NESVICK
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Friday, November 17, 2023
NTG Morning Comments
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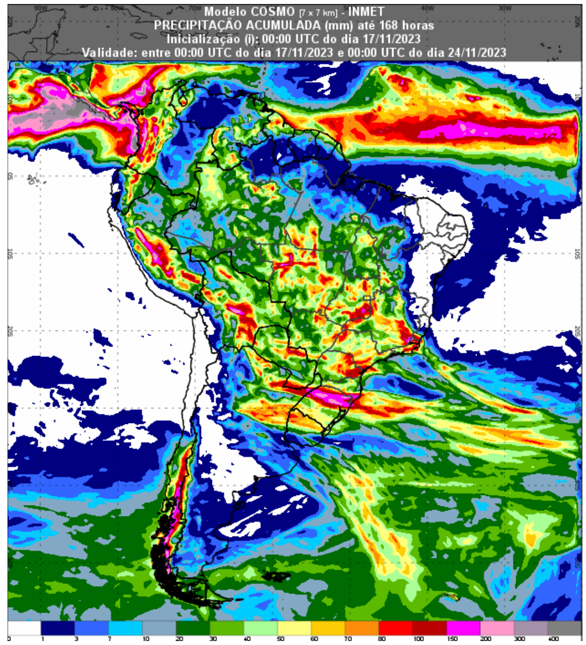
Weather



No big changes to the forecast in Brazil. Some spots in MT and Goias have seen some good rainfall totals in the past 24 hours. Additional spotty rains will be seen in the next 48 hours before coverage of rainfall improves into early next week. We should see widespread active rainfall through northern Brazil that produces some very significant rainfall amounts. We are still anticipating a downturn in rainfall chances again, however, by the 11-15 day period. More heavy rains overnight in parts of southern Brazil. And more big rains will be seen tomorrow. RGDS might dry out for a day or two but then additional big rains will follow again. This should continue to produce some localized flooding issues in the region. The forecast for Argentina looks a smidge wetter to me this morning. We should see limited rainfall for another few days. However, we should see some significant rainfall start to pick up around mid next week. It should go without saying that an uptick in rainfall chances would be very beneficial for the region. We should see widespread two week rainfall totals of 2-4" through northeastern portions of the growing region. Southwestern areas could see 1-2" amounts.

