NESVICK
TRADING GROUP, LLC

Tuesday, October 22, 2019
NTG Morning Comments
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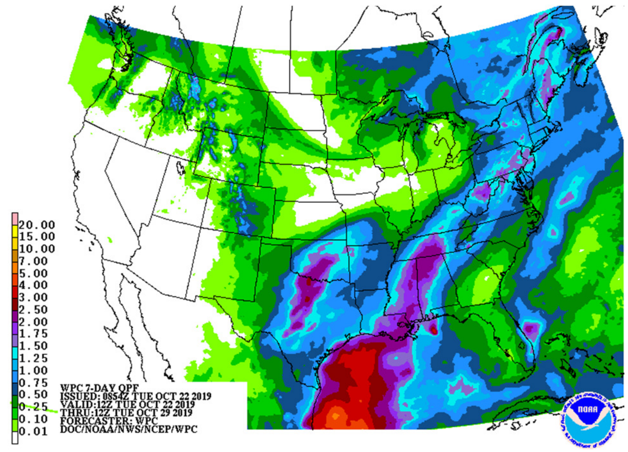
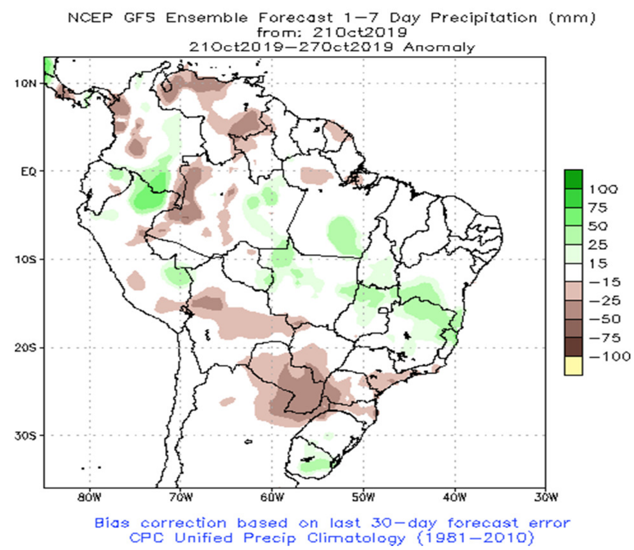
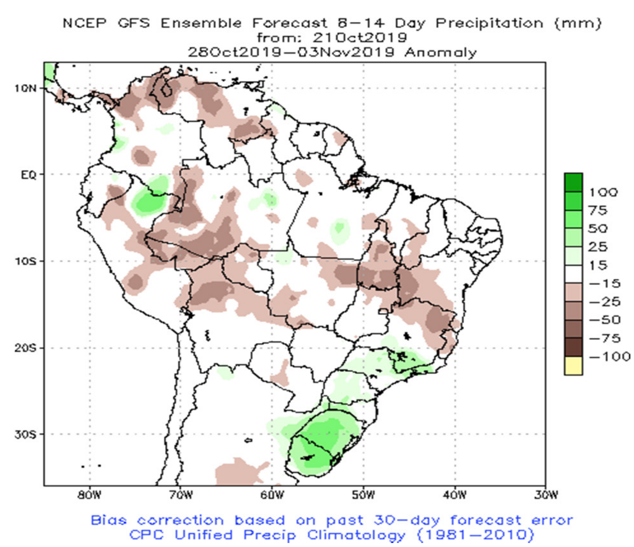
Weather

Some lingering showers in the Corn Belt this morning but nothing major. For the remainder of the week we're looking at mostly dry conditions through a majority of the Corn Belt. There might be some scattered showers at times, but nothing major. There will be some additional chance for rain on Sun/Mon, but that will mainly favor southern portions of the region and most of the Corn Belt will see limited rainfall totals. The map to the right shows the 7-day QPF, and shortly after this map we should see some additional precipitation for the Corn Belt but again this probably isn't something that will be "big". Mostly below normal precipitation would be likely through most of the Corn Belt during the 11-15 day period. Temps should be near normal in some spots today but by tomorrow most of the region should be covered by below normal readings. By this weekend we should see a large portion of the Corn Belt seeing temps 10-20F below normal. These below normal temps should stick around for a while…probably beyond the current two week forecast period shown in today's models.



