NESVICK
TRADING GROUP, LLC

Monday, December 10, 2018
NTG Morning Comments
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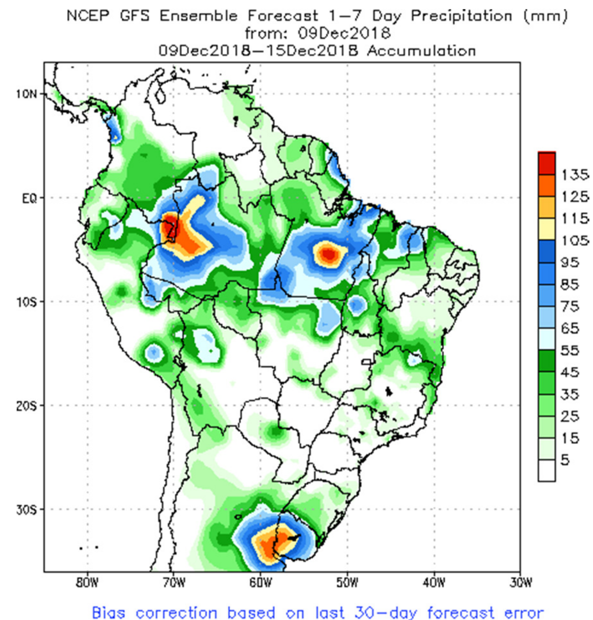
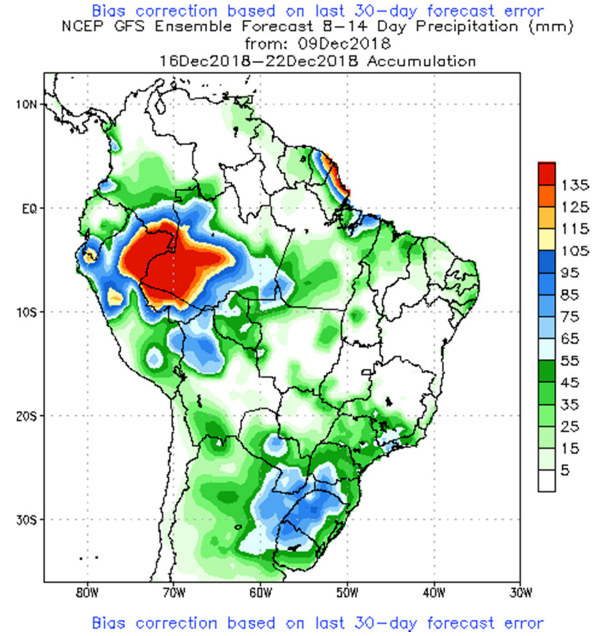
Weather





Rainfall through northern Brazil will average below normal over the next two weeks. This does not mean it will be completely dry, however, with rainfall totals likely to range between .75-3.0" with most areas probably seeing 1.5-2.5" amounts. Rainfall chances will likely be best during the 11-15 day period, and it is likely this upturn in rainfall chances would continue beyond the 11-15 day period. Despite the relative light rainfall chances, temps shouldn't be anything extreme. Highs will reach into the 90s at times but nothing major.

Two week rainfall totals in southern Brazil will range from BN in some areas to AN in others, though clearly the area is favored for better rainfall chances than the north. Rainfall chances of 3-5" will be likely through RGDS, Parana, and Paraguay with 2-3" amounts possible in MGDS. Rainfall this week won't be anything impressive, with the bulk of the rainfall not getting underway until this weekend. Before the rainfall arrives, look for some hot temps to develop and 100F readings cannot be ruled out.

Argentina should see rainfall average near to above normal over the next two weeks. It will be dry today but rains will develop tonight and should continue through most of the week. Entre Rios and Santa Fe could see very heavy 4-7" amounts with 2-4" possible in portions of Cordoba and northern BA. Other areas should see .75-2.0" amounts. Significant rains are not expected through the 6-10 and 11-15 day periods. No major heat is expected during the next two weeks.

Crops

The WASDE is due tomorrow and I thought we'd quickly review expectations for potential balance sheet changes today. The December WASDE report is one of the more uneventful releases each year, and I would anticipate tomorrow being no different. Keep in mind we won't get a corn or soybean production revision, with that waiting until next month's report. As such, I expect WASDE to mostly pass on making big adjustments to demand at this time.