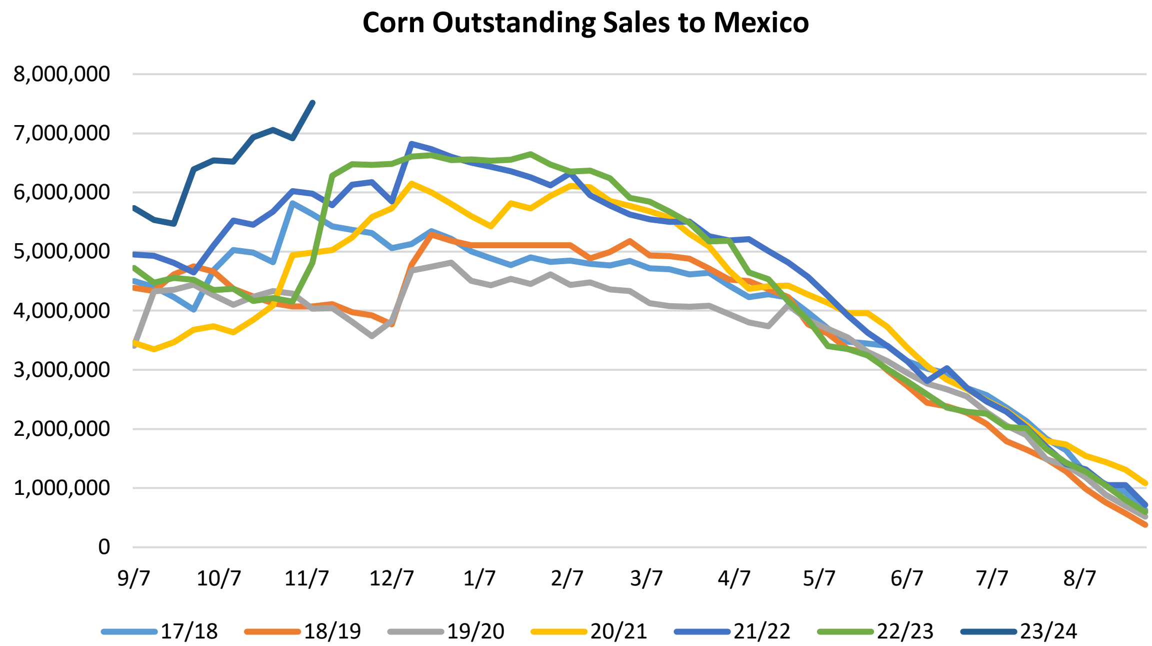
Crops

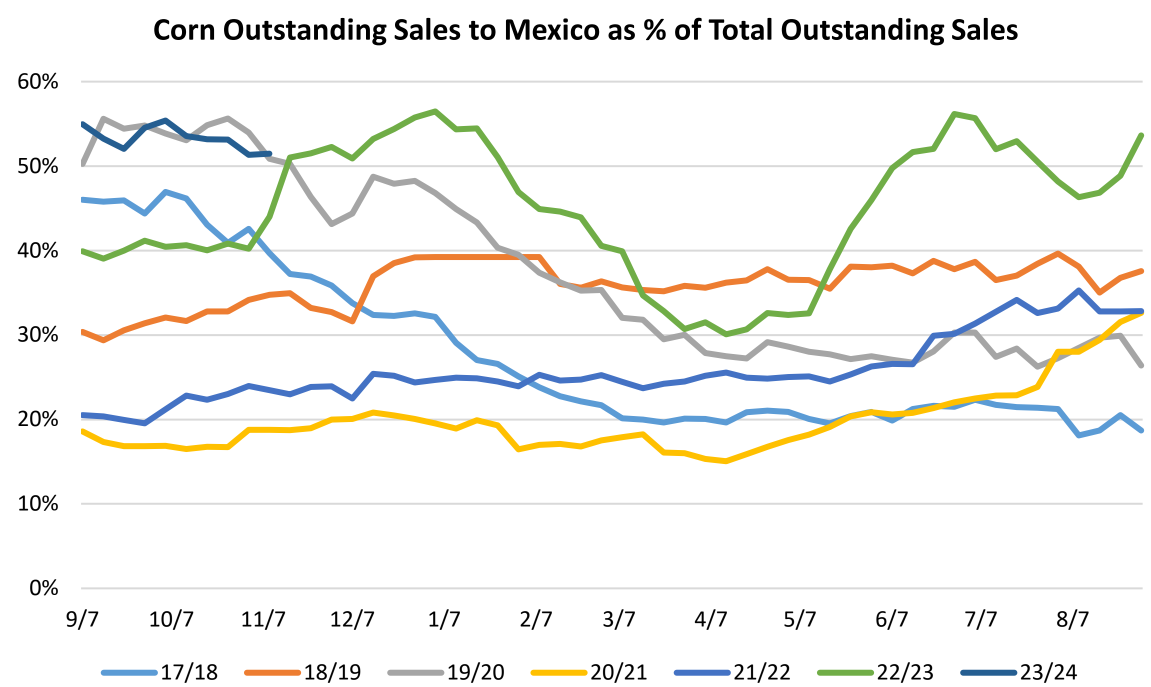
Unless you've been paying zero attention, you already know that Mexico is the leading source of demand for corn exports sales right now. Let's look at this a little closer for a quick second this morning. The table below simply looks at US Census export totals to Mexico over the past several years. The point here is that exports to Mexico are relatively steady over this period but somewhere around ~16.5 mmt is probably a good guess on what to expect for this year….maybe a smidge more.

Census Corn Exports to Mexico (1,000 mt)

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Total
17/18	1,580	1,082	1,156	1,244	875	938	1,024	1,366	1,611	1,488	1,647	1,686	15,697
18/19	1,380	1,854	1,436	1,393	1,396	1,107	1,129	1,389	1,550	839	1,243	1,388	16,104
19/20	963	1,132	1,196	1,185	970	1,225	1,186	1,446	1,291	1,374	1,295	1,210	14,474
20/21	996	1,119	1,179	1,234	1,072	1,087	1,734	1,483	1,811	1,318	1,258	1,297	15,587
21/22	1,067	1,715	1,546	1,453	1,500	1,349	1,343	1,407	1,469	1,411	1,444	1,169	16,873
22/23	982	934	1,127	1,300	1,446	1,706	1,748	1,454	1,512	1,441	1,298	1,205	16,154
23/24	1,303												

