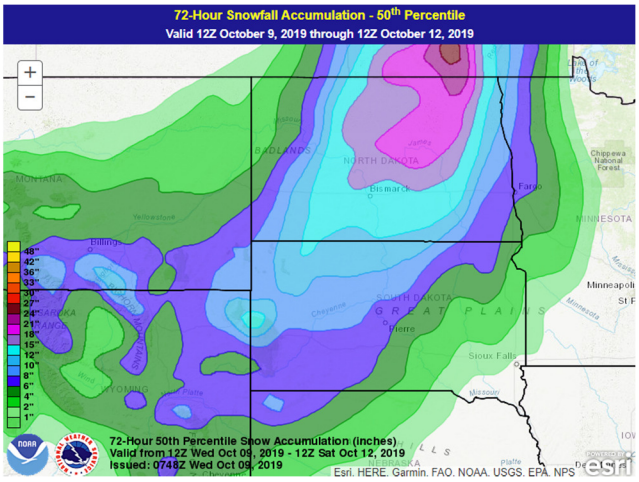
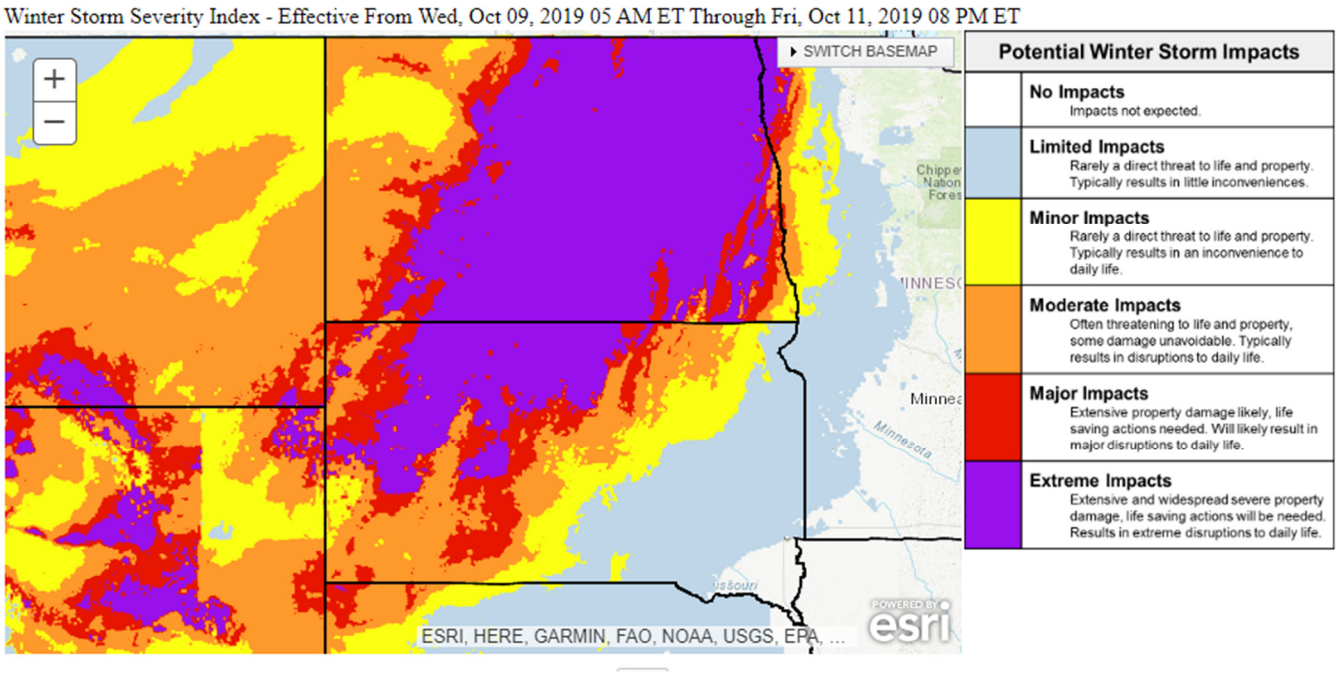
NESVICK
TRADING GROUP, LLC

