NESVICK
TRADING GROUP, LLC

Monday, March 16, 2020

NTG Morning Comments

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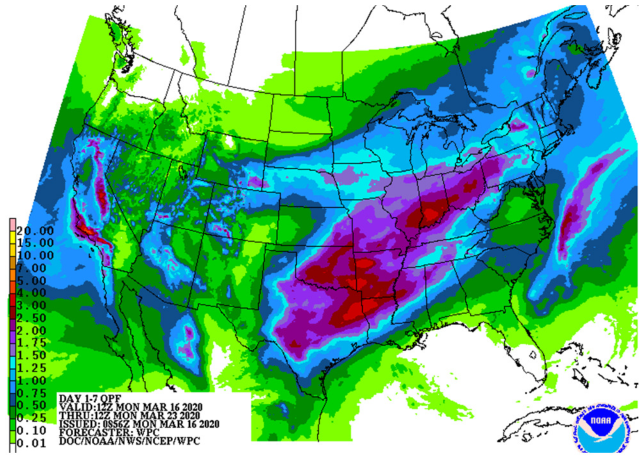
Weather

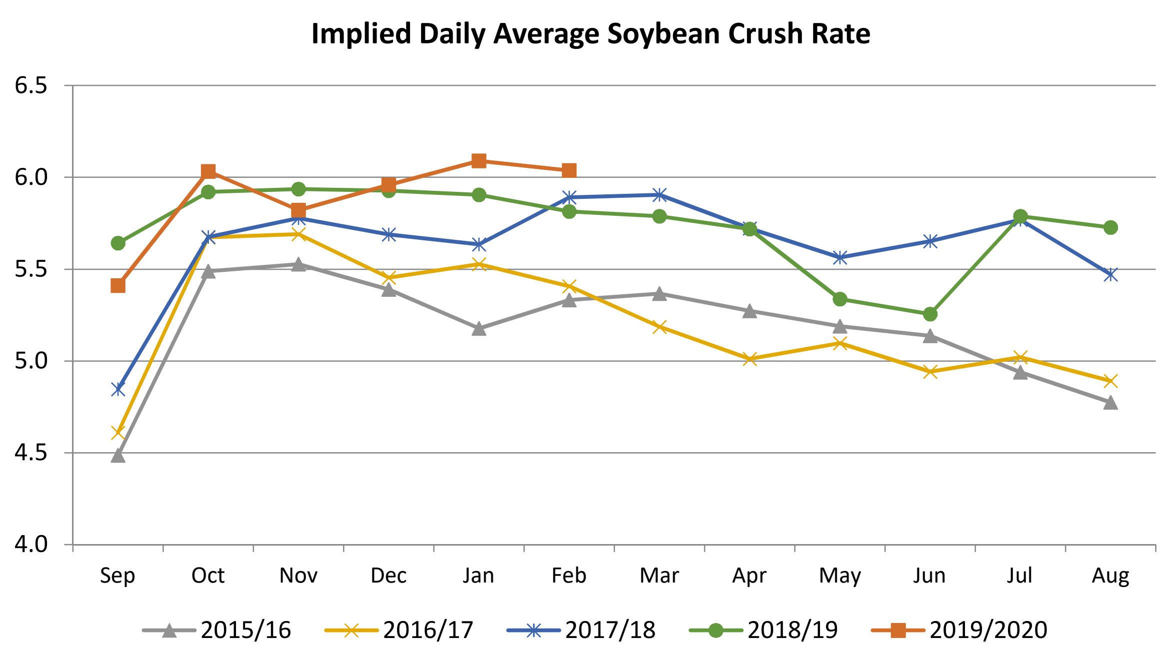
No big changes to the US forecast over the weekend. Bottom line is we're looking at above normal precipitation over the next two weeks for most of the Corn Belt. The heaviest precipitation will favor eastern and southern areas. That said, there could be a significant snow event for northwestern areas later this week. The deferred forecast for Week 2 has less precipitation than what we'll see this week. Temps will remain above normal in the southeast and below normal in the northwest.



Crops

It's a bit hard to think of good things to write about these days. I try to be very focused on "current events" with my grain commentary, but obviously right now the virus is driving price action and there is only so much I can say about that. Expect that commentary on the grain markets might be a little shortened over the next few days as it really isn't what we're all paying attention to right now.

