

Weather

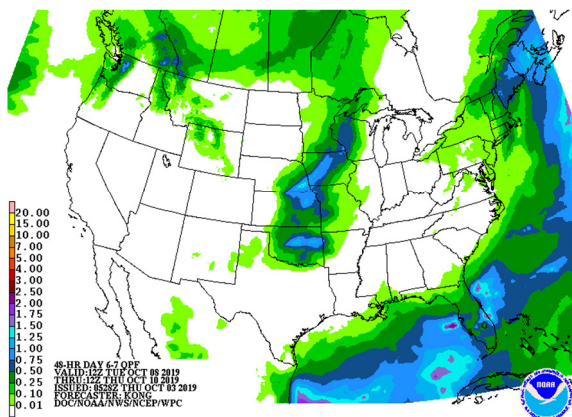
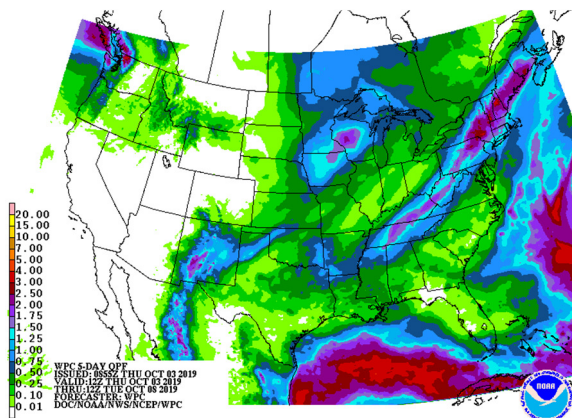
No major changes to the forecast in terms of precipitation this morning. The map at the top right shows the 5-day QPF, but most of the rain shown on this map will fall tomorrow night and Saturday, with mostly dry conditions following for a few days. The second map shows the forecast for Days 6-7 and here you can see the next threat of rain for the Corn Belt which is probably coming a bit sooner than expected vs. yesterday morning. There is still a lot of model disagreement for this period, however, so it is hard to have a ton of confidence. There is also no strong confidence in the 11-15 day precipitation outlook, but from the best we can tell this morning it seems there will be “some” precipitation in the Corn Belt during that timeframe as well. The bottom line at this time, at least in my opinion, is that rainfall amounts going forward don’t look especially huge but it does look like rainfall chances will be persistent.

One change in the forecast that might get some attention is a colder outlook for next week. Before we get there we’ve still got a lot of heat in the southeastern US and some cold temps in the Northern Plains. There will be plenty of 30s for lows tomorrow morning in parts of the Plains and northern Corn Belt, but for now it doesn’t appear there will be a widespread risk of freeze. The change in the forecast comes with the outlook for late next week where temps have turned cooler. It now looks possible that we could see widespread freezing temps from Oct 10-12. The graphic to the right shows Craig Solberg’s best guess on what area might be impacted. During that time period most of that shaded area would have the chances to see lows in the 26-32 range. Temps would likely start warming beyond Oct 14 and we could see a lot of AN temps after that.

