

Weather

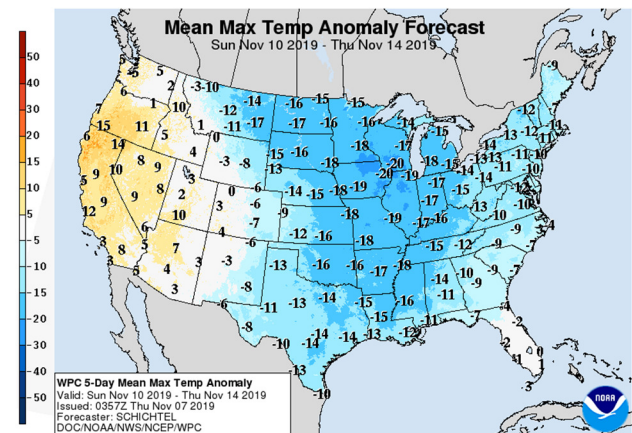
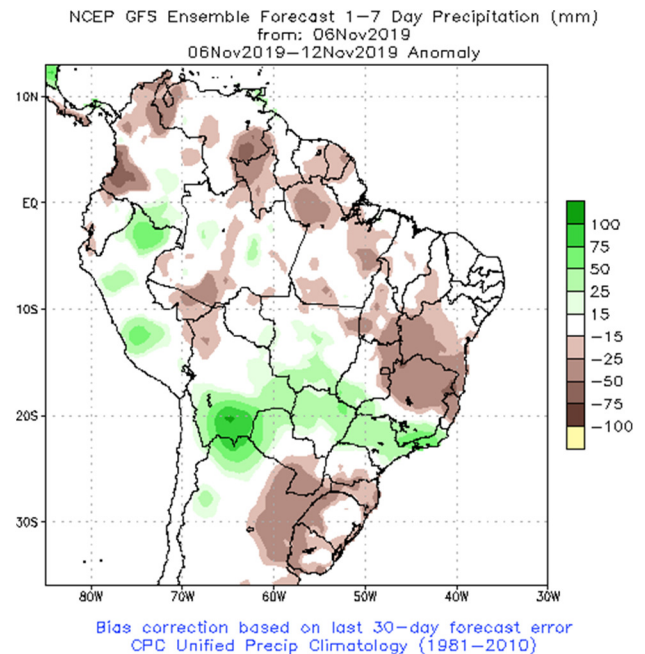
No changes to the forecast this morning. We're looking at mostly "normal" rainfall chances through northern Brazil over the next two weeks. The exception would be northeastern portions of the country where BN precipitation is still expected to be recorded. Rainfall coverage and amounts will gradually improve over the coming week but the best coverage and amounts will probably be the 11-5 day period. Southern Brazil will probably also see near normal rainfall in total over the next two weeks. The best rains will fall in the next 10 days before drying out a bit in the 11-15 day period. Look for temps to continue to run above normal for the next several days in central Brazil before moderating a bit in the 11-15 day period.

Argentina should see a mix of near to below normal rainfall over the next two weeks. There won't be any "big" rainfall events over that period but rather we'll see several smaller events add up to some near normal totals in some areas. The best rainfall chances probably look to happen during the 11-15 day period, where some decent amounts could add up in Cordoba and surrounding areas. We'll see some above normal temps through the region but nothing appears too extreme.

In the US we've got precipitation working through southern portions of the country and some of that will affect southern portions of the ECB. For the most part, however, the majority of the Corn Belt is looking at limited precipitation over the next week. Temps will be turning very cold in the days ahead. The map at the right shows the average max temperature anomaly during days 3-7 of the forecast. You can see in some portions of the country daily high temps will average 20F below normal during this period.

Crops

Today we're going to review possible balance sheet changes for corn, soybeans, and wheat. This won't take long...I really don't anticipate much change in WASDE demand projections this month. The market-moving numbers on Friday will be the corn and soybean production totals. The demand figures probably won't play a prominent role in our discussions on Friday. But, with that in mind, let's look at the balance sheets quickly this morning. For the sake of argument, I'm going to plug in the Bloomberg survey average guesses for corn and soybean production. As I have said earlier in the week, I do expect modest reductions in both corn and soybean yields. In the case of the Bloomberg guess on soybeans, I really have no argument against it. In the case of corn,



as I noted yesterday I'm torn as there are several indicators that actually point towards a *higher* yield estimate from NASS. I'm biased to fade those indicators, but even then I think the average guess on corn yield might prove to be too pessimistic. With that in mind, please note that the implied ending stocks figure shown for corn below might be too low as I'm simply plugging in the average guess.

