NESVICK
TRADING GROUP, LLC

Wednesday, October 23, 2019
NTG Morning Comments
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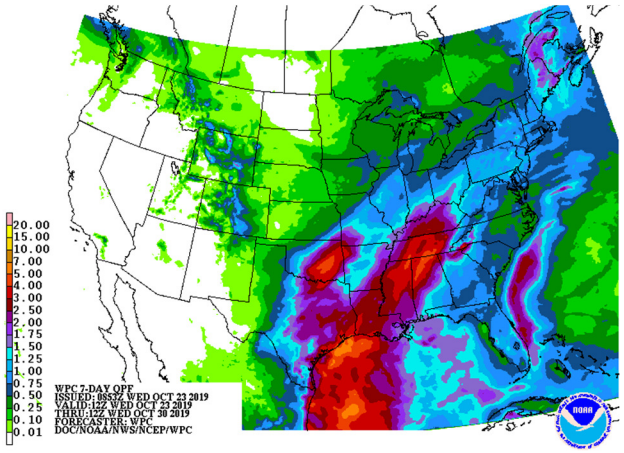
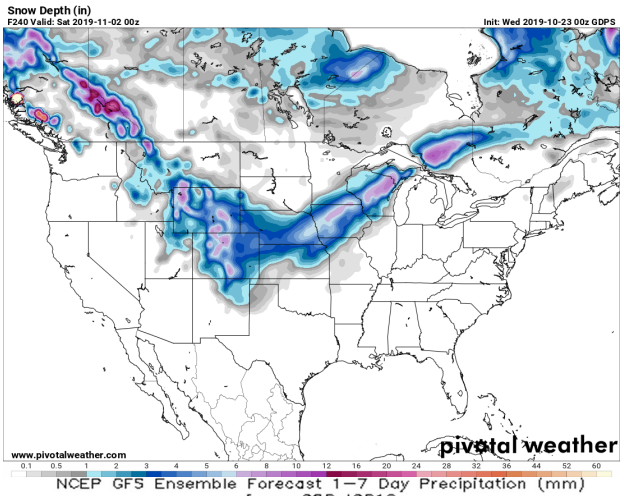
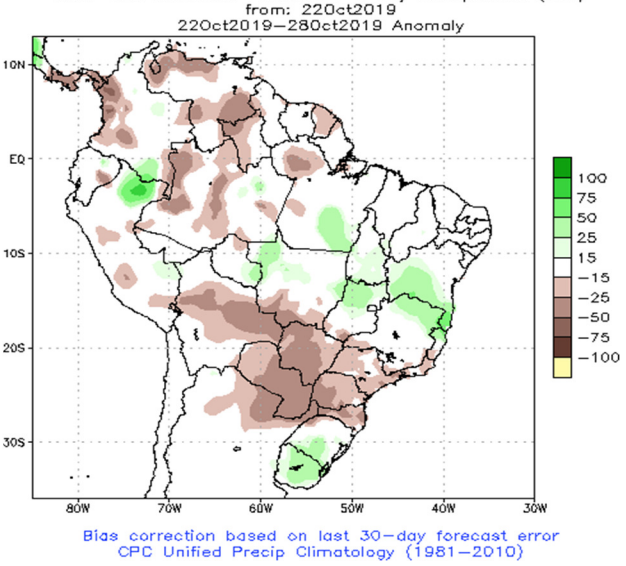
Weather

As you can see in the map at the right the WCB is looking at very minimal precipitation chances for the next 7 days. There will be some light precipitation and some of that will even fall as snow along the IA/MN border. We should see better precipitation in the ECB, which should get started on Friday night and continue into the weekend. A lot of .5-1.5" rainfall totals are expected. There is still a lot of computer model disagreement on the forecast for the 6-10 day period but both the Euro and Canadian models are indicating chances for a solid snowstorm to move through the middle of the country in the first half of next week. I don't think we're looking at huge snow totals but something to keep an eye on. The map at the middle right shows the Canadian model's 10-day snowfall forecast. There is good agreement on below normal precipitation odds in the 11-15 day period. Near to below normal temps should be seen in most areas today and this will be the case through most of the two week period. There should be a lot of areas averaging 10-20F below normal at times.





