NESVICK TRADING GROUP, LLC

Monday, October 25, 2021
NTG Morning Comments
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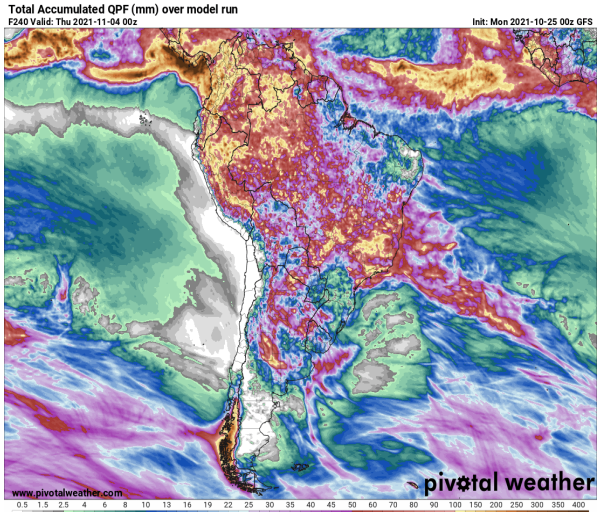
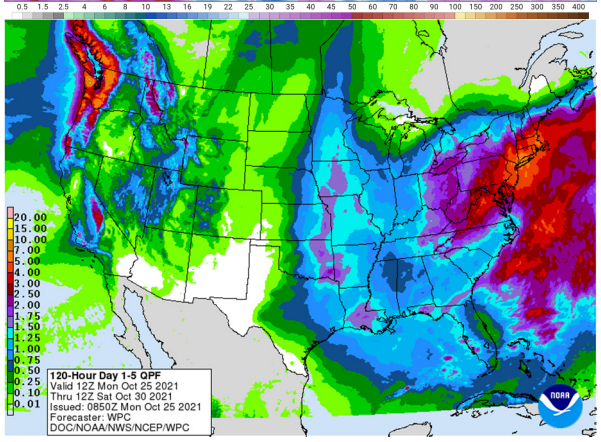
Weather

The extended outlook for Argentina has shifted perhaps a little wetter during the weekend. We should see some hot and dry weather in Argentina over the next several days, but we should start to gradually see an uptick in rainfall chances starting next week and continuing through the duration of the two week forecast period. By the end of the two week period, rainfall chances of 1.5-3.0" will be possible for the heart of the growing region.



