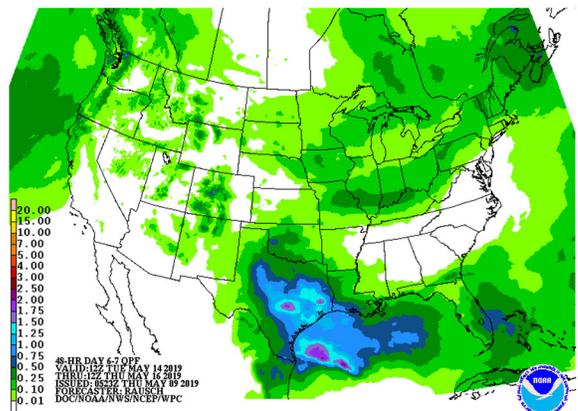
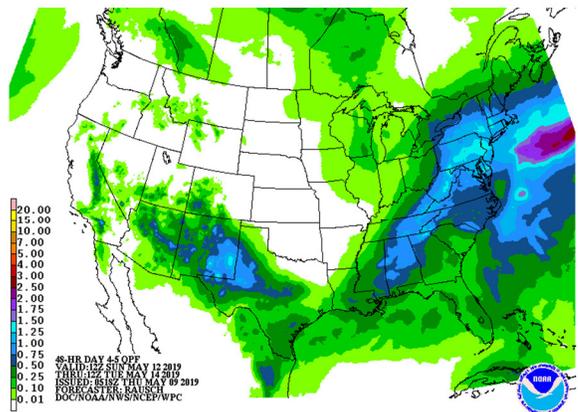
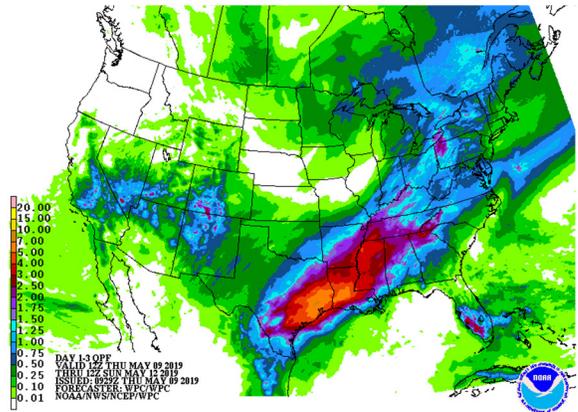
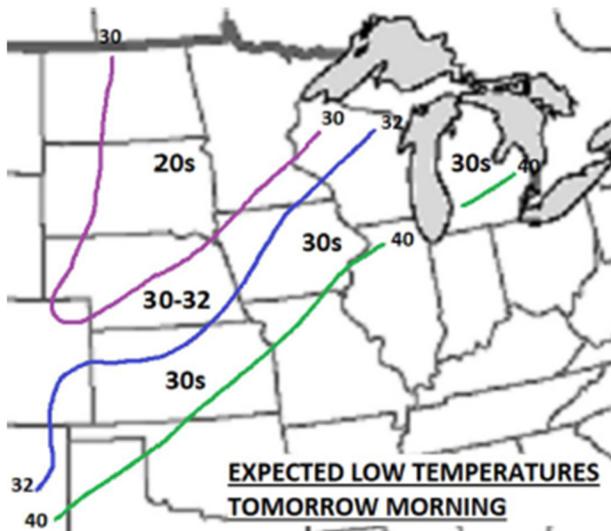


