NESVICK TRADING GROUP, LLC

Thursday, June 18, 2020

NTG Morning Comments

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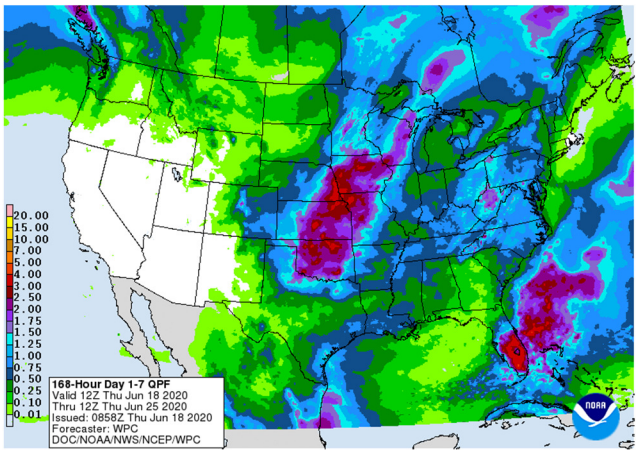
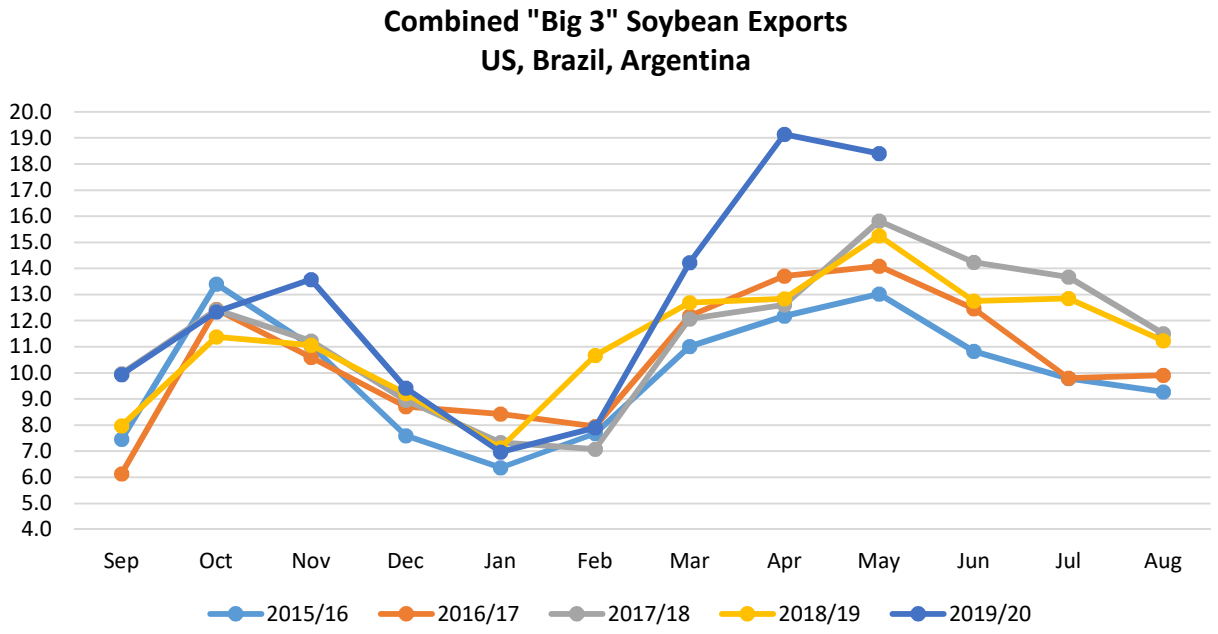
Weather