Wednesday, October 9, 2019
NTG Morning Comments
www.nesvick.com

Weather

Of course the main focus of the weather this morning is the major winter storm taking aim at ND and surrounding states this weekend. The snowfall projection from the NWS shown to the right takes us through early Saturday morning. There will still be some snow that falls beyond that timeframe, but for the most part this map should show most of what falls for the event. You can see a big area in ND getting 18"+ of snowfall and big amounts stretching through SD and even a modest portion of MN. Keep in mind that we should see high winds associated with this storm, meaning blizzard conditions will be present. The NWS's winter storm severity index graphic shown below kinda says it all..





Keep in mind that this area will be stuck with well below normal temps after the event for several days as well. They could remain below freezing through much of that time, meaning this snow isn't likely going to melt very quickly initially. Warmer temperatures should move back into the area by mid next week.

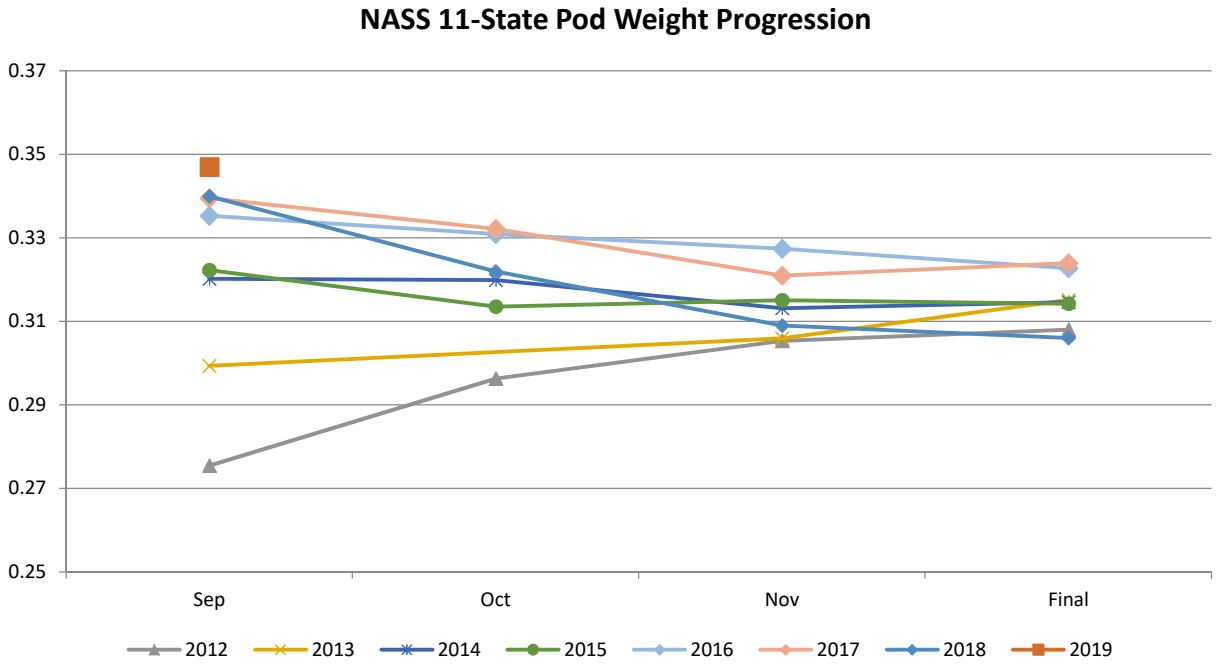
Looking at the heart of the Corn Belt quickly, mostly dry conditions today and during the daytime hours tomorrow before precipitation returns and spreads eastward. Lots of .5-1.0" amounts with locally heavier totals. Most of the heart of the Corn Belt will see rain and not snow, as you can see from the map at the top right. We should see dry conditions return to most of the Corn Belt on Sunday and beyond that we should see several days of completely dry weather. Temps will be cool so it doesn't seem like drying conditions will be

great, but it should be very dry through next week. Model agreement remains very strong that additional precipitation should return to the region starting next weekend. It looks highly likely we should expect to see widespread AN precipitation through most of the Corn Belt at that time with a lot of widespread .75-1.0" type amounts.

