

Weather

A few modest tweaks to the forecast this morning, though generally speaking very little has changed. You can see to the right there has been little change to the QPF map, but this is starting to look a bit too dry for the next 5 days. That doesn't mean that we should be expecting big rains, but our own Craig Solberg believes the WPC is likely understating the coverage of .5-.75" with this effort. Note that virtually all the rain for the HRW belt on the map should be seen today before drier condition return tomorrow.

You'll recall that we've noted an expectation for a return to a more active precipitation pattern later in the 6-10 day period, but that is starting to look a bit less likely this morning. We should see rainfall chances through the Corn Belt to start November, but this doesn't appear to be as active as previously expected. The call, as of today, is for near normal precipitation chances for both the 6-10 and 11-15 day periods. Keep in mind that normal precipitation at this time of year is not typically very heavy.

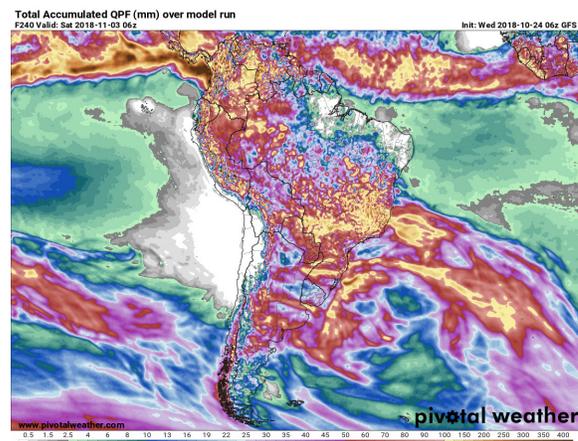
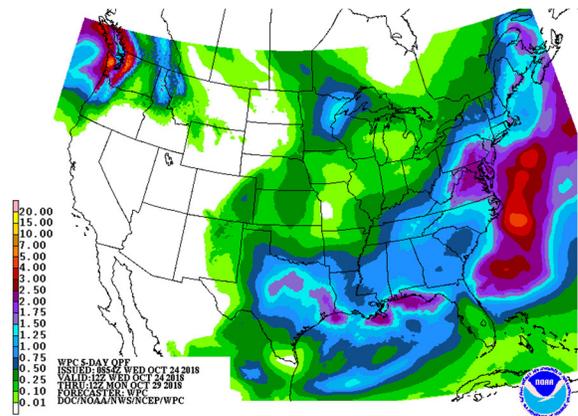
No exceptionally warm/cool weather appears to be in the cards right now in the US.

Two week precipitation totals in Brazil should average near to above normal with the exception being extreme northeastern areas. In most of the "heart" of the growing region, we should see 2-4" rainfall totals during this period. Portions of southern Brazil will see even heavier totals. The active rainfall pattern should keep daytime highs in check.

Argentina should see two week precipitation totals run close to normal in the key production zones. Look for rainfall totals of 1.5-3.0" during this period in most areas, with maybe some localized heavier totals in extreme western areas. The biggest period of rainfall in the short term will probably start tomorrow and continue through Friday. No major heat is expected at this time.

Generally speaking, I continue to believe that South American crops are getting off to an excellent start for now.

No change in the forecast for the FSU region. We should see additional rainfall in this area through tomorrow with amounts up to .75". Drier weather will return later this week and we should see BN precipitation through the duration of the two week period. Western Europe should see dry weather through Friday but should start to see an uptick in precipitation chances for next week.



Crops

I thought it might be interesting to take a quick look at Brazil's soybean S&D this morning. I've got a breakdown to the right, but it does require some explanation. First off, note that we're looking at this in Brazil's local marketing year terms. Note the figures shown in the WASDE balance sheet does not use Brazil's local marketing year so these may not exactly match up. (WAOB does actually publish local marketing year projections, but in a report separate from WASDE) Secondly, note I've got a breakdown of estimates for demand figures we should already have a good handle on (through Sept) but keep in mind these may not be "official" data just yet. The projections at the bottom are my estimates. Lastly, the "other domestic" column is simply me looking at WASDE's "residual" consumption figure and averaging it out on a monthly basis.

So, what is significant here? Well the first thing that stands out to me is that WASDE seem to be understating the outlook for Brazilian exports by a fairly significant degree. My figure for the local marketing year export total is roughly 4.5 mmt larger than WASDE. That is an important distinction to make in my opinion heading into next month's report with WASDE woefully behind on slashing their US export projection.

In trying to account for WASDE's production figure and not print a negative ending stocks figure, I've slashed my projection for late season crush here. That said, I think it is starting to look more and more likely that last year's crop may have been understated. I would not be surprised to see a modest revision higher to last year's crop. I also think that we might see early harvest this upcoming season (due to rapid planting progress) that adds to the demand figures in the Dec/Jan timeframe here, which will make for some interesting accounting.

