

Weather

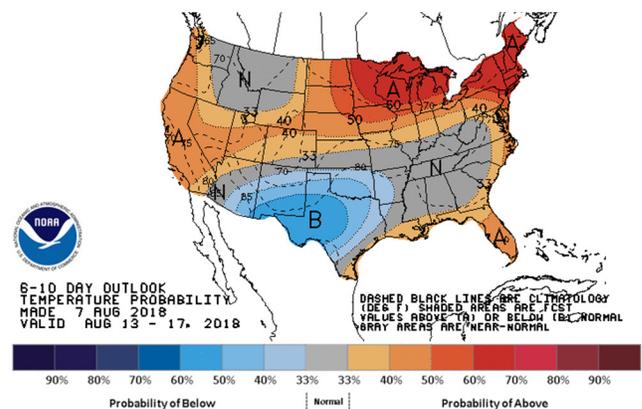
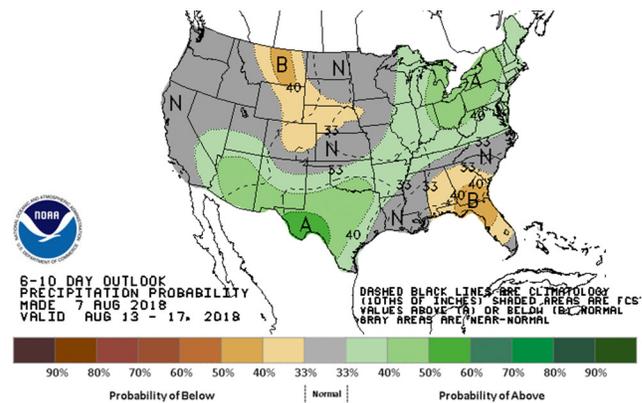
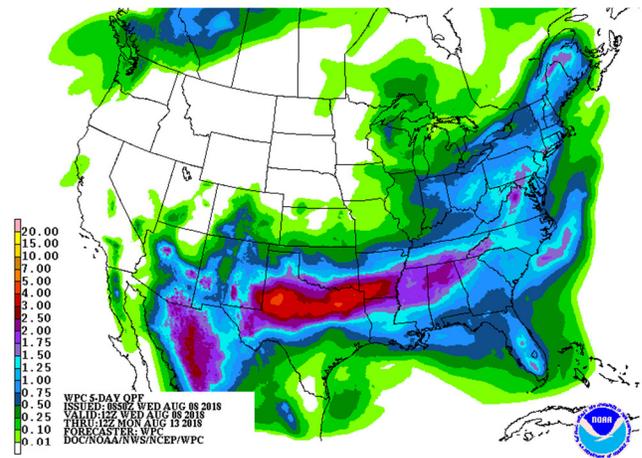
After the rains of the past few days, we're entering a period of limited precipitation chances in the Corn Belt for a few days. Rains that do fall in the next few days will favor eastern areas, though amounts and coverage should be pretty limited. The remainder of the area should see basically no rainfall through early next week. We should start to see rain redevelop in southwestern areas on Tuesday and those rains will spread northeastward through the Corn Belt on Wed/Thur. This should create a situation where the southern half of the Corn Belt see AN precipitation odds in the 6-10 day period while northern portions see more limited rainfall chances. It appears likely that a similar setup will continue during the 11-15 day period.

Look for mostly AN temps through the Corn Belt over the next two weeks, but at the same time we're not looking for any extreme heat. Look for highs to mainly range from the low 80s to low 90s over the next two weeks.