**Weather**

At right: Days 1-3, 4-5, and 6-7

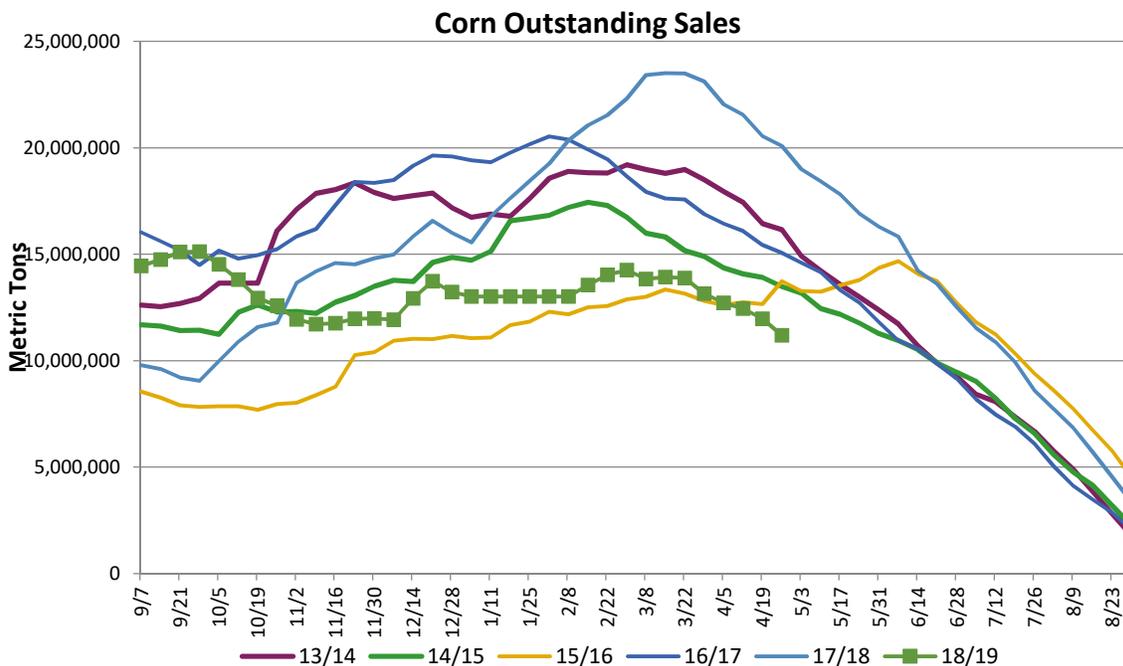
Rains this morning moving through portions of the ECB and Delta this morning. The well-advertised period of limited rainfall chances for the Corn Belt is getting kicked off today in WCB areas and the ECB should turn mostly dry by later today. There is excellent model agreement that this period of BN precipitation odds will start today/tomorrow and likely continue for roughly a week. However, keep in mind that BN precipitation doesn't mean completely dry. As you can see in the map at the bottom right, there is good model agreement for "some" rainfall around Tues/Wed of next week. This rainfall won't be "huge" or widespread, but there will be "some" rainfall. Model agreement also remains very strong that there will be an uptick in rainfall chances towards the end of the 6-10 day period and into the 11-15 day period. The pattern would shift to something similar to earlier this month, which should mean more widespread and active precipitation for a while.

A lot of BN temps throughout the two week forecast, though there will be some much warmer weather at times next week too. Of note this morning, check out Craig Solberg's forecast for freezing temps tomorrow morning through the Northern Plains and WCB:



## Crops

Looking at corn and wheat balance sheet prospects this morning. We'll start with corn and of course we're looking at the old crop 18/19 balance sheet first. As explained last week, I think it is highly likely WASDE is compelled to lower their corn grind again at some point. If you recall, WASDE cut their corn grind estimate last month by 50 mb to 5,500 mb (vs. 5,605 in 17/18). Even if the corn grind proved to be equal to last year from Apr-forward, the annual 18/19 corn grind would wind up closer to 5,450 mb...and for now that seems like it might be optimistic. The question I have today is whether WASDE might just punt on this adjustment this month? I think there is a risk of that, but in my baseline scenario shown below I'm expecting WASDE to cut the ethanol grind by 25 mb. While I think there is a chance WASDE could punt on ethanol, I think WASDE "has to" cut their export projection again. Last month they lowered 18/19 exports by 75 mb to 2,300 mb. As you can see below, the pace of export sales has only slowed further. Big crops in South America as well as improved prospects for EU wheat production continue to weigh on US demand. In my baseline assumption I'm showing another 50 mb cut in WASDE's export projection on Friday. In the end, I think they'll need to cut that figure even more in the months ahead.



Turning to the new crop 19/20 balance sheet, as explained earlier this week I do not anticipate that WASDE will adjust their yield projection. It doesn't seem that I have a lot of company in that call, as most of what I've read this week has suggested WASDE will cut their yield due to the slow planting pace. I will admit that is certainly a risk to my outlook for Friday, but I think it is pretty obvious WASDE has adjusted their thought process since 2013. We'll see.

