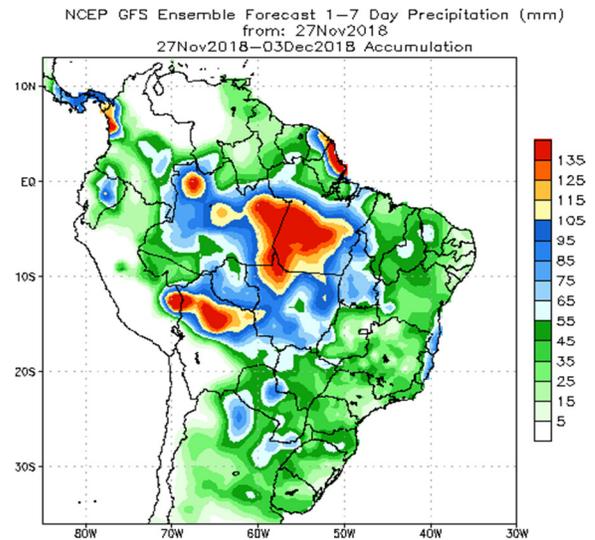


Weather

No big changes to the forecast. Northern Brazil will see AN precipitation over the next 2 weeks. Rainfall amounts should range from 5-8", with most of that coming in the next 7 days. Southern portions of Brazil should see near-normal amounts with two week totals ranging from 2-4". No abnormal heat is expected, and some fairly cool conditions are expected in northern areas. Argentina should see two week rainfall totals run near to mostly below normal. Two week rainfall totals should range from .75-1.75" with some locally heavier amounts. The somewhat "dry" weather is welcome as farmers work towards finalizing wheat harvest and advancing soybean planting. No significant heat is expected and actually we should see a lot of below normal temps at times.

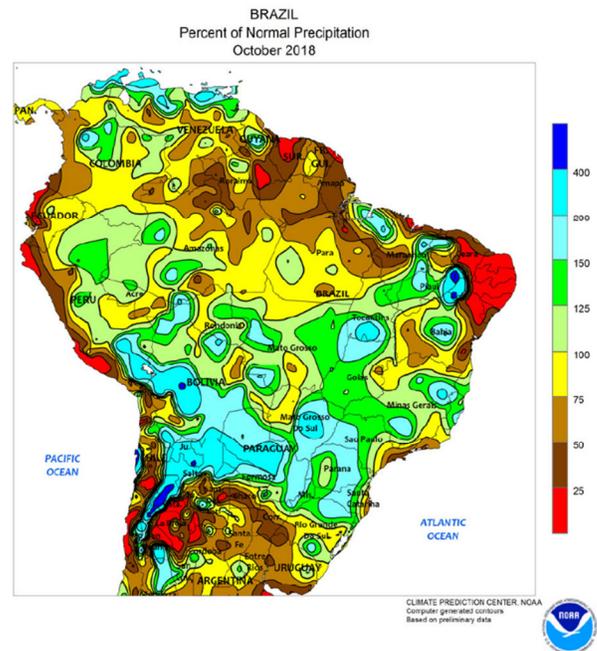
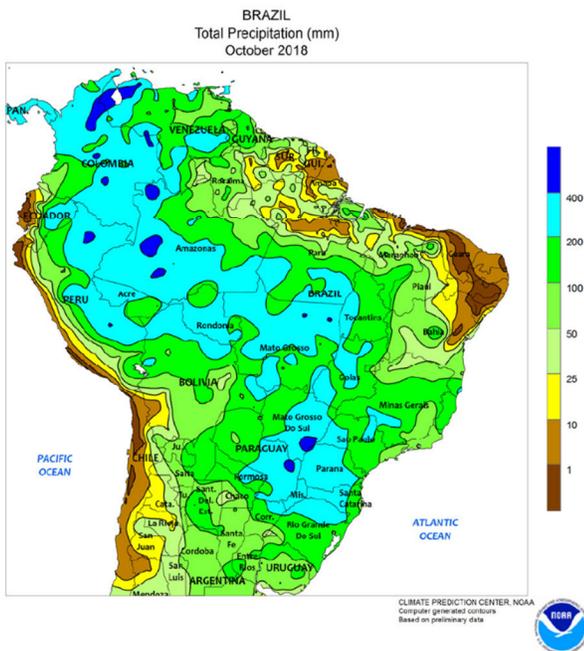


