NESVICK
TRADING GROUP, LLC

Wednesday, January 15, 2020
NTG Morning Comments
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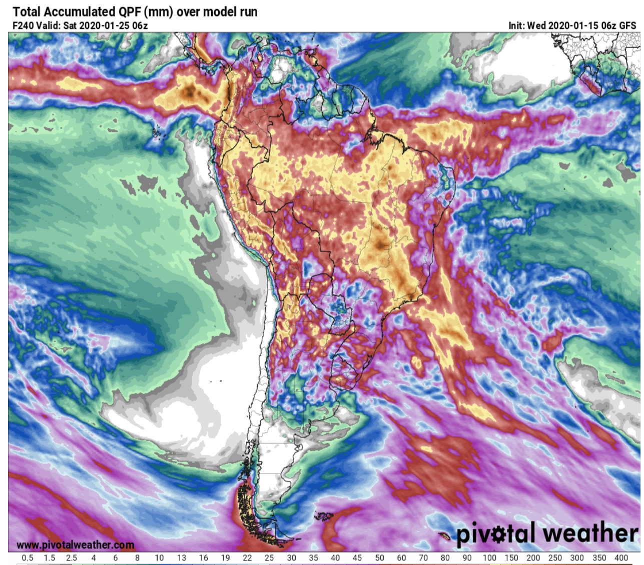
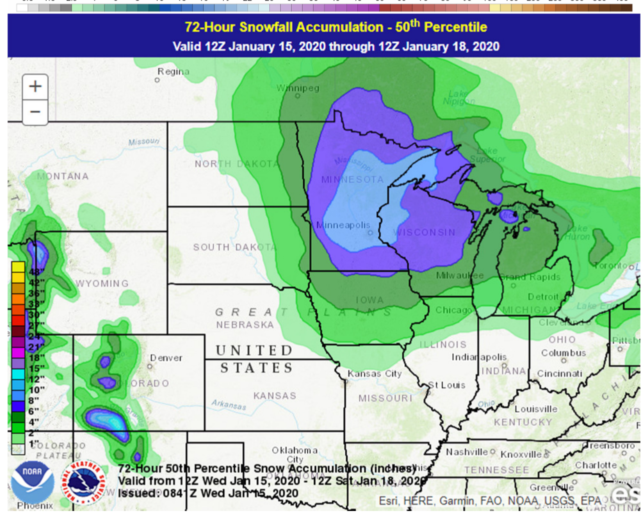
Weather





Rainfall in northern Brazil over the next two weeks should run near to above normal. Rainfall amounts should range from 5-7" with some locally heavier totals. We'll see fairly light rainfall amounts for another couple of days, but by early next week we should see rainfall increasing and those conditions should remain in place through the end of the two week forecast period. Temps should run above normal over the next few days with some 95+ highs possible. Cooler conditions should return as the rainfall does next week.

