NESVICK
TRADING GROUP, LLC

Monday, March 23, 2020
NTG Morning Comments
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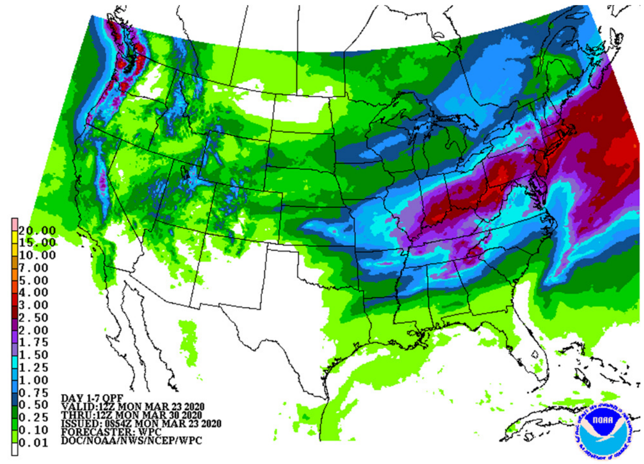
Weather

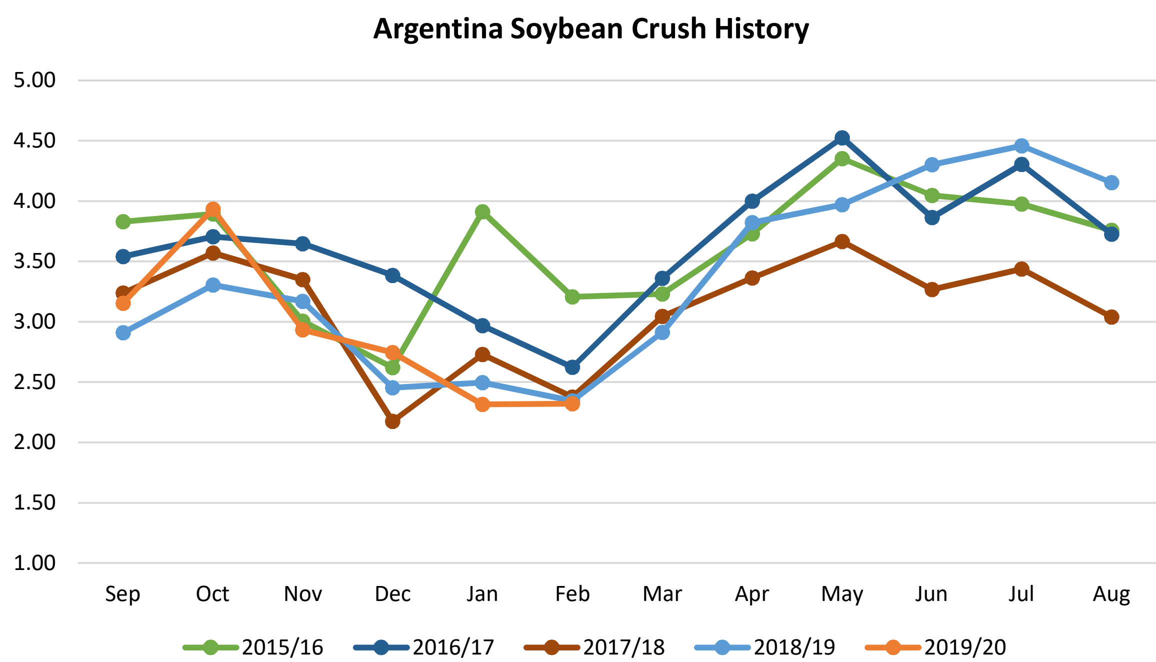
A modestly drier outlook for the US this morning. We'll see another few days of precipitation chances through agricultural areas, but the biggest precipitation amounts and best coverage will favor the eastern third of the country. In Week 2 of the forecast, we're expecting a lot of BN precipitation chances for the Corn Belt and surrounding areas. This should also be accompanied by AN temps through most of the country.



Crops

Just one quick chart here this morning and we're done. The lost demand from coronavirus and other problems seems to be taking a backseat for the moment to the possible supply disruption we might have to deal with out of Argentina in the short term. I emailed several articles yesterday discussing how the "lockdown" in Argentina has complicated grain transportation. In particular, the mayor of the area with major crushing operations is not allowing traffic to make it to the crush plants. Additionally, workers at the crush plants are threatening to strike unless they feel adequate protection is granted to them (likely in the form of some higher wages). I guess I can't fault them…if it isn't safe for others to get out and work why should they?

