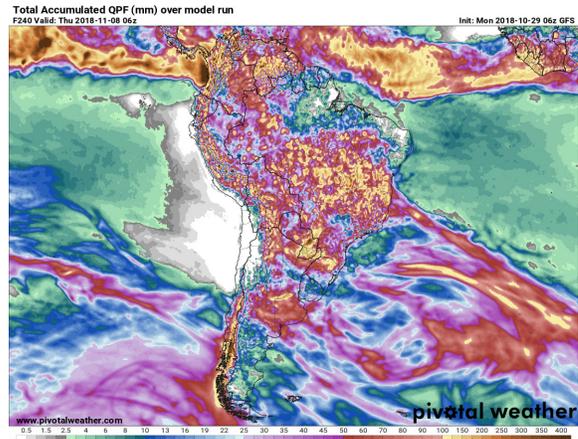


Weather

No change in the weather outlook this morning. The US will see rainfall chances return to the Corn Belt this week. The heavier amounts clearly favor areas in the east where some 1-2" amounts will be possible. Further west, rainfall totals will be much less and in some areas we could be completely dry. Additional precipitation chances will be seen in the 6-10 and 11-15 day periods. Both periods could feature above normal precipitation, but at this time of year normal precipitation is not big so we're not looking for "big" amounts. Temps should average near normal.



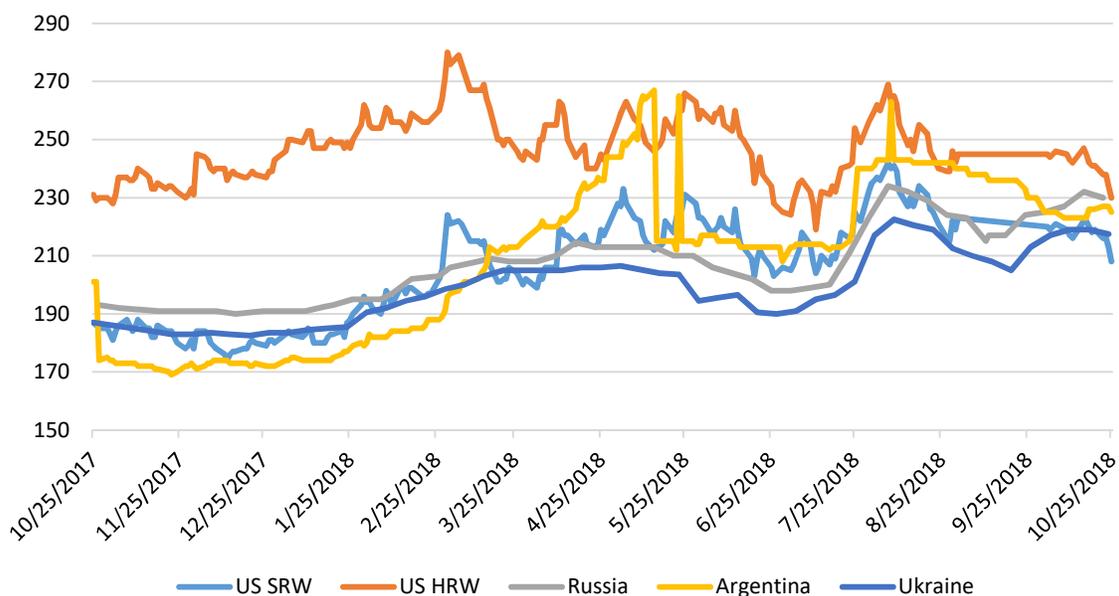
Two week rainfall totals in Brazil should run near to above normal. Northern areas should see mostly 2-4" totals over the next two weeks but there will be some localized heavier totals. The heaviest rains should come in the next 5 days. Southern areas will also see mostly 2-4" amounts but there will be heavier totals in RGDS (and into Paraguay) of 4-6". No extreme heat is expected.

Two week rainfall totals through Argentina should average mostly near normal or slightly above. Two week totals should range from 2-4" and should be fairly widespread throughout the growing area. Today and tomorrow especially could see some heavy rainfall activity. Temps should be fairly mild.