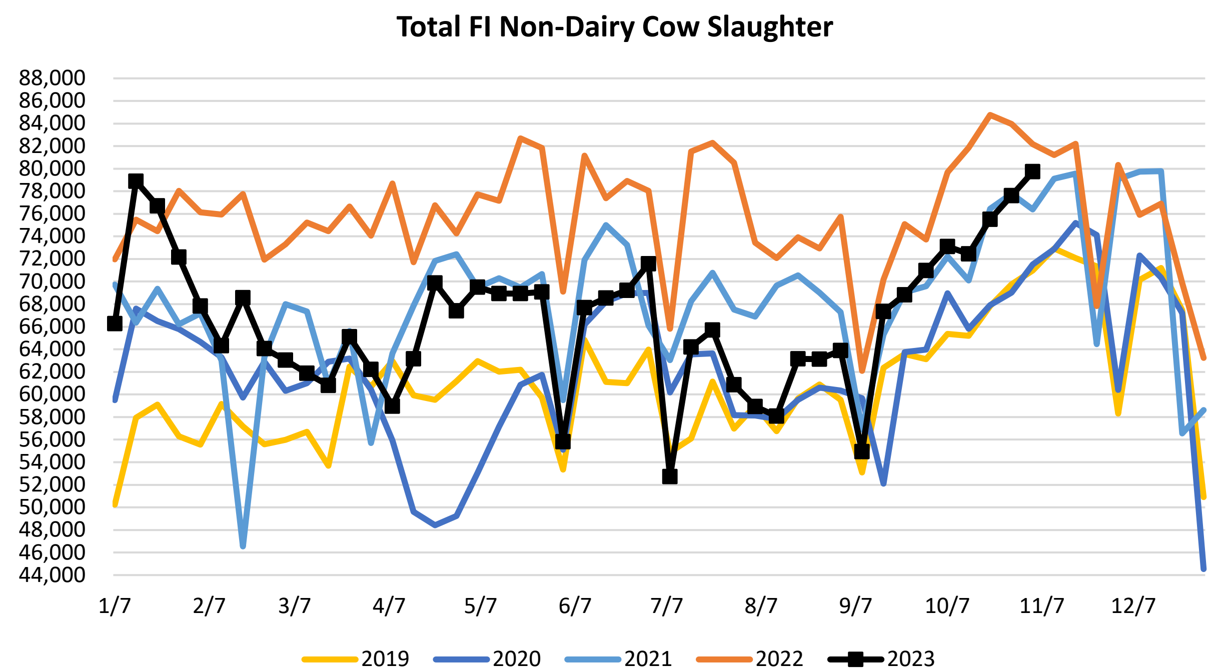
The charts that follow show the nominal total of US outstanding export sales to Mexico and the percentage of total US outstanding sales represented by sales to Mexico. Note that outstanding sales are currently about 51% of total outstanding sales and are up 3 mmt YOY. Looking back to the table above, do we really believe that exports are going to be up 3 mmt YOY? I don't…thus, it seems likely that the recent pace of sales is unlikely to be maintained. My understanding is that a major user in Mexico has forward-bought a lot of their needs. If that is correct, we should see sales to Mexico taper off slowly. Without the Mexican demand maintaining this pace, it would seem likely that US corn sales start to look a bit less rosy over time. For now, the pace of commitments supports the WASDE projection, but if I'm right on Mexico and Argentina (discussed yesterday) it won't look that way in another couple of months.

