NESVICK TRADING GROUP, LLC

Monday, October 14, 2019

NTG Morning Comments

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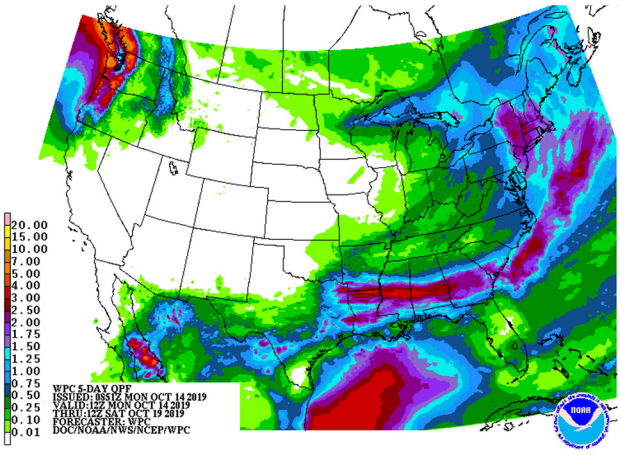
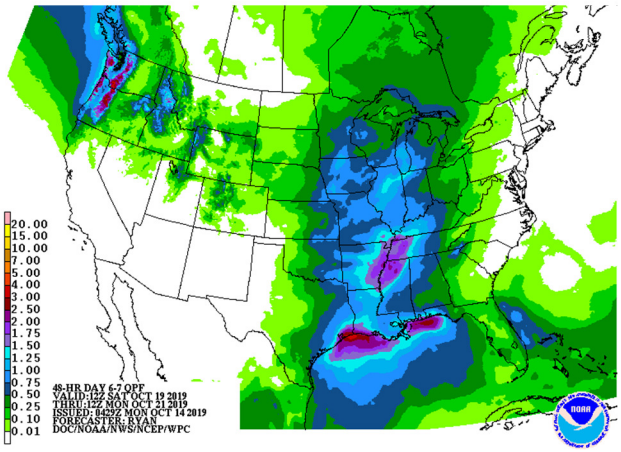
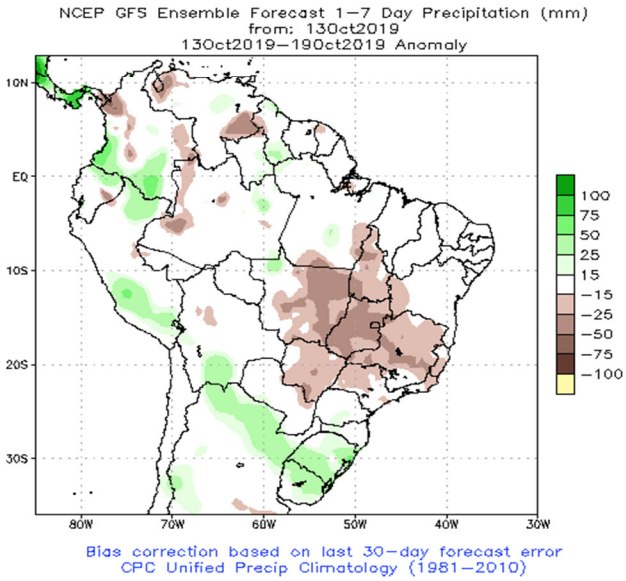
Weather

No major adjustments to the forecast over the weekend. The first map at the right shows the 5-day QPF and you can plainly see we're looking at a lot of dry weather across the Corn Belt this week. The very light rains shown would mainly be tonight and tomorrow night. Despite the dry conditions, note that temps will average well below normal during the same period, so I'm not exactly sure how good the drying conditions will be for areas that have seen recent precipitation. This should definitely be a good timeframe for harvest advancement in a big portion of the Corn Belt. The second chart at the right shows days 6-7 of the forecast, and this is when we should expect additional precipitation to move into the region. Precipitation would likely continue for a few days beyond the period shown as well. During the 6-10 day period as whole, a big portion of the Corn Belt should see fairly widespread 1-2" rainfall totals with some locally heavier amounts likely. It is most likely that all of the precipitation falls as rain with limited chances for snow, but we'll see. Note that the Northern Plains is an area that is not heavily favored for big precipitation amounts, though they will likely see *some* precipitation. A return to drier conditions would be likely in the 11-15 day period.





