NESVICK TRADING GROUP, LLC

Friday, May 22, 2020
NTG Morning Comments
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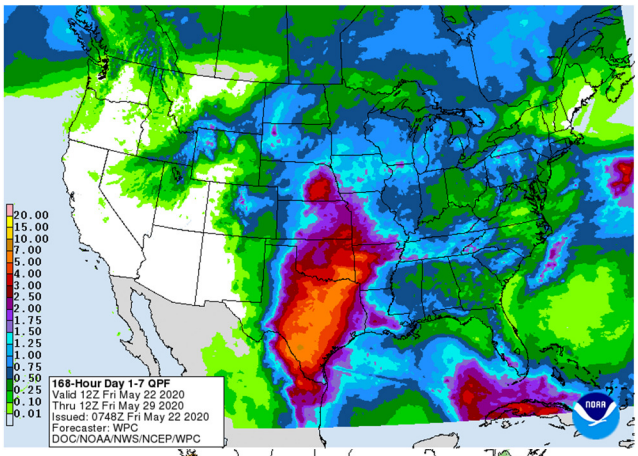
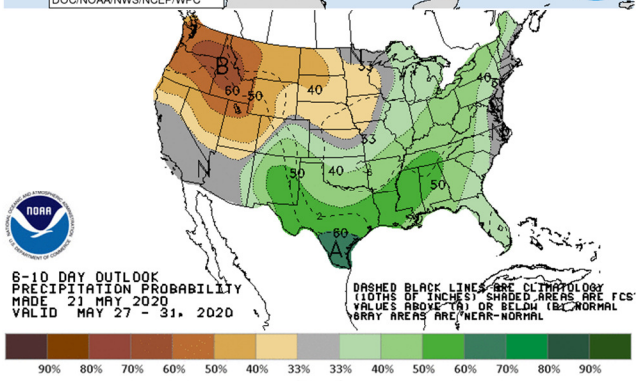
Weather

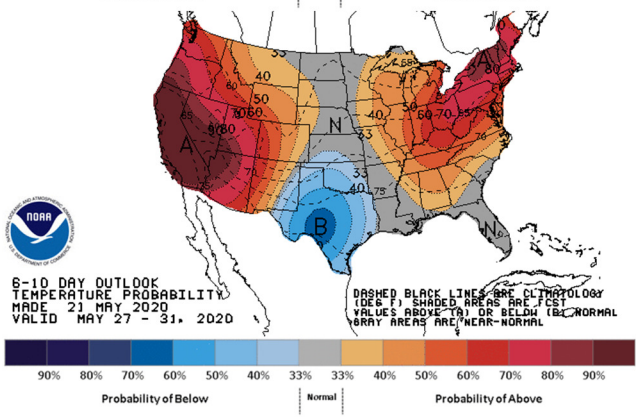
No big changes to the forecast today. As you can see in the map at the right, we've got some big precipitation to work through over the next week. The heaviest totals will be seen in the HRW belt and southwestern portions of the Corn Belt. Rainfall chances will be possible just about every day over the course of the next week, though the biggest amounts will probably fall Sun-Mon in many areas. Week 2 of the forecast period feature lower precipitation chances, though that timeframe won't be completely dry. You can see at right that eastern portions of the Corn Belt will be favored for precipitation during the 6-10 day period. No change on temps with mostly near to above normal readings expected in most areas over the next two weeks.





Crops

Earlier this week we noted that if oil is "back", it might be worth exploring whether or not ags could be "back". I noted that I believe that the dollar is the biggest factor impacting that potential right now. I've received some pushback on that idea so far…and I do appreciate that. But I'll continue to pound the table on the idea that the direction of the dollar will be of critical importance for managing ag markets in the years ahead. Yesterday I noted that the bull case for the dollar rests with contraction in global trade flows following Covid and overall increases in protectionism. However, I also pointed out that the dollar had been somewhat "artificially" inflated due to the Fed's hawkish monetary stance since 2015 relative to the rest of the world. That stance is no longer an outlier, and if trade flows recover following Covid it could mark a possible reversal in the dollar.



