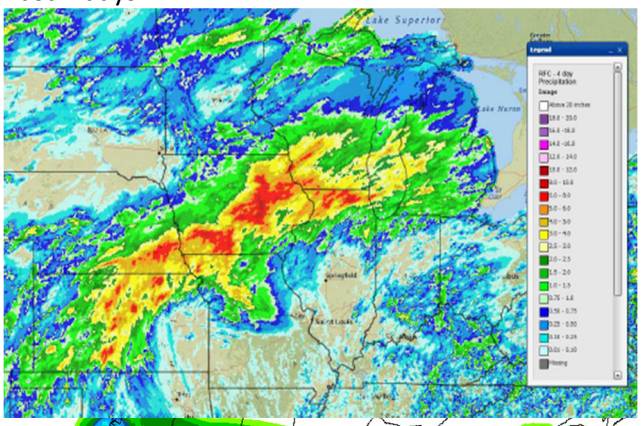
NESVICK TRADING GROUP, LLC

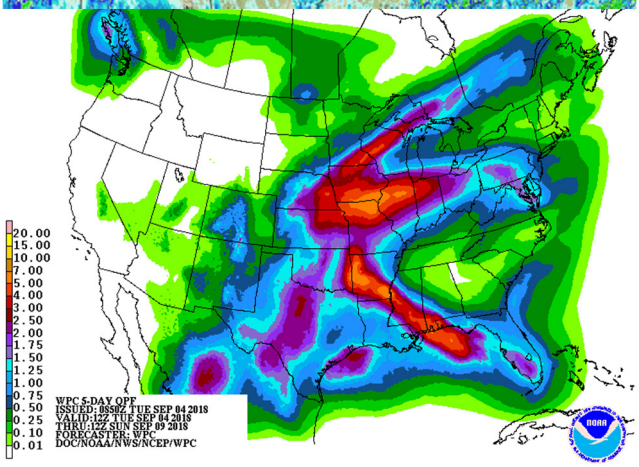
Tuesday, September 4, 2018
NTG Morning Comments
www.nesvick.com

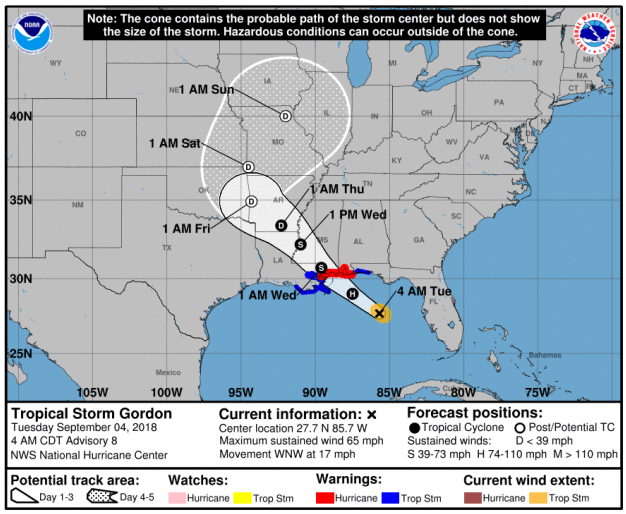
Weather

Big rains over the weekend stretching from KS through WI as you can see in the map to the right. There is no shortage of rainfall in the forecast going forward either. You can see in the 5-day QPF at the middle-right that we've got a big area of 2-5" rainfall potential this week and there will certainly be localized heavier totals. Initially the rains in the Corn Belt will be due to a stationary front that has been the cause of the rains during the past few days as well. Later in the week and into the weekend the rainfall will be due to the remnants of TS Gordon, which is due to make landfall around mid-week and head north as shown to the bottom-right. Temps in the Corn Belt should mostly average near to above normal. No freezing temps seen anywhere through 19 days of Sep at least.

Past 4 days:







Crops

Just a quick update of headlines from the 3-day weekend worth noting today.

