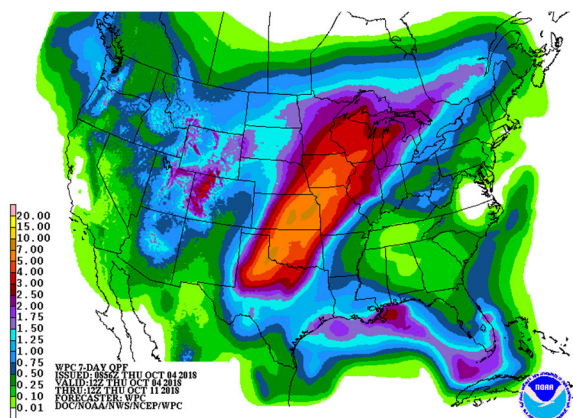


Weather

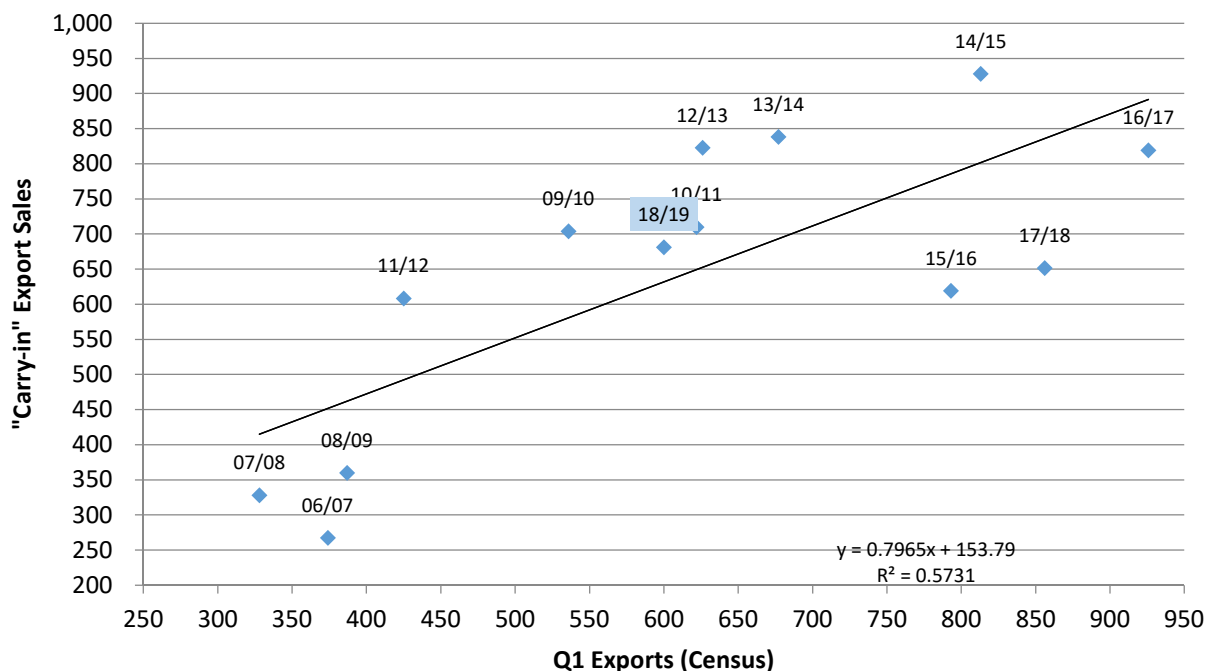
Same story for the weather forecast this morning. Big rains in the Corn Belt and Plains start on Friday and continue through the middle of next week. As you can see to the right, we're looking at big amounts and issues with localized flooding are an almost certainty. It still appears likely that this pattern will begin to break down later next week and more into the 11-15 day period. The reason for the big rains is the temperature contrast between cold weather in the west and warm weather to the east. In the 11-15 day timeframe, colder weather will become more widespread across the mid-section of the country, which should lower rainfall potential.



