NESVICK TRADING GROUP, LLC

Wednesday, February 12, 2020
NTG Morning Comments
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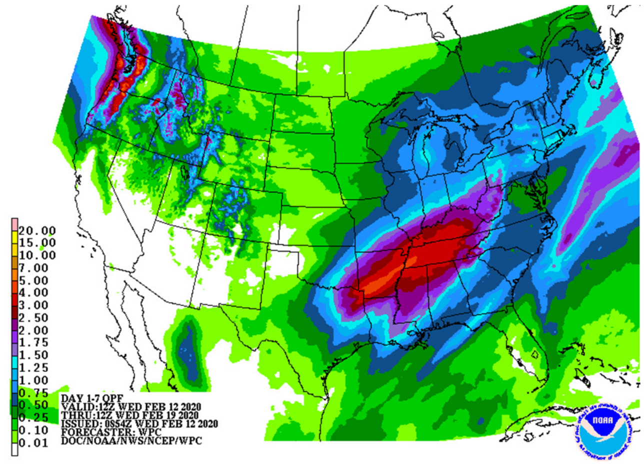
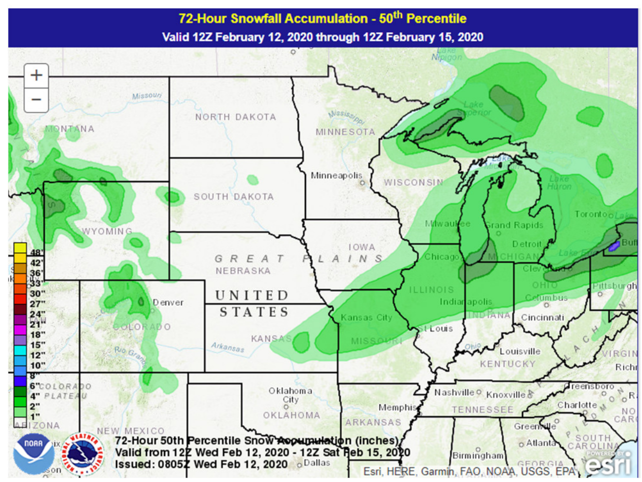
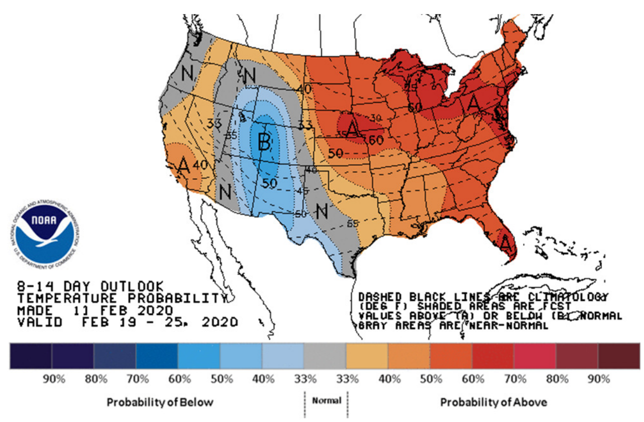
Weather







No major changes to the forecast overnight. Northern Brazil rainfall should run near normal over the next two weeks with rainfall totals between 3-6”. The driest part of the forecast should be the next several days with rainfall amounts picking up in the 6-10 day period and even further in the 11-15 period. Temps should run above normal but nothing looks extreme. Southern Brazil should see slightly below normal rainfall over the next two weeks with amounts probably between 2-3”. Rainfall this week should be very limited but rainfall should pick up over the weekend and additional threats will be seen later next week. Some warm weather expected over the next few days but nothing extreme. Maybe a day or two where some upper 90s are possible.

Argentina should see rainfall average above normal for northern and northeastern areas with the remainder of the area seeing near normal amounts. Rainfall in the northeast will be 2.5-5.0” with other areas seeing 1.5-2.5”. The biggest rains will probably fall during the 6-10 day period. Temps will uptick a bit in the next few days with some mid 90s possible, but it will turn cooler next week and should run below normal for the duration of the two week forecast.