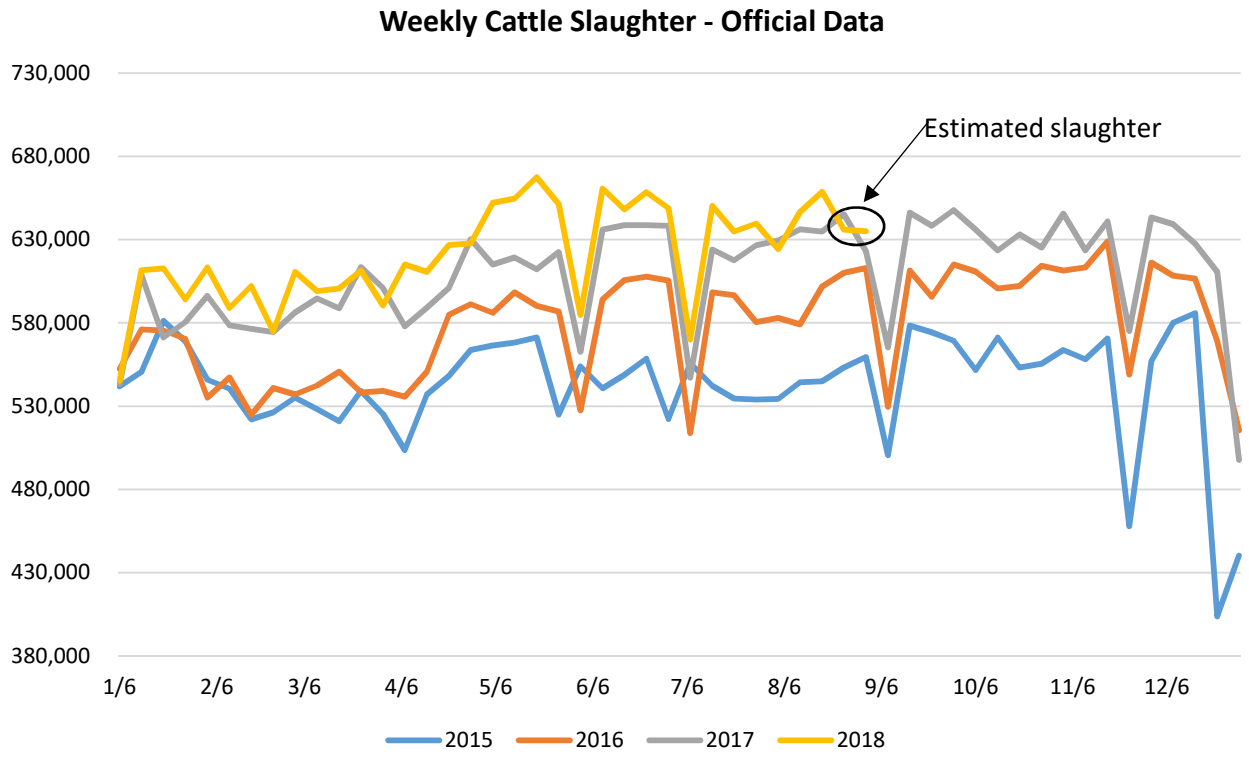
- A Brazilian judge overruled the glyphosate ban. I'm sure this isn't the last we'll hear of this, but certainly good news for farmers in the area.
- Argentina is adding a 4 peso/dollar tax on grains, oilseeds, and beef. This is not unexpected given the financial turmoil the country has seen. I think the market thought process is that this will make Argentine corn roughly 10% more expensive, shifting some demand to the US. While I'm sure it will produce a modest shift, what this probably means is that the price paid to the farmer just gets cut by whatever the tax turns out to be. There is also the question of what there is available to ship anyway. On paper Argentina should have ample stockpiles of corn and soybeans, but the reality seems a bit different.
- The Russia ag ministry met with grain exporters during the weekend and walked away with no export restrictions in place, leading to the price declines in wheat we're seeing this morning. This is the story that never dies, so I hardly expect this to be the final word. I am picking up that a few private analysts are raising their estimates of Russian

production. WASDE's last Russian production estimate was 68 mmt, but I'm starting to hear some implications the crop could be 70+. I continue to feel that we're in the "show me" stage of this wheat market…we need to see *actual* increases in US wheat demand. Do keep an eye on Russian weather, however, as the market could quickly get concerned on new crop winter wheat prospects as the forecast continues to show BN precipitation chances.

Not much else to note this morning. I'm seeing early ideas that condition ratings should decline this afternoon due to heavy rains seen in portions of the Corn Belt. Let's keep an eye on corn harvest advancement, as it could influence our Sep 1 stocks estimate (more on that later). We've got monthly updated on corn grind for ethanol and soybean crush this afternoon as well.

Livestock

It'll be interesting to see what the official numbers on cash trade last week prove to be when they're released later today. It sounds like volume last week was pretty limited, with only decent volume in the north. By the time I went home on Friday, virtually nothing had appeared to trade in the south. We know the packer was buying for a holiday-reduced kill this week, but it still seems like the volume should have been bigger. Also note that the past two weeks' slaughter (estimated data, anyway) has underwhelmed vs. what we might have expected to see for this timeframe. The relatively "light" kills over the past few weeks and this week's holiday-reduced kill will likely provide some modest support for beef prices and packer margins. We'll see if that provides incentive for the packer to come out more aggressive with cash this week?