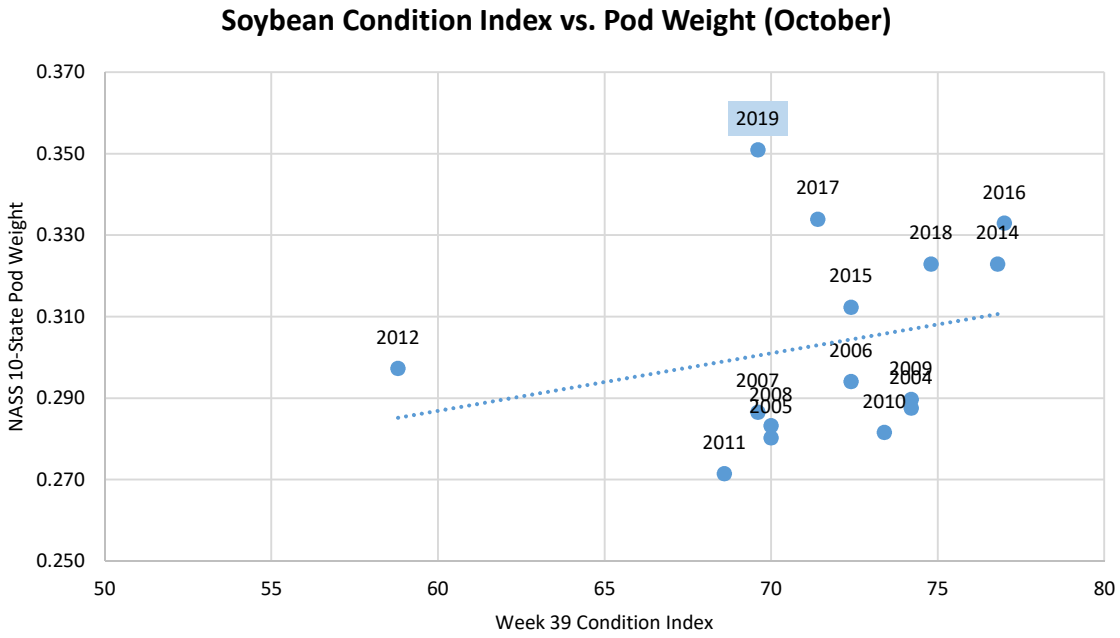
Crops

As noted yesterday trying to predict October NASS yield estimates is notoriously difficult. This is probably more the case for soybeans than for corn. Yesterday we attempted to tackle the corn question, and this morning we'll look briefly at soybeans. Once again, I'm left with less than I'd really like to have to form a very strong opinion, but I think it's the best we've got.

