NESVICK TRADING GROUP, LLC

Wednesday, November 1, 2023
NTG Morning Comments
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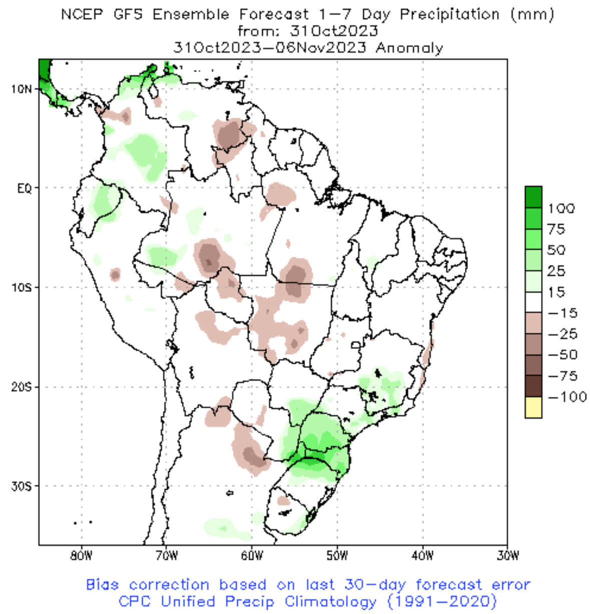
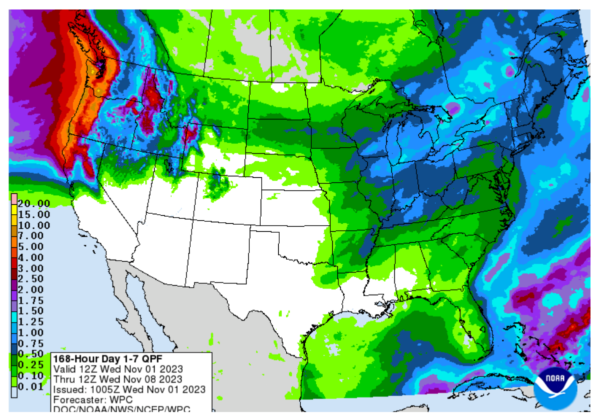
Weather



No major changes to the South American forecast. Northern Brazil will see daily chances for showers over the next two weeks. Overall, however, we're not looking at relatively huge amounts with most areas seeing near to below normal rainfall totals. Keep in mind, however, that "normal" rainfall amounts in this part of the world can be pretty large. Southern Brazil will see another round of heavy rainfall tonight and tomorrow. This should produce some localized flooding problems. After that, we should see roughly a week of dry weather for the region, which will be welcome after some very wet conditions lately. Rainfall will pick up again later in the 6-10 day period with another round of above normal amounts likely. In Argentina, we should see fairly active rainfall activity over the next two weeks. Totals should range from neat to above normal amounts over the next two weeks. We should still see a few more days of cold weather, with lows this morning into the 30s in some spots. These sorts of low temps could stick around through Saturday.



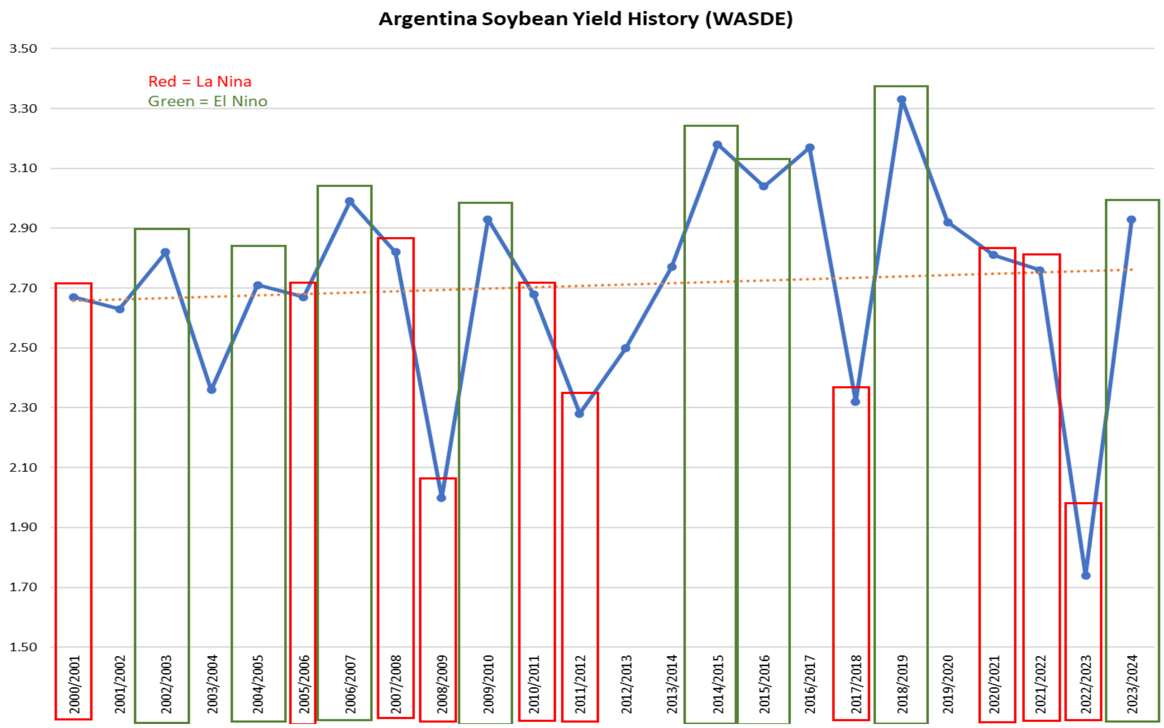
The 7-day outlook for the US is shown at the right. Most of this should fall as rain. This is good news for the river system. The NWS is forecasting a jump in the river level at Memphis (just as an example) of several feet in the next couple of days.

