

Weather

No changes to the outlook this morning, so I won't spend a lot of time on it. Northern Brazil will continue to see rainfall average below normal over the next two weeks. Much of the area will see two week totals of 2-4" though Bahia, Minas Gerais, and portions of eastern Goias will see lower amounts. Temps will run near normal most of the time, but there will be instances of slightly above normal temps. Southern Brazil will see AN precipitation in RGDS and near normal elsewhere. RGDS should see daily rainfall chances with totals of 4-8" possible over the next two weeks while the rest of the region sees 2-4" amounts. No major heat is expected in southern Brazil either, but highs could reach into the mid 90s at times.

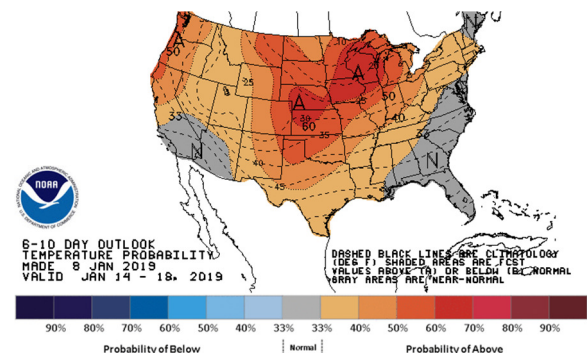
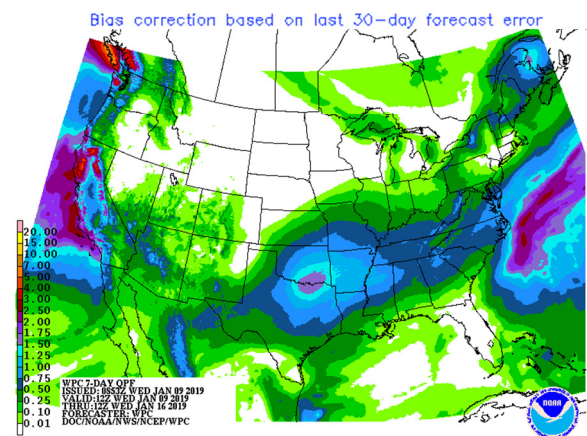
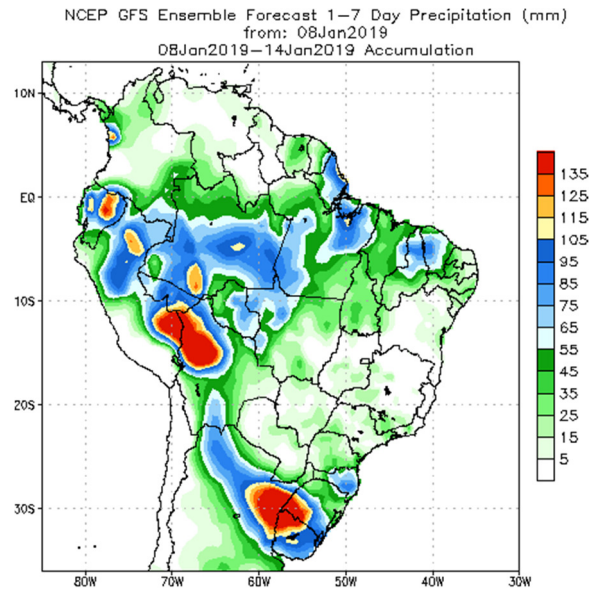
Argentina's forecast is unchanged as well. We should see two week totals range from AN in the northeast to BN in the southwest. Two week rainfall totals of 5-12" will be possible through Entre Rios, northern Santa Fe, and extreme northern Cordoba. Central portions of the country will see 2.5-5.0" rainfall totals during that period while the south will see 1-2" amounts. Rainfall should pick up a bit tomorrow and we should see additional rainfall chances next week. No heat is expected and in fact a lot of cooler than normal conditions will be seen during the next two weeks.

There will be some significant precipitation in the Southern Plains over the next few days, but most should fall east/south of key feedlot areas. Feedlots are not looking at much precipitation over the next 10 days. Temps should generally average above normal.

Crops

With all the "buzz" around with the US-China trade talks I thought it might be worth a quick look at the current state of affairs in the Chinese soy industry. Of course data and news out of China is notoriously hard to come by, but I've found one of the best sources is the Chinese private firm JCI and I'll be using their data this morning.

