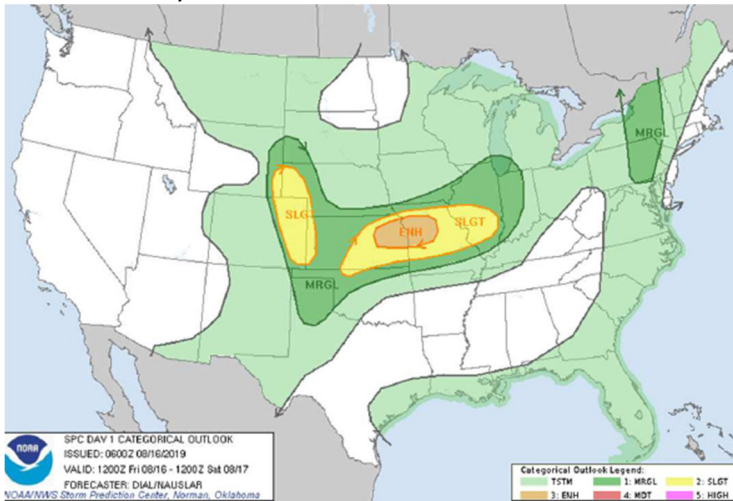


Weather

We have isolated bits of rain on the radar this morning. Some rains are moving through MO, another through NE, and another moving through WI. We should start to see better rain activity develop in the “heart” of the Corn Belt over the next few hours. The rainfall will be scattered and some areas will most certainly be missed, but the areas that are able to see rain should see some pretty decent rainfall totals. The map below shows the outlook for potential severe weather today, and these would be your favored areas for heavy rains.

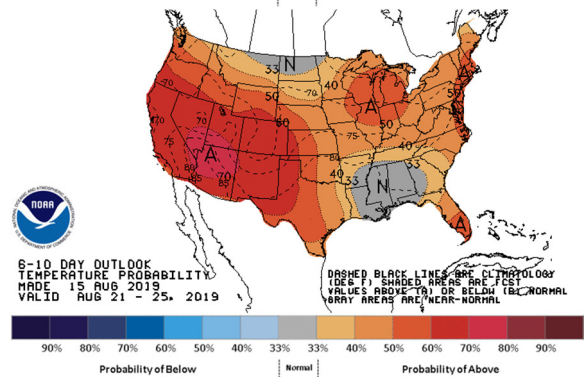
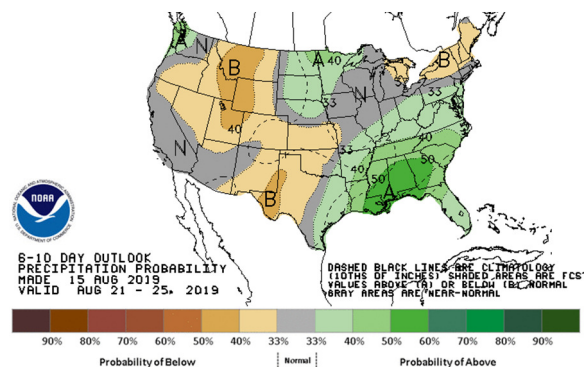
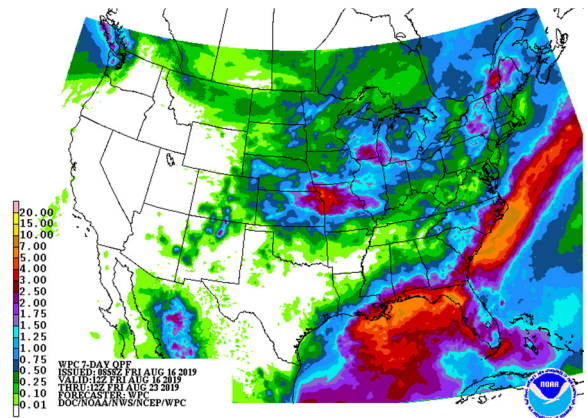


Rainfall potential will continue through Sunday. Early next week should see rainfall diminish again but there will be spots of scattered rains with some severe weather possible. The remainder of the 6-10 day period should feature BN precipitation chances, but look for the temperature outlook to have a cooler look when it is updated later today. The precipitation outlook for the 11-15 day period remains highly questionable, but the point is we should have some rainfall chances it is just impossible to determine how good those chances for rain will prove to be. Temps in the 11-15 day period should average fairly close to normal.

