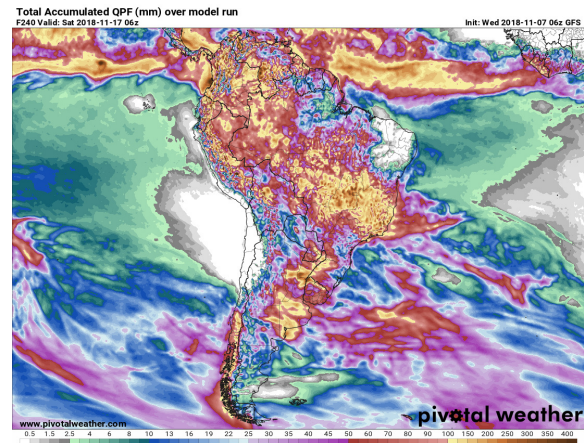


## Weather

No shortages of moisture for Brazilian growing areas over the next two weeks with near to above normal amounts projected across the country. Some areas will see 4-8" rainfall totals over the next two weeks. Argentina is also looking for rainfall totals to run above normal over the next two weeks with a lot of 2-4" amounts possible and some locally heavier totals. No major extremes in temps are expected.

In the US the outlook for precipitation looks relatively modest in general but there will be some snowfall accumulations across the Plains (2-4" with some locally heavier amounts in CO, NE, KS). Cold temps will dominate the US over the next 10+ days.



## Crops

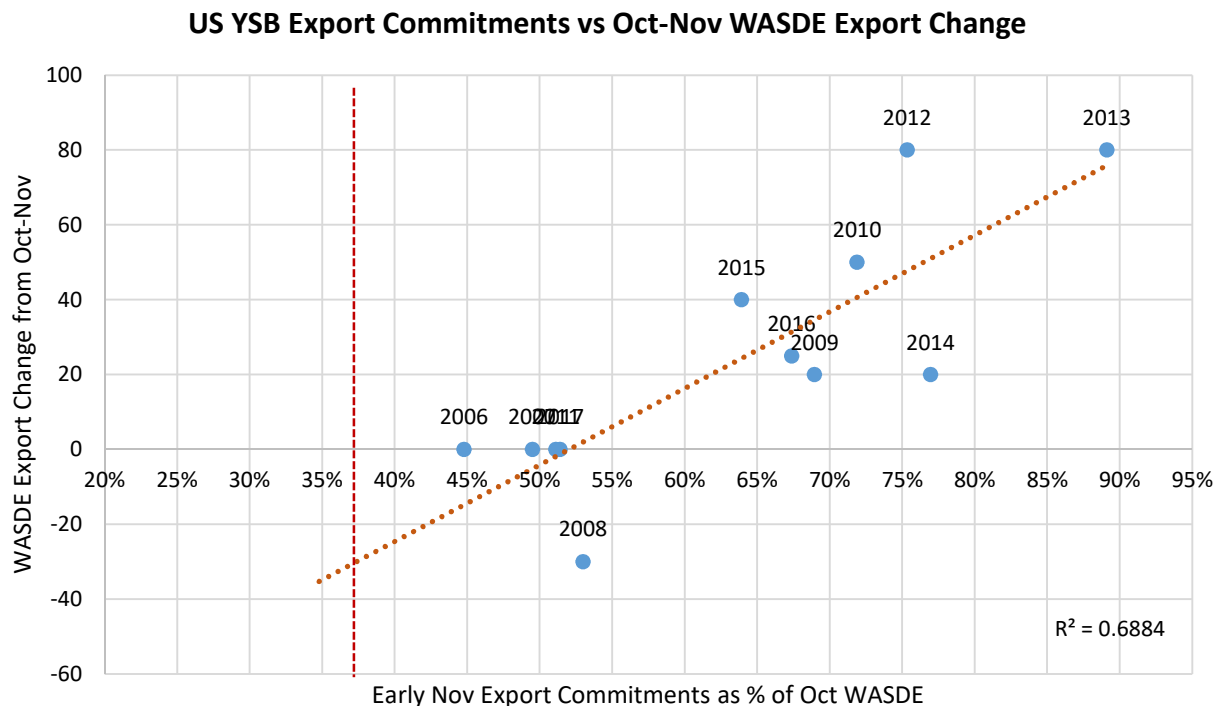
We'll quickly cover potential changes in the WASDE balance sheets this morning. There probably isn't much to discuss because I really think there won't be a lot of changes in US demand projections this month.

