NESVICK TRADING GROUP, LLC

Wednesday, October 30, 2019

NTG Morning Comments

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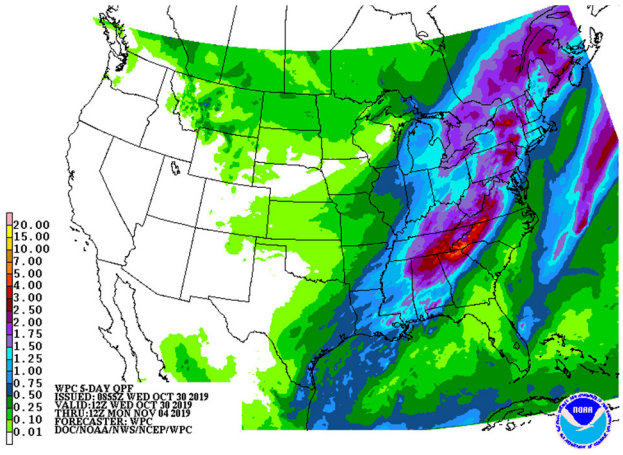
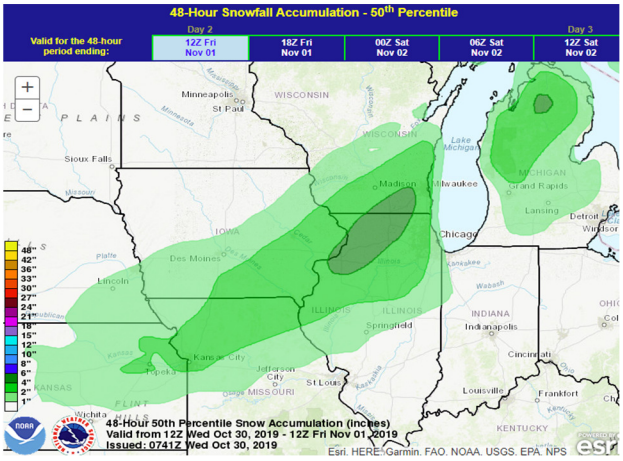
Weather

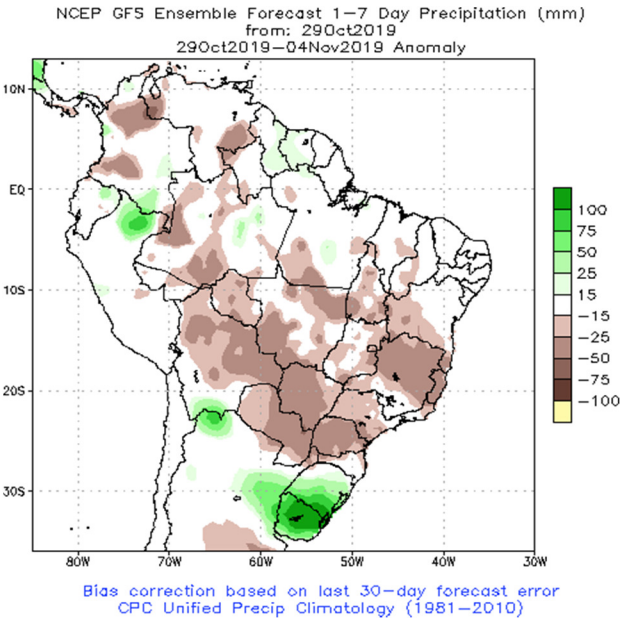
The 5-day QPF is shown at the right but note that the large majority of the precipitation falls within the next ~36 hours. Also shown at the right is the NWS forecast for snowfall over the next 24-48 hours. We're not necessarily looking at huge totals, but portions of northern IL and WI could see some 4-6" snowfall accumulations and there is certainly some chance for locally heavier accumulations. After tomorrow, we should see a much drier pattern develop for the Corn Belt and a large portion of the country in general. The 6-10 and 11-15 day periods won't be completely dry, but precipitation chances are very limited and most areas should average below normal.