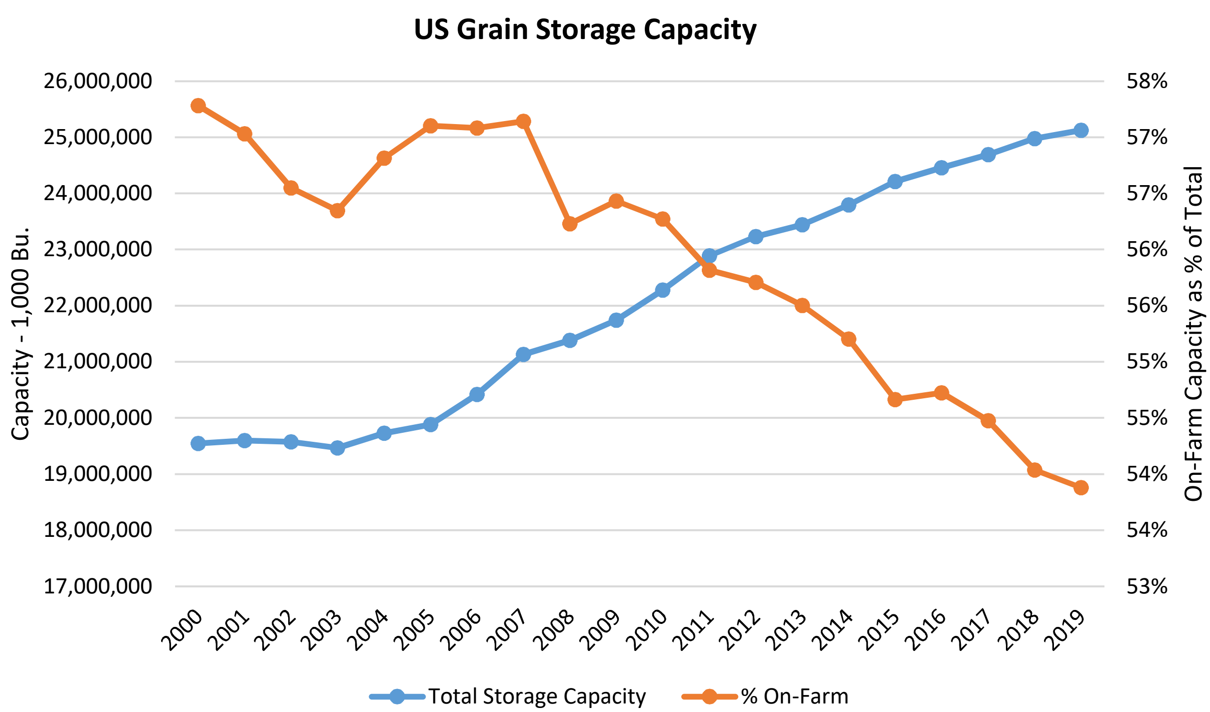
Southern Brazil should see rainfall run mostly below normal over the next two weeks with amounts ranging from 1.5-2.5". We'll see some rainfall move into RGDS tonight and the remainder of the region tomorrow with excellent coverage of 1-2" rainfall. For the remainder of the two week period, rainfall chances do not look very good. Temps will be warm today with some 90+ highs but should turn much cooler tomorrow and heat doesn't look to be much of a factor for the remainder of the two week period.

Argentine rainfall over the next two weeks near to mostly below normal. Rainfall totals during the next two weeks in southern areas will range from .75-1.75" and in northern areas 1.5-2.5". We have some scattered thunderstorms present this morning and we should see some activity pick up as the day progresses. By tomorrow the region should be dry and from there we will see only limited rainfall chances for the remainder of the forecast period. Heat never looks to be a problem with temps running easily below normal.

The map above shows the NWS's current projection for 72 hour snowfall in the US. You can see we're looking at a pretty significant snow event for MN and surrounding areas. Some ice will likely fall as well. It looks like this particular even should spare the major feedlot areas with snow, but there will be some rainfall chances in especially southern feedlot areas starting tomorrow.

