

Weather

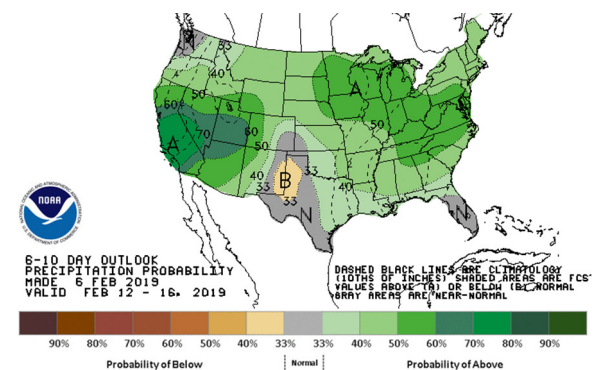
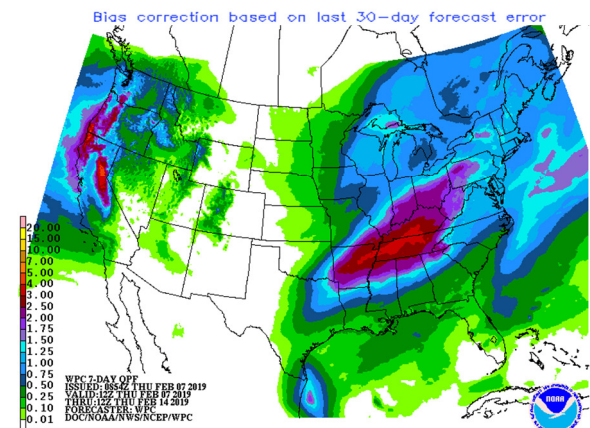
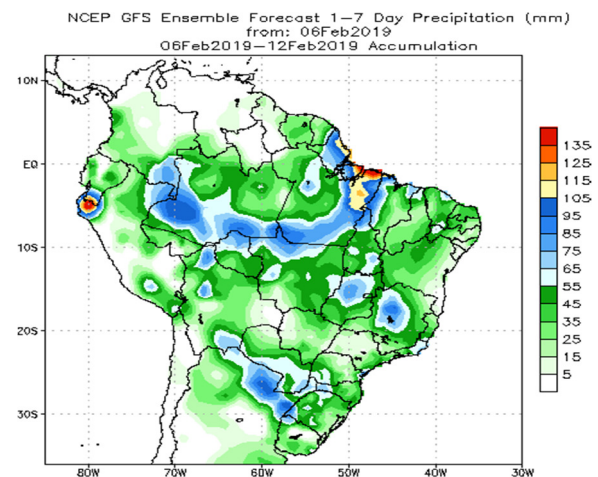
Rainfall in northern Brazil will average near to above normal over the next two weeks with most areas seeing 4-7" amounts. Rains should fall somewhere in the region on a daily basis. Southern Brazil should see rainfall average near or mostly below normal. Two week totals should range from 2-4" in most areas. Rainfall should be limited through this weekend but a threat will move through the region early next week. Some heat through this weekend, then cooler again.

Argentina should see two week rainfall totals run below normal. Most areas should see amounts range from .75-1.5", with northern areas seeing the best chances for rain. The best chances for rain will probably come this weekend, with really only limited amounts for the remainder of the two week period. Temps should be mostly below normal over the two week period.

The forecast is mostly unchanged for the US. In the northern US, we've got some potentially big snowfall amounts due in MN, WI, IA, and surrounding areas. There will also be chances for freezing rain in other portions of the northern US. Meanwhile the southeast and east coast are on tap for loads of precipitation over the next week. As you can see in the 6-10 day map to the bottom right, the active precipitation pattern is likely to extend beyond this week and could continue beyond the two week period.

Crops

Today we're going to quickly run through the corn and wheat balance sheets to see what sort of demand changes we might expect from WASDE. We'll start with wheat first, as that is probably the easiest. I really don't expect any significant changes to the WASDE balance sheet here. Food use is pretty steady, it might move but no point in worrying about it. The seed use might potentially go down a little depending on how winter wheat seedings go, but it appears to me they're already starting from a fairly low level so even if plantings disappoint I'm not sure there is any change. We discussed feed & residual on Monday in our review on quarterly stocks, but the bottom line is I don't have any major argument against the current WASDE projection at this time. That leaves the debate open to mainly exports.