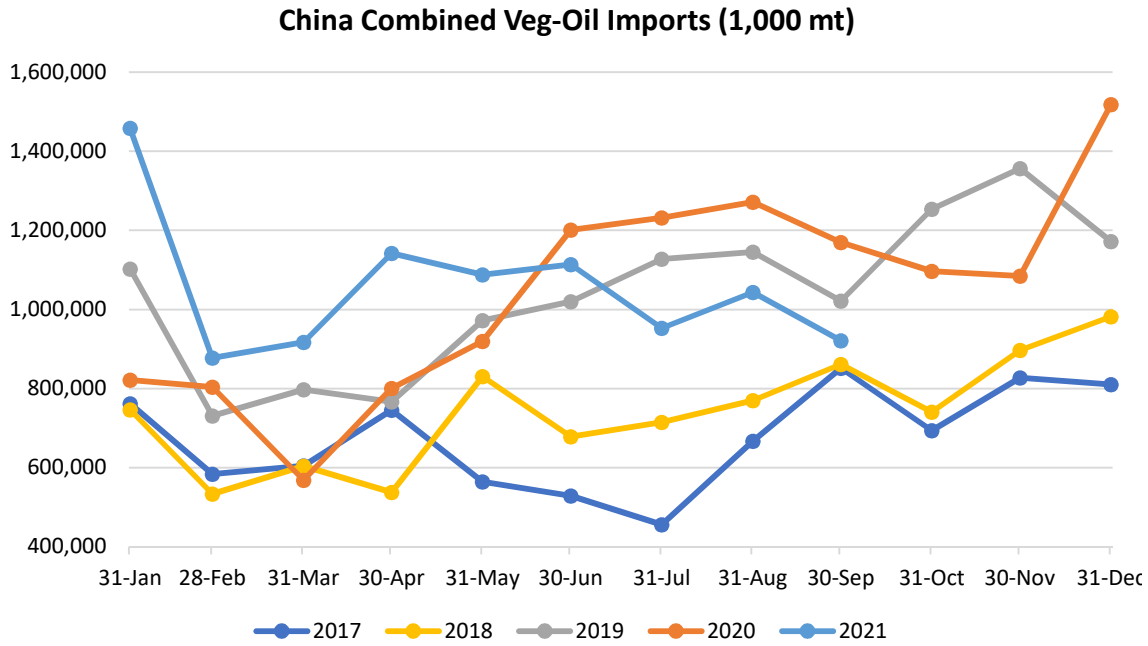
In Brazil, we've seen a lot of active precipitation over the weekend and we've got near to above normal precipitation in the forecast for the next two weeks. The heaviest rains will favor the northeastern MaToPiBa region. Two week rainfall totals will range from 3-6". With this much rain fall, there shouldn't be any issue with hot temps. In southern Brazil, we should see completely dry weather for much of this week. Some rains will develop Saturday and continue for a few days, but this activity doesn't look particularly impressive. The best rainfall chances will come during the 11-15 day period with near to above normal amounts possible. At that time, everyone should have at least a chance at 1" rainfall. Some heat will develop later in the week. It doesn't look like anything major but could be something to keep an eye on.



Harvest progress in the US is essentially halted for a big portion of the Corn Belt. We've seen some heavy rainfall develop over the weekend through a fairly widespread portion of the region. You can also see above that we've got another round of wet weather for the second half of this week that will keep harvest sidelined. After this week's activity, however, we should enter a timeframe of very limited rainfall chances for the remainder of the two week period. The map above also shows that some of this week's activity will hit the HRW region, obviously favoring eastern portions of the area.

Crops

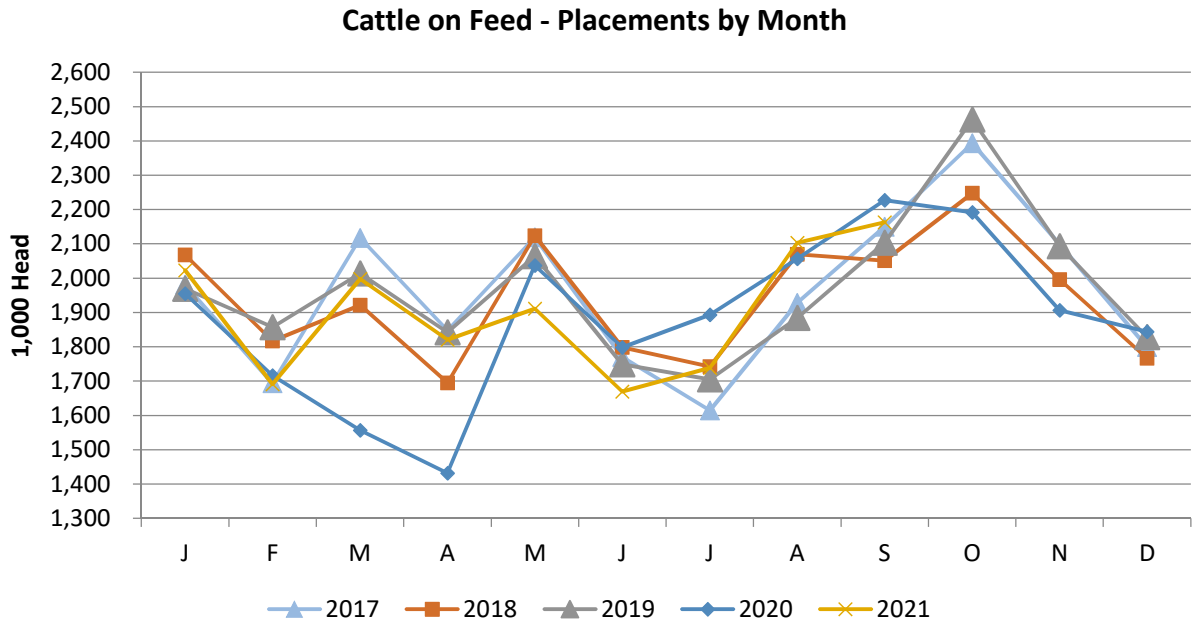
Unless you've been living under a rock over the past several months, you know that veg-oil prices across the globe have been consistently pushing higher. This is partly in response to expanding biofuel mandates and partly in response to the rally in crude oil prices. I just wanted to quickly look at Chinese imports of veg oils this morning, with a recent history shown in the chart on the following page. This shows combined veg oil imports of soyoil, canola, sunflower, etc, etc. You can see that Chinese imports of veg oils had been consistently increasing over the past several years, but this year those gains have stalled. This obviously makes some sense considering the huge price rally…imports probably look much less attractive this year at these prices.