On tap today we have the NOPA crush report for February. The average guess for the crush is 164.4 mil bu, and if I had to bet I'd take the over vs. that figure. In the chart below you can see the history of implied daily average crush rate for the past several years. The orange line represents this year, and the Feb figure shown on the chart uses the average guess of 164.4 mil bu. You can see this implies a slightly lower daily average crush pace from January. Instead I'm still inclined to believe that crushers had continued to "max out" rates during February. I wonder if some analysts forgot this is a leap year with one extra day in the month?

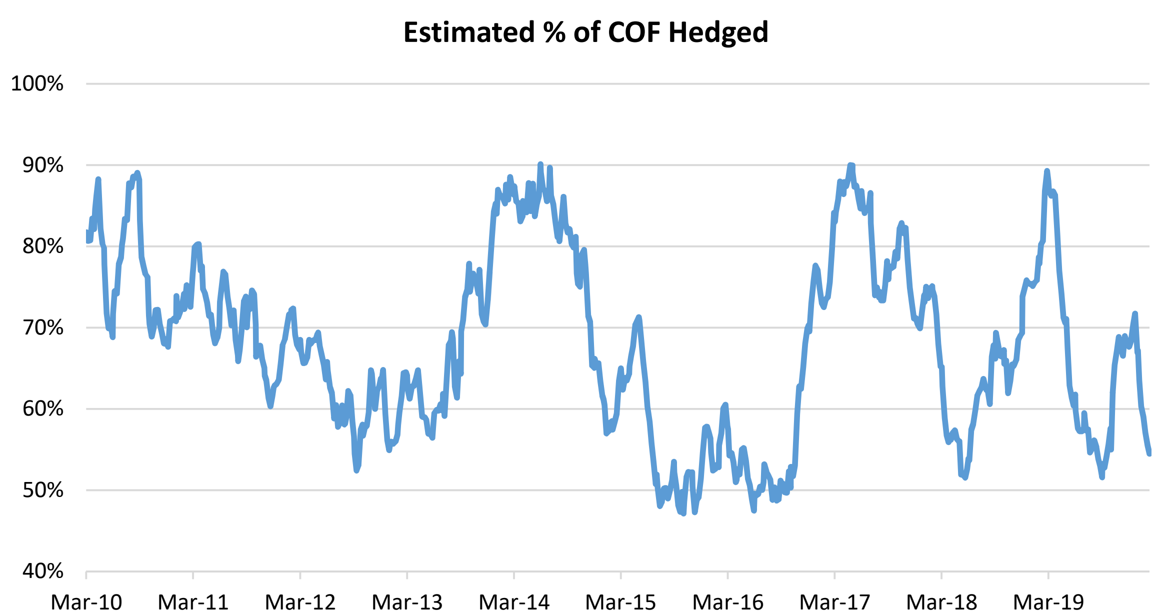


It's not a high-confidence call, but I'd favor a slightly higher crush number later this morning when released. I'll also be very interested to watch soyoil stocks which are expected at 2.028 bil lbs vs 2.013 bil last month. The last few reports have implied really soft domestic disappearance so it will be interesting to see if anything has changed there.