Crops

A few of my friends have given me a hard time about the export figure I included in my *sample* quarterly soybean balance sheet earlier this week. If you recall, I assumed in the balance sheet SON exports of 600 mil bu. I based that assumption loosely off the following relationship, which holds that the level of carry-in sales has decent predictive abilities for SON shipments. While I did note in my commentary earlier this week I viewed this as a *very optimistic* scenario and was intentionally doing so (to note the lack of a "demand pull" early in the marketing year) I do think it is important to clear up any misconceptions and point out the potential for <600 mb exports.

Q1 Soybean Export Demand vs. "Carry-in" Sales



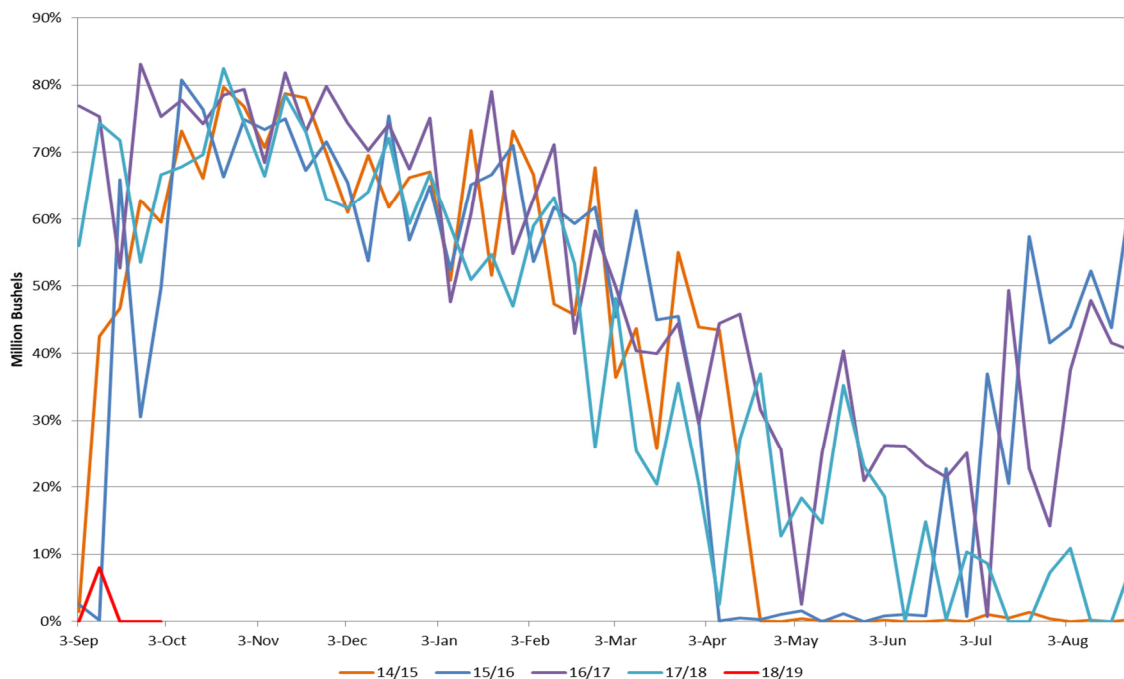
With China essentially absent from the US market, it might be more helpful to look at what to expect simply in terms of shipments and sales vs. the rest of the world. The past few years of beginning outstanding sales and SON export inspections to the rest of the world are shown below. You can see here that on average during these years shipments have been roughly 63% of the total sales figure. Last year we saw a new high of 73%, but even assuming that we slightly exceed that level it would leave us with “only” 400 mb of SON exports this year.

Soybean Sales & Shipments to the World Ex-China

	2013	2014	2015	2016	2017	2018
ROW Inspections	181	231	242	228	250	406
ROW Wk1 Export Sales	257	389	366	487	341	541
Shipments % of Sales	70%	59%	66%	47%	73%	75%

That 400 mb level seems a bit more reasonable than 600 mb right now if for no other reason we’ve wrapped up the month of Sept with “only” ~120-125ish mb of shipments (obviously we don’t have official data for Sept yet). So the point here is that the Q1 demand pull for soybeans this year was looking shaky even with an optimistic outlook on demand...with a more realistic view on demand the outlook is even worse.