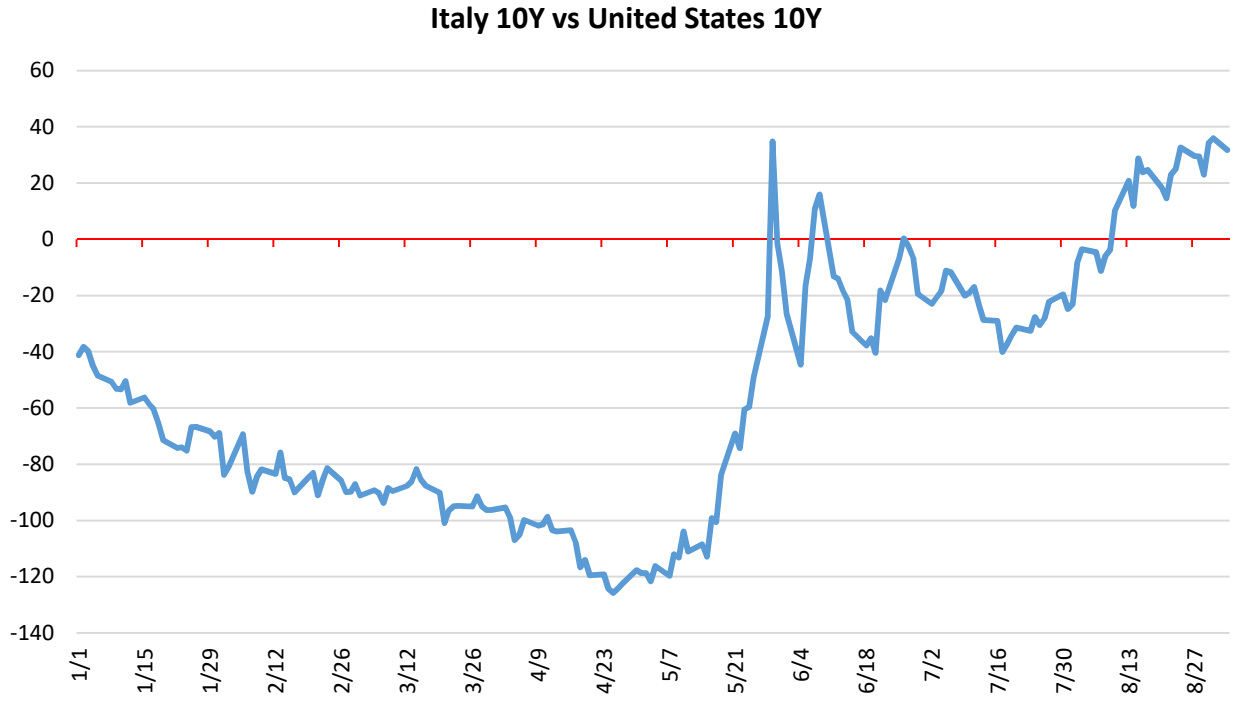
Financials

Though the US was off for Labor Day yesterday, Europe was in session and we got PMI numbers for August. In general, the PMI numbers for most of Europe were pretty decent. A breakdown as presented by Markit is attached to the right. Note that Germany's PMI was lower than the initial "flash" report. Markit noted that exports rose at their weakest pace in over two years, and that is certainly worth noting. What I want to pay attention to, for today, is Italy's performance. Italy's PMI was only 50.1, right on the line of potential contraction. Here is an interesting quote directly from the Markit report on Italy – "Unless we see a pick-up in demand – be it from at home or abroad – recent trends in the data raise the spectre of the sector tipping into technical recession during the second half of 2018". That is a major decoupling from the majority of the remainder of the EU and it has to be something that is keeping key EU officials up at night. The new Italian government is likely to use this economic weakness as a reason to push for looser fiscal policy in their upcoming budget proposals, and this could potentially drive a wedge between EU officials and the Italian government. The Italian government is currently enjoying some popularity at home, so any inability to pass a budget through the EU could create an opportunity for the current parties in control to call for new elections and hope to gain more seats and then *really* become a headache for the EU.