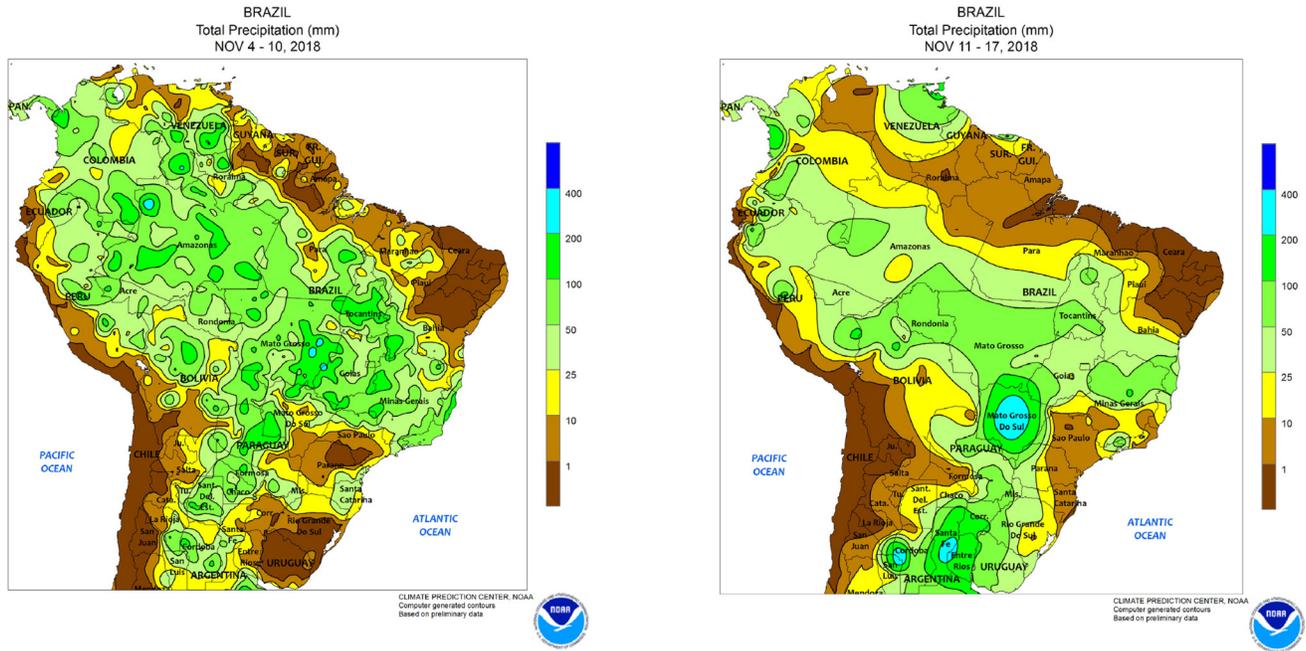
Bias correction based on last 30-day forecast error

Crops

A quick thought on soybeans this morning that has nothing to do with a trade war or tariffs or export commitments...at least not directly.

It is starting to get to the point where I think we're going to see private, and possibly government, estimates of Brazilian soybean production on the march higher. We already have discussed the crop has been planted in a very quick fashion and that harvest should begin earlier than usual (perhaps some initial harvest results in late December?) Also consider the following precipitation breakdowns:





Brazil has been planted in good/fast shape, has been well watered thus far this season, and the forecast continues to point towards near to mostly AN precipitation chances for at least the next two weeks. So where do current yield projections sit?...