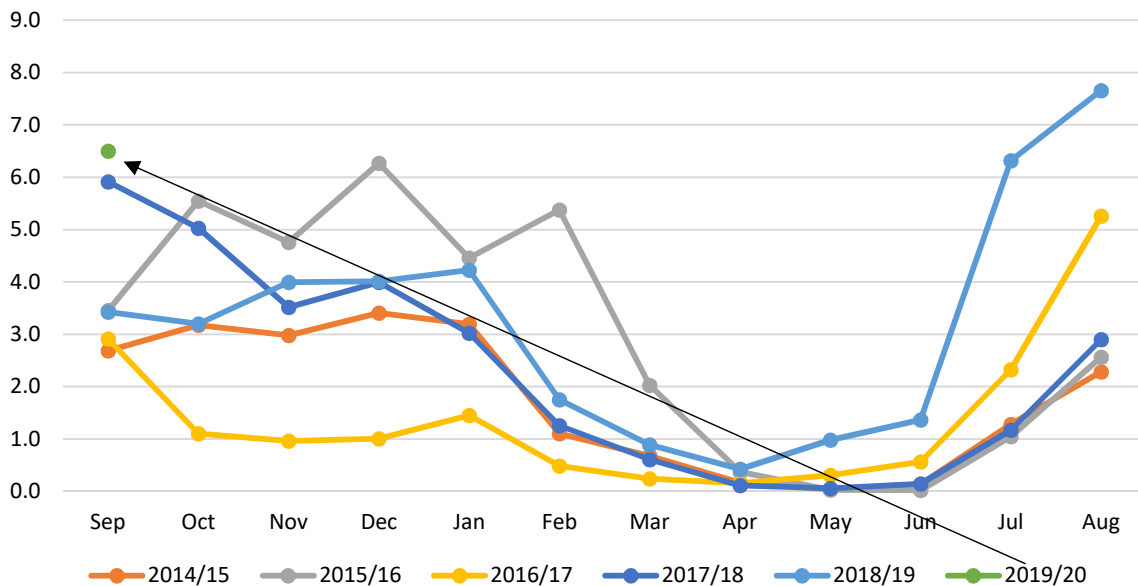
My question this morning is whether a freeze at this point really matters that much? I’m inclined to say that we’ve made it to the point that freeze problems should be very localized and not a big deal in the grand scheme of things. If you’re in these areas and think I should know differently, please reach out.

Crops

Brazil reported Sep trade data earlier this week. Corn shipments for the month were once again very large at roughly 6.5 mmt. That is down from 7.7 mmt of exports in Aug but still easily the biggest Sep corn export figure on the books. A chart showing Brazilian corn exports is shown below. Note I’ve created the chart to follow along with the US marketing year, not Brazilian marketing year.