No immediate change to the US forecast. The southeast will remain the focal point for precipitation chances in the next several days, though the ECB is on tap for some snow accumulations this week. It is maybe worth pointing out that the extended maps are showing a shift in the temperature trends. AN temps will expand across the country, which will eliminate the cool-northwest, warm-southeast set-up that had been creating all this excessive rainfall in the southeast.

Crops

Well, WASDE made me look a bit stupid yesterday. I wrote an entire article last week about how it was virtually impossible for them to raise the soybean export projection based on the horrific pace of export commitments, and yet they raised it anyway. I stand by my work and while I look stupid today, I think WASDE is going to look foolish for this decision later. Let’s try to quantify how bad the pace of commitments is and what it will take to match the new WASDE projection. WASDE specifically cited increased Chinese import demand for the increase yesterday, so I'll try to break down the export case between China and non-China.

We'll start with non-China. To the right is a rundown of some historical export data. In the first column we're looking at outstanding sales at the end of January to non-China destinations. Note that this excludes unknown sales, which we'll circle back to in a second. The middle column then shows the shipments to non-China destinations from Feb-Aug. The right column shows the percentage these shipments represent of the end-Jan outstanding sales. For the 2020 figure, I remove the lowest percentage (206% in 2014) and take the average of the rest of the years and plug that in vs current non-China outstanding sales. It would imply a Feb-Aug export level for non-China of roughly 446 mil bu. Adding that to the estimate for Sep-Jan exports so far this year (Jan figures are not official) that would give us 911 mil bu of non-China exports for the marketing year.

Now let's take a similar look at the export numbers to China. The second breakdown at the right shows the exact same breakdown but for China-only. End-Jan outstanding sales are in the first column, Feb-Aug shipments in the middle, and the percentage of sales that shipments represent in the final column. In the case of 2020 this time I'm plugging in the highest number of 386% set last year in 2019. Using this rate would give me a Feb-Aug China export number of roughly 87 mil bu. If I were to add that to the Sep-Jan estimate, it would give me China-only exports for the year of roughly 532 mil bu.

So if I take the non-China destinations of 911 mil bu and the China-only estimate of 532 mil bu…that is coming up to an export figure of roughly 1,450 mil bu.

Do I really think US exports this year will only be 1,450 mil bu? No, I don't. However, I think this exercise is worth performing for two reasons. First and foremost, it shows how absolutely awful the pace of export commitments stands at present and why I still confidently assert that WASDE did not follow usual protocol in their higher export projection yesterday.

Non-China Sales and Shipments

	End-Jan Sales	Feb-Aug Shipments	Shipment % of Sales
2010	97	309	317%
2011	108	265	246%
2012	68	304	445%
2013	70	194	277%
2014	129	265	206%
2015	125	339	271%
2016	83	408	492%
2017	114	429	376%
2018	112	665	592%
2019	203	494	243%
2020	123	**446**	**362%**

Sep-Jan Export Estimate	465
19/20 Marketing Year Estimate	**911**

China-Only Sales and Shipments

	End-Jan Sales	Feb-Aug Shipments	Shipment % of Sales
2010	185	202	109%
2011	243	237	98%
2012	153	312	204%
2013	114	127	112%
2014	213	183	86%
2015	125	132	105%
2016	113	270	239%
2017	177	258	146%
2018	122	169	139%
2019	111	427	386%
2020	22	**87**	**386%**

Sep-Jan Export Estimate	445
19/20 Marketing Year Estimate	**532**

Secondly, and maybe more importantly, it quantifies the amount of "extra" demand we need to see from China if WASDE's export projection is truly going to be realistic. With all the question marks surrounding Chinese demand levels (ASF, coronavirus, etc) can we expect China to take a lot of Brazilian soybeans (which are already on the books, btw) AND a record level of US supplies in Feb-Aug? Maybe, but I'm pretty damn skeptical.

Oh, and on the point of excluding the unknown sales….those won't help the calculations for this year. See below, showing the breakdown of current sales to unknown destinations are the lowest they've been in at least 5 years and probably longer.

