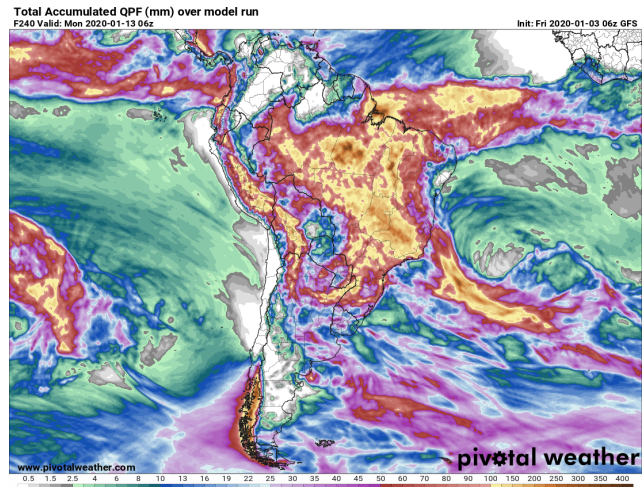


Weather

No major changes to the forecast. Near normal rainfall in northern Brazil over the next two weeks. Very good rains expected in the 1-5 day period before drier conditions develop for the 6-10 and 11-15 day period. In southern Brazil, we should see another week or so of largely dry weather, but forecast models remain very consistent in calling for a return of big rains in Week 2. Near normal rainfall expected in Argentina over the next two weeks. No major heat expected either. Map at the right shows the GFS's 10-day precipitation forecast.