Crops

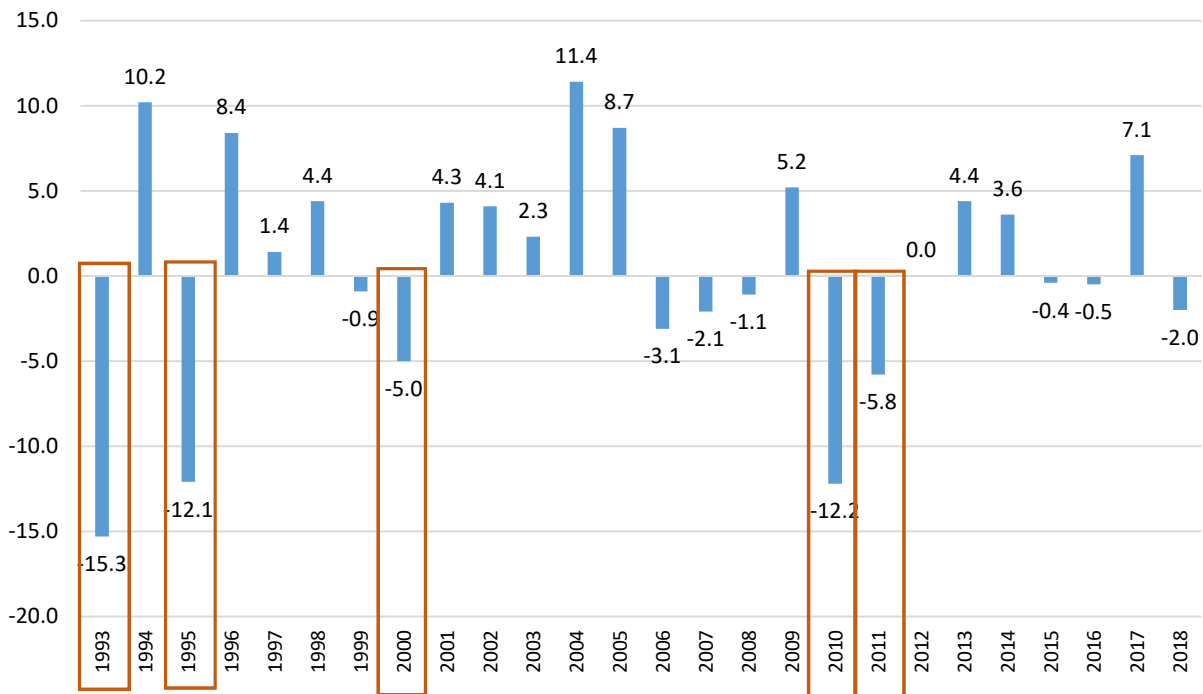
Just a quicky today after what has been a loooooong week. I want to give thanks to our friend Craig Solberg for his insights into this as well. He did all the work, I’m just piggy-backing this morning.

I talk to a lot of ag traders. I would say it is pretty damn close to a 100% consensus that NASS is “significantly” too high with their current corn yield. What is the definition of “significant”? I don’t know if there is a precise answer, but based on the chart below I would call a significant change being +/- 5 bpa vs. the August yield



estimate. In terms of downside adjustments, you can see there have been five reductions of 5 bpa since 1993. I want to quickly look these five instances this morning.

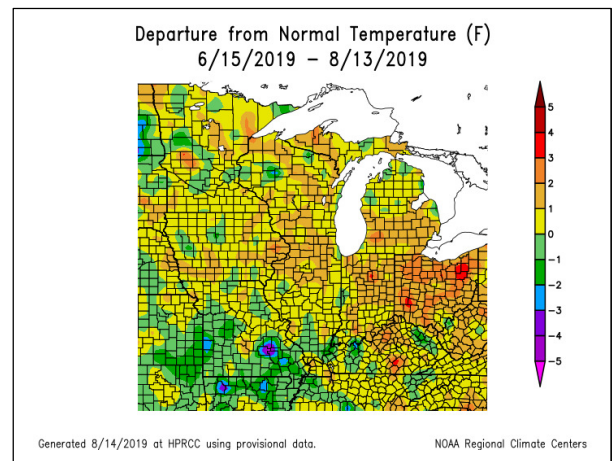
NASS Corn Yield Change from Aug to Final



1993 – The crop was hit with an October 1 freeze when states like MN still had 80% of corn still immature. This year’s crop is late but not late like 1993. In 1993 the crop was 31% nationally in the dough stage on Aug 15 (MN 5%). This year the crop is 39% nationally in dough stage on Aug 11 (MN 30%). Am I saying an Oct 1 freeze wouldn’t ding us this year? No – absolutely not. Just saying it is not the same situation.