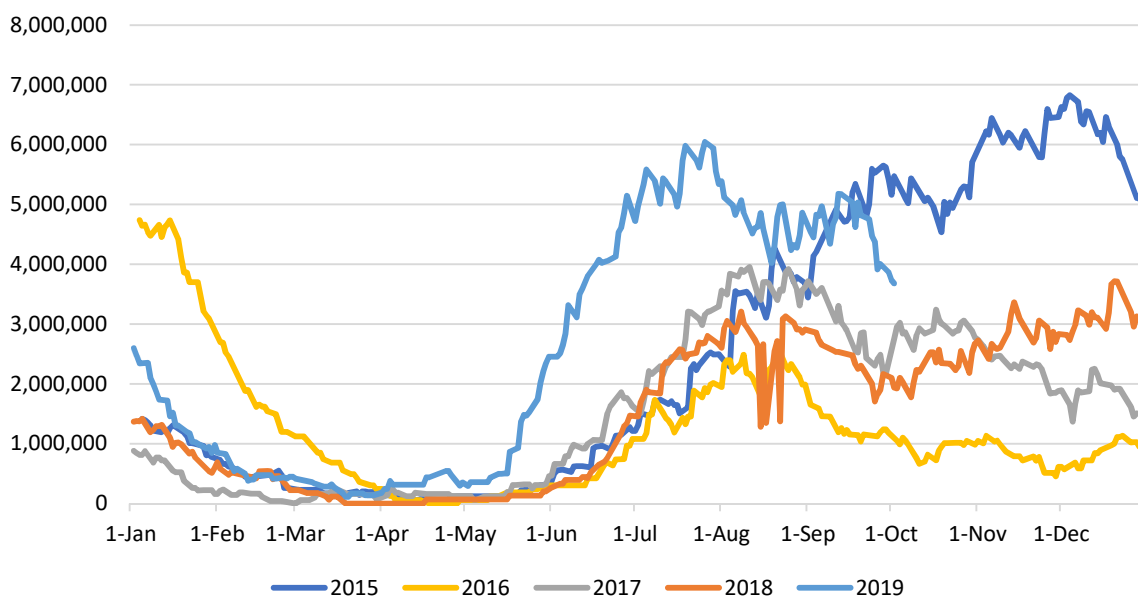


Brazil Corn Exports

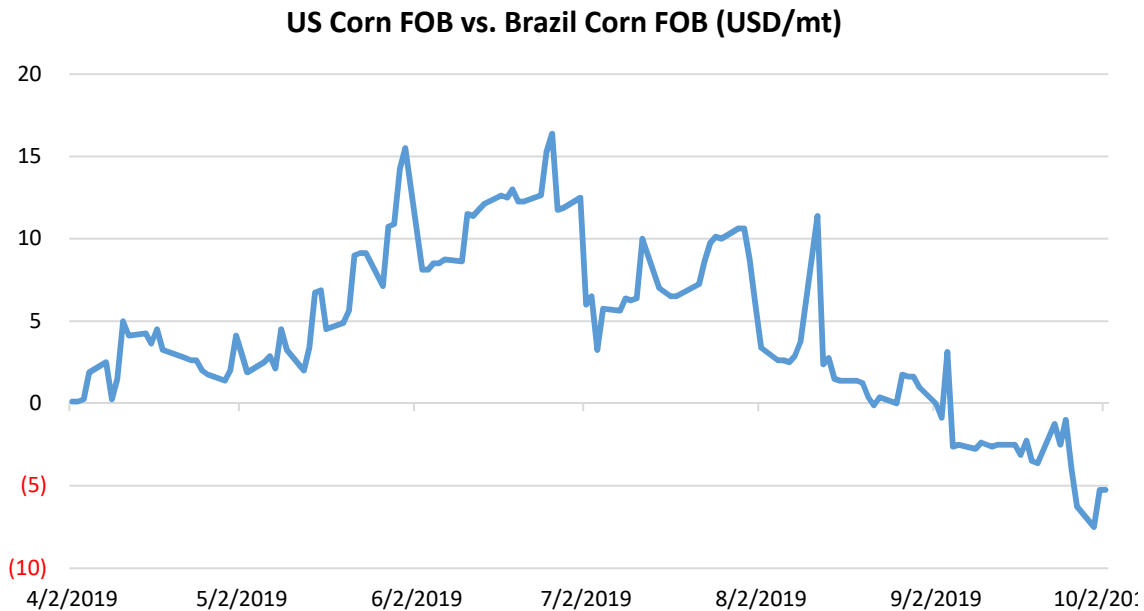


It does look like export volumes out of Brazil are starting to slow down a bit. This should come as no surprise of course. Given the pace of exports thus far, there is just so much available supply for exports and they'll naturally have to trend lower as shown above. Note that the export line-up is starting to taper off sharply after being so big for the past several months.

Brazil Corn Export Line-Up



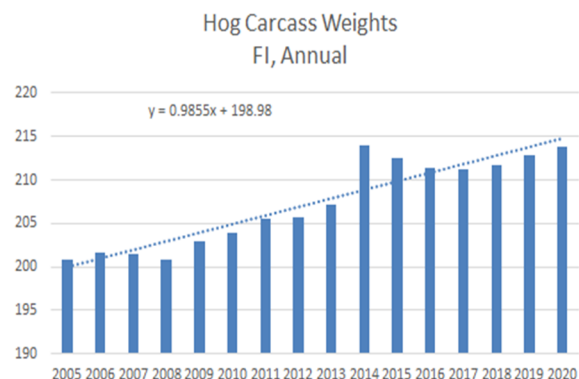
So the pace of export shipments from Brazil is bound to slow down in the weeks and months ahead. What is also important to note is that Brazil is no longer cheaper vs. the US on a FOB basis. The chart below looks at the FOB spread between US-Brazil corn. For the first time in about 6 months US FOB prices are clearly under Brazilian levels. This should, on the margin, support US corn export demand.



Admittedly it isn't all good news for US corn export prospects. Argentina remains a discount to US prices. Ukraine is actively harvesting what should be a very good crop and it is also priced at a discount to US values. Still, if Brazil is starting to back away in the world corn export arena for a while, it isn't *bad* news for the US.