China % of Total Weekly Soybean Inspections

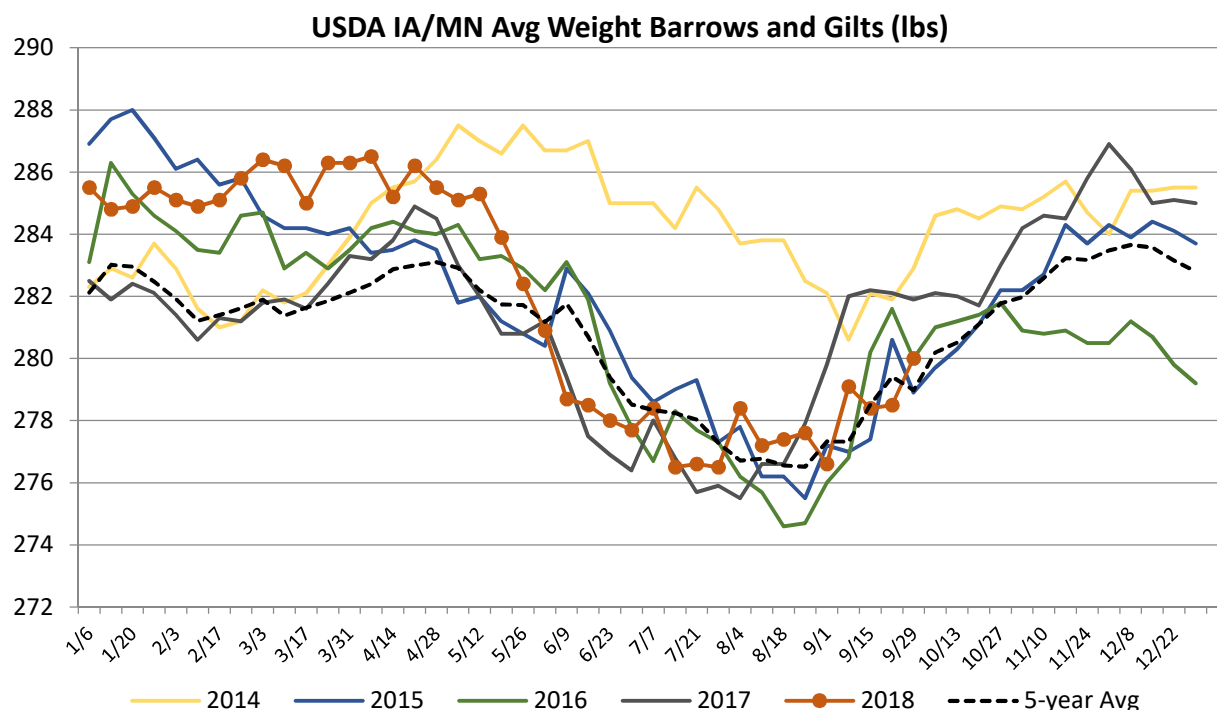


Livestock

Nothing to report on cash cattle trade yesterday. We’ve seen some trade in the north at ~111 this week but nothing to the south. It remains to be seen how the market responds to the wall of water that is headed through the Plains next week, but obviously that much rain is not good for feedlot conditions. Beef remains a

bit soft here and I've heard some negative comments about beef demand from a few different sources...let's see if/when that shows up in official data.

A solid uptick in hog weights last week, but still running shy of last year for now...