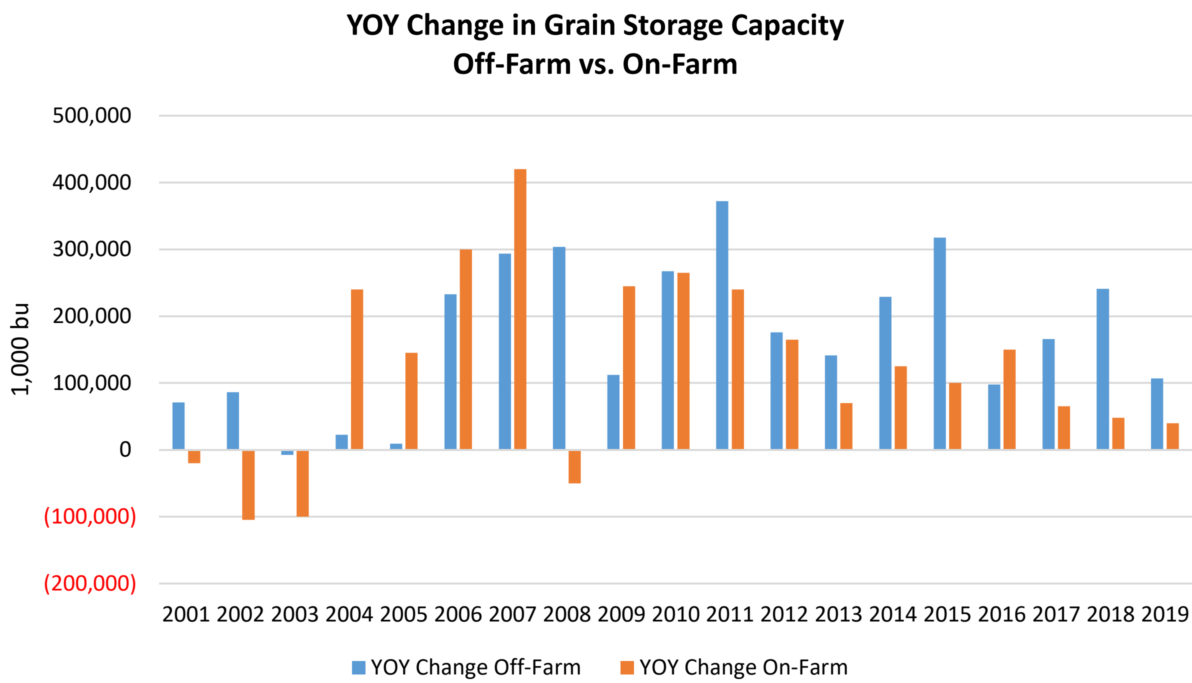
Crops

We're taking a day off from the usual this morning and looking at something that isn't necessarily market-moving here. I thought it might be worth looking at grain storage capacity numbers this morning. NASS just updated their estimates with the Grain Stocks report released last week. The chart below shows the total combined on-farm and off-farm storage capacity estimate from NASS with the blue line. You can see that since the early ‘00s we’ve been moving steadily larger with total storage capacity. Shown with the orange line is the percentage of the total storage capacity that is categorized as on-farm. I point this out because it is not what I was expecting to see. With all the talk of more and more bins, I actually had thought that on-farm storage would be increasing more than off-farm storage.



The chart on the following page is just a different way of looking at things. This shows the net YOY change in storage capacity for both on-farm and off-farm storage. To be clear, on-farm storage is still increasing, just not at the same rate that off-farm storage appears to be growing.

Again, the main reason I bring this is up because it simply isn’t what I expected to see when looking at the numbers. I should also point out that off-farm storage isn’t necessarily the same as “commercial” storage. My understanding is that certain commercials have sold storage facilities to farmer-owned entities over the years. While technically “off-farm”, those facilities might operate more like on-farm storage.