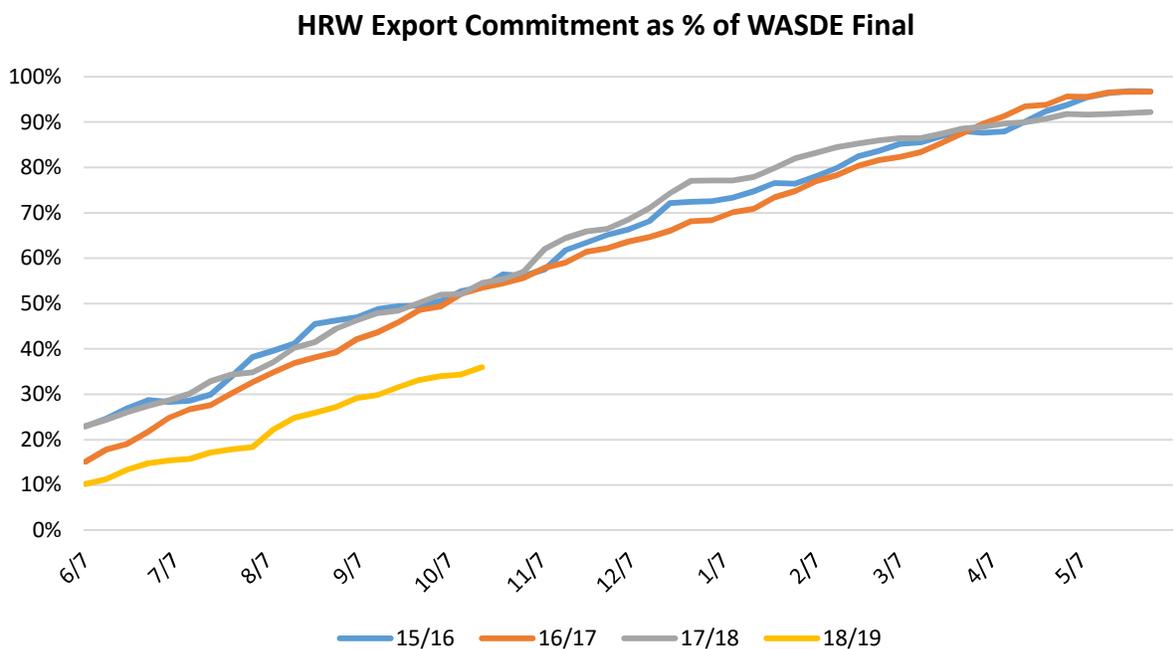
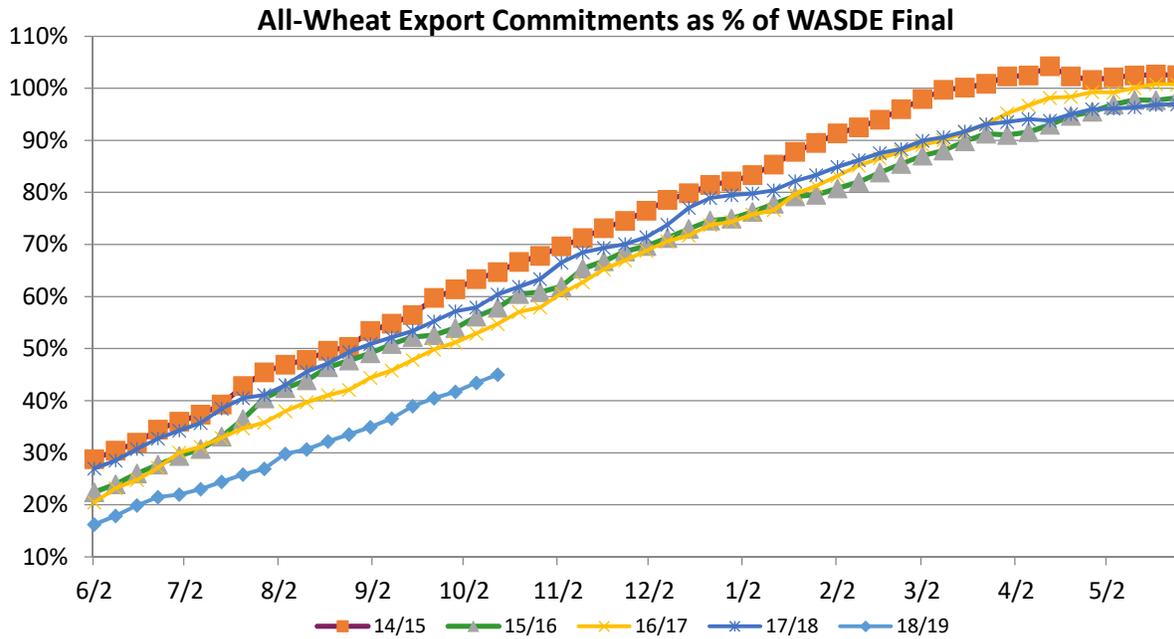
Crops

I have to admit I was skeptical the US would do wheat business to Egypt last week. I was wrong, and deserve your scorn and contempt. Let's look at world wheat prices quickly.

