

Weather

No change in the US forecast. As you can see to the right the Corn Belt is looking mostly dry over the next 7 days and that dry weather should probably continue through the end of the 10 day period. We will see a resumption of some precipitation chances in the 11-15 day period but I think it is important to note that this does not appear to be any resumption of a wet “pattern” for the area and dry weather could return by the end of the 11-15 day period. Some areas could see some AN precipitation from this event, but remember normal precipitation isn’t especially big at this time of year. Temps should remain cool today for much of the country but should start to gradually moderate slightly over the next few days.

No change to the forecast in South America either. We’re looking for mostly AN rainfall totals through Brazil over the next two weeks. Northern areas should see rainfall totals range from 2-4” with some localized heavier amounts. All of this rainfall should help keep temperatures at relatively mild levels after seeing some heat in the past few days. Southern portions of Brazil should see big rainfall amounts as well, with some areas seeing up to 4-6” or possibly more. The biggest rains will fall in the first 10 days of the two week period, with lighter amounts following.

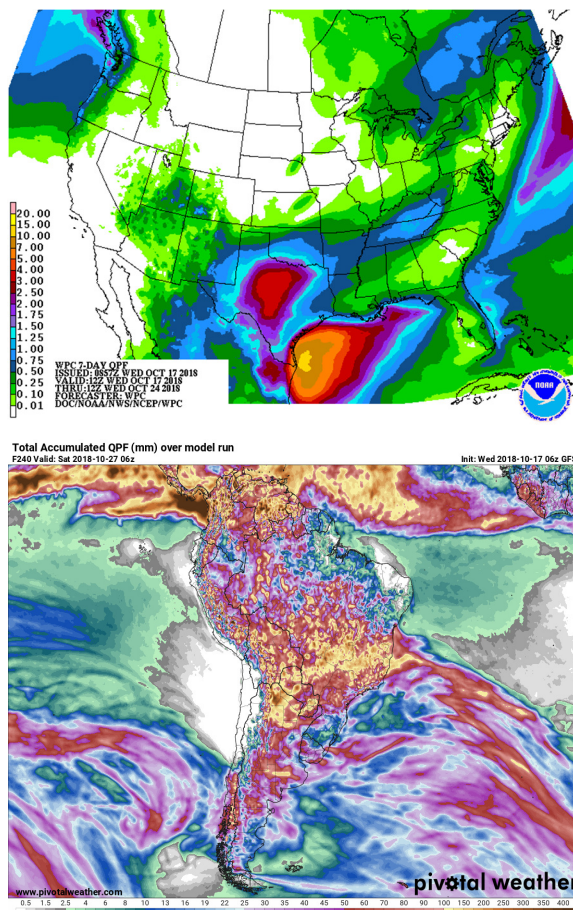
Argentina should see precipitation totals average near normal during the next two weeks, with some AN amounts possible in western areas. Two week rainfall totals of 1-2” will be common, though western areas could see bigger amounts. The most limited rainfall during this period will be in extreme eastern BA and southern Santa Fe. Temps should average fairly close to normal.

Overall, it looks like a very favorable start for the South American growing season at this point.

Crops

If you recall a few weeks ago I brought up the Q1 soybean balance sheet and compared the demand “pull” vs. available supplies. The point then was that the current demand pull on soybeans in SON was the lowest level we’ve seen in many years and that would, in theory, limit the usual seasonal fall bounce. Well, we’ve definitely bounced more than I would have expected, but the underlying thesis that demand for soybeans is putrid remains unchanged.

It was mentioned to me that I should perhaps look at the same Q1 demand pull for corn, and I’ve attached a history of the Q1 balance sheet below. What I find interesting here is there is no discernible tendency for fall rallies even in years where the demand “pull” was more significant than others. I’ve highlighted years where the



demand pull equaled greater than 20% of that year's production, but there really isn't a strong tendency for rallies in those years compared to years of lesser demand. You can see this year's Oct rally (so far) would basically fall near the median Oct change during the timeframe pictured.