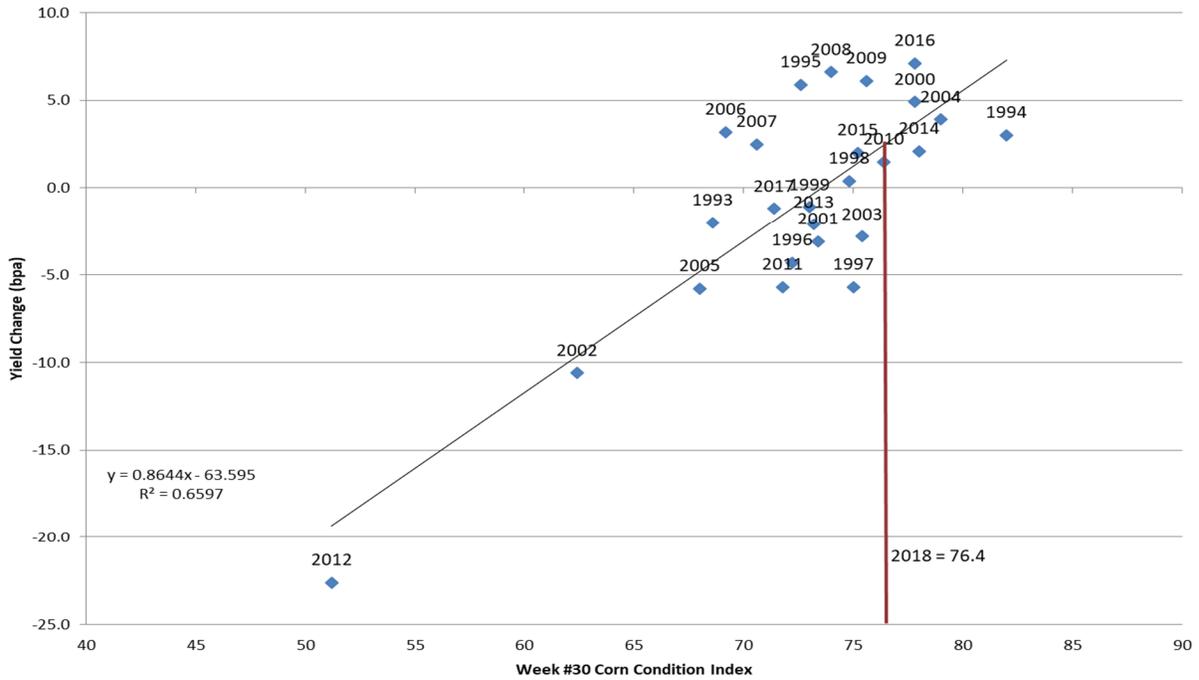
No change in the international outlook. Europe should start seeing better rainfall tomorrow and should see a break in the heat. FSU areas continue to look for mostly BN precipitation over the next two weeks. Australia also looks BN.

Crops

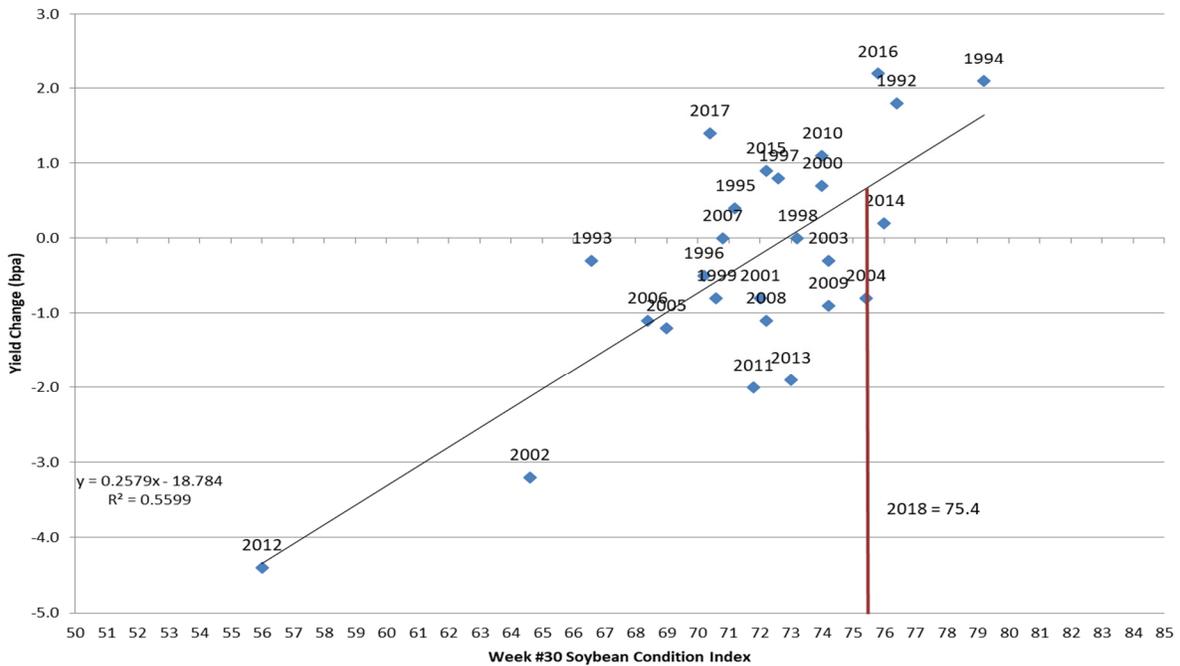
Today we'll look at condition ratings and the implications for yield on Friday's Crop Production report. I won't pay much attention to Monday's condition numbers, as I believe NASS has already wrapped up their production numbers by this point. You'll see below I'm looking at condition ratings as-of the end of July. The first chart below shows the Week #30 corn condition index score vs. the change from the July WASDE corn yield to Aug NASS corn yield. The relationship, as with all things concerning conditions and yields, isn't perfect but there is a decent correlation. If you were to believe this relationship as a "sure thing", it would imply a ~2.5 bpa increase vs. WASDE's prior 174.0 bpa estimate. The second chart shows the same relationship for soybeans. Believe this chart, and it would imply a ~0.7 bpa increase vs. WASDE's prior 48.5 bpa yield.