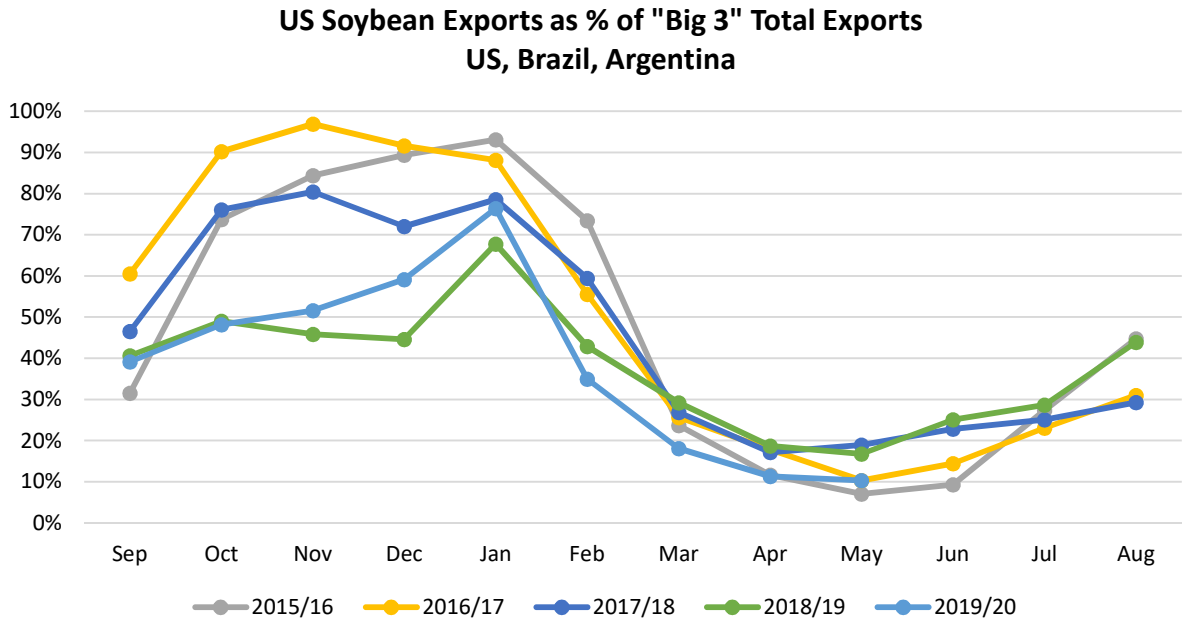
No big changes to the forecast today. Rains are kicking off in the Northern Plains and this begins a week of near-daily rainfall chances favoring the WCB and Plains. Coverage of rainfall will probably not be quite as good as shown in the map, but the rainfall amounts should be just as good if not more. Forecast model agreement for Week 2 of the forecast is not good so there is a lot of uncertainty going forward, but for now they seem to imply that modest rainfall chances should continue favoring southern portions of the Corn Belt. Relatively cool temps expected for the next several days.



Crops

Yesterday we talked about the likelihood for sharply curtailed Brazilian exports later this summer and through early winter. Today I just want to look real quick at what this might mean for the level of US exports during that timeframe. Before we do that, let's look at how things have shaped up over the past several months. The first chart below looks at combined "Big 3" (US, Brazil, Argentina) soybean exports over the past several years. The second chart looks at the US % of those total exports. While total demand for soybeans has been very solid this year, the US has not reaped the benefit of that as US market share has been hammered over the past two years due to the trade war and big Brazilian production levels combined with ultra-competitive currency.