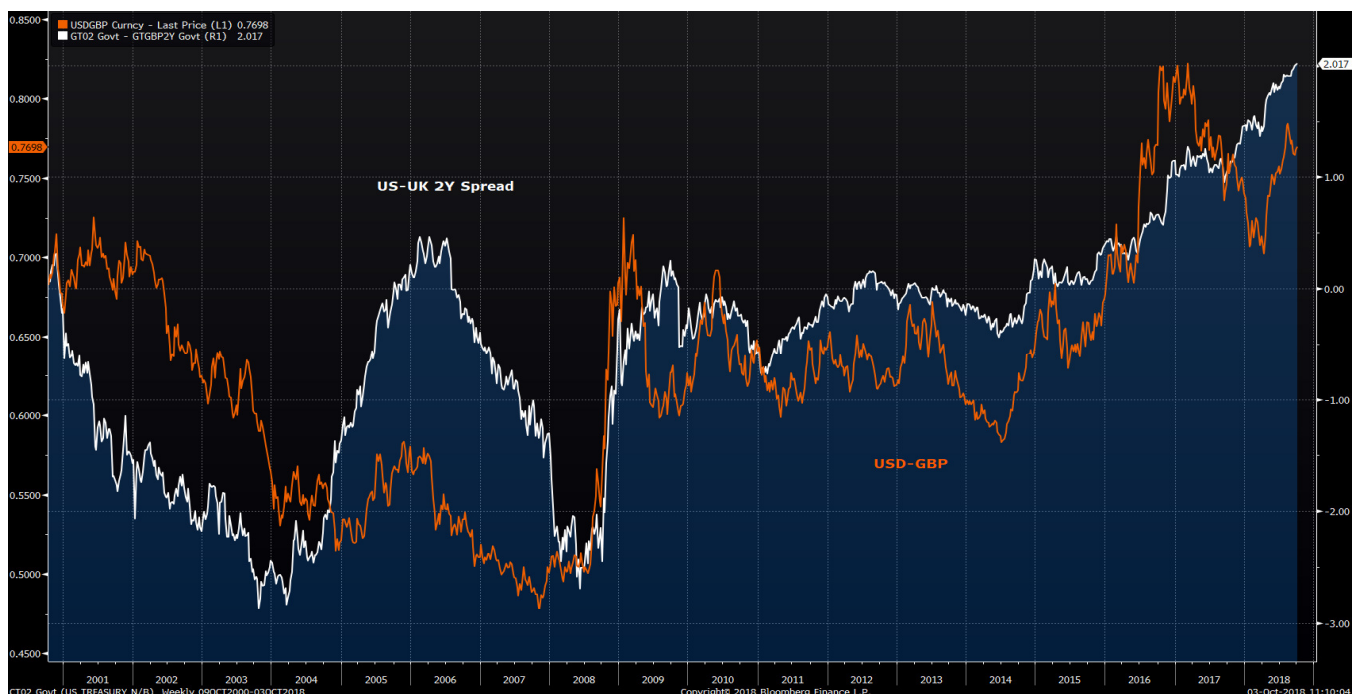
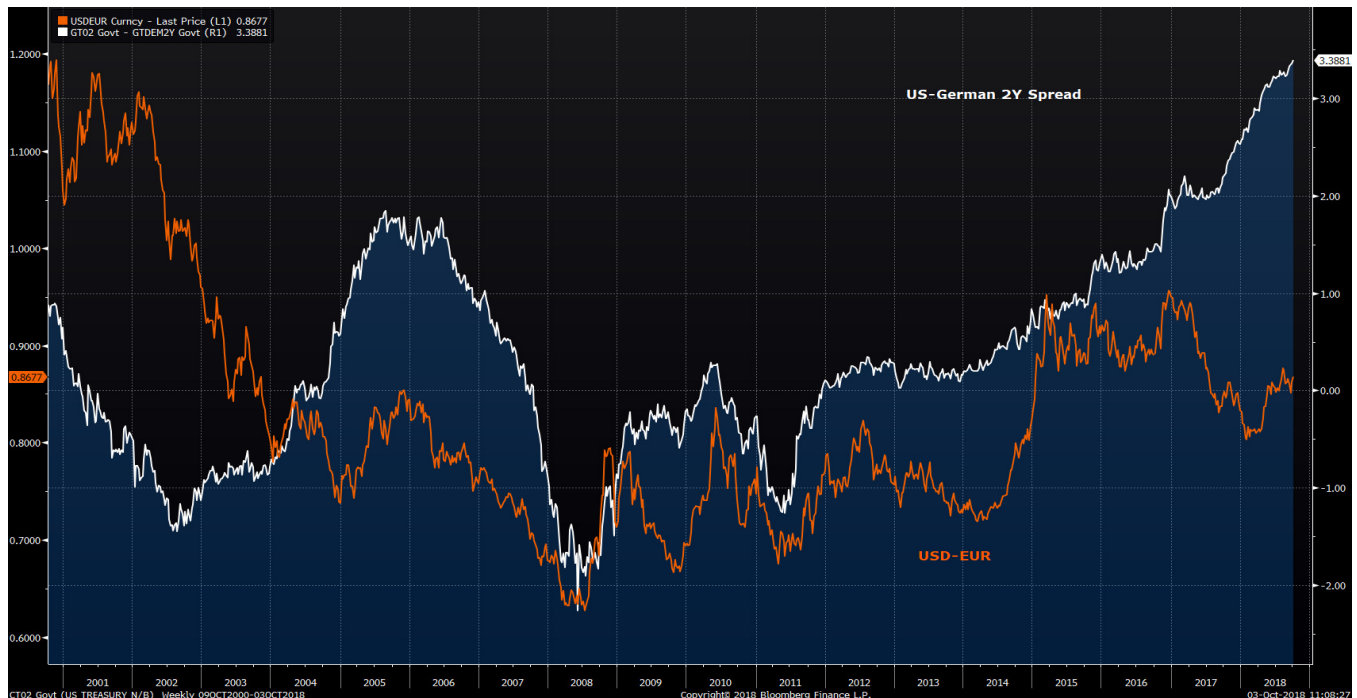