**Change in Corn Yield from July WASDE to August NASS
 vs. Week #30 Corn Condition Index**

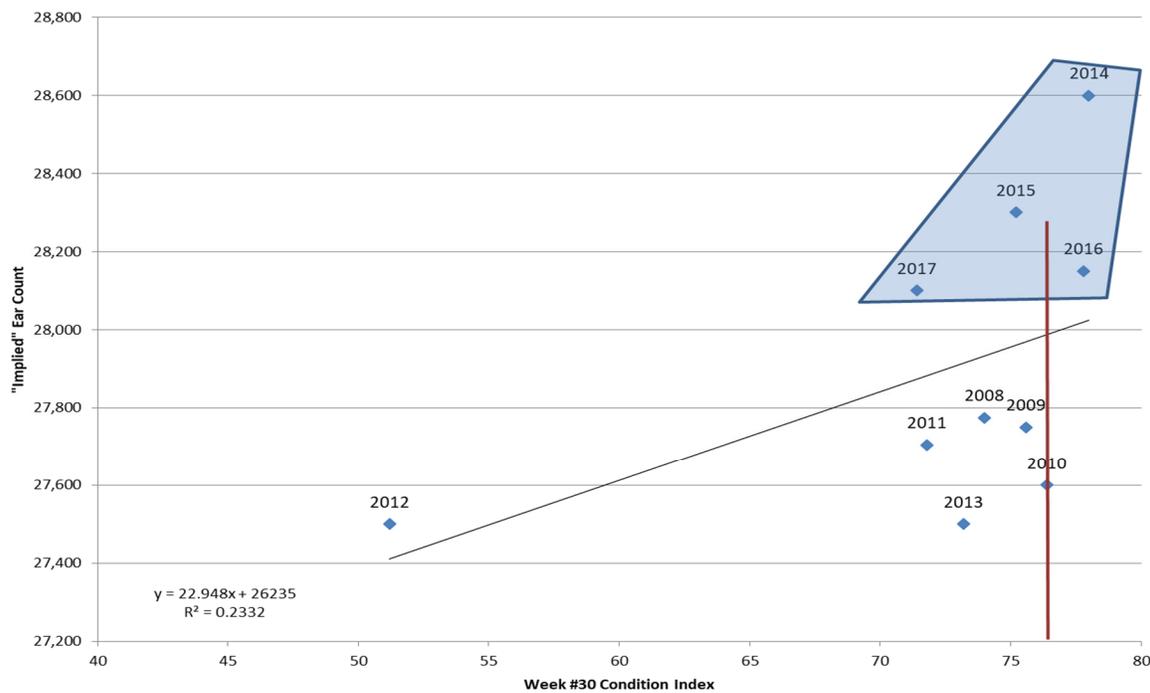


**Change in Soybean Yield from July WASDE to August NASS
 vs. Week #30 Soybean Condition Index**

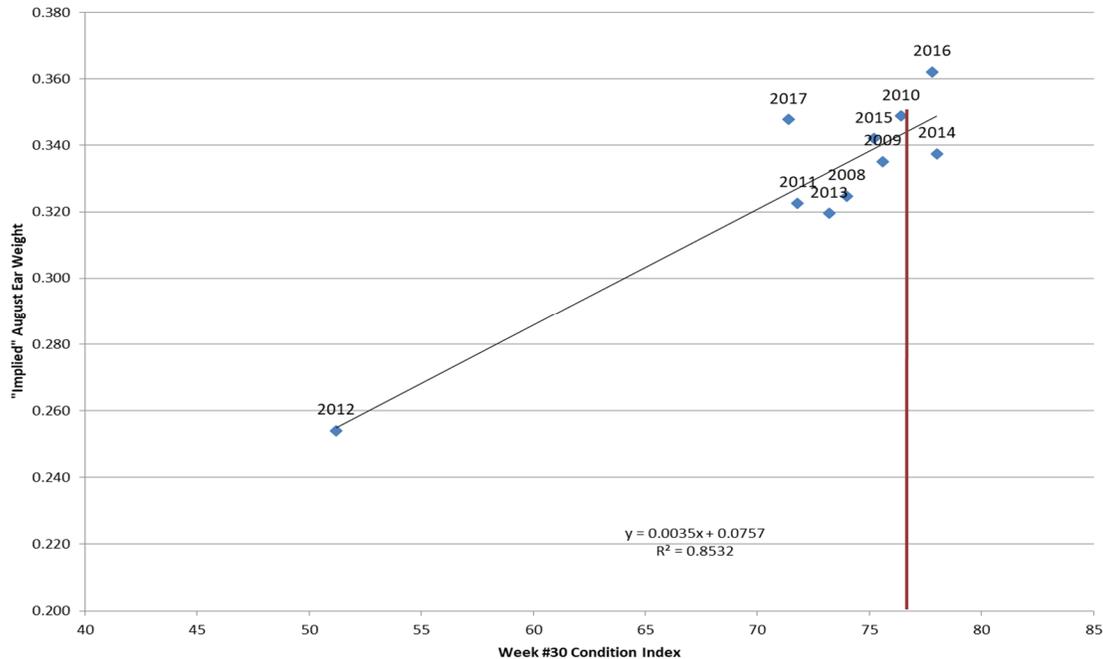


As noted yesterday, we don't really get any objective yield data on soybeans but we will get some limited numbers on corn. They give us an ear count (that is almost always revised higher in Sep) and from that we can estimate an implied ear weight based on their yield. Condition ratings can give us some clues for both of these figures, though not with a high degree of certainty. You can see what I mean below with the ear count estimate against end-July condition ratings. There is virtually no relationship here, but note