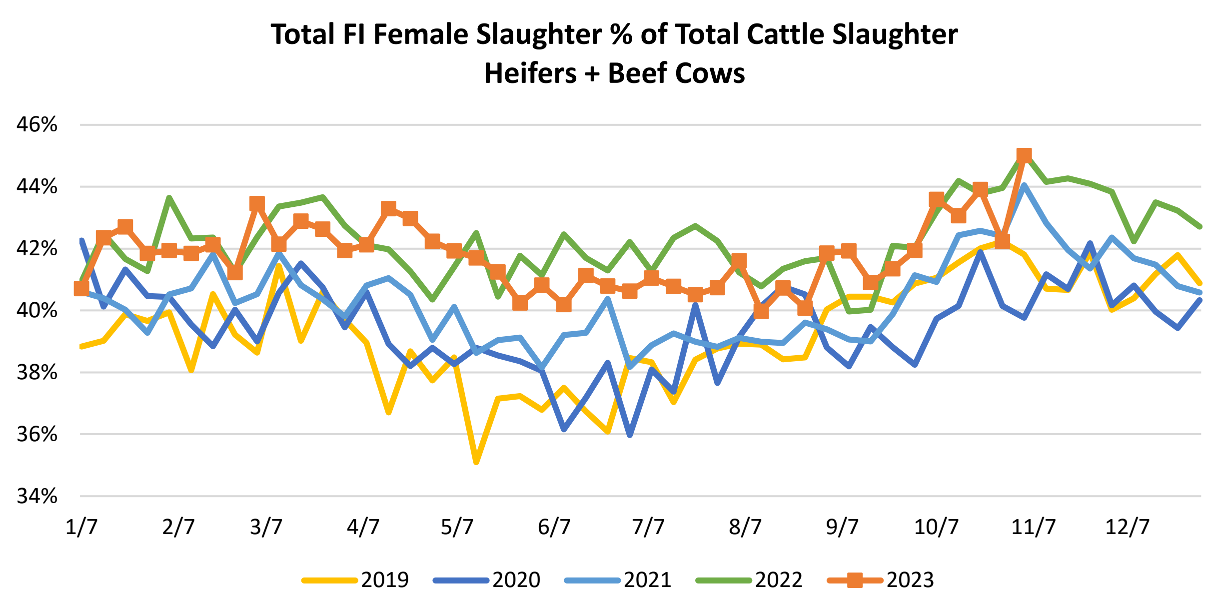




Livestock

It still appears as if herd liquidation is ongoing. The chart below looks at the weekly beef cow kill. Earlier in the year we highlighted the sharp YOY drop in beef cow kill as a sign that perhaps the liquidation had run its course. After all, you can only kill them once. While the YTD cumulative beef cow kill is definitely much smaller, look how it has narrowed up recently with a strong seasonal uptick in the past several weeks. The second chart below looks at the total female slaughter including heifers. Again, hard to argue that we're not still seeing some liquidation here.

