NESVICK
TRADING GROUP, LLC

Wednesday, November 6, 2019
NTG Morning Comments
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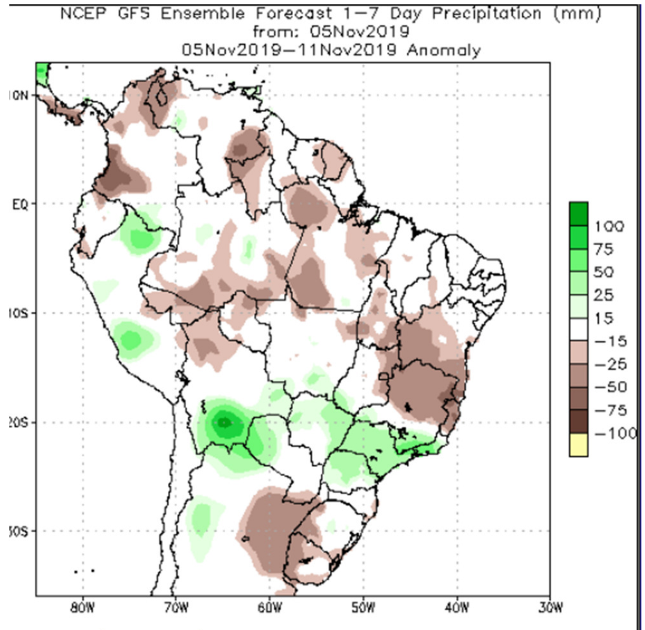
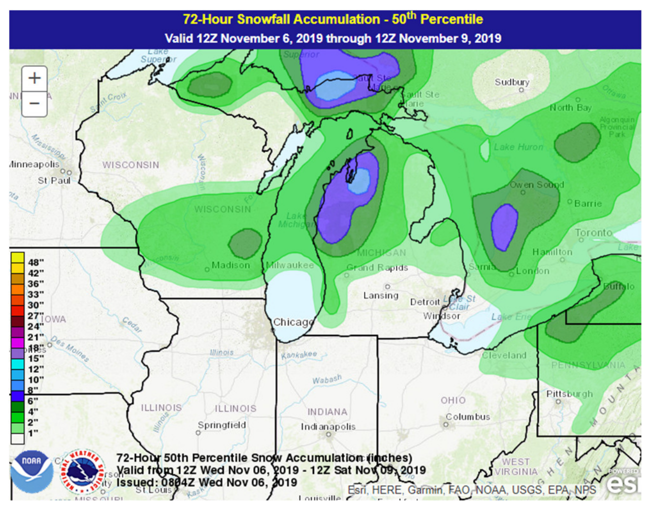
Weather



No major changes to the forecast this morning. Most of Brazil should see precipitation run near or slightly above normal over the next two weeks. Extreme northern and southern portions of the country will probably see the lesser amounts while the middle of the country should see well above normal totals. Rains will be bigger in the Week 2 portion of the forecast than Week 1. Look for temps over the next several days to run above normal through central Brazil but probably mostly near normal in the remainder of the country.

In Argentina we're looking at mostly below normal rainfall over the next two weeks. There is some light rain on the radar this morning but not much will fall and minimal precipitation is expected through early next week. There does appear to be a modest improvement in rainfall chances for the 11-15 day period, but still nothing much better than near-normal and the best rains and coverage would favor western and southern portions of the region. There will be some periods of heat possible this week but nothing extreme. Cooler temps should return over the weekend.



