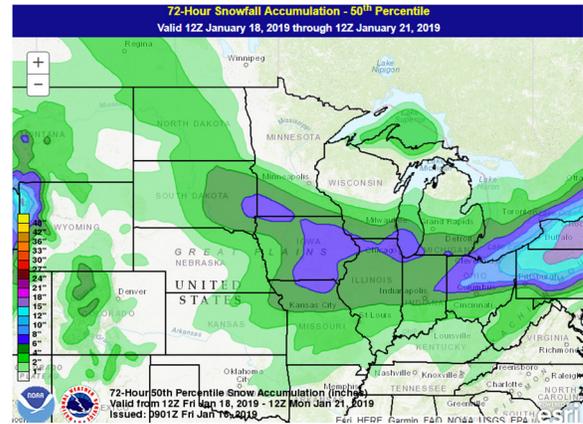


Weather

No change on South American weather so I won't spend much time on it. Northern Brazil will continue to see BN precipitation over the next two weeks. Southern Brazil will see near to mostly BN precipitation over the same period. Most of Argentine growing areas should see near to AN precipitation. Brazil will see warm temps, while Argentina should be cool. The US is still looking at a big snowfall event this weekend. You can see the forecast for the central US to the right. Not pictured is a lot of snow for the northeast. Another possible winter storm is still in the forecast for the middle/end of next week.



Crops

Higher again this morning as the hope and optimism surrounding China trade deals continues. This morning we have a Bloomberg article saying CHS has sold US wheat to a non-state Chinese buyer. Chinese private buyers taking US wheat is only "news" because of the tariffs, as we've consistently shipped modest quantities of wheat over the past few years. I find this purchase interesting because the purchase would still have to pay the tariff and because the buyer must be willing to take the risk of catching CIQ's wrath. It was "only" one cargo according to the report. I was also told US did wheat business to North Africa yesterday.

If you'll allow me to indulge in conspiracy theory for a moment. You just won't be able to convince me that some outfit didn't know that WSJ article about dropping tariffs was going to hit earlier in the session. Just look at the price action yesterday in soybeans (below). Markets were quiet with no new information, then...boom. Remember, the WSJ article itself wasn't posted until after the CBOT close. The usual talking heads tried to explain the strength by suggesting China was looking for US soy and corn too, but to the best of my knowledge that is not true.



I'd love to see an "investigation" in to who was the big buyer in soybeans early yesterday, but it will never happen of course. As for the WSJ article itself, I'll go ahead and continue with my conspiracy theory mood here and suggest that Mnuchin simply dropped this trial balloon so he could go into Trump's office and say "look, the markets are going higher on this news which must mean it's the right thing to do". And you know what, Trump might buy that.

What a world we live in....

Livestock

With all the talk about the bad weather and the potential impacts on weights, performance, marketings, and beef prices, I've been trying to put together a list of years with similar weather circumstances. Of course, we all know that no two years of weather are exactly alike and certainly no two years of trading are alike, but consider this an exercise designed to stir up some thought.

I've attempted to nail down a few years of "wet/cold" winters (in recent years) where carcass weights and presumably feedlot performance were affected. Please feel free to let me know if you think any of these should be removed or others should be added. I'm looking at 91/92, 92/93, 02/03, 06/07, and of course this year. The charts below breakdown price movement in these years. The first chart simply looks at April futures outright. Again, markets are much different now than they were then and the price differences are huge. I guess the only thing that stands out to me here is that prices in most of these comparisons continued to move higher into late February. This could mean we have further flat price upside here.



I also wanted to look at spreads, and a history of the J-Q spread in the same years is shown below. In this case you can see that spreads moved mostly sideways from here. I'm also struck by the especially wide spread noted this year. That said, if I included the past 3 years of data (which were not wet winter years) it would show

similar levels in the J-Q spread. This strength in J-Q might be more a reflection of the “investment” appetite in cattle futures these days more than the underlying fundamentals. With MM and index funds likely staring at record net long positions, this makes me a bit nervous about owning the market up here.



Bottom line, in similar years of wet/cold winter weather we’ve seen somewhat similar price action but going forward they make it hard to argue for exceptional price strength. On the contrary, I’m a bit concerned that spreads are “stretched” due to the elevated (record) spec interest in the market making us vulnerable for corrective price action.