Let's first look at an estimate of meal price levels in China. The chart below is a basket of 5 different spots in China. You can see that meal prices have dropped sharply since the fall and are now lower than they were at this point last year.

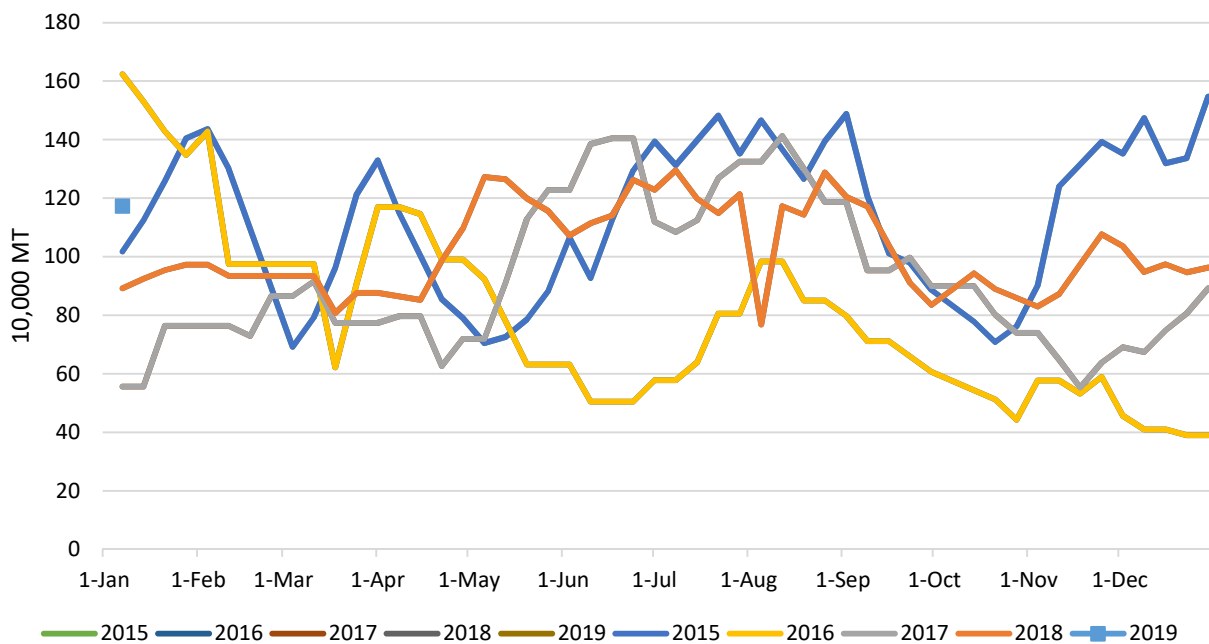


Basket of Chinese Cash Soymeal Prices (JCI)