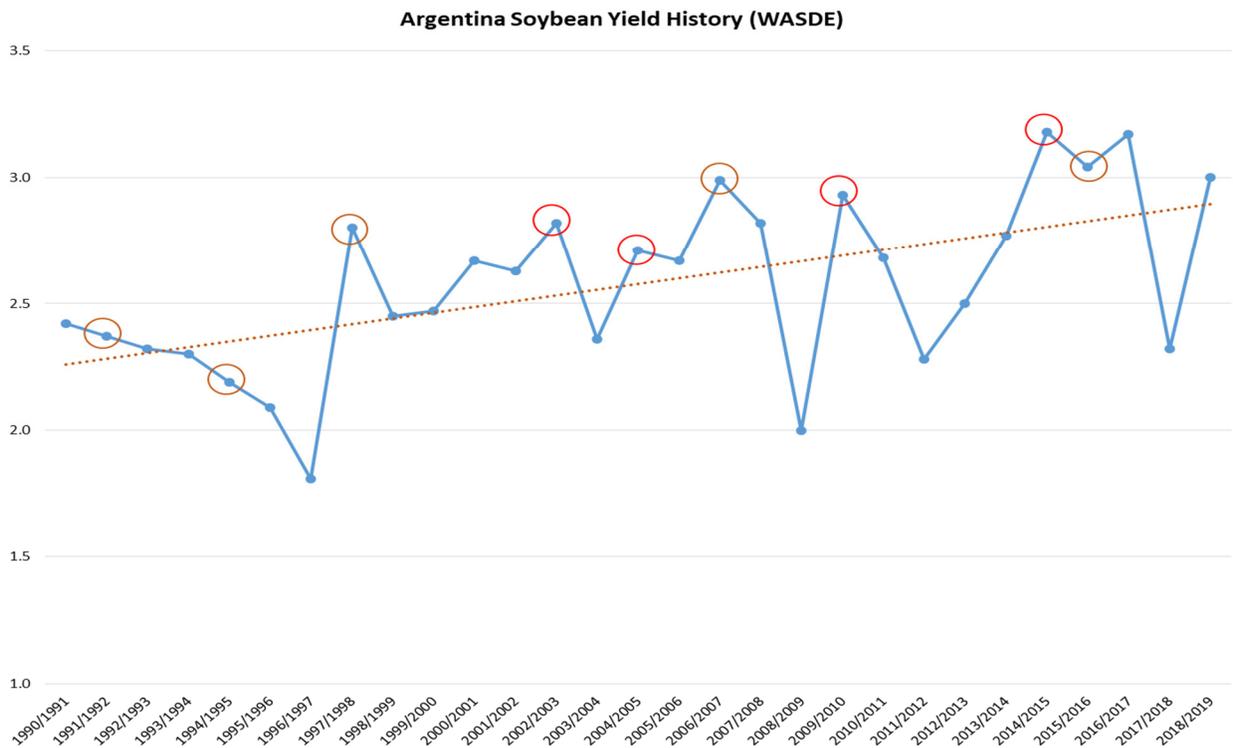


The blue line shows the WASDE history of Brazilian soybean yields and the 18/19 point is their mostly recent estimate for this year. The orange X shows CONAB's most recent estimate. I find it interesting that both groups are basically straddling the trendline with their estimates. In my opinion, weather and planting conditions would argue, for now, in favor of something above trend.

A big question mark is area, with CONAB's projection of area well under WASDE's. Put a CONAB yield on WASDE's area, and you get near a 124 mmt production figure. Put a WASDE yield on CONAB's area, you get something closer to 115 mmt. Again, I think the market is going to start leaning higher with its yield estimates, but this shows you how much variation we might expect simply on area estimates. I suppose it is worth noting that last year CONAB did raise their area projection in December vs. their November midpoint.

I suppose this would be a convenient time to point out (again) that I feel last year's crop might have been understated. I believe this based on the price levels for Brazilian soybeans/meal vs. YTD demand and what supplies "should" be on paper. If you were to use a WASDE area estimate and plug in last year's yield you're looking at a total production figure just under 128 mmt. Use CONAB's midpoint area figure and last year's yield gives you a 122 mmt production figure.

