, referred to in this commentary.

There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. Nesvick Trading Group LLC is not responsible for any redistribution of this material by third parties or any trading decision taken by persons not intended to view this material.