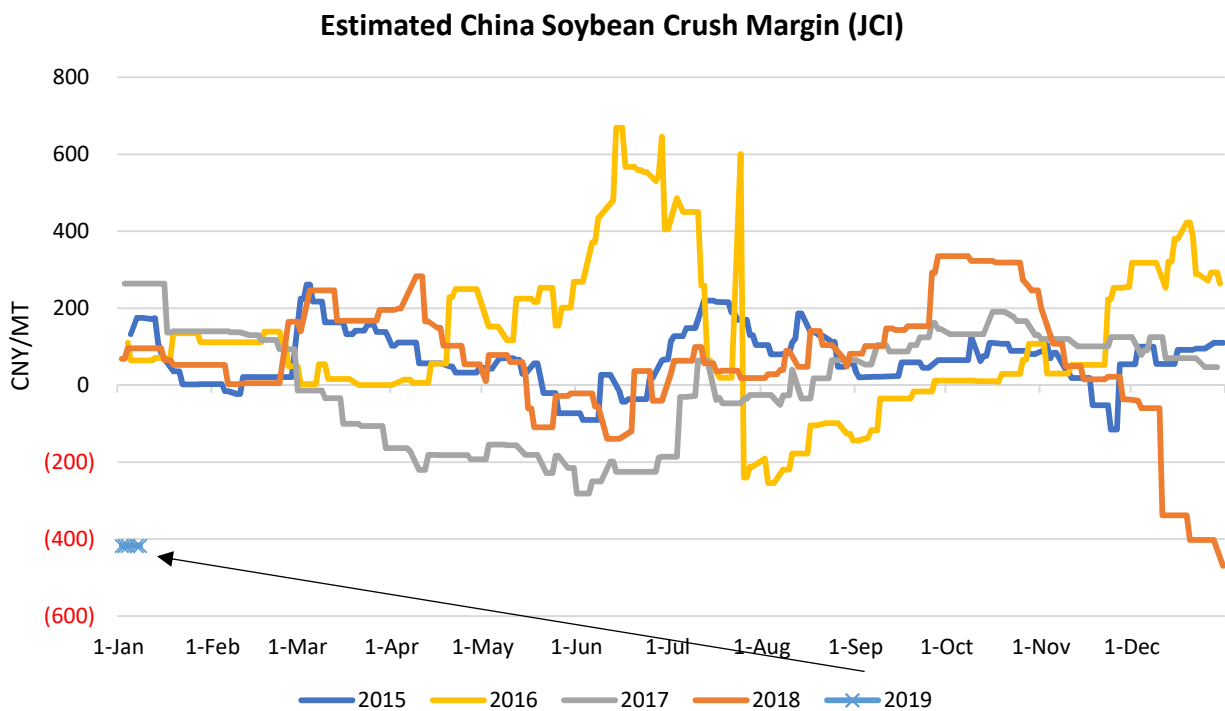


Estimates of soymeal inventories don't appear to be out of whack vs. normal. Again, pulling from JCI data here we have a breakdown of estimate national stocks of soymeal. You can see that the end of 2018 and here in early 2019 inventory levels appear to be somewhat "normal" or maybe slightly elevated.

China Soymeal National Stocks Estimate (JCI)



Interestingly, the meal stockpiles are on the high end of the range despite the fact that crush rates have reportedly slowed down. While I don't have detailed data to show in a graphic, JCI has reported that China's December soybean crush total was down 18% YOY. That follows November data that was down 14% YOY. So meal stocks are not declining as crush rates reportedly slow down dramatically....that is worth noting. No reason to expect crush rates to dramatically pick up from here either. The chart below shows JCI's estimate for estimated crush margins. While calculating this is of course an inexact science, the point that stands out to me is that estimated margins dramatically weakened in the later stages of 2018 (along with the meal price decline) and remain under pressure at present.



Something is not "right" in terms of Chinese meal demand. I don't have any solid ideas on to what the problem is, but of course the initial first guess is that ASF is hurting feed demand by a dramatic margin. I'm open to other thoughts...

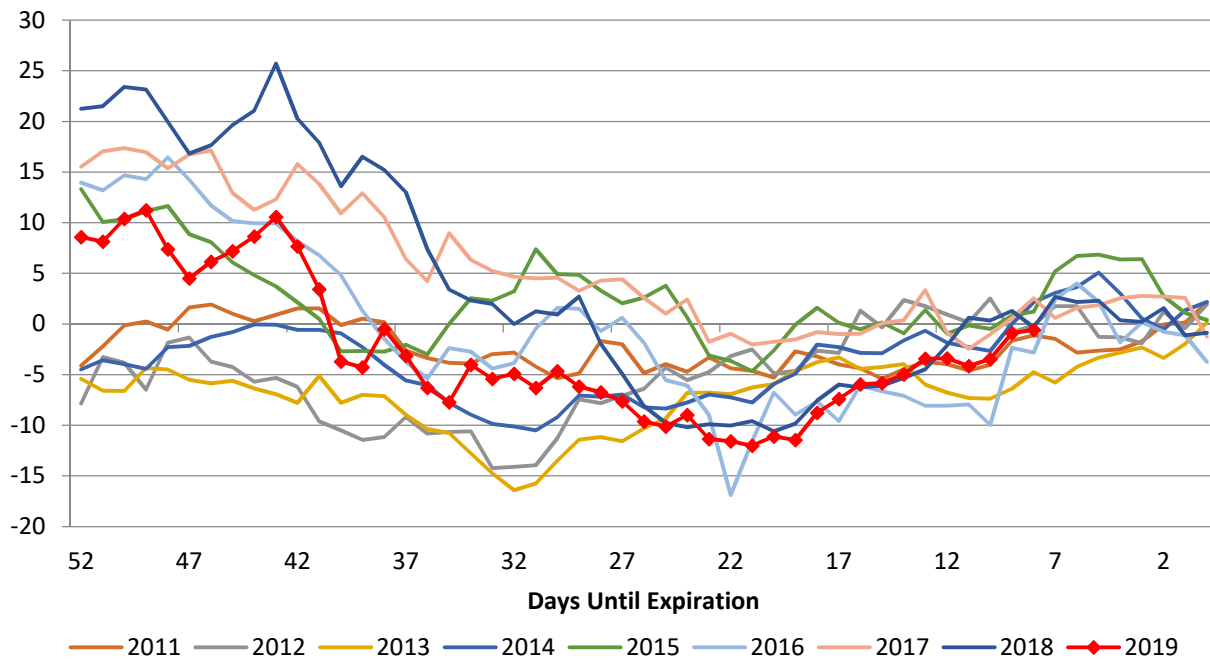
One more thing...It seems a lot of traders and analysts are assuming a trade deal gets done soon and tariffs are off the table. Honestly...I don't have any major argument against that line of reasoning. It seems the political and economic "incentives" are there for a deal to be made. So how much demand can we expect to see from China when tariffs are lifted? Well, the breakdown above on crush margins isn't especially encouraging. Nor is the difference on US vs. Brazil price levels. My very rough math is shown below, indicating that even without tariffs that Brazil is cheaper into China than US beans. The concerns over Brazil's crop size has not yet worked into export premiums in a meaningful way.

