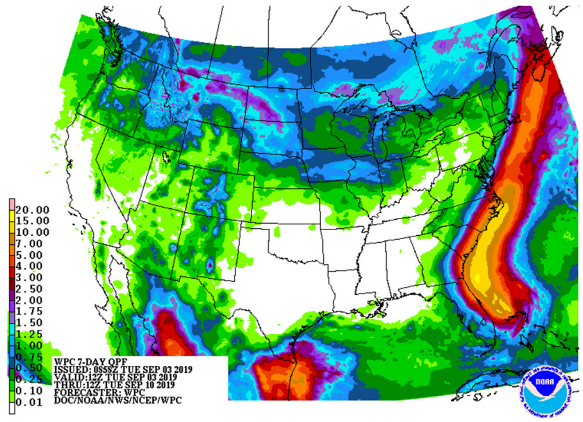
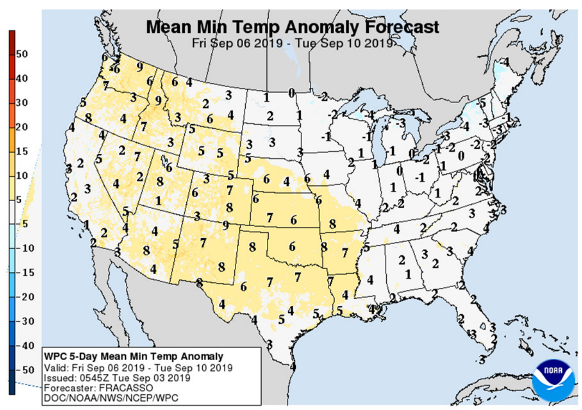
NESVICK TRADING GROUP, LLC

Tuesday, September 3, 2019
NTG Morning Comments
www.nesvick.com

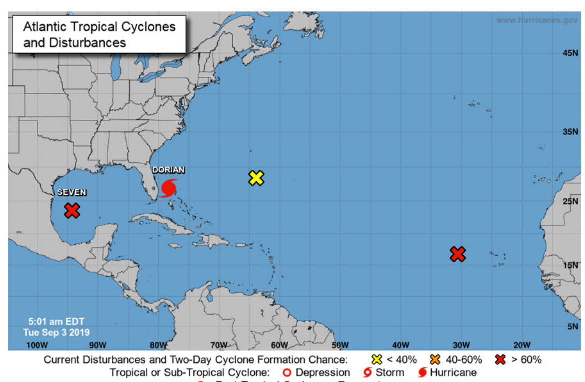
Weather



No major changes to the forecast over the weekend. Over the next 5 days we're not looking at a lot of precipitation through the "heart" of the Corn Belt. The rains shown in IA/IL on the 7-day QPF probably won't start falling until Saturday night so there is still a lot of time to work things out with the forecast. The same goes for the rains in the Northern Plains, which might start one day earlier on Friday. In the meantime, a lot of dry weather should be seen for the Corn Belt. Note that the 6-10 and 11-15 day timeframes are both showing potential for active rainfall chances, though admittedly the computer model agreement is not as strong as one might like.



Temps will be warm today but we should see cooler weather return tomorrow. Tomorrow and Thurs should be the coolest days of the week with some 40s for lows in northern areas and maybe some possible 30s in very spotty areas (nothing close to freezing). We should see BN temps continue through the weekend but we should start to see temps warm up early next week and there is good computer model agreement that AN temps will be seen through most of the Corn Belt beyond that. This would put us through at least Sep 17 with no significant frost/freeze events in the forecast for the region.

