NESVICK TRADING GROUP, LLC

Wednesday, September 16, 2020
NTG Morning Comments
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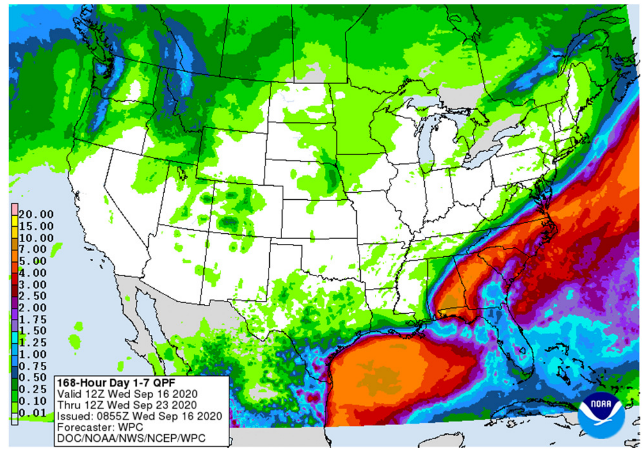
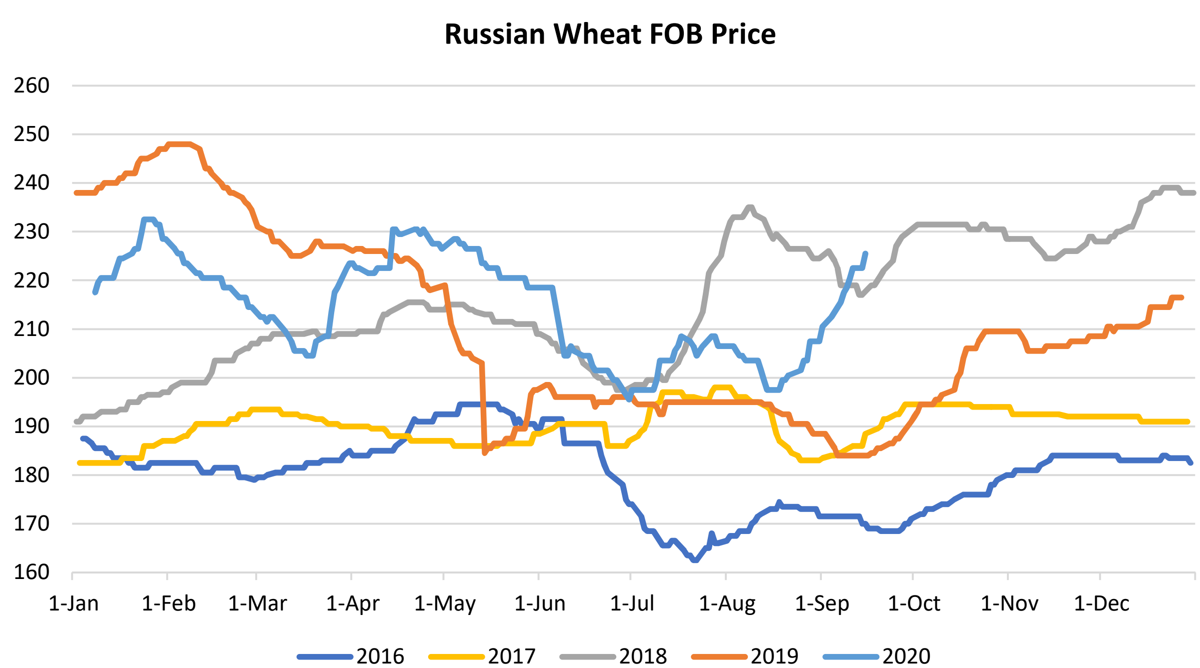
Weather



No changes to the forecast this morning. With the exception of Hurricane Sally moving through the southeast, most of the country is looking at virtually no rainfall this week. The Week 2 portion of the forecast should feature a lot of dry weather across the country as well. At the same time, mostly above normal temps will be registered across a widespread portion of the country. This should produce some excellent conditions for rapid advancement of harvest and/or winter wheat planting.