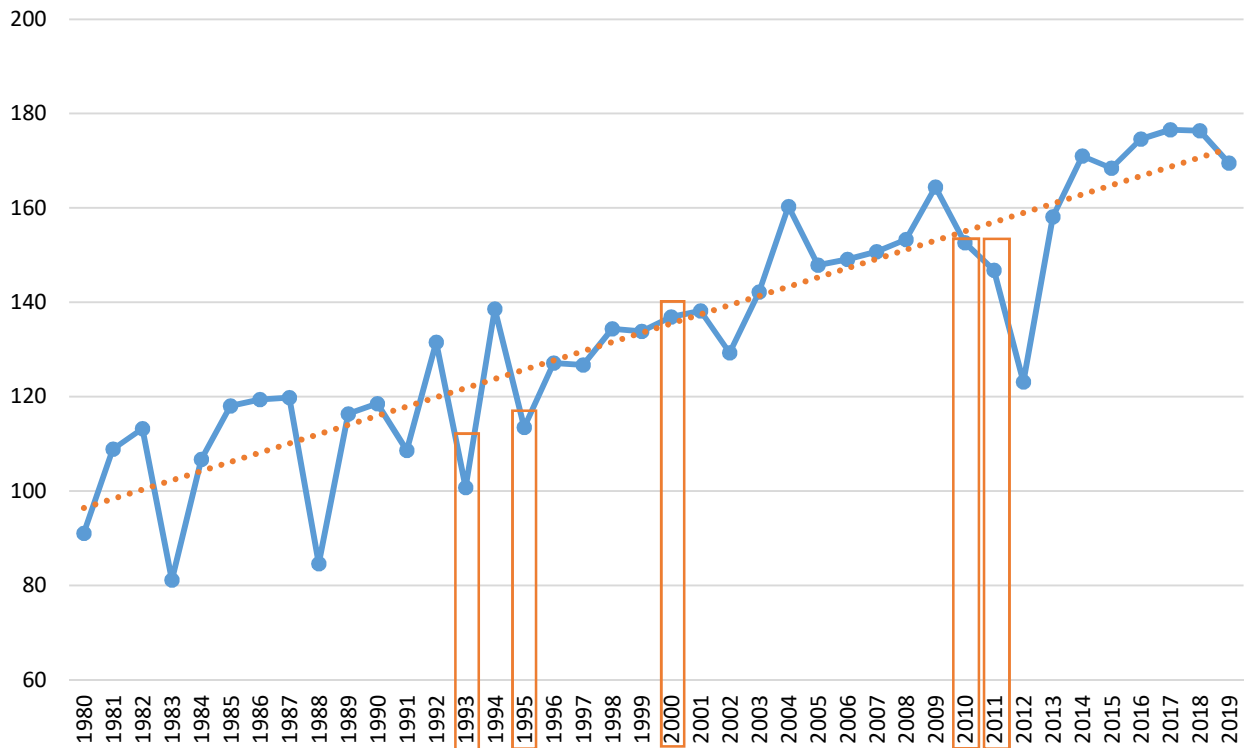
1995, 2010, and 2011 – All three of these years were in the Top-15 of hot Corn Belt summers. I don’t have any fancy charts to throw in here to illustrate that, but you’ll just have to take my word for it. Each of these summers saw corn yield zapped by hot weather, and that will not be the case this year. Corn Belt temps this year are so far averaging slightly above normal, mostly in the ECB (see map at right). There is not a big departure from normal in temps and thus this year doesn’t line up with those years either.

2000 – In terms of weather, I can’t find anything exceptional about the summer of 2000. What is interesting about the 2000 instance is that, as you can see in the chart below, the *final* 2000 corn yield turned out to be almost spot-on trend,



meaning the Aug NASS estimate apparently just started too high rather than weather conditions pushing yield lower. Why might expectations in 2000 started out so high? Again, our friend Craig Solberg points out that national corn planting progress in 2000 was 53% done as of May 1, easily the fastest pace on record at that time. I would argue that we're certainly not starting from a point of over-confidence at this time.