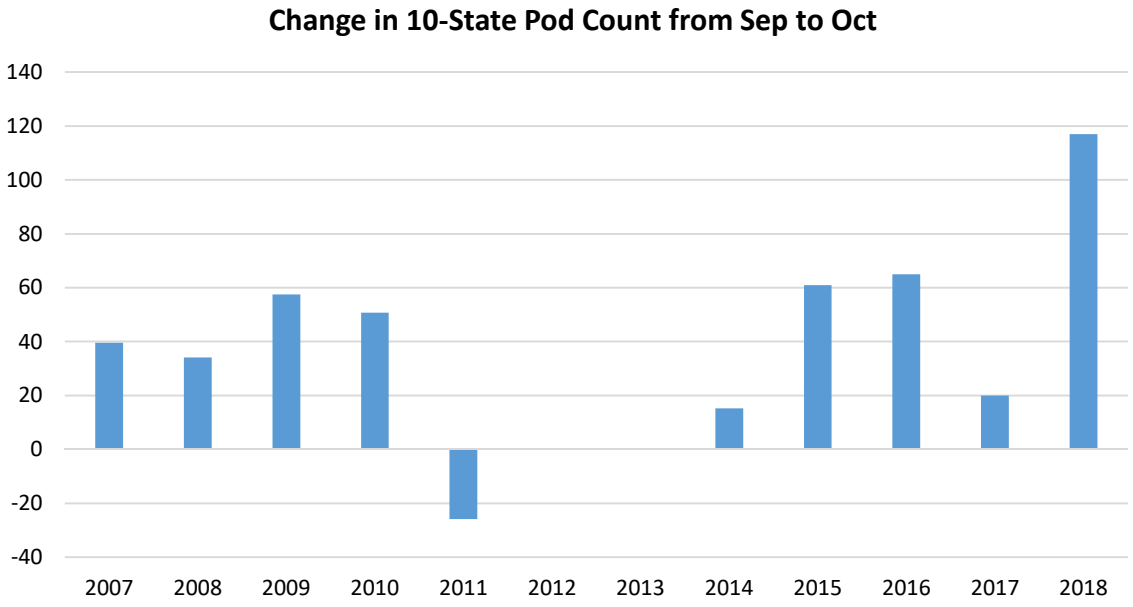
One thing I saw relentlessly after last month's NASS report was the chart on pod weights and how NASS was too high with the pod weights. It was as if that was required on ag-Twitter to bitch and moan about the pod weights from last month. I suppose 99.9% of those people don't realize that pod weights almost always decline from the Sep report, so really this is nothing new. This is simply acknowledging the tendencies NASS has in their data. Rather than fight it, just be prepared for it maybe?



There is ZERO debate based on the above that pod weights will come down this month. There are two critical questions, however. 1) How far might pod weights fall? And, 2) How much will pod counts *increase* as a yield offset? In response to the first question, if conditions are any guide we should see a fairly significant decline in the pod weight. Obviously the past few years have seen pod weights jump as improved genetics, weather, and farm practices have all combined for a big surge in yields. Still, the Sep pod weight (highlighted with the 2019 figure) clearly stands out on the chart.

