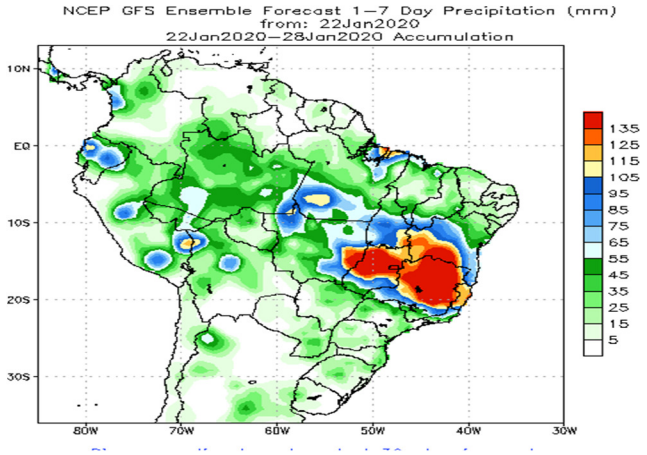
NESVICK
TRADING GROUP, LLC

Thursday, January 23, 2020
NTG Morning Comments
www.nesvick.com

Weather

No changes to the forecast overnight. Northern Brazil should see near to above normal rainfall amounts over the next two weeks with amounts ranging from 5-10". Southern Brazil will probably see near to below normal amounts over the next two weeks with the driest amounts in RGDS. Southern Brazil should see mostly dry weather for the next several days before rainfall chances start to increase again around the middle of next week. There will be some heat at times in both areas, but nothing that appears long lasting or extreme.



Argentina should see rainfall totals pretty easily below normal over the next two weeks. Two week rainfall amounts will range from .75-1.5", with some smaller totals in southern areas. We should see mostly dry conditions over the next few days with the next chance for rain coming around the middle of next week. Temps should be fairly cool with the exception for some 90s seen this weekend. A lot of the area should see highs in only the 70s at times next week. Above normal temps may return for the 11-15 day period.

Crops

Just a quick update this morning. I thought we might look at the current "market conditions" for soybeans. As you recall from the trade "deal" we discussed last week, China has pledged to make all sorts of purchases but both sides have agreed that these purchases will be based on "market conditions". In other words, as I'm taking it, the US isn't expecting the Chinese to pay above-market values for US goods as part of this agreement. What is the current relationship between US and Brazilian soybeans on a landed-basis to China? The breakdown below attempts to show this.

This isn't a perfect rundown of everything that goes into figuring the landed cost of soybeans from US/Brazil to China, but it is a fairly decent indicator. It definitely covers the biggest items of importance. The key to look at is the bottom row in the breakdown, showing the estimated landed value for soybeans for each timeframe into China. You can see that Brazilian values are easily less expensive than the US through at least May. If I had reliable quotes beyond May, I'm betting they'd still be cheaper beyond that to be honest. In my opinion this argues against expecting a significant surge in Chinese soybean interest right now. Simply put, the "market conditions" favor buying those soybeans out of Brazil at the moment.

USG Values						Brazil Santos Values				
	Feb	Mar	Apr	May			Feb	Mar	Apr	May
CIF Value	51.5	52.5	48	48		Paper Premium	65	51	42	45
Assumed FOB Prem	5	5	5	5		Assumed FOB Prem				
CBOT Futures	919.25	919.25	933	933		CBOT Futures	919.25	919.25	933	933
	SH	SH	SK	SK			SH	SH	SK	SK
USD/MT Conversion	$ 358.53	$ 358.89	$ 362.29	$ 362.29		USD/MT Conversion	$ 361.65	$ 356.51	$ 358.25	$ 359.35
USG-China Pmax	46.6	46.6	46.6	46.6		Santos-China Pmax	34.5	34.5	34.5	34.5
Total Landed Ex-Tax	$ 405.13	$ 405.49	$ 408.89	$ 408.89		Total Landed Ex-Tax	$ 396.15	$ 391.01	$ 392.75	$ 393.85