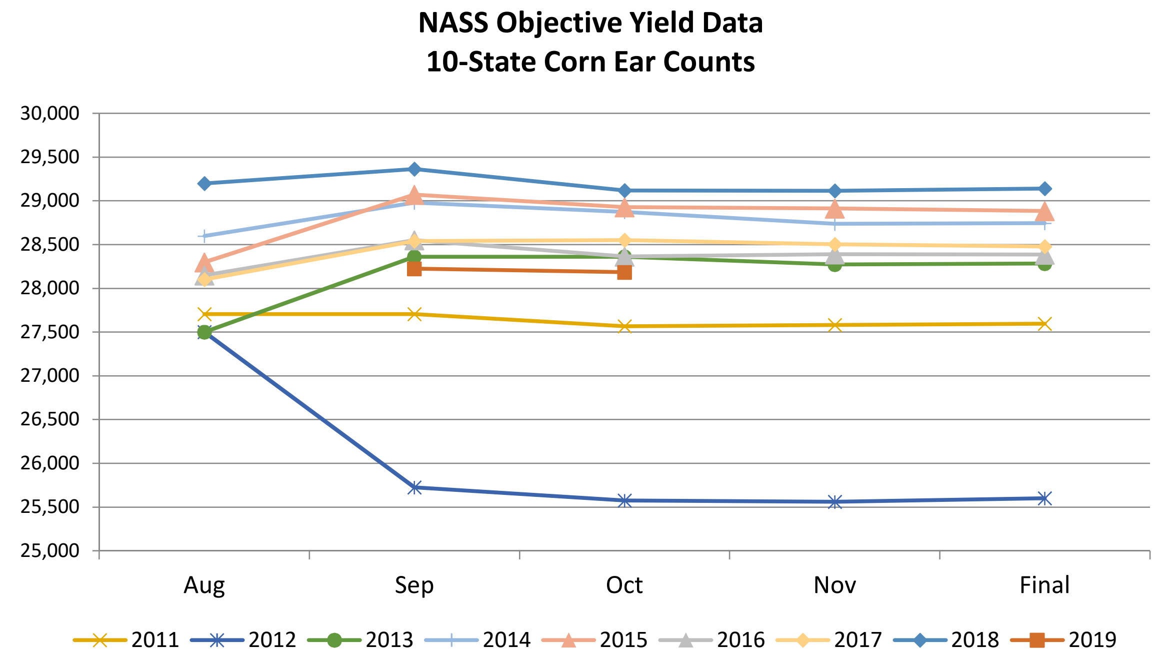
No major changes to the US forecast. We're still looking at mostly open weather through the majority of the Corn Belt over the next week. There will be some precipitation in southern portions of the ECB. There will also be the potential for some snow accumulations as shown to the right. The amounts don't appear to be anything extreme. Temps should continue to average well below normal over the next 10+ days.