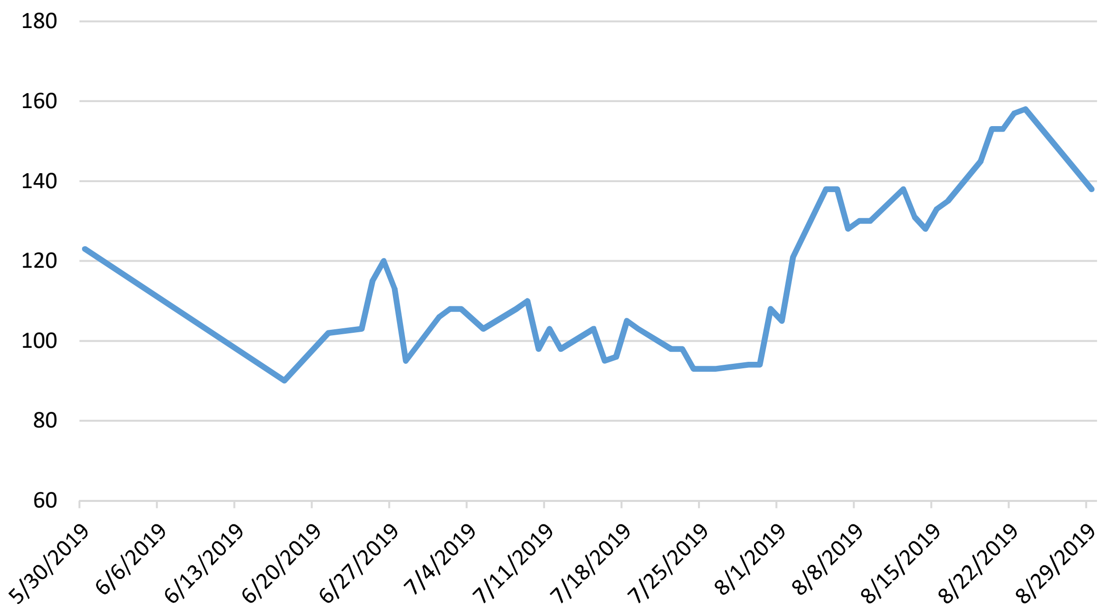


Obviously over the long weekend the forecast for Hurricane Dorian would seem to have improved a bit, with only a glancing blow to the East Coast it appears. The storm has also weakened to a Cat-3. We'll still see some big winds and heavy rainfall along the coast, but further inland should be spared. Note that the Atlantic and Gulf are very active at the moment with the NHC watching three systems in addition to Dorian. Two of these systems are likely to develop into named storms within 48 hours.

Crops

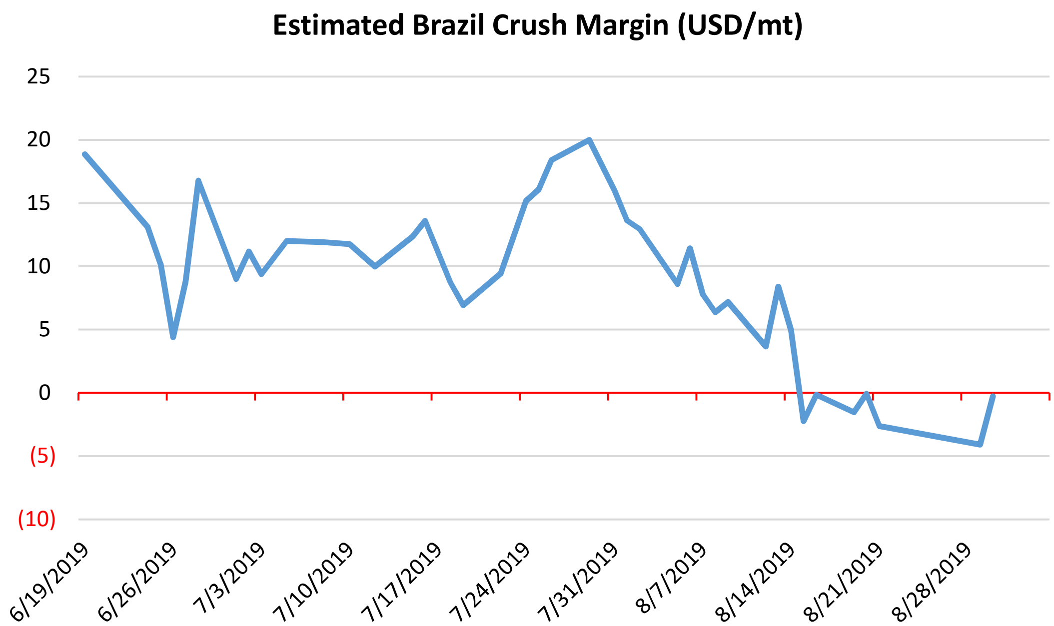
Just thought it might be worth a quick moment to recap the state of affairs in Brazil at the moment. We've been wrapped up debating US production potential for so long this summer we might have lost track of what is going on down south. I just want to focus on the Brazilian soybean industry quickly this morning with two highlights. Firstly, it should come as no surprise but Brazilian export premiums have surged over the past few weeks. This is shown on the first chart on the following page, showing the Sept export premium at Santos. This has occurred as trade negotiations between the US and China appear to be going nowhere, indicating Brazil (and to a lesser degree, Argentina) will be THE place China sources it soybean needs. Brazil's inventories should be running under year ago levels with the smaller crop and after they've (presumably) exhausted inventories last year that we didn't even know were there. This should keep Brazilian premiums elevated for the next several months until, at the earliest, a good feel for this year's production prospects develops. That might happen around January? Brazilian premiums maxed out last year around +280ish…could we see even higher this year?

