NESVICK TRADING GROUP, LLC

Thursday, September 26, 2019

NTG Morning Comments

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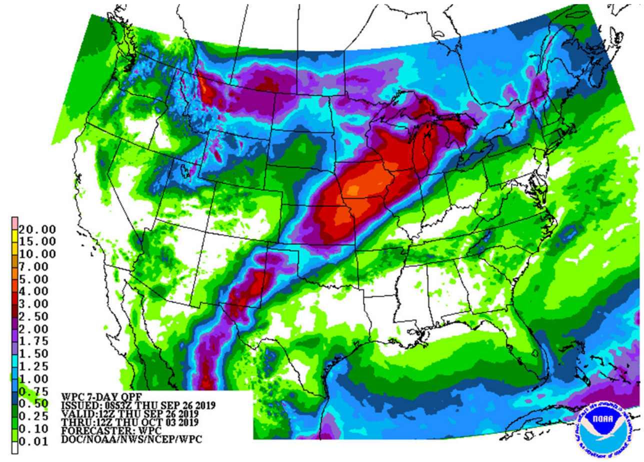
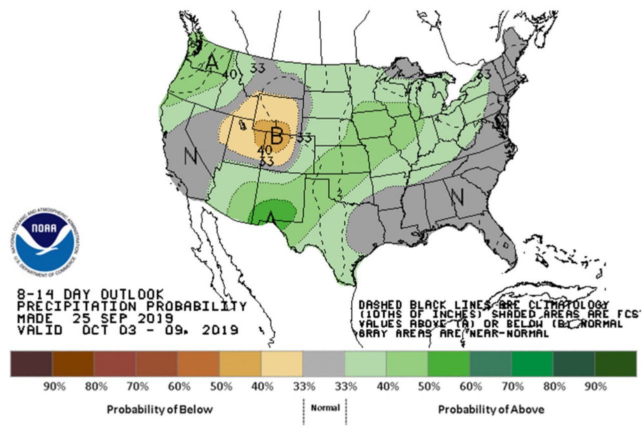
Weather





No major changes to the forecast this morning. You can see from the 7-day QPF at the right we're looking at a lot of rainfall in the days ahead. Rainfall should be limited in the Corn Belt today but should start to pick up tomorrow and from there we should be looking at a daily chance for showers through the end of the 7-day period. The WPC usually overstates the coverage of big rainfall totals in their projections, but make no mistake there is potential for very big rainfall amounts during this period. Rainfall chances should diminish a bit late in the 6-10 and into the 11-15 day periods. However, the precipitation pattern still looks like it will be active. As you can see at the right the NWS is still projecting chances for AN precipitation in the 8-14 day period for a large majority of the Corn Belt. As discussed over the past few days, it looks like we're in a similar pattern to this spring. For now the pattern doesn't appear to be breaking down at all through the two week forecast period.

No change in the outlook on temps. We could see some near freezing temps along the Canadian border this weekend potentially. There will be another threat of freezing temps moving further south later next week. Keep in mind this would be completely normal for this time of year. While we'll be getting our first glimpse of cool weather in the northwestern Corn Belt, the south and southeastern portions of the country should continue to experience AN temps over the next two weeks.

No change in the South American forecast. The dry season in northern Brazil appears to be coming to an end, though rainfall totals still won't be huge over the next two weeks. Argentina is going to see limited rainfall over the next two weeks with the exception of northeastern portions of the country including northern BA and Santa Fe.

Crops

Today we'll be looking at expectations for soybean quarterly stocks. My same disclaimers apply – we're attempting a guess on a guess which obviously opens up a lot of room for doubt.