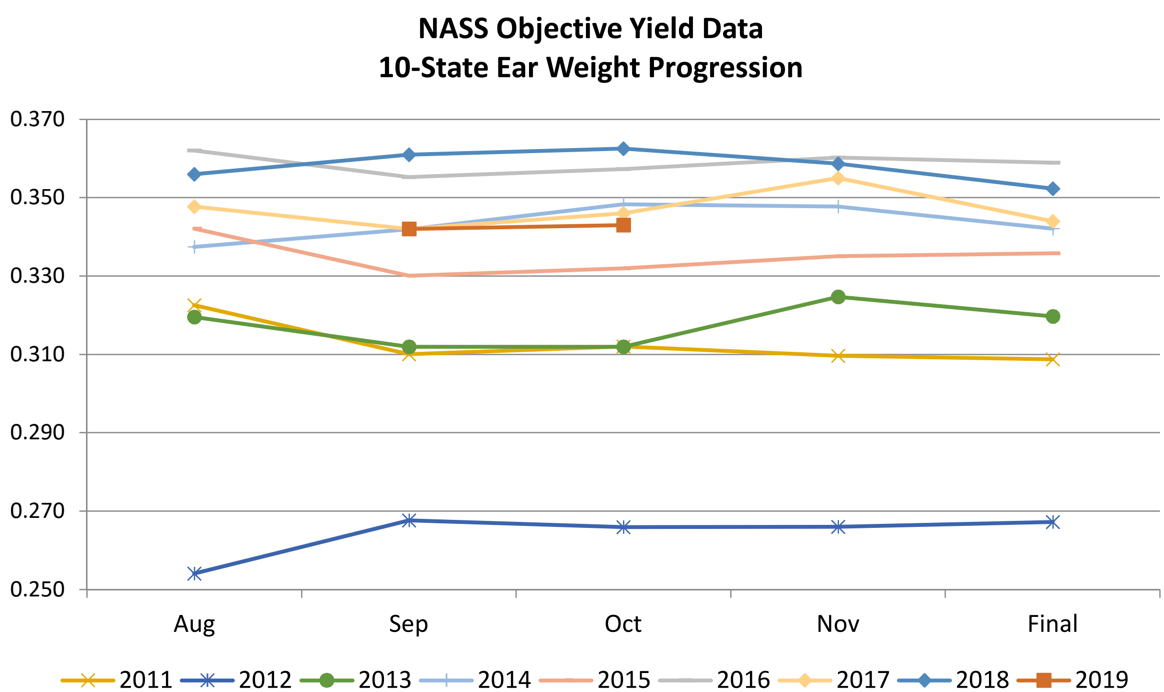
Crops

Today we'll be looking at corn yield prospects for Friday's Crop Production report. To reiterate what I said yesterday, the Nov and Jan Crop Production reports are very tough to predict. I don't claim to have a huge degree of confidence going into the report. I will say that if you put a gun to my head, I have a bit more confidence in my soybean discussion from yesterday than on what we'll discuss on corn below.

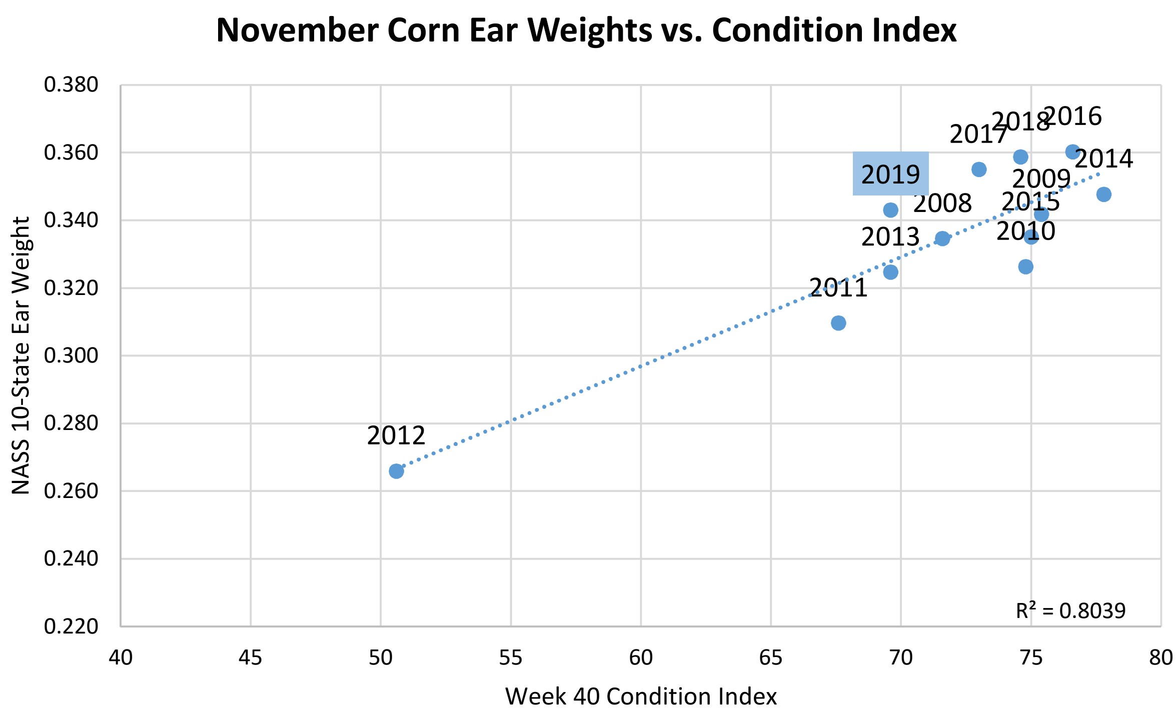
In terms of objective yield data, here is what we know. Ear counts typically don't do much from this point in the year. You can see in the chart below that typically ear counts are relatively steady, though from time to time we get some adjustments. Obviously that means (implied) ear weights are where the yield changes come from.