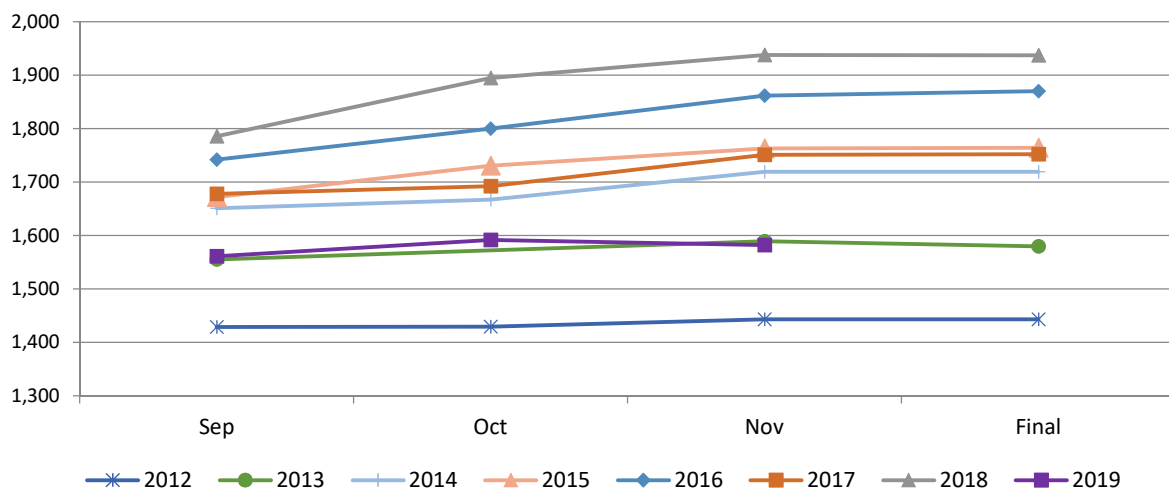


Crops

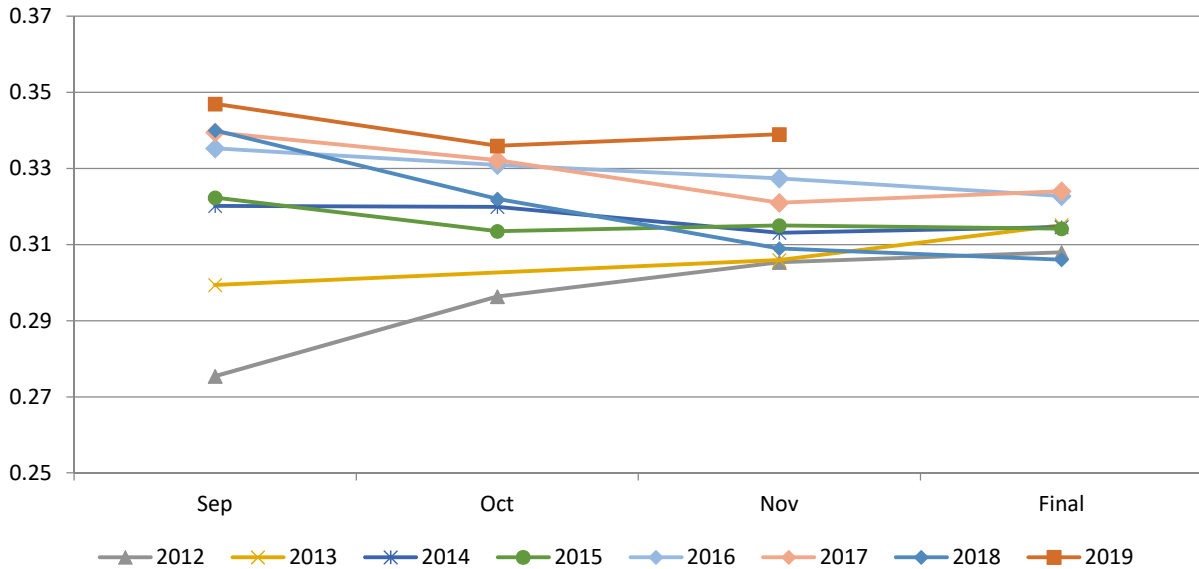
Today we'll quickly explore some thoughts on soybean yield/production for next week's NASS deluge of information. As was the case with yesterday's corn commentary, I will admit upfront that I don't have a ton of new information to share here that hasn't been discussed before. And with that in mind, I can't claim to have a ton of confidence in the outlook. Still, hopefully this will reframe our thought process going into next week and, as always, if you have any thoughts or comments please share.

Let's look back quickly at what NASS gave us in November. We noted in corn yesterday that NASS didn't really move the needle much with their November yield estimate. In soybeans they kept the yield unchanged (46.9 bpa, the same as the October estimate) but in doing so they raised a lot of questions in regards to their objective yield data. As shown below, in the November report NASS actually *lowered* their pod counts vs. the October report. You can see that a reduction in pod counts at that point in time is *highly unusual*. In order to keep the yield unchanged from Oct to Nov, NASS obviously had to increase their pod weight in Nov. You can see in the second chart that a move higher in pod weight from Oct to Nov isn't unprecedented, but it is somewhat rare.