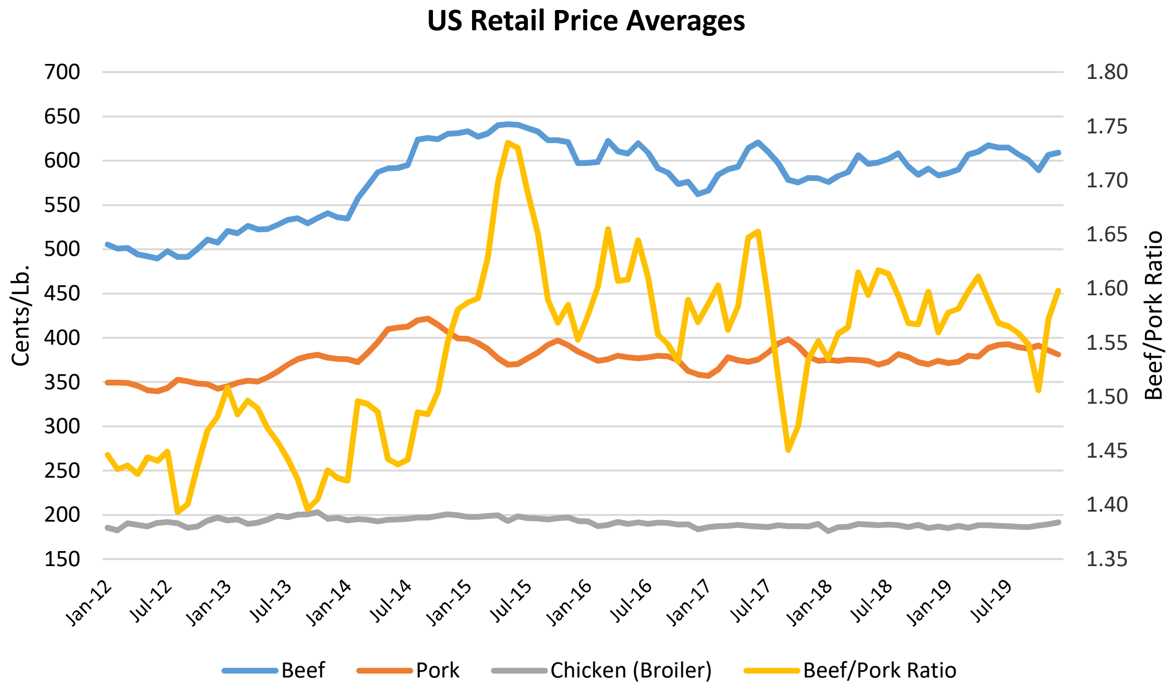


I think I might argue that the bigger storage capacity is not necessarily a good thing for US demand prospects. The "store and ignore" mind-frame seems to be present right now…holding supplies in storage and waiting (hoping) for higher prices. I would argue this is partially responsible for the stronger-than-usual basis levels in certain parts of the country. I don't think that is a good thing to help support demand. I also wonder how much corn truly moved on the rally we saw this spring and how much wasn't sold hoping for *even higher* prices? Thoughts and opinions appreciated.