The bigger story in terms of US weather is the temperatures. The majority of the US should experience very cold temperatures through this weekend. Temps should run 10-20F below normal, which means we should see lots of 30s and 40s for highs across the Corn Belt. Some of the areas that see snow will see sub-freezing high temps. We'll be a little "warmer" early next week, but still below normal in most areas. Temps will then take another turn colder later next week and the cold weather should continue at least through the end of the 11-15 day period and possibly beyond.

No changes to the South American forecast. As you can from the map at the bottom right most of Brazil is expected to see below normal precipitation over the next 7 days. The exception will be RGDS where some heavy rainfall is possible. Look for rainfall chances in northern Brazil to improve in week 2 of the forecast, but even then we're not looking at "big" amounts. It looks like week 2 precipitation should average near normal in a widespread portion of the country. Note temps should be pretty hot over the next week too, with a lot of highs running from 95-100F. Cooler temps will arrive along with the improved rainfall chances.

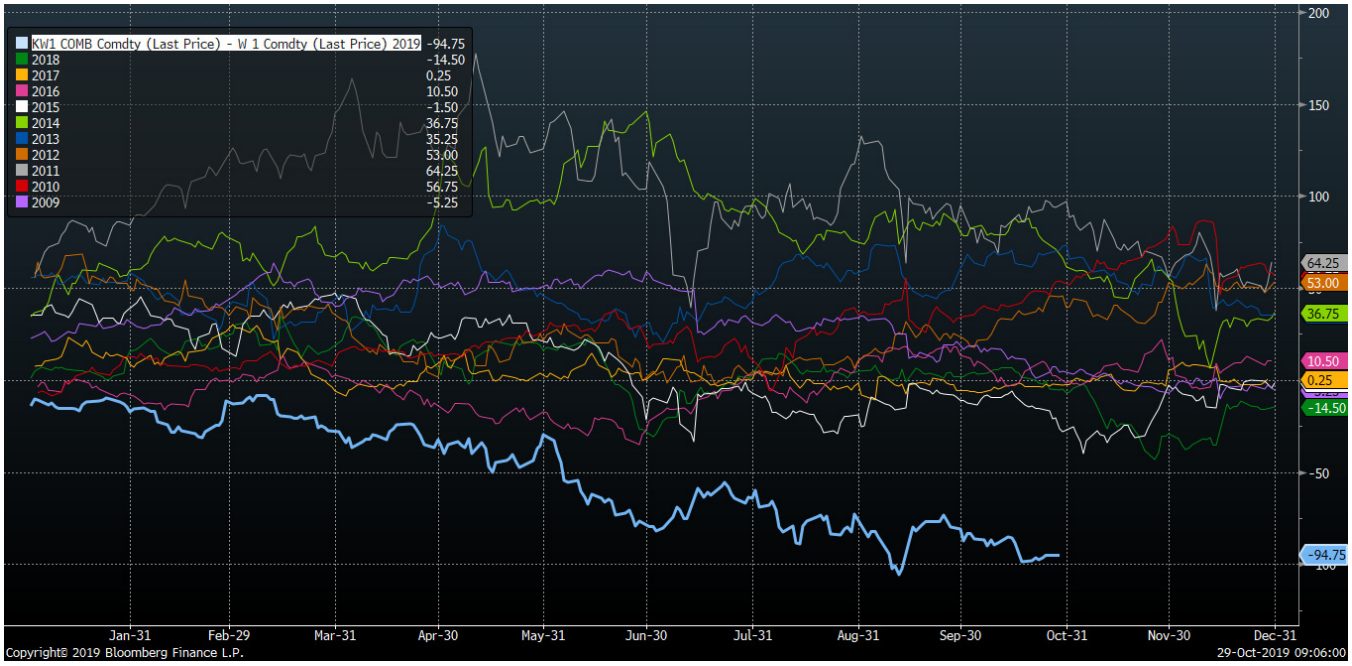


Argentina will see some good rainfall amounts in northeastern portions of the country associated with the same big rains seen in RGDS. Other than those areas in the extreme northeast, however, most of Argentina is not

