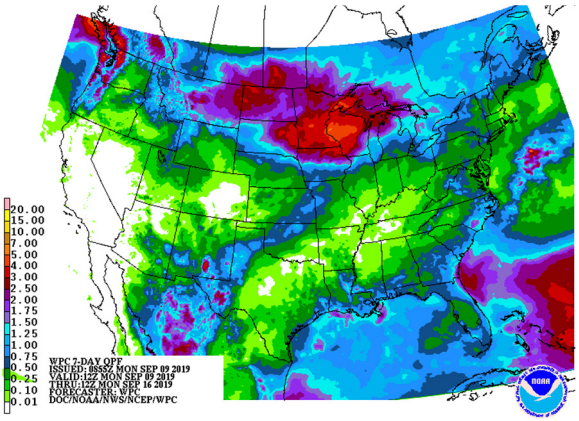
NESVICK TRADING GROUP, LLC

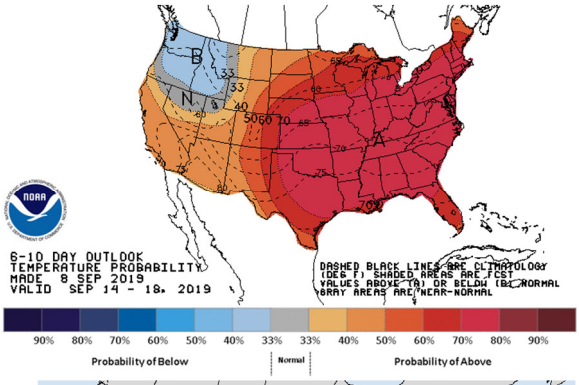
Monday, September 9, 2019
NTG Morning Comments
www.nesvick.com

Weather

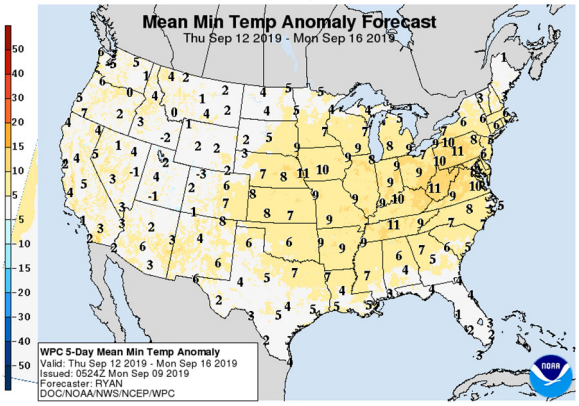
No major changes to the forecast during the weekend. We will see a daily threat of showers through the Northern Plains and northern Corn Belt through Thursday, with some very big rainfall totals expected in the area. A lot of the area will see .75-2.0" totals and there will certainly be instances of locally heavier amounts of 2-4". While that is happening there will be a sharp line of very limited rainfall affecting the southeastern Corn Belt. The 6-10 day period looks like it should dry out a bit for the entire Corn Belt but it looks like decent odds for a return of rainfall in the 11-15 day period. It looks likely this rainfall in the 11-15 day period would once again favor the west vs. the east.



No change in the outlook on temps. We'll see some relatively cool conditions over the next few days in northern portions of the country. There will certainly be a few spots that could potentially dip into the upper 30s, with Friday morning probably the coolest day. We should see much warmer temps return by Saturday and we should see mostly AN temps for the duration of the two week period which take us out to Sep 23. There is no threat for a frost/freeze event through that time and based on the look of the models at that time you'd have to assume the next few days would likely look frost-free as well.



We're getting to the point where we'll need to start monitoring South American weather again soon. As you probably have heard by now, through most of Brazil 30-day precipitation anomalies show mostly BN rainfall recently. We should see rainfall average BN for the next two weeks in northern portions of the country while RGDS in the south could see some very big rainfall amounts. Worth noting that it isn't exactly unusual to see dry conditions in northern Brazil at this time of year…it is still the "dry season" there. Argentina will see AN rainfall in northern portions of the country while southern areas will likely see mostly BN rainfall.