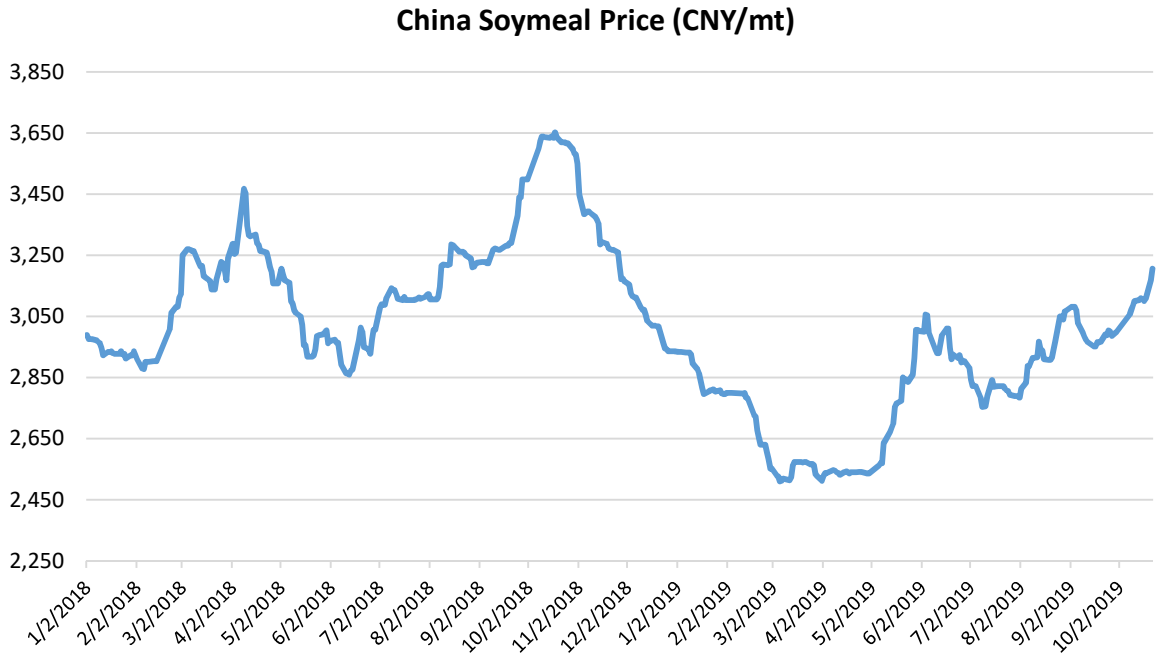
No major change to the outlook in South America. In Brazil, northern areas will see rainfall chances over the next two weeks but overall it looks likely that totals should run modestly below normal. The best amounts and coverage should probably be seen in the next few days, with lesser amounts/coverage in both the 6-10 and 11-15 day periods. Southern areas should see fairly dry weather over the next few days but should see an uptick in rainfall in the 6-10 and 11-15 day periods. We should see above normal totals eventually add up in these areas. No major extremes expected in temps….we'll see some cool weather over the next few days and some AN temps next week and for the duration of the two week period (but nothing extreme).



Argentina should see limited rainfall for most of this week but rainfall chances should improve during the 6-10 and 11-15 day periods. For the two week period as a whole, we should see AN precipitation amounts in northern/northeastern areas with near to below normal totals in southern portions of the region.

