

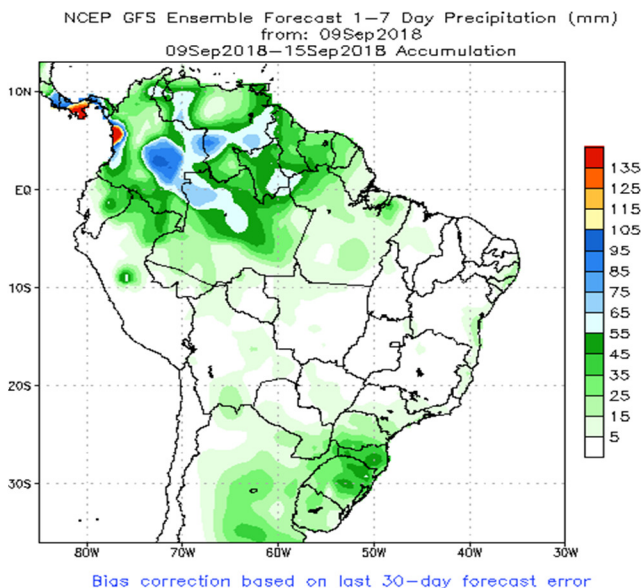
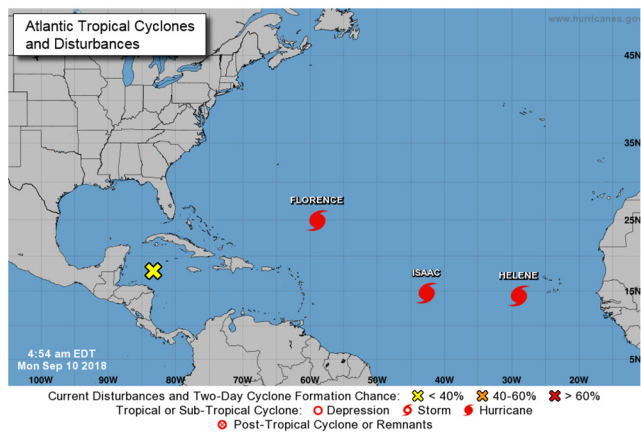
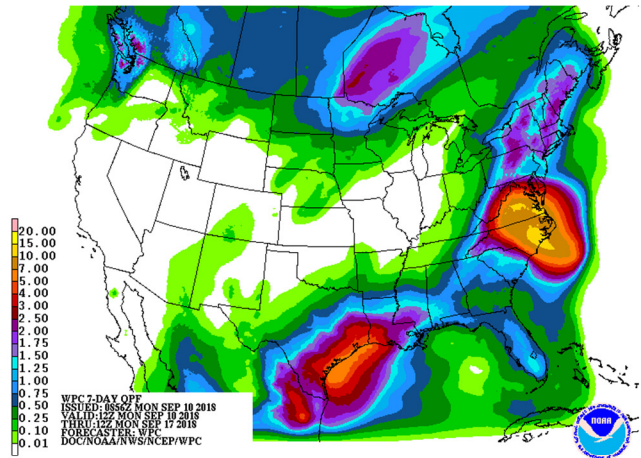
## Weather

No major changes to note this morning. The map to the right is the 7-day QPF, and as you can see we're looking at a lot of clear weather through the Corn Belt over the next week. We should see some rains start to move back into the Corn Belt on Saturday night with a cool front sagging into the area, and that will kick off a period of daily rainfall chances in northern portions of the Corn Belt that will last through the end of the 6-10 day period. Additional rainfall chances will be seen in the 11-15 day period, with the biggest amounts likely to favor western areas. There is no threat of freezing temps for any portion of the Corn Belt through Sep 24 and probably beyond. We could see lows dip into the 30s for portions of the Dakotas and northern MN/WI around mid-month, but this should stay above freezing.