As you can see from the map at the bottom right we're looking at another week of mostly BN precipitation chances through most of northern Brazil. We'll also be seeing some pretty hot temps this week with a lot of upper 90s and some 100s likely. The good news is that the 8-14 day period should feature an uptick in rainfall chances for a decent portion of the region. We aren't looking for "big" rains, but certainly enough that could be described as near normal for a big portion of the country. Temps should turn a bit cooler too. Argentine precipitation will mostly average near normal over the next two weeks.

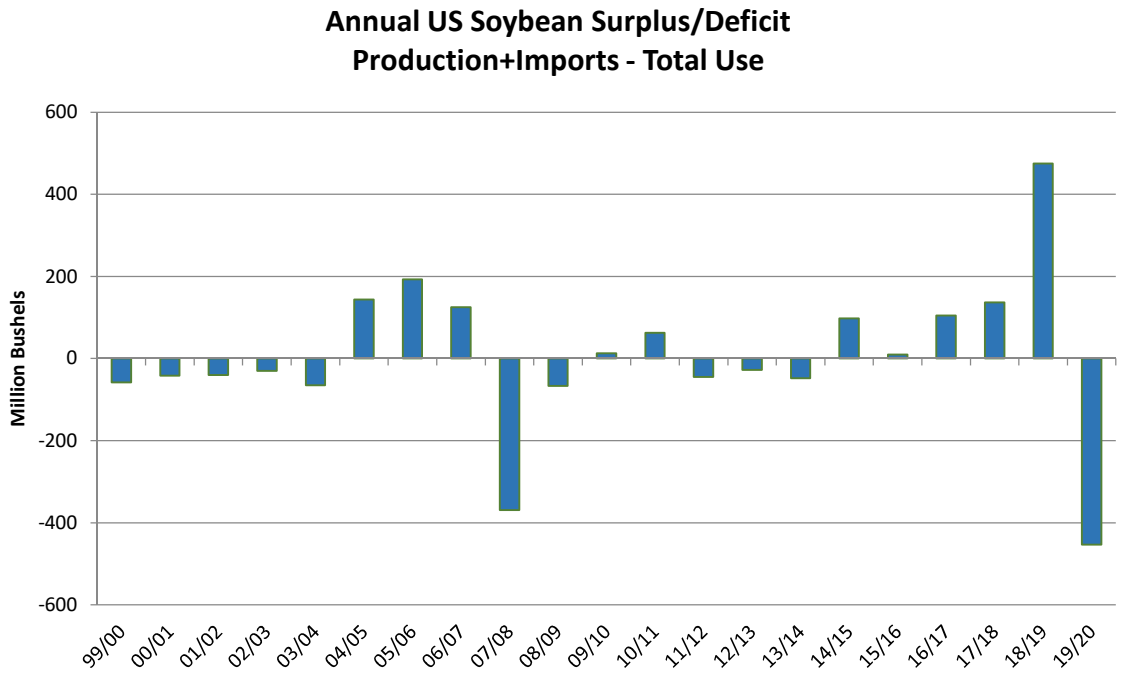


Crops

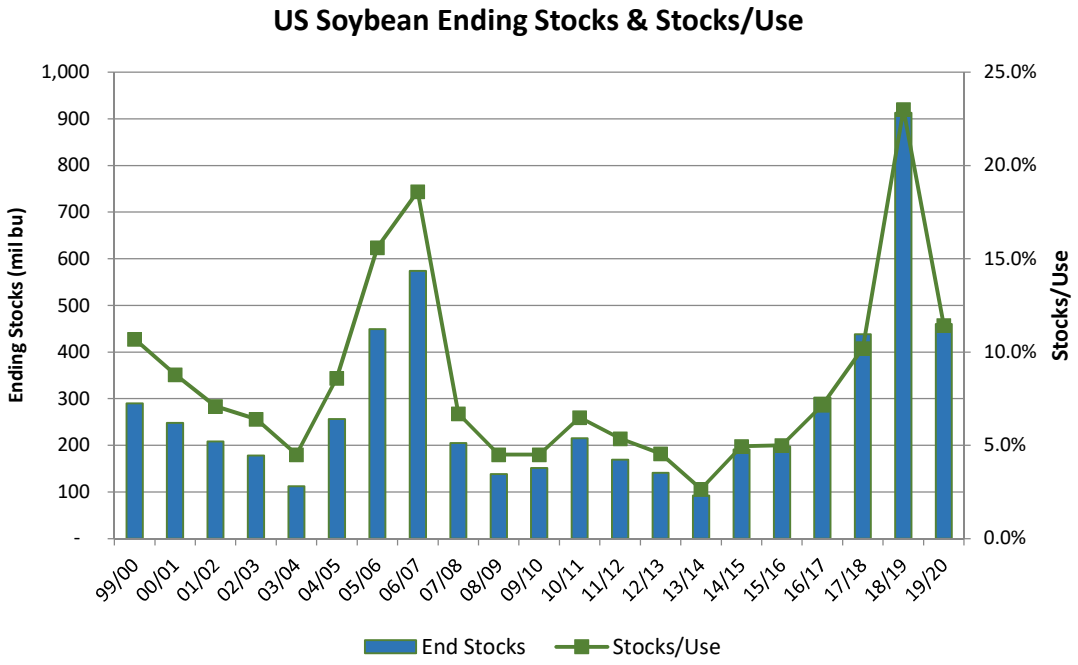
If you haven't seen the latest headlines by now – Chinese officials are apparently claiming they want further negotiations before agreeing to the Phase 1 "partial" deal touted by the Trump administration on Friday. One key