Thoughts appreciated on other years or other views for comparisons.

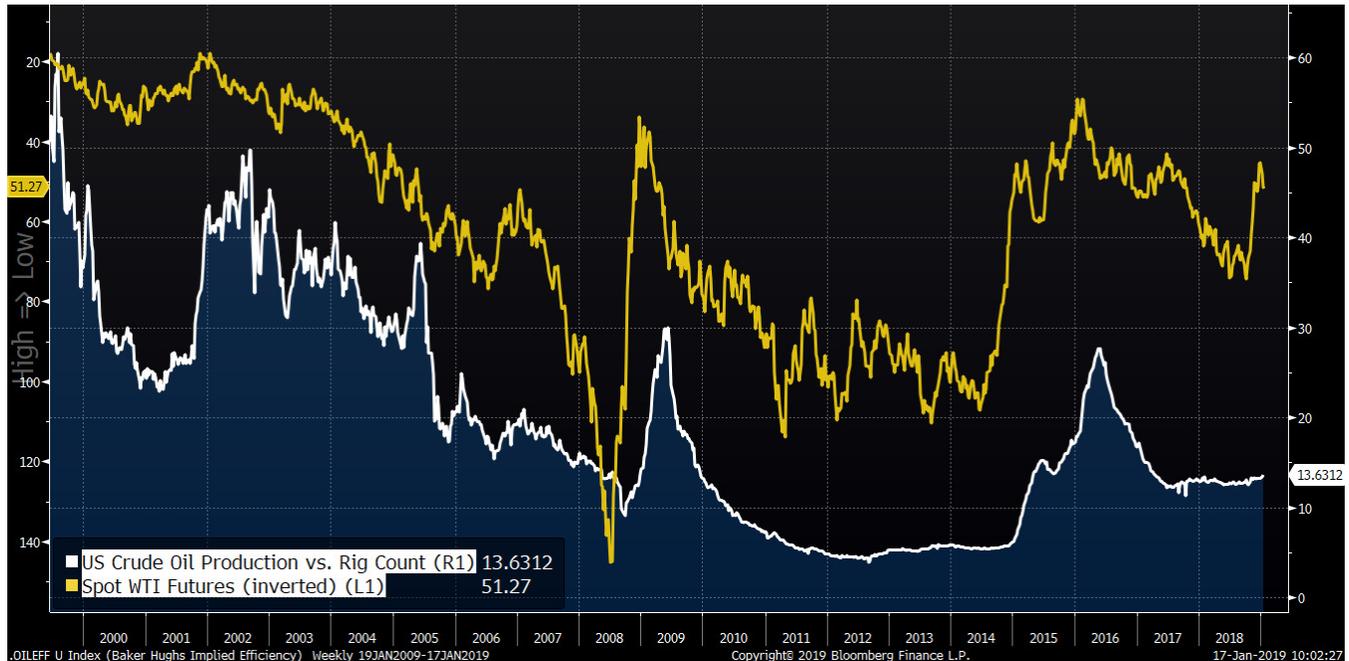
Financials

I don’t have much to say here this morning. It’s risk-on following the WSJ article referenced above. It doesn’t matter that everyone has issued the normal denials...the article has served its purpose. No China-US meetings at Davos now as the US is not attending, but we’ve still got Chinese Vice Premier Liu He coming to DC at the end of the month for the next round of talks. In an administration that is now very clearly invested in supporting equity markets, one should probably expect positive commentary leading up to and after that meeting.

Energy

The chart below is a bit goofy, but I think sorta interesting. The yellow line is spot WTI futures, but the axis is inverted. The white line takes the EIA’s weekly US crude oil production figure and divides that by the Baker Hughes rig count each week. Essentially, this is an imperfect attempt to gauge the efficiency or “yield” on US oil production efforts. As you would probably expect, you can see that there is a strong desire to squeeze more oil out of each well when prices decline sharply. Interestingly, the recent sharp break in crude oil prices has not yet

resulted in a change in the “efficiency” calc. Rig counts have been steady to slightly higher to close out 2018 and into early 2019 so far. We get another update today...



Today's Calendar (all times Central)

- Industrial Production – 8:15am
- U of M Consumer Sentiment – 9:00am
- Baker Hughes Rig Count – 12:00pm

Thanks for reading.

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