US National Average Corn Yield



What is the point? All I am saying is that in previous instances of “significant” Aug-Final lower revisions to the corn yield, there were very good reasons for the revision in at least 4 of the 5 instances (2000 being the question). In some of those years we had very hot conditions, which won't be the case this year. In another we had a frost/freeze problem which is certainly something we need to be mindful of this year. But, absent that frost/freeze threat and acknowledging that weather after the springtime mess has been fairly “normal” this summer, is the ~5% reduction vs. trend presented by NASS really that far-fetched at this point in time?

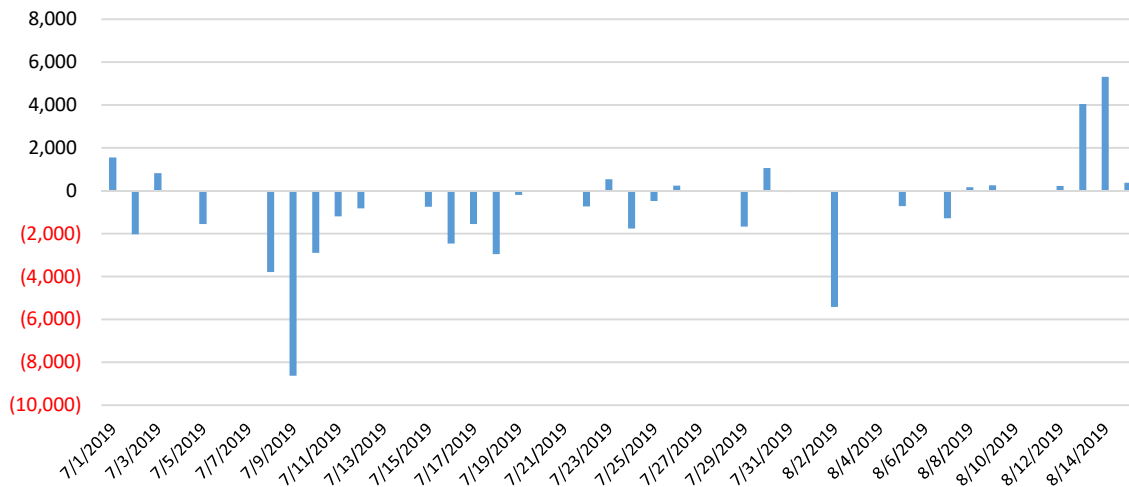
Thoughts appreciated.

Livestock

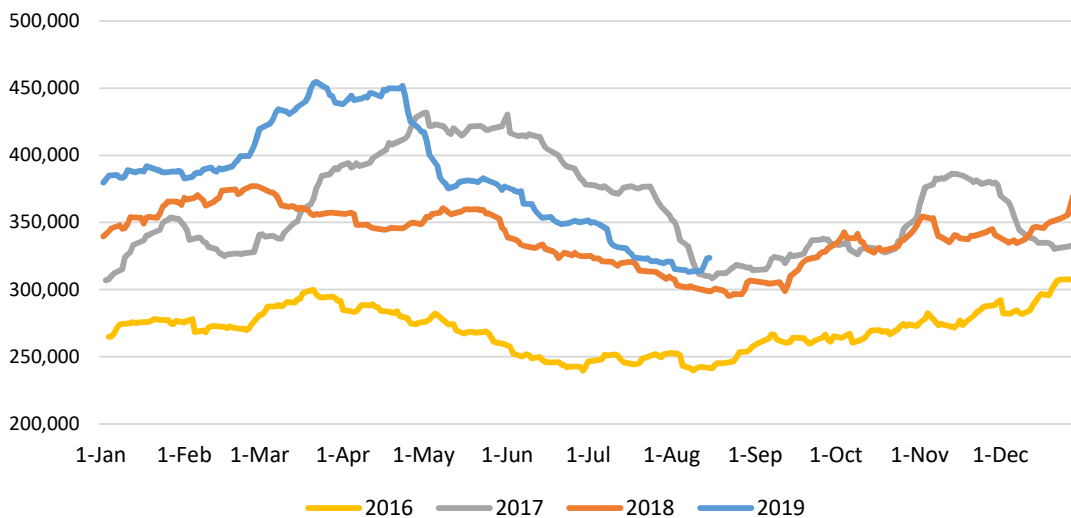
I find myself hard pressed to make coherent fundamental arguments for both cattle and hogs at the moment. In hogs, we've essentially wiped out 25% (probably more) of the global hog herd and it doesn't even matter for US futures. In cattle, we've got the surprise loss of a packing plant that may or may not back up fed supplies indefinitely. I'm not really sure what to say about either market at the moment.