For now the major ABCDs and others in the region are saying operations are running as expected…but that can't keep up much longer at this point. I quite honestly don't even believe that operations are running normally either. Our expectation is for the March crush level to be even lower than what was seen in Feb. As you can see in the chart below, that would be an exceptionally small March crush rate.



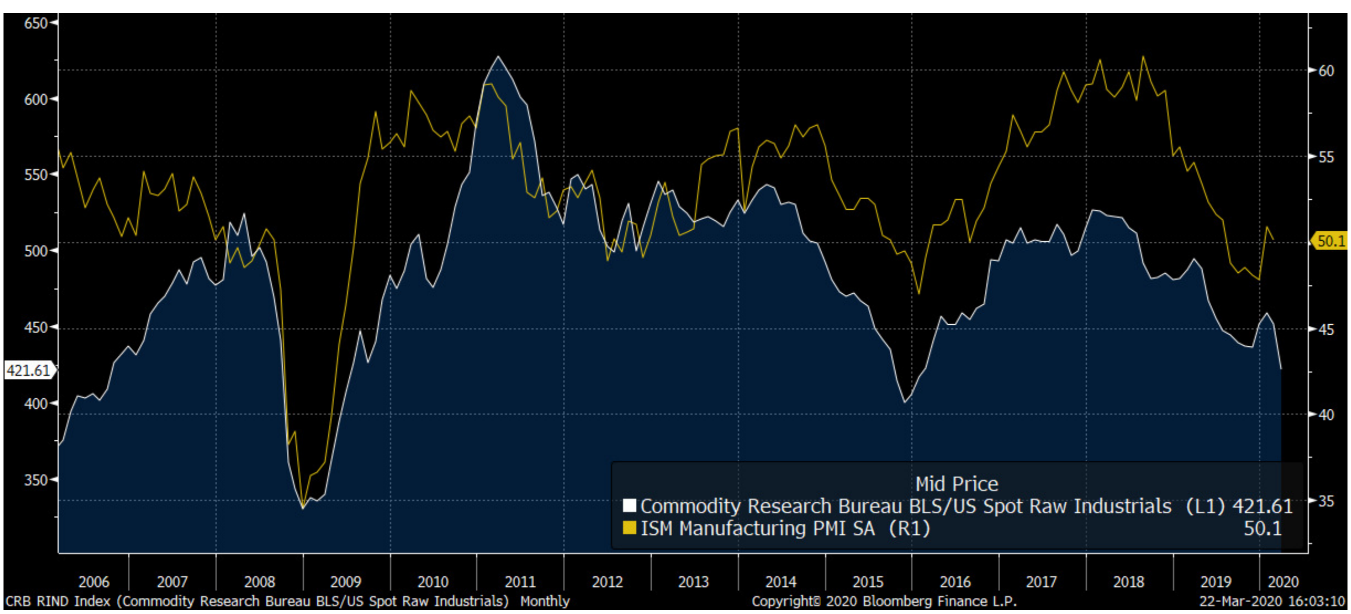
Typically this is when Argentine crush is ramping up after new crop harvest starts to trickle in. If the crushing operations are dealing with a lack of supply due to these restrictions and/or worker unrest there is no reason to expect the normal seasonal uptick in crush. This will mean the world will turn mostly to the US to account the lost production in both meal and oil. The board will need to encourage more active movement of physical soybeans in the US. Look for calendar spreads and flat price in meal and soybeans to be supported as long as this situation remains unresolved. Also expect that board crush will move higher.

Livestock

I'm not really sure what to say about the livestock markets this morning. We got the unexpected news that Tyson is going to add $5-7 to their cash trade from last week over the weekend. This news is…weird. If Tyson was filling so generous, why not bid cash higher in negotiated trade for everyone to see last week? Whatever their rationale, it would seem unlikely that other packers will take kindly to this move. In fact, I'm already hearing hints that other packers will be very aggressive bidders for cash early this week. Look for cash trade to move sharply higher early in the week, and with the basis already ridiculously wide this should mean sharp strength on the board as well. I think we're to the point where the equity market's influence will take a backseat…at least for now.

Financials

Last week we got a few Fed regional manufacturing surveys…and they were not good. We get another regional survey this morning and I wouldn't be surprised to see another poor performance. We've shown in the past that these regional surveys are a very reliable indicator of what expect for the national ISM readings. In addition to the regional surveys, industrial materials prices are also a good indicator. And, as shown below, they also are pointing toward weakness in manufacturing numbers for the US. These raw material prices should be a decent "real-time" indicator of what to look for from manufacturing, so I'll be keeping a close eye on this going forward. I think it is important to note that manufacturing also appears to be in serious contraction at this point while at the same time we know the consumer is facing very tough circumstances at the moment. I'm not sure how some $1-2k checks getting mailed out will help that.



