

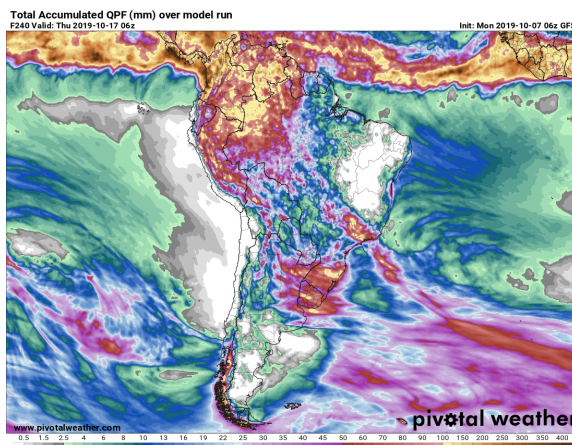
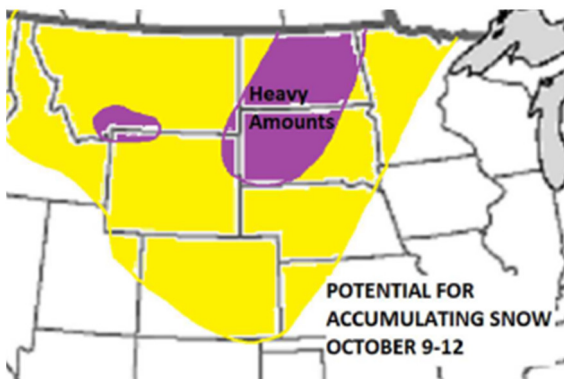
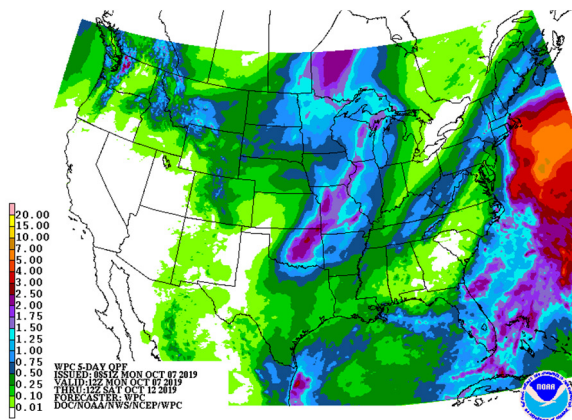
Weather

As you can see from the 5-day QPF map at the right we're looking at another week featuring active precipitation through the central Corn Belt and surrounding areas. The next few days will actually be fairly dry in the Corn Belt. In fact, with a lot of wind in the WCB we should see some very good drying weather for a few days. However, that will come just in front of the next round of significant precipitation for the area. Rains will return in the WCB on Wednesday night and will spread eastward through Saturday. With a lot of cold weather accompanying the precipitation, there will be good chances for some significant snow to fall at this time. The second map to the right indicates what our own Craig Solberg is currently looking for in terms of snowfall chances. The area shaded in yellow would have snowfall accumulation of anywhere between 1-6". In the purple area, snowfall accumulations should be much heavier with localized accumulations in excess of a foot. With very strong winds accompanying the storm, there could even be some blizzard conditions at this time. We should see widespread freezing temps throughout a big portion of the northern and western Corn Belt later this week. Most of that area should see at least one morning with lows below 32F and most areas will see several mornings with sub-freezing lows. Temps will start to moderate a bit by mid next week and we might see a return of AN temps for eastern portions of the region at that time. After this week's big precipitation we should probably see very little precipitation during the 6-10 day period. The models do have good agreement on a return of precipitation in the second half of the 11-15 day period, with the best amounts probably favoring eastern portions of the Corn Belt.

No major changes to the South American forecast. Argentina will see good showers over the next 10 days, as well as southern Brazil. Northern Brazil will see showers but only Mato Grosso will see what could be considered near-normal amounts.