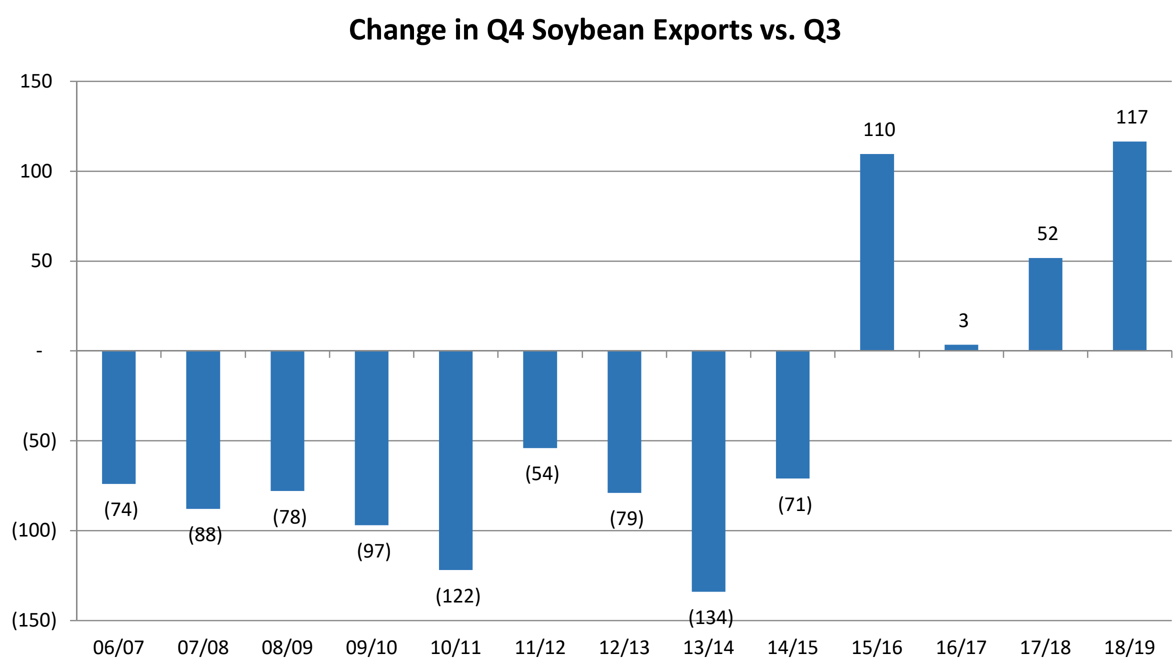
Let's start again by looking at what we should basically "know" for the quarter. Based on the latest NOPA number, we can ballpark official JJA crush at roughly 516 mb, which would put the annual total slightly above WASDE's Sept estimate. We saw record August export inspections, and while we don't have an official Census total for the month I'll ballpark JJA exports around 435 mb with the understanding that it might be a little bigger in the end. Though it shouldn't matter a ton in the end, quarterly seed demand should be small due to the smaller planted area and the 15 mb shown here would reach the WASDE annual total. That once again leave us guessing what to expect on residual. For the purpose of illustration, the breakdown below I've plugged in a residual figure that would equal WASDE's annual total.