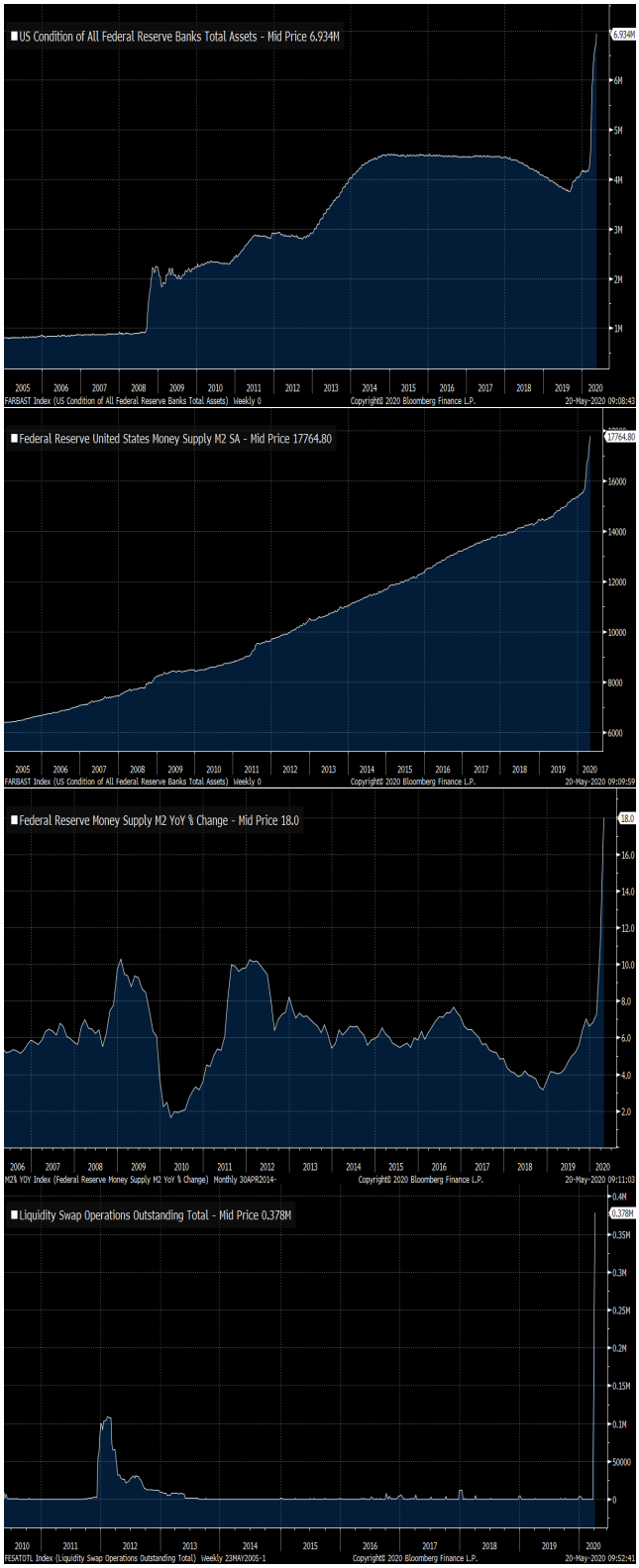
Today I want to spend a quick moment on US domestic monetary and fiscal policy and its possible implications on the dollar. Let's start with the monetary portion of domestic policy. As noted yesterday, the Fed has slashed rates to zero already this year. There is no point in going over that again today. What is probably worth showing one more time this morning is that the Fed is doing to overall money supply and liquidity. Remember, Fed Chair Powell said in his 60 Minutes interview that the Fed is essentially "printing" money by crediting various accounts. From my experience with supply and demand, typically when you create more of something (in this case, dollars), it will often times reduce its value. So let's take a look at the scale of the Fed's money printing real quickly this morning.

