NESVICK TRADING GROUP, LLC

Tuesday, January 14, 2020
NTG Morning Comments
www.nesvick.com

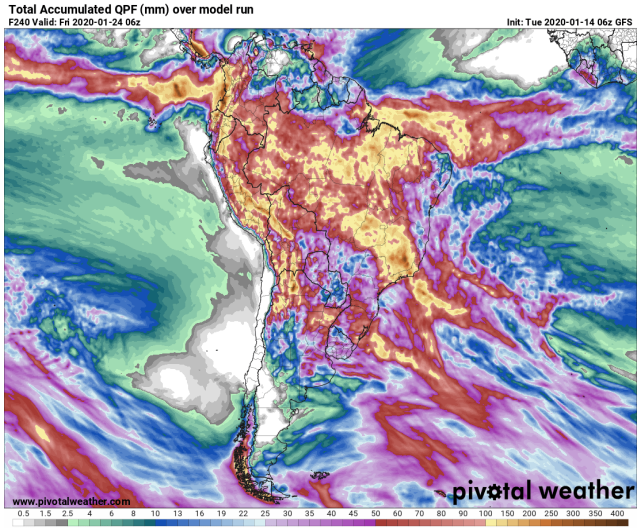
Weather

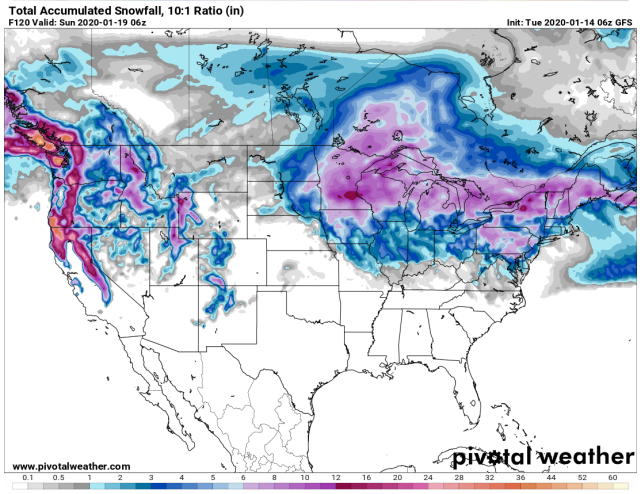
Rainfall in northern Brazil is expected to run near to above normal over the next two weeks. Rainfall totals should range from 5-7" during this period. Rainfall looks to be lightest over the next week or so, but should pick up significantly in Week 2 of the forecast period. Temps should also run above normal during the next week but will cool off as better rainfall chances arrive.

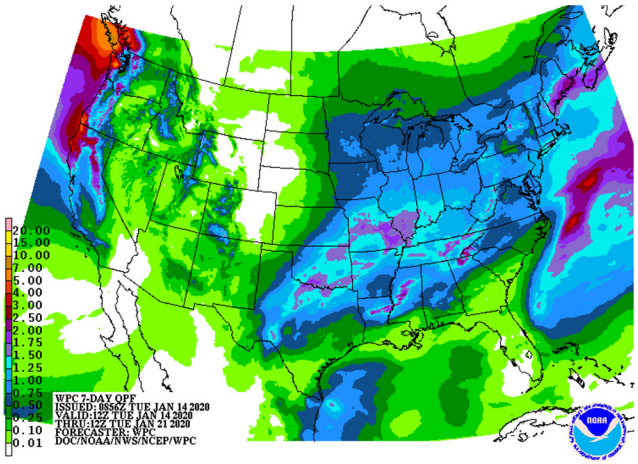
Southern Brazil should see rainfall run below normal over the next two weeks. We should see significant rainfall over the next few days, providing excellent coverage of 1-2" rainfall. However, following this event we should see fairly insignificant rainfall amounts for the remainder of the two week period. Temps should be above normal today and tomorrow, but cooler later in the week and we should see a lot of below normal temps through the duration of the two week period.