Export Sales Query System

Outstanding Sales - Current Marketing Year - 5 Years by Commodity/Date

From: 01/30/2020 To: 01/30/2020

Soybeans Metric Tons

Date: 01/30/2020

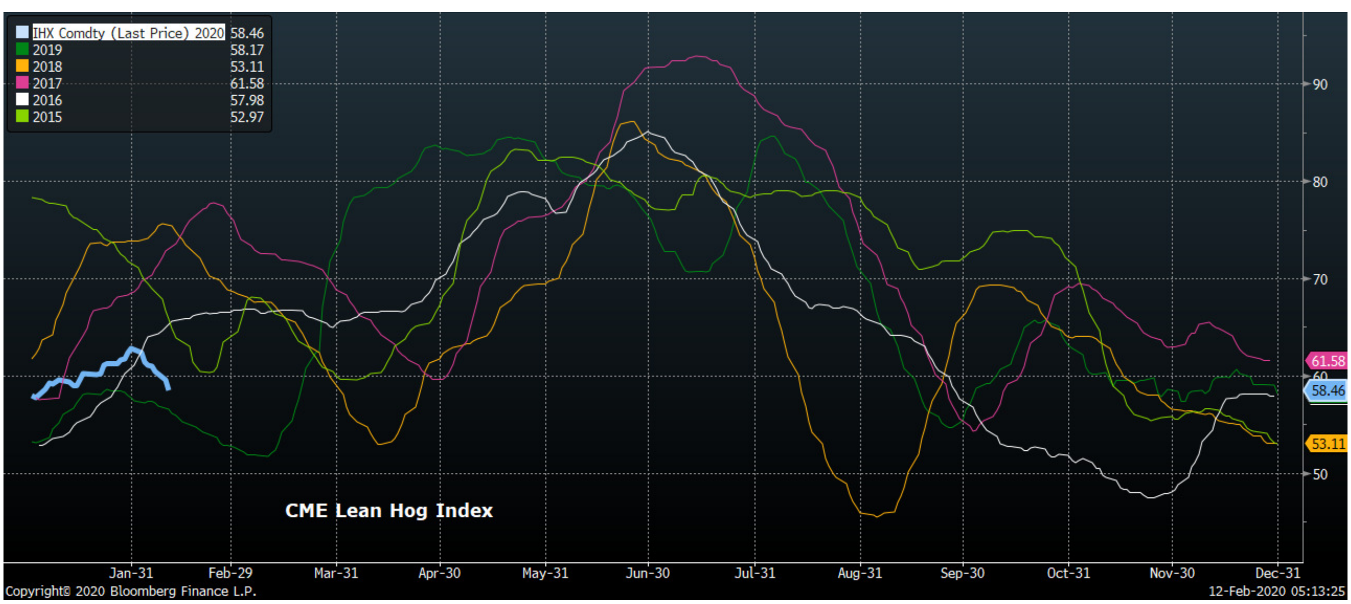
	Outstanding Sales					
	Current Marketing Year	1 Year Ago	2 Year Ago	3 Year Ago	4 Year Ago	5 Year Ago
UNKNOWN	1,511,157	3,980,878	3,136,056	3,405,863	2,907,486	2,078,039