Crops

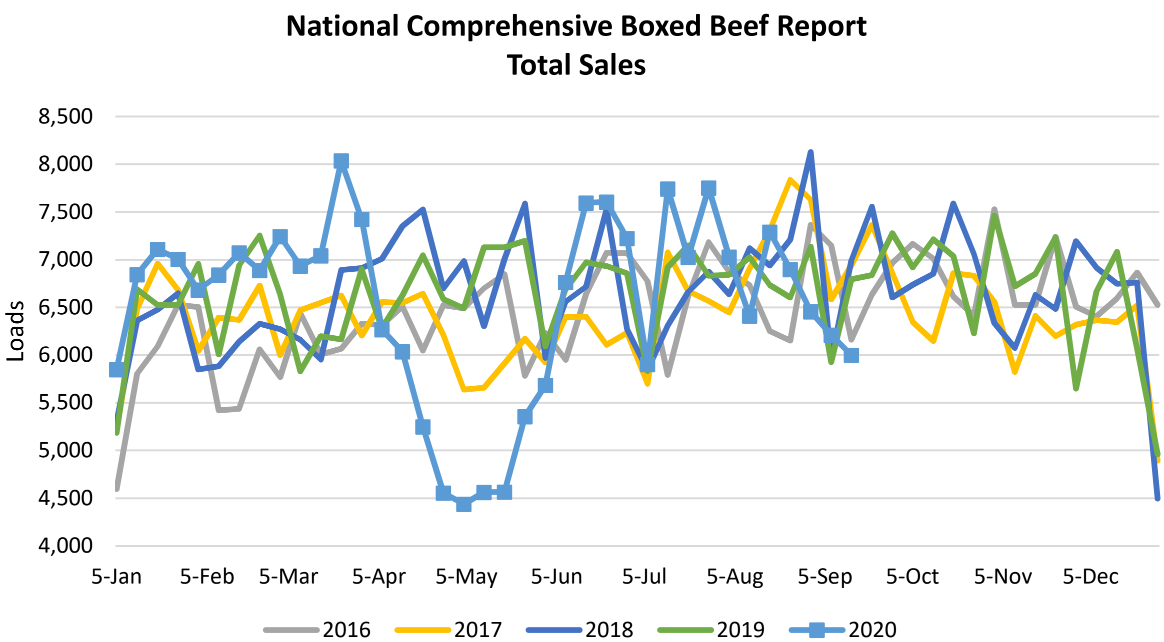
Egypt's GASC has issued a new tender for wheat. They typically do this following a break in futures prices, but interestingly yesterday's break in futures prices is pretty minor compared to the sharp run-up in Russian wheat prices over the past few weeks. Note the chart below. While it isn't uncommon for Russian wheat prices to find a sort of bottom around this time of year, the rally we've seen in their prices over the past month or so has been very sharp. We're basically back to the highest values of the year. Considering what we think we know about their crop size, I'm a little surprised by the strength.



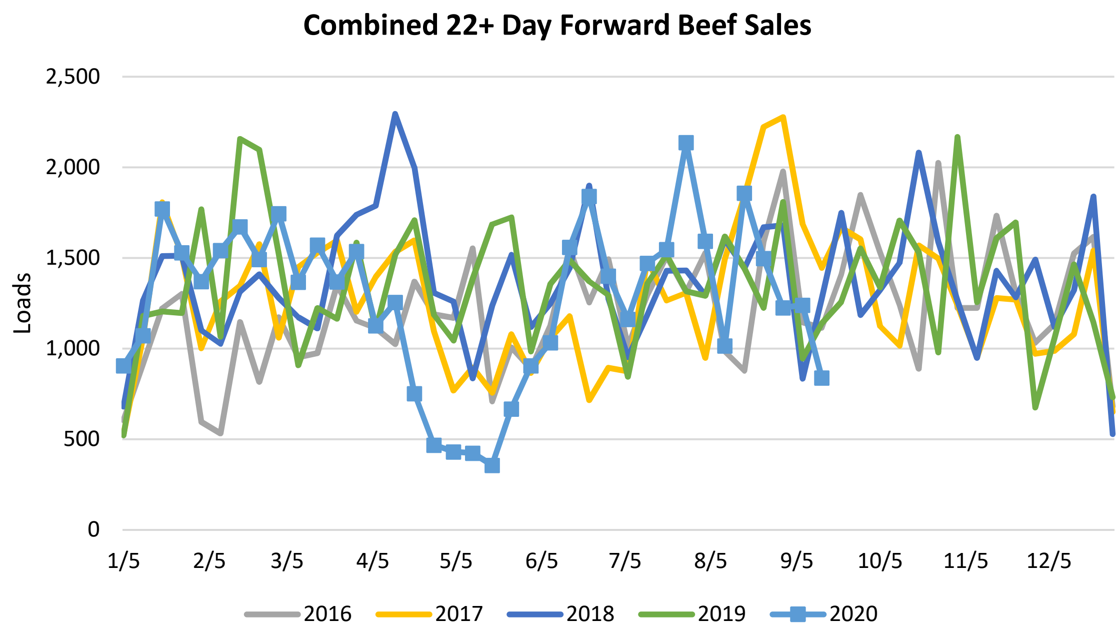
There is a line of thought that suggests the better wheat production zones within Russia this year were further in the interior of the country with regions near the export market producing less. Some are suggesting this means the export market has to rally in an effort to move bushels from the interior to the export channels. I don't have any good feel for that, so I'd appreciate it if anyone reading this has an idea on that. Maybe that is overthinking things. Maybe it is just as simple as EU crops were short this year and China has been importing more lately, which on the simply tightens wheat supplies on the margin…supporting Russian export prices. Thoughts appreciated.