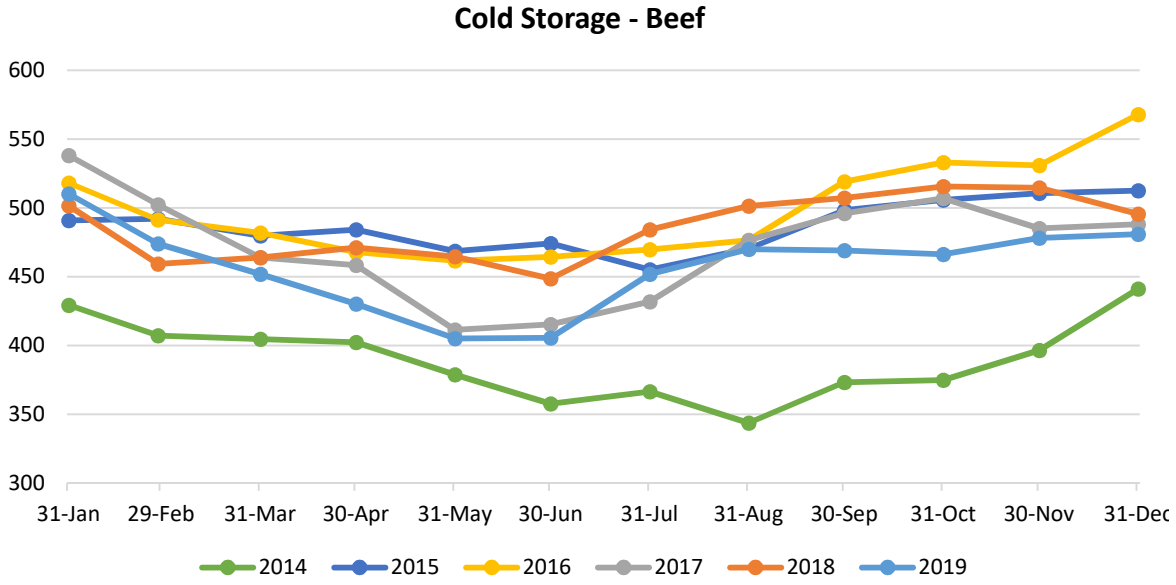
You'll note I haven't included tariffs in the breakdown above. The Chinese tariffs on US soybeans are still technically in effect, meaning importers would need to have waivers secured before making purchases. That certainly doesn't help our case either. In the case of waivers, I'm assuming the tax treatment for US and Brazilian soybeans would be basically the same.

In the past we've heard of waivers being granted for US purchases days before we actually saw business take place. I would assume the same situation will be the case going forward. As of now I have not heard of any recent waivers being offered by the government, and combined with the comparison above it really implies that Chinese private crushers, as a generality, will be focused on buying Brazilian soybeans for the moment.