As for demand, I actually don't have a huge problem with their Outlook Forum estimate for either F&R or FSI. The 19/20 corn grind looks relatively large vs. the 18/19 prospects, but we've seen ethanol production margins improve a little and the export outlook has remained pretty solid (despite all the focus on the lack of exports to

China). I think there is a risk they cut their ethanol grind from the Outlook Forum’s level, but in my baseline scenario I’m going to leave it alone. The big question mark that will make all the difference on the new crop balance sheet is export demand. They went pretty big with an export projection of 2,400 mb in their Outlook Forum estimate. Considering the factors mentioned above, I think WASDE will also want to take that figure down. The question then is, how much? In my baseline assumption below, you’ll see I’m assuming WASDE “only” cuts export demand by 75 mb to 2,400 mb. I do believe that based on current supply outlooks that will prove too big in the end. However, I think WASDE will be somewhat reluctant to slash the outlook aggressively before the marketing year even kicks off.

US Corn Supply and Demand (Million Bushels/Million Acres)

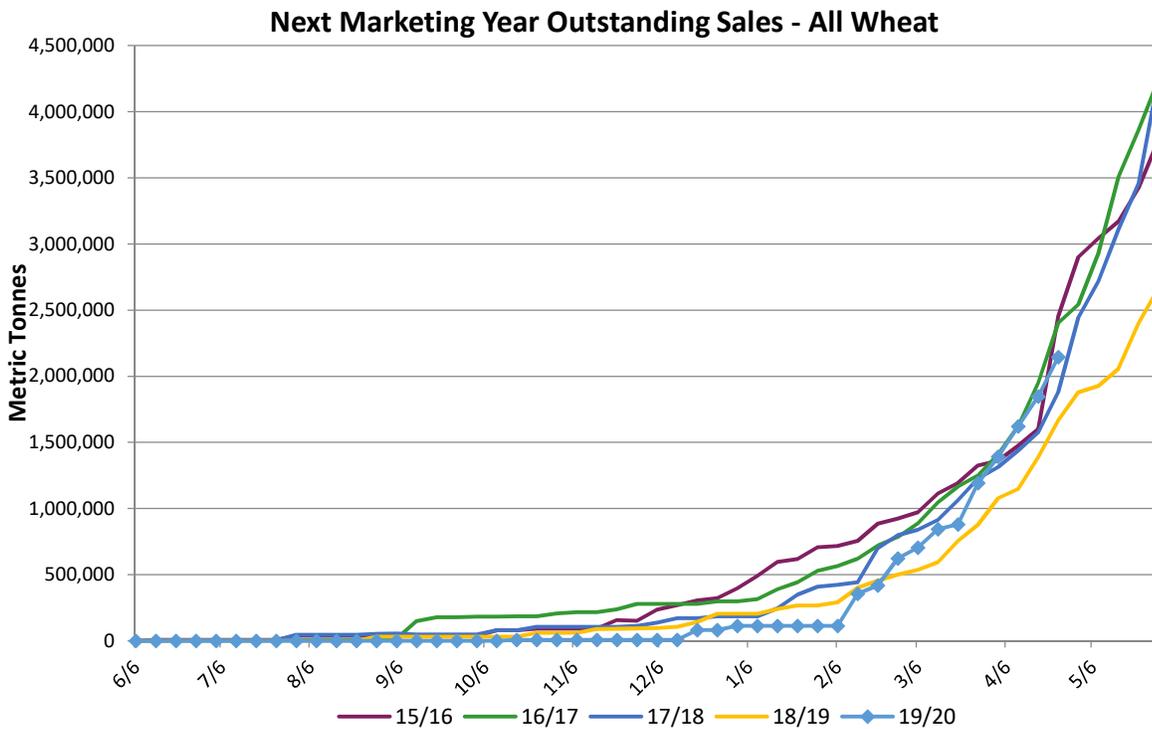
	USDA 14/15	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19 Apr	Possible? 18/19	Forum 19/20	Possible? 19/20
Planted Acres	90.6	88.0	94.0	90.2	89.1	89.1	92.0	92.8
Harvested Acres	83.1	80.7	86.7	82.7	81.7	81.7	84.6	85.3
Abandoned Acres	7.5	7.3	7.3	7.5	7.4	7.4	7.4	7.5
Yield	171.0	168.4	174.6	176.6	176.4	176.4	176.0	176.0
Carryin (Sep 1)	1,232	1,731	1,737	2,293	2,140	2,140	1,735	2,100
Production	14,216	13,602	15,148	14,604	14,420	14,420	14,890	15,013
Imports	32	67	57	36	40	30	40	40
<b>Total Supply</b>	15,479	15,401	16,942	16,934	16,600	16,590	16,665	17,153
Feed and Residual								
Total Feed and Residual	5,314	5,131	5,470	5,298	5,300	5,300	5,500	5,500
Food, Seed, and Industrial								
Corn for Ethanol Fuel	5,200	5,206	5,439	5,605	5,500	5,475	5,575	5,575
Other FSI	1,367	1,429	1,446	1,453	1,465	1,465	1,465	1,440
Total FSI	6,567	6,635	6,885	7,058	6,965	6,940	7,040	7,015
Total Domestic Use	11,881	11,766	12,355	12,355	12,265	12,240	12,540	12,515
Exports (Census)	1,867	1,898	2,294	2,438	2,300	2,250	2,475	2,400
<b>Total Use</b>	13,748	13,664	14,649	14,793	14,565	14,490	15,015	14,915
<b>Carryout (Aug 31)</b>	1,731	1,737	2,293	2,140	2,035	2,100	1,650	2,238
<b>Stocks/Use</b>	12.6%	12.7%	15.7%	14.5%	14.0%	14.5%	11.0%	15.0%