Wheat-

We'll start here because this will be easy....I expect WASDE to change nothing in the US wheat balance sheet. If you recall last month they lowered F&R use due to the larger than expected quarterly stocks figure. They also cut export demand by 25 mil bu. I don't think there is any argument for further cuts to demand at this time. In the end their F&R estimate might still prove too high, but we'll see. No reason to expect them to change that tomorrow. There should be some changes to the world production figures worth noting tomorrow. Both Argentine and Australian production figures should probably be revised lower. Still, I don't expect those to impact the US numbers.

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

	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Oct	Possible? 19/20
Carryin (Sep 1)	752	976	1,181	1,099	1,080	1,080
Production	2,062	2,309	1,741	1,885	1,962	1,962
Imports	113	118	157	135	120	120
Total Supply	2,927	3,402	3,079	3,119	3,161	3,161
Food Use	957	949	964	955	960	960
Seed	67	61	63	59	68	68
Feed & Residual	152	156	51	90	140	140
Total Domestic	1,177	1,167	1,079	1,103	1,168	1,168
Exports	775	1,055	901	936	950	950
Total Use	1,952	2,222	1,980	2,046	2,118	2,118
Carryout (May 31)	976	1,181	1,099	1,080	1,043	1,043
Stocks/Use	50.0%	53.2%	55.5%	52.8%	49.2%	49.2%

Corn-

As I mentioned above, I'm simply going to plug in the average guess on production into the balance sheet below. I think it is probably too pessimistic...I think higher/lower corn yield vs. last month is basically a coin-flip. So just keep that in mind in the balance sheet below. Assuming we get the expected reduction in production, WASDE will need to offset that partially with a reduction in their F&R estimate. With the expected 175 mil bu reduction in demand, that would translate into something around a 40-50 mil bu reduction in F&R demand. You'll see I've penciled in a 50 mil bu reduction below. I think the ethanol grind will remain unchanged for now. Obviously production runs have been nothing to be excited about, but I think WASDE would be getting a little carried away to the downside too early in the year if they went further right now. We discussed export demand in Monday's comments. Based on the level of commitments one can make the argument for a +/-50 mil bu reduction in WASDE's export projection. However, I think I'm of the belief that WASDE will leave exports alone for now. A 1,900 mil bu export figure is already pretty darn low relative to the past several years. WASDE might be inclined to take a wait-and-see approach here for a few months. I actually think that approach would be prudent – I'm of the opinion that the worst of the corn demand is behind us and that export demand metrics for US corn should

start to improve going forward. That said, we're not quite to the point where that is seen in the data so a reduction (as described on Monday) cannot be ruled out.

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

	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Oct	Possible? 19/20
Yield	168.4	174.6	176.6	176.4	168.4	167.2
Carryin (Sep 1)	1,731	1,737	2,293	2,140	2,114	2,114
Production	13,602	15,148	14,609	14,420	13,779	13,604
Imports	67	57	36	28	50	50
Total Supply	15,401	16,942	16,939	16,588	15,944	15,768
Feed and Residual						
Total Feed and Residual	5,131	5,470	5,304	5,618	5,300	5,250
Food, Seed, and Industrial						
Corn for Ethanol Fuel	5,206	5,439	5,605	5,376	5,400	5,400
Other FSI	1,429	1,446	1,452	1,415	1,415	1,415
Total FSI	6,635	6,885	7,057	6,791	6,815	6,815
Total Domestic Use	11,766	12,355	12,361	12,409	12,115	12,065
Exports (Census)	1,898	2,294	2,438	2,065	1,900	1,900
Total Use	13,664	14,649	14,798	14,474	14,015	13,965
Carryout (Aug 31)	1,737	2,293	2,140	2,114	1,929	1,803
Stocks/Use	12.7%	15.7%	14.5%	14.6%	13.8%	12.9%

As you can see from the above, what I come up with for ending stocks using the average guess on production is inline with the average guess for ending stocks. Obviously if WASDE does decide to make a move on exports this month it could turn out higher. Also, as noted above, I think production might not be as low as shown but I have limited confidence.