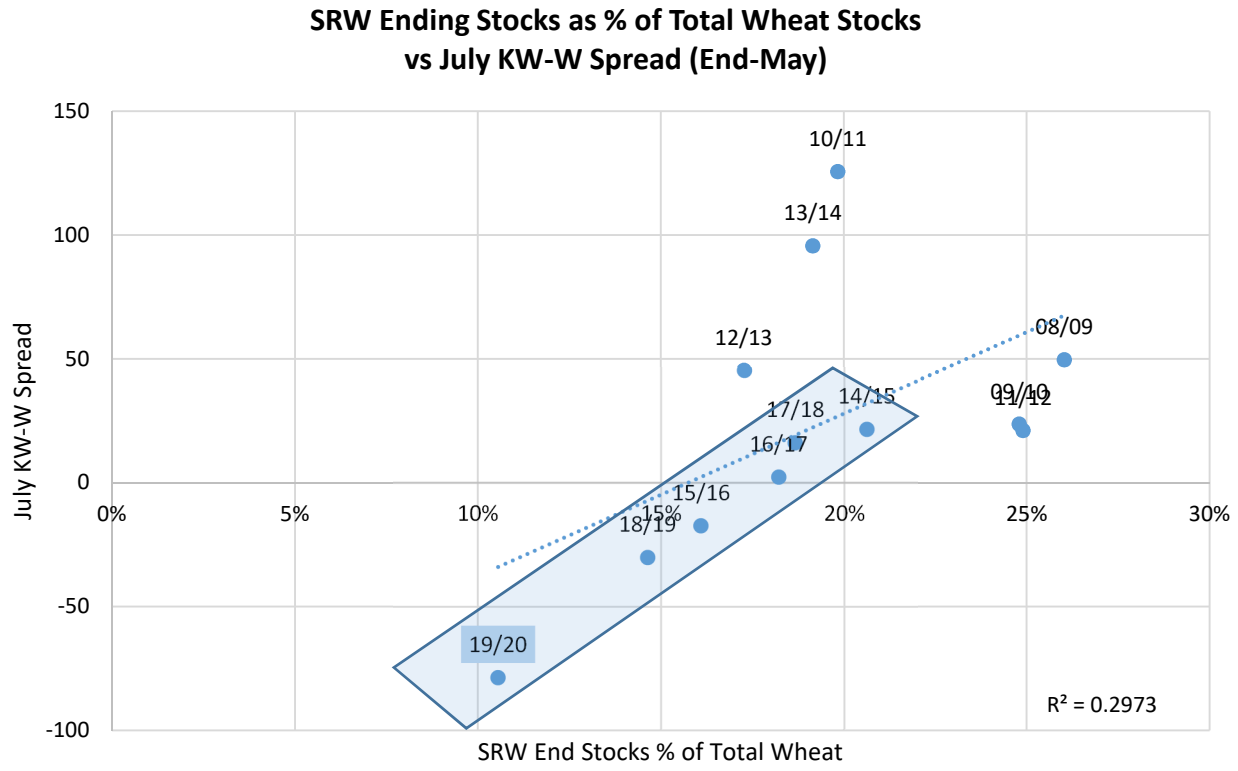
looking at very big rainfall totals over the next two weeks. Most southern and central portions of the country should see no better than .5-1.0" during the two week period and coverage could be spotty. The good news, for now, is that temps appear to be relatively mild for most of the two week period.

Crops

One of the questions I have received a lot of over the past several months is – Why is Chicago wheat such a huge premium to KC wheat? I've included a seasonal view of the spread below. Obviously this surprises exactly nobody on this list – Chicago wheat has held a very big premium to KC wheat for a while now, but the spread just continues to get bigger and bigger. This has been a widow-maker of a trade for some speculators betting that "it can't get any wider".