As you can see my baseline assumptions for ending stocks are both higher than their survey averages (2,061 and 2,166, respectively) Again, many will argue that WASDE could cut the yield for 19/20, but I’d personally argue that it is more likely they cut demand more aggressively than I show above. I’ll be taking the “overs” vs. the average guesses on corn ending stocks.

Turning quickly to wheat, we’re approaching the end of the old crop 18/19 marketing year and I don’t expect any changes to food or F&R use this month. Export demand might be trimmed slightly, you’ll see below I’ve penciled in a modest 20 mb reduction in exports. If realized, that would wind up right near the average guess on 18/19 ending stocks.

The main point of interest for the new crop balance sheet will be the winter wheat production figures. Based on a look at the KS and OK wheat tours, I’m inclined to take the over vs. the average guess on winter wheat production. You’ll see below that this ups my all-wheat production guesstimate (and that’s all it is at this point, a guess) to 1,950 mb vs the average guess of 1,911 mb. To be honest, I’m a little tempted to push that even a

bit higher, but I'll stick with 1,950 mb for now. For the demand projections, I won't vary greatly from the Outlook Forum's projection on food & seed use. I'm raising the projection for F&R use vs. the Outlook Forum a little on the fact that HRW prices in the Southern Plains are very cheap vs. corn and I do hear "some" wheat feeding is happening. That wheat feeding almost always turns out to be smaller than initially expected, but nonetheless I wouldn't be surprised to see WASDE start out a little "big" in this regard. Export demand will be really interesting to me. On one hand, we have presumed big crops in the EU and FSU that should really work against US export potential. On the other hand, as you can see below, current NMY sales of US wheat are higher than they have been the past two years. Last year in May WASDE started with a 925 mil bu export figure. I assume they can support a higher figure this year as sales are much better (probably a good chunk of CMY sales will "rollover" too).



Below is my breakdown of baseline expectations for wheat. I'm inline with expectations for the old crop carryout and the only reason I'm bigger than the average guess for new crop ending stocks is I'm using a bigger production figure.

Thoughts appreciated...