There is no tendency on ear weights, because that would mean there is a tendency on yields and we know that is not the case (though it would make life easier).

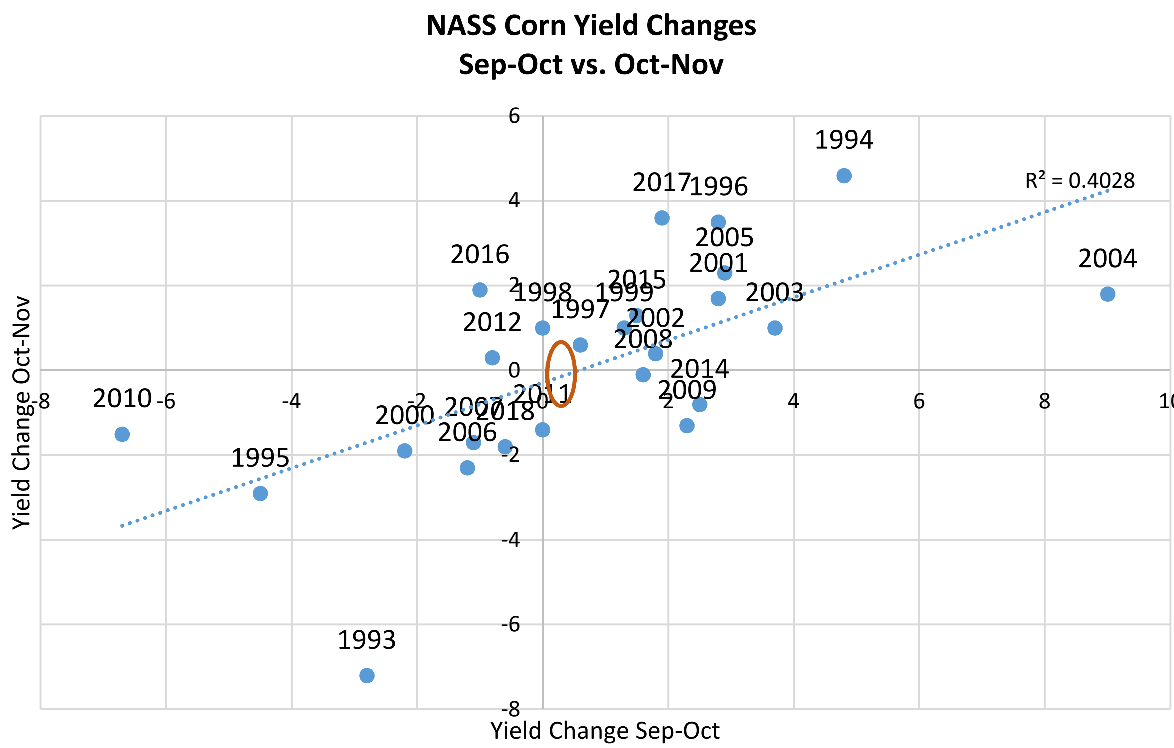




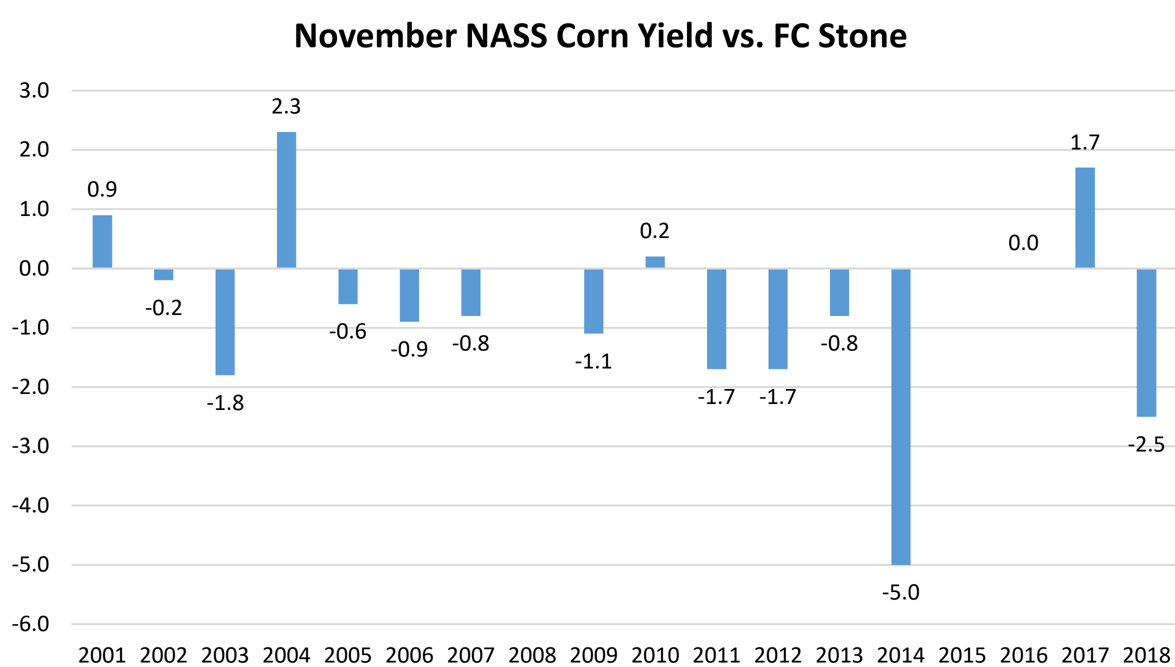
Once again we are forced to lean on condition ratings for at least a guide as to what to expect from the ear weights. The chart of November ear weights vs. Week 40 condition ratings is shown below. I'd like to go further than Week 40, but in a lot of years we don't get condition ratings that late so it makes it difficult. The October ear weight figure is highlighted, and while we could certainly make the argument that the ear weight is a bit "elevated", it is hardly anything extreme.