Starting with wheat, I think one could clearly make an argument that a cut to the export projection is necessary. The pace of export commitments is certainly behind what you'd expect at this point in the year to meet the current WASDE projection. However, we've seen outstanding sales uptick in the past few weeks. Additionally, WASDE is likely to cut Australian production further (18.5 mmt last month) and this would argue against making a reduction in the US projection right now. It is possible WASDE might increase their Russian production estimate, but considering they just lowered it last month that might be a bit much to ask of them. I think WASDE might just punt their entire US wheat balance sheet and keep everything unchanged. The average guess calls for a modest increase in carryout, but nothing significant. No fireworks are expected here.

Switching the corn, the critical item of course will be production. The average guess calls for a modest reduction in yield and as I noted earlier in the week I have no disagreement with that idea. Assuming the average guess for a yield near 180 bpa is correct, we're looking for a reduction in supply of roughly ~50 mil bu. With a reduction in production, WASDE will likely lower their F&R estimate slightly, but probably not enough to offset the production loss. The question is whether they see anything in ethanol or export demand to make cuts today? I could certainly make an argument that the projection for both will *eventually* need to be cut. The pace of export sales has slowed dramatically as FOB prices have lost competitiveness. Ukraine's production level needs to be increase, and that should flow into their export number. In ethanol, export demand has slowed there as well and production margins are low while inventories remain elevated. That said, I'm somewhat inclined to think that WASDE leaves both alone for now. The ethanol production data is running on a decent enough pace and the same can be said for export commitments. WASDE need not feel any rush to make adjustments here. So with slightly lower production and a very modest decrease in F&R, I come up with a lower c/o of roughly 1,785, which would be basically inline with the average guess and thus I have no strong bias here. That said, while I think it is low odds it is possible that WASDE cuts either/both ethanol and exports so the possible surprise today would be a bigger than expected carryout (assuming production as-expected).

Finally, on soybeans, as I noted yesterday I could make an argument for a slightly higher yield and a slightly lower yield. The average guess calls for something near unchanged, and I can buy that as well and I'll assume that is correct going forward. (Note: looking at the details of the guess for yield and the guess for production, there appears to be an implied loss of roughly 100k in harvested area...which I'm not on board with) The big question mark of course is WASDE's export projection. I'm really torn on this...I think WASDE HAS TO cut their projection because the pace of sales/commitments/exports is just woefully behind a normal pace. That said, WASDE officials, to their credit, have stated publically that this is anything but a normal year and that the typical seasonal pace would not be seen this year. They are of course correct in this, but the gap between what is happening and what they are projecting is growing wider by the day.

Does President Trump's newfound optimism towards a deal with China give WASDE cover to wait a month? Maybe? My baseline scenario is that WASDE will cut *something* today, however. I don't think it will be as big as they "should" cut, but I think they'll do something. I have presented the chart below before, and this would imply something around a 30-40 mil bu cut in the export projection today. Interestingly, that would basically fall right inline with what the average guess seems to be assuming on demand.



There is a good argument for a bigger move from WASDE in addition to the argument about the pace of commitments. This past week the Beijing attache lowered their projection for Chinese soybean imports to 84 mmt from 94 mmt in the official WASDE projection. IF WASDE were to even partially follow suit with this change it could give them cover to show a bigger reduction in US exports. Additionally, it appears to me that they're still understating Brazilian exports and potentially even understating last year's Brazilian production. An increase there would also allow for a bigger reduction in US demand.