Wheat-

With the Quarterly Stocks report due in January, I would deem it highly unlikely that WASDE feels the need to make adjustments to either feed or food use this month. That leaves exports as the lone potential change this month. One could certainly make the argument that WASDE could lower their export projection. The pace of commitments to this point is certainly below what we normally see at this time of year. Still, the thought process all season has been that US exports will accelerate in 2019. That gives WASDE cover to avoid a change this month and wait to see if anything significant changes over the next month. In the end, I would bet US exports end up smaller than WASDE's current guess but probably not by a ton. I'm looking for an unchanged balance sheet tomorrow, though the average guess for ending stocks is up to 965 mb vs WASDE's prior 949 mb estimate. This would seem to imply the market believes they'll cut exports. I'll take the under on the wheat carryout.

Corn –
Again, I don't anticipate huge changes here. One could certainly make an argument that WASDE could cut their corn for ethanol grind projection. YTD figures are running below last year yet WASDE is currently projecting a YOY increase in the total grind. I wouldn't be surprised to see a reduction there, but I'm of the opinion WASDE will just sit on this for at least one more month and see what happens. No need to rush into a change. F&R changes will wait until next month. Exports were lowered by 25 mb last month and are probably safe at this level for now. Any meaningful change in the outlook won't be seen until more is known on Brazil's safrinha production, and we're months away from speaking intelligently on that. To summarize, my baseline assumption on the corn balance sheet is for WASDE to leave things completely unchanged. The average guess is calling for a modest increase in carryout; probably most are looking for that minor reduction in carryout.

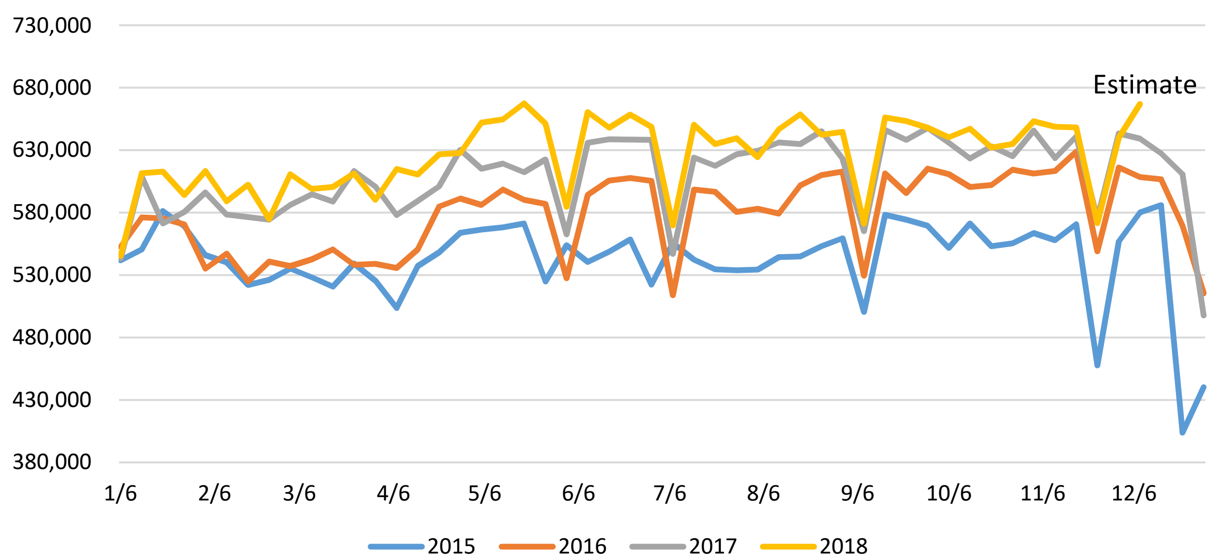
Soybeans-
The crush projection is likely to be left alone tomorrow. I think there are reasons to expect reality will come up short vs their lofty expectations, but for now the data has shown a "max" crush pace so far and they're likely to stick with their estimate for now. I'm torn on what to expect with exports. Obviously by now you know I think WASDE is way out of bounds with their 1,900 mb projection. They've stated publicly that figure implies no additional Chinese purchases for the remainder of the year…and I've stated publicly that they must be smoking crack if they truly believe that. IF they were to truly believe what they're saying, then in theory the export figure should be left unchanged tomorrow. The reality is, even if China does buy "some" US soybeans, that will just further pressure South American basis levels to a point that chokes off rest-of-world demand for US soybeans. Chinese soybean purchases from the US will simply just shuffle the deck of world demand…we gain China but lose Taiwan, Japan, etc. Obviously China is the whale in world soybean demand, but limited politically-motivated purchases will only go so far and Brazil is already more competitively priced down the curve. The outlook for US soybean demand has only worsened since the trade "truce". I still expect that US export demand, regardless of Chinese reserve purchases, will fall under the current WASDE projection. That being said, I think there is enough confusion and doubt regarding demand at the moment that WASDE has cover to simply leave their projection unchanged tomorrow. The average guess calls for a modest decrease in US soybean carryout, so someone must be looking for an uptick in demand. I just can't get there yet. I'm taking the over vs. the average guess on carryout, but I'm simply looking for the carryout to be unchanged.