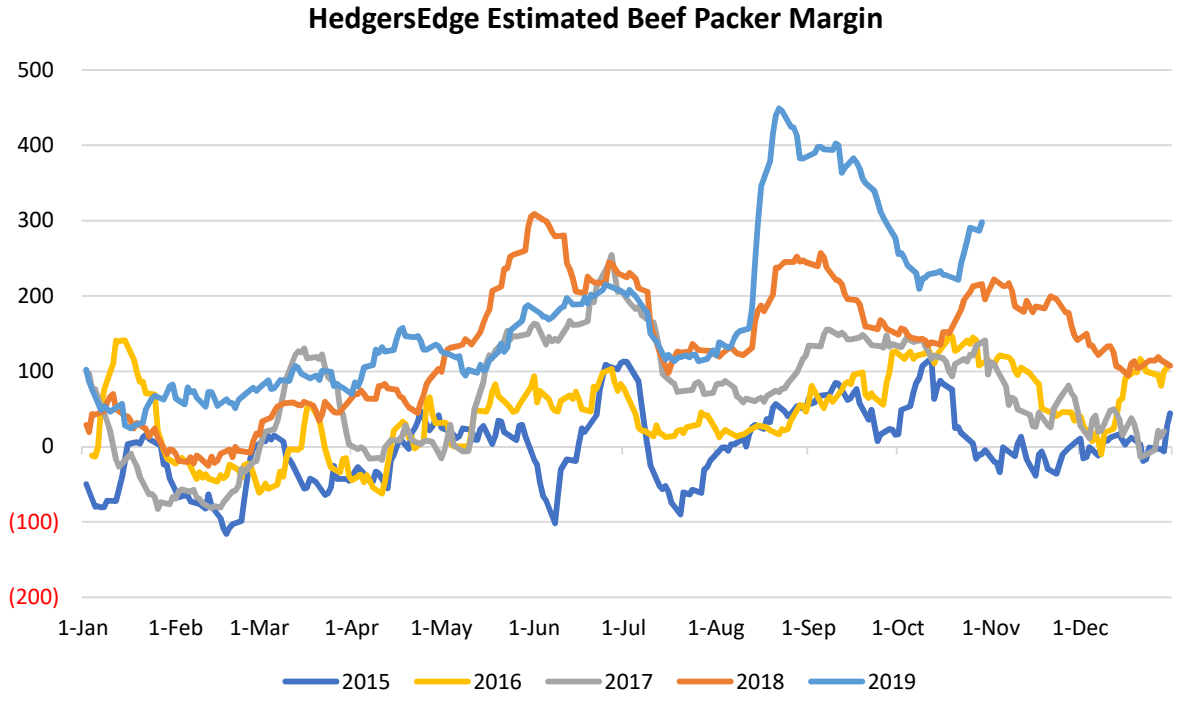
If I'm honest, I've been reluctant to tackle the topic because wheat spreads just aren't my area of expertise (if I even have one). But the question won't leave me alone so I've put a little bit of work into it and come up with the following relationship that looks…ok. The chart is shown below. This takes the July KW-W spread and plots it against SRW's percentage of total wheat ending stocks. Admittedly, the overall R*2 of the years shown isn't great, but note I've highlighted the past few recent years with the blue box. You can see that these years seem to be clustered into a decent relationship, and so this might be the new-normal to expect for this spread based on the level of SRW stocks. Due to shrinking area and other issues, SRW stocks have been in decline (relative to the all-wheat total) for several years in a row and WASDE is projecting them at just ~11% of the total for 19/20. If this "new" relationship is to be trusted, you could perhaps make the argument that there isn't much additional room for the spread to widen from these levels, but you also probably don't want to make the argument that the spread needs to narrow much either. I know some will argue there are other more important factors – such as VSR and storage rates and the available storage in HRW country vs what is available in SRW country. Still, the chart below suits how I like to think about things. Thoughts appreciated.