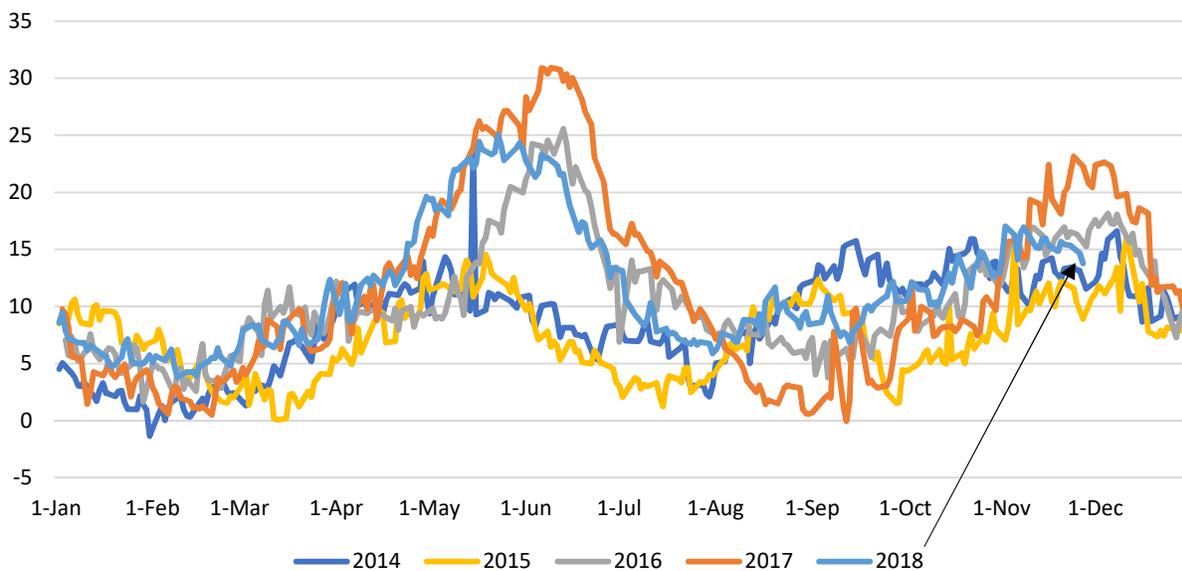
The bottom line is that, for now, all signs are pointing towards growing optimism on Brazilian soybean yields. Be prepared for production estimates to gradually stair-step higher in the weeks and months ahead. It's too early to speak intelligently on Argentine prospects, but note there is a tendency for El Nino years to produce above trend yields there too (El Nino years are circled).



Livestock

No significant new information to pass along this morning. Cash markets remained quiet yesterday, though it still feels most are expected slightly firmer cash trade this week. I've heard a few negative comments about beef trade lately, with boxes being described as "heavy". We'll see what happens. Looking at seasonal tendencies, I'd say there is a very modest seasonal tendency for choice boxes to weaken into mid-December. The chart below shows there is a pretty solid tendency for the choice-select spread to narrow from this point forward into early 2019.