Crops

After yesterday's discussion on Brazil, it is probably worth a quick look at Argentine soybean yield history as well. We spent some time discussing El Nino impacts on Brazil, but the reality is that El Nino/La Nina typically has a far greater impact on Argentina. According to data compiled by our good friend Craig Solberg:

Argentina soybean yields average 11.2% above the 30-year trend in El Nino years
Argentina soybean yields average 6.7% below the 30-year trend in La Nina years
Argentina soybean yields average 1.7% below the 30-year trend in neutral years

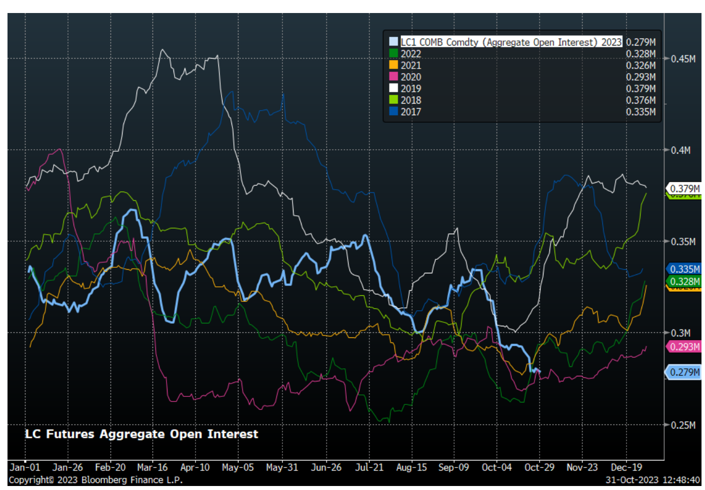
That being said, "trend" is something that is a little hard to define for Argentina. The reason for that is the extreme yield variability as shown above between El Nino and La Nina years. The chart on the following page looks at the WASDE yield history for Argentina over the past ~20 years. Look at the trendline…it really doesn't slope very much because the extreme variability.



But the chart does do a good job of illustrating the weakness of yields in La Nina years (shown in red) vs. the strength shown in El Nino years (shown in green). This year is an El Nino year, which is somewhat reflected in WASDE's yield projection shown above. However, I think there is certainly a case based on some of the more recent El Nino years that WASDE's starting point on yields is a bit conservative here. The weather outlook looks fairly favorable for Argentina right now in my opinion….some yield upside to come for Argentina? Thoughts appreciated.

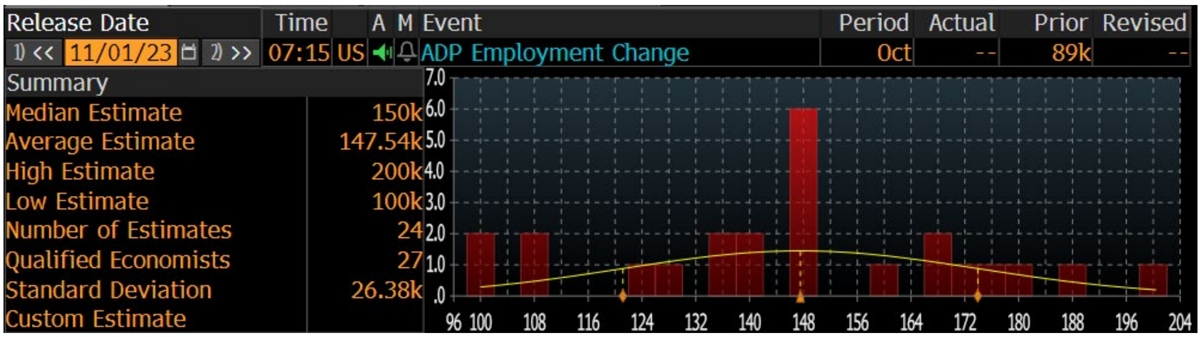
Livestock

I won't spend too much time here this morning, as I have little to say. I was scrolling through some OI charts yesterday and found it somewhat interesting that overall cattle futures OI is running pretty low right now. A seasonal chart shown to the right. The most recent time we've seen OI lower than right now at this time of year was in 2020…which makes some sense. Given a lot of the ongoing bullish sentiment in cattle prices, I actually expected that we'd see a lot more "participation" via higher OI. I don't have a major point here, but just found it somewhat surprising. Thought appreciated.