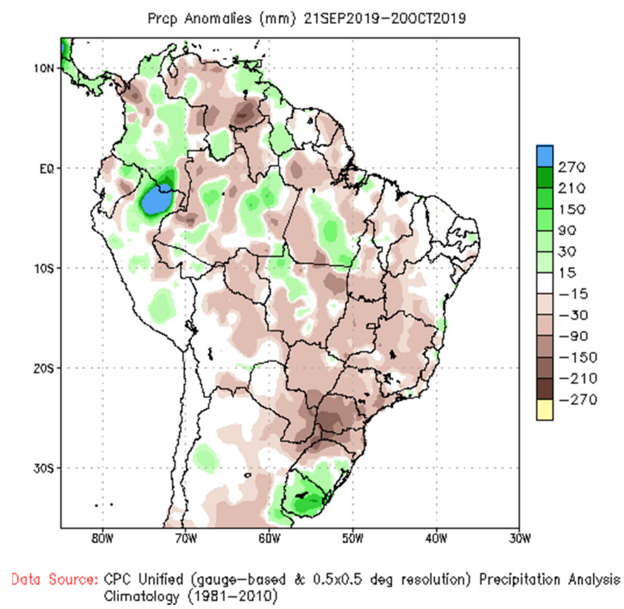




No change in the South American forecast. Northern Brazil should see an uptick in rainfall over the next 7 days but a downtick in the Week 2 portion of the forecast. Over the next two weeks combined the region should probably see near normal precipitation. Southern Brazil will see mostly dry conditions for a few days before rainfall returns in the 6-10 day period. Here too, rainfall should average near normal over the two week period as a whole. Temps have been hot recently but shouldn't be anything extreme going forward.

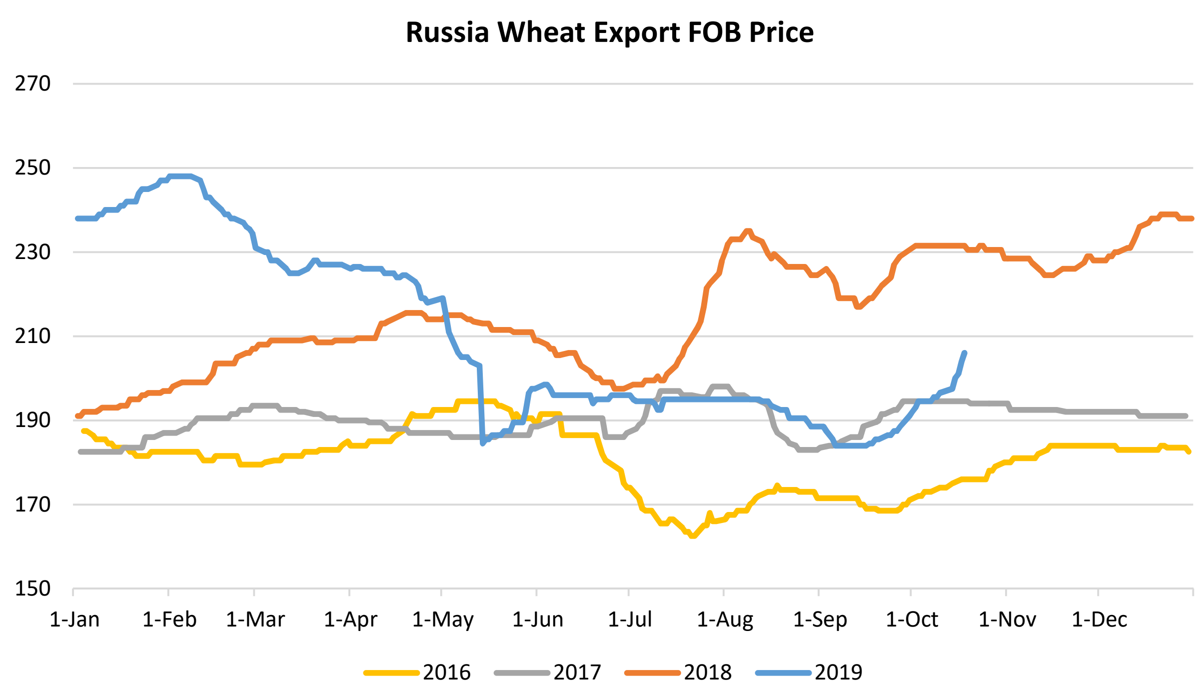
Argentina will see mostly dry conditions over the next several days. There will be some light showers possible at times, but nothing major. There will be an uptick in rainfall chances during the 6-10 day period, but even those rains don't appear to be anything huge.

The map on the following page shows the 30-day precipitation anomaly for most of South America. You can see that the vast majority of Brazil and Argentine growing areas have seen well below normal precipitation during this period. It is definitely too early to be raising any sort of alarms about crop potential in either country of course, but this is a situation that will probably start to get a bit more "talk" in the weeks ahead if precipitation totals disappoint.