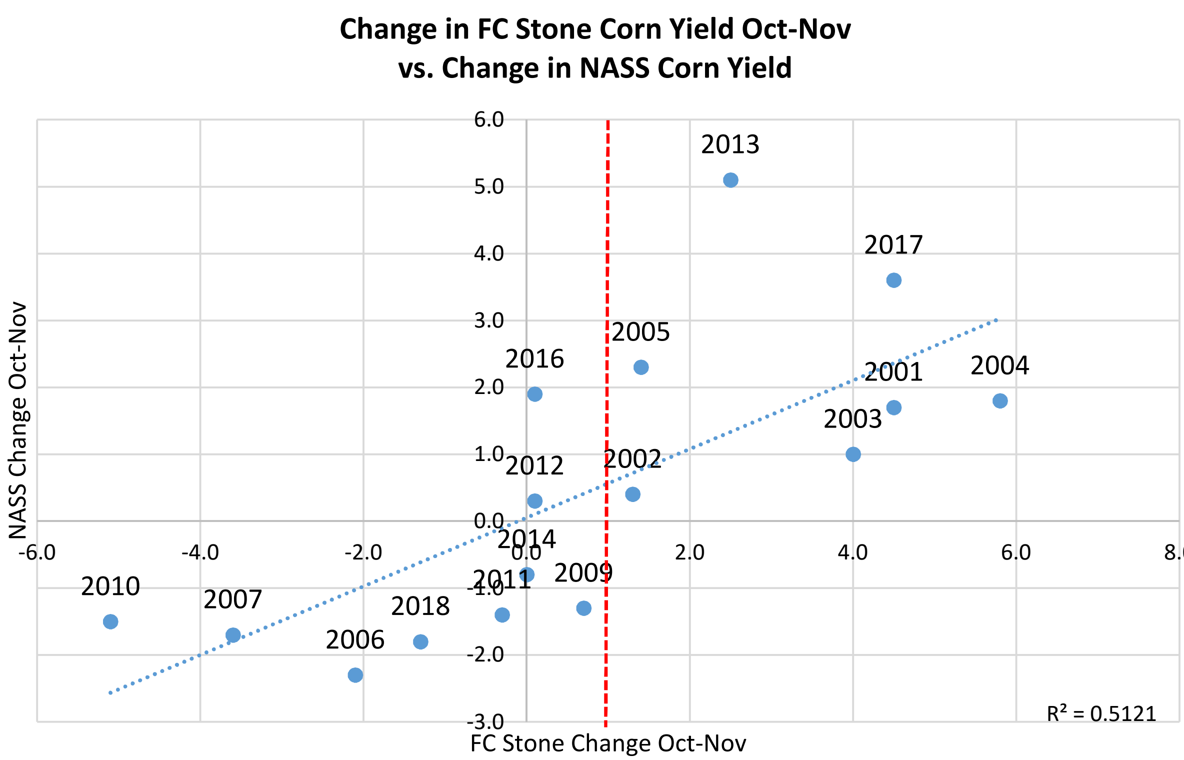
So with that providing little to work with, is there anything else that gives us a solid tendency on which to bet? I showed yesterday that NASS typically moves in the same direction with their November soybean yield as they do in October. If it is lower in October it is typically lower in November again. That is less the case with corn, as shown below. While there is a general tendency for crops to get bigger/smaller as the year progresses, it is hardly automatic. Yes, we saw a modest increase in the yield last month but here you can see 2009 and 2014 were years where NASS increased corn yields in October but followed up with a smaller estimate in November.