Financials

There is a lot going on today. Up first this morning will be the ADP employment change report. The breakdown below shows the range of expectations…and as you can see it is a mile wide. Nobody knows what to expect here, so there is certain to be some price volatility around the release. That being said, I think the market has also realized that the ADP is a poor indicator of what to expect on NFP, so this release will eventually be overshadowed by events to come later in the session.



We won't have to wait long for the next market-moving info to hit as we get the Treasury's quarterly refunding announcement at 7:30am. Admittedly, most of us have never paid much attention to this sort of thing, but considering the focus on the government's deficit and the increase in interest payments, it is getting a lot of hype and will also likely generate a lot of market volatility around its release. As this isn't something I have a habit of watching, I won't try to be an expert on it this morning. I'm reading that some are predicting a refund size of $114B because that would follow along with the pace of increases laid out in the August plan (which was the first increase in more than two years). Others have suggested the increase won't be quite as large. They believe that tax receipts will improve (such as the CA delayed receipts finally being realized) and they also suggest that the Treasury will focus on more short-term debt such as bills. I personally have no value to add on what to expect. I did see data where recent tax receipts improved, however, so it does make me lean towards the belief that the "risk" here is for a smaller refunding announcement (vs the $114B estimate). If that were to prove correct, it would probably lead to a rally in bond futures and probably equities as well.

After the refunding announcement, we'll get a moderate break in releases before the 8:45-9:00am gauntlet of releases. We'll get the S&P PMI numbers, JOLTS job openings and the ISM manufacturing index. On the PMI numbers, it is worth remembering that the "flash" S&P PMI showed an uptick to 50.0 on manufacturing for the month. The ISM last month was surprisingly strong at 49.0. The current expectation calls for ISM to be steady at 49.0, and that would jive with the regional Fed manufacturing surveys (our index of these was steady for Oct). However, I guess my concern is the risk is to the upside on ISM based on the stronger than expected flash PMI. The JOLTS number is pretty unpredictable and I won't put too much effort into trying. However, I think it is worth noting that the JOLTS number last month was shockingly large….yet at the same time the "internals" of the figure (such as the quits rate) was not nearly as strong. The market is looking for JOLTS to drop this month but I wouldn't be too shocked to see it come in a bit smaller than expected….but then again, like I said, it is a pretty unpredictable number.

And, of course, later in the afternoon we get the FOMC statement. The statement itself will probably be the least market-moving event of the day. With no updated dots or economic projections, and considering the market is pricing in virtually zero chance of a rate hike, it would seem likely that the statement will be mostly unchanged. I have seen a Bloomberg analyst suggest that the FOMC could tweak its language describing inflation in the statement. Currently the FOMC statement calls inflation "elevated" and the analyst suggests it could be tweaked to suggest something a bit less urgent. I suppose that is possible…I don't know. The press conference will be where any fireworks potentially might be hiding. It is likely that Powell will suggest that the rise in yields will substitute for a rate hike or two. It will be interesting if he is asked to describe why yields have risen. Treasury Sec Yellen said it had nothing to do with the deficit and was a reflection of strong economic growth. I would imagine that Powell might have a slightly different interpretation, and it would be interesting to hear how he navigates that sort of question. Any questions/comments on QT will be closely scrutinized.

Of course all of this is happening as the FX markets are flirting with some very important technical levels. I've been harping on the DX for a while now and, admittedly, it really hasn't done much of anything the whole time I've been yapping about it. However, it is sitting right near the top of the recent consolidation and just below the 107 breakout zone I've been crying about for a while now. All of the events today could certainly be capable of propelling the DX to a breakout. Or I could be back here tomorrow still waiting…..

The JPY is breaking out above the 150 level I've pointed out several times before. This has been a spot that triggered BOJ/MOF intervention before…we'll should see soon if this level is still one that the Japanese government is keying on. Some analysts are suggesting that the BOJ is simply hoping that the ECB, BOE, and, most importantly, the Fed turn dovish soon enough to take the pressure off JPY.

DX & JPY below. Good luck today…we're all going to need it.

Energy

One more thing on tap today will be the weekly EIA inventory numbers…though this will be overshadowed by all the activity mentioned above. Expectations call for US crude oil stocks to be up 1.8 million barrels, and the API release (yesterday afternoon) would seem to suggest that is reasonable after showing an increase of 1.35 million barrels.

Today's Calendar (all times Central)

- ADP Employment Change – 7:15am
- JOLTS Job Openings – 9:00am
- ISM Manufacturing Index – 9:00am
- EIA Petroleum Inventories – 9:30am
- FOMC Statement – 1:00pm
- Fats & Oils, Grain Crushings – 2:00pm

Thanks for reading.

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