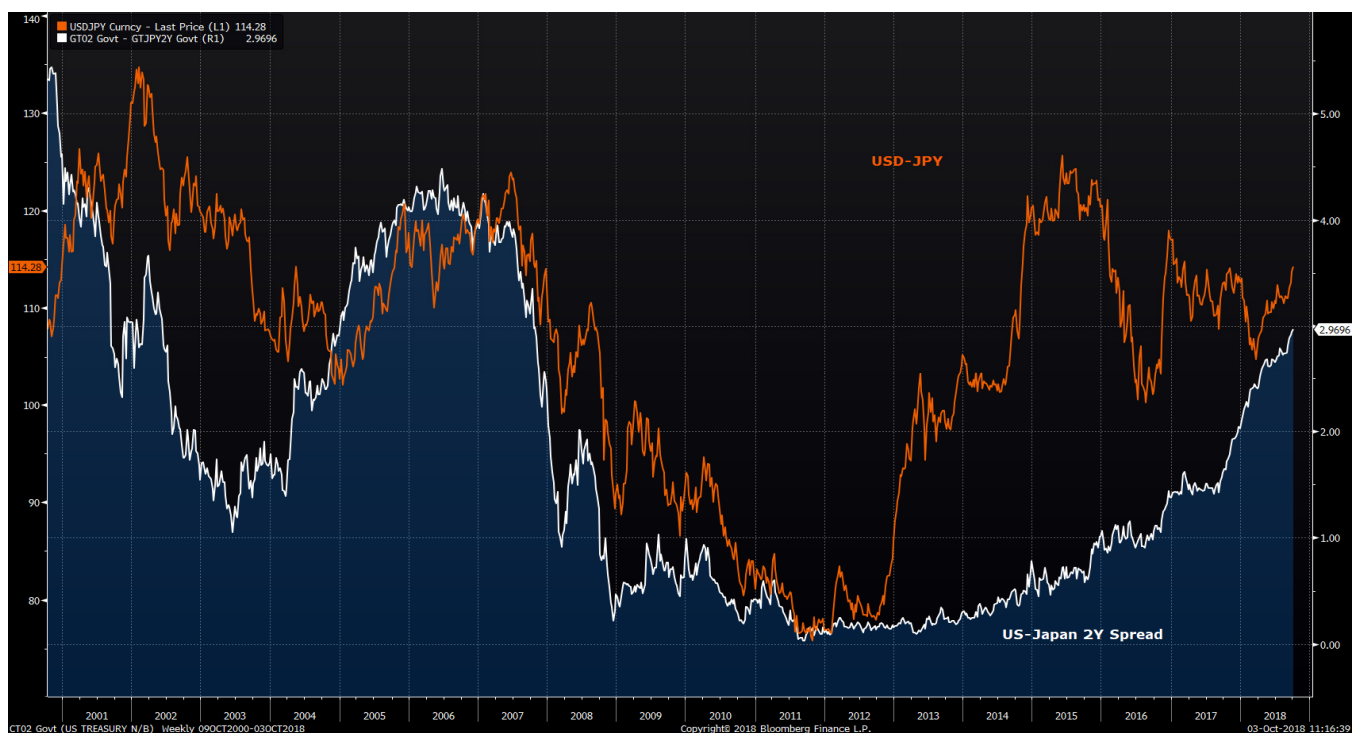