Choice - Select Spread



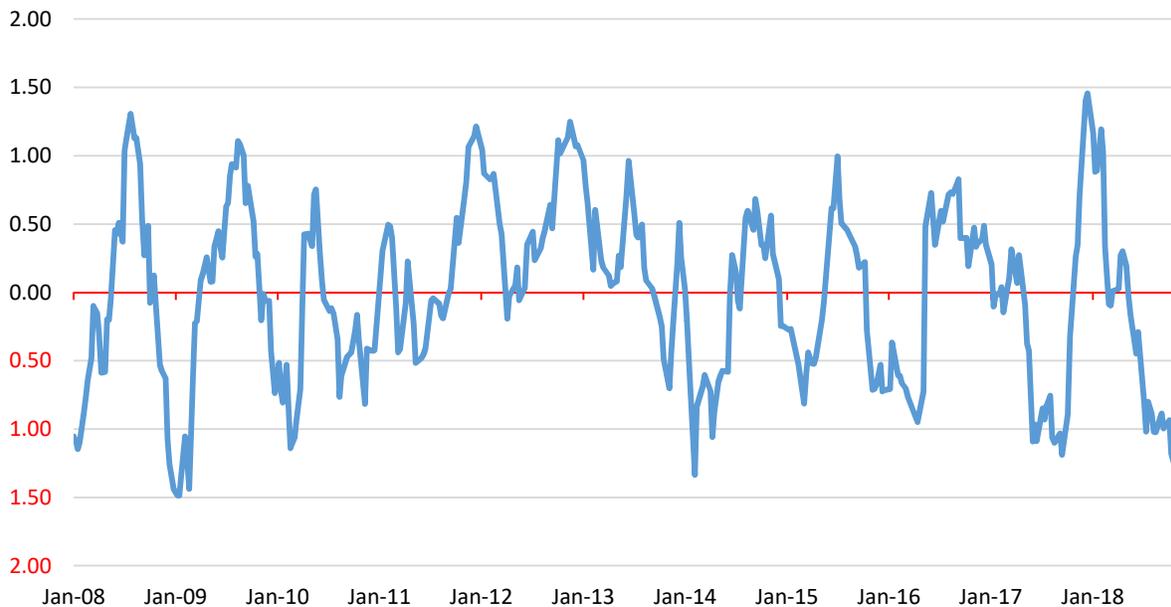
Financials

As noted to start the week we knew we were going to deal with a lot of headline "noise" this week, and it just seems to keep intensifying. One thing on tap for today is a speech from Fed Chair Powell, which will get a lot more attention given the recent headlines of the past 24 hours. President Trump said once again that he is not happy with the Fed raising rates, perhaps issuing his strongest rebuke of the Fed policy yet. Meanwhile, there are reports suggesting Treasury Sec Mnuchin is apparently lobbying for a faster pace of balance sheet unwinding as a means of tightening monetary policy without raising interest rates. I'm not sure what that accomplishes, as President Trump probably already knew that story was going to hit and noted yesterday "I don't like the \$50 billion" referring to the current pace of monthly asset sales from the Fed. As far as Powell is concerned, don't expect him to stray from the script today. He'll likely keep on saying what he has been saying. I'm not sure if there is a Q&A part to his comments today.

Also on tap today we have new home sales and this will be an important number to watch in terms of sentiment. Sentiment towards housing has turned sharply negative in recent months as higher interest rates, low inventories, and low affordability has hampered growth in this crucial segment of the economy. That said, I found the following chart pretty interesting. This shows the Bloomberg housing market surprise index, which is

simply a measurement of how good/bad the actual economic data is relative to consensus expectations. What I find interesting/alarming here is that the current run of data is running as bad (relative to expectations) as it was at the worst of the housing bubble in 08/09. That is pretty bad, but remember this is largely a measure of sentiment. In theory, we should see expectations adjust to the data and we shouldn't be surprised to see some outperformance vs. expectations at some point. I have no idea whether that comes today or later, but I think it is worth keeping in mind. Thoughts appreciated.

Bloomberg US Housing & Real Estate Market Surprise Index



Additional headline “noise” today will be seen from Brexit, where the BOE is expected to release papers describing their projections on the economic impact of the Brexit deal and a potential “hard Brexit”. This should create additional volatility in FX markets today.

Energy

Crude oil futures are flat this morning. Yesterday's API report showed another weekly build in crude oil stocks of 3.45 million barrels. If the EIA confirms this later this morning, it would be the ninth consecutive weekly increase in US crude oil stocks. Expectations for the EIA report are not as big, however, with the consensus estimate sitting at +1.0 million. Otherwise, nothing new to report. Putin and MBS will be meeting at the G20, so that is our next wildcard.

Today's Calendar (all times Central)

- Q3 GDP Revision – 7:30am
- Advance Goods Trade Balance – 7:30am
- Wholesale Inventories – 7:30am
- New Home Sales – 9:00am

- EIA Petroleum Inventories – 9:30am

Thanks for reading.

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