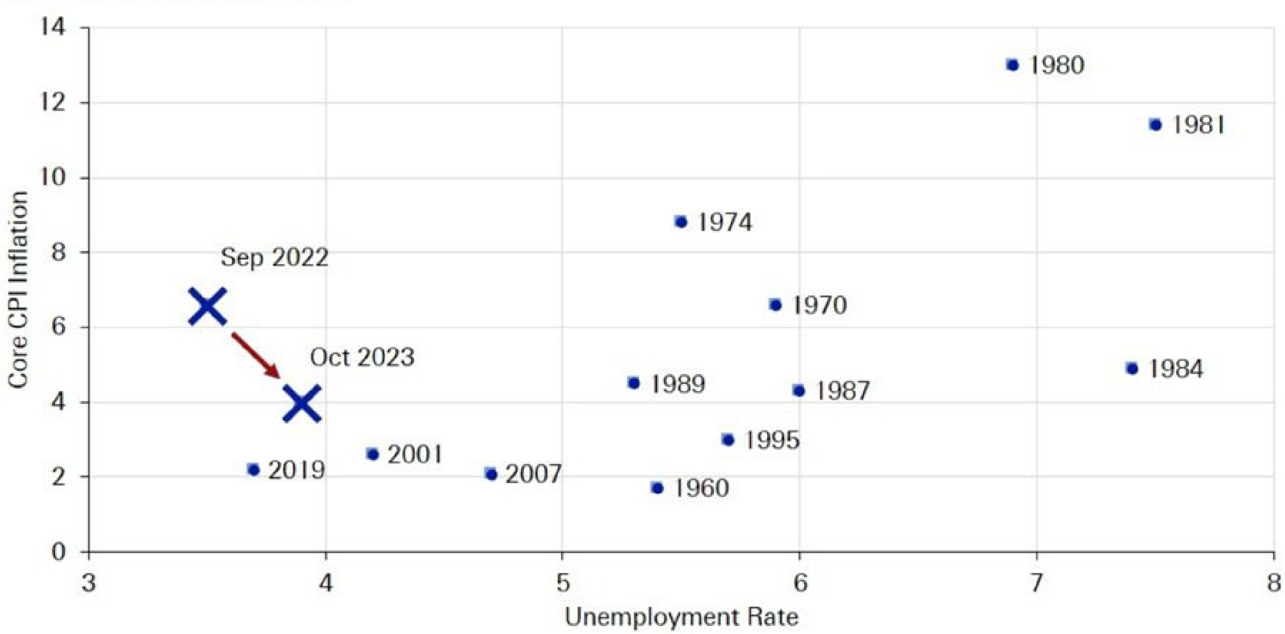




Financials

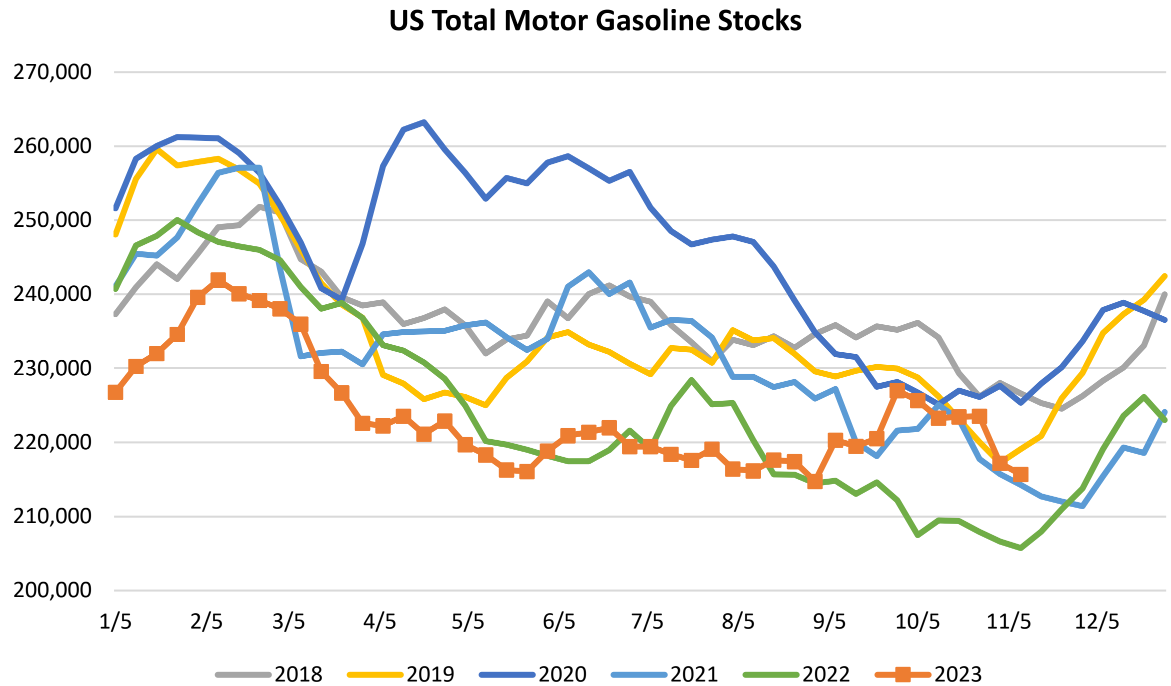
One chart today as food for thought. This chart was originally produced by DB but I stumbled across it on Twitter yesterday. I find it pretty interesting surrounding the debate on Fed rate cuts for 2024. Remember the Fed has a dual mandate of price stability and maximum employment. This chart plots these two measures on the X & Y axis. The dots represent where these two measures were when the Fed began a rate cutting cycle in the past. The Xs show how things have changed during the rate hiking cycle. So the point here is that unemployment is still very low and inflation is still, for now, above target. The argument here is that this would imply little reason for the Fed to embark on a rate-cutting cycle given the latest statistics. Of course there is plenty of suggestion that data will turn worse going forward, and that is certainly possible. However, I really like how this chart simplifies the view and I think it is a very interesting way of looking at things.

Figure 1: Combination of Core CPI and Unemployment when the Fed has previously begun rate cuts (with X showing where we've moved in this cycle)



Energy

After several weeks of data where it looked like the seasonal lows in gasoline inventories might have come a bit early, Wednesday's two-week catch-up showed that perhaps the lows aren't in quite yet. The two weeks of numbers showed a fairly sharp contract in stocks, mostly from the first week. You can see in the chart below that gasoline inventories are now back down very close to their lows from late summer. Typically at this time of year we're seeing inventories swing higher, so this is a bit peculiar. Inventories "should" build through the winter…it'll be interesting to see what happens next spring if we don't get the usual build.



Today's Calendar (all times Central)

- Housing Starts – 7:30am
- Cattle on Feed – 2:00pm
- Several Fed speakers

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
901-766-4684