

Weather

Rainfall in northern Brazil over the next two weeks should average near normal with amounts ranging from 2-5" with some locally heavier totals possible. The rains will be lightest in Week 1 of the forecast, averaging well below normal. In Week 2 of the period, we should see rainfall amounts pick up on a widespread basis. Above normal temps should be seen over the next week with cooler temps arriving as rainfall improves.

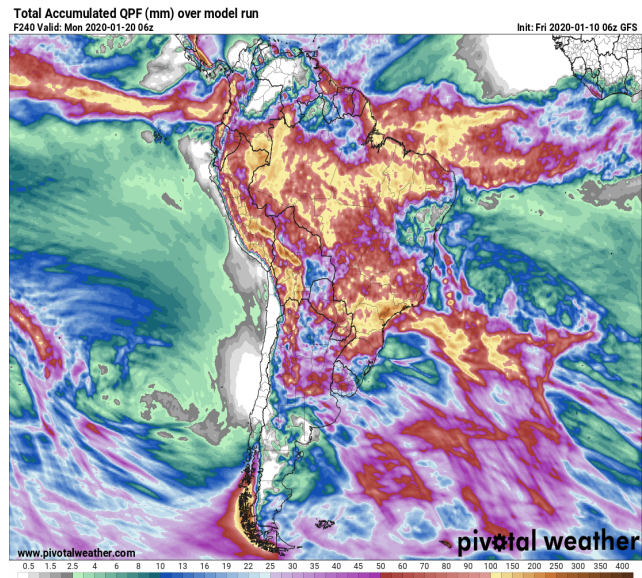
Southern Brazil should see near to slightly above normal rainfall totals over the next two weeks with amounts ranging from 3-5". Good rains will return to RGDS this morning and most of southern Brazil should see a daily threat of rainfall through Jan 16. Rainfall will then diminish after that. Temps should average near normal now that rainfall chances will be improving.

Argentine rainfall totals look like they should average near normal over the next two weeks. Northern areas could see somewhat above normal amounts with 2-3" possible while southern areas could see somewhat below normal amounts with 1-2" possible. Note those rains in southern areas is actually a modest increase vs. the forecast from earlier in the week. Heat never looks to be a major issue during the next two weeks.

Crops

We've spent the past week or so reviewing expectation for the various USDA reports. At this point there is little else for me to say. If you haven't read all of the reports, I'd at least encourage you to review yesterday's rundown on balance sheets. I won't spend too much time reviewing all of that today, but I do simply want to hammer-home one key thought. The truth is – none of us have any clue of what to expect on the production numbers. We all have our individual best guesses but that's all they are – guesses. What I spent most of my time on this week was reviewing the demand figures and, more importantly, the pace of demand relative to WASDE's prior estimates. In my opinion, as detailed yesterday, the market has lost sight of the very poor pace of demand for both corn and soybeans to this point in the year. Expectations for ending stocks are essentially taking the same demand figures as we saw last month with the expected reduction in production for both crops. It seems the market thinks WASDE will simply punt on changing demand figures, or I've seen others suggest the looming Phase 1 trade deal could lead to *increases* in production. I strongly disagree.

It was brought to my attention late yesterday that a USDA official was asked a question on whether the Phase 1 deal would be factored into the estimates given today. Here is the direct quote, which I've pulled from a USDA website (email me if you want the link): *"We still don't know many of the details about what is in that agreement. So there is not a lot that we can do in our analysis to incorporate any expectations for what that deal would imply for agriculture. But even if we knew those details, the fact is, the way we do our work is, we don't count any trade deal until the ink is dry"*.



So one key takeaway is that the trade deal won't be in effect for today's report so it is not technically part of their analysis anyway. Secondly, the specific commodity purchase levels won't be released ever (they're "classified"), so I'm not sure how WASDE is ever going to incorporate some sort of "blanket" assumption for the trade deal in their numbers. I expect WASDE to do what they've always done. Make assumptions on the base level of demand for certain destinations and follow along with the pace of export commitments for their projections on US exports.