Crops

Today we'll take a very quick look at the corn demand figures and what we should maybe expect to see from WASDE later in the week. Looking at the old crop balance sheet first, there is clearly a need to reduce the estimate for the corn-for-ethanol grind this week. The only question in my mind is how much will they cut? After last week's Grain Crushing report we know the Sep-Jul corn grind has totaled roughly 4,917 mb. In order for WASDE's estimate to be reached, the Aug grind would need to be roughly 508 mb, a level we've never really

even approached. Based on the weekly EIA ethanol production updates, I think one could optimistically assume a corn grind in Aug near 450 mb, which would be basically unchanged from the Jul grind. That would necessitate a ~55 mb reduction in WASDE's 18/19 corn grind. This seems like a "lock" to me…eventually. I just question whether they'll cut that much this month or whether they'll cut a little this month and then another bit next month after seeing the official data update. I personally think the data is compelling enough to make the entire adjustment now…but we'll see.

As for 18/19 export demand, I think a cut here is coming as well. Census data shows Sep-Jul exports of roughly 1,950 mb. We know from the weekly inspections data that Aug is not likely to make up the difference to reach the WASDE projection. I think WASDE should cut at least 20 mb from their export projection this week, though the final number might still prove to be lower.

I don't think there will be an adjustment to the old crop feed and residual estimate this week. We get official ending stocks (and thus the finalized F&R total) with the Quarterly Stocks report at the end of the month. They typically don't make adjustments right in front of these reports…but it certainly is possible. One other minor adjustment to the old crop balance sheet – it looks like imports will probably fall short of the WASDE projection by ~5 mb.

Turning to the new crop balance sheet, obviously the main headline will be the production total. You've probably seen by now the newswire surveys show a fairly significant expected reduction in production. If you read my commentary from last week, you also know that I'm not buying into a significant reduction and I expect production to be fairly steady in this week's update. For the sake of my balance sheet projection below, I've taken off 0.5 bpa from the yield estimate, though clearly this would still put me well above consensus. I'm leaving acreage alone, which apparently is also above consensus. The Bloomberg survey showed expectations for a reduction of 0.7 mil acres. That seems silly to me – USDA has gone out of their way to support their assessment of acres so I don't expect any shift this week. I've been wrong before however….

Assuming I'm right that production is only modestly reduced from last month, I don't really anticipate <u>any</u> change to the 19/20 demand prospects. The F&R demand projection is basically a formula that is mostly based on crop size. I think their ethanol grind projection is starting too high, but there is no new information this month to change their assessment. The same can be said for the export projection as well. I think it is too high, but what new is there this month to prompt a reduction? IF the consensus is correct with the assumption of a significantly smaller crop, both ethanol and exports will likely be reduced (and F&R will be reduced as well).

Below is a breakdown of what I view as likely this week in the corn balance sheet. The blue columns are my projections for the 18/19 and 19/20 balance sheets. You can see I'm assuming a slightly higher than expected 18/19 carryout, but not a huge difference vs. the consensus guess. The 19/20 carryout I show is a good deal higher than the consensus guess, and at first you can point towards my "elevated" production estimate as the primary reason. However, when you plug in the Bloomberg survey consensus guess for production (shown in the pink column) and after you adjust for the probable changes in demand, I still come up with a higher than expected carryout for corn.

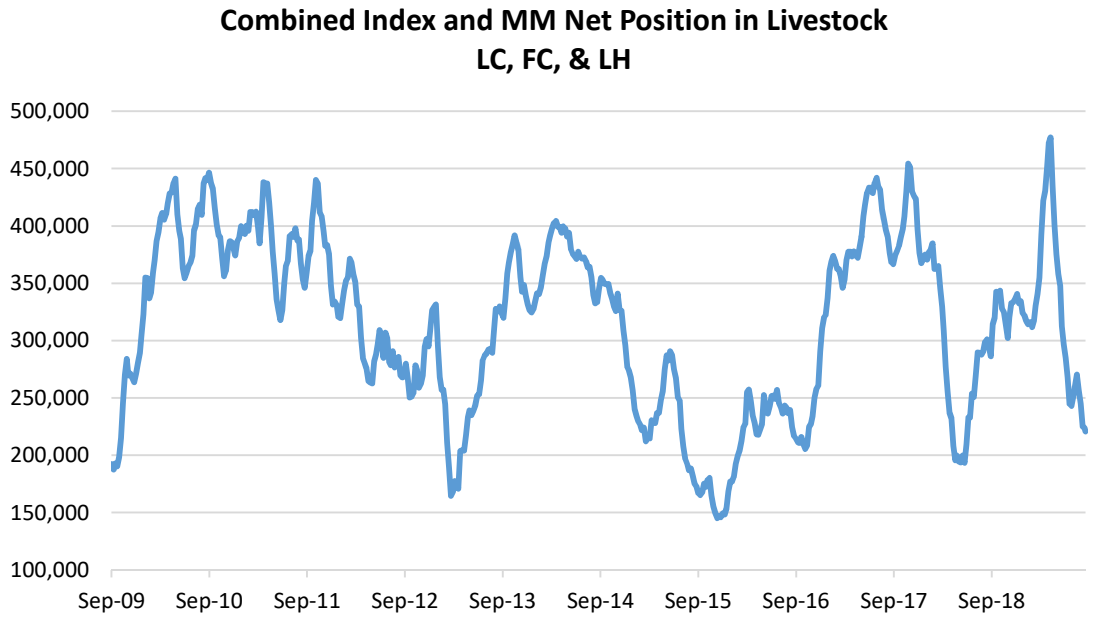
US Corn Supply and Demand (Million Bushels/Million Acres)