Crops

On my way out of the office on Friday I saw a tweet that grabbed my attention. Some guy on Twitter said something like – "hearing China might be sniffing around for big quantities of US corn!!" Twitter of course is the place to make up whatever you want just to garner a little attention. I won't even mention who this was because I don't want to give him undue attention. However, despite my eyes rolling 360 degrees inside my head when I read this, I have to admit that a particular story of last week went very unnoticed by many market



participants. The Chinese government announced early last week that it will allow private companies to apply for import quotas that are technically allocated to state-owned firms. This is an important change that is definitely worth paying a bit more attention to.

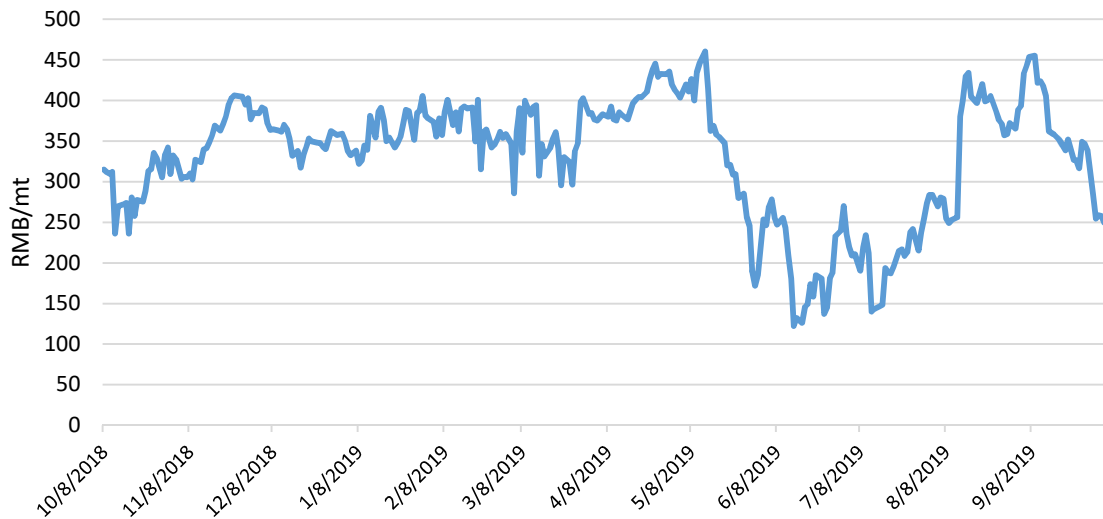
Let's look at China's corn import policy. The Chinese government allows for import quotas (TRQs) of about 7.2 mmt of corn annually. However, 60% of that annual TRQ is given to state owned firms. Only 40% of the TRQ is given to private firms. This is further complicated by the fact that the Chinese government is known to allocate the private company TRQs in a very difficult-to-actually-import manner. For example, it will spread those TRQs across 100s of private companies. These individual companies would not have a big enough quota to bring in even one cargo of corn, unless of course they buy-out other quotas from their competitors and try to piece them together. Essentially, the Chinese government made it as difficult as possible to import corn despite technically allowing for it with the TRQs.

Allowing private firms to receive some of the state-owned TRQs will *potentially* improve this situation. China has been a consistent importer of 3-4 mmt of corn each year, mostly coming from Ukraine. It remains to be seen exactly how the quota policy will be tweaked, but if the full TRQs are allowed that would mean another potential ~3 mmt of import demand from China. Now keep in mind that wouldn't necessarily mean it would be demand for US corn. Remember, both Ukraine and Argentina FOB prices are under US values right now.