02/11/2020 Source: USDA/FAS/Export Sales Reporting

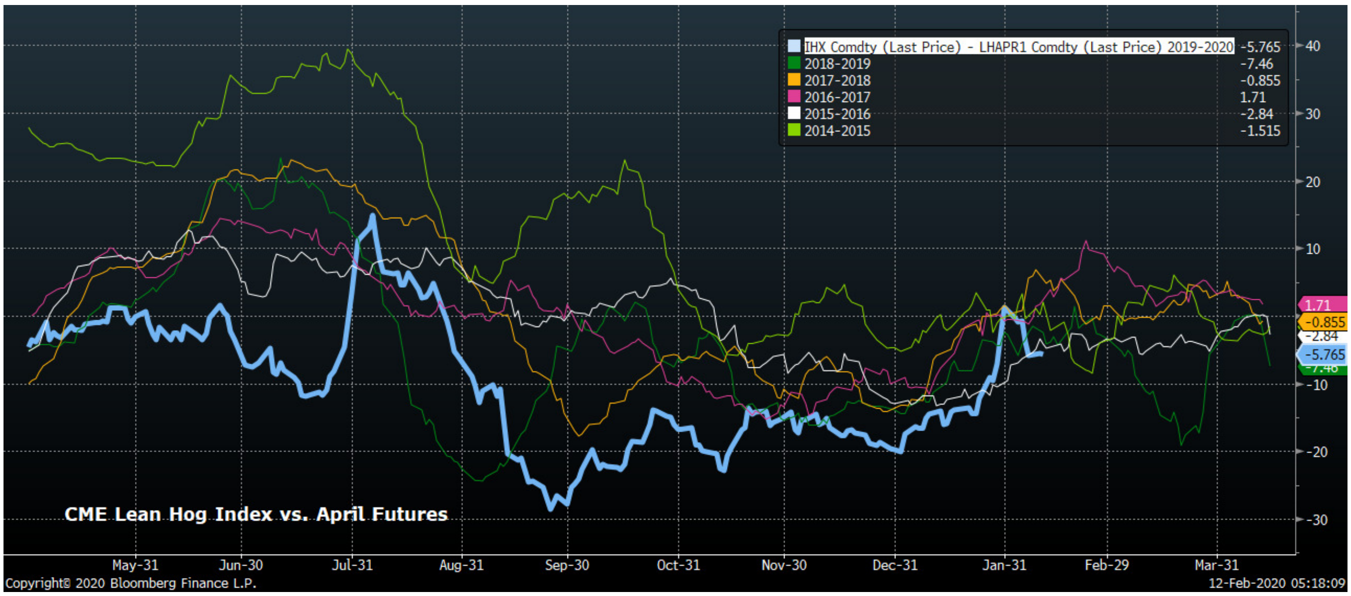
I will continue to bet the under against the WASDE export projection.

Livestock

Something I noticed yesterday as I was scrolling around various charts…seasonally speaking we're not looking at an especially strong timeframe for the CME lean hog index.

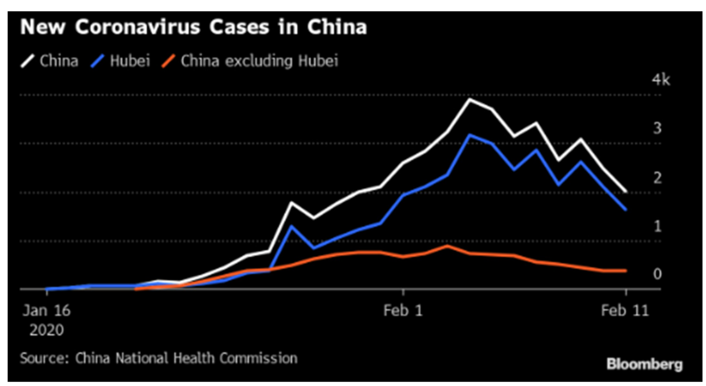


It got me wondering how the index shaped up against the board following this latest break in futures. I was surprised to see that despite the fact that futures are not too far from their lows, when compared against the CME index the "basis" is about as wide as it has been over the past several years. You can see this in the chart below. Admittedly we got a BIG rally in April futures in March last year that stretched basis levels really wide briefly. However, this still makes me concerned looking at a weak seasonal period for the index and an already wide basis that the futures market might not have much of a function here. I suppose bulls are hoping for a repeat of last year's March rally…we'll see.