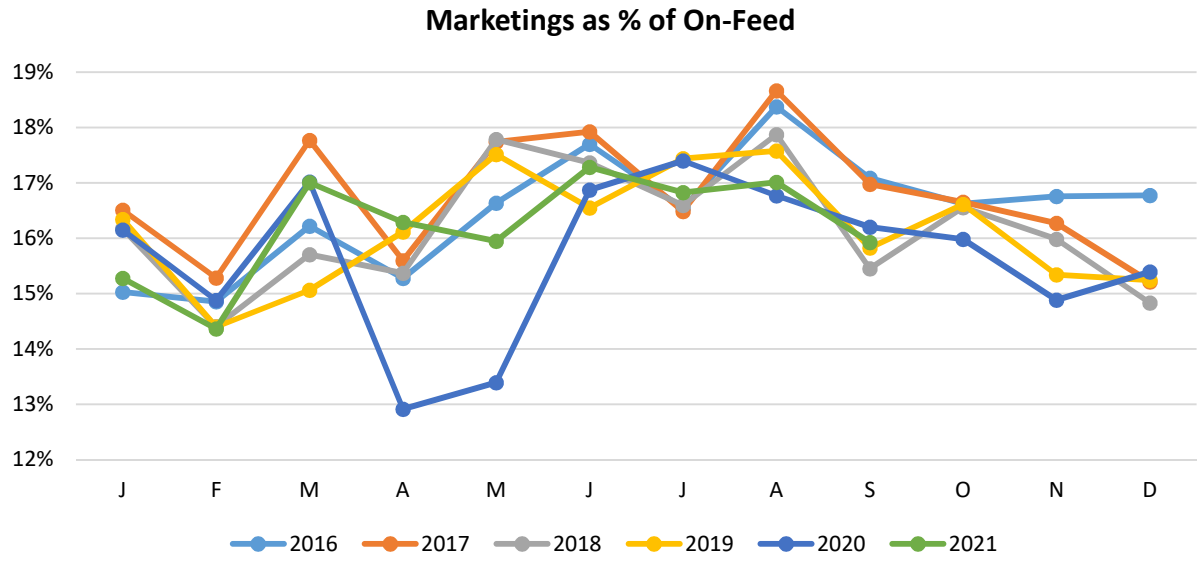
I always find it amusing that people will reference DCE soybean futures as if they have an impact on CBOT prices. DCE soybeans are food-grade, non-GMO soybeans that have no relevance to CBOT prices. However, DCE meal and oil futures can be indicative of Chinese crush margins and are worth monitoring. The chart below shows the current active Jan contract of DCE soyoil. You can see we scored new contract highs last Thurs but we've since traded lower for two consecutive sessions. I'll personally be keeping a very close eye on DCE soyoil values in the coming weeks as any corrective price action could weigh on crush margins and limit additional Chinese soybean import interest. Of course the opposite is also true, a push into new highs would likely encourage imports.