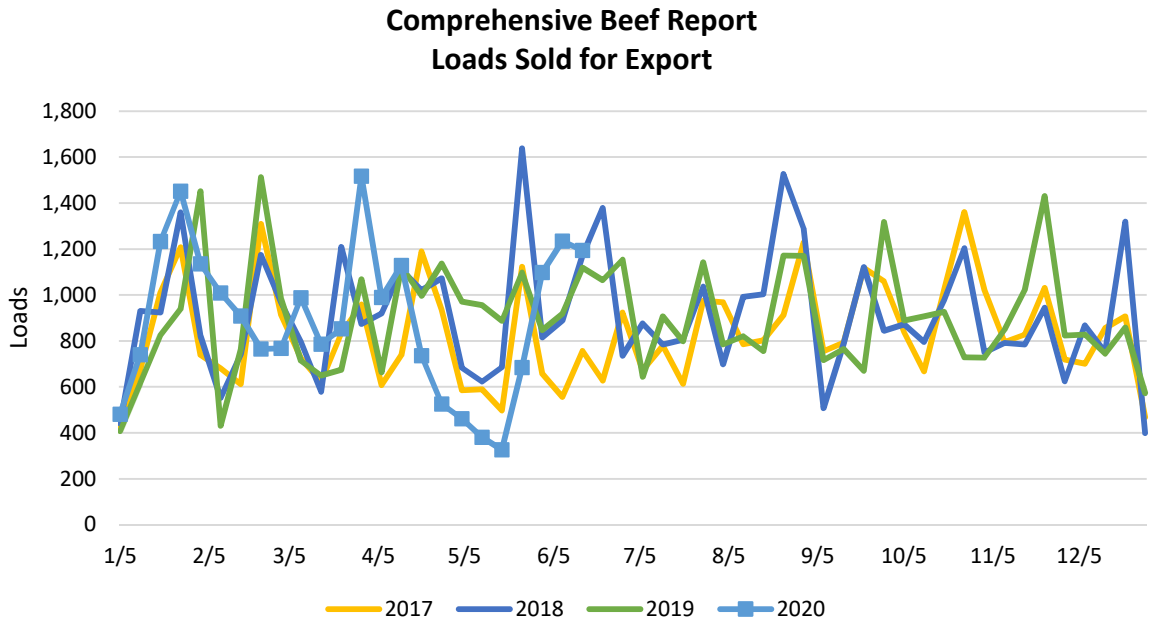


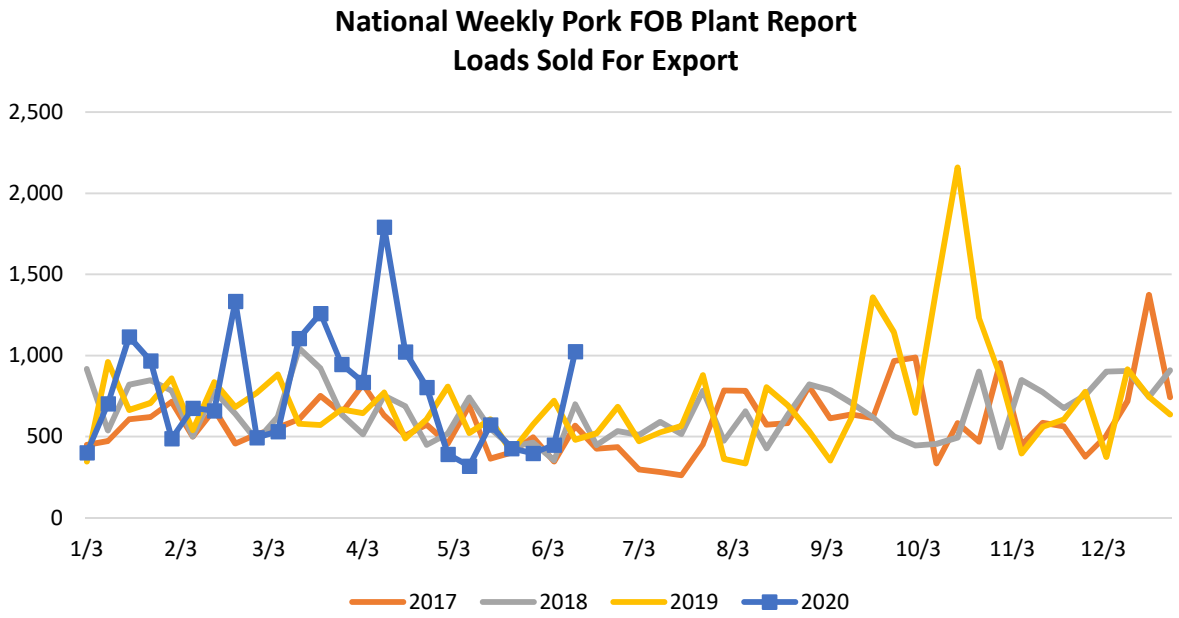
So what does this mean for potential US exports later this year? Well, for our purposes today let's assume that global demand for soybeans during the upcoming Sep-Jan period will be roughly unchanged vs. last year. I think it is a reasonable assumption. If we accept that assumption, a breakdown of possible demand for US exports is shown at right. At the top I have 2019 Sep-Jan exports as our baseline assumption. Below that I pencil in some guesstimates of Brazilian and Argentine shipments. Again, the Brazilian shipments are down sharply vs their 2019 levels based on our discussion from yesterday. The "required" US line simply takes the remainder of the 2019 level vs. the South American exports. If world demand is unchanged YOY, it could presumably demand 43.5 mmt of US exports during the Sep-Jan period. At the bottom of the table I've got several recent years of export demand for comparative purposes. Again, this illustrates my point that we could be looking at a soybean demand pull that we haven't experienced in years. Admittedly, this doesn't necessarily argue that WASDE's demand projections are too low. However, I simply question whether the soybean market remembers what it is like to trade an environment where the market is trying to "pull" beans into the pipeline? Thoughts appreciated.