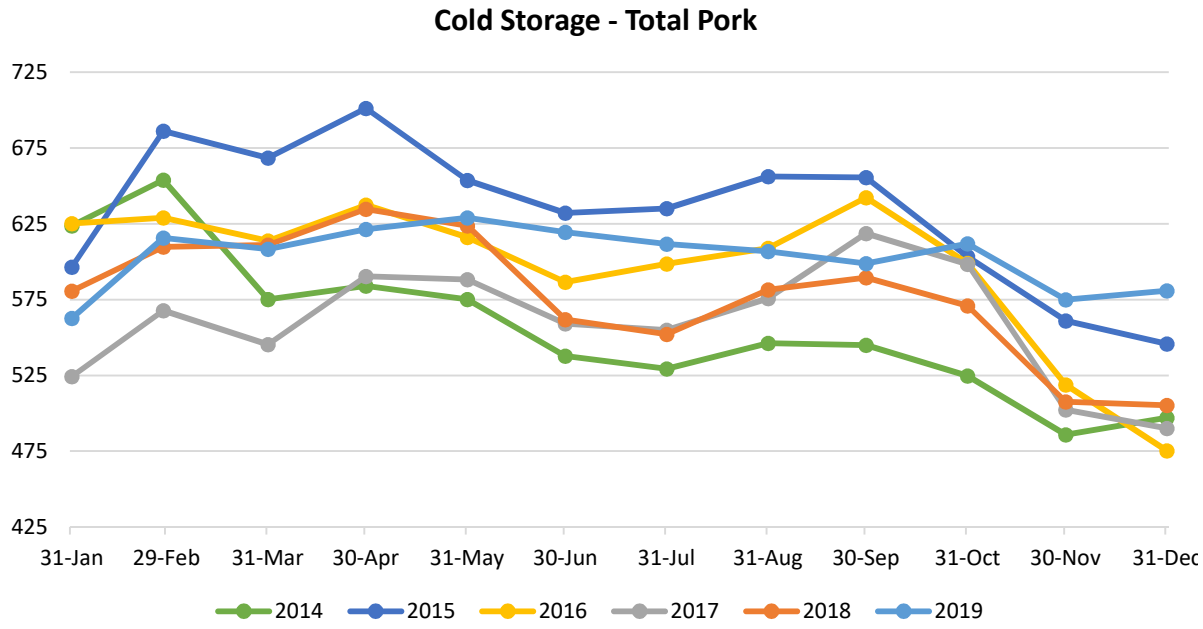
Livestock

Some active cash trade in the south at $124 yesterday, which is mostly steady with last week. Not much has taken place in the north yet. Volume in the south seems pretty good so far.

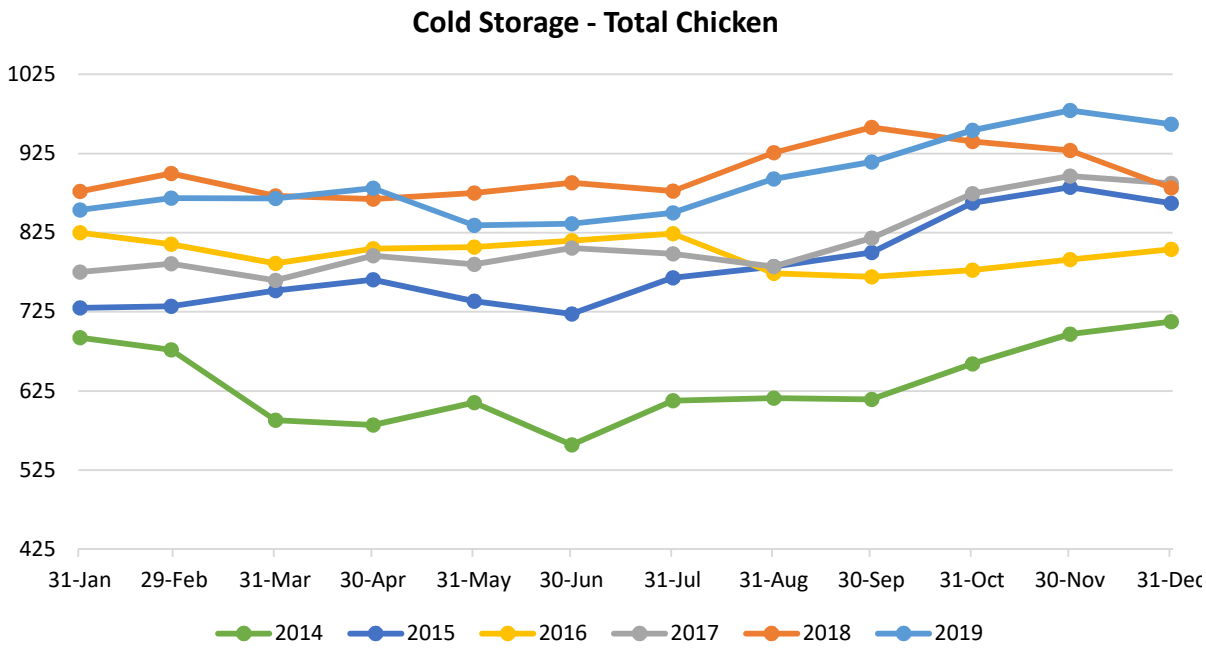
Cold storage numbers were released yesterday. While these aren't typically market-moving, it might be worth a mention today. For total beef in cold storage, we're looking at 481 mil lbs which is down about 3% YOY. As you can see below, this is the smallest Dec cold storage figure for beef since 2014…but it is still fairly close to levels seen in recent years.



Pork stocks posted a counter-seasonal increase in December. Total pork is up roughly 15% YOY and this is the largest December stocks figure I have in my data.