What do corn prices in China look like right now? The first chart below shows a basket of corn prices spread throughout China. You can see that corn prices have slowly moved higher over the past few years and are now at their highest level since early 2016. The second chart shows my estimate for an import margin for US corn into China over the past year. This just takes the basket of China corn prices in the first chart and compares it against US corn prices plus freight and normal VAT. The normal total tax for corn imports is roughly 12% as I understand it. Keep in mind this chart does NOT include the retaliatory 25% trade-war tariff addition. When that is accounted for, the import margin turns negative. Which is a key reason I'm suspect of our Twitter friend's claims for now.



**China Estimated Import Margin for US Corn
 Assuming NORMAL Import Taxes**

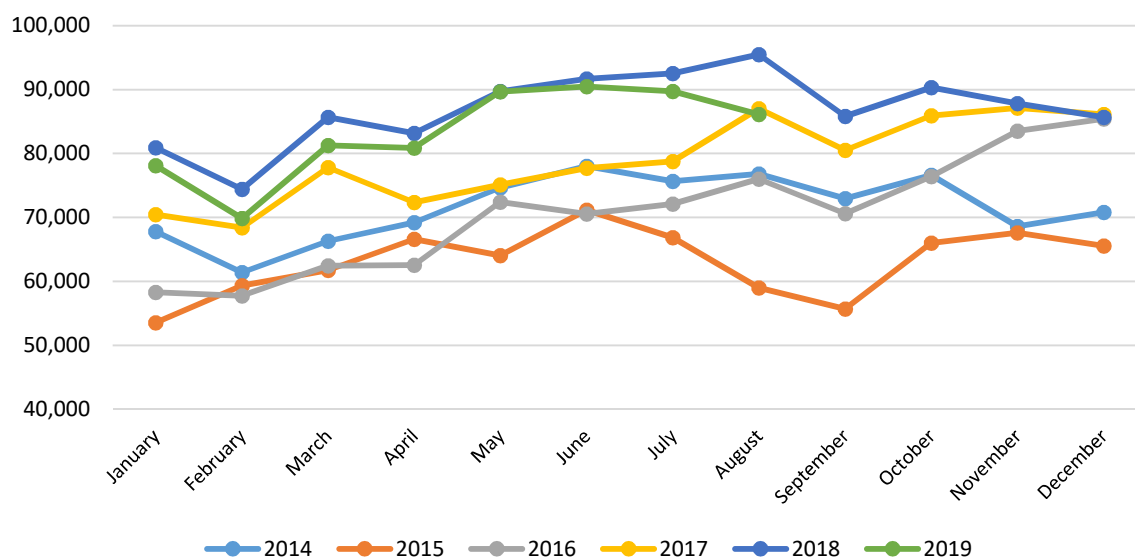


So, the bottom line here is that the news from last week certainly did not hurt US demand chances in China. Loosening the TRQ policy would be good news. I'm still skeptical that anything big is imminent, however. Please prove me wrong.