If you're keeping score…yes, that all means I think the wheat, corn and soybean balance sheets will all be left completely unchanged tomorrow. No big changes are likely to the world production numbers at this time. We'll get CONAB early tomorrow to give us a hint on Brazilian soybean production, but its unlikely that we get a "big" move at this point. I suppose a modest reduction to Australian wheat could be seen, but just 1 mmt at most? Tomorrow's report is probably one we could sleep through….

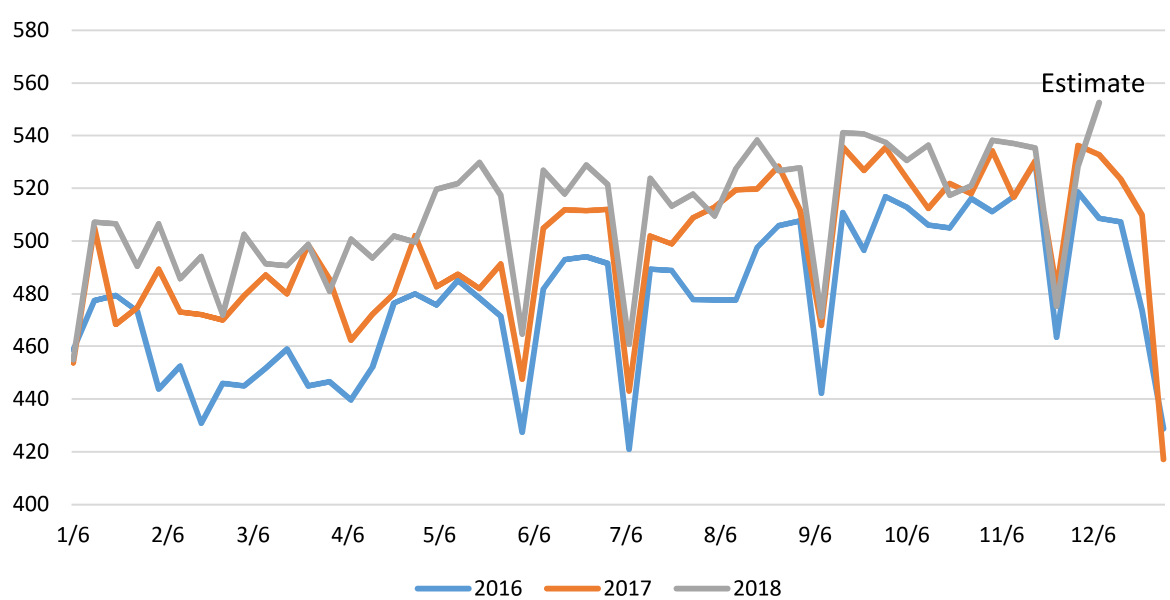
Livestock

A big cattle slaughter estimate last week, unofficially totaling 667k head. I've plotted that estimate below in the official data series, and you can see this matches up with the largest kill of the year back in mid-May. Of course mid-May is when carcass weights typically bottom, so estimated beef production is easily a new high for the year based on the current estimate. I suppose we should also keep in mind that there has been a tendency for the official kill to come in higher than the estimate recently. Of course that might reverse now and we might see the official number come in lower, but the bottom line is beef production is setting new highs…as expected.