how NASS's ear count numbers in recent years have jumped higher. The second chart below shows the implied ear weight vs. condition ratings and you can see there is a solid relationship between conditions and ear weights. I think both of these charts show that the condition ratings would imply the possibility both ear counts and implied ear weights could be very solid numbers.

August Implied Ear Counts vs. End-July Condition Rating



Implied August Ear Weights vs. End-July Condition Index

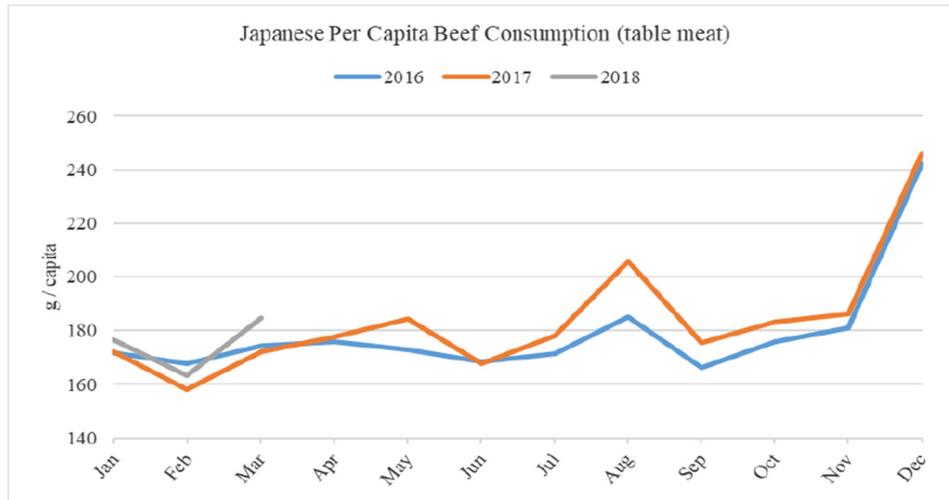


Livestock

Considering Japan currently represents >30% of US beef export commitments, I thought it might be worth a look at the latest USDA attache report on Japanese Livestock & Products. I'll mainly just post some of the comments from the attache report here.