Livestock

Some interesting news yesterday as we got confirmation of rumors that JBS would be going fully racto-free in their hog supplies going forward. I don't think this is a big surprise. Clearly with a focus on the export market into Asia right now, going fully racto-free in hog supplies will make life easier for the packers. The question for us is whether this will have any impact on production via lower weights? The chart to the right is courtesy of my friend Mike Sands, who points out that hog carcass weights have held a clearly defined uptrend for several years now. In 14/15 we saw weights registered above trend due to PEDv, but otherwise the trend has been fairly consistent. We also have to keep in mind that SFD, TSN, and others have had racto-free programs for a few years now and that means some racto-free is already baked in to the trend for higher weights. The point is that JBS going racto-



free, and presumably the entire industry at some point, probably doesn't dramatically alter the trend for higher hog carcass weights. In an industry that is clearly aiming for increased exports, the rhetorical question of the day really is when does this also move into the beef complex? When does Optaflexx go the way of Zilmax?

Financials

Some weak economic data out of Europe overnight, this time coming in the form of PMI for services. Up to now the weak data had primarily been focused on the manufacturing sector, but services PMI numbers out of Europe overnight were not especially rose. For example, services PMI in the UK fell to 49.5 in Sep indicating contraction. This likely points towards further contraction in GDP estimates. Using the UK as an example might not be fair considering they're dealing with Brexit, but it doesn't end there. Germany services PMI fell to 51.4 in Sep, which is admittedly still in expansion territory but it is the lowest level in 3 years. France fell to 51.1 and Italy fell to 50.6. Eurozone wide services PMI fell to 51.6 from 53.5 in Aug. Combined with the previously released manufacturing numbers, this puts the Eurozone economy basically in stagnation with the composite PMI registering at 50.1. Here is a comment straight from Markit's analyst – *"The eurozone economy ground to a halt in September, the PMI surveys painting the darkest picture since the current period of expansion began in mid-2013. GDP looks set to rise by 0.1% at best in the third quarter, with signs of further momentum being lost as we head into the fourth quarter, meaning the risk of recession is now very real"*. I suppose this is a good time to point out that the US will be applying new tariffs to the EU in response the WTO's decision that the US suffered as a result of the EU's subsidies to Airbus. The tariffs will range from 10-25% on a wide variety of items. It would seem likely that the EU will respond in some form even before the WTO rules on the EU's own complaint about US subsidies for Boeing. It will be interesting to see if this front in the global trade war starts to turn ugly.

I came across an interesting bit of data yesterday called the Bureau of Labor Statistics "Consumer Expenditure Survey". This basically breaks down estimated average expenses of "consumer units". A consumer units "include families, single persons living alone or sharing a household with others but who are financially independent, or two or more persons living together who share major expenses". While none of this is necessarily market-related, I thought it would be worth a quick mention this morning. I've gone through the report and selected some various "headline" expenditures and tallied them together. On the left side of the chart you can see the various estimates of mean tax expenditures per consumer unit. On the right you have various measures of other typical expenses a family unit will see during the course of the year. I only bring this up for a few reasons. The tax percentage of total expenses is 23%. Ask yourself if you think taxes are going to go higher or lower from here? Additionally, it is interesting that if you add up food, healthcare, apparel, and "personal care" it is basically equal to the amount spent on taxes. Outside of housing and transportation, taxes are basically equal to everything else a family

2018 BLS Consumer Expenditure Survey			
Tax Expenses		Personal Expenses	
Federal	\$ 9,032.00	Food	\$ 7,923.00
State & Local	\$ 2,285.00	Transportation	\$ 9,761.00
Property	\$ 2,200.00	Healthcare	\$ 4,968.00
"Other"	\$ 78.00	Apparel & Services	\$ 1,866.00
		"Personal Care"	\$ 768.00
		Entertainment	\$ 3,226.00
		Housing Ex-Prop Tax	\$ 17,891.00
Sum	\$ 13,595.00	Sum	\$ 46,403.00
23%			

encounters during the course of the year. To repeat the question – are taxes going up or down from there? Remember, it isn't just the federal government that is swimming in debt. A lot of local/state governments are as well.

Energy

Nothing new to report this morning. Yesterday's inventory numbers didn't show anything especially surprising. We notched the third straight weekly increase in US crude oil stocks. Looking at the chart of spot WTI below, we appear to be heading for another showdown with technical support at the \$50 level. We've seen that become "low enough" for most of 2019, but will that remain the case going forward?



Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- ISM Services Index – 9:00am
- EIA Natural Gas Storage – 9:30am
- Several Fed speakers

Thanks for reading.

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