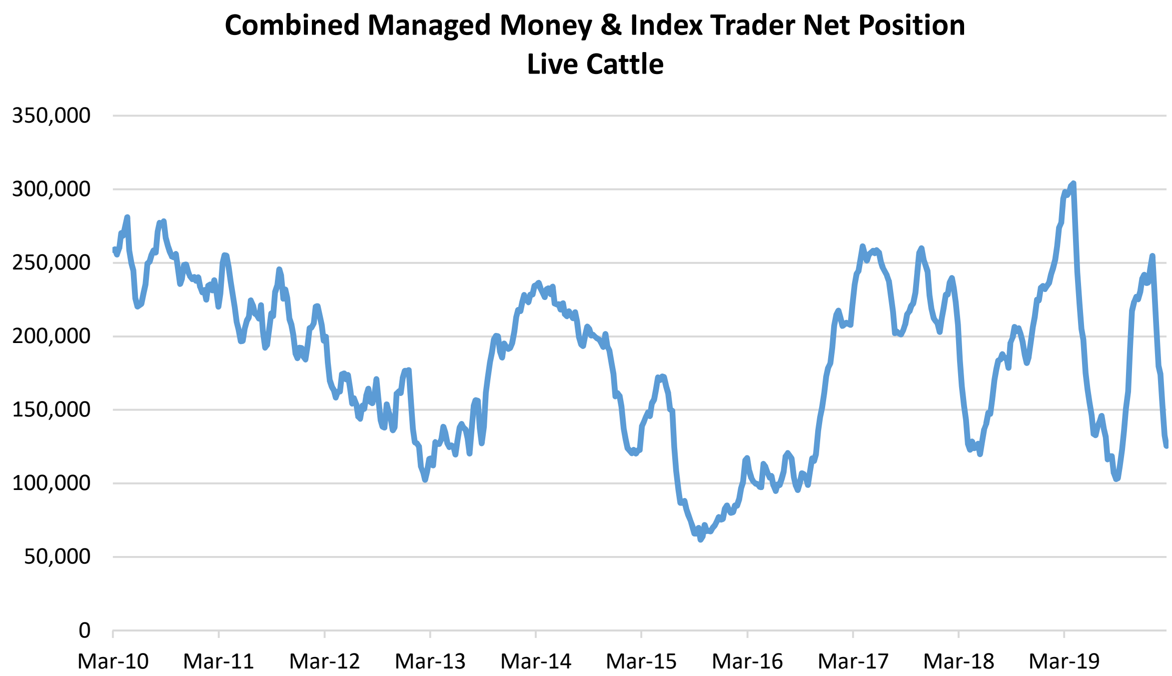
Livestock

Cash should be interesting again this week. Obviously LC futures have been following equities blindly over the past few weeks, with the notable exception of limit down LC on Friday vs. a stronger equity market. Today's weakness in equities likely ensures additional weakness on the board here today. That said, a lot of smart people are pointing towards beef suggesting it should be sharply higher this week. We continue to hear of retailers being sold out on beef. It begs the question – if beef is sharply higher this week can that provide some support to the board? I wish I had a good feeling on that.

Some charts based on COT data this morning. First one is simply a follow-up of what I showed last week. The cattle feeder is sitting here with very little hedged. Typically at this sort of price level that would make a lot of sense, but obviously this coronavirus situation is something none of us know how to handle. It does make me wonder if we should expect basis considerations to play the usual role in cash trade, as fewer hedges should mean less focus on basis.



This second chart shows the combined managed money and index trader in LC futures & options. The long you see here right now is essentially all index traders, and I'd be willing to bet that a big chunk of the selling past Tuesday last week was index selling. I would be willing to bet that at this point in time we're looking at a combined long position that is probably not quite at record low levels but probably not too far away either.

