

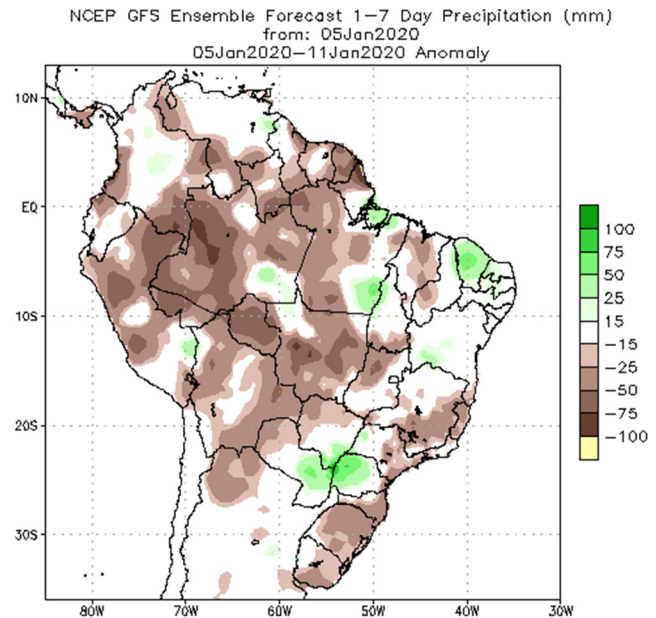
Weather

No major changes to the forecast over the weekend. Northern Brazil is looking at mostly near to slightly below normal rainfall over the next two weeks. Rainfall totals over this period should range from 2.5-5.0". The 6-10 day period is when the lightest rainfall totals are expected, with good amounts seen in both days 1-5 and 11-15. Temps should average near to above normal.

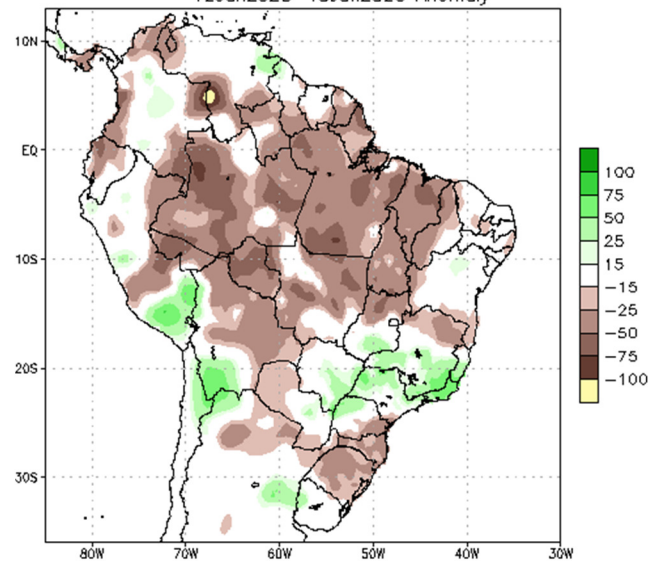
Southern Brazil should see near to above normal rainfall over the next two weeks with amounts ranging from 3-5" during that period. Some locally heavier amounts might be seen in parts of southern MGDS and Parana. We'll see dry conditions in RGDS through Thursday before rainfall chances move in and persist through the end of the two week period. Temps should average slightly above normal, with some big heat possible in RGDS in the next few days before the rains arrive. Some 95-100F readings will be possible during that period, but cooler of course as rains return.

Rainfall in Argentina should average near to slightly below normal over the next two weeks. Two week rainfall totals should range from 2-3". We've seen very good rainfall totals over the weekend, but that activity is weakening now. Dry weather should return today and last through mid-week before some rains return later in the week. There is some disagreement on the 11-15 day period, with the GFS being dry and the Euro showing some precipitation chances. No major heat is expected to be a factor during the next two weeks, with especially cool conditions expected in the next few days.

In the US we should see a big temperature contrast set up with warm condition in the southeast and cool conditions in the northwest. This temperature contrast should set up an excellent opportunity for big precipitation, and the bullseye for this will be the Mid-South and surrounding areas. In the key cattle feedlot areas very limited precipitation is expected to fall over the next week or more.



Bias correction based on last 30-day forecast error
CPC Unified Precip Climatology (1981-2010)
NCEP GFS Ensemble Forecast 8-14 Day Precipitation (mm)
from: 05Jan2020
12Jan2020-18Jan2020 Anomaly