Livestock

USDA reported some very small volume cash trade at 110 in KS and 108 in NE. Those numbers are very surprising considering the north has consistently been a big premium to the south lately, but then again I hardly think that trade sets the tone for the week. I still feel like most are expecting firmer cash trade vs. last week when we actually start trading "real" volume.

We haven't looked at beef packer margins in a while so thought I'd give it a quick glance today. The chart follows immediately below. Beef packer margins obviously took off following the Holcomb plant fire and have come off a bit since then as cash has recovered the losses. The recent bounce here in packer margins is due to the strength in beef prices we've seen lately. I think there are reasons to suspect that packer margins at these levels probably won't be sustained for a long time further. One reason is that beef prices might have a somewhat difficult time sustaining the strength we've seen here. While I have no reason to suspect we're due for a sharp break in beef prices, I'm not sure if we can expect ongoing strength like we've seen (remember yesterday we noted the poor sales numbers in the comprehensive beef report from last week). I would also think that whenever that Holcomb plant resumes operations it will mean a sharp break in packer margins. You can hear just about any rumor you want on that subject so I won't entertain any specific rumors here this morning. Finally, I'm also told there are some plant capacity expansions due to come online in Q1 of 2020. I'm not exactly sure on the specific numbers, as this is scheduled (for now) to come online at roughly the same time we're looking at some of our tightest placed-against supplies (subject to how many we carryover right now) it could lead to a sharp tightening of packer margins.



Financials

Lots going on today. Early this morning we'll get the ADP employment release which will set the stage for Friday's NFP release. Expectations call for a fairly subdued month of growth with +110k new jobs added. To put that in perspective the average so far in 2019 has been roughly +165k new jobs, and job growth has certainly slowed since the start of the year. Also on tap in the early morning economic data is the first look at Q3 GDP. The consensus guess calls for Q3 growth of 1.6%, which is slower than the 2.0% in Q2 and down fairly significantly from the 3.1% in Q1.

The main event of the day, however, will be the FOMC announcement and of course the press conference that follows. The market is clearly pricing in a 25 bp rate cut from the Fed, and we all know by now that the Fed simply does what the market demands. The bigger question is what sort of hints the statement and, more importantly, the press conference give about possible further rate cuts. Unfortunately I think it is likely that Powell tries to work the middle ground in his commentary. On one hand, he doesn't want to sound especially dovish as many on the FOMC did not see the need for further rate cuts based on the last dot plot we have. On the other hand, we have low inflation, a flat yield curve, liquidity concerns (repo markets), slowing US & global growth, and dovish foreign central banks. All of that adds up pointing to further rate cuts…eventually. The economist for Bloomberg suggests Powell will promote a "meeting-by-meeting" approach to additional easing, which makes sense based on the above. It will possibly appease the hawks but not rule out further cuts. Whether or not the market will approve of this approach remains to be seen. One random thing to keep an eye on with today's statement is the number of dissensions. Recall last month we had two hawkish dissents and one dovish dissent. The economic projections and dot plots will not be updated again until the December meeting.

On top of all that, we also have some very big earnings releases today. There are lots of names reporting today that are worth keeping an eye on, but easily the ones that will garner the most attention will be FB and AAPL after the close this afternoon.

Energy

The weekly petroleum inventory report is due this morning. Expectations call for a modest +0.5 mil barrel increase in crude oil stocks. Yesterday's API report showed a modest *decline* in stocks of roughly -1.7 million, though Cushing stocks were up 1.2 million and thus WTI futures never showed much of a reaction. Both gasoline and distillate inventories are expected to decline, which was supported by the API release. Scrolling through headlines this morning I don't see much else to discuss. Let's see what the inventory data gives us.

Today's Calendar (all times Central)

- ADP Employment Change – 7:15am
- Q3 GDP – 7:30am
- Core PCE – 7:30am
- EIA Petroleum Inventories – 9:30am
- FOMC Announcement – 1:00pm

Thanks for reading.

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