	USDA 14/15	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19 Aug	POSSIBLE? 18/19	USDA 19/20 Aug	POSSIBLE? 19/20	Expected Production
Planted Acres	90.6	88.0	94.0	90.2	89.1	89.1	90.0	90.0	90.0
Harvested Acres	83.1	80.7	86.7	82.7	81.7	81.7	82.0	82.0	81.3
Abandoned Acres	7.5	7.3	7.3	7.5	7.4	7.4	8.0	8.0	8.7
Yield	171.0	168.4	174.6	176.6	176.4	176.4	169.5	169.0	166.5
Carryin (Sep 1)	1,232	1,731	1,737	2,293	2,140	2,140	2,360	2,420	2,420
Production	14,216	13,602	15,148	14,604	14,420	14,420	13,901	13,858	13,551
Imports	32	67	57	36	30	25	50	50	50
Total Supply	15,479	15,401	16,942	16,934	16,590	16,585	16,311	16,328	16,021
Feed and Residual									
Total Feed and Residual	5,314	5,131	5,470	5,298	5,275	5,275	5,175	5,175	5,125
Food, Seed, and Industrial									
Corn for Ethanol Fuel	5,200	5,206	5,439	5,605	5,425	5,380	5,475	5,475	5,450
Other FSI	1,367	1,429	1,446	1,453	1,430	1,430	1,430	1,430	1,430
Total FSI	6,567	6,635	6,885	7,058	6,855	6,810	6,905	6,905	6,880
Total Domestic Use	11,881	11,766	12,355	12,355	12,130	12,085	12,080	12,080	12,005
Exports (Census)	1,867	1,898	2,294	2,438	2,100	2,080	2,050	2,050	2,000
Total Use	13,748	13,664	14,649	14,793	14,230	14,165	14,130	14,130	14,005
Carryout (Aug 31)	1,731	1,737	2,293	2,140	2,360	2,420	2,181	2,198	2,016
Stocks/Use	12.6%	12.7%	15.7%	14.5%	16.6%	17.1%	15.4%	15.6%	14.4%

Livestock

If you missed the headlines this morning, the Philippines have now officially confirmed they've found ASF caused the death of hundreds of pigs in towns near its capital city. This has long been the suspected cause, but for some odd reason the Philippines seemed to take as much time as possible to officially recognize it was truly ASF. It seemed they wanted to deny at first, but I guess they eventually realized there was no hope in that. We'll see how bad it gets, but pork consumption in the Philippines is a big source of protein. And if pork inflation takes off in the Philippines it will be a much worse situation than in China as the country has a much lower per capita GDP.

I just thought this would be worth a quick look this morning. This takes the combined index and MM net position across all the major livestock markets and piles them together. You can see that just earlier this year, I suppose at the height of optimism for export demand following the ASF outbreak, we posted new record high spec interest in the livestock sector. As we all know by now, that has been aggressively liquidated over the past several months. We're not quite at the lows posted in late 2015 yet, and the key difference right now is that the index trader is still holding a much larger position than it did in late 2015. I guess the question I have right now is – what would make the index trader turn into a big liquidator of this long position right now? They've liquidated some of the net long position since the beginning of the year but they're relatively steady over the past year or two. Will something change that thought process? Ongoing trade wars or "impossible" meat? Or will the MM crowd turn *negative* and actually hold a net short?