Livestock

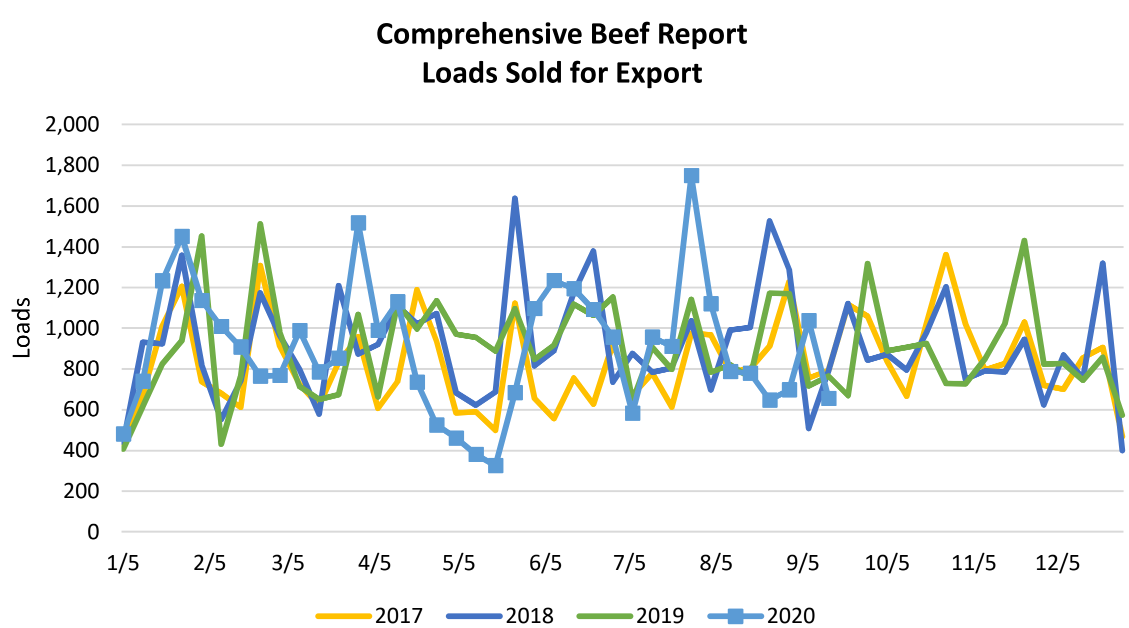
Perhaps a bit late in reporting on this, but Monday's Comprehensive Beef report didn't contain many positives. Admittedly, the Labor Day holiday can and often does goof up meat demand pictures for an individual week. Still, its difficult to find a lot of bright spots in the numbers below. Total sales were on the low side of the range since the Covid meltdown.