The big rains shown in the VA/NC are due to Florence, which for now appears to be on track to make a Thu/Fri landfall as a major hurricane. The "tropical" activity is really heating up as Atlantic waters have warmed in the past few weeks. You can see the graphic from the NHC and there is no shortage of big potential for storms over the next several weeks.

It's getting close to time to start keeping an eye on South American weather again. As you can see in the map to the right, northern Brazil still appears to be locked in dry season, and we'll need to see some rains return to the area before we see planting efforts really start to advance. Southern portions of Brazil and into Argentina should see excellent rainfall chances over the next few days. This comes on top of some fairly decent totals recorded in the area over the past two weeks. Look for *some* rain to move into northern portions of Brazil for around Sep 17 and beyond, though big rains through Mato Grosso are not expected with two week totals likely to continue running below normal.

I'm seeing reports this morning on cold weather hitting Chinese soybean areas over the weekend. Dalian soybean futures were sharply higher on the



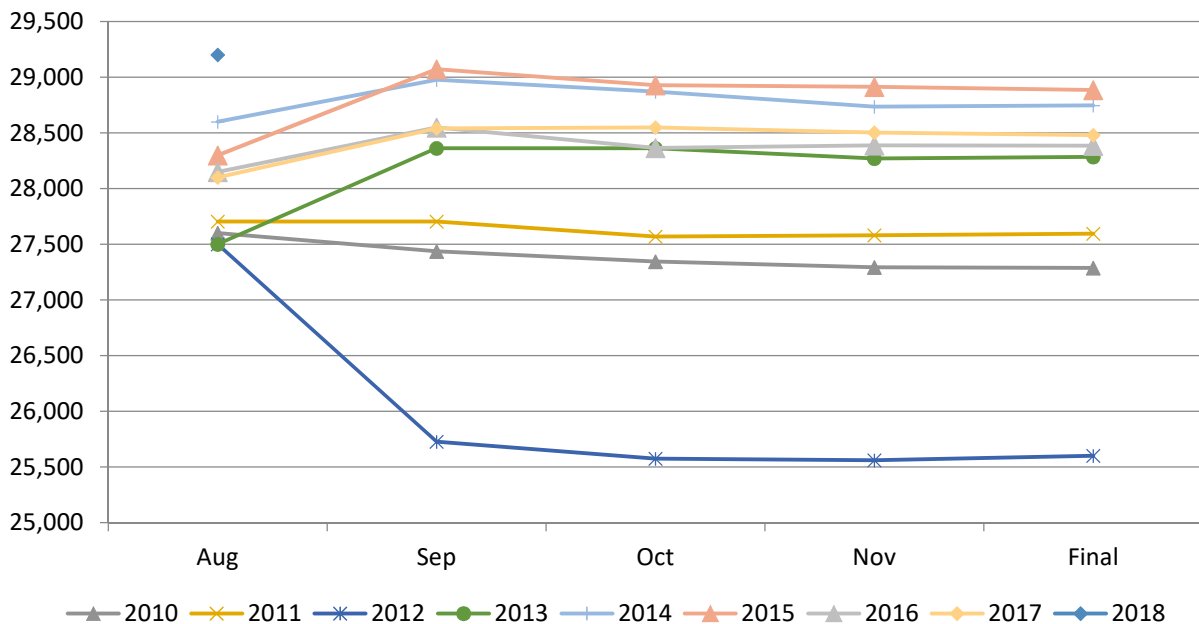
news (and this is likely attributing to the CBOT “strength”). Local analyst group JCI is reporting the frost has come about 15 days earlier than normal affecting northern Heilongjiang which is the major soybean production area of the country. It’s hard to know what sort of damage we might be talking here, but just keep in mind that local Chinese soybean production is mainly food-use and doesn’t really have much to do with their imports of GMO soybeans. I’ve attached a copy of a picture posted on JCI’s twitter feed here...