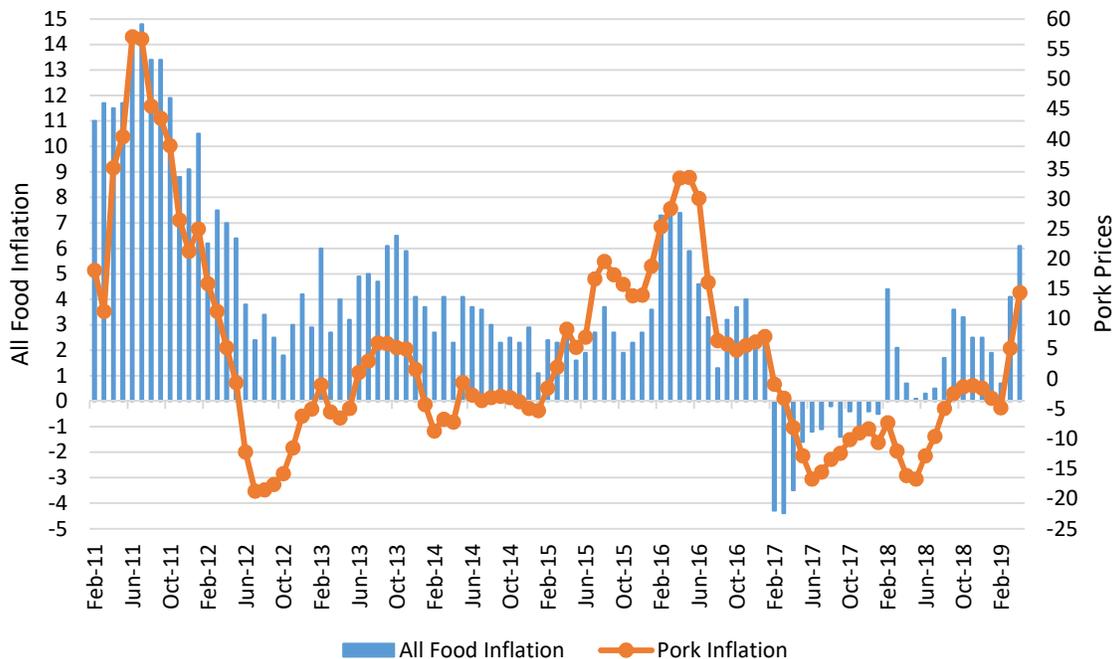
US All-Wheat Supply & Demand Estimates (Million Bushels/Million Acres)

	USDA 14/15	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19 Apr	Possible? 18/19	Baseline 19/20	Possible? 19/20
Carryin (Sep 1)	590	752	976	1,181	1,099	1,100	1,010	1,100
Production	2,026	2,062	2,309	1,741	1,884	1,877	1,902	1,950
Imports	151	113	118	157	145	145	140	140
<b>Total Supply</b>	<b>2,768</b>	<b>2,927</b>	<b>3,402</b>	<b>3,079</b>	<b>3,128</b>	<b>3,122</b>	<b>3,052</b>	<b>3,190</b>
Food Use	958	957	949	964	965	965	1,043	975
Seed	79	67	61	63	62	62	-	65
Feed & Residual	114	152	156	51	70	70	90	110
Total Domestic	1,151	1,177	1,167	1,079	1,097	1,097	1,133	1,150
Exports	864	775	1,055	901	945	925	975	950
<b>Total Use</b>	<b>2,015</b>	<b>1,952</b>	<b>2,222</b>	<b>1,980</b>	<b>2,042</b>	<b>2,022</b>	<b>2,108</b>	<b>2,100</b>
<b>Carryout (May 31)</b>	<b>752</b>	<b>976</b>	<b>1,181</b>	<b>1,099</b>	<b>1,087</b>	<b>1,100</b>	<b>944</b>	<b>1,090</b>
<b>Stocks/Use</b>	<b>37.3%</b>	<b>50.0%</b>	<b>53.2%</b>	<b>55.5%</b>	<b>53.2%</b>	<b>54.4%</b>	<b>44.8%</b>	<b>51.9%</b>

**Livestock**

By now we've probably all seen that video on Twitter showing Chinese grocery shoppers queued up trying to buy some pork but the shelves being empty. Interestingly, China reported CPI data overnight and as we can see below we're looking at some significant YOY price jumps. Overall food inflation posted a 6% YOY increase for April. Singling out pork, you can see that pork prices are up almost 15% YOY. Admittedly that is still looking at relatively soft prices at this point last year, but the trend in consumer pork/food prices has certainly turned higher and this will be something worth watching in the months ahead.