Forward sales were a hot mess…



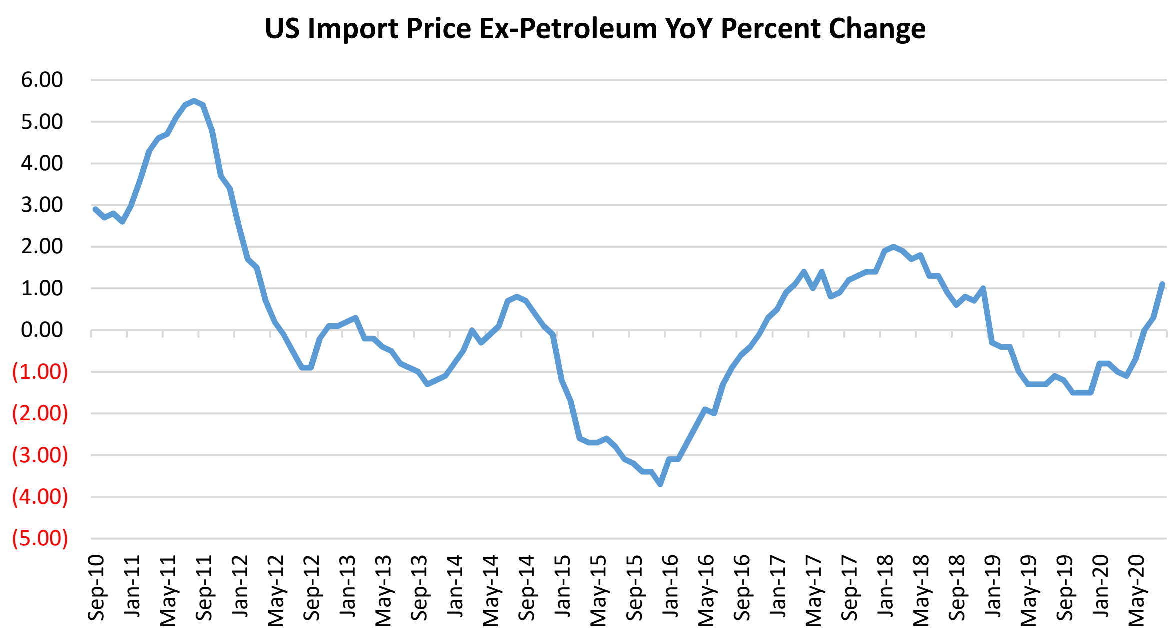
And export sales remain lethargic…



Anecdotally, I've been told beef sales are off to a better start this week. Perhaps the above is much ado about nothing and simply holiday-related volatility in the data. Still, I'll be keeping a close eye on this report in the weeks ahead.

Financials

Since we've been talking a lot about inflation readings in the past few months, it is probably appropriate to mention yesterday's bit of inflation data. Yesterday we got data on US import prices, and it should come as no surprise that prices have been creeping higher over the past several months. Ex-petroleum import prices were +0.7% MoM, which is the highest monthly rate of increase since early 2011. The chart below shows the YOY comparison, and you can see that import prices are running at some of their strongest levels since before the trade war kicked off. Also keep in mind that the YOY comparisons over the next several months will be soft, so it will be fairly "easy" for import price numbers to look strong.



As mentioned yesterday, we'll get the FOMC statement and press conference from Fed Chair Powell this afternoon. This is the first meeting since their adjustment to the inflation portion of their mandate, so it is expected that the Fed will tweak forward guidance a little. Still, the bottom line is that it really changes nothing… we already know the Fed isn't thinking about thinking about raising rates any time soon. In fact, with that in mind, it is certainly possible the Fed doesn't feel the need to change much of anything at this point in time. IF that is the case, we might see the yield curve steepen bit more following the announcement. Keep in mind the FOMC will be updating economic projections with this release, so it will be interesting to see their outlook on inflation and economic growth right now.

Before the FOMC this afternoon, we'll get an important release of retail sales this morning. This will provide an interesting look at spending now that the $600 top-off to unemployment benefits expired. Admittedly, some states have offset some of that reduction, but in the overall scheme of things less money was available in August and it will be interesting to see if that trickles into the retail sales data. Also keep in mind that back-to-school shopping, a normal seasonal pop at this time of year, was almost certainly less than normal due to all of the closures around the country.

Energy

Oil futures are higher at the time of writing this morning. Part of this might be due to another hurricane disruption to Gulf production levels. Roughly 27% of Gulf oil production had been shut-in as of yesterday. Admittedly, that is just a small fraction of total US production, but still. Probably more importantly, yesterday's API inventory release showed a 9.5 million barrel decline in crude oil stocks. This compares with expectations for an increase of 2.0 million. API showed Cushing inventories off about 800k barrels. All of this combined, along with expectations of a dovish Fed, are working to support oil futures this morning. Still, as long as consumption seems to be struggling with further recovery, upside could be pretty limited to these nearby resistance levels.

Today's Calendar (all times Central)

- Retail Sales – 7:30am
- NAHB Housing Index – 9:00am
- EIA Petroleum Stats – 9:30am
- FOMC Announcement – 1:00pm

Thanks for reading.

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