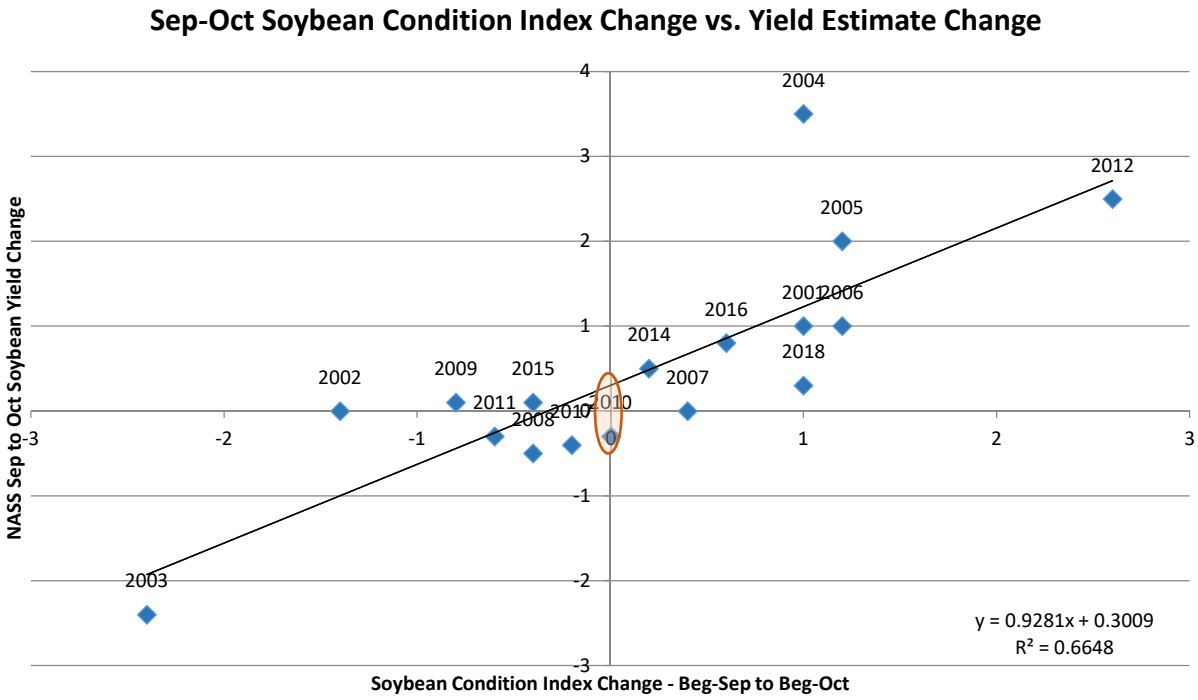


The chart below shows the change in the weighted 10-state pod count from the Sep to Oct report. 2011 stands out as an outlier with a lower pod count. 2012 was oddly basically unchanged, but obviously we know what was going on that year. There was no 2013 October report (government shutdown) and that is the reason there is no change noted for that year. Last year we saw the biggest month-to-month gain. If we were to average these years out, it would come up with an average of roughly +60 during the month.



Let's play some what-if math. Let's be somewhat optimistic and say the 10-state pod count will increase by roughly 100 this year. This would be well above average but not quite as big as what we saw last year. Let's then assume that we take the 10-state pod weight down to a level equal to the prior high seen in 2017 on the chart above. That sort of adjustment in pod weights