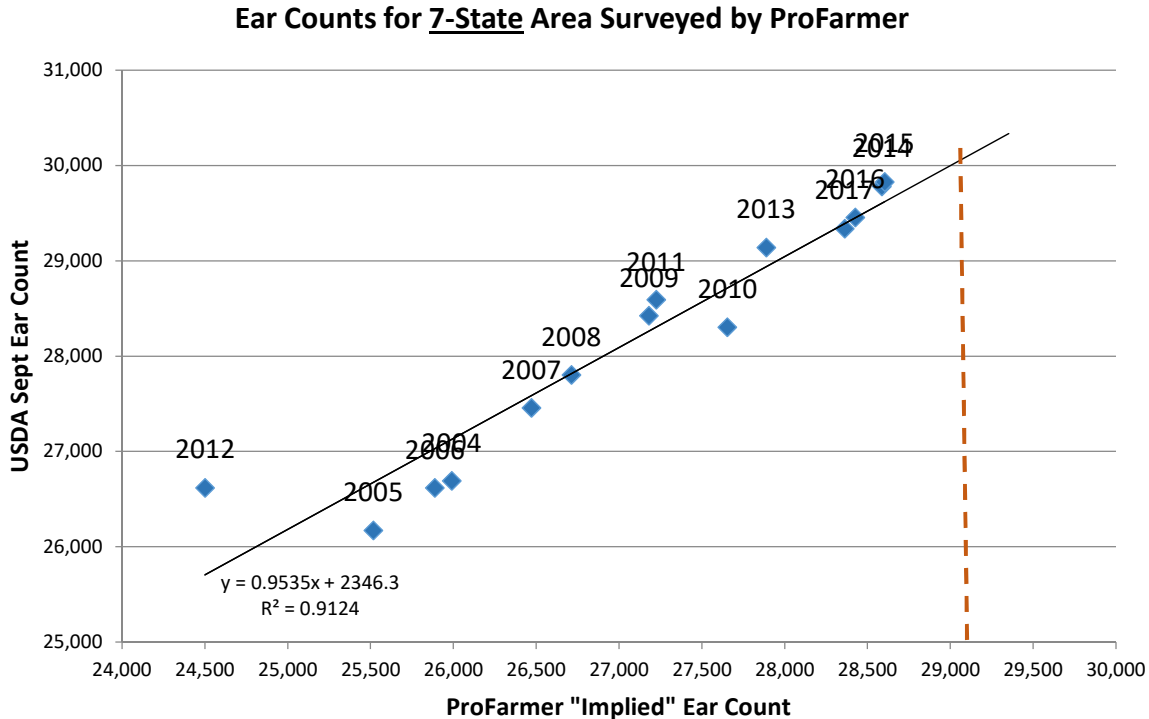
### Crops

This morning I just want to take a quick look at objective yield data for corn and see if there are any tendencies or hints from private figures that can give us an idea of what to look for from NASS this week. Of course we don’t have a lot of objective yield data to work with yet. The only thing we officially get from NASS in August is plant counts, but we can derive a guesstimate on ear counts from their graphic in the Executive Summary report. Based on that graphic I am ballparking the August ear count at a record level. I think what is important to keep in mind, however, is that every year since 2012 has seen ear counts rise in the Sept report vs. the estimated Aug figure. You can see that tendency in the chart below. There seems to be little reason to suspect this tendency will reverse this year, so look for an even bigger record for ear counts this week.