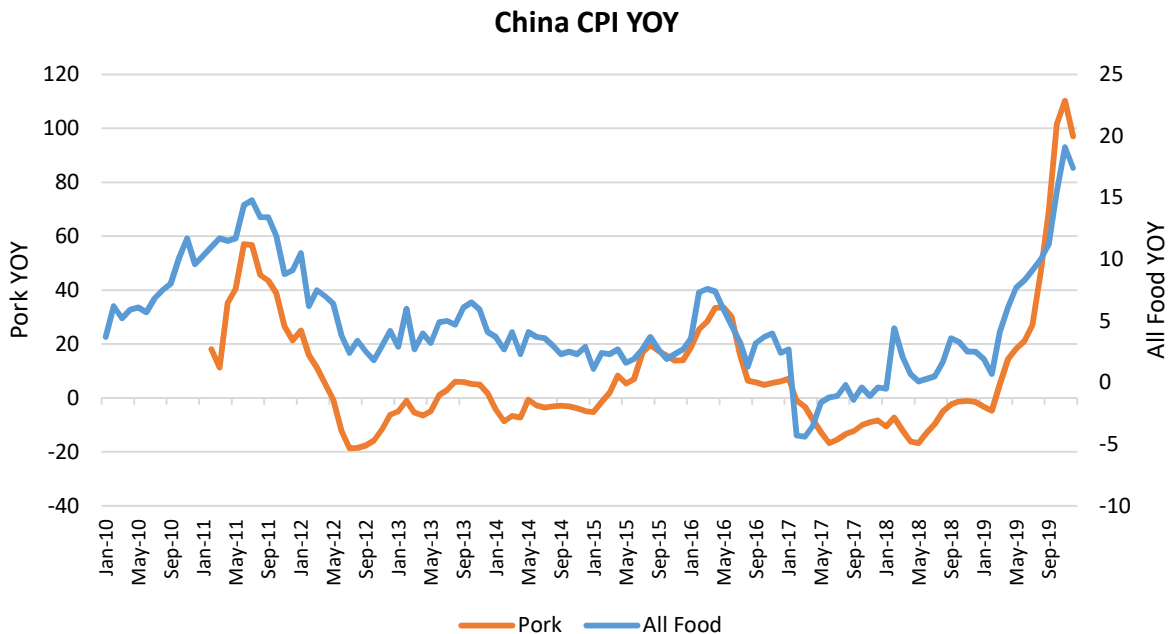
Assuming that will be their procedure today, the pace of export commitments for both corn and soybeans is uninspiring and, in my opinion, warrant a reduction for both. I don't know if WASDE will feel the same, but I'll reiterate my comments from yesterday that if the market is guessing correctly on production then I think there is upside risk to ending stocks for both corn and soybeans.

As an aside I'd also take the over on winter wheat ending stocks as I think WASDE's F&R projection will prove overstated. See yesterday's comments for details on that call.

We'll see what happens. Good luck to all today. Any thoughts appreciated.

Livestock

China released December inflation statistics yesterday, and I thought it might be worth a quick look at what the numbers showed this morning. Total food CPI was +17.4% YOY, but that is slightly better than the +19.1% YOY posted for the month of November. Pork-only CPI in December was +97% YOY, also slightly better than the prior two months which had both posted +100% and higher YOY inflation levels. One thing to keep in mind when looking at YOY CPI comparisons going forward is that the "base effects" will start to work against high YOY readings by the spring. Note the chart below. Pork inflation levels really started taking off in March last year. That might mean our YOY comparisons start looking less impressive perhaps starting in Q2 this year?



Financials

The big-ticket item on tap today is the NFP release. After Wednesday’s strong ADP release, expectations are high for today’s report. The median guess on the Bloomberg survey calls for +160k jobs. There is still a good bit of uncertainty in regards to this month’s report, however. Remember the prior two months’ reports were both significantly impacted by the GM strike. In October NFP were low (+156k) and in November the resolution to the strike caused NFP to surge (+266k). That sort of month-to-month volatility does create some uncertainty in trying to determine what to expect in a “normal” month of December. The average during the course of 2019 (Jan-Nov) has been roughly +180k, so it would seem the median estimate as noted is coming in a bit pessimistic. Considering the strong ADP release earlier this week, it makes sense that the market is probably leaning towards the over in regards to today’s release. Then again, Bloomberg’s “Employment Scorecard” as shown to the right doesn’t inspire a huge degree of confidence. By the way, this will mark the 111 consecutive month of uninterrupted job growth (unless, of course, we get a HUGE shock – very doubtful). Expectations call for the unemployment rate to remain unchanged at 3.5%. Average hourly earnings are expected at +3.1% YOY, which would match what was seen last month.

December Employment Scorecard Looks Ominous

	Dec-19	Nov-19	Q3 Average	Latest Move
Nonfarm Payrolls, (thous.)	?	266	193	
Unemployment (U-3), %	?	3.5	3.6	
Labor Force Participation Rate, %	?	63.2	63.1	
Initial Claims, (thous.)	234	216	214	Worse
Continuing Claims, (thous.)	1745	1680	1682	Worse
Insured Unemployment Rate, %	1.2	1.2	1.2	Same
ADP Private Payrolls, (thous.)	202	124	142	Better
ISM Manufacturing Employment	45.1	46.6	48.5	Worse
ISM Non-Manufacturing Employment	55.2	55.5	53.2	Worse
N.Y. Fed Empire Employment	10.4	10.4	-0.5	Same
Philadelphia Fed Employment	16.8	19.7	17.0	Worse
Conference Board "Jobs Plentiful"	47.0	44.0	46.8	Better
Conference Board "Jobs Hard to Get"	13.1	12.4	11.8	Worse
NFIB Small Business Hiring Plans	N/A	21.0	19.3	N/A

Energy

Not much to say this morning. There doesn’t seem to be any new information to pass along. The oil market of course is still reeling from the de-escalation with Iran. This is likely to be the worst weekly performance for WTI since November. I guess one lingering issue of interest from the Iranian saga this week will be what fallout happens from the downed passenger plane. Everyone but Iran seems to agree it was accidentally shot down by an Iranian missile. A lot of Canadians died on that plane...is there anything Canada or the rest of the world is interested in doing about it?

Today’s Calendar (all times Central)

- NFP – 7:30am
- Export Sales – 7:30am
- WASDE, Crop Production, Quarterly Stocks – 11:00am

Thanks for reading.
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