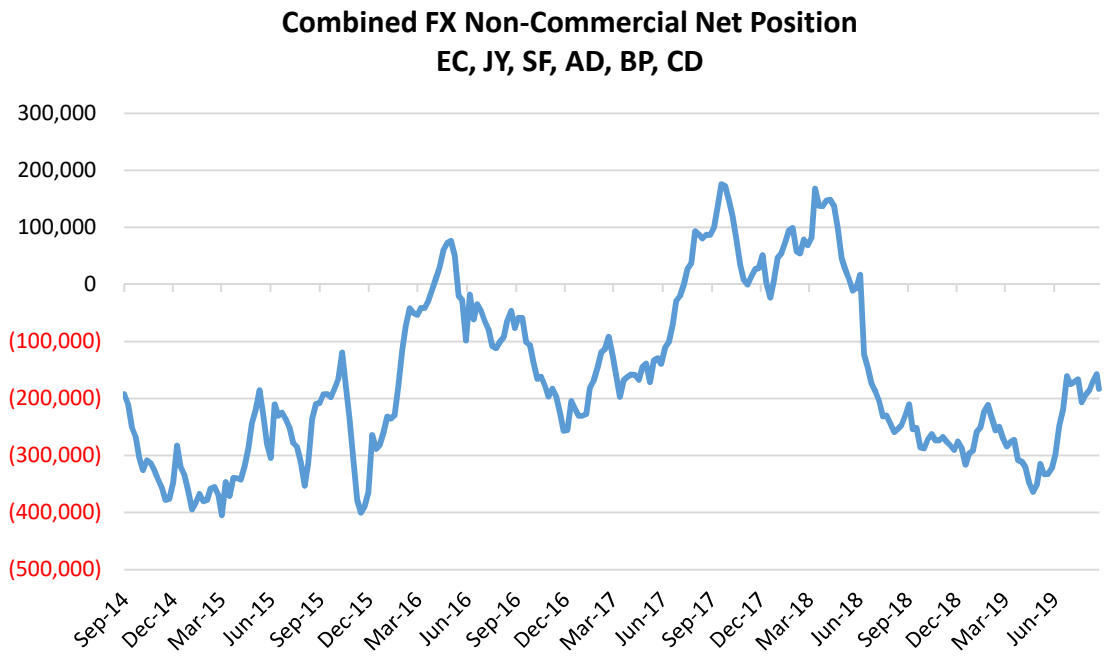


Financials

I don't see any major new headlines to report from over the weekend. The UK reported GDP overnight and it turned out to be slightly better than expected at +0.3%. This is allowing the BP to rally further at the time of writing. Otherwise, the focus of the next week or two will be central bank policy action. On Thursday we'll get the ECB, which is expected to post another rate cut (further into negative territory) and could also announce the resumption of QE. More on this later in the week. The next FOMC meeting is Sep 18, so plenty of time for things to change but as it stands now the market is pricing in a 100% chance for another 25 bps cut in rates. Bloomberg produced the chart at the right late last week and I think it is really interesting. Essentially what this is showing is that the Fed over the past 20+ years has really only "followed orders" from the market. When the market has been pricing in cuts/hikes the Fed has followed its cue and when no change has been indicated by the market they have done nothing. It's almost as if we don't need the Fed to set rates and the market is really already doing the job?

The chart below is something we've shown here several times before. This combines the non-commercial net position across all major FX futures contracts. I use this as an indicator of the overall net positioning in the dollar. As this chart moves further into negative territory, it implies the market overall is leaning heavily net long the dollar. You can see that was the case earlier in the year, but since May we've seen the net dollar long get reduced fairly substantially. The market is clearly still net long dollars, but not at the potentially extreme

level we saw earlier in the year. This is probably the result of the dovish pivot from most of the FOMC, but interestingly the dollar is still trading near its highs. I wonder if the MM crowd will move back into dollar-friendly positions as the ECB and other central banks around the world lean just as dovish (if not more) than the FOMC?



Energy

Perhaps it comes as no surprise to anyone else, but I personally was surprised to see news over the weekend the Saudis have replaced Khalid Al-Falih who has spent the past three years as the kingdom's oil minister. The new oil minister will be the King's son Prince Abdulaziz. Abdulaziz is hardly a newbie to the oil business as he has served as deputy petroleum minister for a dozen years and has been a member of the Saudi delegation to OPEC and a regular participant in the group's meetings. It is likely that the new oil minister's top priority will be to try to boost oil prices to a level that will support the high levels of government spending. Bloomberg estimates that could be as much as $25/bbl higher than current prices. It remains to be seen whether or not this can be successful as we have noted that oil prices have not responded especially favorably despite OPEC production cuts, Iranian sanctions, and Venezuela's production meltdown all happening concurrently. Abdulaziz is set to speak later this week at the World Energy Congress in Abu Dhabi, marking his first public comments in his new role, and you can bet his comments will be very closely watched for any hints of changes to policy.

Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Crop Progress – 3:00pm

Thanks for reading.

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