Japan's household beef consumption, which accounts for around 30 percent of total beef consumption, continues to trend upward. Monthly per-capita table consumption of beef as of March 2018 was 7.2 percent above 2017. Japanese consumers continue to demonstrate a growing preference for imported red meat which is less expensive and less fatty than domestic beef. The 'meat boom' which swept over Japan in 2017 has continued to drive beef consumption in 2018 in both retail and foodservice. In addition to the stand-up steak restaurants....metropolitan areas such as Tokyo and Osaka have seen a proliferation of meat pubs (niku baru in Japanese) which serve a wide variety of dishes giving customers the opportunity to taste different cuts of meat. Many meat pubs encourage customers to photograph the different cuts before they are cooked and post the photos on social media to generate interest.

Figure 2



Source: Ministry of Internal Affairs and Communications

Japan remained a significant importer of beef in early 2018. Japan imported 327,429 MT (CWE) of chilled and frozen beef in the first five months of 2018, up 3.1 percent from the same period in 2017. Imports of Australian beef increased 10.6 percent to 173, 421 MT, accounting for 53 percent of the market while imports of US beef dipped 3.7 percent to 129,253 MT with 39 percent market share.

Figure 3

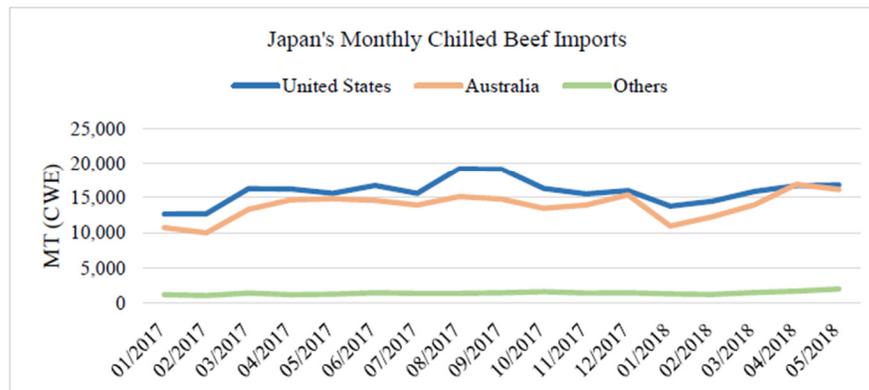
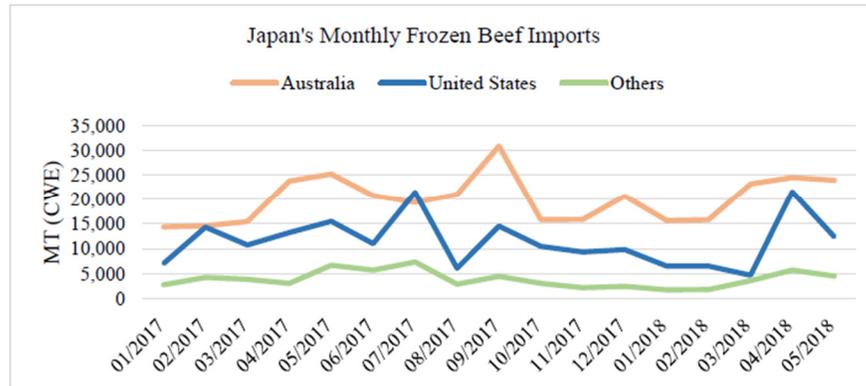


Figure 4



Source: Global Trade Atlas

The overall decrease in US frozen beef imports in the first five months of 2018 is partly attributable to Japan's application of a safeguard tariff on US frozen beef which increased the tariff rate from 38.5 percent to 50 percent from August 1, 2017 to March 31, 2018. Japanese importers appeared to reduce purchases in the first three months of 2018 until the tariff reverted to 38.5 percent on April 1. In April and May 2018, US frozen beef imports increased 18.4 percent compared to the previous year while Australian frozen beef decreased one percent. FAS/Tokyo anticipates that importers will exercise caution to avoid triggering the safeguard tariff in 2018.