Shown to the right are a handful of charts illustrating the Fed's actions to increase dollar liquidity/supply. The top chart is one we've all seen a million times at this point, but it is worth repeating. The Fed's huge surge in its balance sheet is simply mind-boggling. The Fed's balance sheet is up almost 70% from just the beginning of the year. As you can see, such a rapid increase in the balance sheet is virtually unprecedented.

The second chart at the right shows US M2 as calculated by the Fed. M2 is defined as a calculation of money supply that includes cash and checking deposits, savings deposits, money market securities, mutual funds, and generally anything that can be "easily" convertible into cash. Obviously in an expanding economy the money supply should be growing over time, but you can see in the second chart that the expansion so far this year has been huge. The third chart at the right tracks the YOY percentage change in M2. The level of M2 is increasing at a rate never seen before…with my data going back to the early '60s.

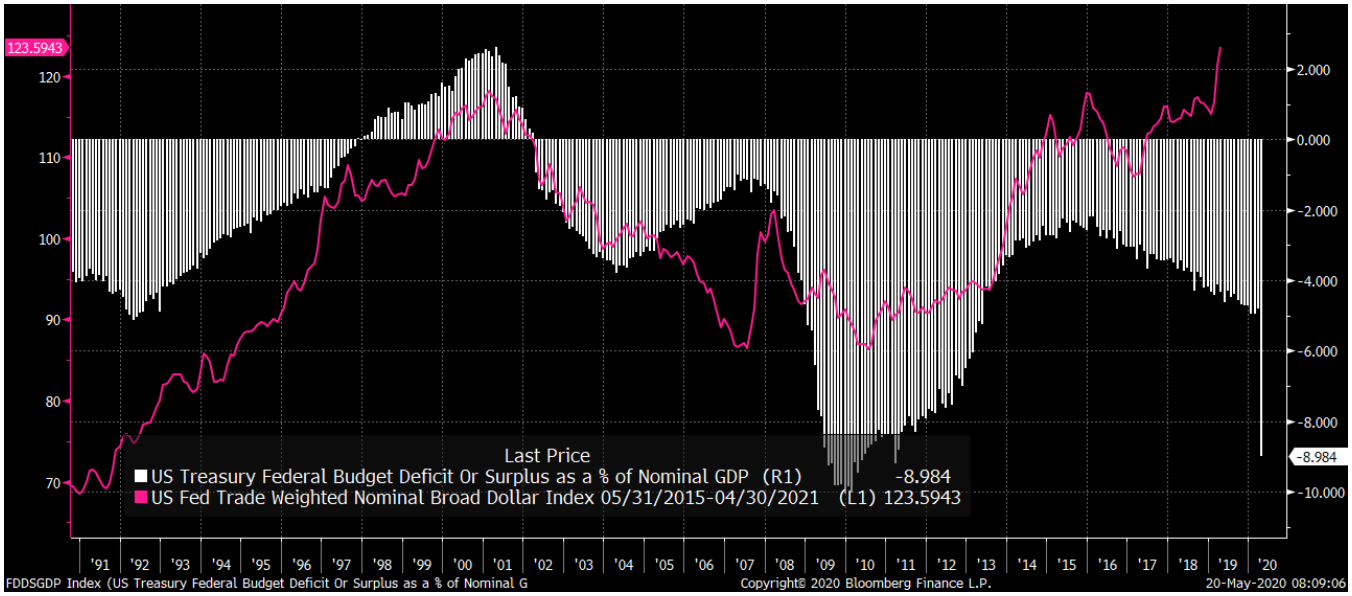
And the added liquidity and dollar supplies aren't just a domestic feature. Yesterday we discussed the potential for a looming dollar shortage for countries around the world, but the Fed is busy offering massive liquidity to foreign central banks. The last chart to the right shows the outstanding "liquidity swaps" provided by the Fed to other central banks. Admittedly, this doesn't go to just anyone and there might be some regional dollar "tightness" somewhere out there. But just look at how many dollars the Fed is throwing around there…it is a massively unprecedented level. This dwarfs the swaps provided by the Fed in '11 and '12…which I assume was related to the European debt crisis.