**NASS Objective Yield Data  
 10-State Corn Ear Counts**

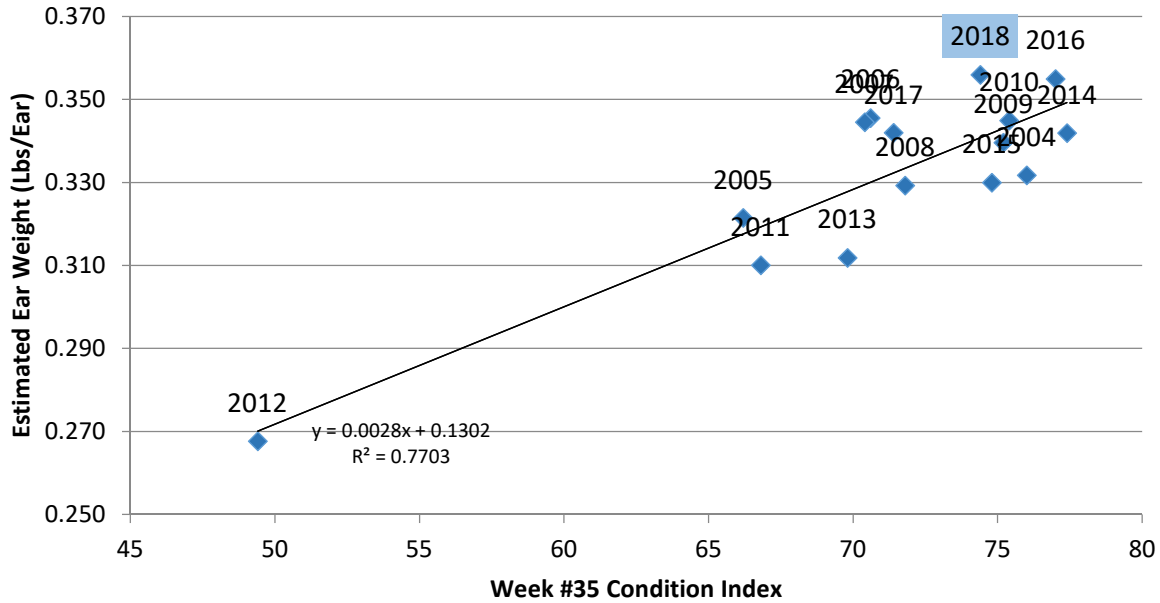


Is there any way to know exactly *how much* ear counts might increase this week? As shown below, the ProFarmer ear counts from the seven states they visit are actually a pretty good indicator of what to expect from NASS in those states. The red line shown below is the approximate weighted total of the ear counts from ProFarmer this year, and again it looks pretty obvious we should be looking for a record ear count for the seven states noted.



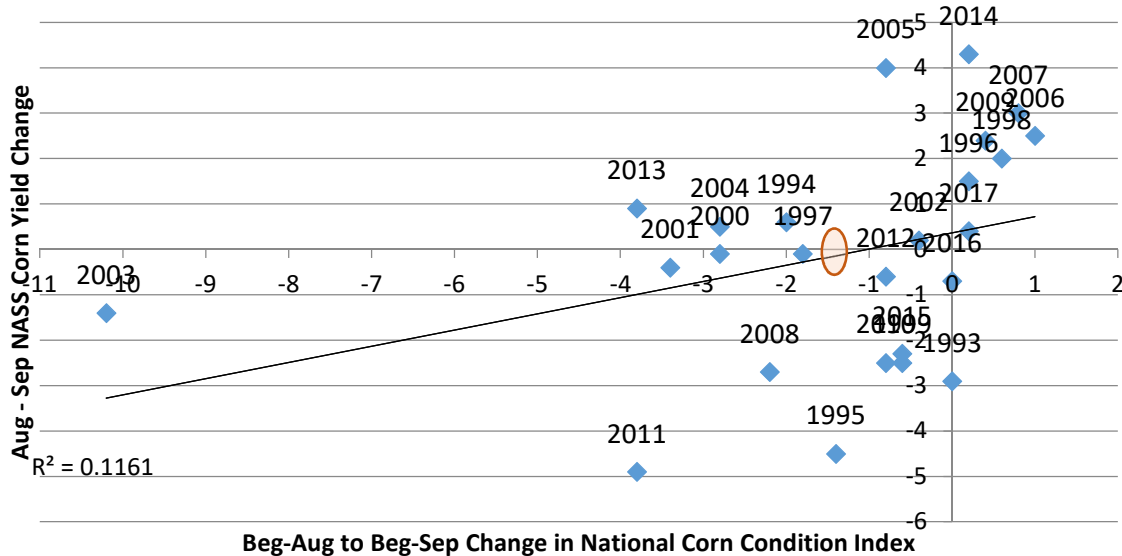
The other critical issue in the objective yield data of course is the ear weight. Again, we don't have anything official from NASS in their August report, but we can ballpark an implied ear weight using the estimate on ear counts and the yield reports. Using that estimate, we can plot historical ear weights against condition ratings to see if anything really stands out. That chart is shown below, plotting historical Sep NASS ear weights vs. the end-Aug condition index. You can see there is a decent but not great correlation here. The highlighted 2018 point uses the implied ear weight from the Aug crop report vs. this year's condition index. It would be the highest Sep ear weight on record if it is maintained this month, but to me it doesn't really stand out too much vs. the trendline in my opinion. I think the big ear count could potentially drag on ear weights, but conditions would imply that ear weights shouldn't come down much. **I think the combination of possibly larger ear counts and little change in ear weights could open the door to upside in the national average corn yield vs. the average guess.** Keep in mind the Bloomberg survey is calling for a reduction in the national corn yield to 177.6 bpa from 178.4 last month.