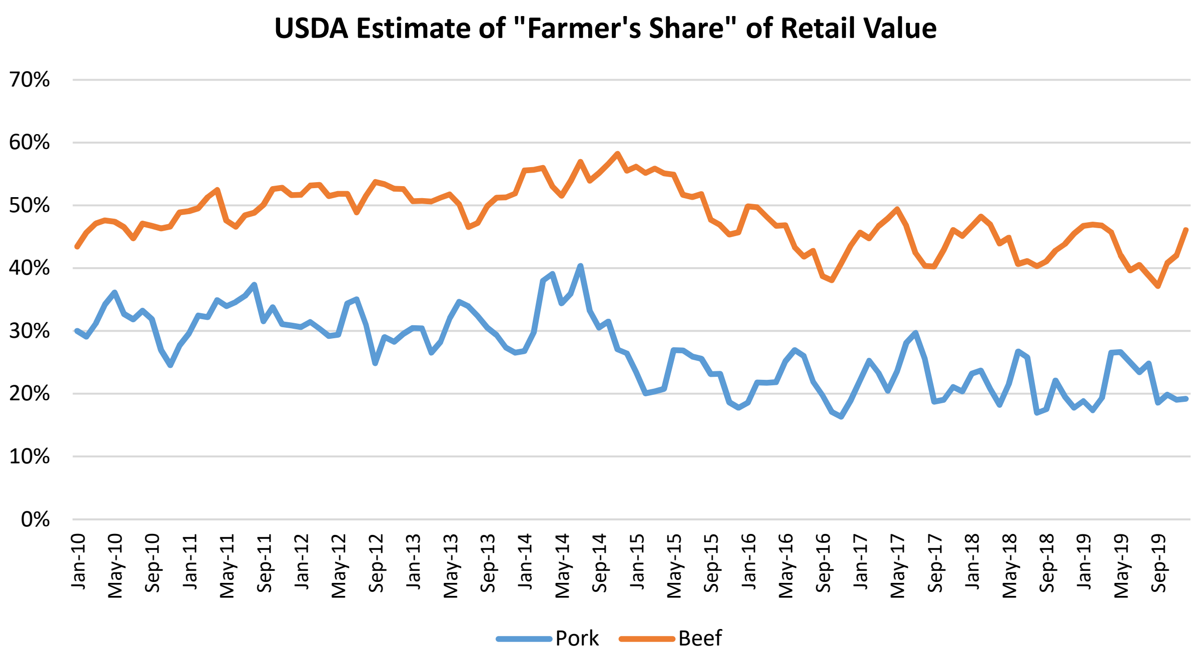
Livestock

I didn't hear of any actual cash cattle trade yesterday. Some 200 bids in the north, but no trade. Beef was strongly higher yesterday and maybe has finally put in a bottom for now. This support to packer margins might support some optimism for cash trade this week…we'll see.

Along with the CPI release yesterday, USDA updated their estimates for retail prices on beef, pork, chicken, etc. I don't see any major highlights to get excited about as I scroll through the numbers. The chart below looks at the recent history of major retail price levels from USDA. You can see that chicken remains pretty flat as does pork, while beef prices seem to be trending irregularly higher over the past few years. You can see that the beef/pork ratio expanded higher again last month and is near the highest level we've seen since mid 2017.



I continue to find the following chart fascinating. This is the USDA's estimate for the "farmer's share" of the retail value for beef/pork. While both have contracted in the past few years, I think it is really telling that despite strong exports and ASF around the world, the US hog producer is getting just 19% of the retail value according to the USDA. You can see that in recent months that has improved for the cattle producer to roughly 46%. It really makes me wonder what it will take for the hog producer to be rewarded here.