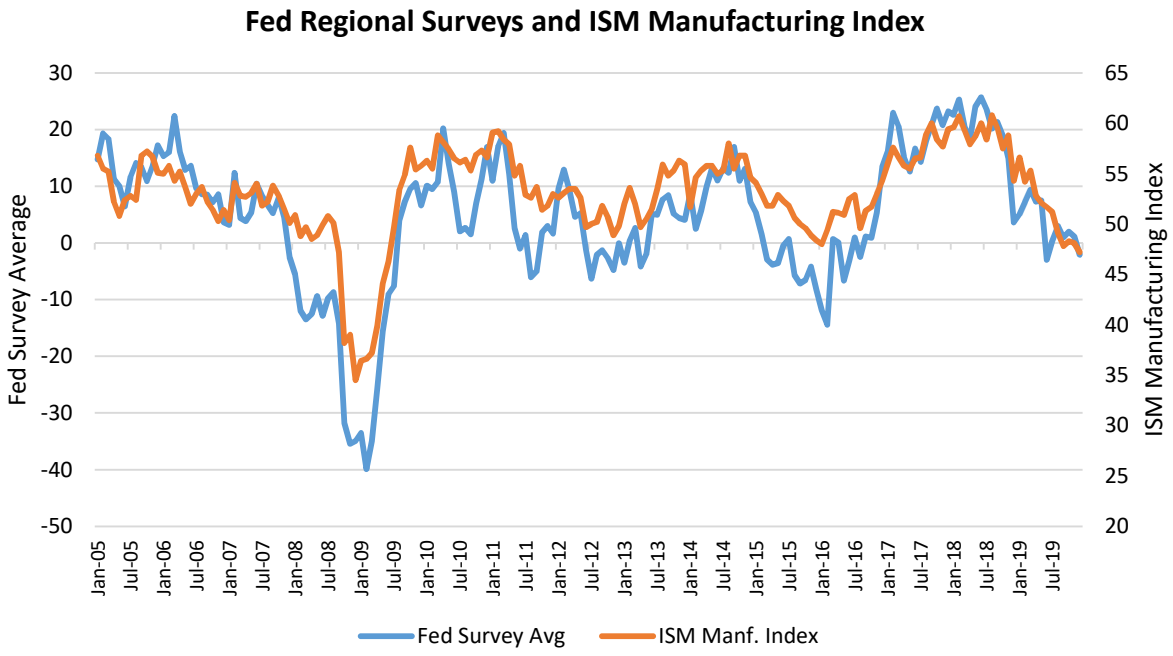
No surprise here. Total chicken stocks were down slightly from last month but remained higher YOY. This is also the biggest total chicken storage for December I have in my data.



Financials

The ECB will issue their rate announcement this morning, though this is unlikely to produce significant fireworks. No change is expected to the ECB's current policy rates or asset purchases. European economic data have improved modestly but it has been consistent with the ECB's own forecasts. Today's meeting should be fairly boring, at least in terms of market-moving data. What will make this meeting of some interest is the ECB and new President Lagarde will focus their attention on going through a "strategic review" of the ECB's goals and mandates. Lagarde has already said that "price stability' will remain the main feature of the ECB's mandate, but she has also stated that climate change will be a prominent feature. Look for questions on this strategic review to dominate the press conference. As such, I'm not expecting major FX moves (though you can never rule anything out).

Another fairly quiet day ahead in terms of US economic releases. That said, one thing I'll keep an eye on is the Richmond Fed manufacturing index. It would be the third regional Fed index to be released this month. Already this month we've seen the Philly Fed index come in fairly strong at 17.0 vs 2.4 in December. We've also seen the Empire State index come in stronger at 4.8 vs 3.3 in December. The KC Fed survey is due on 1/23 and the Dallas Fed survey is due on 1/27. This is potentially important because if the other Fed surveys continue to show improvement it could mean we should become more optimistic towards the ISM manufacturing index…which has proven to be a significant market mover lately. The chart below shows an average of the various Fed surveys against the ISM, and you can see they move relatively inline with each other. If the remaining three Fed surveys all also show MoM improvement, it is likely we should expect improvement from the ISM and *might* flirt with the 50 expansion/contraction line again??



Energy

A very weak session for crude oil yesterday. This seems largely due to ongoing concern surrounding the coronavirus situation and the possibility for a reduction in jet fuel demand as described yesterday. The chart below is spot WTI, and you can see we've sliced through key MA support levels here. I suppose this opens the market up for a possible test of those 2019 lows between $50-52.

We get the weekly inventory data this morning due to the holiday delay. Expectations have called for basically unchanged US crude oil stocks (actually +0.5 mil). Both gasoline and distillate inventories are expected to build by roughly 2.5-2.8 mil barrels.

Today's Calendar (all times Central)

- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am
- EIA Petroleum Inventories – 10:00am
- KC Fed Manufacturing Index – 10:00am

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.