US Value Gulf		Brazil Value	
SH	925.00	SH	925.00
Feb Prem	30.00	Feb Prem	45.00
Ocean Frt	120.00	Ocean Frt	90.00
Sub-total	1075.00	Total	1060.00
Tariff	268.75		
Total	1343.75		

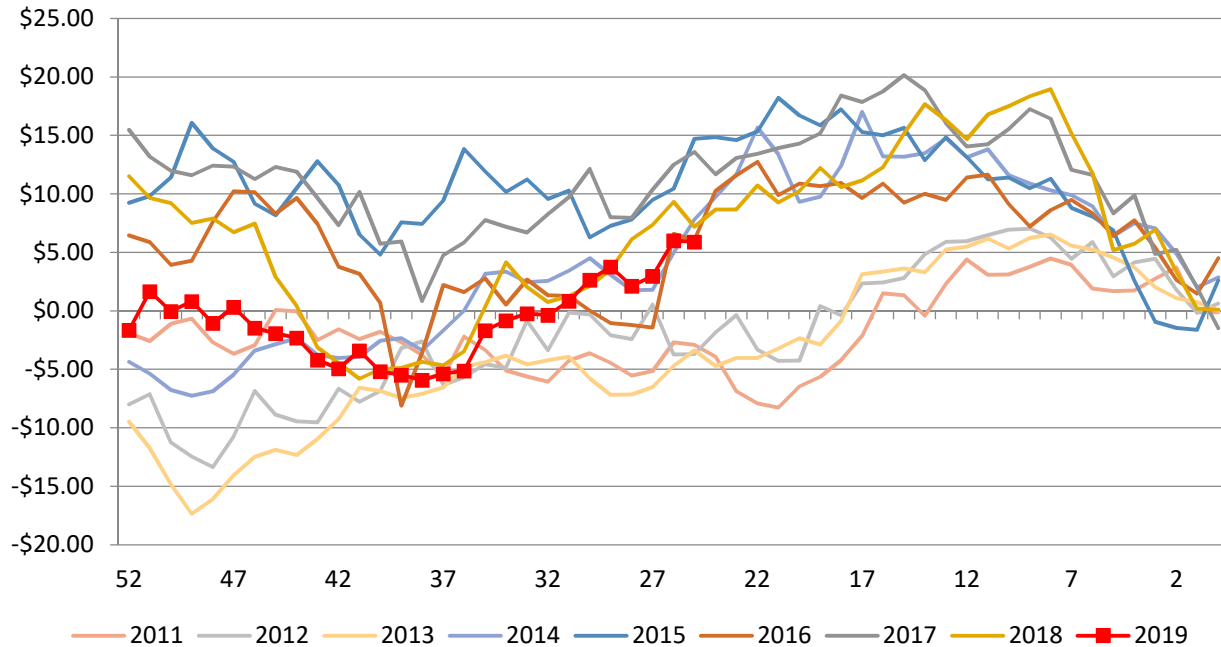
Livestock

I haven't updated with charts on LC basis levels in a while so I thought that would be worth a quick look this morning. Nothing in particular truly stands out, however. Nearby Feb & Apr basis levels appear inline with seasonal norms. June also appears inline with levels we've seen over the past few years.