Livestock

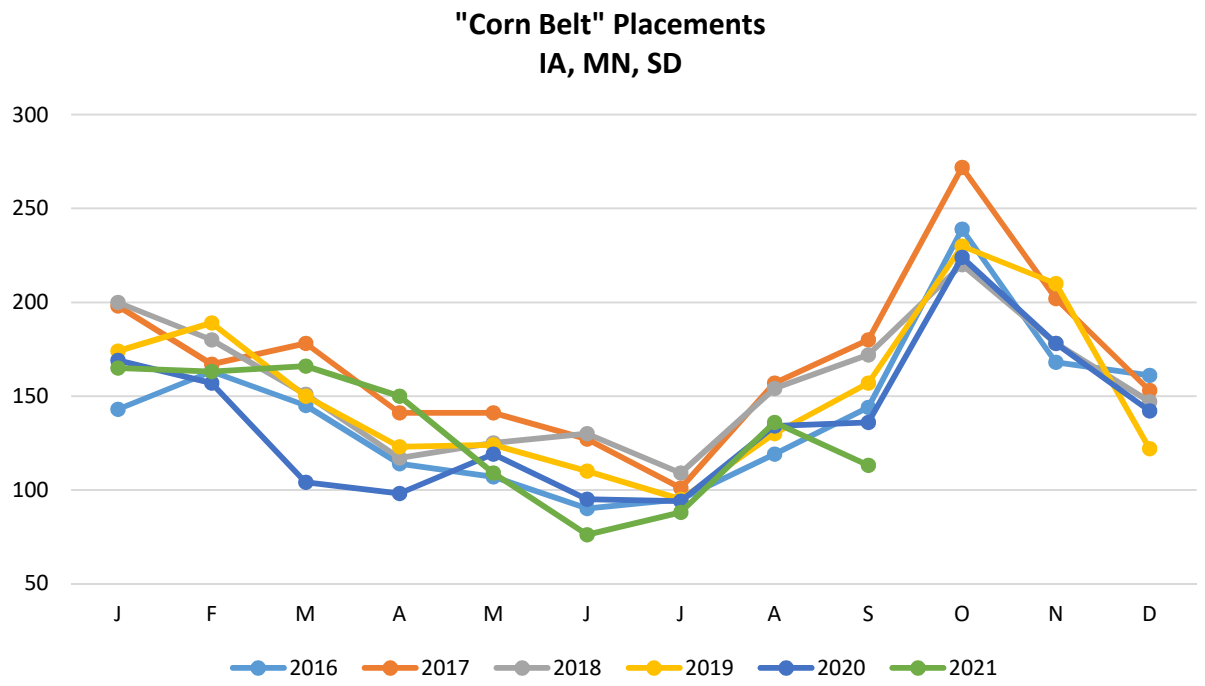
What to make of Friday's COF numbers? The surprisingly small placement figure should lead to a higher open, but how much follow-through beyond that? Is this a report a game-changer? It probably depends on your pre-existing bias. The first chart below looks at the seasonal view of placements. Yes, we were unexpectedly smaller YOY last month, but last year's Sep placements were very large. You can also see that last year's Oct placements were relatively small, so might we exceed placements for Oct YOY?



Our old nemesis, slow marketings, also made an appearance in the report. Marketings were under expectations and note the chart below which continues to show that marketings as a percent of COF remains relatively lackluster.



Yet at the same time, I can't help but wonder whether this is the start of a smaller placement pattern going forward. I've obviously been making a lot of noise about herd liquidation. One month of data doesn't make a new trend, but anecdotally I've been hearing to expect smaller placements in the months ahead and this could be the start. Also, see the chart below. Higher corn prices should limit the farmer-feeder's desire to place additional cattle going forward. Will we even get much of a seasonal surge in placements this fall? On the margin this at least limits placements going forward.