and counts would keep the 10-state weighted yield roughly unchanged vs. last month. So do you think pod counts can be up more or less? Do you think pod weights will be down more?

So I'll concede this is all about as clear as mud at this point. In an effort to muddy waters even further, let me point out that the condition rating I track for soybeans is basically unchanged from the level seen heading into the Sep report. The change in condition rating from month to month has proven to be a pretty good indicator for the direction of the change in yield from NASS, but with an unchanged rating this year we aren't getting much help here.

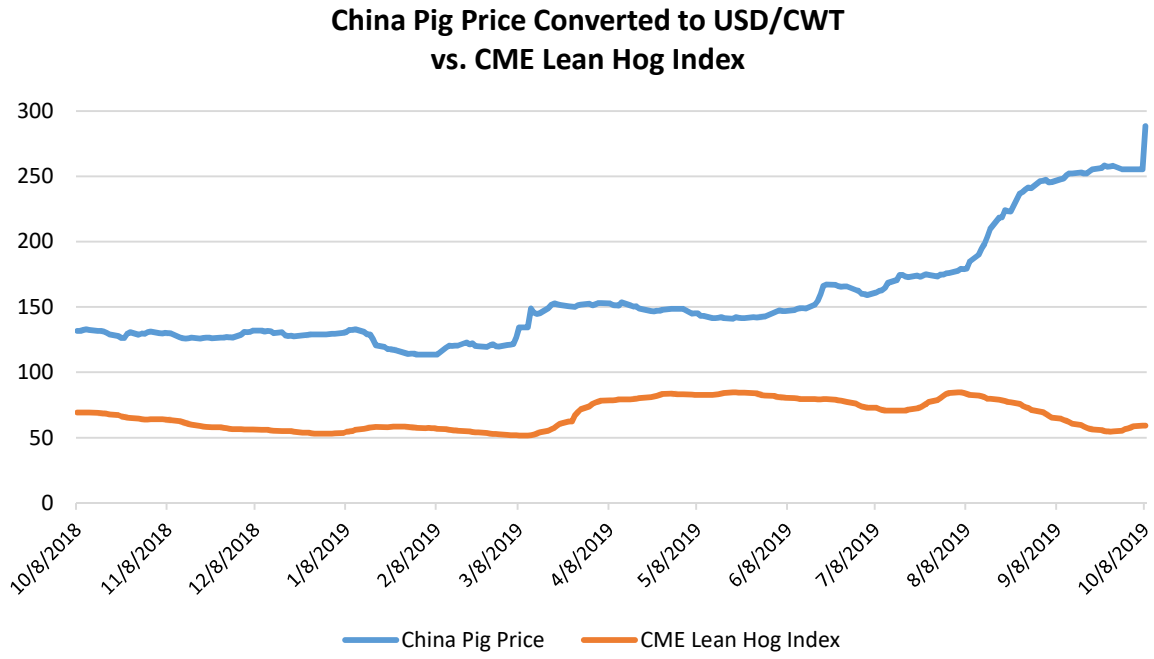


Gun to head, my bias is for a lower yield from NASS vs. last month. That said, the average guess from the Bloomberg survey calls for a drop to 47.0 vs 47.9 last month which might be a bit too pessimistic with the limited data available this month.