US Soybean Quarterly Supply and Demand

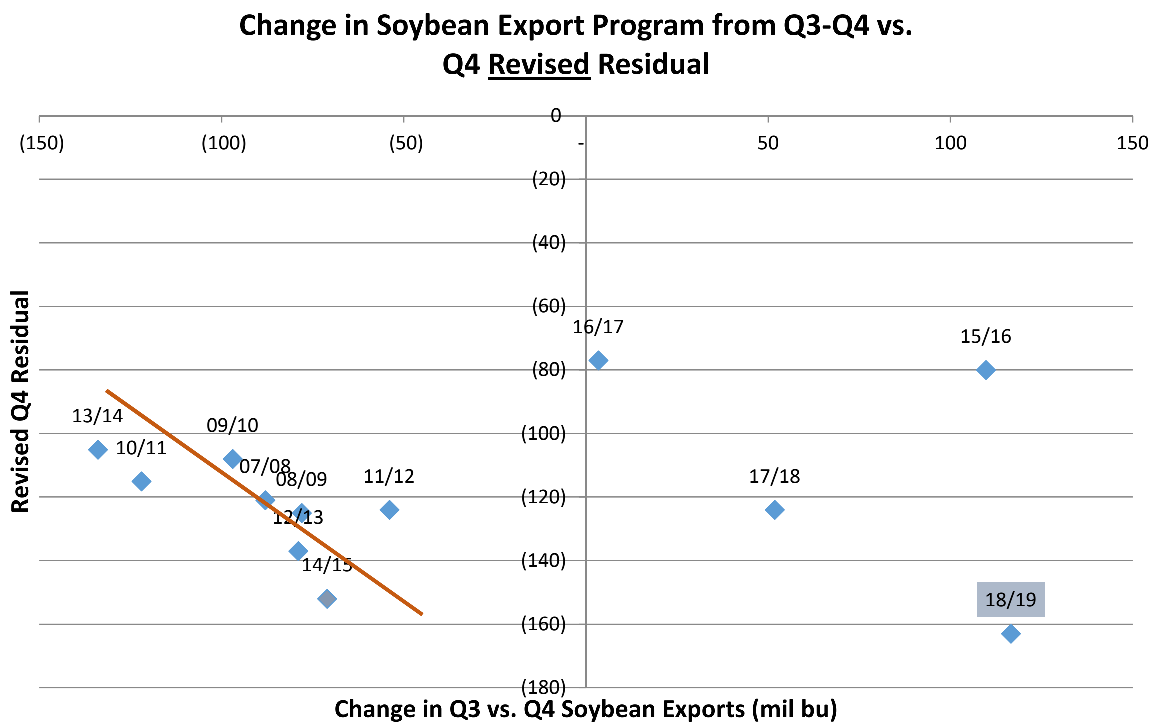
	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Jun-Aug										
Imports	3	3	5	24	30	9	6	4	5	4
Crush	387	378	416	363	366	452	448	456	518	516
Exports	122	105	204	50	58	117	289	261	365	435
Seed	22	38	7	42	24	28	23	29	28	15
Residual	(108)	(115)	(124)	(137)	(105)	(152)	(80)	(77)	(124)	(163)
Total Use	423	407	503	318	343	445	681	669	787	803
Stocks (Sep 1)	151	215	169	141	92	191	197	302	438	991

The first thing you can notice from the above is that the final ending stocks number is very likely to come in under WASDE's Sep estimate with the above mentioned crush and export demand figures. On top of that, note that the WASDE-implied residual figure is the *most-negative* estimate we have seen in quite a long time (even further back than illustrated above).

Does such an "extreme" negative residual make sense this year? I have no problem in honestly admitting – I really don't know. In the past we could use the change in the export program between MAM and JJA as a good proxy for what to expect on JJA residual. Then this happened…



As you can see, historically we always saw JJA exports total well under MAM exports. This switched in 15/16 for a few different reasons we can discuss later. The point is that this adjustment in MAM vs. JJA exports was previously a reliable indicator of what to expect for JJA residual. See below.



At the left you can see that prior to 15/16 and the change in the seasonal export tendencies, this was an imperfect but decent indicator of what to expect on JJA residual. If I'm being honest, I have to admit that I still haven't found a new indicator of what to expect.

So what does it all mean? I guess gun-to-head I will say that the very negative residual implied with WASDE's annual total seems a bit excessive to me. I must also admit I have no quantitative rationale behind that belief. It is really just a "hunch". I guess I'm really asking for some help here – if there is a relationship worth looking at please let me know. However, for now, I'm inclined to bet the over vs. the implied residual (meaning – less negative) which means I'm inclined to take the under on Sep 1 stocks. The average guess calls for a stocks figure of 981 mb vs. WASDE's prior 1,005 mb estimate. I'm inclined to think the average guess is still too high.

Thoughts greatly appreciated.

Livestock

Yesterday we looked at a recent GAIN report on the Australian beef industry. Today I want to look at another GAIN report, but this time we're looking at what might be the only part of the world (outside the US) that is looking at increasing beef and pork production – Brazil. Again I'm quoting directly from the report but I will highlight passages that I think require attention.

The outlook for beef and pork production in 2020 calls for an increase of 3 and 4.5 percent respectively. The main drivers supporting this production outlook are projected record exports of both beef and pork in 2020, mostly to China, and the strengthening in domestic demand due to a rebound in economic activity expected next year. Production factors for both beef and pork, such as stable feed costs due to a projected bumper soybean and corn crops, and increased carcass weights, are fueling optimism for both industries next year.