So the bull case for the dollar is supposedly a shortage of dollars brought about by, among other things, a collapse in global trade volumes. Well, all the charts at the right certainly indicate to me that the Fed is fighting any perceived dollar shortage with



every ounce of ammunition it might have. A dollar shortage might eventually show up regardless, but then again the Fed has clearly shown a willingness to expand to current operations and add new operations if necessary.

Now let's shift to the US government's fiscal response. Unless you've been living under a rock or in communist-censored country, you know the US government's response has been to throw money at everything and anything possible. I'm obviously not breaking any news here, but this massive spending combined with the slowdown in the economy should result in a huge increase in the federal deficit as a percentage of GDP. The chart below tracks just that, the deficit (or surplus) as a percent of GDP. You can see that most recently the deficit has widened to roughly 9% of GDP, but this comes before the huge spending efforts have fully taken effect and before the true hit to GDP has been realized.



So the deficit as a percent of GDP is almost certain to worsen from these levels. Note also on the chart is the Fed's trade weighted dollar index, but in this case I have given the dollar index a 12-month lag. You can see that, with a lag, the dollar index has typically followed the direction of the deficit as a percentage of GDP. The exception being, again, that post-2015 era when the deficit was widening but the Fed was also the lone hawkish central bank in the world with rates sharply higher than everyone else. As noted yesterday, that is simply no longer the case.

So, on one hand we have contracting global trade flows which can be supportive to the dollar. On the other hand, we have the Fed dumping dollars into the world on a pace never seen before and the US government is spending money like there is no tomorrow. This might be the environment to start betting that the strength in the US dollar is running on borrowed time.

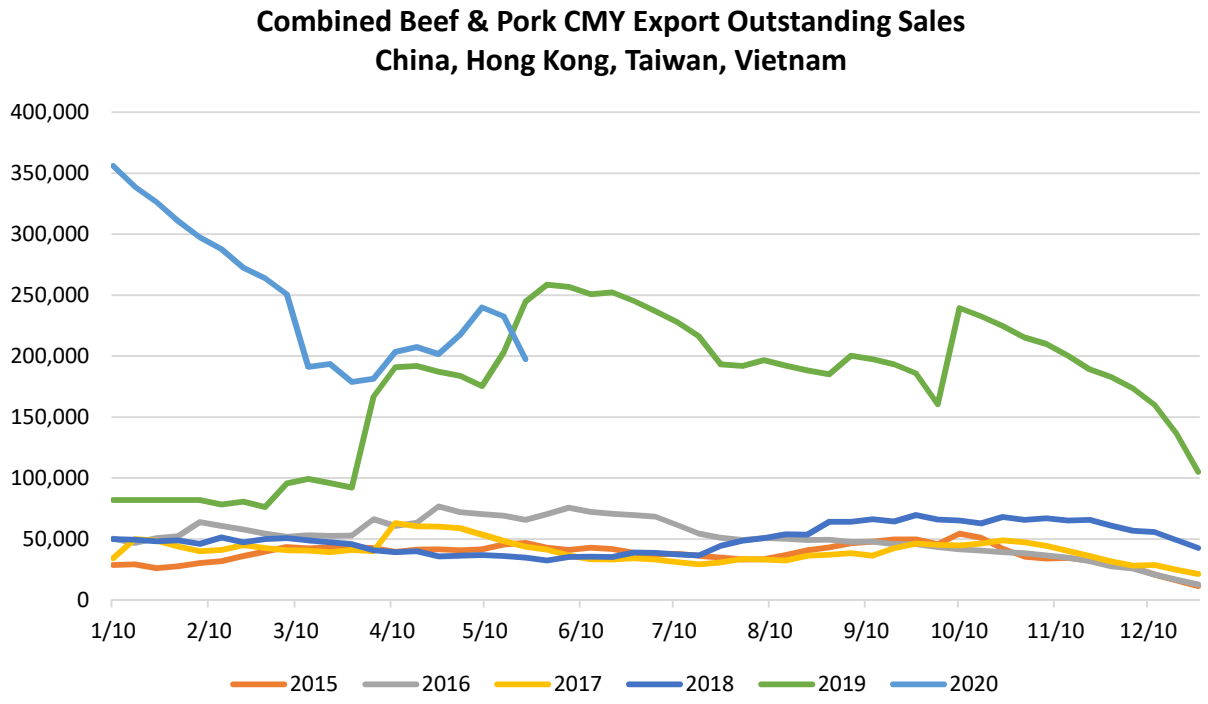
Thoughts appreciated. We'll wrap up with some final thoughts next week.