As for FC Stone's "big" corn yield figure from last week, it is worth pointing out that they have a very usual tendency to come in big vs. the November NASS projection. Admittedly as recently as 2017 they were too small vs. NASS, but you can see below that normally FC Stone is well above NASS.



As shown yesterday with soybeans, FC Stone and NASS typically head in the same direction with their yield projections from Oct to Nov. As FC Stone was higher this month (170 vs. 169.3 in Oct) that does raise the possibility for another increase from NASS this week. However, note below there is one exception to the rule here. In 2009 FC Stone went larger with their corn yield projection while NASS, as shown above, actually posted a reduction. Interestingly, 2009 was another very slow harvest year…actually running well behind the pace we're posting so far this year. Does that make any difference? Wish I knew…

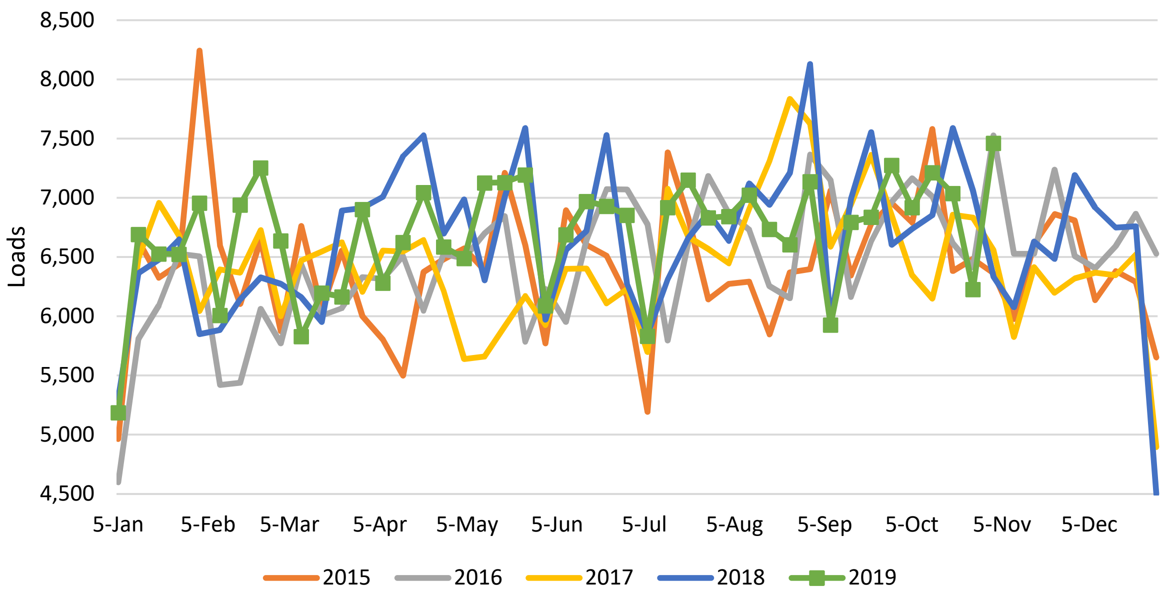