NASS 11-State Soybean Pod Count Progression

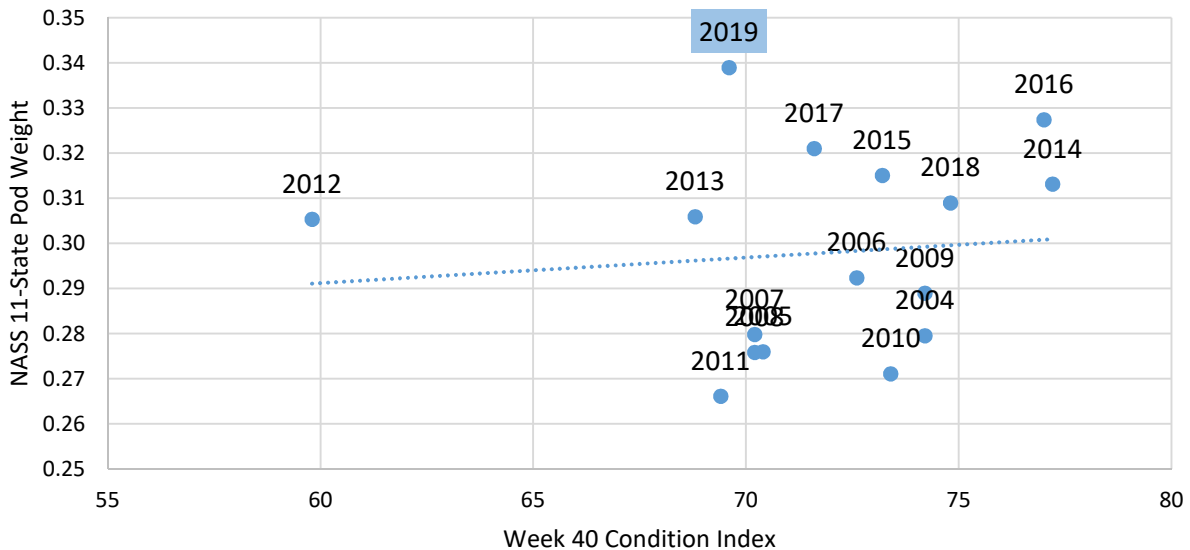


NASS 11-State Pod Weight Progression



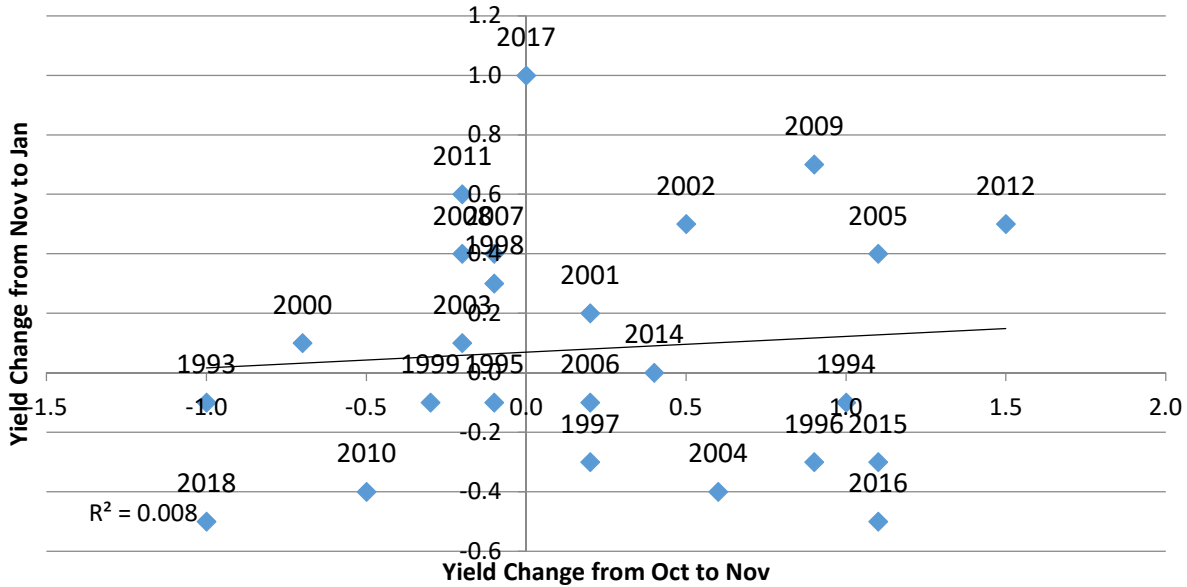
What makes the pod weight stand out even more is its comparison against condition ratings. A look at November pod weights vs. Week 40 condition is shown below. There is no argument that pod weights have been trending higher in the past several years, but the 2019 figure highlighted below certainly would look a bit generous. That being said, NASS certainly has some reason for going this high in November... can I really suggest they're wrong?

Soybean Condition Index vs. Pod Weight (November)