	Sep	Oct	Nov	Dec	Jan	Sep-Jan
Big 3 Combined Exports						
2019	9.9	12.3	13.6	9.4	7.0	52.2
2020 Projections						
Brazil	3.5	1.0	1.0	0.5	0.5	6.5
Argentina	1.0	0.5	0.5	0.1	0.1	2.2
"Required" US						
US 2020?	**5.4**	**10.8**	**12.1**	**8.8**	**6.4**	**43.5**
Recent US						
2019	3.9	5.9	7.0	5.6	5.3	27.7
2018	3.2	5.6	5.1	4.1	4.8	22.8
2017	4.6	9.4	9.0	6.5	5.8	35.3
2016	3.7	11.2	10.3	8.0	7.4	40.6

Livestock

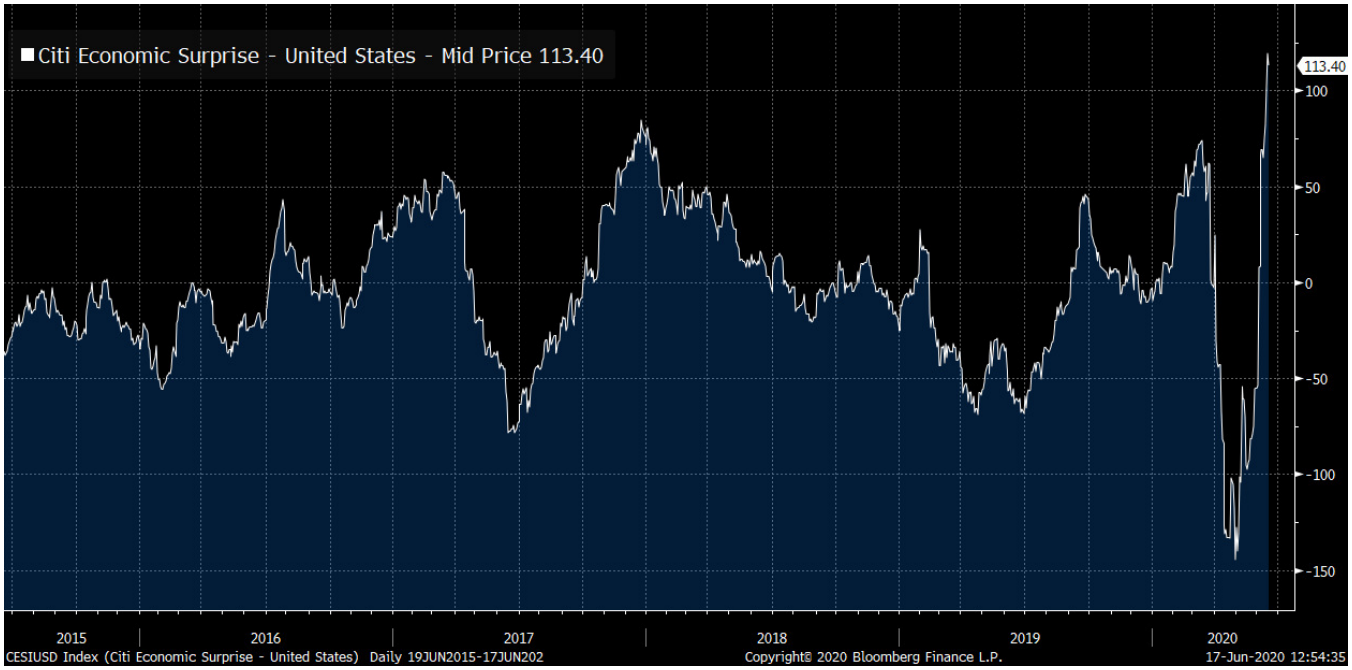
Export sales report on tap this morning. While we know the charts below are hardly a strong indicator of what to expect from the FAS, they can sometimes give us a head's up. I think it is interesting to note that the AMS reports for both beef and pork in the past week have shown a solid uptick in export demand. Pork sales for exports were the best we've seen in months and beef sales were solid as well. I hope this will be a good indicator of a decent FAS report this morning, but again – no guarantees.