US Corn Quarterly Supply and Demand

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Carryin (Sep 1)	1,967	1,304	1,624	1,673	1,708	1,128	989	821	1,232	1,731	1,737	2,293	2,140
Production	10,531	13,038	12,043	13,067	12,425	12,314	10,755	13,829	14,216	13,602	15,148	14,604	14,778
Sep-Nov Imports	1	2	3	1	5	4	35	15	5	13	14	11	13
Total Supply	12,499	14,344	13,670	14,741	14,138	13,446	11,779	14,665	15,453	15,346	16,899	16,908	16,931
Sep-Nov													
Feed & Residual	2,159	2,387	1,930	1,993	2,047	1,781	2,060	2,312	2,225	2,178	2,275	2,247	2,325
Food/Seed/Ind	811	986	1,219	1,380	1,582	1,612	1,466	1,550	1,615	1,631	1,691	1,745	1,750
Exports	596	693	449	467	452	406	221	350	401	301	548	349	655
Total Use	3,567	4,066	3,598	3,839	4,082	3,799	3,746	4,212	4,241	4,111	4,514	4,342	4,730
Stocks (Dec 1)	8,933	10,278	10,072	10,902	10,057	9,647	8,033	10,453	11,212	11,235	12,386	12,567	12,201
Stocks/Use	250%	253%	280%	284%	246%	254%	214%	248%	264%	273%	274%	289%	258%
Needed Sales	1,599	2,760	1,971	2,165	2,369	2,667	2,722	3,376	3,004	2,367	2,763	2,038	2,577
Needed/Use	45%	68%	55%	56%	58%	70%	73%	80%	71%	58%	61%	47%	54%
Needed/Crop	15%	21%	16%	17%	19%	22%	25%	24%	21%	17%	18%	14%	17%
CZ % Chg During Oct	22.2%	0.7%	-17.6%	6.4%	17.4%	9.2%	-0.1%	-3.0%	17.5%	-1.4%	5.4%	-2.7%	5.5%
CZ % Chg During Nov	17.5%	2.4%	-13.0%	10.0%	-8.9%	-7.1%	-1.0%	-3.0%	-0.3%	-4.5%	-5.1%	-1.2%	-

I also included the CZ percent change during the month of November in the breakdown above, and I do find it interesting that in the past several years we've seen a very solid tendency for CZ to trade lower in Nov. The "heat map" below is another way of illustrating this, and I think it is easier to notice. The chart below just shows the monthly percent change in the December contract during the calendar year (excluding Dec, because of expiration/roll). It basically shows the same thing as the bottom two lines above, but I think it is a bit easier to read. Since 2010 we've seen CZ trade lower each November. Time will tell if this year will be any different.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2018	2.41	2.10	2.49	1.09	-5.4	-10.27	4.11	-5.56	-2.40	5.40	
2017	1.91	1.68	-1.40	-.84	1.56	.26	-1.85	-7.02	-.70	-2.67	-1.16
2016	2.68	-4.45	-1.86	7.19	3.35	-9.12	-7.68	-7.95	6.74	5.35	-5.07
2015	-4.81	4.18	-4.01	-4.30	-4.04	17.26	-11.65	-1.57	3.33	-1.42	-4.51
2014	-.06	4.78	5.67	2.21	-10.16	-7.05	-13.70	-.61	-12.06	17.46	-.27
2013	-1.46	-5.75	-3.32	3.39	1.89	-9.92	-6.26	.63	-8.40	-3.00	-3.04
2012	-2.86	-.18	-4.97	.56	-3.91	21.60	26.86	-.68	-5.44	-.07	-1.03
2011	5.20	2.62	3.05	7.08	.52	-7.80	7.78	14.77	-22.80	9.20	-7.07
2010	-11.34	5.69	-8.90	4.25	-3.12	-1.71	8.90	7.99	12.86	17.40	-8.93
2009	-5.87	-8.00	11.45	-2.87	8.51	-20.03	-4.83	-5.65	4.32	6.40	10.04
2008	8.92	9.50	2.88	8.13	-.28	20.83	-19.75	-3.70	-16.67	-17.64	-12.95
2007	5.34	6.40	-8.69	-4.95	5.56	-8.84	-2.42	-.66	9.71	.67	2.40
2006	3.02	3.32	1.42	1.40	1.93	-6.05	-1.63	-3.13	5.85	22.19	17.54
2005	-3.38	5.79	-3.00	-1.70	3.68	-3.13	7.12	-12.79	-5.08	-4.50	-4.46
2004	10.15	7.85	7.53	-.16	-6.30	-10.18	-15.54	5.43	-13.56	-1.46	-4.94