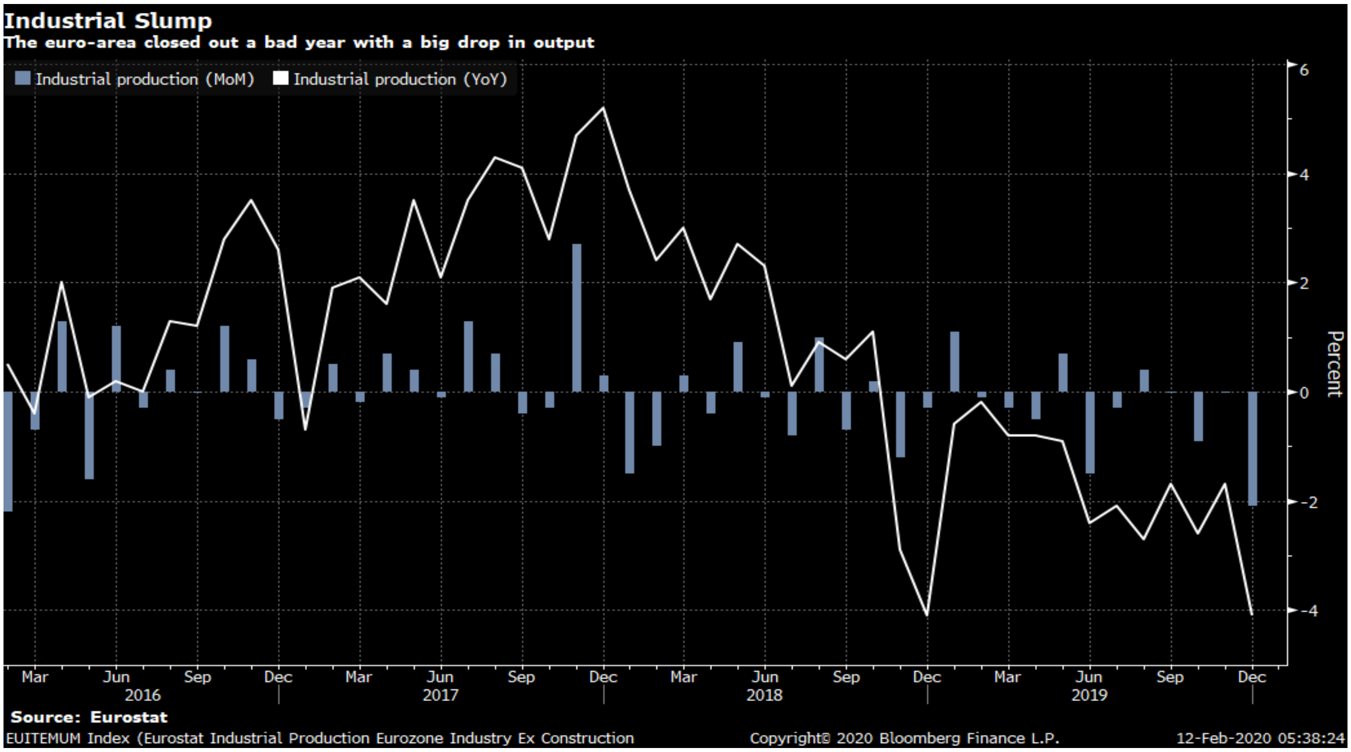


Financials

US equity futures and global markets in general are higher at the time of writing this morning. The market seems to be showing some relief that perhaps the worst is over for the coronavirus situation. As you can see in the chart at the right, the pace of new cases being reported in China has been in decline for several days now. Obviously nobody really knows yet how big of an impact this will have on the Chinese economy. However, I think it is worth noting that Chinese President Xi Jinping has continued to say that China will "meet its economic goals" regardless of the disease pressures. I would compare this to the ECB's Mario Draghi "whatever it takes" moment for the Eurozone in 2011. China will throw every ounce of stimulus it can to support the economy. At the same time, the Fed, BOJ, and ECB are all also "providing liquidity" to markets. It isn't impossible for stock markets to go down when every major central bank on Earth is pumping liquidity into markets, but it aint easy either.



Manufacturing data out of Europe was far from impressive. Industrial production posted a 2.1% YOY decline for December 2019 and you can see below that Europe hasn't seen YOY growth in industrial production since late 2018. This is sure to keep the ECB on the defensive.



Energy

On tap today we have the weekly inventory release from EIA. Expectations are for EIA to show a build of 3.2 million barrels in crude oil inventories. API's release yesterday exceeded expectations posting a build of 6 million barrels. Despite the big API number, WTI futures are trading higher at the time of writing this morning as it seems the market is taking a brief sigh of relief surrounding coronavirus news not getting any worse overnight. Gasoline stocks are expected to increase 0.7 million barrels and distillate inventories are expected to decline 0.8 million.

Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- Monthly Budget Statement – 1:00pm

Thanks for reading.

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