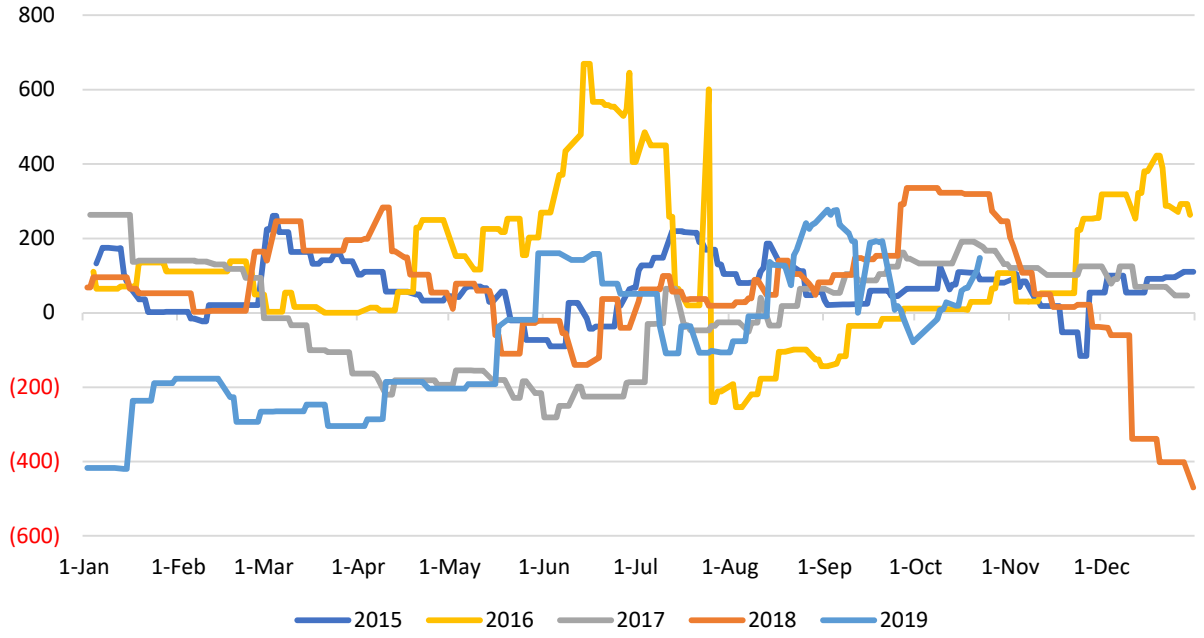
Crops

Lost in the relentless focus on deal-or-no-deal in US-China trade negotiations has been the underlying trends in Chinese cash markets over the past several weeks/months. We haven't looked at it in a while so this morning is a good chance to catch up with Chinese prices. The first chart below looks at a basket of various cash soymeal prices around China. You can see here that soymeal prices have been steadily rising since spring and appear to be catching back up to levels seen at this time last year. If you recall, at this point last year we were thinking Brazilian soybean supplies would essentially be exhausted. Instead, Brazil proved to have more supplies than we suspected and shipments never tapered off significantly and Chinese soymeal prices collapsed. I could be mistaken, but I don't think we're due for a repeat this year. As noted last week our estimates for Brazilian carry-in supplies this year is off vs last year and I doubt there are lingering supplies left to be "found" to ship. Admittedly, that is simply doubling-down on the same mistake as last year…but I'll take my chances.



The chart below takes a look at estimated crush margins, on average, in China (via JCI). You can see that right now margins are running under year ago levels for now, but note again how margins cracked sharply around this time last year as fears over the lack of Brazilian supplies proved to be unfounded. I'll say again that I just don't think history will repeat this year. We also have to keep in mind that hog *started* declining rapidly in China a year ago. While we are not yet seeing growth in hog numbers, I think most analysts agree the worst is probably behind us in terms of animal losses in China. That doesn't mean we're looking at *expansion*, but in terms of herd losses we're probably getting near the lows here (I hope).

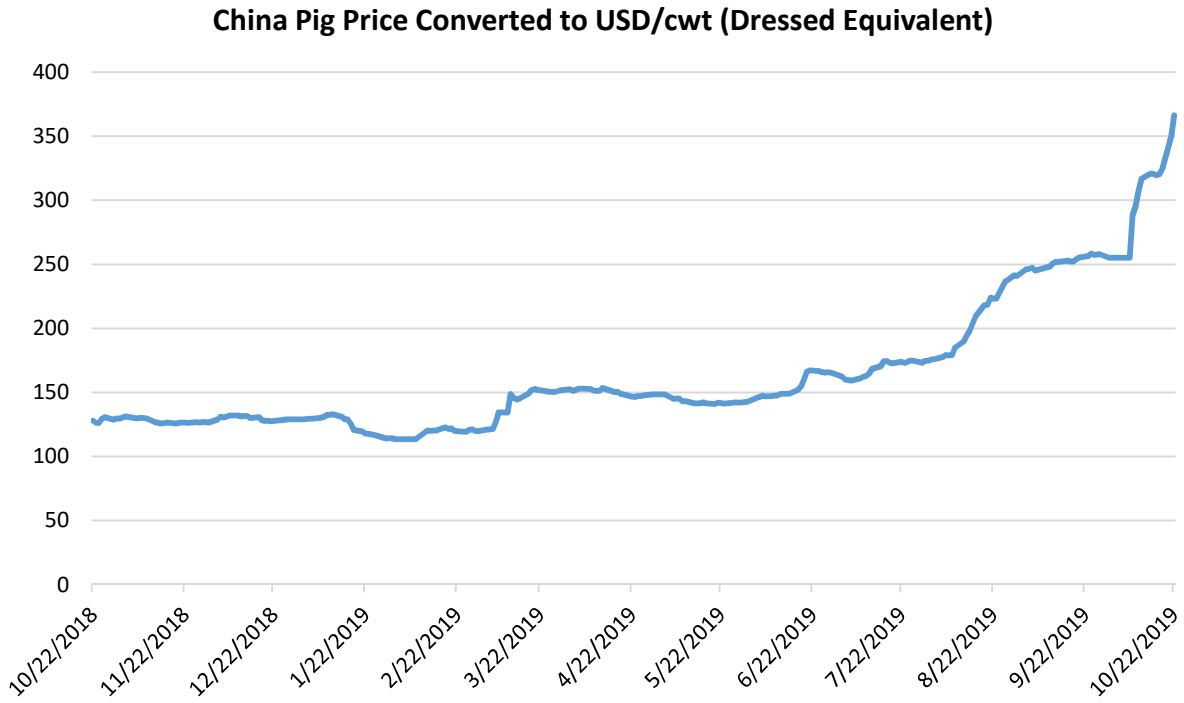
Estimated China Crush Margins (JCI)