Brazil Soybean Export Premium (Santos)



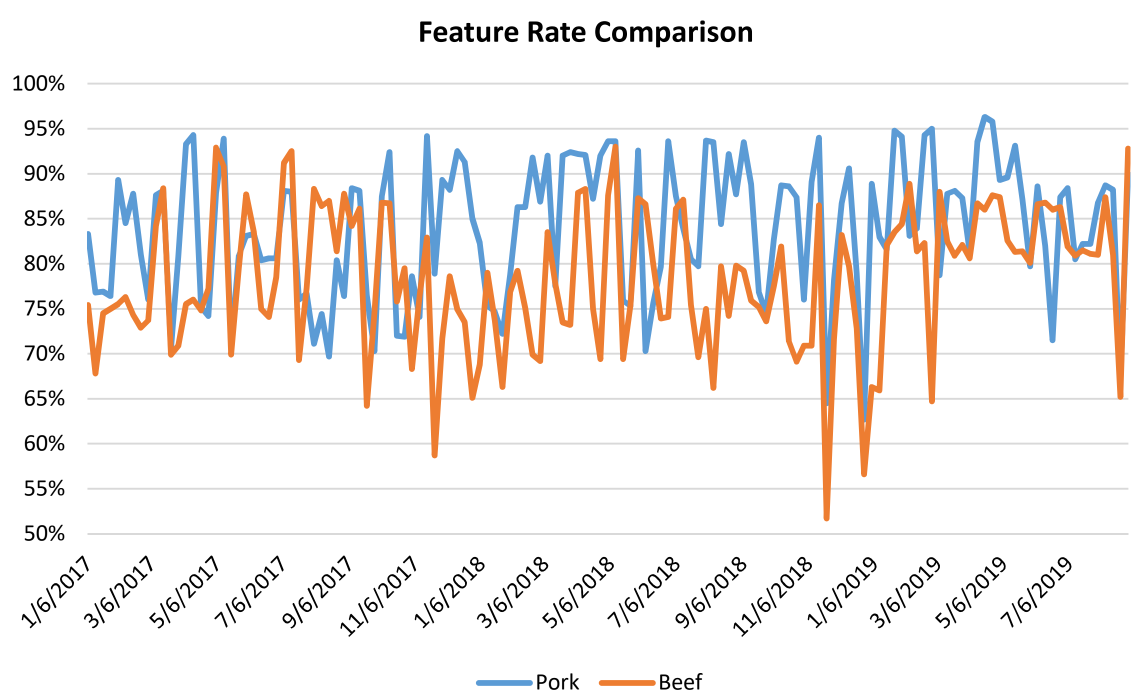
You'll see that there is a modest dip in premiums in the past few days. My understanding is that has taken place surrounding some rumors that some Chinese private buyers have finally taken advantage of the government offer for tariff-free import quota from the US for a few firms. Don't be shocked to see some Chinese soybean sales show up on the Thursday report. However, that will be a very temporary blip of US business so long as negotiations are going nowhere, so I would expect premiums to recover fairly quickly.