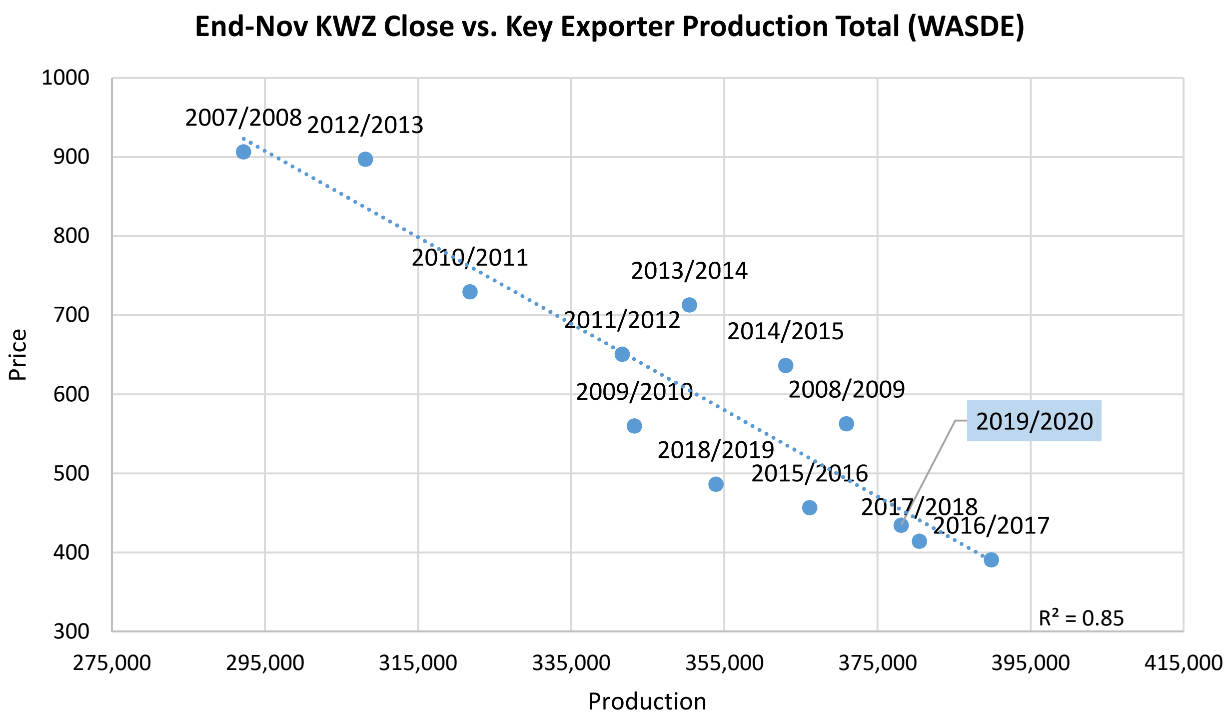
Crops

I've seen a bit of commentary lately trying to make a big deal of the recent bounce in Russian wheat values, which has translated into higher average purchases prices in GASC tenders. The chart below takes a seasonal view of Russian FOB export prices. You can clearly see the recent rally in Russian price levels. It isn't unusual for Russia prices to trend a little higher into year-end, but the sharpness of this recent rally is certainly worth noting. However, keep in mind that US FOB values remain a fairly wide premium to Russian levels at the moment. The uptick in Russian prices is doing nothing to support US export demand right now.



Some have cited expected reductions in world wheat production as a reason for the uptick in Russian prices. Australian wheat production levels continue to decline, with some groups now forecasting production near 15 mmt vs. WASDE's latest 18 mmt projection. Production figures in Argentina might also need to be moved lower.