I'm a bit torn on exports. Clearly the pace of commitments on record argue that WASDE should cut their export projection. Of course the problem is we're still missing a month of export sales data, and my understanding is that we did a fairly solid amount of business during that month. While WASDE doesn't have the official FAS data either, I'm sure they've also heard of this presumed business. So do they wait and see or do they go with the data they have and cut exports? The most recent survey shows an average guess on wheat ending stocks of 994 mb, which would be up from the December figure of 974 mb. Considering that little else is likely to change (though F&R could always throw us off), this tells me the market is expecting WASDE to cut their export projection. Gun to my head – I agree. And with that in mind, I'm inclined to agree with the average guess on ending stocks. Just keep in mind, however, I think there is certainly an argument to be made that WASDE will leave the export projection unchanged for now (waiting for additional sales data) and this could mean the risk vs the average guess on ending stocks is to the downside.

Turning to corn, recall last week I noted that I agreed with the overall perspective that corn production will likely be revised lower vs. the November projection. How much lower is of course a matter of intense debate, but for the sake of argument let's just use the average guess on production this morning. Though the average guess doesn't call for a big reduction in the grand scheme of things, WASDE's F&R model is largely based on the overall production level so a smaller crop should lead to a smaller F&R demand estimate tomorrow. The degree of the decline will largely depend on the degree of the crop reduction (if realized), but I would personally be on the lookout for something ~50 mb. As discussed earlier this week, the ethanol production figures have been very disappointing and I think it is highly likely that WASDE cuts their corn grind. I would look for another ~50 mb reduction here.

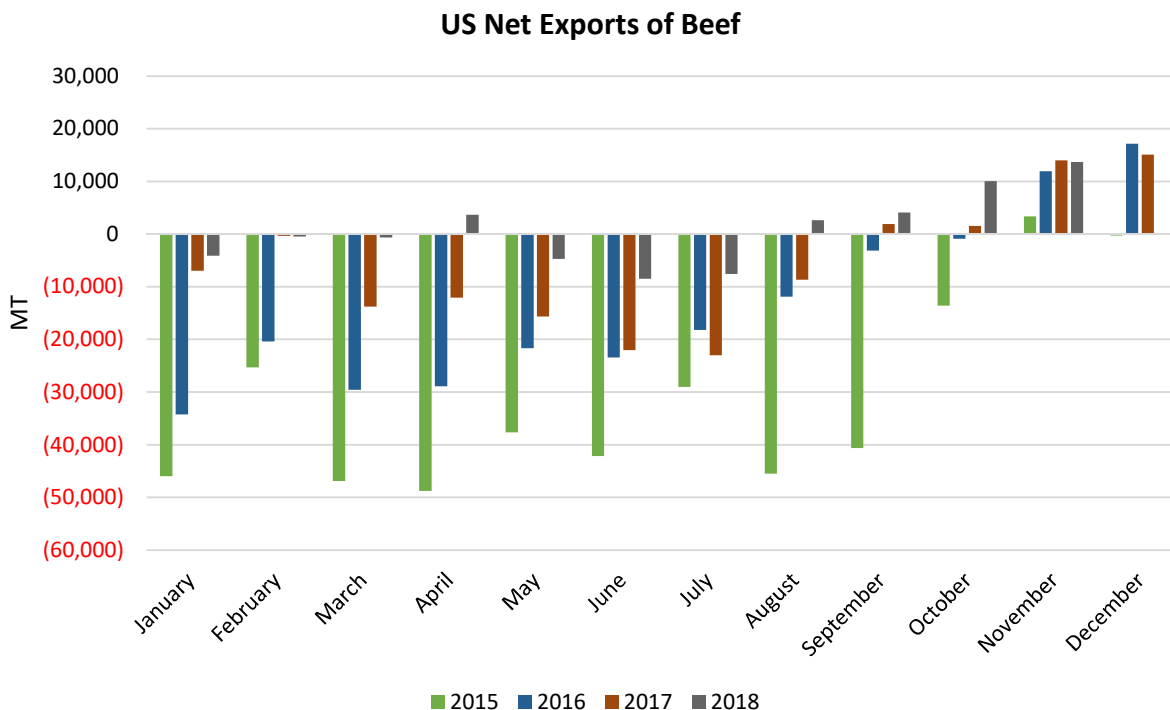
The real debate is once again on exports. The incomplete sales data would seem to imply we're on a decent pace to match the WASDE export figure. With that in mind, I don't think there is a big risk of a reduction on Friday. Some have made the argument that WASDE might instead be interested in an increase as total world corn demand has been *exceptionally* strong so far this marketing year. Combined exports from the US, Brazil, Argentina, and Ukraine are running at very big levels over the past few months, which might encourage WASDE to raise total world demand and add some to the US balance sheet. I think there is some merit to that argument, but I don't think that will be a move that WASDE makes today. With that in mind, I'm looking for an unchanged export figure.