Argentina should see two week rainfall totals run below normal in most areas. Southern areas should see .75-1.75" and northern areas should see 1.5-2.5". There is rain in portions of Argentina this morning and that should continue to spread through some areas today and tomorrow. We should see the region completely dry by Thursday and that should kick off a period of limited rainfall chances. Heat is never expected to be an issue, however. We'll see some low 90s for highs today but we should turn cooler tomorrow and see a lot of below normal temps for the remainder of the two week forecast.

The second map at the right shows the 5-day snowfall projection for the US based on the GFS model. You can see we're expecting a fairly significant snow event for the Northern Plains and Corn Belt during this period. The Southern Plains is expected to see some decent precipitation later this week and into early next week as well. The southeast will also continue to see active precipitation chances.

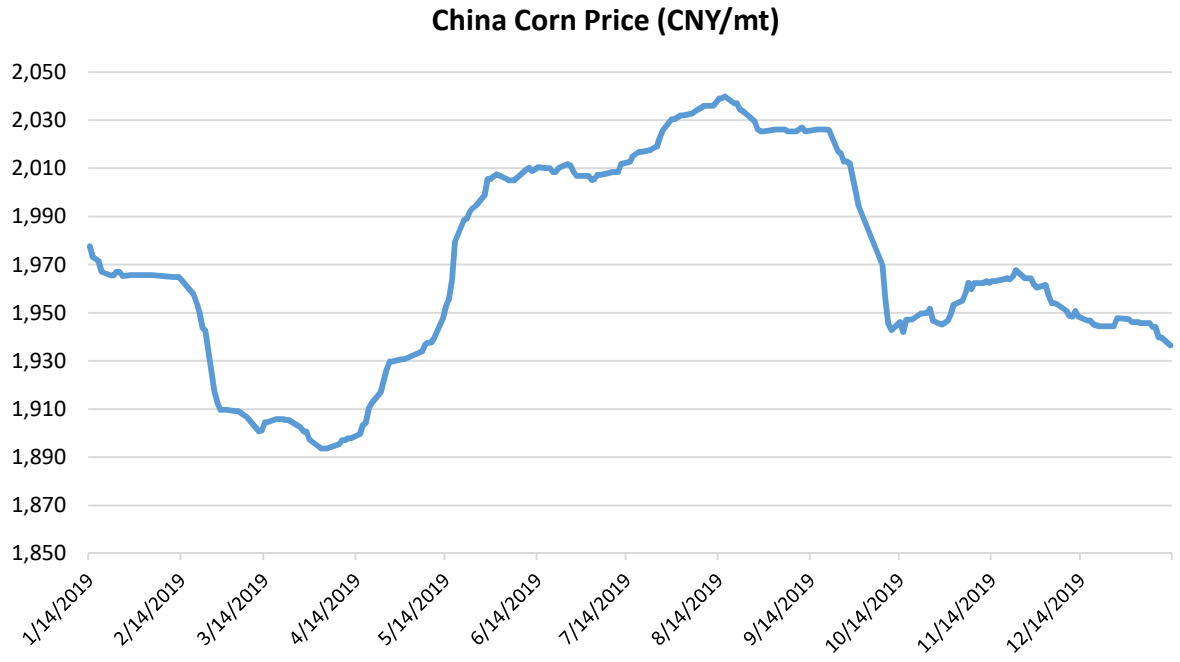






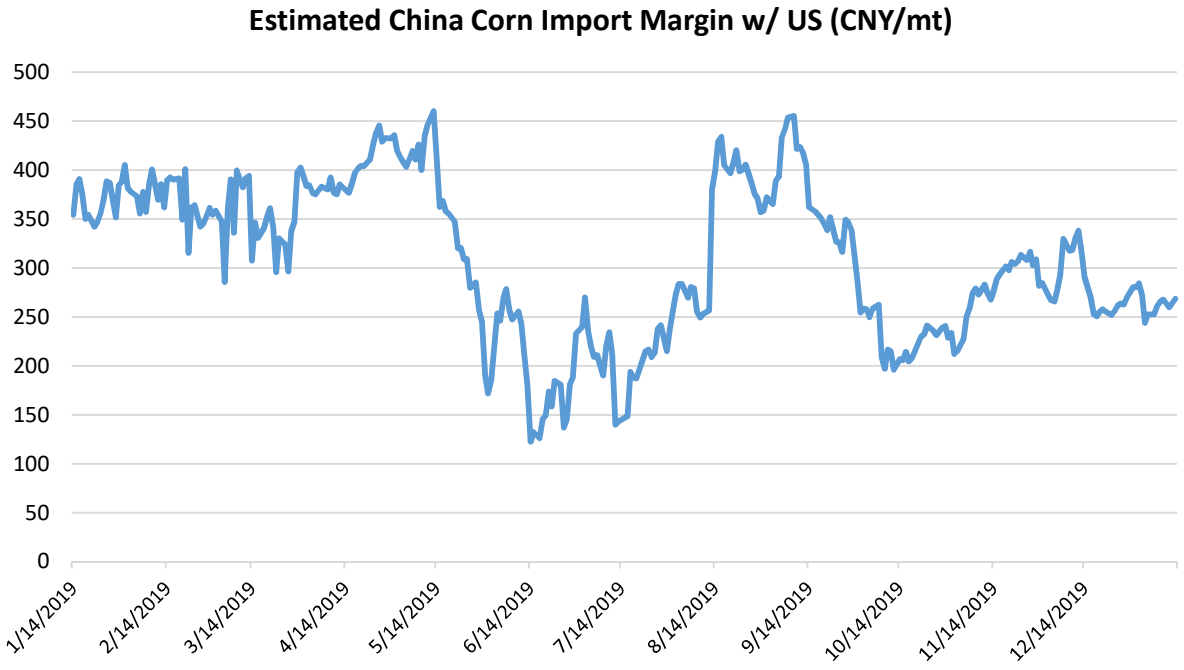
Crops

I pointed out yesterday that meal prices in China have been in a steep decline since early fall. As the chart below shows, corn prices in China haven't done much better. Admittedly, if I zoomed out on this chart you'd see the highs set in summer 2019 were the highest price levels since early 2016. With prices at current levels, domestic corn prices in China are roughly 20% off their lows set in early 2017.



Is it peculiar to anyone else that we're expecting China to make "big" ag purchases at a time when domestic prices are heading lower already? Perhaps you could make an argument that Chinese prices are heading lower in anticipation of big purchases….maybe.

That being said, despite the fact that China's domestic corn prices have been declining in recent months, there is still a very solid import margin for US corn in China. I attempt to track this import margin in the chart below. This takes the same corn price index shown above (which is simply a basket of corn prices across several different locations within China) and compares it against US Gulf corn prices (and freight). I am also accounting for the prior import tariff regime. Before the 25% retaliatory tariffs, China's policy on corn imports was a 11% VAT and 1% tariff on corn imports within the quota system. Outside of the quota, the tariff went up to 65%. So, I'm assuming that prior tariff regime would be in place, and I'm adding on 12% of additional taxes in the calculation below. You can see that the import margin is positive by about 260 CNY/mt. I would imagine that the margin might even be bigger for some of the more southern corn end-users in China that are very far away from the key production regions.