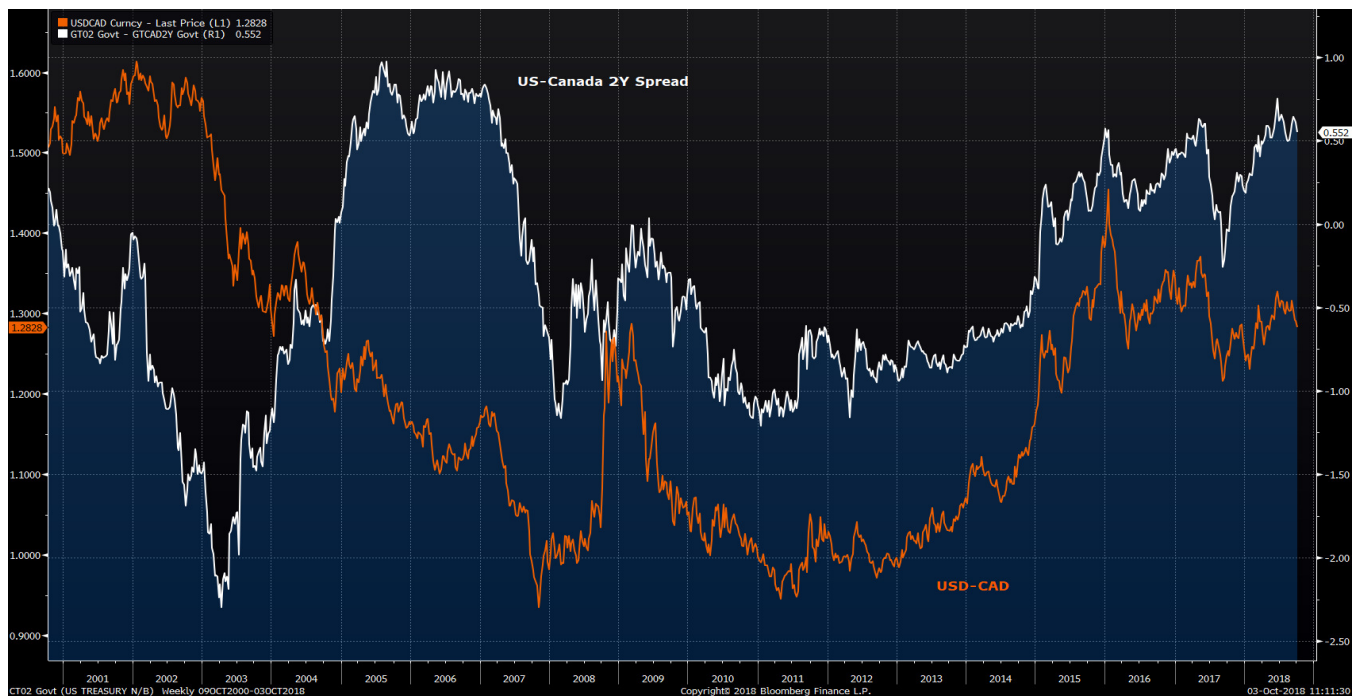
Financials