The second order effect of high export premiums in Brazil is that crush margins are getting absolutely smoked. The chart on the following page shows an estimate for nearby Paranagua crush margins, and you can see they've dipped into negative territory recently. As long as export premiums remain this large, essentially pulling all domestic supplies into the export channels, we can expect crush margins to remain negative. This is important as Brazil is a major meal exporter. You might not realize this, but Brazil actually exports more meal than the US. Admittedly, Brazilian meal is often in pellet form and maybe less desirable in some instances, but nonetheless this could threaten a lot of meal supplies for big importers. It is also very debatable how much Argentina might be able to pick up the slack considering the massive political/financial changes taking place there right now and potentially in the months ahead. With the Argentine producer likely sitting on their hands for now, that might mean the US becomes the supplier of choice for meal importers? I must admit that we thought originally the imposition of the tariffs on US soybeans would lead to a big shortage in global meal that never materialized, and this might be the same situation. Still, I think this is something we need to keep a close eye on.



Livestock

Not that it necessarily matters for price action here, but maybe worth noting that retail features for both beef and pork look strong for this week. And I don't think it is just the Labor Day holiday, because the past few years have seen weaker feature rates. You can see in the chart below feature rates are above 90% for both beef and pork, which doesn't happen very often.



Cash cattle trade continued Friday at mostly 103 in the south. There might have been a few 102 that traded as well, and the early calls for cash trade this week are a bit softer. Beef prices finished lower last week of course, but maybe not as bad as it could have been considering the huge rally following the fire. Look for further weakness in beef this week too, and look for packer margins (on paper) to come a bit close to Earth (though probably still very large). I'm still interested to see how much longer the packer wants to push slaughter capacity if beef prices perform weakly here.

Financials

We had lots of PMI data released over the long weekend, and very little of it was especially encouraging. One encouraging bit of data came from China actually, where the Caixin PMI reading rose to 50.4 from 49.9 previously. That was better than expected and back into "expansion" territory. However, some of the internals of the data diverged from the stronger overall number – for example lower new orders for factories. Business sentiment also registered a weaker number. It was definitely a good number for China, but let's see if it can keep up next month. Staying in Asian for a moment, I think one data point that stands out is South Korean CPI… which posted a new all-time low of 0.0% YOY. I think this is a big sign that deflationary forces are in control right now.

The numbers in Europe weren't anything on which to take pride. Italy improved slightly to 48.7 vs 48.5 but was still firming in contraction. The same can be said about Germany, which rose to 43.5 from 43.2…still very clearly contracting. France remains a surprising exception, bouncing to 51.1 from 49.7 previously. Still, total Eurozone manufacturing PMI was 47.0. This is up slightly from the prior month but still easily in contraction territory.

All of the above is all somewhat secondary to the main sentiment driver – US/China trade negotiations. The reports there over the weekend are not especially encouraging either. It seems the two sides are having a hard time nailing down a date for face-to-face meetings. One would think that if you're a trade negotiation for either side, this is your only job so freeing up time on the calendar shouldn't be that hard. I think this goes to show you that neither party is especially keen to continue with the negotiations as there just doesn't appear to be any possible solution to be made at this point. As you undoubtedly know by now, the increased tariffs from both sides officially went into effect over the weekend.

Not much else to report this morning – all the same old stories remain in place. ES futures continue to chop around within their recent range. The dollar continues to push into new highs.

Energy

Crude oil futures can't escape the risk-off mood this morning, trading sharply lower at the time of writing this morning. Of course it should be noted that WTI futures remain very range-bound at the moment, so we probably shouldn't read too much into today's sell-off. The key MAs we've discussed before remain upside resistance and the $50 mark below remains solid downside support. With little else new to go on, I would continue to expect the market to chop around somewhere within that range for the near term. It is perhaps worth noting that OPEC oil production is estimated to have risen in Aug, marking the first monthly increase this year. Is the group growing tired of reducing production and seeing oil prices weaken? Or is this simply a minor blip of data that shouldn't be over-thought?

Today's Calendar (all times Central)

- US Markit PMI – 8:45am
- ISM Manufacturing Index – 9:00am
- Export Inspections – 11:00am
- Fats & Oils and Grain Crushing – 2:00pm
- Crop Progress – 3:00pm

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.