What is my bottom line bias? Well, I am definitely torn here. We've seen condition ratings improve late in the season and FC Stone has moved higher with their yield projections. On the other hand we had *potential* freeze damage and a long and difficult growing season in several areas. I'm inclined to think that whatever direction NASS heads, the difference in the yield vs. last month will probably be pretty minimal. Gun to head, I'll take a low-confidence fade of the FC Stone numbers and I'll take a modest reduction in the corn yield. I'll admit the data doesn't necessarily back that up.

Livestock

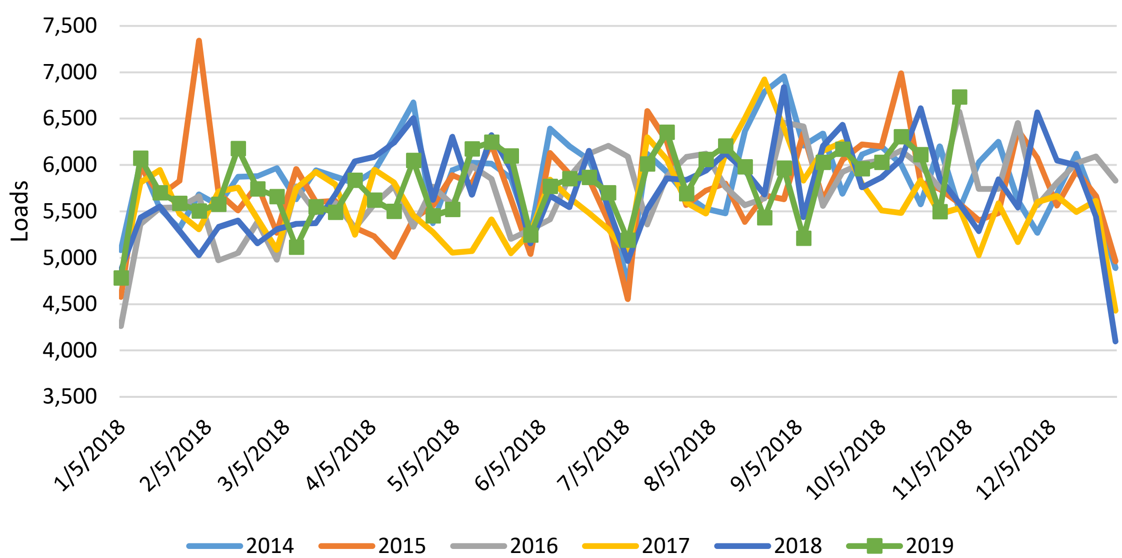
I didn't include this yesterday because I thought I'd be going too long with the commentary, but Monday's Comprehensive Beef report is certainly worth talking about. The total beef sales last week was the biggest level of the year. It might be hard to make out on the chart below, but total sales easily set a new top mark for 2019 last week. This is pretty impressive considering it came well after beef already started rallying, though of course it likely didn't hurt the continued beef price strength we saw last week.