Nothing earth shattering here. Just note 1) Brazilian exports are thus far understated by WASDE and this likely provides ammo for WASDE to cut US exports next month and 2) Don't be shocked to see a revision higher in last year's Brazilian production estimate.

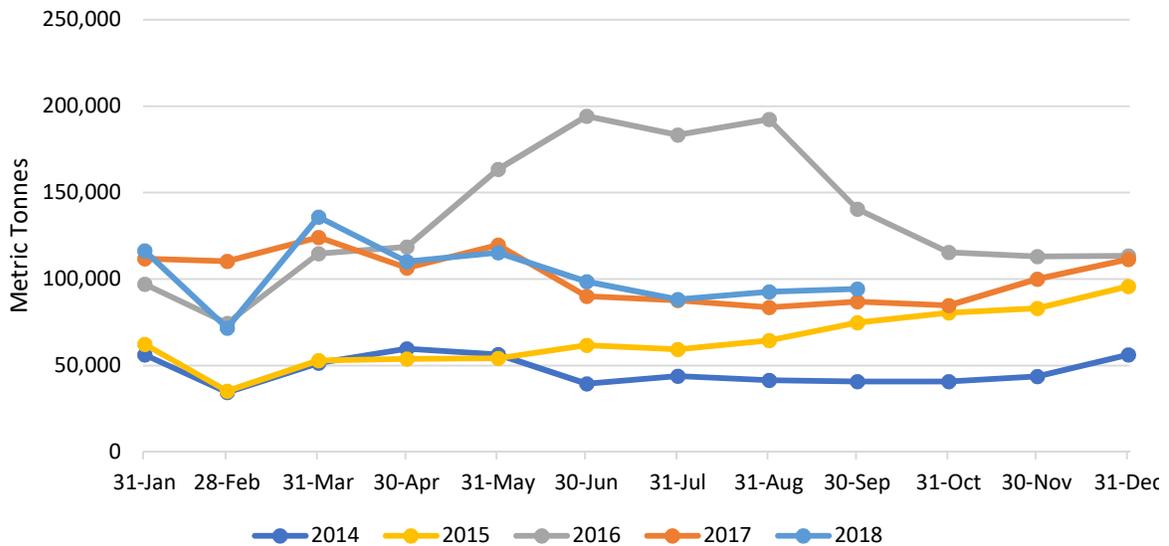
Livestock

There seemed to be a lot of renewed conversation on ASF in China yesterday, supporting the bounce in hog futures. I thought I'd simply update with a few charts on Chinese imports & prices this morning. This first chart

Brazil Local Marketing Year Assumptions			
Production		119.80	
Beginning Stocks		2.58	
Total Supply		122.38	
Marketing Year Consumption Estimates			
	Exports	Crush	Other Dom.*
February	2.86	3.30	0.29
March	8.81	4.05	0.29
April	10.26	4.10	0.29
May	12.35	3.70	0.29
June	10.42	4.00	0.29
July	10.20	4.10	0.29
August	8.13	3.90	0.29
September*	4.61	3.30	0.29
MYTD	67.64	30.45	2.30
Projections			
	Exports	Crush	Other Dom.*
Oct	4.00	2.75	0.29
Nov	3.00	2.25	0.29
Dec	2.00	1.75	0.29
Jan	2.50	2.00	0.29
MY Total	79.14	39.20	3.45
Ending Stocks		0.58	

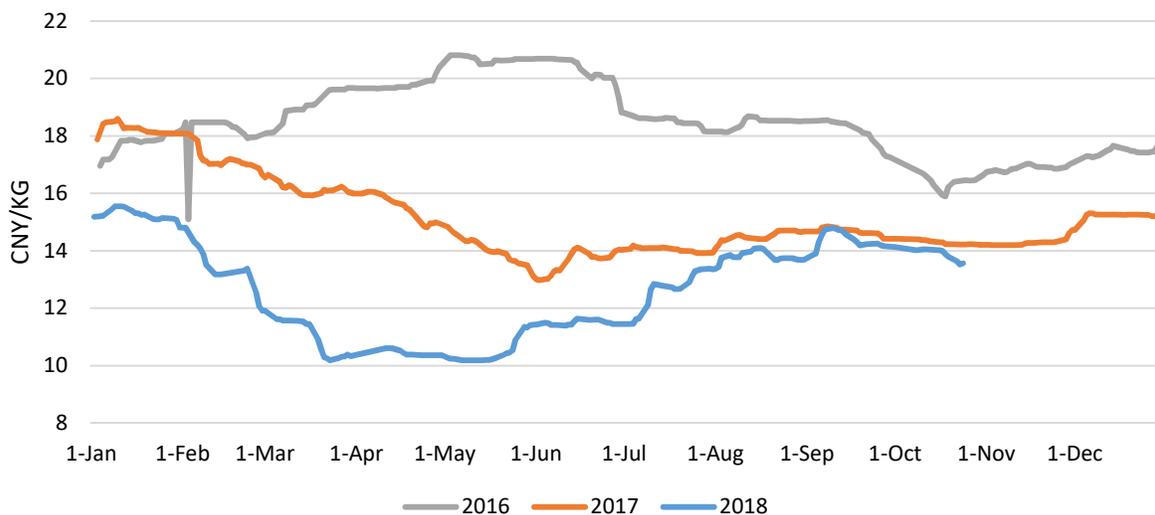
shows a history of Chinese pork imports over the years. You can see this year that imports have been running pretty flat vs. last year and we've clearly seen no noticeable uptick in imports since the ASF stories began circulating.