2019 Market Outlook - FAS/Tokyo forecasts that strong consumer demand for beef will be primarily met by increased imports. The United States and Australia will continue to compete for market share in both the chilled and frozen beef sectors. With imports remaining cost competitive compared to domestic beef, FAS/Tokyo projects beef imports to increase to 845,000 MT.

Bottom line is that Japan appears to be hungry for beef. Australia currently enjoys a tariff advantage over the US but there seems to be enough demand to go around right now.

Financials

There isn't much new to discuss this morning, so we'll keep this short. The US will be going ahead with 25% tariffs on another \$16 billion of Chinese goods starting Aug 23. China reported trade data overnight and showed exports were actually up 12% YOY, which is larger than expected. Imports were up 27% and the trade surplus was roughly \$28 bil. The higher import value was driven by higher oil costs. The data shows that the trade war hasn't had a big impact on Chinese exports yet. Otherwise, I don't see anything new to mention this morning. There is no major economic data out this morning, but we'll need to watch the 10-year auction this afternoon.

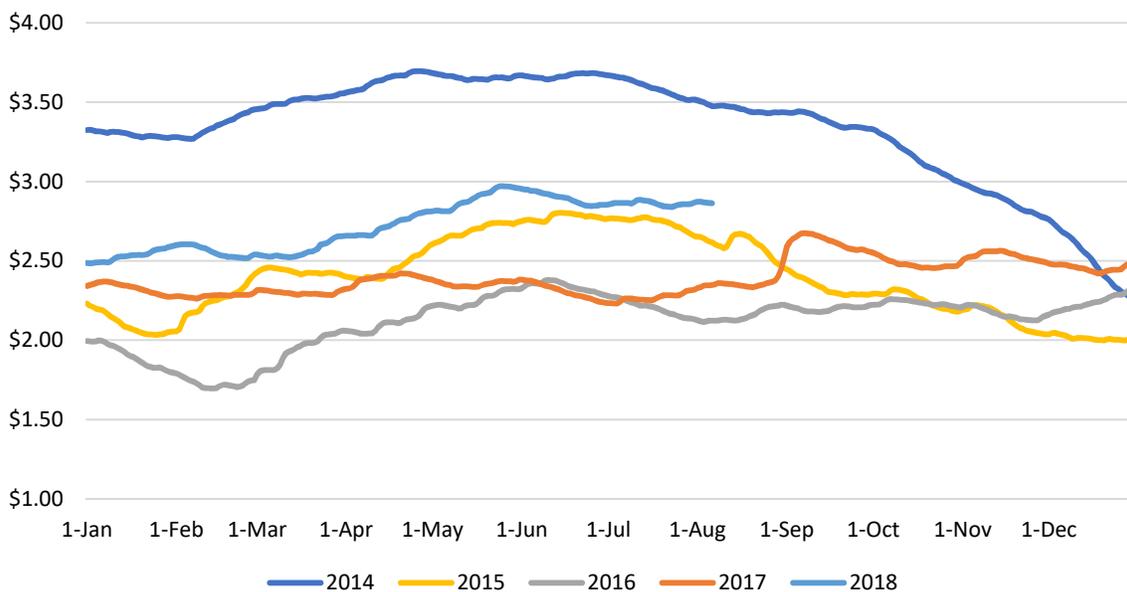
Energy

On tap this morning we have the weekly EIA inventory data. This has been highly volatile recently, so I won't pretend to have a good handle on what to expect. The average guess calls for crude oil stocks -3.0 mil with

gasoline -2.0 and distillates +1.0. I'll personally be watching the import/export numbers closely as well as the refinery utilization.

Speaking of refineries, US gasoline prices are off their spring highs but only slightly. Clearly the Trump administration would like for gasoline prices to be a bit lower by the time elections roll around, but I'm not sure what they can do to change it. The US is obviously producing plenty of crude oil, it's a matter of having the adequate refinery capacity to turn that oil into gasoline. We should soon be forming our seasonal lows in gasoline inventories, and that is something else we should be closely watching the weekly EIA numbers going forward.

AAA Daily National Average Regular Gasoline



Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- 10Y Auction – 12:00pm

Thanks for reading.

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