February Live Cattle Basis History



June Live Cattle Basis History



Otherwise, nothing new to report this morning. It seemed there was a lot of hype yesterday regarding a possible end to Chinese tariffs on beef and pork following the negotiations. We'll see what happens...all just rumors at this point. It would be an "easy" thing for the Chinese to give up...one would think.

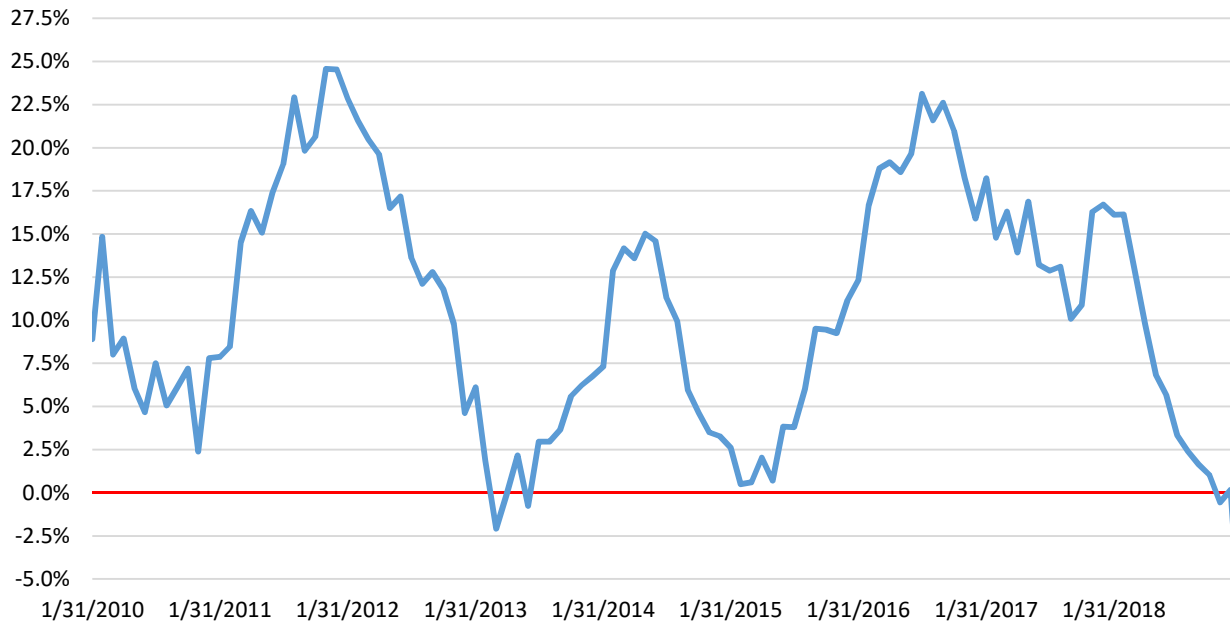
Financials

Nothing new offered from either the Trump administration or Congressional Democrats last night. In anything, both parties have only dug in their heels further it seems. There are negotiation meetings scheduled today so we'll see how those go, but with neither side giving up ground I'm not finding a lot of reason for optimism. Credit rating agency Fitch is warning of a possible US credit rating cut. They not only cite the ongoing government shutdown but they also point out we're approaching yet another debt ceiling debate within the next few months as well. Fitch is basically calling into question how well our government is functioning...and I can't say I blame them. That said, last time S&P cut the US rating we hit them with a massive fine so we'll see how this works out for Fitch if they follow through.

I don't see any major market-moving data out today. We have a few Fed speakers making the rounds and we get the FOMC minutes this afternoon. We also get the results of a 10Y auction this afternoon. Otherwise, nothing major on tap. US-China negotiations appear to be moving along smoothly, and considering the trouble here in the US over the government shutdown it really seems President Trump is looking for a "win". We'll get a statement from both US & Chinese governments tomorrow regarding the negotiations as the US team is currently on the long plane ride home.