Livestock

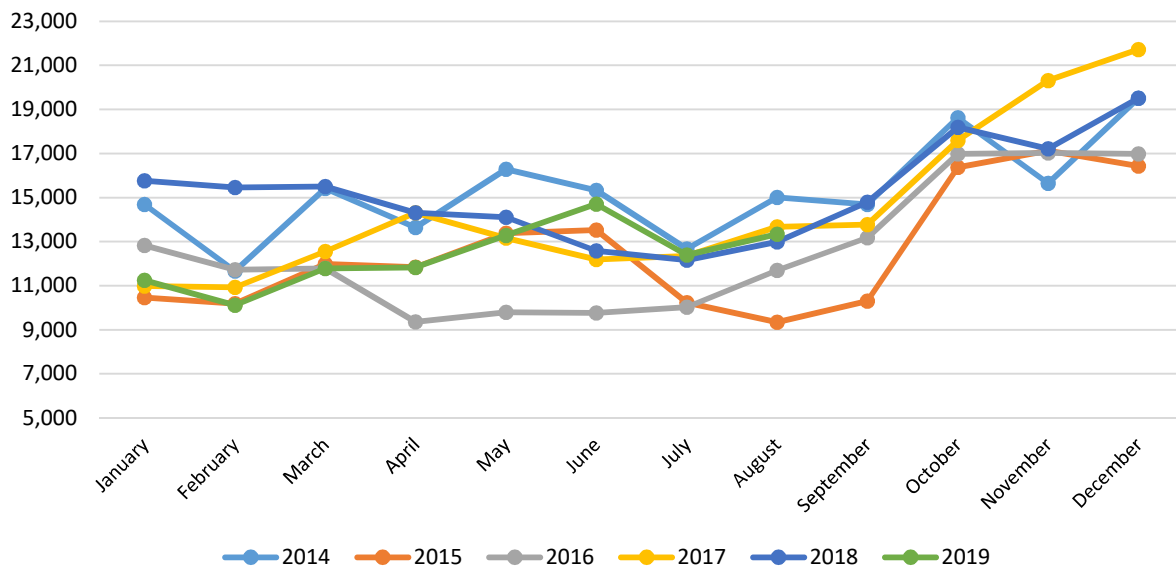
Official trade data for August was made available on Friday. Today we'll look quickly at beef trade and tomorrow we'll look at pork trade. US total beef exports were near expectations but as you can see below, they're a bit disappointing on a YOY basis in August.

US Total Beef Exports

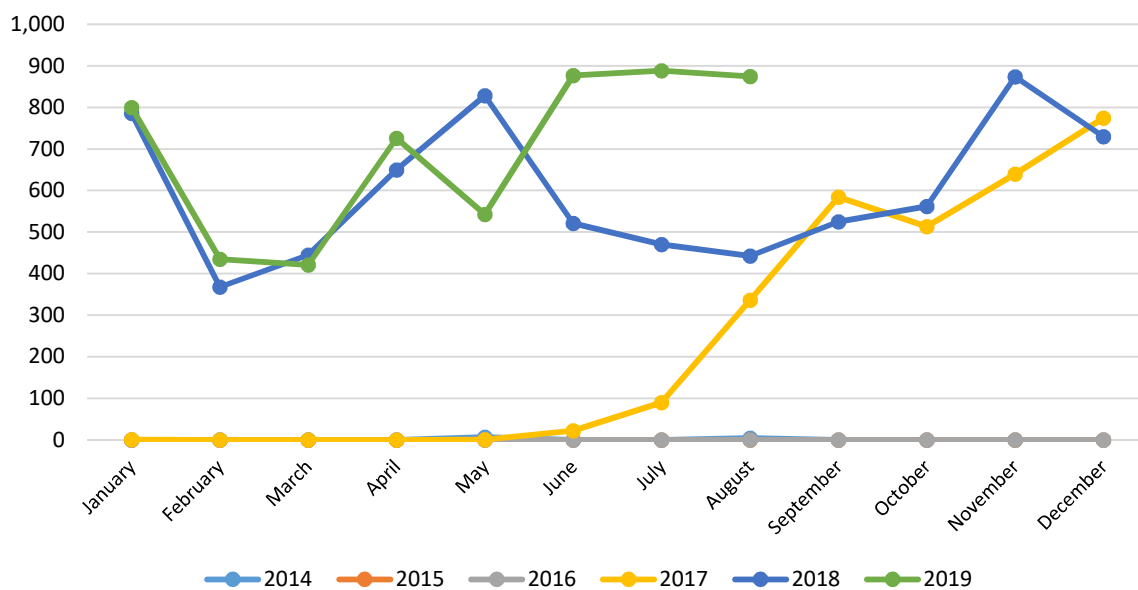


Beef exports to Hong Kong were certainly one area of disappointment, and I have to wonder if the ongoing unrest is going to have a long-term negative impact on demand there. You can see below that exports to the ASF-impacted region in Southeast Asia are only running slightly ahead of year ago levels. This is entirely due to strong YOY growth in exports to China, shown in the second chart.