**End-August Corn Condition Index vs. Sep NASS Ear Weight**



Lastly, I want to point out that the decline in condition ratings since the August Crop Production report does not truly support a reduction in the corn yield this month either. The chart below shows the change in the national condition index from Aug-Sep vs. the NASS corn yield change during the same period. The chart shows virtually no relationship. This year's change in the condition index is highlighted with the orange oval, but you can see several instances where the condition index declined even more yet the corn yield *increased* in Sep from Aug. This shows you not to read too much into the condition ratings at this point in the year.

**Aug-Sep Corn Condition Index Change vs. NASS Corn Yield Change**



So to add things up:

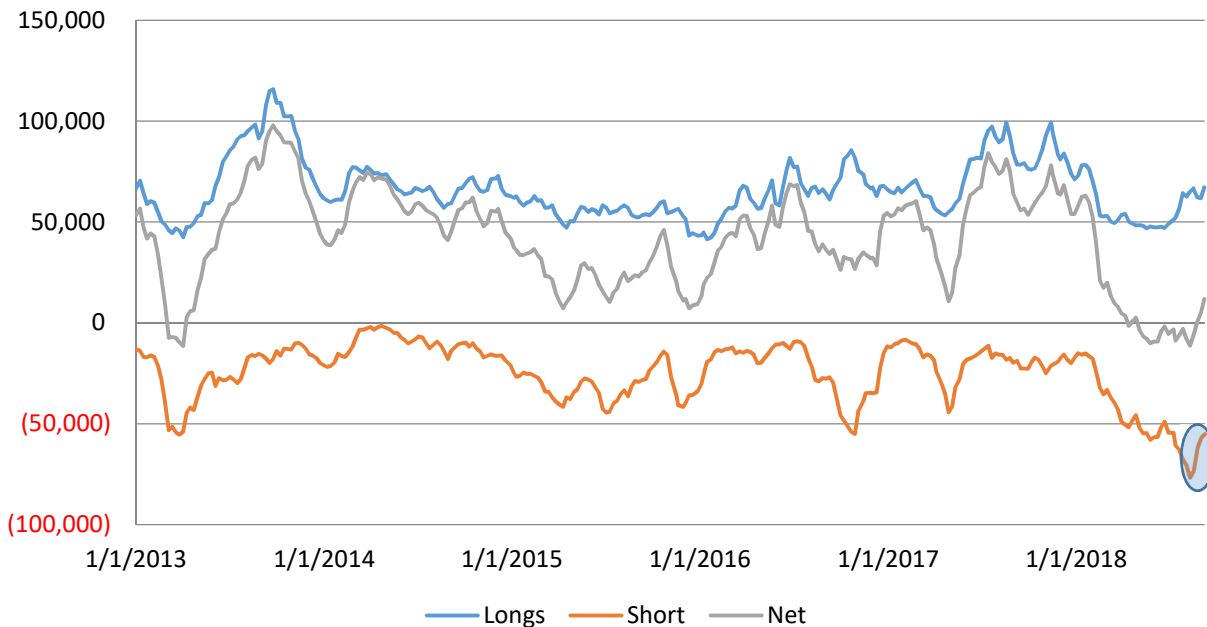
- Strong reason to believe ear counts should increase vs. Aug implied levels
- Ear weights might decline, but condition rating levels would imply that decline should be minimal