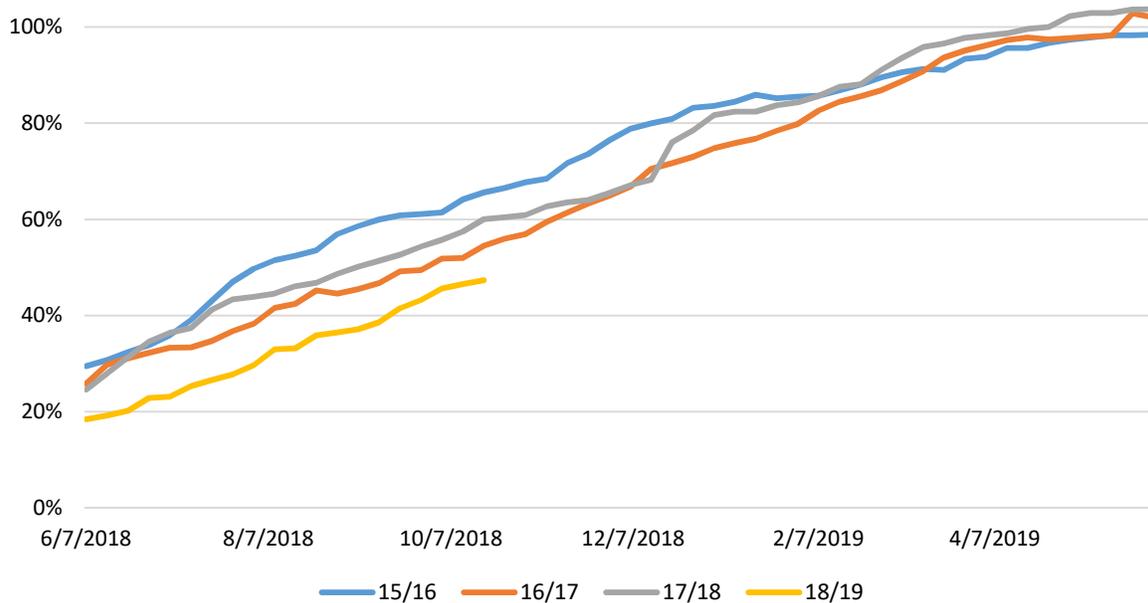
World Wheat FOB Comparison



The above chart is a little busy, but you can see that US SRW is the cheapest wheat on a FOB basis in the world right now and US HRW has recently dipped even or slightly less to Russian values. Both are important things to keep in mind, and both should mean the US has its best chances for significant export business in some time now. However, isn't this already baked in to WASDE's projections? Consider the following...



SRW Export Commitment as % of WASDE Final



The argument in support of WASDE’s seemingly “elevated” export projection has all along been that export business would be “back-end loaded” in the marketing year as Russian supplies started to dry up. Whether that would come through government restrictions or simply an aggressive export pace remains to be seen. We have to see a significant uptick in export demand to even consider the reaching WASDE’s **current** export projection. So if we are indeed seeing an uptick in interest for US wheat (still uncertain at this point), why should that necessarily be supportive to prices when it is already baked into WASDE’s projections?

Admittedly I’m no fan of being short wheat under \$5 over the long term. Perhaps one could make the argument that wheat has been oversold here. I can dig that, but I simply counter with the idea that an increase in business is not something that should lead to significant upside in wheat prices either. My contention is that wheat will remain range-bound until a significant supply issue appears. This afternoon’s Crop Progress report should give us our first guess on winter wheat conditions, which might be interesting. I’m guessing conditions will mostly be off to a good start.