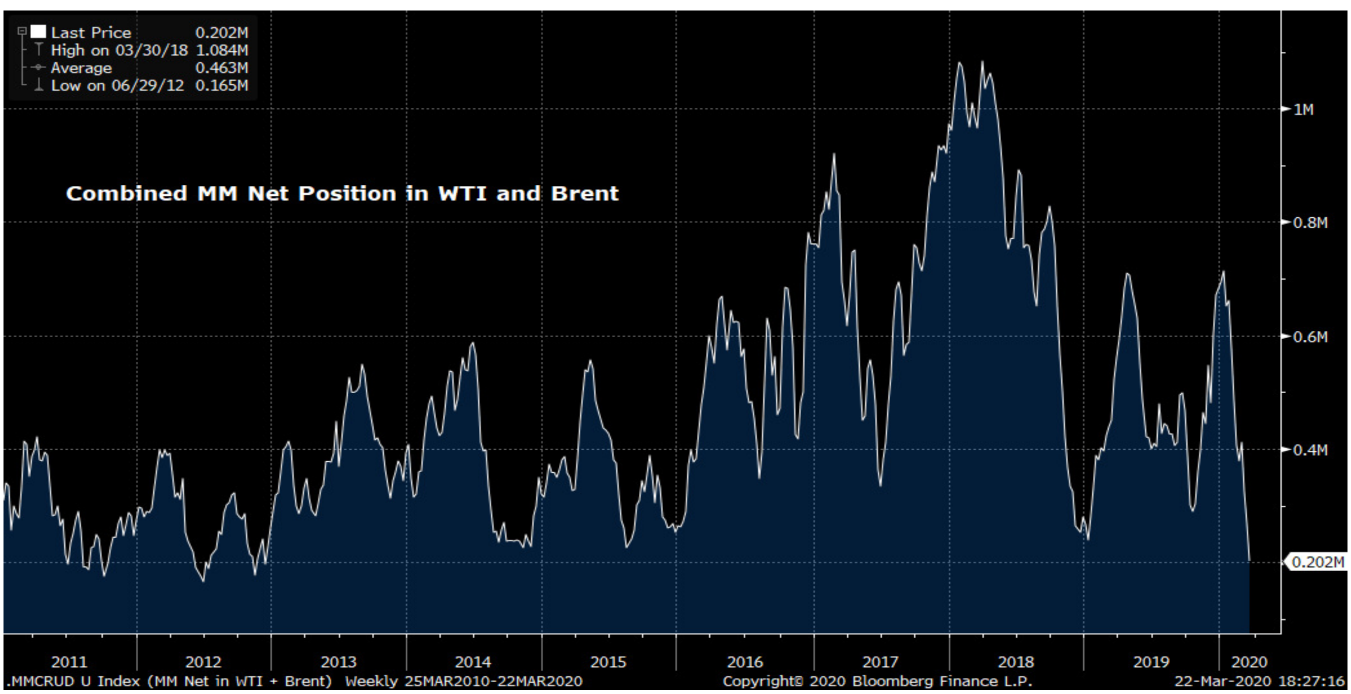
Virus related headlines are mostly unchanged this morning. By now you've probably heard the stimulus plan was voted down in the Senate overnight. The market hasn't reacted overly negatively to the news. We were limit down only briefly last night and we're not far from the overnight highs as I type this morning. I suppose the market is simply assuming everyone involved wants to score some cheap political points and a deal will be passed soon. That is probably correct, but the politicians could be playing with fire here. This situation, in my opinion, is only getting worse. I'm not convinced how much a few checks from Treasury will help either.

Energy

No shortage of negative headlines for the oil market right now. Here is a simple list of several stories I noticed over the weekend.

- Some analysts are talking about a demand cut of 10-20 mbpd. That would be roughly 20% of total global consumption.
- The state of California, where obviously we have a state-wide "lockdown", accounts for 10% of total US oil demand and 20% of jet-fuel consumption.
- Deutsche Lufthansa AG, Europe's biggest airline, is planning to ground 700 of its 763 aircraft. They'd be running a flight schedule so small it would be similar to levels seen in 1955.
- "Kremlin watchers" say that Russian President Putin will refuse to back down against the Saudis in the oil price war.

There are others I'm leaving out but I wanted to leave on a sorta positive note. The chart below shows the MM net position combined for both WTI and Brent. You can see MM is holding its smallest net long position going back to 2012. This should mean less panicked liquidation of longs. Then again, considering the carry in the market, how long before MM turns net short?



Today's Calendar (all times Central)

- Chicago Fed Index – 7:30am
- Export Inspections – 10:00am
- Cold Storage – 2:00pm

Thanks for reading.

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