Livestock production in Brazil is mostly grass fed. Feedlots only account for an estimated 10 percent of Brazil's meat production. However, trade analysts expected production of meat under some type of feedlot system to double in the next five years, mostly in the Center-West as a means to limit the weight loss common in the dry season (May through September).

Post forecast beef production in 2020 to increase by 3 percent and reach a record of 10.5 million metric tons carcass weight equivalent (MT/CWE). This projected increase in beef production is driven by the following factors:

- *Record beef exports in 2019, which may continue next year, both in volume and receipts*
- *An increase in domestic demand*
- *An increase in carcass weights due to long-term programs aimed at improving the efficiency of the livestock sector in Brazil, specifically a successful cross breeding program using the Nelore breed with imported European type breeds, such as Angus and Brangus genetics, mostly imported from the United States*
- *The government of Brazil continues to provide funds (estimated at US$ 1.2 billion) at subsidized rates to increase cattle raising productivity, herd quality through pasture improvement, and acquisition of high quality seed stock.*
- *Feed lot operation are projected to increase by over five percent in 2020 from 5.5 million to nearly 6 million head. The increase is mostly attributed to higher cattle prices and lower feed costs. Most of the increase in feedlots are in the Center-West region, which is close to higher supplies of silage.*

Beef consumption in Brazil remains second to chicken meat around 40 percent of total animal protein consumption in Brazil.

Beef exports are forecast to increase at a slow pace in 202, by 7 percent, to another record of nearly 2.4 million metric tons (CWE), driven mostly by higher exports to China and Hong Kong.

Pig producers are likely to face continued lower costs of production next year and good returns form exports due to the impact of African Swine Fever (ASF) in China and the spread of the disease to Europe. In addition, large Brazilian packers are investing in pork production capacity to meet world demand for pork. In Brazil, hog producers are concentrated in the three southern states of Santa Catarina, Parana, and Rio Grande do Sul, which account for 51 percent of hog production.

Pork consumption remains third to chicken and beef in Brazil's consumer preference with 15 percent of total animal protein consumption in Brazil.

Post forecasts pork exports to increase by 15 percent in 2020 due to the impact of African Swine Fever (ASF) in China and other parts of the world. Brazil is currently facing a unique situation of supplying pork to the world without any major sanitary issues.

Trade sources foresee a continued increase in pork exports to China/Hong Kong in 2020. During the first seven months of 2019, half of Brazil's exports were destined to these markets. The major concern of Brazilian packers is the approval of new plants to export to China. The Brazilian government expected these approvals earlier this year. This situation has prompted major packers in Brazil to invest in current plants eligible to export to China. According to trade sources, these new investments will increase the production capacity of these plants by 15 percent during 2019/2020.

Like the US, Brazil seems well positioned to take advantage of the ASF situation and overall expanding global meat consumption.