Livestock

We are starting to get some price data out of China again following their holiday. I don't yet have official numbers on pork prices (which should update at the end of the week for me) but we do have data from JCI updating on pig prices. Based on the index of JCI pig prices I use (which looks at a variety of different locations

within China) I show a calculation of 28.90 rmb/kg on 9/30 before their holiday. With yesterday's update I show a price of 32.64 rmb/kg, or an increase of roughly 13% over the holiday period. Some quick back of the envelope math would convert that to roughly $280/CWT. In the chart below I show the calculation after converting the price to USD/CWT and I'm comparing it against the CME's lean hog index for giggles. Clearly we can see these two markets are going in different directions. Admittedly even after the conversion we're not looking exactly apples-to-apples…but its about as close as I know how to get…

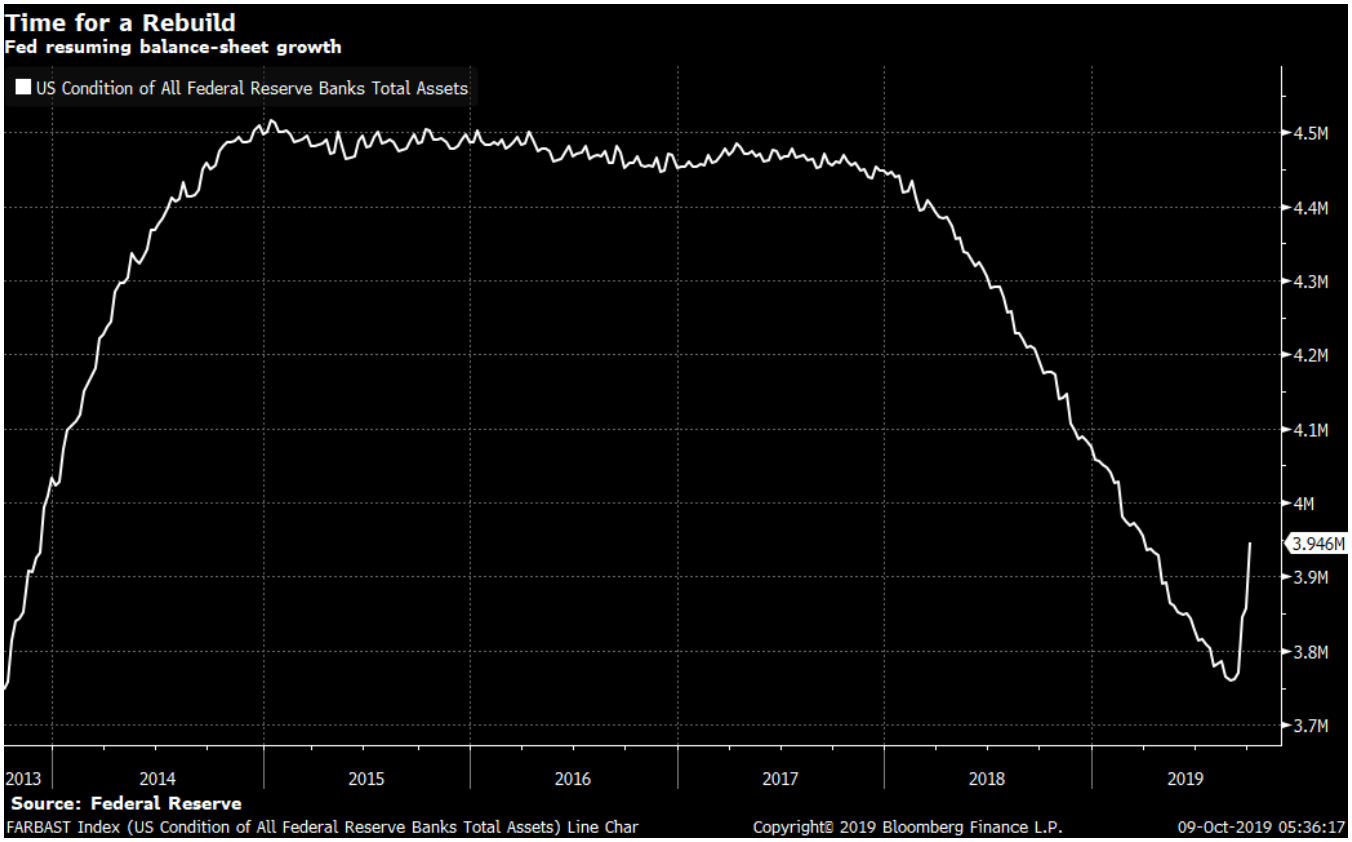


Financials

These days your market performance has nothing to do with your underlying understanding and knowledge of fundamental issues affecting markets. It only matters whether or not you're lucky enough to be properly positioned against whatever the latest trade headline proves to be. In this case this morning, following the negativity yesterday, we have positive trade negotiation headlines and US equity futures are higher and markets in general are following the risk-on script. This morning the FT and others are reporting that Chinese officials are still open to a "partial" trade deal this week. The idea remains that China would offer additional agricultural purchases ($10B worth is the number being tossed around this morning) if the US agrees to no more additional tariffs in the near future. Keep in mind we have two different tariff increases technically scheduled, one would go into effect this month and the other in December. This seems like an easy enough compromise to expect this week, which is why you still have to be nervous that something goes wrong.

In addition to the favorable trade headlines overnight, late yesterday afternoon you got surprisingly dovish commentary from Fed Chair Powell. Powell said the Fed will "soon announce measures to add to the supply of reserves over time", meaning the Fed will begin buying Treasuries soon. It would seem likely the formal plan for this is announced at the Oct 30 FOMC statement and the purchases will probably begin shortly thereafter.

Powell was very clear to try to point out that this is not a form of QE, saying that as the size of the economy increases the demand for reserves will increase and that the Fed should react to that. As you can see in the chart below we've seen the Fed's balance sheet come off sharply over 2018 and most of 2019 so far, but with the problems in the repo market the Fed has already been expanding its assets to ease liquidity stresses. It will be interesting to see how big of a package we're looking at here in terms of the new round of Treasury purchases. Will the balance sheet expand to the prior highs? I would bet yes.



Nothing else new to report this morning from what I can tell. No progress is being made on Brexit negotiations so that drama is going nowhere. US economic data on tap for today is relatively minor. Stay tuned for the headlines, this market optimism can reverse in a heartbeat.