Livestock

Seemed like a quiet day overall yesterday in the cattle market. There was some very small 174 trade reported, but volume seemed very limited and I don't know if it truly sets the tone for the week. I think the Kane Beef story is interesting. This has been dragging on for a while now and I've never mentioned it before, but Kane Beef is now in receivership after being in extreme debt. Kane Beef employs 750 people and kills about 270,000 head per year at its Corpus Christi plant. It is estimated to be the tenth-largest beef plant in the country. According to the Meatingplace.com report, "receivership essentially allows the business to cut costs while continuing to operate during a search for a new buyer". Kane Beef has been in financial trouble since (at least) spring 2016 and is estimated to owe \$38 million to cattle suppliers, and \$2.3 million to Corpus Christi for late utility payments among other issues.

I bring this up now because there seems to be renewed concern over the plant shutting down, and the industry certainly doesn't need to lose any plant capacity right now. At margins estimated to be ~\$200/head I don't think it would make any sense financially for the plant to shut down because then no money is coming in, but I suppose I can't rule it out either.

I think it is also interesting to point out that yesterday's hog slaughter estimate of 477k head was the second highest I show in my data. The biggest daily kill estimate was 483k head back in Oct last year. Despite not quite hitting a new daily record, it seems reasonable that a weekly record hog slaughter is feasible this week.

One last thing...the estimates for the COF report were released yesterday and the average guess is calling for a placement figure slightly over year ago levels. Mike here seems inclined to take the under vs. the average guess. We'll discuss more on this later.

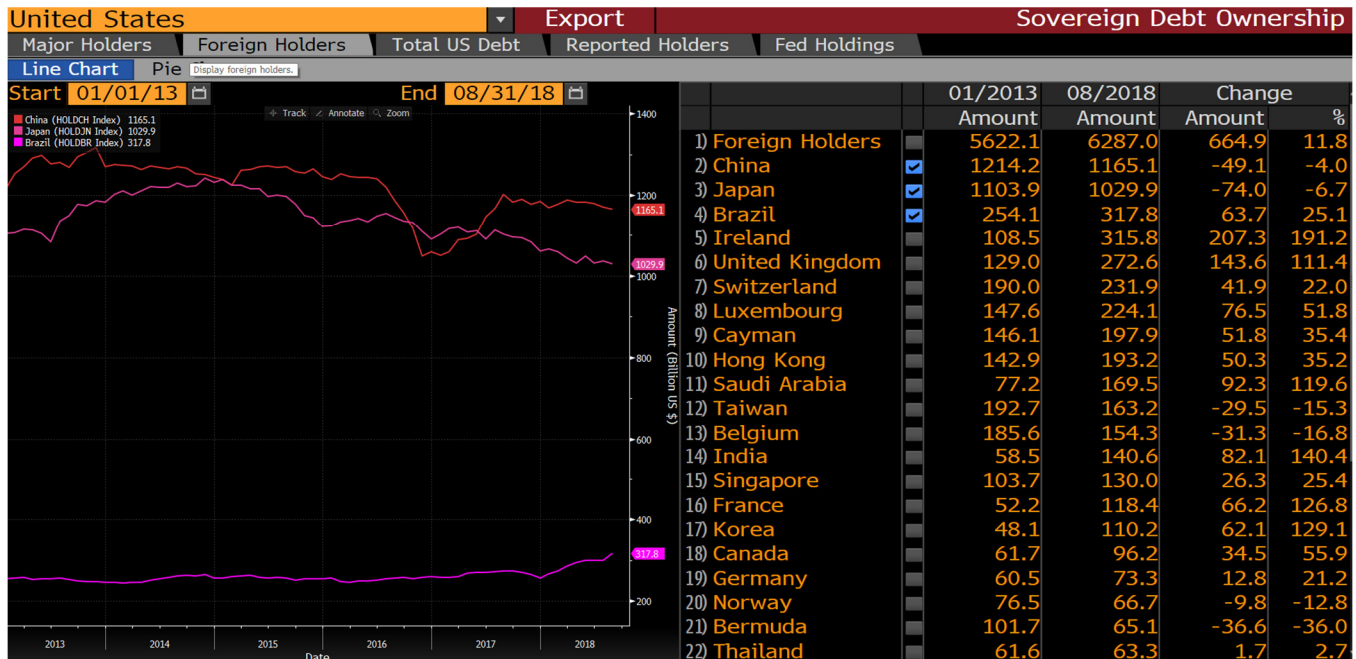
Survey Summary:	Avg	Low	High	Mln Head	Mln Head
Cattle on Feed (Oct. 1)	6.3%	5.6%	7.4%	11.498	10.813
Placements (Sept.)	0.3%	-3.3%	5.0%	2.155	2.150
Marketings (Sept.)	-3.1%	-4.1%	-0.7%	1.727	1.783