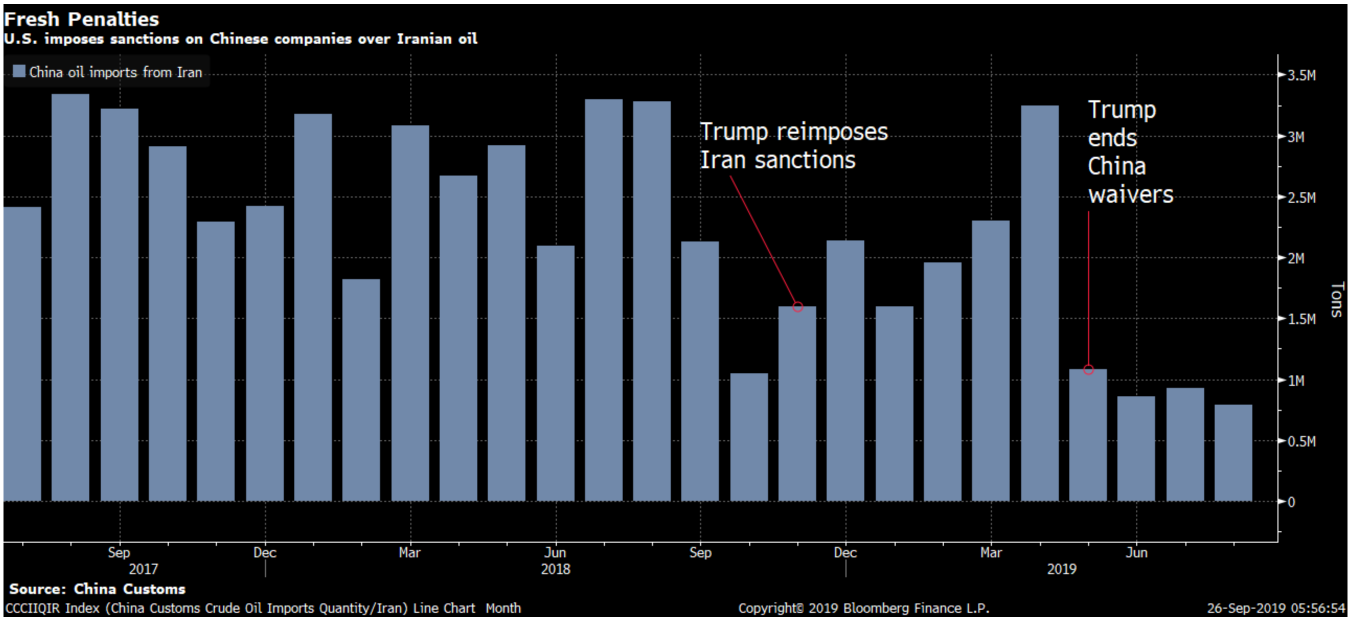
Financials

It has been such a wild week already I'll admit I'm at a bit of a loss for what to say this morning. We got the "transcript" of the Trump-Zelensky phone call yesterday. While I personally didn't see much to get excited about this still hasn't stopped the calls for impeachment. I suppose at this point in time it is a good moment to get reacquainted with the US impeachment process. All it takes is a simple majority in the House to approve the articles of impeachment. Clearly with the House being controlled by Democrats this should be easy enough. The political problem with calling for a vote, however, is that incumbent Dems in tight reelection races might not want to be seen voting for impeachment. Otherwise, we might have already cleared this hurdle. After the House approves the article of impeachment, it goes to the Senate where it takes a two-thirds majority to convict him. Needless to say, with the Senate controlled by Republicans this seems like a near impossibility (Trump's approval rating within the Republican party is very high). Keep in mind that no US president has lost the impeachment ruling in the Senate. Nixon resigned before it happened. Clinton (and Andrew Johnson way back in the day) saw impeachment but the Senate could never get the two-thirds majority. I'm sure the Democrats in charge understand the uphill battle here. It will remain political "theater". I actually think this could backfire spectacularly on the Dems…but I'm no political strategist.

As for markets, nothing much has changed. Repo markets still sound like they're a mess but I'm not qualified to speak intelligently on that subject. Economic data has been mostly ok. Nothing that really stands out as spectacular but it has at least been meeting expectations. No major market moving data is due out this morning. Today we get the third revision for Q2 GDP. By now we shouldn't get any big surprises but I suppose it is possible.

Energy

It probably went overlooked yesterday considering the deluge of headlines, but the US issued a new set of sanctions designed to target Iranian oil shipments. This time the US has sanctioned four Chinese shipping companies for "knowingly violating restrictions on handling and transacting Iranian petroleum". This would appear to be a very direct effort to complicate Chinese imports of Iranian oil. The chart shown here shows that Chinese imports have slowed since the lapse of the waivers, but have not moved to zero. Clearly the Trump administration is trying to push all countries' imports of Iranian crude oil to zero. The Chinese foreign ministry has of course spoken out against the sanctions, but I doubt this will be a major complicating factor in the ongoing trade negotiations.



Today's Calendar (all times Central)

- Q2 GDP – 7:30am
- Export Sales – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am
- Several Fed speakers

Thanks for reading.
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