National Comprehensive Boxed Beef Report
Total Sales



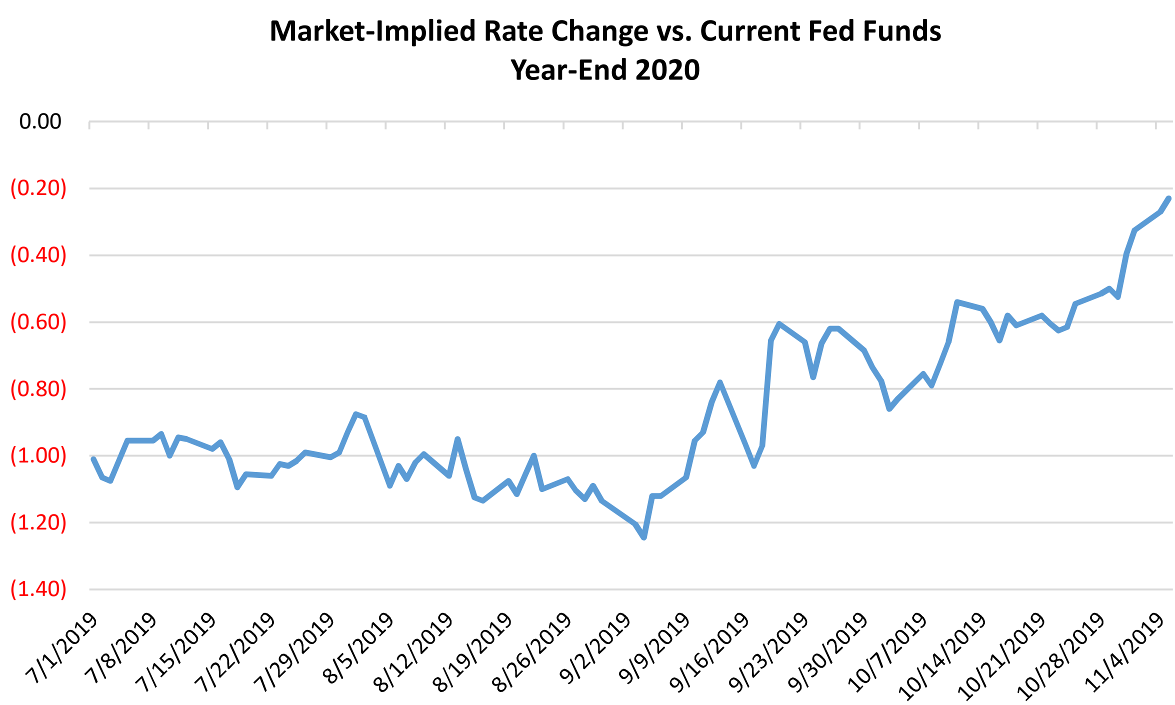
This was primarily due to *domestic* beef sales which hit a new 2019 high as well last week. That chart is shown below. Loads for export last week were fairly light, inline with the level seen the prior week. It does make some sense that price-sensitive importers might be reluctant to chase the rally in US beef prices here…but the domestic market certainly appears to be healthy. I won't include the chart of forward (22+ day) sales here but it was a new high for the year as well and one of the highest levels we've seen in a few years.

National Comprehensive Boxed Beef Report
Total DOMESTIC Sales



Financials

One thing that might start to get a bit more attention lately is the perception that the Fed is becoming a bit less dovish towards rates going forward. Admittedly, since the FOMC press conference we've only had a little bit of commentary from Fed officials, though more is on tap today. However, if you even partially believe the Fed is a slave to the market, then the market is essentially telling us that the Fed is largely done cutting rates for now. The chart below shows the market-implied end-2020 Fed Funds rate change based on FFZ0 futures. You can see that at the beginning of September the market was pricing in a rate cut of 125 bps (or 5 rate cuts if 25 bps at a time) by the end of 2020. Since then, we've seen two rate cuts for 50 bps. At the time of writing the market is pricing only another 23 bps. Essentially the market has removed two rate cuts from its calculations for the end of 2020.



If I'm on the right track here, some of the markets that have benefited from the Fed's dovish U-turn might be in for some rough sledding ahead. This might include gold, silver, and bonds - all markets that probably have some "excess" spec longs hanging around. It might weigh on equities, but if economic data continues to come in ok and if we don't see a re-escalation of the trade war I'm not too worried about stocks for now. One thing that will be interesting to watch is how President Trump handles a few FOMC meetings without a rate cut….

Energy

Crude oil futures are modestly lower at the time of writing this morning. Yesterday's API petroleum inventory release showed a build of 4.3 million barrels in US crude oil stocks. This is bigger than the expectations for a 2 million barrel increase. It also doesn't help that OPEC's Secretary General seemed to pour cold water on the idea for further production quota reductions next month when the group meets again. He said yesterday" 2020 has an upside potential that may actually surprise the market". The Saudi oil minister continues to hint at further cuts, but they might be a hard sell as it has done little to rally prices or slow US shale production growth at this point.

Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- 10-year Treasury Auction – 12:00pm
- Several Fed speakers

Thanks for reading.

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