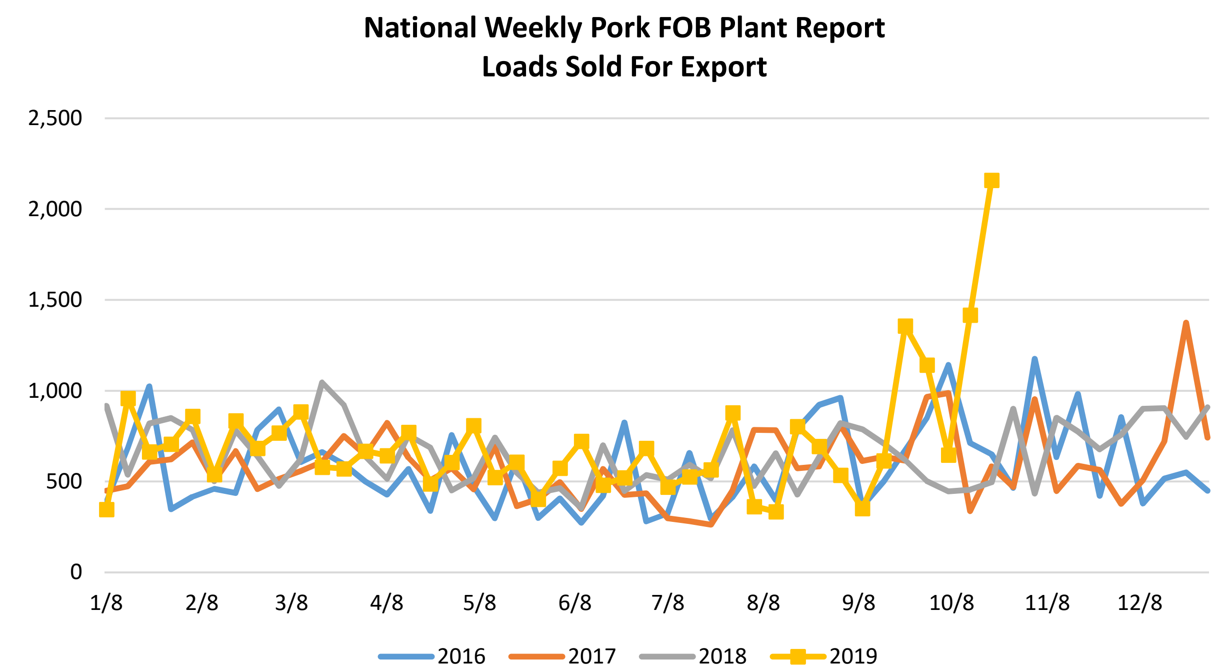
The chart below shows end-Nov KWZ prices plotted against world wheat production figures from major exporters. The major exporters included here are Argentina, Australia, Canada, EU, Russia, Ukraine, and US. The highlighted 19/20 figure shows the current WASDE projections. With WASDE projections you can make the argument that KWZ is reasonably priced at current levels. Maybe a little upside or maybe a little downside, but the point is with WASDE's current production estimates we should probably expect some sideways and choppy price action in KWZ through the end of November. If we start to shave off production totals from Australia, Argentina, and maybe others one could perhaps make the argument for slightly better upside, but still probably nothing extreme. It would certainly support the argument that downside in prices from here is very limited.



Livestock

MPR cash trade volumes last week were fairly light…lighter than I would have expected. Given the placed against numbers we're assuming for this timeframe, I'd still argue that puts a bit more pressure on the packer than the feeder at this point in the time…though I was saying the same thing last week and cash was soft so I might be wrong again.

You've seen me produce this chart a several times over the past few weeks so this is nothing particularly new. However, I think it is important to note that, once again, it appears we could be looking at a significant export sales number from FAS on Thursday this week. The chart below looks at the FOB plant pork report which is produced weekly by AMS. This shows the estimated number of loads of pork sold for export. You can see the most recent week posted an absolutely **huge** number in the past week…literally off the chart I sent last week. While it guarantees nothing from the FAS on Thursday, this should give us a bit of optimism in looking for another big export sales figure this week or in the coming few weeks. At a minimum, this shows that export demand for US pork continues to post strong numbers.



Financials

I don't see anything truly "new" to pass along this morning. President Trump has made some positive remarks about US-China trade negotiations, but at this point those headlines seem to fall on deaf ears. Nothing new on Brexit for now, but PM Johnson should get another shot at pushing his Brexit deal through Parliament later today and that will certainly be market-moving. Bloomberg continues to report that a rundown of likely votes would imply Johnson has enough, but obviously that is far from certain. The Fed is in its "blackout period" ahead of the FOMC, so no new commentary to wait on from them right now. The market is still pricing in 90% odds for a rate cut, and as we've discussed the Fed rarely disappoints the market's expectations.

Lots of earnings reports will be hitting this week with reports starting to get more active today. Among some "headliner" reporting earnings today are PG, UPS, MCD, HOG, CMG, and SNAP. Even bigger names will report later in the week with MSFT, AMZN, and a few others on tap.

Energy

Goldman Sachs out with a note late yesterday cutting their projection for US oil production growth in 2020. GS now sees US production growth of 700k bpd vs 1 mbpd previously citing "lower activity and steeper decline rates". Their note said the estimate could be lowered further if "rig count falls from current levels". I think this is interesting in light of the comments we mentioned here yesterday from HAL noting some stresses in the US fracking industry. Then again, now that I think about it…don't we seem to do this every year? Every year at this time it seems we always get projections about how next year is going to see weaker growth in the US shale production region. And yet every year US oil production seems to defy expectations.

Today's Calendar (all times Central)

- Richmond Fed Index – 9:00am
- Existing Home Sales – 9:00am
- Cold Storage – 2:00pm

Thanks for reading.

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