Just some food for thought this morning...the chart below shows the YOY change in the combined balance sheets of the Fed, ECB, and BOJ (in USD terms). You can see that this month the combined assets of these major central banks will dip below year ago levels. We've been here before, once in early 2013, but we didn't stay there long because the BOJ and ECB were still fully expanding their balance sheets at that time. What makes things different this time is that the Fed's unwind of its balance sheet has reached its maxed-out level of \$50B per month (as of Oct 2018) and the ECB is no longer *adding* to its balance sheet (though reinvestments will continue). Of these three, that leaves only the BOJ buying assets and it would seem unlikely their pace of purchases would match the Fed's unwind...but we'll see. The point here this morning is that, for the first time since the financial crisis, the liquidity provided by these three major central banks might be firmly in contraction.

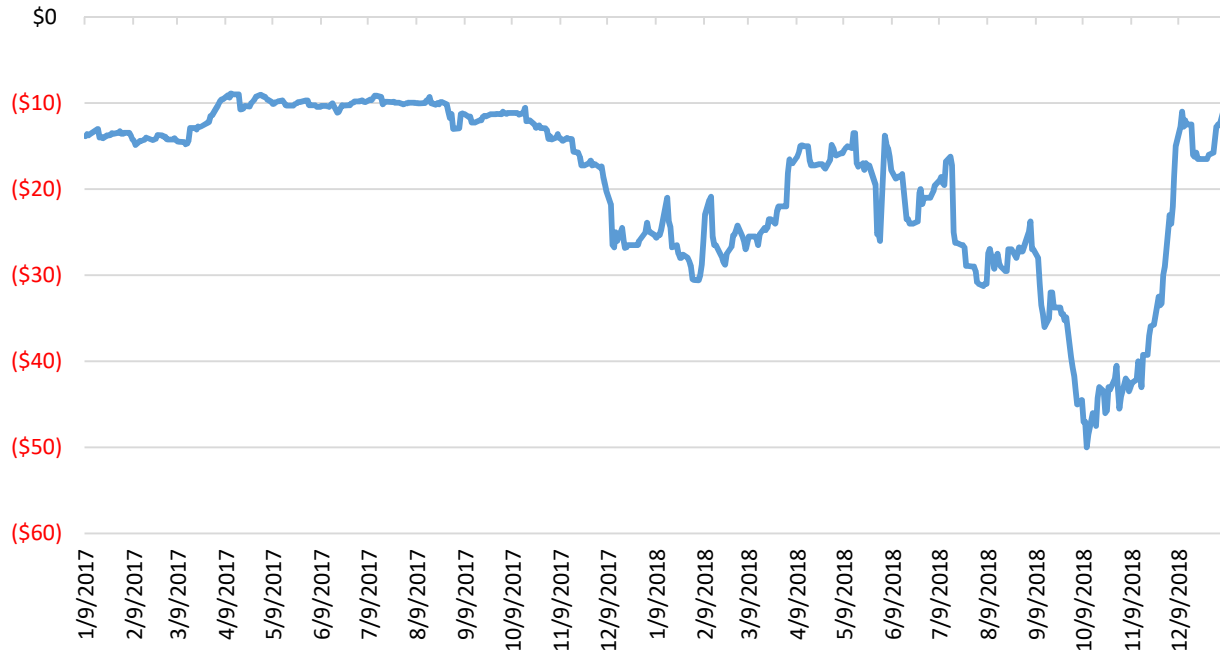
**YOY Change in Major Central Bank Assets
 Fed, ECB, BOJ**



Energy

If you recall, several weeks ago we discuss that the Alberta, Canada provincial government issued an order to slow crude oil production in the region by 325k bpd. The idea was that this would help alleviate some of the logistical bottlenecks in the region that had basically “trapped” the oil in the province and would help support prices. The chart below shows that spread between Canadian crude oil prices and WTI at Cushing has dramatically narrowed in the past several weeks. This likely looks like a “Mission Accomplished” indication for the Alberta government.

Western Canada Select Crude Oil vs. WTI at Cushing, OK



That being said, in terms of the actual logistics...not much has been solved. There might be new pipeline capacity online by the second half of the year, but additional rail lines are not likely until 2020. The main pipeline that would truly help with the supply glut is still entangled in a political/environmental debate. With that in mind, this might be as good as it gets for this spread for now.

Today's Calendar (all times Central)

- EIA Petroleum Inventories – 9:30am
- 10Y Auction Results – 12:00pm
- FOMC Minutes – 1:00pm
- Several Fed speakers during the day

Thanks for reading.

David Zelinski
dzelinski@nesvick.com
 901-766-4684
 Trillian IM: dzelinski@nesvick.com
 Bloomberg IB: dzelinski2@bloomberg.net

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