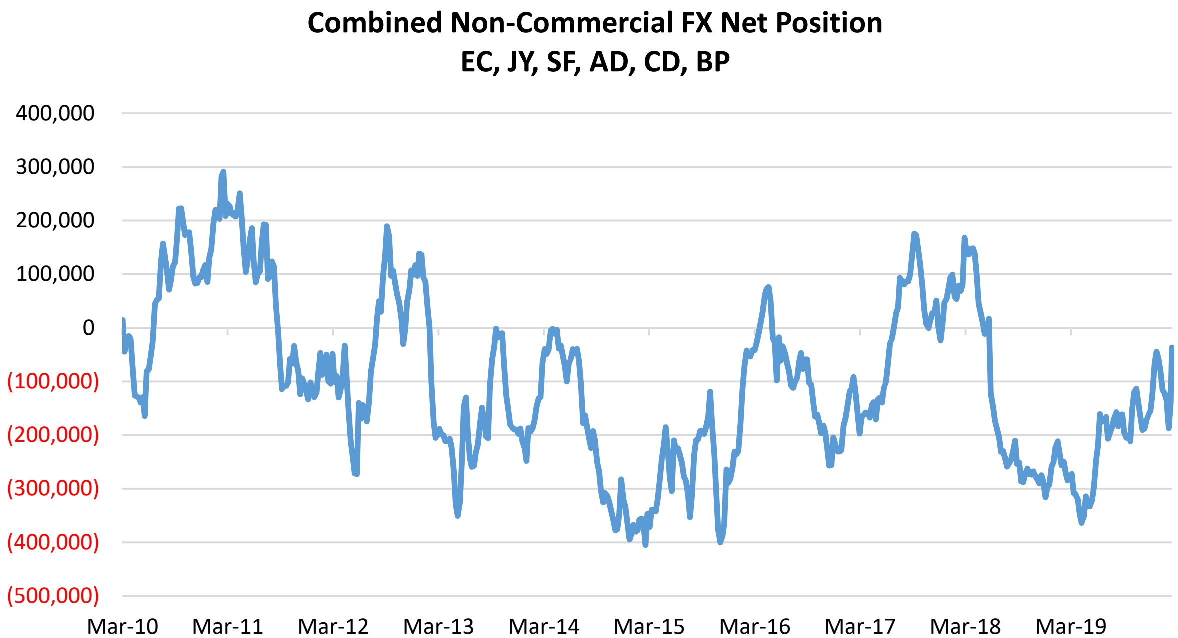


Financials

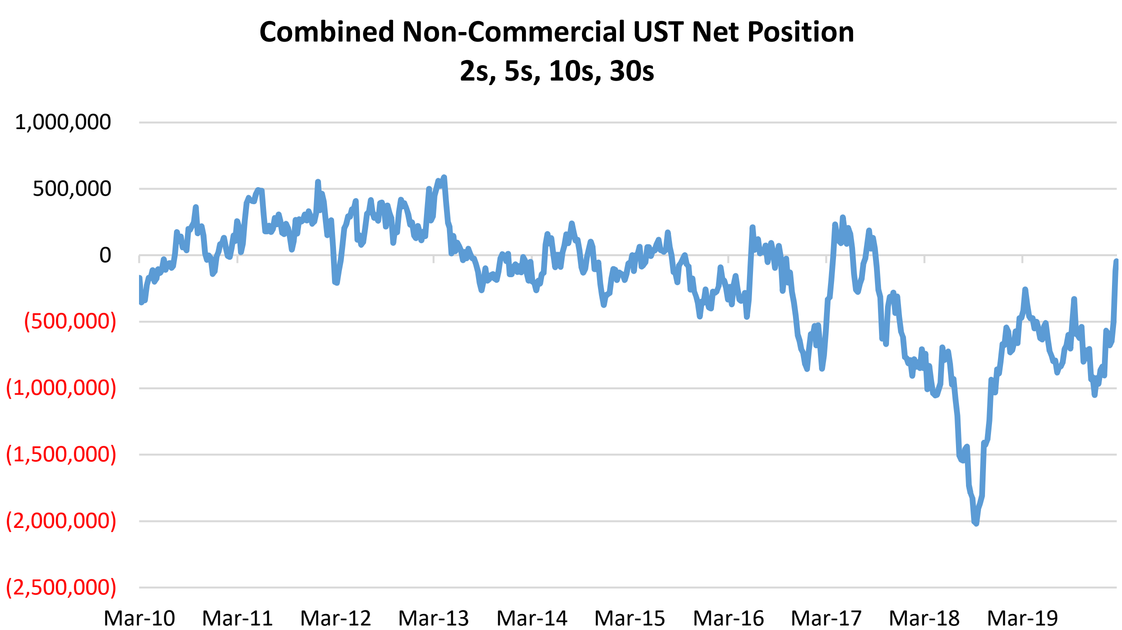
Obviously by now you've seen the news regarding the FOMC. First off let me point out that the Fed announcement from yesterday takes the place of the originally planned meeting/announcement later this week. There will not be another FOMC meeting this week. Obviously a lot of debate over what the Fed did overnight. I'm not qualified to pass judgment on the action, but I would only point out that the Fed is trying to do what they think is necessary to support the economy *after the virus has peaked*. There is nothing the Fed can do about restaurant and other business closings in an effort to contain the virus. Those problems are why the markets have tanked again overnight, not because of a vote of no-confidence in the Fed. However, by lowering rates it gives borrowers some relief and by buying Treasuries and MBS it supports liquidity in critical components of the markets. The Fed action isn't intended to be a cure-all.

Chinese data released overnight has not been supportive to markets. Chinese retail sales for Feb were down 20% YOY. Industrial production was down 13.5% YOY. Both of these releases were far worse than expectations, though admittedly I'm not sure how anyone could have formed an educated guess given the confusion and quarantines. The obvious fear is that the entire world could be looking at similar numbers soon given the mass closings and quarantines through Europe and now spreading in the US.

Some additional COT-related charts of possible interest. The FX market is showing that we have had fairly neutral dollar positioning as of last week. The chart below shows the net positioning of all major FX futures and options contracts. When the chart is in negative territory, it means the market is long dollar. When the chart is in positive territory it means the market is short dollars. Given the Fed massive rate cut and big QE package announced last night, I would perhaps suspect the market might be looking for the dollar to weaken further now, and based on the chart below there is plenty of dry powder to be put to work in the FX market.