**China Food Inflation YOY**

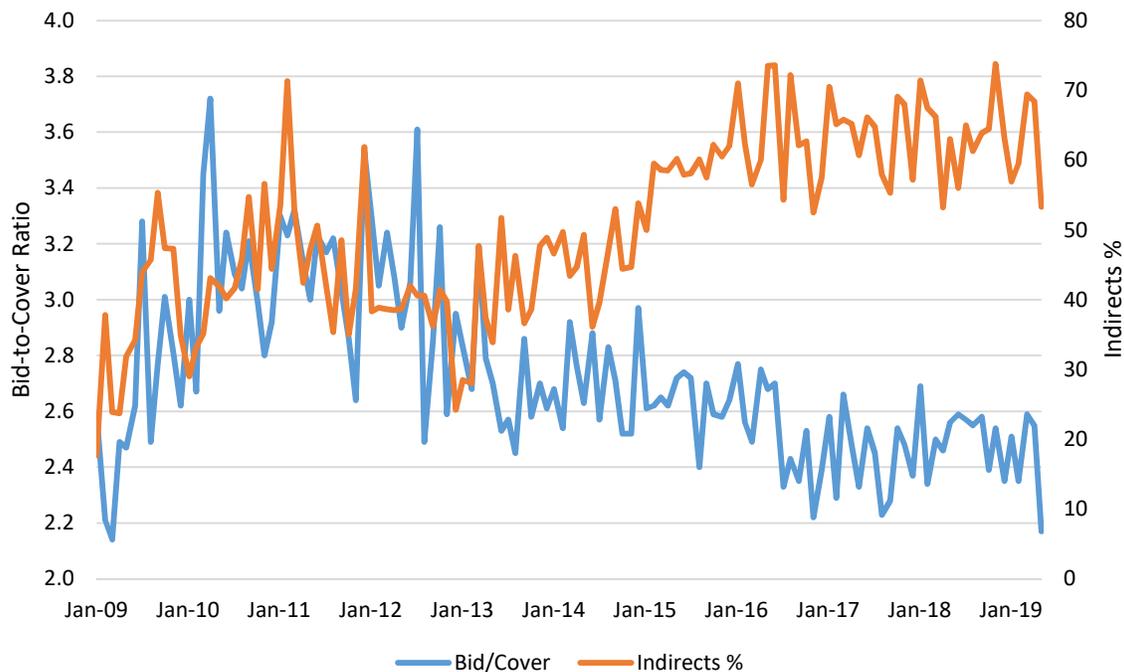


**Financials**

Nothing particularly “new” this morning. US equity markets are getting whacked again this morning on ongoing geopolitical risk. The party got started early last night after Trump made some negative comments about the Chinese trade negotiations at his rally in FL last night. Making matters worse this morning we have reports suggesting North Korea has fired another two missiles. On top of the already high tensions with Iran, this clearly sets a geopolitical tone under the market right now. Then again, the breakdown in Chinese trade negotiations and the sudden interest from North Korea in testing missiles again is probably no coincidence.

Yesterday’s 10-year Treasury auction isn’t getting much attention. Honestly, these auctions rarely do ever generate much attention but I found yesterday’s results worth pointing out quickly this morning. The bid-to-cover ratio was only 2.17, which as shown below is the lowest since early 2009. The “indirect” bid, which is often assumed to be a proxy for foreign central banks, was near its lowest level in the past several years. Bond futures were weak yesterday in part due to these auction results, though obviously they’ve caught the geopolitical bid again this morning. It’ll be interesting to see if the 30-year auction today shows similar results.

**10-Yr Auction Results**



PPI out this morning, but that probably won’t be a huge market-mover. Fed Chair Powell will speak this morning and as always that will be worth keeping an eye on. The geopolitical storylines will likely remain the focus today, but one thing we haven’t talked about in the past few days is the rally in Italian bond yields as the EU scolds Italy on its budget deficit and the Italian government seemingly isn’t backing down (yet). No major earnings releases today, but Uber’s IPO will hit.

## Energy

Crude oil futures are slightly lower at the time of writing this morning, which I find a bit peculiar considering the geopolitical tensions. Clearly the “big” story right now is the breakdown in US-China negotiations, which many still believe is negative for global economic growth and thus negative for oil prices. Still, tensions are high surrounding Iran (Europe told Iran to back off with its demands for a non-USD oil trading mechanism) and starting to get higher with North Korea.

On tap today is the natural gas storage report. Expectations call for a build of 87-bcf, which would be larger than seen last year and continue the likely gradual shift from below average stockpiles to inventories above the 5-year average.

## Today’s Calendar (all times Central)

- PPI – 7:30am
- Export Sales – 7:30am
- Natural Gas Storage – 9:30am
- 30-yr Auction Results – 12:00pm
- A few Fed speakers, including Chair Powell early in the morning

Thanks for reading.

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