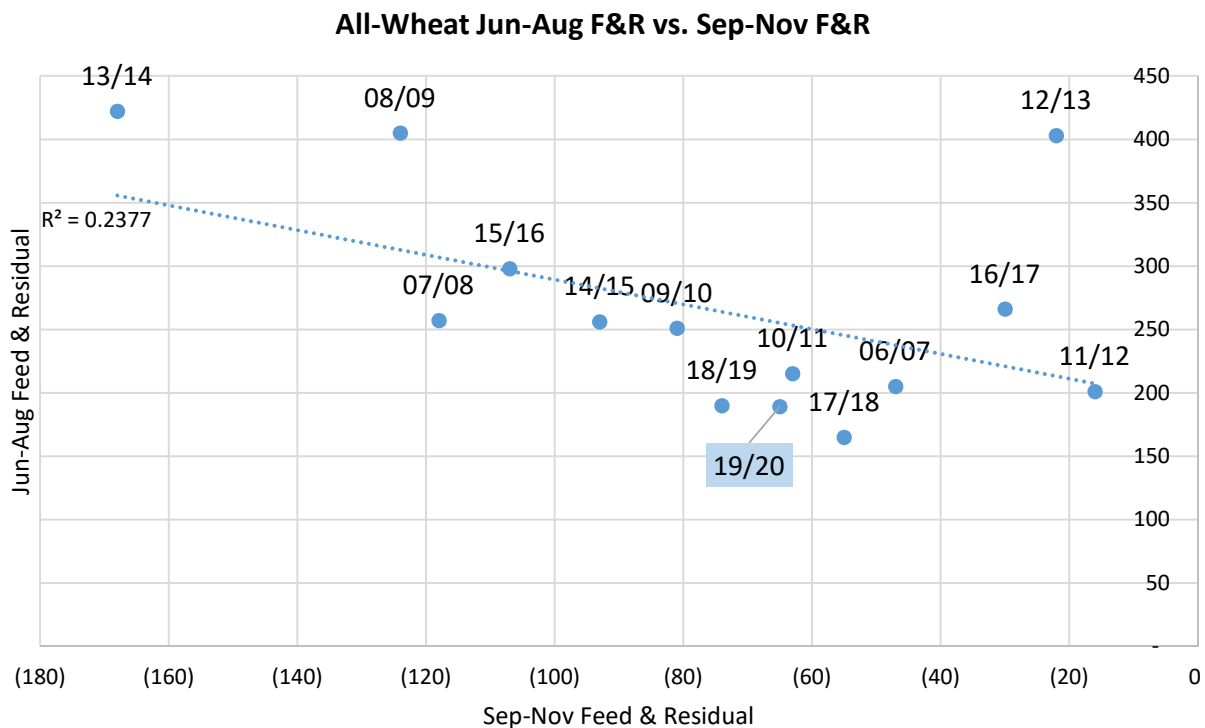
Bias correction based on past 30-day forecast error
CPC Unified Precip Climatology (1981-2010)

Crops

We'll take a quick look at prospects for wheat quarterly stocks this morning. I'll admit I'm a bit frustrated I haven't seen any newswire guesses for this Friday's reports yet. Those are fairly helpful in gauging whether I'm close vs. expectations or if maybe I'm "off" on something. If necessary, we can review today's stuff later in the week if we need to reframe our expectations.

The quarterly stocks for wheat have fewer moving pieces than corn or soybeans this month. For starters, we're obviously not looking at any old crop production changes for wheat. Additionally, food and seed use are both pretty consistent each year so those are unlikely to post any significant surprises. Exports and imports are always a bit of a guess since we don't yet have November Census numbers, but we should be able to get pretty close.

As for feed and residual, we can see below there is a "decent" relationship between Q1 F&R and Q2. Usually, the larger the Q1 F&R then the smaller (more negative) Q2 F&R. There are some notable exceptions, but usually there are specific circumstances that account for those issues. In the chart below, you'll see I've plugged in a 19/20 figure.



And below you'll see my breakdown for the quarterly all-wheat balance sheet with my guesstimate on residual penciled in. Again, I wish I had some sort of other estimates to compare this to. I might potentially be miles off the market if I'm forgetting about something. Please ping me if you think so, and I'll be sure to review this later in the week if necessary.

US All-Wheat Quarterly Supply and Demand										
	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Carryin (Sep 1)	976	863	743	718	590	752	976	1,181	1,099	1,080
Production	2,163	1,993	2,252	2,135	2,026	2,062	2,309	1,741	1,885	1,920
Jun-Aug Imports	27	21	26	36	44	27	33	42	41	23
Total Supply	3,166	2,877	3,020	2,889	2,660	2,841	3,318	2,962	3,025	3,023
Jun-Aug										
Food	235	230	238	235	239	240	238	239	239	238
Seed	1	5	1	4	6	1	1	1	2	2
Feed & Residual	215	201	403	422	256	298	266	165	190	189
Exports	266	295	264	358	253	205	268	292	205	250
Total Use	717	730	905	1,019	754	744	773	697	635	679
Stocks (Sep 1)	2,450	2,147	2,115	1,870	1,907	2,097	2,545	2,267	2,390	2,344
Sep-Nov										
Imports	24	32	33	48	35	27	29	36	31	23
Food	242	244	247	249	248	249	245	251	247	250
Seed	51	51	55	53	49	44	41	40	37	40
Feed & Residual	(63)	(16)	(22)	(168)	(93)	(107)	(30)	(55)	(74)	(65)
Exports	311	238	198	309	208	192	239	194	203	236
Total Use	540	516	477	443	412	378	495	430	412	461
Stocks (Dec 1)	1,933	1,663	1,671	1,475	1,530	1,746	2,079	1,874	2,009	1,883