Energy

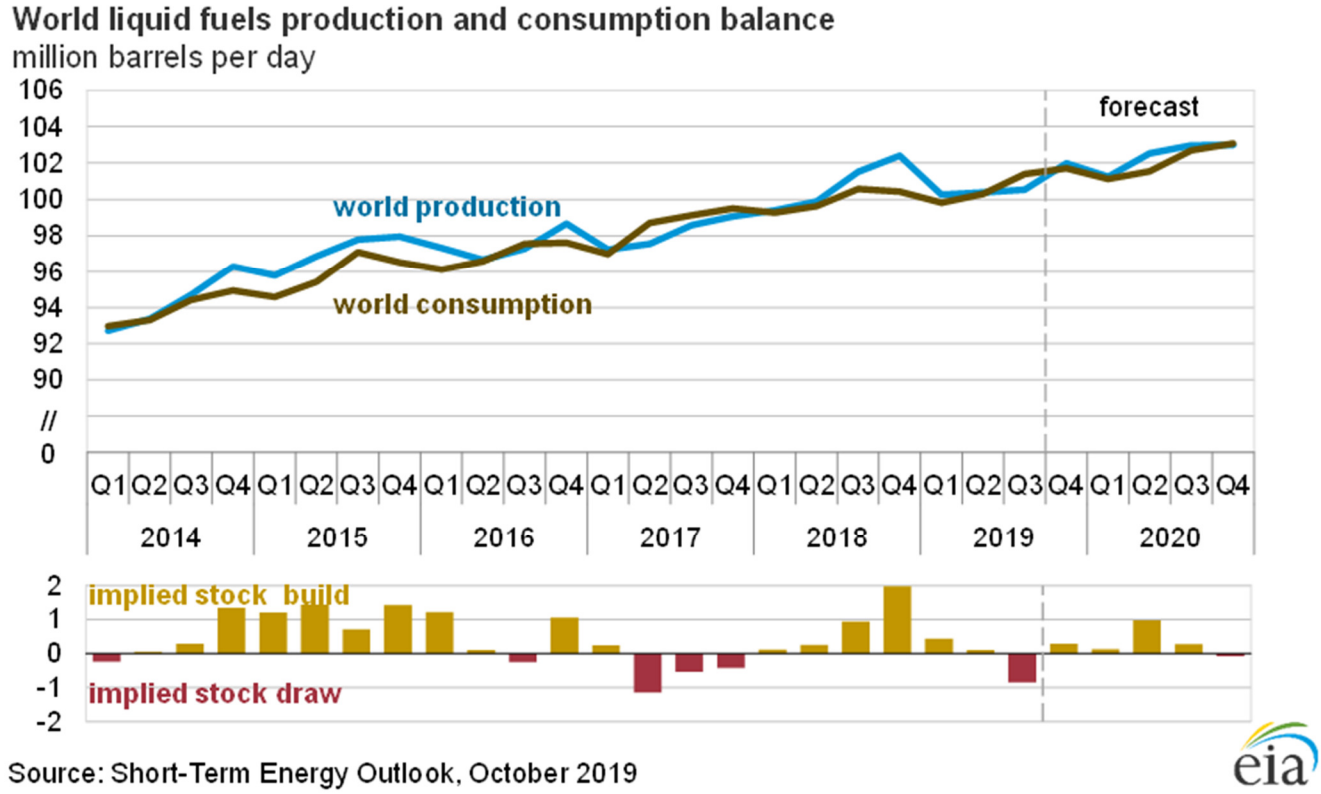
The EIA updated its Short Term Energy Outlook yesterday. There are a few bullet points from the report I thought worth sharing. The emphasis below is mine, not EIA's:

- *Despite the recent increase in supply disruptions, EIA expects downward oil price pressure to emerge in the coming months as global oil inventories rise during the first half of 2020. EIA forecasts balances to tighten later in 2020 and expects Brent prices to rise to an average of $62/b in the second half of next year. The resulting forecast average price in 2020 is $60/b, $2/b lower than forecast in the September STEO. EIA's October forecast recognizes a higher level of oil supply disruption risk than previously*

assumed, more than offset by increasing uncertainty about economic and oil demand growth in the coming quarters, resulting in a lowered oil price forecast.

- US crude oil production remained relatively flat during the first seven months of 2019 because of disruptions to Gulf of Mexico platforms and slowing growth in tight oil production. The slowing rate of growth in tight oil production reflects relatively flat crude oil price levels and slowing growth in well-level productivity in the Lower 48 states. However, EIA expects growth to pick up in the fourth quarter as production returns in the Gulf of Mexico and pipelines in the Permian Basin come online to link production areas in West Texas and New Mexico to refining and export centers on the Gulf Coast. However, EIA forecasts growth to level off in 2020 because of falling crude oil prices in the first half of the year and continuing declines in well-level productivity. EIA forecasts US crude oil production will average 12.3 million b/d in 2019, up 1.3 million from the 2018 level, and will rise by 0.9 million b/d in 2020 to an annual average of 13.2 million b/d.

I think the graphic below from EIA illustrates their forecast well….looking for global inventory builds through at least the first half of 2020-



Today's Calendar (all times Central)

- JOLTS Job Openings – 9:00am
- EIA Petroleum Inventories – 9:30am
- FOMC Minutes – 1:00pm

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684
Trillian IM: dzelinski@nesvick.com

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.