The big storyline is the meltup in US Treasury yields yesterday and the ramifications across asset classes in the past 24 hours. I'll discuss that a bit more below, but the other big news from late yesterday was hawkish commentary from Fed Chair Powell suggesting the Fed may eventually boost rates past the neutral level and then noting "we're a long way from neutral". That implies several more rate hikes ahead. The other interesting news of the past 24 hours is the Bloomberg report of the Chinese hack on AMZN, AAPL, and other entities. There have been reports that have suggested the Trump administration was likely going to go on the PR offensive to note "China's hostile actions against America's public and private sectors". Of course this will be used as a means of justification for further action *against* China. The big implication here from my viewpoint is the war on "trade" with China is likely to expand to other arenas...

I'm stepping a little out of my comfort zone here this morning and looking at interest rate differentials and FX markets. This is definitely not an area of expertise for me, but yesterday's breakdown in US bonds really got my attention focused on what that might mean for the dollar. I concede I might misspeak on something, and if so please call me out so I can correct it.

I'm attaching several charts here this morning, but they all show the same thing. I'm comparing US 2Y yields vs. the 2Y yields of various other countries, and tracking that against the exchange rate vs. the USD. You'll note that there is typically a solid correlation between the rate differential and FX rates, but in some of those cases it has broken down.





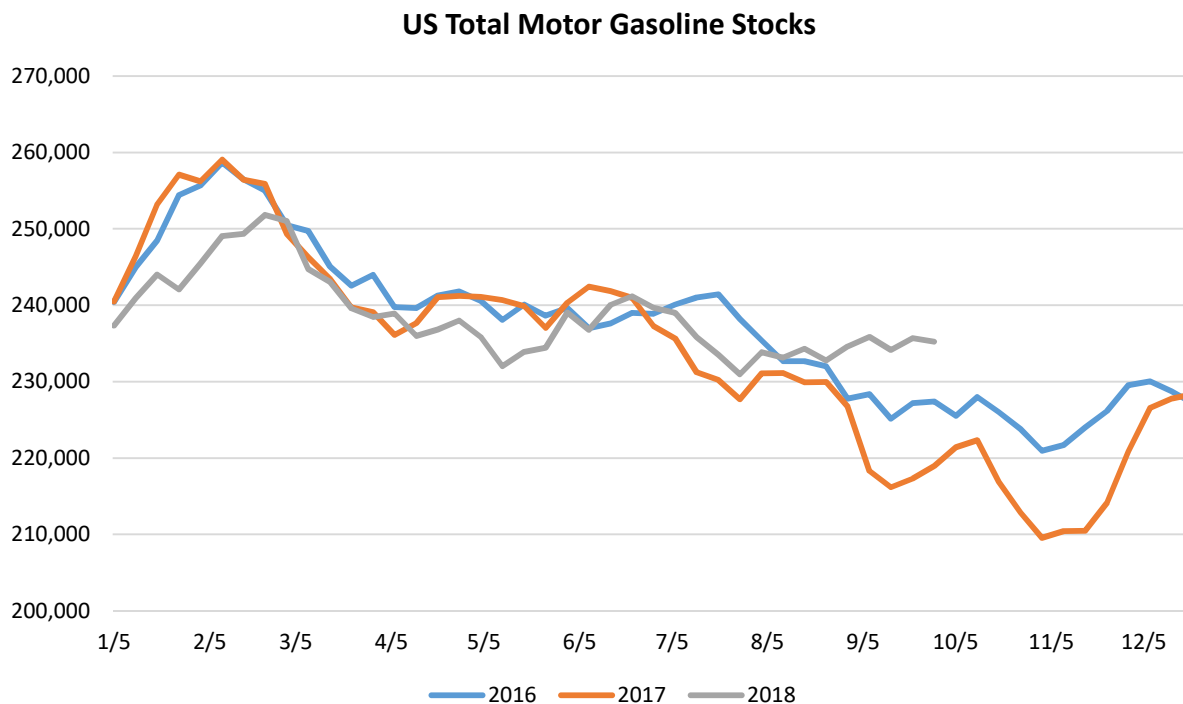
As I see it, we're looking at two difference scenarios in this environment. With US yields continuing to march ever higher either 1) the USD will continue to gain vs. its peers or 2) yields around the remainder of the developed world will have to catch up with US yields. I suppose the third potential scenario is some sort of