So if you add it up, the average guess on production calls for a ~100 mb reduction to the crop and I'm calling for roughly ~100 mb in reductions to demand. In theory, that should add up to an unchanged carryout. The latest survey from Bloomberg, however, is calling for a ~65 mb reduction in carryout. Obviously some in the market are not seeing the demand reduction that I am seeing. I do believe there is downside risk to the production number (smaller than expected) so I won't rule out the guess on ending stocks or maybe even lower. Just keep in mind demand is likely to shrink slightly on Friday which should offset some of the assumed production cuts.

I'm not expecting a lot of movement on the world balance sheets in either wheat or corn. I suppose we could see minor trade adjustments but nothing that would really stand out. We've got to wait until May for new crop wheat production numbers and I don't think we'll see WASDE make a major move on South American corn production numbers yet. We might see a bigger Argentine crop number? (42.5 mmt Dec)

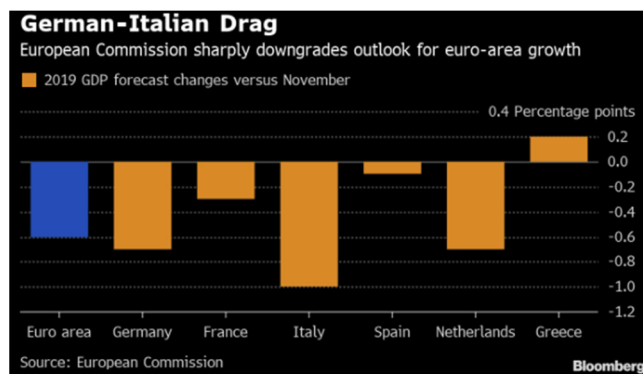
Livestock

Looking at the November GATS data I was initially a bit surprised to see that we were a net beef exporters last month. Just from memory, I had assumed we were typically still a net importer. I looked into the data a bit and learned, from the chart below, that it is not uncommon to see the US become a net exporter on a seasonal basis in the months of November and December. The chart below also shows that the US has become much less of an importer and is in fact likely to become a net exporter in 2018 for the first time since 2013.