Countries ranked by Manufacturing PMI: August

Netherlands	59.1	2-month high
Ireland	57.5	7-month high
Austria	56.4	20-month low
Germany	55.9 (flash: 56.1)	2-month low
Greece	53.9	3-month high
France	53.5 (flash: 53.7)	3-month high
Spain	53.0	2-month high
Italy	50.1	24-month low

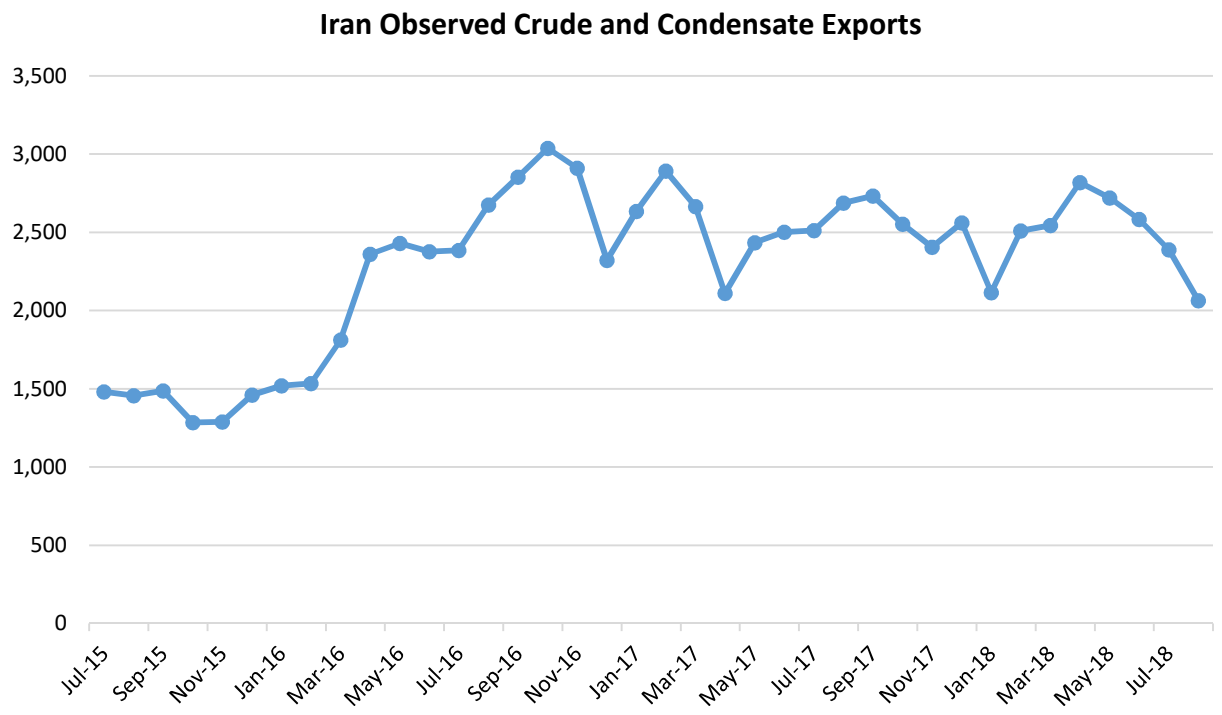
Meanwhile the yield on Italian 10s is "only" ~30 bps higher than the US right now after trading unders for most of the year. The US is printing +4% GDP and Italy is nearing "technical recession". Thanks, ECB. Surprisingly, Italian yields have fallen over the 3-day weekend, presumably thanks to some comments from the finance minister pledging to follow EU rules on their budget. We'll see about that.



On tap today is the ISM manufacturing reading for the US, which certainly could be market moving. No other major economic data is due today, but obviously we've got a busy week ahead with NFP looming on Friday.

Energy

Crude oil futures are higher since Friday's close. Supporting prices is news that Iran's oil and condensate exports in August fell to their lowest level in more than two years. Exports were just 2.1 mbpd, the lowest since March 2016. With still more than two months before the official imposition of the sanctions in November, expect to see further decreases in shipments to Europe and Asia ex-China. China has not agreed to be bound by the US sanctions, though the shipments to China in August did dip vs. July levels. Estimates of Russian and Saudi production in August are higher, but the Iranian oil export flows are still something worth watching.



Today's Calendar (all times Central)

- ISM Manufacturing Index – 9:00am
- Export Inspections - 10:00am
- Fats & Oils and Grain Crushing – 2:00pm
- Crop Progress – 3:00pm

Thanks for reading.

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

Trillian IM: dzelinski@nesvick.com
Bloomberg IB: dzelinski2@bloomberg.net