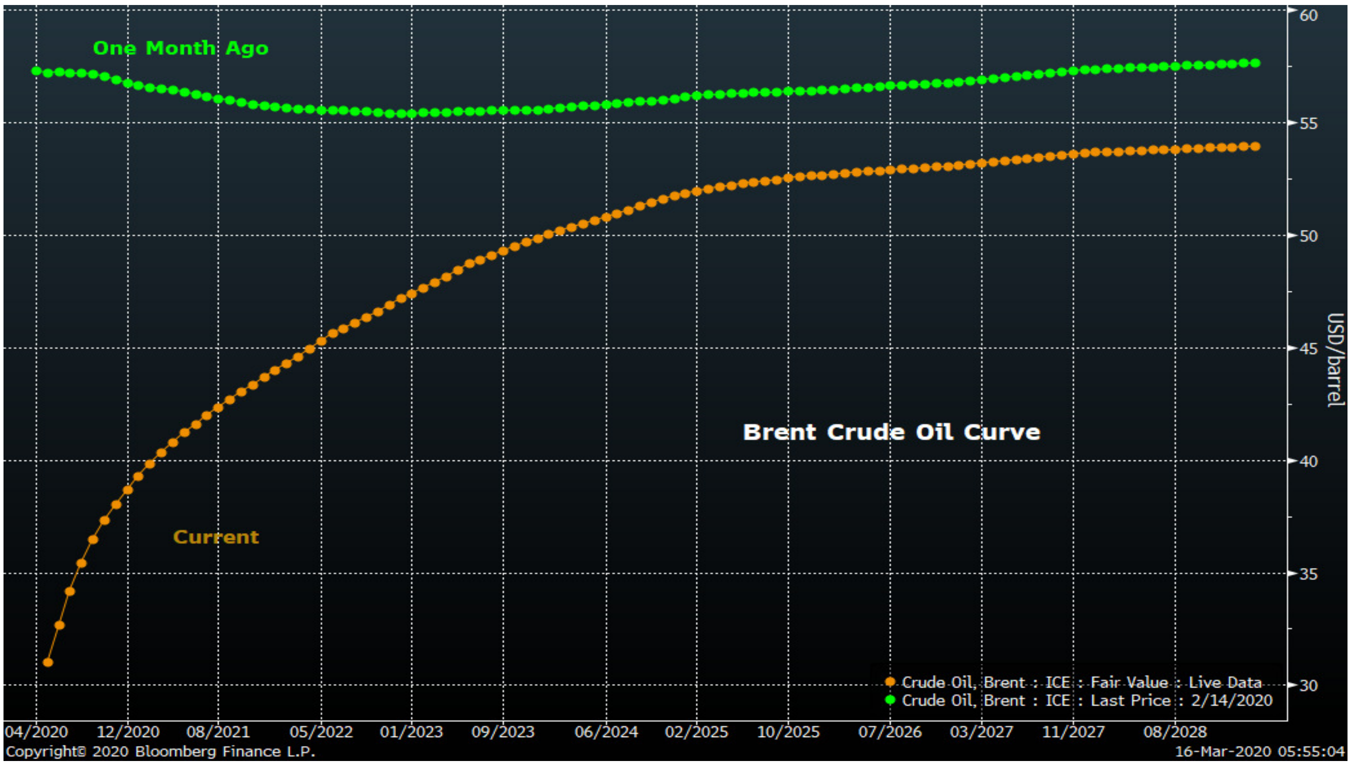


As far as the USD goes going forward….we are looking at a US fiscal situation of a massive twin deficit (that is about to get much, much worse) and with rates now at zero we have no significant comparative advantage vs. other major economies. This could mean less "investment" into the US, which should weigh significantly against the dollar. Obviously this should weaken UST yields as well. As you would probably expect…there aren't a lot of shorts hanging out in the UST complex at this point. Still, we could see buying take non-commercial net positioning to levels we haven't seen in years.



Energy

What a difference a month makes for the oil market. The twin beat-down from the OPEC+ failure and coronavirus has completely reversed the fortunes of the oil market. You can see in the chart below how the Brent crude curve has flipped dramatically over the past month. According to a report from IHS Markit we could be looking at an oil surplus of 800 million to 1.3 billion barrels in the first six months of this year. IHS Markit says that would be a record large surplus. Their report said that US oil could be hit the hardest by the situation with US production possibly dropping 2-4 mbpd over the next 18 months. This would seem to be a potentially supportive factor for the tankers we discussed last week, as floating storage becomes the rage.



Today's Calendar (all times Central)

- Empire Manufacturing Index – 7:30am
- Export Inspections – 10:00am

Thanks for reading.

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