I admit that I haven't been overly impressed by the limited number of yield reports I've heard so far, but the points above make me believe there is some potential for upside vs. the average guess on the corn yield. That also somewhat contradicts my bias following our crop trip in mid-Aug. I'm just trying to pass along what the data and tendencies might imply. I'm open to your thoughts and opinions.

### Livestock

Short covering has been a big factor in the hog market it seems lately. The chart below shows that the gross short position, which had grown to a formidable size, has been quickly whittled away in the past few weeks. The gross short is still historically large on the chart, but keep in mind that data is only through Tuesday. I think it is very safe to say that all the attention that ASF is getting in the media is driving a lot of the price action. There are fears of it spreading outside of China and there are fears of potential Chinese import demand as well. It definitely makes sense to take some shorts off the table with that sort of concern hanging over the market.

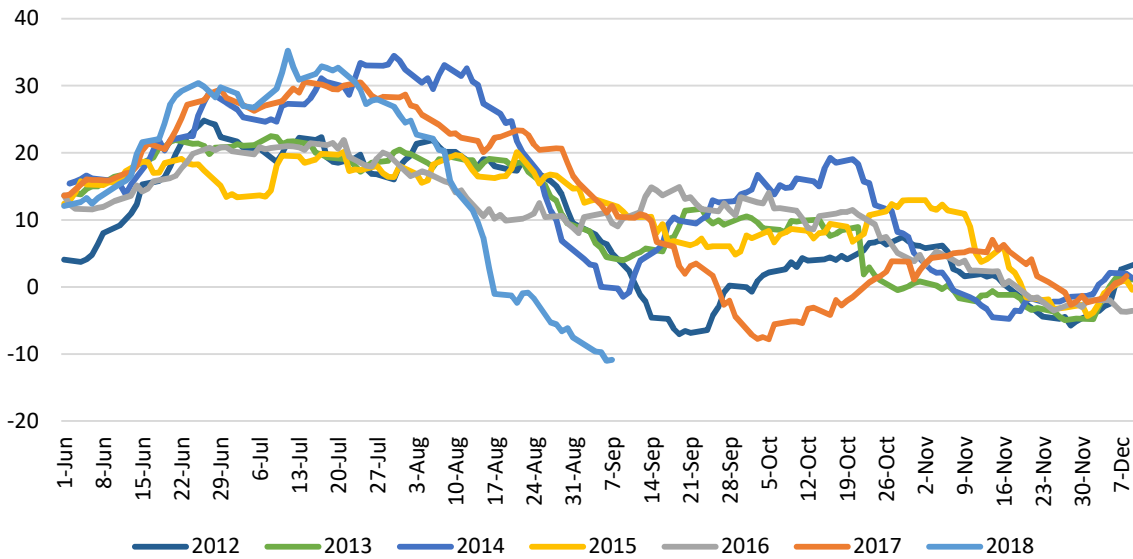
**Lean Hogs - Managed Money Position Breakdown**



That being said, it is creating an interesting dynamic on the front end of the market where, even under the most dire scenario, there should be very little impact from ASF. Note the chart below which depicts the CME lean hog index vs. the December hog future contract over the past several years. You can see that the current December hog future contract is trading at a very big premium to the current CME lean hog index. Eventually, of course, these two should converge but considering what we think we know about hog supplies into year-end I am

hesitant to call for significant upside in cash trade. That could leave futures vulnerable to a setback even if the ASF stories continue to circulate. Thoughts appreciated.