Weekly Cattle Slaughter - Official Data



Official Beef Production

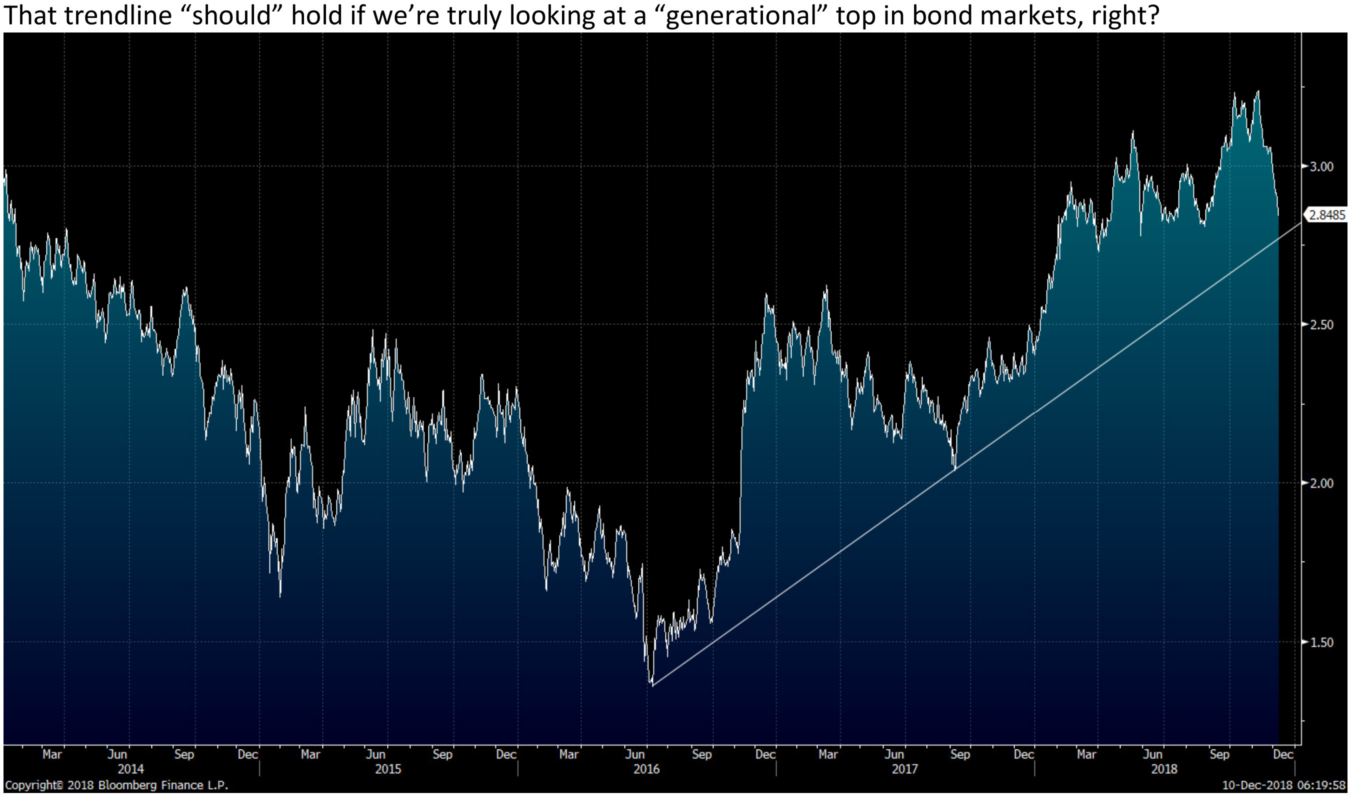


Financials

It seems most mornings my head starts spinning before I'm even halfway through the overnight headlines. Today we're dealing with:

- UK PM May apparently is delaying a vote on her Brexit bill as it was looking very likely to fail. The BP is being hammered into new lows on the news.
- The bail hearing for the Huawei CFO will resume today, which will increase the market's trade tension. US ambassador to China Branstad was apparently summoned to China's Foreign Ministry over the weekend. No word on how that meeting went. China continues to warn of "further action".
- ES futures clung to key technical support overnight and have actually posted a modest bounce as of the time of writing this morning. Still, that chart looks nasty.
- A further shake-up in the Trump administration's inner-circle, with Chief of Staff Kelly finally leaving. No word yet on who will replace him. Mixed signals still on what to expect from the Mueller investigation, though President Trump tweeting about a lack of a "smocking gun".
- French protests continued over the weekend. The impact this will have on the Macron administration is still a big question for France and the EU as a whole. Macron will apparently address the nation at some point today.
- Italy will be issuing a report on its budget later this week, but Italian bonds have rallied overnight as reports indicate the government is willing to make concessions to avoid possible sanctions from the EU.

I could probably keep going, but I'll stop there. The point is, things aren't getting any quieter as we head into the holiday season. One chart I'll personally be keeping a very close eye on is below, showing US 10Y yields. That trendline "should" hold if we're truly looking at a "generational" top in bond markets, right?



Energy

Crude oil futures are lower at the time of writing this morning, and this seems to be mostly in response to the overall risk-off tone of the trade today. WTI futures bounced modestly on Friday following the OPEC production cut agreement, but we still don't have a lot of detail on how that cut will shake-out as OPEC has decided to not publish individual production quotas. It is also worth noting that Libya, Venezuela, and Iran have apparently also been excluded from the cuts. Bottom line – still enough questions about the production cut to allow the market to ignore the other influencing factors on sentiment this morning.

Today's Calendar (all times Central)

- JOLTS Job Openings – 9:00am
- Export Inspections – 10:00am

Thanks for reading.

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