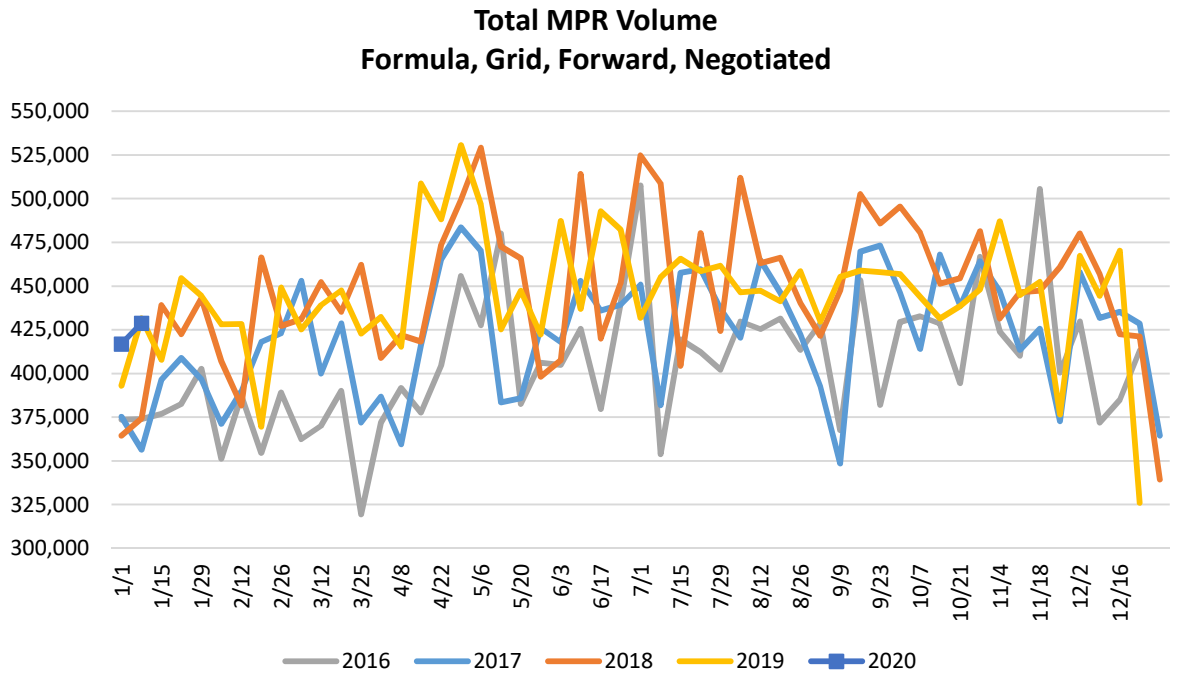
So the point this morning is that while Chinese corn prices appear to be in decline for the moment, they still allow for a pretty substantial import margin for US corn. That leads me to believe that corn, or perhaps other feedgrains such as milo or DDGs, might be the more immediate beneficiaries of the officially signed trade deal. As noted yesterday, there are reasons to doubt that the Chinese will be aggressive buyers of US soybeans at the moment when Brazilian supplies appear more favorable.

Livestock

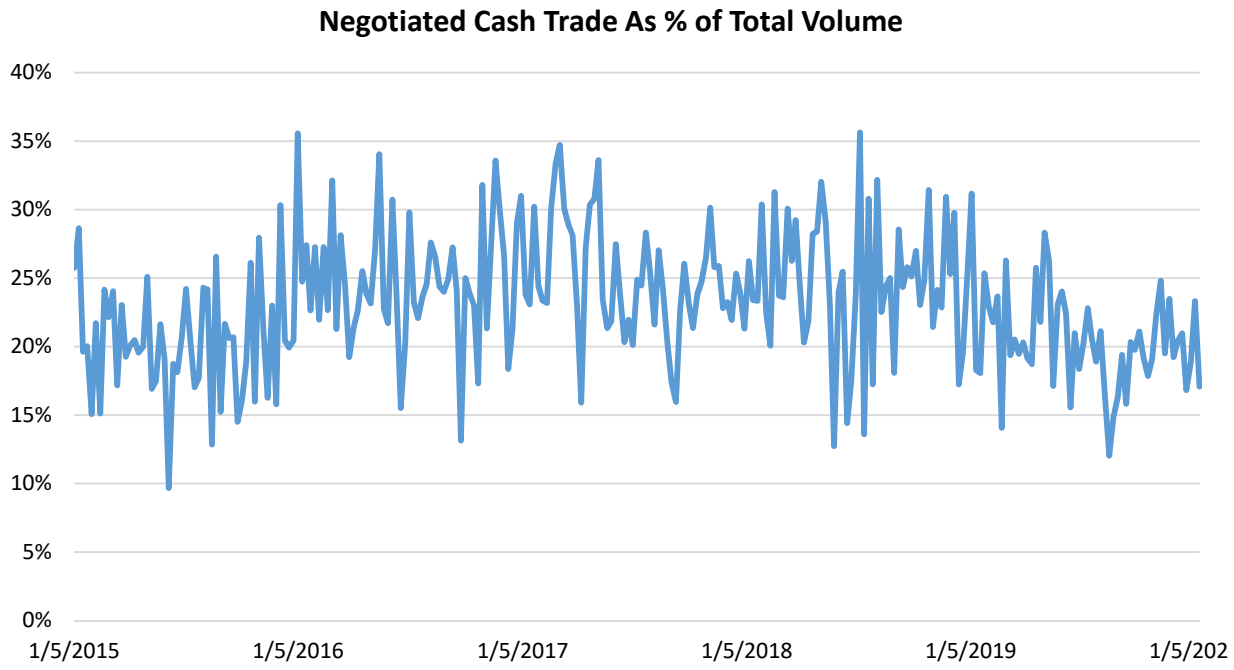
I noted yesterday that it appeared cash cattle trade volume was very small. Indeed, negotiated volume was very small but total MPR numbers don't look too far out of whack. Note the first chart on the following page. While definitely not overly impressive, the total number last week seems to be "enough".