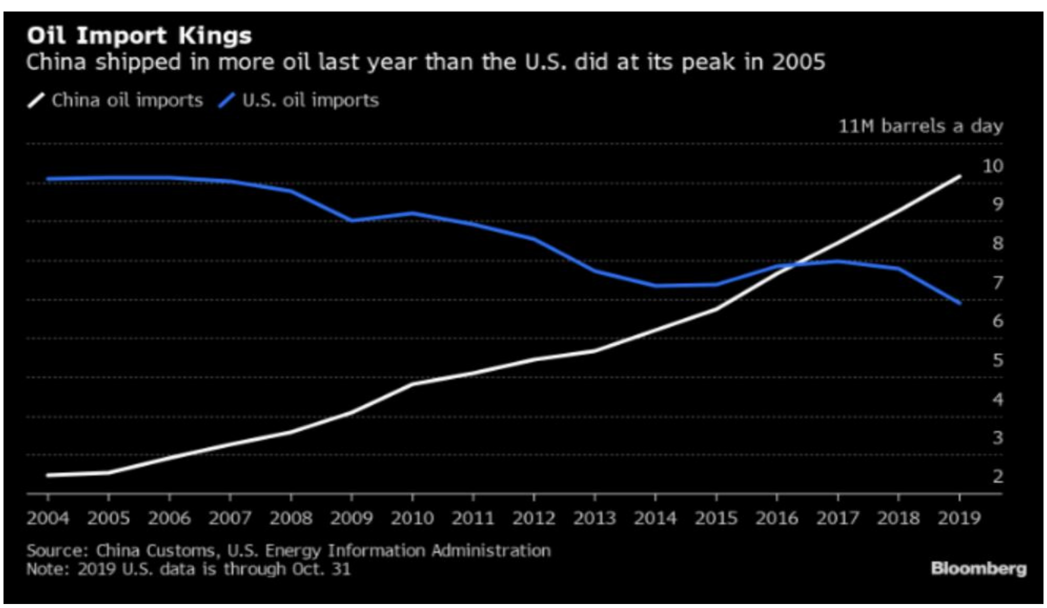
Financials

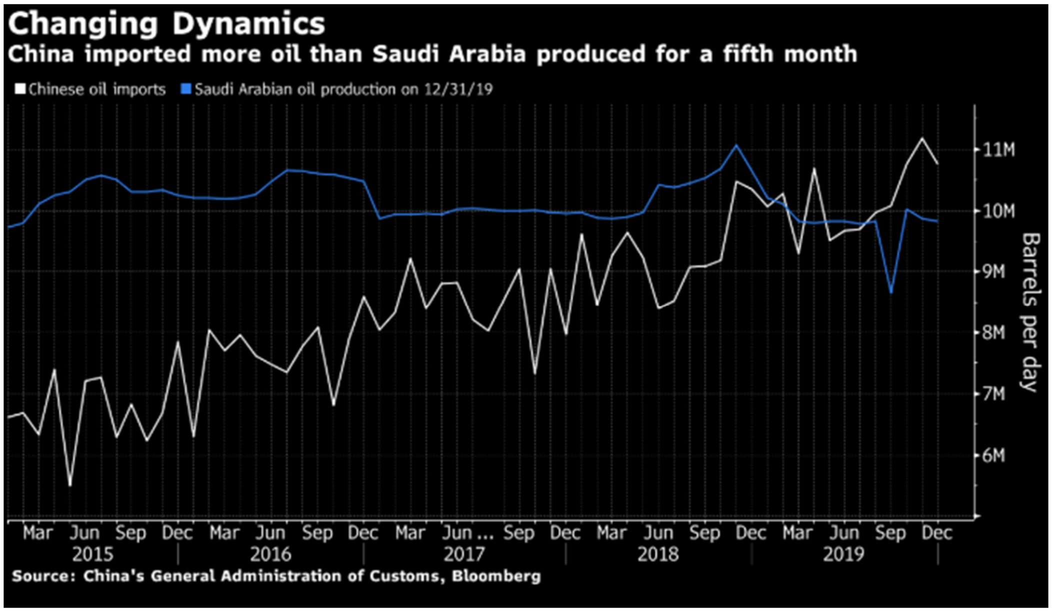
Today is the day when we should finally put pen to paper and get the Phase 1 US-China trade deal. For such a monumental occasion (ha) I'm surprised at the somewhat negative tone to markets this morning. The weaker US futures is being rationalized by a pair of headlines from yesterday. In the first headline we "learned" that the US was not going to lower tariffs on Chinese goods further until seeing compliance with the Phase 1 deal. I have no idea why that is regarded as "news"…it is simply a regurgitation of what we had been told before. Still, this seemed to rattle the markets a bit. Secondly, there were reports late yesterday that the US Commerce Dept was looking into stricter restrictions on exports to Huawei. Again, not entirely new as this has been treated as a separate situation from the trade deal all along. Both stories have apparently been the cause of the fade in equity markets off the highs. I don't think either story is new, and wonder if that is just a rationalization of a "sell the news" mentality of the market. We'll see.

I don't see any major information to pass along this morning. In overseas news, UK CPI was soft which explains the weakness in the BP this morning. US economic data on tap today is fairly minor, with only PPI and the NY Fed's Empire Manufacturing index. We have several Fed officials speaking today, but I doubt they'll get as much attention as the President at the deal signing. In earnings releases today we have BAC, GS, and AA among a few others.

Energy

China reported trade data for December earlier in the week and with that we have 2019 figures wrapped up. I have pulled two charts of interest from Bloomberg this morning, both pertaining to Chinese crude oil imports. They're pretty self-explanatory. The first chart compares US and China crude oil imports over the past ~15 years. The point of this chart is to note that China is now importing more oil than the US did at its peak oil imports. The second chart shows China crude oil imports compared against Saudi oil production. With the oil production curbs in place for the Saudis, China is now importing more oil than the Saudis produce. Obviously the Saudis have spare capacity to increase production if they desire, but I think this is an interesting dynamic that really illustrates the scope of China's energy import requirements right now.





Today's Calendar (all times Central)

- PPI – 7:30am
- Empire Manufacturing Index – 7:30am
- EIA Petroleum Inventories – 9:30am

Thanks for reading.

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