Soybeans-

I don't have any major disagreement with the average guess on production as I am also expecting a modest lower revision on Friday. Elsewhere in the balance sheet I am expecting no changes. I'll admit I am torn on exports. As discussed in Monday's comments, based on the level of commitments alone you could certainly make the case that WASDE might lower their export figure. However, considering the strong starting pace of shipments so far this year and the fact that the US is fairly competitive in the world market – along with the fact that last year's exports were not too much lower than the current projection for this year – I think WASDE will simply punt on the issue for at least a month and will wait and see for additional information. For the crush projection, yes the marketing year crush is off to a slower start than last year but part of that is due to plants taking downtime so they can add capacity. I suppose there is some risk toward a slightly smaller crush number tomorrow, but I doubt they will make any "big" change. The bottom line is – changes to the demand side of the US balance sheet will probably be pretty minimal. Any big adjustments, if there are any, will come from production. You can see below the ending stocks figure I come up with using the average guess on production and leaving demand unchanged is fairly close to the average guess on ending stocks...so I'll have no major argument with that.

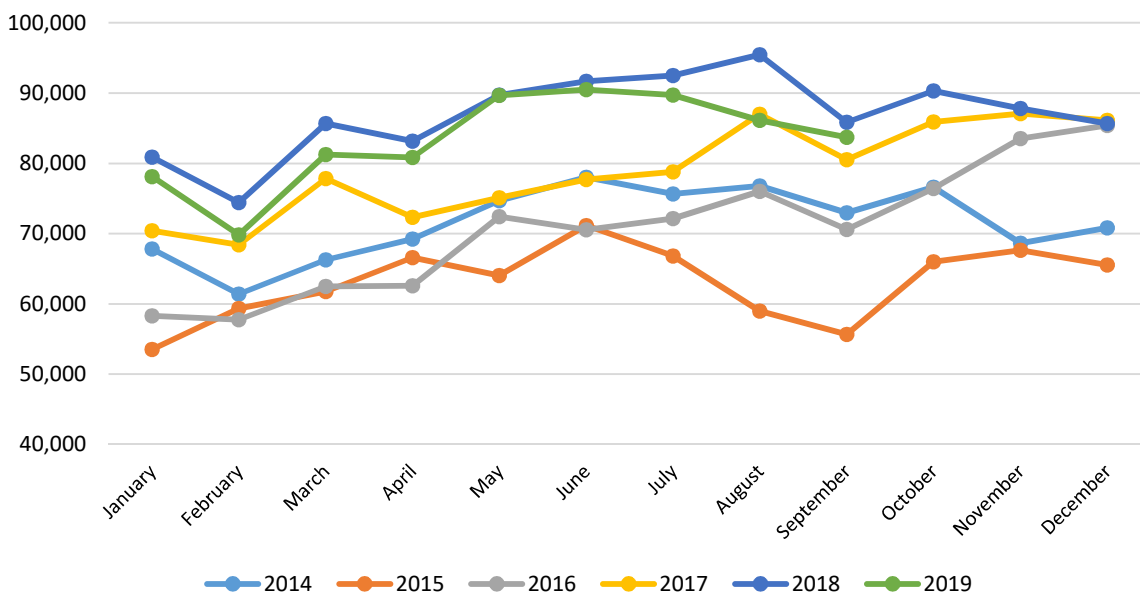
US Soybean Supply and Demand (Million Bushels/Million Acres)

	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Oct	Possible? 19/20
Yield	48.0	52.0	49.3	50.6	46.9	46.6
Carryin (Sep 1)	191	197	302	438	913	913
Production	3,926	4,296	4,412	4,428	3,550	3,513
Imports	24	22	22	14	20	20
Total Supply	4,140	4,515	4,735	4,880	4,483	4,446
Crush	1,886	1,899	2,055	2,092	2,120	2,120
Exports (Census)	1,936	2,174	2,134	1,748	1,775	1,775
Seed	97	105	104	89	96	96
Residual	24	36	5	39	32	32
Total Use	3,943	4,213	4,297	3,967	4,023	4,023
Carryout (Aug 31)	197	302	438	913	460	423
Stocks/Use	5.0%	7.2%	10.2%	23.0%	11.4%	10.5%