combination of the two. In my estimation, based on the charts above, either the Euro or German bunds (or both?) look especially vulnerable relative to the US.

To repeat, look for renewed dollar strength and/or rising DM yields ahead. Thoughts appreciated.

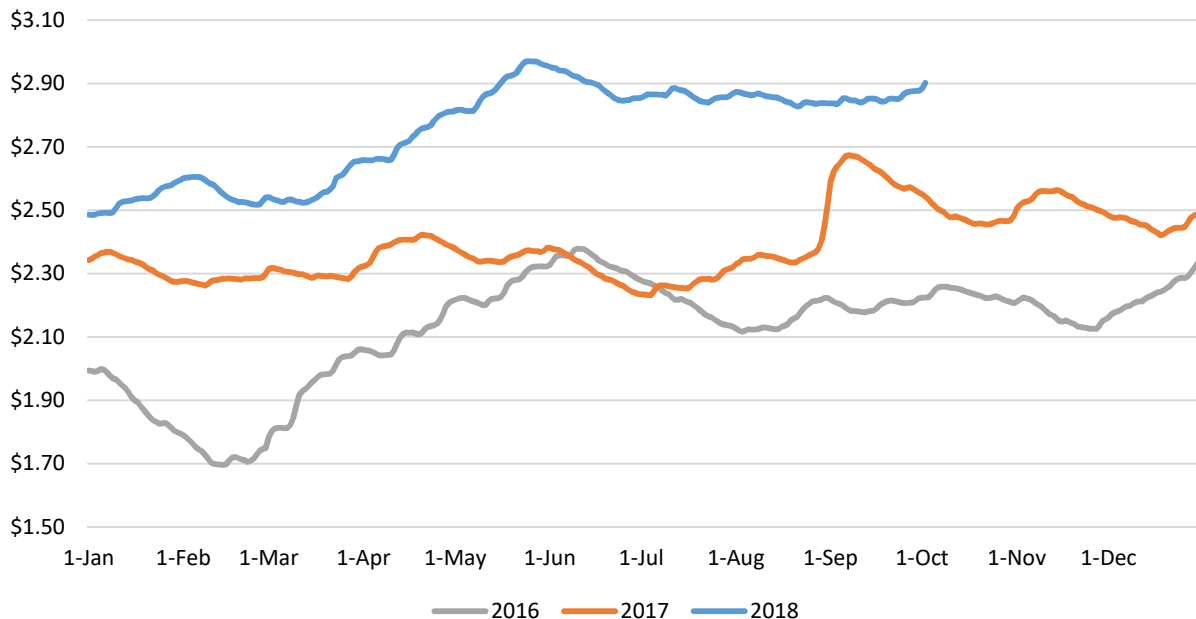
Energy

One interesting thing that stood out to me in yesterday's EIA data release is that gasoline stocks, for now, are not following their typical seasonal pattern lower at this time of year. You can see the last few years of seasonal action but notice this year stocks have been moving sideways over the past two months. This is likely due to stronger refinery utilization than usual over that same period.



We've seen crack spreads come down to earth a bit here recently, and I'd bet that will cause refinery runs to calm down a bit too (already some signs of that in the data). Interestingly, even with the strong gasoline inventories, retail gasoline *prices* remain above the past few years. I'm not entirely sure how to explain that...

AAA National Average Regular Gasoline



Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- Factory orders – 9:00am
- Durable Goods – 9:00am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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