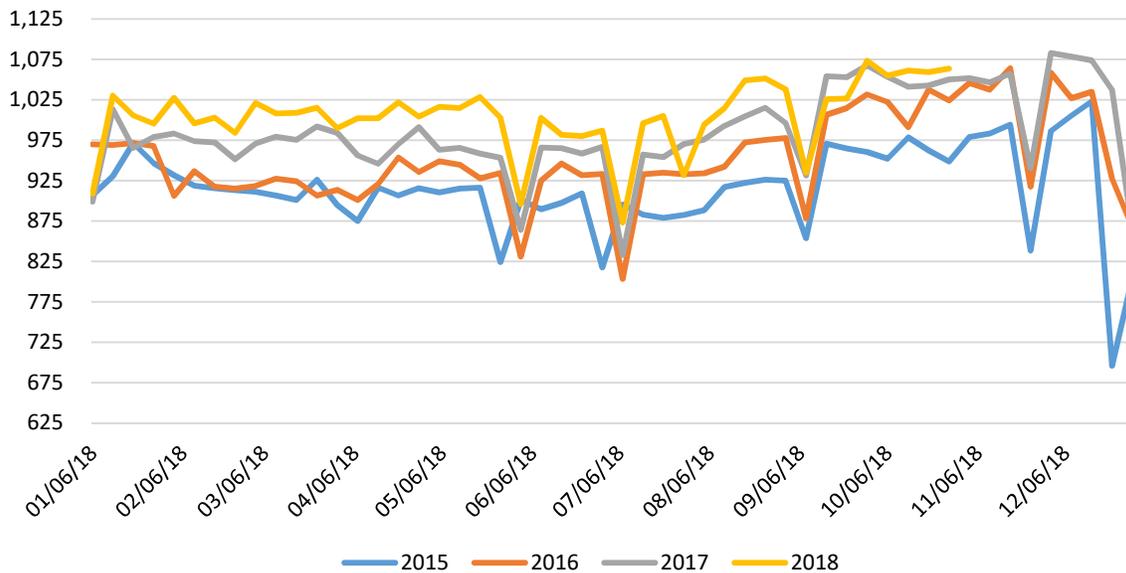
Livestock

We finally got the confirmation of higher cash cattle trade on Friday, with action as high as \$115. Our friends at MPA say the average on the day looks to be near 114.50 with very big volume. Considering the outlook for weights continues to point towards declines, I’d bet that beef prices can continue to remain in this neighborhood and packer margins are still solid. This would seemingly point towards further upside potential this week?

I was glancing through the weekly production figures over the weekend and thought this might be worth a quick look. This shows combined beef & pork production on a weekly basis. As you can see, 2018 production has

been easily above year ago levels for most of the year, though the gap has certainly narrowed recently. It will be interesting to see if we can take out that peak number in late 2017 this year. I would also point out that there is an obvious stair-step higher pattern here where every year is higher than the prior year. Based on what we know about numbers today, I would guess this pattern is repeated next year as well.

Combined Beef & Pork Production



Financials

A wide variety of interesting stories to note from over the weekend. I guess the best way to handle this is bullet-point format:

- As expected, Jair Bolsonaro won the Brazilian presidency. This was largely expected, though the reaction so far this morning is widely positive from the market. Brazilian real futures are up roughly 2% and an ETF tracking Brazilian equities is also higher.
- German elections were a major disappointment for Chancellor Merkel's party over the weekend, and following the poor showing she has announced she will quit as head of her party, the Christian Democrats. She has been leading the party for almost 20 years now and she has been leading the country now for roughly 13 years. She will not seek reelection as Chancellor after 2021 so it will be interesting to see who start to pop up as potential replacements in the coming years.
- The Chinese government is reportedly considering cutting their car import tax to 5% from 10% for passenger vehicles with engines no bigger than 1.6 liters. This is sparking a rally in some auto stocks in pre-hours and in European trade. Cars of that engine size have accounted for roughly 70% of the vehicles sold in China last year according to the China Association of Automobile Manufacturers.
- IBM has announced plans to buy Red Hat Inc for \$33 billion, which would be the second biggest tech deal ever. This would expand IBM's reach into the cloud market. IBM stock has dropped roughly 30% over the past 5 years as it has failed to keep up with AMZN and MSFT among others in the cloud market. My first question is what sort of additional debt is IBM going to have to take on to make this acquisition?

On tap today we get PCE inflation data, which will be of interest as the market is starting to scale back on long-term rate hike expectations. What I'm more interested in this week will be Wednesday's Treasury refunding announcement. It is expected that the Treasury could call for record sales levels. The total for 3, 10, and 30 year auctions that came just after the last refunding announcement was \$78 billion. The prior record in 2009 was \$81 billion.

Energy

Crude oil futures are modestly lower at the time of writing this morning. Russia's oil minister hit the newswires over the weekend saying that he has not had discussion with the Saudis on possible production changes. He also said he sees risk of an oil deficit, which would seemingly imply he is looking to keep production unchanged or possibly increase production. This is interesting because OPEC's own working group said late last week that the recent rise in oil inventories in recent weeks coupled with fears about an economic slowdown "may require changing course", implying they could favor less production in 2019? The bottom line is that there doesn't seem to be a coordinated voice on OPEC production at the moment. I wouldn't expect that to improve as Iranian sanctions officially get set in place in November.

Today's Calendar (all times Central)

- PCE – 7:30am
- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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