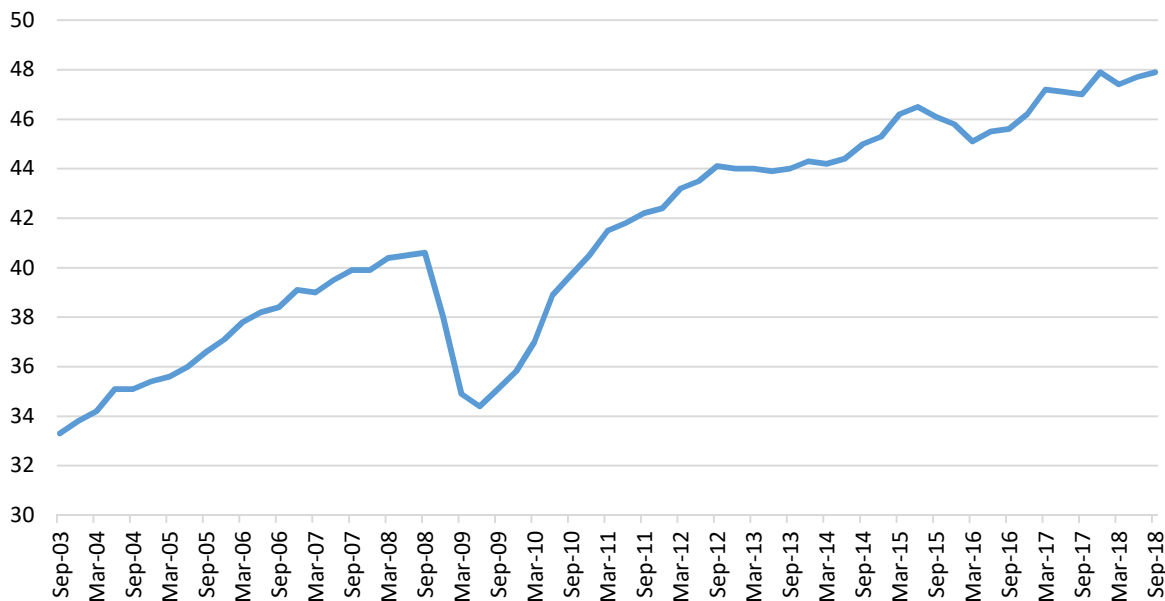


Financials

We're starting the day with a decidedly risk-off tone. The dollar and USTs are bid and most other markets are red at the time of writing. Overnight the European Commission cut its GDP forecasts for all of the Eurozone's major economies. The projection for Italy was especially downbeat as they cut their number to just +0.2% from +1.2%. Italian bonds are selling off sharply as a result. This is putting a flight-to-safety bid into German bunds this morning. You can see to the right the other major revisions to their estimates. If you're looking for the reason for the concern, look no further than the chart below. This shows Eurostat's estimate on the Euro-area's exports of goods and services as a percentage of GDP. The Eurozone is hugely dependent on trade for its economic growth, and with China slowing and a *potential* trade war with the US looming, these are stressful times for the European exporter.



Euro Area Exports of Goods & Services as % of GDP



The US Commerce Dept's investigation into potential auto tariffs should be wrapped up by Feb 17. I don't know what it will say or what the administration will do, but I do know that IF the Trump administration pushes towards auto tariffs on Europe, it will be a huge blow to that economy....even more than what we're seeing with China. It also doesn't help European business confidence that Brexit negotiations appear to be going nowhere. UK PM May will be back in Brussels today in an attempt to renegotiate the prior Brexit deal, but there is zero sign that EU officials are willing to offer anything new or different. The BOE will be out with a policy announcement this morning, but expectations call for no change in rates or policy.

Energy

Considering our topic yesterday, I think it is worth noting EIA yesterday issued a report titled "*Venezuelan sanctions unlikely to have a significant impact on US refiners*". The EIA noted that the sanctions placed on PDVSA are likely to have an immediate impact, "essentially eliminating US imports from Venezuela as the full effects of the sanctions are felt". EIA notes that "of the 14 US refineries that imported Venezuelan crude oil in the first 11 months of 2018, 5 are either subsidiaries of PDVSA or former joint venture partnerships...Citgo Lake Charles and Citgo Corpus Christi are responsible for a significant share of US crude oil imports from Venezuela." In other words, the imports from Venezuela are narrowly confined to just a few players.

One of the more interesting comments from the report in my opinion is – "The sanctions also prohibit the United States from exporting petroleum products to Venezuela. This prohibition includes diluent, which PDVSA uses to mix with its much heavier crude oils. If PDVSA cannot find another source for diluent in a relatively short period of time, Venezuela's crude oil production is likely to decline". Outside of the US, there is little interest in Venezuela's heavy crude oil production. Without the US's diluent to "thin" out the crude oil, Venezuela will lose export access to whatever is left of its export book.

Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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