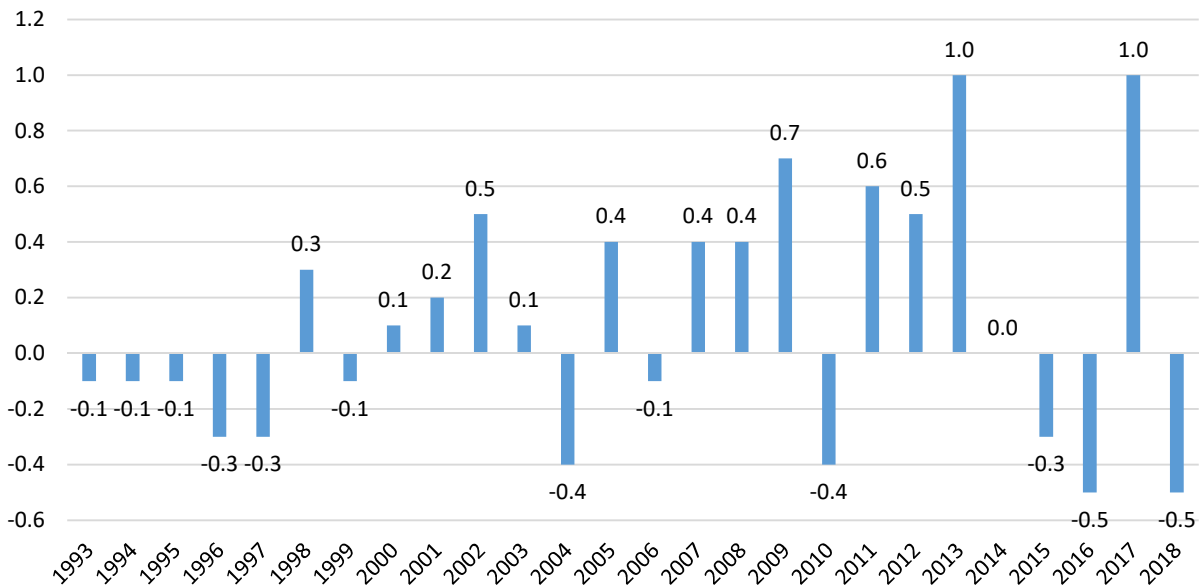


As was the case in corn yesterday, there is zero tendency for NASS to follow through in the same direction in January as they did with the Nov report. You can also see in the second chart below that there is no real tendency for NASS to favor higher or lower in January. There are clearly more cases in the past 20 years where yields were higher, but four out of the past five years have seen yields unchanged or lower.

**National Average Soybean Yield Change
 Oct-Nov vs. Nov-Jan**



Soybean Yield Change Jan vs. Nov

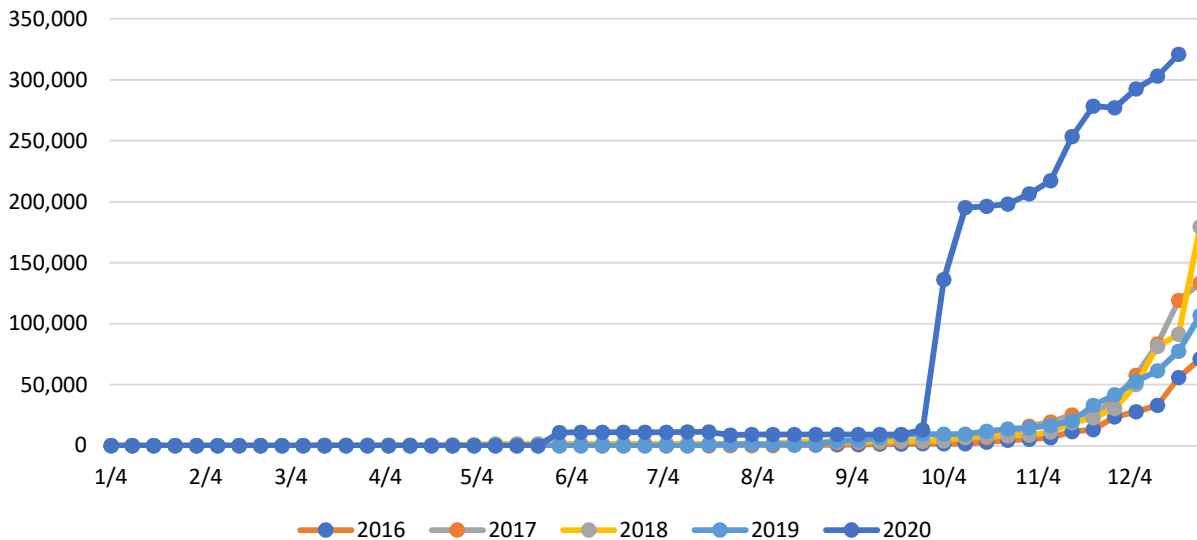


I hate to admit it, but none of the above is especially helpful in trying to guess what direction NASS might lean next week. Gun to head, I'll lean toward a slightly smaller yield but anything from +0.5 bpa to -0.5 bpa wouldn't surprise me. I do believe that it is likely that we will see another revision lower to harvested area, so I favor odds that the crop will come in something smaller than it was shown in November. At the end of the day, however, I'm doubtful that any change in production next week will be big enough spark major changes to our overall bias to prices – whether you're bullish or bearish.