sticking point is the scheduled December increase to tariffs. President Trump noted that he had cancelled the scheduled increase in October tariffs (due to start this week) but it sounded like no final deal had been made on the December tariffs. I doubt this will be key problem for the Trump administration to be honest, but we'll see. It is also worth noting that nowhere in Chinese media has $40-50B of agricultural purchases been mentioned, but that should be fairly expected as well. Anyway, these headlines have spooked markets this morning and we're trading lower at the time of writing this morning. These next negotiations could take place next month in Chile where the two sides thought they might sign the deal. We'll see what happens. I don't think this is an insurmountable hurdle to the "partial" deal, but we'll see.

I was updating some files over the weekend and stumbled across the following chart that I thought was worth mentioning this morning. The information is very simple, it just combines production and imports and subtracts total consumption for an annual estimate of surplus or deficit in supplies. The 19/20 bar uses the current WASDE assumptions, and you can see we're looking at a record annual deficit in US soybean supplies by a fairly wide margin. Interestingly the 07/08 marketing year, which is the only year that came even close to this one, was another year in which we saw a big YOY reduction in soybean planted/harvested area.



What is also interesting, at least to me, is the estimated deficit this year is almost the exact same as the estimated surplus of last year. Essentially in one year we'll be undoing the massive build in US soybean supplies we experienced last year. I think we all thought this was something that might take years to unwind. Note how the stocks/use ratio will be roughly the same as in 17/18 before the trade war. Admittedly one could argue this is stocks/use ratio is still "elevated", but it is a long way from an endless supply of soybeans like we had once been concerned about.



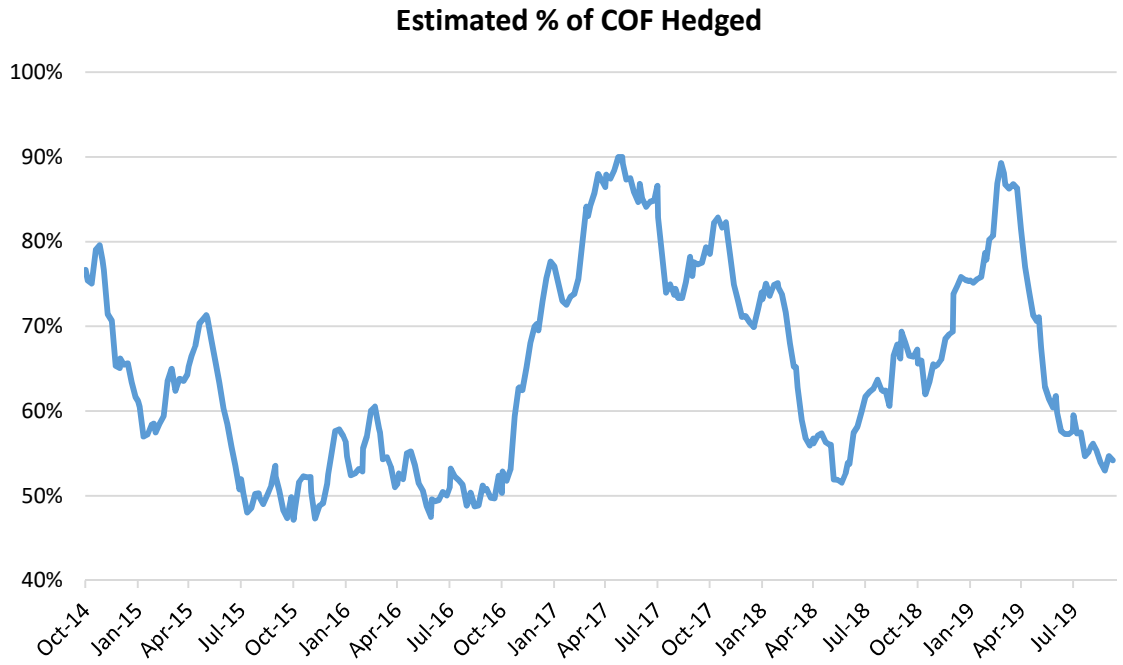
If we want to compare against the early 17/18 season, note that SX'17 ranged from $9.50-10.00 in the month of October. It eventually finished around $9.59.