Again, one month doesn't make a new trend…but I'm intrigued by the "slow" placement number last month. If my thought process on herd liquidation is anywhere close to correct, I think it would be reasonable to expect slower placements going forward. Is this the beginning of a shift in supplies? I welcome all comments and ideas.

Financials

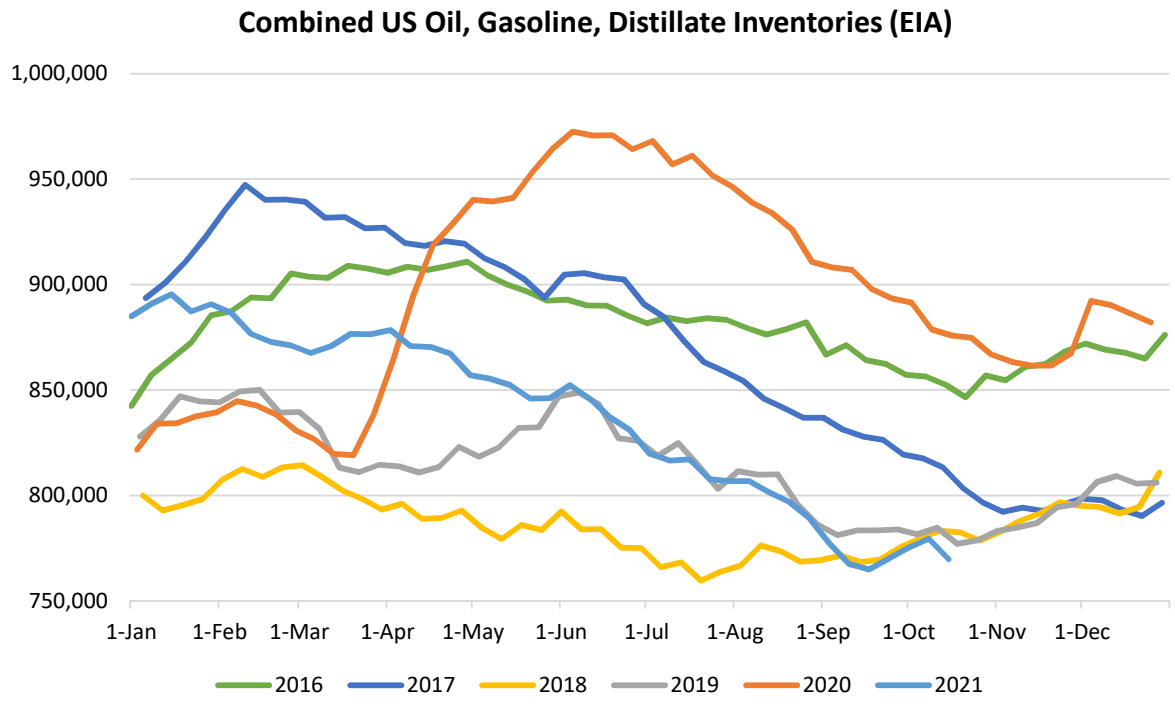
Not much new to discuss this morning, with the same themes yet again present this morning. Oil prices remain higher. Equity markets are quiet, but slightly higher. The dollar is a bit firmer. This has been the general theme in markets for the past few weeks. I don't see any headline news from over the weekend. This week we get have a very tech-heavy earnings release schedule, kicked off by FB which will report results this afternoon after the close.

The five largest US tech companies will report earnings this week, which could result in some big swings in the tech-dominated indices. You can see from the chart on the prior page that tech company valuations are already sitting in very elevated territory.

Otherwise, I don't see much to get excited about this morning. No major US economic data on tap today.

Energy

Just a quick update on US petroleum inventories. The chart below looks at oil, gasoline, and distillate inventories combined. You can see we started 2021 in a healthy position but are finishing 2021 at the lowest levels in several years. Typically around this time of year we should start to see inventories stabilize and work their way higher…that obviously hasn't happened yet this year. If we aren't able to see a sizeable bump in inventories this winter, what happens next spring when demand and seasonal inventory drawdowns return?



Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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