Livestock

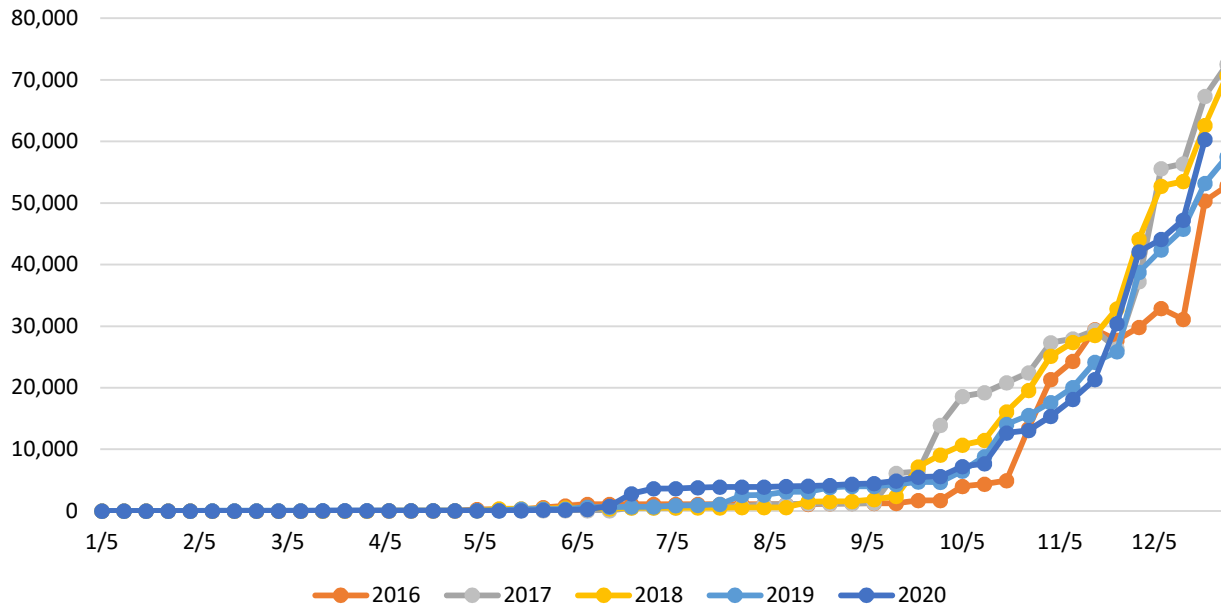
Export sales numbers will be released this morning, delayed due to the holiday. I thought I'd take a quick look at current 2020 sales on the books this morning as we look ahead to the New Year. In the case of pork, unfortunately, this exercise is largely worthless. You can see in the chart below that current 2020 export sales on the books dwarf recent years by a huge margin. Naturally the bulls will want to point to this and exclaim how big export demand is as a result of ASF in China and surrounding countries. There is of course some truth to that, but the fact of the matter is that FAS has started counting export sales "better" starting in 2019. This means we can't really be sure how much of the divergence against prior years is "new" demand and how much is simply a matter of sales being captured in the new system that were not captured before.

Pork - NMY Outstanding Sales



Presumably we could suppose that the changes that FAS has made in its collection process could impact beef sales as well, but it is hard to spot any meaningful difference in the numbers. The chart below shows NMY sales for beef and you can see that sales for 2020 do not stand out much vs. prior years. Yes, sales are higher than year ago levels for 2019 but we're running behind both 2017 and 2018 for now (pending new information).

Beef - NMY Outstanding Sales



It should be noted that both pork and beef show above average levels of 2019 outstanding sales remaining, so whatever was not shipped in 2019 will roll forward to 2020. That is not reflected in the charts above. Again in the case of pork, it is hard to know how much of the 2019 sales growth is simply due to the better FAS collection process vs. sharply stronger demand.