Of course negotiated trade last week was very light. It represented only 17% of the above MPR total. You can see in the second chart on the next page that this is near the low end of the range from the past few years. I should point out that if I zoomed out on this chart it would show the trend is for negotiated trade to account for a smaller and smaller portion of total cash action over the past several years. Interestingly, these negotiated trades (on smaller and smaller volume) are still clearly a driving factor behind the price discovery on the board.

Based on somewhat better than expected movement last week, I'd say the packer is sitting on a bit more inventory than I expected. With that in mind, I might lean towards giving the packer the advantage right now for this week's cash trade. Not to mention that last week's light volume activity was a bit lower than many probably hoped. That said, the packer's leverage also depends on how aggressive he plans to kill. If kills are big this week, maybe they don't have the comfortable inventory I think they do.

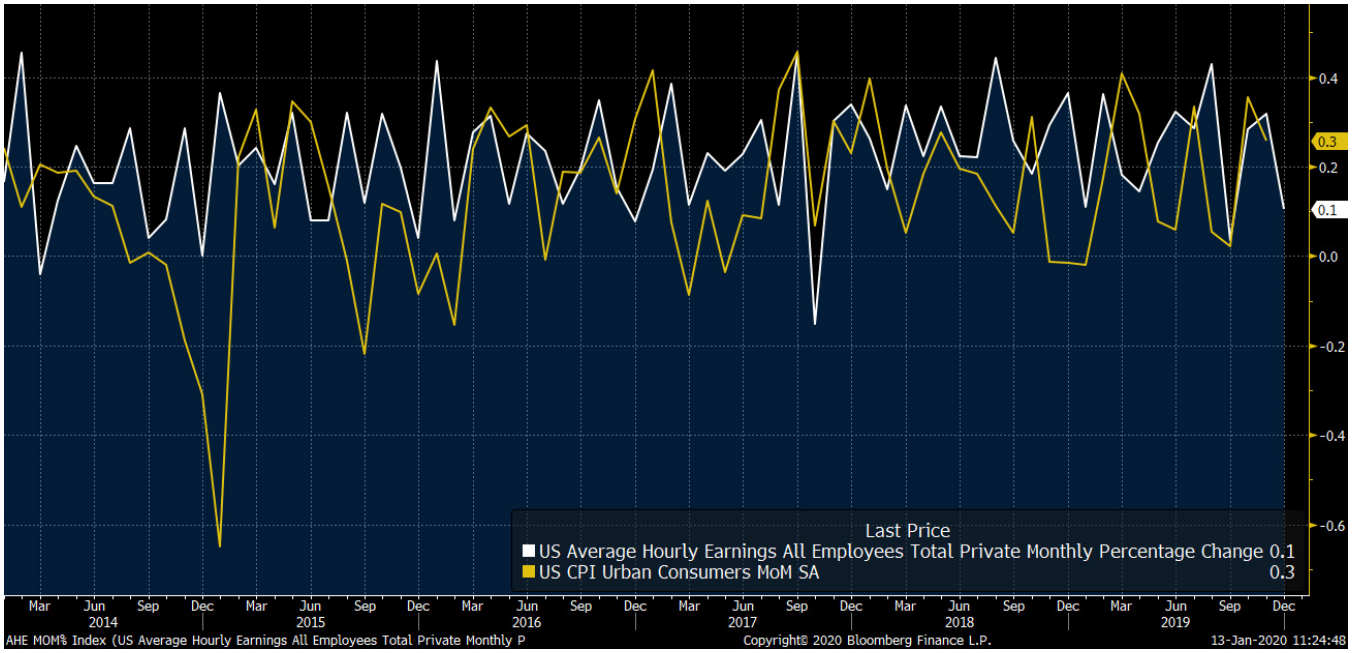

Total MPR Volume
Formula, Grid, Forward, Negotiated
550,000
525,000
500,000
475,000
450,000
425,000
400,000
375,000
350,000
325,000
300,000
1/1
1/15
1/29
2/12
2/26
3/12
3/25
4/8
4/22
5/6
5/20
6/3
6/17
7/1
7/15
7/29
8/12
8/26
9/9
9/23
10/7
10/21
11/4
11/18
12/2
12/16
2016
2017
2018
2019
2020

.


Negotiated Cash Trade As % of Total Volume
40%
35%
30%
25%
20%
15%
10%
5%
0%
1/5/2015
1/5/2016
1/5/2017
1/5/2018
1/5/2019
1/5/202

Financials

The big ticket item of economic data today for the US is the monthly CPI release. Expectations are calling for CPI +0.3% MoM which would be steady with the level seen last month. The YOY increase is expected at a solid +2.4% YOY. Core CPI is expected at +2.3% YOY. One thing I think its possibly worth mentioning is that the NFP release last week showed average hourly earnings were disappointing last month. You can see in the chart below that CPI and the average hourly earnings seem to track each other fairly well. The relationship is not a mirror-image, of course, and so some month-to-month volatility should be expected. This means it isn't a certainty that today's CPI release will be soft. Still, I think it does seem to suggest we should not be expecting the reading to come in "hot" today. A soft CPI reading, if realized, would probably support equities and be modestly negative the dollar as it would encourage an easing stance from the Fed.