Livestock

The headline news on tap today is the COF report this afternoon. At the right I've attached the Bloomberg survey expectations for the report. As has been the norm lately, the range of expectations is pretty wide. Our friend Mike Sands is projecting placements -22.8%, marketings down 25.1% and on-feed down 4.9%...which are basically right inline with the averages from the survey.

	Survey Results			
Survey Summary:	Average	Median	Low	High
Cattle On Feed (May 1)	-5.1%	-5.0%	-5.9%	-4.3%
Placements (April)	-23.0%	-22.7%	-28.7%	-13.3%
Marketings (April)	-25.3%	-25.4%	-30.0%	-17.3%

Yesterday's export sales report was disappointing, which wasn't unexpected. Perhaps somewhat unexpected was a net cancellation of pork sales to China. Some will argue that it wasn't necessarily China that canceled them but rather perhaps the US seller due to tight US supplies. I don't believe that for one second, but whatever the reason for the cancellation it isn't good news. I thought the chart below would be of potential interest. For the first time in a long while, combined beef and pork outstanding sales to the ASF-impacted portion of Asia have fallen below year-ago levels. Some might argue it doesn't matter anymore as domestic supplies have tightened considerably, but I would simply point out what a big disappointment it has to be to be unable to truly take advantage of a potential export market due to the trade war and now sharp reductions in US production. Furthermore, I think it is worth raising the question of what is the outlook for export sales down the road as Chinese production levels normalize as well as those in the US?



Financials

A modestly risk-off tone to markets so far this morning. The selling pressure in equities and other markets isn't anything intense, but there is a nervousness to markets it seems to me. It seems that China has, rightfully, figured out that the entire world is pissed off about Covid-19 and blames them. In that light, to them it probably seems like a good time to drop the hammer on Hong Kong then. They have been planning to do it anyway, and if the world is already pissed then what more harm is done right now? Additionally, President Xi is desperate to reassert authority. The decisions from China make sense (from their perspective), and I doubt they're truly catching the US off-guard. The US State Dept delayed a report on Hong Kong's autonomy earlier this month, probably anticipating this would happen.

So here is the question I am asking myself this morning – What confidence do I have that the Trump administration will respond to China's "national security" move in Hong Kong in a calm and rational manner? However you answer that will greatly influence your market positioning into the weekend. Certainly there appears to be some nervousness in the market this morning, but no panic. Panic could be just one tweet away though….

Energy

Crude oil futures are lower at the time of writing this morning, caught up in the risk-off sentiment. No major new information is out this morning. Despite the losses this morning, for now it appears highly likely that WTI will post its fourth consecutive higher weekly close.

Today's Calendar (all times Central)

- Baker Hughes Rig Count – 12:00pm
- Cattle on Feed – 2:00pm

Thanks for reading.

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