One thing I didn't quite expect to see this week is LC open interest is up. No, the amounts aren't big but I would have expected to see evidence that the last of the long specs had been fully blown out of their positions. From a hedging perspective, I'm not sure how much sense it makes for the feeders to be adding hedges down here. Now, the packers I suppose could be buying the dip. The COT data showed the commercial gross long position is running below levels seen the past two years. Note that seasonally we're in the lowest point of the year for LC open interest. We should start building OI again around this timeframe.

**One Day Change in Aggregate Open Interest
 Live Cattle**



Live Cattle Aggregate Open Interest



Seeing on the wires at the time of writing that China's agriculture ministry is reporting their pig herd at the end of July is down 32.2% YOY. The sow herd is down 31.9% YOY according to the report. I'll have more information on that Monday morning (I hope).

Financials

Interesting headlines out of Europe yesterday morning. Finnish ECB member Olli Rehn said the following:

- Weakening economy justifies monetary policy response
- ECB easing should include rate cuts, “substantial” bond purchases
- Better to overshoot than undershoot on stimulus
- Need to have “significant and impactful” easing package in September

Firstly, this sounds exactly like the sort of guy Trump would want running the Fed. More importantly, what are implications on the Euro? Right now the market is pricing in 100% odds of a rate cut at the ECB’s 9/12 meeting. The question is whether or not the ECB cuts by 10 or 20 bps. Right now the market is pricing 36% odds for only 10 bps and 64% odds for 20 bps. Additionally, it seems the market is expecting some sort of QE2 program announcement, but again the devil is really in the details. How much will they purchase? Remember their original QE program peaked with €80B in purchases in 2016. They gradually tapered that down and halted purchases last year. I would think that the market would be looking for something around €40-50B in new purchases but that will raise questions about purchase limits for individual sovereign issues. The real question on their QE program will be how will they change the rules to allow for “substantial” bond purchases? Overall, it continues to look to me like the ECB is going to get aggressive...how much of that is already priced in the Euro? I don’t know how to answer that but the bottom line is that the trend still remains your friend for now. The long term Euro chart simply continues to put in lower-highs and lower-lows. I would think a test of the early 2017 lows can’t be ruled out, especially if Draghi & Co come out with the proverbial bazooka on 9/12.



Nothing particularly new to report overnight. No significant overnight data that I’ve seen and the economic calendar in the US this morning is fairly uneventful. This seems to be allowing the market to sigh a breath of relief, and we’re getting a solid rally at the time of writing. Next week could be very interesting, however. The Fed will host its annual Economic Policy Symposium starting next Thursday. This could be Fed Chair Powell’s

chance to prep the market for changes in their policy...or not. It will be a big event for markets, and it probably seems reasonable to expect some consolidation of the recent price moves ahead of that event.

Energy

Just a quick note and we're done here. Yesterday I was thumbing through the North Dakota Pipeline Authority Monthly Update on oil and gas production (yeah, I must have been bored). In the report they noted that estimated June oil production hit a new record high at 1.42 mbpd vs 1.39 mbpd in May. While interesting, that is not the tidbit I walked away from the report with. In their gas statistics, they noted that 77% of natural gas production was captured and sold. More important to me was the stat that said 18% of natural gas was "flared due to challenges or constraints on existing gathering systems". In other words, we have almost 20% more gas that we just simply can't do anything with at the moment. That is nothing new, in fact the level of natural gas flaring is slowly moving lower. I just want to point this out as something to remember when market sentiment ever turns bullish towards NG again (not saying there is any reason to suspect that at the moment). If prices were to rally, that would clearly present a reason to work harder towards making an effort to collect that other 20% of natural gas production. This should act like a ceiling on price levels over the medium/long term. Thoughts appreciated.

Today's Calendar (all times Central)

- Housing Starts – 7:30am
- U of M Consumer Sentiment – 9:00am

Thanks for reading.

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