Of course the jury is still out on this year's soybean crop. We'll see if yield reports hold up, and obviously I'm not quite sure how to quantify this weekend's freeze and the 1-3' of snow that fell on ~200 mil bu of soybeans in ND. And if the "partial" deal falls apart we might have to scale back on demand figures too. Lots of moving pieces here, but the point is that it looks for now that the massive over-supply of soybeans has largely been corrected.

Livestock

Leaving the office on Friday cash cattle trade was still very quiet. I've heard unconfirmed reports since then of some "active" 109 trade in the south, which is probably close to or slightly better than what the market was expecting for the week. I also saw some Twitter reports of some 110 trade in KS, which would probably be better than what the market was expected but I also can't confirm that actually took place either. It sounds like volume of cash trade was not particularly active. Given what we think about placed-against supplies for this timeframe, I would *think* that gives the feeder more leverage than the packer but I'm not entirely sure. Anyway, I would think that the late Friday cash action should lead to a somewhat positive tone on the market open this morning but I lack conviction especially in light of the change in sentiment towards the China "deal".

No change here but something worth mentioning from time to time…the cattle feeder is still estimated to be largely unhedged here. Even after what has been a fairly decent rally off the lows we haven't seen any bounce in the estimate for COF hedged as shown below. Of course that data is only through Tuesday but it is unlikely we've seen a huge move since then.



Financials

As noted in above, we have a big reversal in sentiment overnight upon hearing of the unfinished business of nailing down the "Phase 1" deal. To be fair, I think equity markets have become a little numb to trade headlines much like soybeans have as they've simply jerked markets around so much over the past year. I think there was probably a good bit of skepticism heading home on Friday, so these headlines this morning probably don't surprise many people. Still, it isn't what anyone wanted to hear this quickly after Friday's good vibes.

Economic data over the weekend was mixed. Eurozone industrial production was reported at +0.4% marking the first gain in three months and exceeding expectations. Despite the good feelings about the monthly improvement, total output was still down 2.8% from last year. China reported preliminary trade data for Sep over the weekend as well. Imports were down 8.5% during the month, the 9th decline in 10 months. Exports were down "only" 3.2% which continues to increase China's trade surplus. During the first nine months of 2019, China's trade surplus is up 36% YOY. China reported exports to the US were down 22% and imports were down 16%, still leaving a trade surplus of course.

Nothing new to report on Brexit either – EU officials are saying the UK proposals are not enough for an agreement. The BP is trading sharply lower on the news.

Nothing major on tap today in the US. The only economic data point is the Empire manufacturing survey, which usually isn't a huge market mover on its own. We do have a few different Fed officials speaking today so that is always worth watching. Keep in mind this is Columbus Day so volume, particularly in bonds, might be a bit light.

Energy

Over the weekend the Saudis officially confirmed they were back to pumping 9.9 mbpd, which is roughly the same as before the Sep 14 attacks on major oil infrastructure. It is now as if the attacks never happened, less than a month later. The Saudis say not everything at the sites is fully operational yet, so they're not quite back to their full *capacity* from before the attacks. It might take another month or so before full capacity is restored. Saudi officials also say they will maintain exports of roughly 7 mbpd for the remainder of the year, which is about the average we've seen so far this year.

Today's Calendar (all times Central)

- Empire Manufacturing Index – 7:30am
- Export Inspections – 10:00am
- Crop Progress – 3:00pm
- Several Fed speakers throughout the day

Thanks for reading.

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