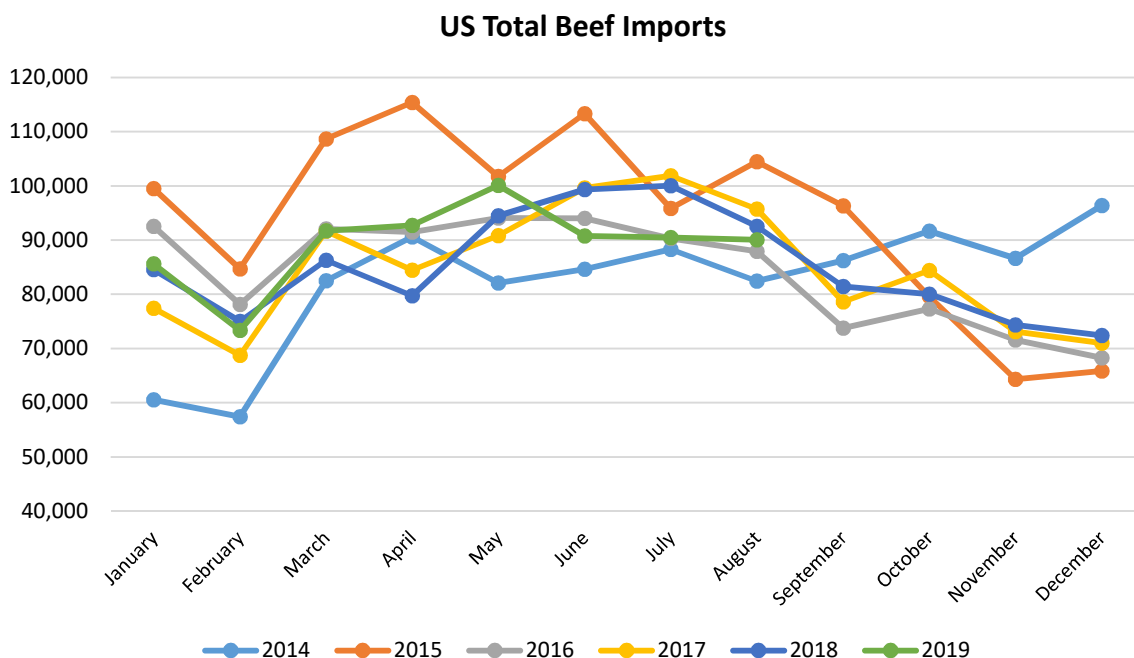
**US Beef Exports to the ASF-Region
 China, Hong Kong, Taiwan, Vietnam**



US Beef Exports to China



Total US imports of beef have been pretty steady over the past few months and under year ago levels. Imports from Australia and New Zealand continue to look a bit soft as that demand seems to be getting sucked up by Asian destinations.



Financials

By now you've seen the articles suggesting the Chinese delegation to the US this week will look to narrow the scope of negotiations. This initially pressured US equity futures overnight, but at the time of writing this morning futures have nearly crawled back to unchanged. I'm not exactly sure if there is something "new" I'm missing this morning that explains the comeback...I don't see anything that stands out right now. The headlines from over the weekend and overnight seem like the same thing we've been looking at for weeks if not months now. US-China negotiations, Brexit, whistle-blowers, etc. It's all the same stuff...nothing new this morning. There is virtually no important market-moving US economic data on tap today, so we'll be especially prone to bouncing around from headline to headline today.

Energy

Nothing new to report here either today. There is an article saying that Saudi and Iranian oil ministers held a meeting when they were recently in Moscow, which is a bit interesting considering the heightened tension between the two countries. Very few details are available on the meeting, other than the Iranian said insisting they had nothing to do with the attack. Otherwise, nothing significant to report.

Today's Calendar (all times Central)

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

Thanks for reading.

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