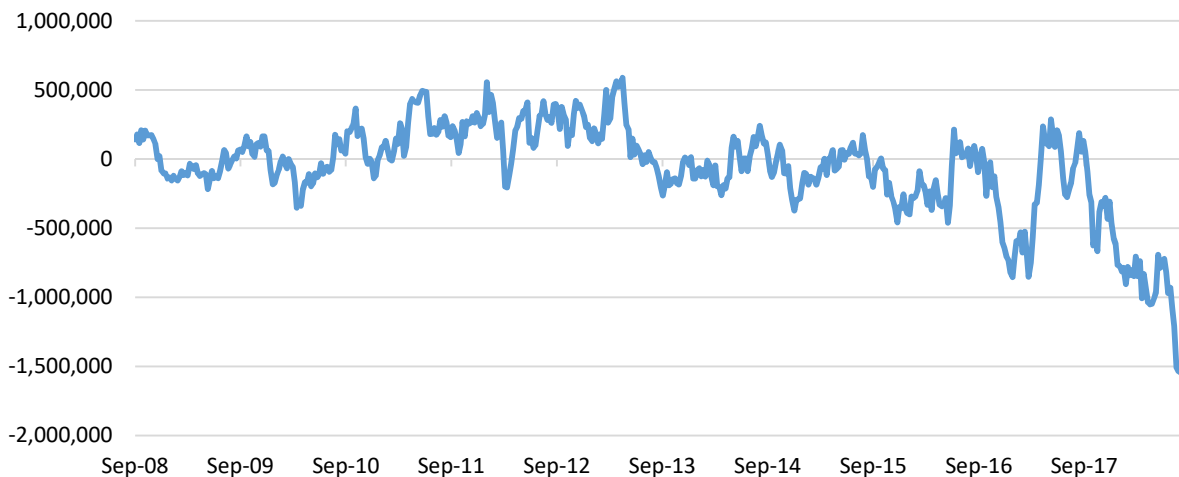
**December Hog "Basis"  
 vs. CME Lean Hog Index**



**Financials**

This is a chart that just won't matter til it matters. This shows a new record short spec position in US Treasuries. Admittedly, with the strong NFP and, more importantly, wage gains reported last week it seems the Fed is on auto-pilot for another rate hike later this month. Right now Fed Funds futures are pricing in a ~96% chance for a hike this month.

**Combined Non-Commercial Net Position in USTs  
 2s, 5s, 10s, 30s**



The overnight equity market activity has been pretty mixed. Initially, markets were lower with EM and Asian equity markets weaker due to ongoing trade war concerns. President Trump has been especially active on Twitter and the media recently, and he has said that additional tariffs against China could be ready to go “on short notice”. However, we’ve seen a rebound in equity markets in Europe and the US following positive comments from Italian leadership suggesting they’ll respect the EU budget rules. Italian bonds are continuing their sharp rally that began last week.

## Energy

Libya’s state oil company headquarters came under attack from local militias overnight, but reports indicate that the government has been able to withstand the attack and has repelled the militias. Libyan production has recently been back on the upswing, with production estimated at 970k bpd in Aug vs. roughly 660k in July. In other news, South Korea has reportedly been among the first major oil importer to back away from buying Iranian crude oil completely. Data show zero imports of Iranian crude oil last month, compared to 194k bpd in July.

As you can see below, the Brent-WTI spread has continued to widen and is now back to its widest level since June. This should, in theory, continue to support US export demand.



## Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Consumer Credit – 2:00pm
- Crop Progress – 3:00pm

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