So, I find myself on the fence here, but I'll going to assume WASDE will cut their export projection by 60 mil bu to a round number of 2,000 mil bu. This would be bigger than the market's implied guess, and thus would lead to a larger carryout than expected. Combined with my comments from yesterday regarding the chances for a bigger yield and I think there is a chance the market gets a bit surprised by the carryout to the upside. That said, I do not believe WASDE will be willing to print a 1 billion carryout at this time...no matter what.

Thoughts appreciated.

## Livestock

Not much to discuss here this morning. A sloppy session in the LC & LH futures yesterday. Obviously LH was limit down in some months and we're looking at expanded limits today. The LHZ chart has support in the form of the 100-day MA just below yesterday's settle, so we'll see if that will hold for now. That's a nasty looking potential double-top at the 60 level to keep an eye on. On the LCZ chart, both the 100 and 200 day MAs are providing support at this level. As noted previously, it would seem the looming index roll is playing a big influence on this technical weakness here.

In cash cattle, there was small trade yesterday at 113 which is surprising considering the calls for 1-2 higher on the week. The volume of activity was definitely not enough to set the tone for the week, but still not what the bulls were expecting to see here. Basis has really flipped in the past few weeks and is basically inline with norms now.

## Financials

The elections went roughly as expected, with the Dems regaining control of the House and the Reps continuing to control the Senate. This seems to be cheered by the markets this morning, with ES up solidly. The outlook going forward calls for a lot of legislative "gridlock", which is often cheered by some pundits as it means the government can't mess up anything else. I'm personally no so sure the gridlock this time around will be quite as production. We're likely to see lots of House investigations into Trumps personal finances and conduct, and though they will go nowhere with the Reps controlling the Senate it will remain a huge distraction. More important to markets is that this raises the chances for gridlock on items such as the debt ceiling. Still, it seems the market for now just wants to breathe a sigh of relief that the election is over.

The price action in the dollar has been pretty nasty in the past few sessions and is definitely worth keeping an eye on here considering the speculative build up in long-dollar positions. In addition to the election working against the dollar, Germany industrial production was reported stronger than expected, which is supporting the Euro this morning. Optimism for a Brexit deal continues to support the Pound.

No major news due out today. We have the results of the Treasury's 30-year auction this afternoon and QCOM might be of interest when they report earnings after the close.

## Energy

Crude oil futures are being swept up in the wave of risk-on this morning, but there is also a newswire story suggesting OPEC officials are considering production cuts in 2019 to support prices as well. The story suggests that OPEC officials are worried that increasing US production will offset losses in Iranian supplies and that

inventories will begin to rise. A group of OPEC officials will be meeting in Abu Dhabi this weekend to discuss the potential cuts, and this of course comes shortly after OPEC agreed to boost production modestly to offset losses in Venezuela, Iran, and others (and to please President Trump). My understanding is that the meeting over the weekend will not include Russia, and securing Russian acceptance to production cuts would likely be critical to actual implementation.

#### Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- 30Y Auction – 12:00pm
- Consumer Credit – 2:00pm

Thanks for reading.

David Zelinski

[dzelinski@nesvick.com](mailto:dzelinski@nesvick.com)

901-766-4684

Trillian IM: [dzelinski@nesvick.com](mailto:dzelinski@nesvick.com)

Bloomberg IB: [dzelinski2@bloomberg.net](mailto:dzelinski2@bloomberg.net)

#### **DISCLAIMER:**

**This communication is a solicitation for entering into derivatives transactions.** It is for clients, affiliates, and associates of Nesvick Trading Group, LLC only. The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. These materials represent the opinions and viewpoints of the author and do not necessarily reflect the opinions or trading strategies of Nesvick Trading Group LLC and its subsidiaries. Nesvick Trading Group, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such.

Officers, employees, and affiliates of Nesvick Trading Group, LLC may or may not, from time to time, have long or short positions in, and buy or sell, the securities and derivatives (for their own account or others), if any, referred to in this commentary.

There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. Nesvick Trading Group LLC is not responsible for any redistribution of this material by third parties or any trading decision taken by persons not intended to view this material.