Financials

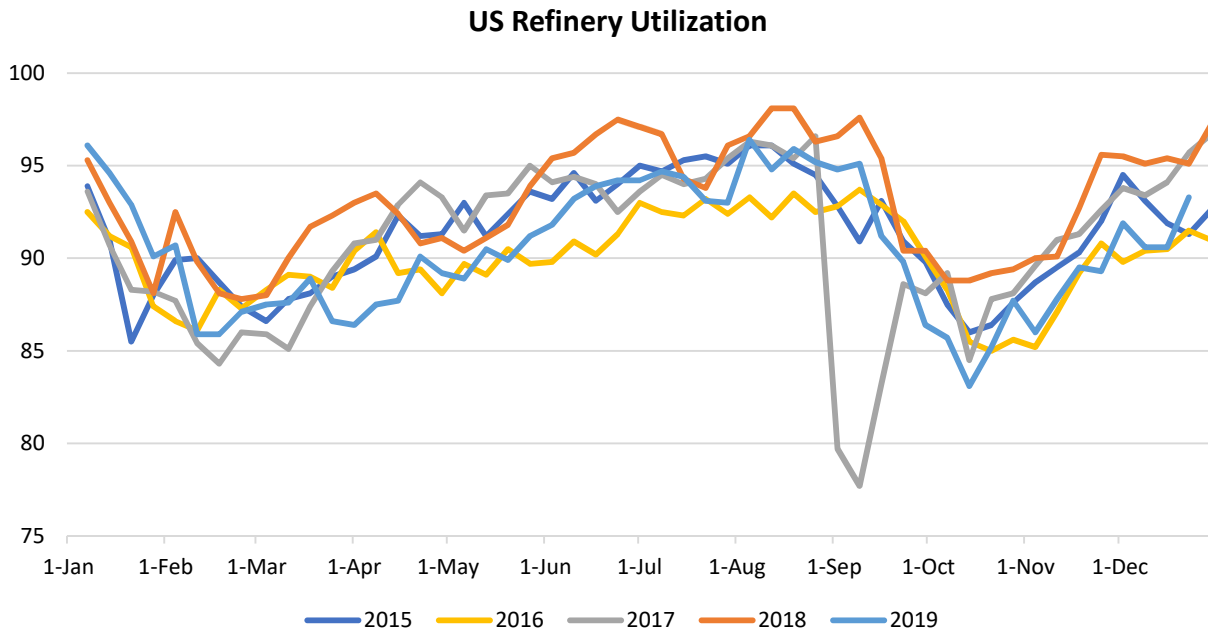
I’m sure by now you’ve seen the headlines. The US issued a strike within Iraq on one of Iran’s top military commanders. Iran has threatened “severe retaliation” in response. This has abruptly ended, for now, the risk-on sentiment we experienced to start the year. “Haven” assets are surging, such as gold, Treasuries, and JY. I guess we just have to wait and see just how worried the market wants to get about this situation. Recall after the attacks in Saudi Arabia the concerns lasted for just a few days. This time might be completely different, or it might not be. One thing to perhaps keep your eye on....if the ES finishes the week down at current levels, it would post a key reversal on the weekly chart. I’ve grown not to trust reversals these days, but still something to consider...

On tap this morning we have the ISM manufacturing index update. This could be a major factor influencing price action today, though obviously the Middle East tensions are the bigger story as of now. Last month’s ISM manufacturing reading of 48.1 was weaker than expected and it was near the lowest level of 2019 and since the GFC. This month expectations call for the index to improve slightly to 49.0. While that improvement would certainly be welcomed, it would remain under the 50 level, thus indicating contraction in the sector. A significant surprise, either up or down, would likely be a big influence on price action and sentiment today.

Later this afternoon we'll get the minutes from the last FOMC meeting. I don't expect anything major to come from this release, but this allows for a good opportunity to discuss the chances on the FOMC for 2020. As you know, the FOMC is made up of several permanent voting members, such as the Chair (Powell) and the NY Fed's President for examples. Other voting members rotate on and off each calendar year. With the start of 2020, we have some interesting adjustments to account for. Of note, both KC Pres Esther George and Boston Pres Eric Rosengren will be rolling *off* the voting committee for 2020. **This is important as these two both dissented against all three rate cuts in 2019.** Uber-dove STL Pres James Bullard is also rolling off this year, but he will essentially be replaced by uber-dove Minny Pres Neel Kashkari. The bottom line to me is that this year's voting membership of the FOMC, on the margin, will be modestly more dovish than what we saw last year. Admittedly, I think most will still fall inline with Chair Powell's direction but I still think this is worth considering.

Energy

I was flipping through some charts on US energy-related items yesterday, and the chart below was something I thought would be worth pointing out quickly this morning. This obviously shows the EIA's estimated refinery utilization rate over the past several years. What might not be obvious from just glancing at the chart is that last year's utilization rate was the lowest since 2016. In 2019 the average utilization rate was roughly 90.6% vs 93.1% in 2018. Even with that drop in the utilization rate it seems like we could finish 2019 with some of the largest motor gasoline inventories of the past several years...though that still depends on what the EIA report shows later today. The latest expectations call for a 2 million barrel build in gasoline stocks. Crude oil stocks are expected to decline by roughly 3 million barrels.



Today's Calendar (all times Central)

- Export Sales – 7:30am
- ISM Manufacturing Index – 9:00am

- EIA Natural Gas Storage – 9:30am
- EIA Petroleum Inventories – 10:00am
- FOMC Minutes – 1:00pm

Thanks for reading.

David Zelinski

dzelinski@nesvick.com

901-766-4684

Trillian IM: dzelinski@nesvick.com

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