Financials

US equity futures are weaker this morning at the time of writing, though I've been scrolling around news for a while now this morning and I haven't found a major reason for the weakness. In fact, before looking at my quotes this morning I expected the indices to be higher after hearing NFLX reported strong numbers yesterday afternoon and is bid sharply higher in pre-hours this morning. My best explanation for the weakness here this morning is chart technicals, with the ES and NQ charts both hitting their 100-day MAs near the highs of overnight action.

I don't see any major "headliner" type earnings release due out today, though AA might get some attention due to the metals tariffs. Other newsflow is limited other than the usual storylines. We'll have ongoing Brexit negotiations this week, with UK PM May headed to Brussels. This is the story that just will never go away. On tap this morning we have housing starts, and this will be important to watch as recent housing data has not been especially strong and we're growing a bit more concerned about the impact of higher rates on the housing market. Also on tap this afternoon is the release of the FOMC minutes. President Trump was again on the offensive against the Fed yesterday afternoon calling the Fed his "biggest threat" and saying they're raising rates too fast.

One headline that will probably get outsized attention today is the report on China's holdings of US Treasuries, which fell for third consecutive month in August. Chinese ownership of USTs was \$1.165T, down from \$1.171T in July. Japan, which is the second largest foreign holder of Treasuries after China also saw their total decline to \$1.03T from \$1.036T in July. Saudi Arabia boosted ownership to a new record of \$169.5B. Overall foreign holdings of USTs increased in August by \$35.4B. You can see on the chart below how big China and Japan are compared to the rest of the foreign ownership.



Energy

I haven't scrolled through all my newsfeeds yet, but as of now I don't see much new to report on the Khashoggi mess. President Trump is trying to carefully tiptoe around this, but unfortunately he won't be able to keep that up for long. He said in an interview with AP yesterday "Here we go again with, you know, you're guilty until proven innocent". He appears to be unwilling, for now, to condemn the Saudi government for the death. He did go on to say in a different interview that it "would be bad" if the higher ranking government officials knew what happened. I have a hard time believing that in that type of government much goes on without the approval of the higher-ups...but maybe that's just me.

Here is an interesting story from Reuters – OPEC has asked its members *not* to mention oil prices when discussing policy. This is apparently an attempt to avoid the risk of US legal action for manipulating oil prices. Recall that Congress has long been sitting on a "NOPEC" legislation which would open OPEC up to anti-trust lawsuits. Prior US Presidents have signaled they would veto the bill, but with President Trump being a very vocal critic of oil prices and now the simmering US-Saudi tensions...just *maybe* we might start to hear more about it. Even if there is still no traction in Congress, it obviously has OPEC's attention right now so they are asking members to avoid talking about oil price publicly. Look for more focus on the "stability" of the oil market.

We have the weekly inventory data on tap this morning. The newswire survey calls for an increase in crude oil stocks of 2.5 million, but yesterday's API release showed a decline of 2.1 million.

Today's Calendar (all times Central)

- Housing Starts – 7:30am
- EIA Petroleum Inventories – 9:30am
- FOMC Minutes – 1:00pm

Thanks for reading.

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