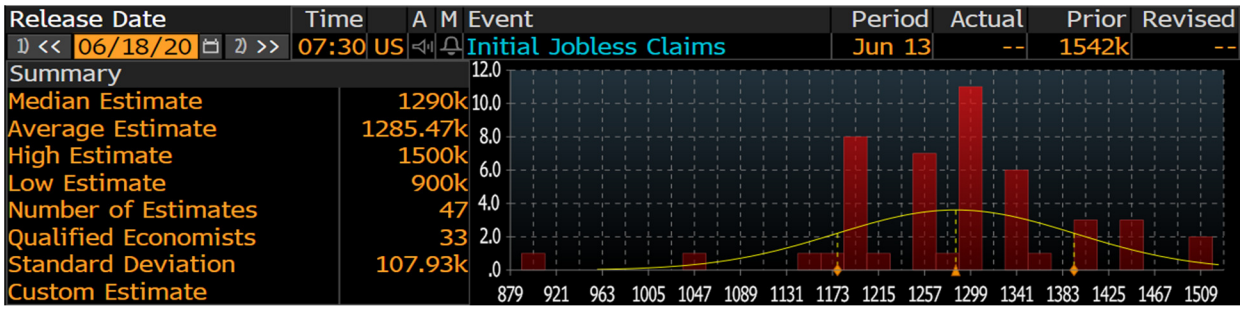


Financials

A lot of analysts have been dismissing the ongoing strength in the equity markets as a "bubble" brought on by excessive retail speculation. I don't anyone can or should deny that is a part of the equation here. Additionally, I've pointed out before that the market follows the direction of the Fed balance sheet and obviously the Fed is buying virtually anything it can at this point in time. These are both key factors influencing equity markets. That being said, I don't think we should lose track of the recent data. The chart below shows the Citi economic surprise index. It tracks actual economic data releases vs. expectations. You can see that with this week's exceptionally strong retail sales report, the index has hit its highest level in at least the past 5 years. It might actually be a record high level. So, while we can certainly lament the fascination with #DDTG and the Fed's influence on markets, we shouldn't lose sight of the fact that the latest economic data has been better than expected and that is also supporting the market.



On tap today we have the latest update on jobless claims. Once again we have a very wide range of expectations, as shown below. Continuing claims will likely remain elevated, but I do wonder if new initial claims might be yet another economic release to impress?



Release Date	Time	A	M	Event	Period	Actual	Prior	Revised
06/18/20	07:30 US			Initial Jobless Claims	Jun 13	--	1542k	--

Summary	
Median Estimate	1290k
Average Estimate	1285.47k
High Estimate	1500k
Low Estimate	900k
Number of Estimates	47
Qualified Economists	33
Standard Deviation	107.93k
Custom Estimate	

Energy

OPEC released its monthly oil market outlook report yesterday. It didn't contain any surprises. The group left their estimate for global oil demand unchanged for this year, calling for a YOY reduction in demand of roughly 9%. They estimated overall OPEC production last month to be down about 6.3 mbpd from the prior month, with most of the members complying on the agreed upon production levels. Iraq remains a standout of non-compliance, but they did cut some from the prior month.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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