Livestock

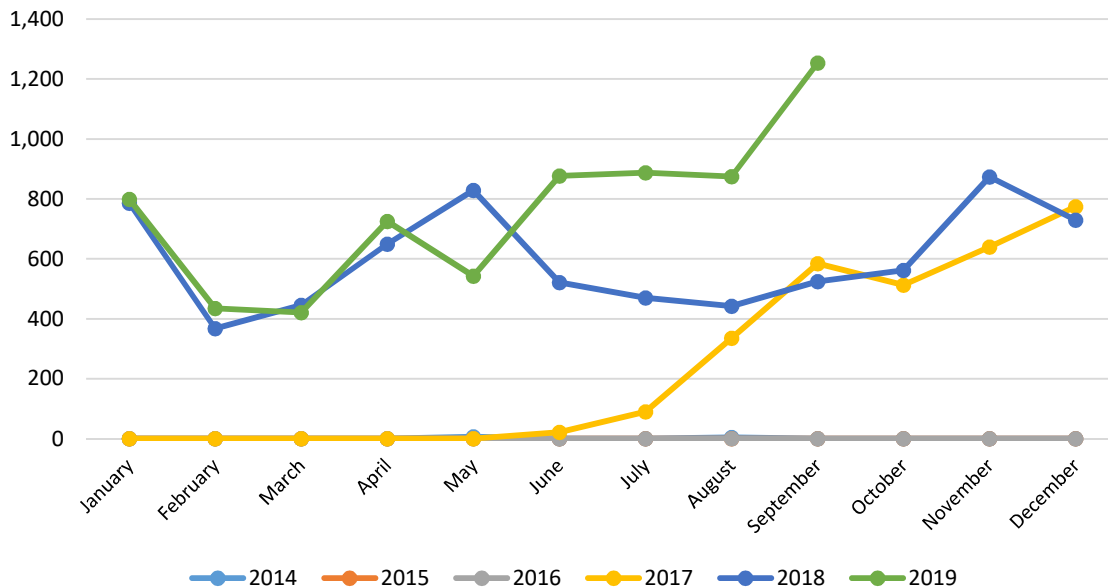
Official Census trade data for September was released earlier this week. Today we'll look at some of the beef numbers and tomorrow we'll look at the pork numbers. In just looking at the total beef export figure, there isn't anything there to get excited about. With the exception of the month of May, US beef exports have trailed year ago levels every month this year. Certainly nothing to get excited about.

US Total Beef Exports



However, there remains a solid bright spot in US beef export demand....China. The chart of beef exports to China is shown below, and you can see we smashed the prior record in September. I think it is worth noting that the trend towards higher exports to China started *before* ASF became a major problem. I am of the belief that the increase in demand for beef in China is more than just an ASF issue. Recall our discussion earlier this week on Brazilian beef exports – China is a major destination there as well. And China continues to soak up a lot of AU & NZ supplies (explaining why imported 90s are so expensive right now). Admittedly, the US beef export volume shown to China below isn't especially big. We are certainly not their preferred origin at the moment. Still, if Chinese demand sucks up supplies from other origins, that should still support US beef prices on the margin. It will reduce our imports and perhaps open doors into other export markets. Chinese beef demand might be THE story to watch in the next few years...thoughts appreciated.

US Beef Exports to China



Financials

We continue to bounce back and forth between trade headlines. This morning the headlines seem positive so the market is trading “risk-on”, with equity futures higher and bonds lower (and the other usual moves). This comes as reports indicate that both China and the US have agreed to roll back prior tariffs in phases once a “Phase 1” trade deal is signed. Admittedly this hasn't yet been confirmed by any high-ranking US official yet, so there is always a risk this headline could turn out to be another head-fake. Other than the trade news overnight, I don't see much new information to pass along. There is no major economic data on tap out of the US today. The BOE will announce a policy statement this morning but no change is expected to their rates. A few Fed officials will speak today. DIS will be among the companies to report earnings today.

Energy

I'm not sure I ever expected to report that the US held a positive trade balance for petroleum, but here we are. The official Census data for the month of September showed a positive trade balance for petroleum for the first

time in the data I have available (going back to the early 90s). The chart below goes back to 200. You can't really make it out on the chart, but the Sept trade balance for petroleum (and petroleum products) is a very, very small net positive. That is a huge fundamental shift from just a few years ago. It is no longer far-fetched to consider the US could become a consistent net exporter, and the ramifications of that development will be hugely important to financial markets and geopolitics.

US Trade Balance - Petroleum & Petroleum Products



Today's Calendar (all times Central)

- Export Sales – 7:30am
- EIA Natural Gas Storage – 9:30am

Thanks for reading.

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