Released yesterday afternoon was the Treasury's Monthly Budget Statement. The report showed the December budget deficit was $13.3 billion. In the first three months of the fiscal year, the federal deficit is up to $356.6 billion, up from $318.9 billion during the same period in the previous year. The CBO projected that the federal deficit would swell to over $1 trillion in fiscal 2020, and at this rate that certainly appears to be on track.

In addition to the inflation data, we will also be unofficially kicking off the next earnings season this morning. Banking giants JPM, C, and WFC will all report earnings this morning. At the time of writing US equity futures are trading lower, though I don't see any significant catalyst for the weaker trade. No major headlines that I've noticed to this point.

Energy

A lot of oil market projections will be out this week. Today we get the US's EIA with their Short Term Energy Outlook. OPEC will be out tomorrow and the IEA will be out on Thursday. I don't see any reason why there

should be any major changes from prior projections. Though Middle East tensions have been "heightened" a bit so far in 2020, we have to admit that no major disruptions to oil supplies or flows have been seen. There is also no reason, for now, to suspect that projections for increased non-OPEC supplies in 2020 (in the US, Brazil, and a few others) should be adjusted. So I would expect these projections over the next few days to show very few changes relative to what we saw in late 2019. I doubt that such projections will be "bullish" if they remain mostly unchanged. That said, make sure you look at a chart of spot WTI here. Admittedly, the spec positioning might be a be "stretched" on the long side after the Iranian situation, but we're starting to reach significant support levels at these key 100 & 200 day moving averages. Around these levels, I'd expect crude oil to once again become a bit more rangebound. Thoughts appreciated.

Today's Calendar (all times Central)

- CPI – 7:30am
- EIA STEO – 11:00am

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.