China Pork Import Quantity



This second chart shows the national average price for pigs in China (as compiled by JCI) and here we can see that we've had a noticeable uptick in pig prices over the summer. However, we have to keep in mind that this came from especially depressed levels so we can't say how much of that is just a "normal" rebound and how much is related to ASF. I also find it interesting that prices have stalled a bit here recently, so let's see how they act in the near future. Finally, note that pig prices are still well off the levels seen in 2016, which as shown above is when China saw a noticeable uptick in pork import levels.

China National Average Domestic Pig Spot Price (JCI)



I don't want to casually dismiss the impact of the ASF on Chinese pork supplies, but I just want to point out that pig prices don't show severe signs of stress yet and we don't appear to be ramping up imports in anticipation of stress. I also wonder, even if there is a pork "shortage" of sorts whether this will actually be filled with more poultry imports than pork?? Thoughts appreciated.

Financials

The interesting overnight news comes from Europe, where PMI data was pretty disappointing. I'm attaching a breakdown provided by Markit to the right to briefly run you through the overall Eurozone numbers. As you can see, we hit a lot of multi-year low readings in PMI figures, though admittedly all remain in the >50 growth zone. Of especial importance was the commentary on Germany. Markit noted in their comments on Germany *"Expectations among firms towards the outlook for activity over the next 12 months were the lowest for four years. Sentiment waned in the service sector to a three-year low (although remained positive overall), while manufacturers reported overall pessimism towards the outlook for the first time in four years"*. That hardly sounds like a rosey assessment from Germany.

Key findings:

- Flash Eurozone PMI Composite Output Index⁽¹⁾ at 52.7 (54.1 in September). 25-month low.
- Flash Eurozone Services PMI Activity Index⁽²⁾ at 53.3 (54.7 in September). 24-month low.
- Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 51.2 (52.7 in September). 46-month low.
- Flash Eurozone Manufacturing PMI⁽³⁾ at 52.1 (53.2 in September). 26-month low.

The euro is sharply weaker at the time of writing this morning on the back of this news. European bonds are higher/yields lower, which you'd also expect. What you might not expect is that, generally speaking, most major European equity indices are higher at the time of writing this morning. US futures are lower and Asia was mixed, so seeing European shares perform so well with negative data is a bit surprising. That said, I wonder if we perhaps have re-entered a "bad news is good news" phase. The weak data likely means the ECB will present a cautious tone towards rates going forward, supporting equity valuations. I don't see anything that would stop the end of their asset purchase program later this year, but their guidance on rates will likely shift a bit dovish, which might be why European equities are having a better day.

The BP is weaker at the time of writing as UK PM May is dealing with dissension among her own Cabinet. The BOC will have an interest rate decision this morning and expectations call for a "dovish hike", where rates are increased but officials downplay the odds of further moves. This is all adding up to a strong dollar at the time of writing this morning. DX futures are on the move over the 96.00 level this morning and are not too far from posting new highs for the year.

Energy

Crude oil with an absolutely vicious break yesterday. Though the market did breakdown below its 200 dma, I wouldn't call it a complete breakdown as the \$65 support zone still appears to be holding. Crude oil prices are posting a rebound this morning, but I think we need to keep in mind that API reported another BIG build in crude oil supplies yesterday. API reported a build in stocks of just under 10 mil barrels, compared to expectations for today's EIA report to show a build of 3.7 mil. If we get a similar number from the EIA (and there certainly are no guarantees for this) might we see this \$65 level get assaulted again? If that \$65 level falls, this could certainly be one of the ugliest charts out there. Admittedly the spec position has done a good job of cleaning itself up. I would also point out that the US-Saudi relationship situation doesn't look any better with

President Trump and VP Pence giving some strong statements over the past 24 hours. This could certainly provide support to oil as well. Still, to borrow from my friend MD, below \$65 and WTI looks like a “potty chart”.



Today's Calendar (all times Central)

- Markit PMI – 8:45am
- New Home Sales – 9:00am
- EIA Petroleum Inventories – 9:30am

Thanks for reading.

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