What is the point this morning? WASDE had 17/18 China imports at 94 mmt. After the dual hit of ASF and the trade war, imports in 18/19 are estimated near 83 mmt. Keep in mind before those two issues surfaced many of us were looking for China to import in excess of 100 mmt. For 19/20 WASDE is projecting Chinese imports at 85 mmt. What if Chinese demand has bottomed? Trade war or not, if that is the case it should improve export demand for US soybeans. Thoughts appreciated.

Livestock

To double-down on the sentiment above for a moment, make sure you take a look at what hog prices in China are doing right now. The chart below takes an average live pig price (via JCI) and converts it to a dressed-equivalent in USD/cwt. Right now China hog prices are essentially the US equivalent of $370…far from the CME's lean hog index of roughly $66. Keep in mind that is up roughly 40% just from the start of the month. Hog prices in China are truly going parabolic. I have no idea how long that might keep up or what the possible upside on prices might be, but the point is that with those sorts of prices it certainly is encouraging *someone* to start raising hogs again. The margin on hog production has to be astronomical right now. Remember that roughly 60% of the hog production pre-ASF was mainly in small and/or family-operated farms. Instead I would expect the larger operations, with better capital to put toward biosecurity, to be trying to take full advantage of the surge in hog prices and margins here. Obviously there is no quick fix here…from gestation to being market-ready we're talking about roughly a year, right? Still, there is a huge incentive shown below to expand what you can right now.



Financials

Brexit is the gift that just keeps giving. Yesterday Parliament voted to approve PM Johnson's Brexit deal but defeated a bill that would allow it to become law before the Oct 31 deadline. This is the sort of thing only politicians can understand. This has caused the BP to weaken and the DX to bounce since the results were reported yesterday afternoon. The EU is expected to grant an extension for negotiations through Jan 31, which would give time for Johnson to hold another general election with the hopes of gaining a working majority in Parliament that could once and for all end this. Then again, that has obviously been tried before and yet here we are.

I'm not casting stones at the Brits, of course, as politics in the US are no less messy. We have interesting testimony in the impeachment hearings with a top US official in Ukraine saying President Trump most certainly tied military aid to an investigation of political rivals. This certainly doesn't look good for Trump, but the one thing that I think is extremely important to keep in mind through all of this is that impeachment is not a legal proceeding but rather a political one. There is no burden of proof or anything like that. The House decides to impeach but the Senate would need to vote the President out. With the Republicans in control of the Senate and with President Trump seeing strong approval ratings among Republicans, there would have to be something extremely damning to make me concerned here. Admittedly it is not helpful for his reelection efforts, but it doesn't hurt that he is running against people who want to ban fracking, confiscate guns, and eliminate billionaires.

There is no major economic data due today. Earnings releases to keep an eye on include CAT, FCX, BA, F, EBAY, and MSFT.

Energy

Crude oil futures are trading lower at the time of writing this morning. Part of the weakness stems from the API inventory report released yesterday afternoon showing US crude oil stocks were up 4.45 million barrels last week. Today's EIA report is expected to show "only" a 3 mil barrel increase. Additionally, Russia's Energy Minister overnight said that no OPEC+ country has proposed cutting the current production quotas. Keep in mind that many oil market observers believe OPEC will need to cut production rates even further to keep the market "balanced" in 2020 due to expected increases in supply among non-OPEC producers. In some good news, Chinese oil demand growth continues at a strong pace. Unofficial early Sep trade estimates show crude oil imports were up roughly 11% YOY. There is also a Bloomberg article noting that more crude oil tankers are scheduled to be heading to China in the next three months than at any time on record (chart to the right). China is also becoming a larger and more consistent importer of refined products such as gasoline. This is shown in the second chart at the right. In the past Chinese gasoline imports were only significant in a few months of the year. Now, as you can see, they're becoming a much more routine matter and the quantities are not insignificant.

Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am

Thanks for reading.

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