While we're discussing wheat this morning, let's look very quickly at planted area guesses. Again, I'm bummed we don't have the expectations yet released but as you can see below there is a very strong historical tendency for wheat area to fall below expectations in the January report. Winter wheat planted area seems to shrink year after year, so you have to wonder when we might reach a "rock bottom" level...but we sure don't seem to be there yet. I should also point out that there is a general tendency for the March Prospective Plantings report to show slightly larger winter wheat area than we get in this month's report, but the difference typically isn't very big. While I don't yet have the guesses for this week's report, the breakdown at the right would certainly imply that we should bet the under or at the very least not expect something substantially larger than expected.

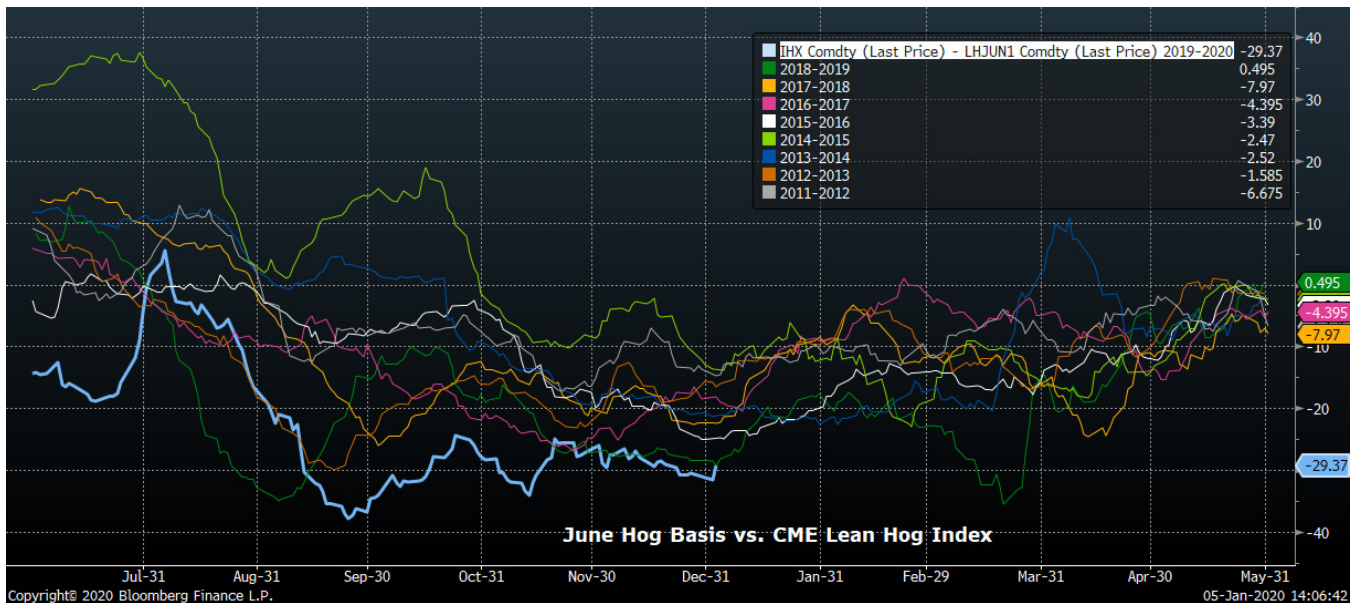
January Winter Wheat vs. Expectations

	Actual	Expected	Miss
2007	44.1	44.2	(0.1)
2008	46.6	48.6	(2.0)
2009	42.1	44.2	(2.1)
2010	37.1	40.9	(3.8)
2011	41.0	40.9	0.0
2012	41.9	40.9	1.0
2013	41.8	42.6	(0.8)
2014	41.9	43.5	(1.6)
2015	40.5	42.6	(2.1)
2016	36.6	39.3	(2.7)
2017	32.4	34.4	(2.0)
2018	32.6	31.5	1.1
2019	31.3	32.0	(0.7)

Livestock

At some point last week we looked at hog basis, comparing the spot Feb contract vs. the CME lean hog index. It dawned on me over the weekend it might be worth looking at the basis on the deferred contracts as well considering they hold such a big premium over the cash index at the moment. A historical look at June basis is shown below, and I was actually surprised to see that the basis isn't *that* far out of whack vs. historical norms. Yes, it is definitely

near its widest level in the past several years, but it is not obscenely low compared to other years. It is actually right inline with what was in place at this point last year. While this still means the cash market has a lot of work to do in justifying the board's premium, it still does argue for putting any length you desire in the deferred contracts rather than the nearyby.

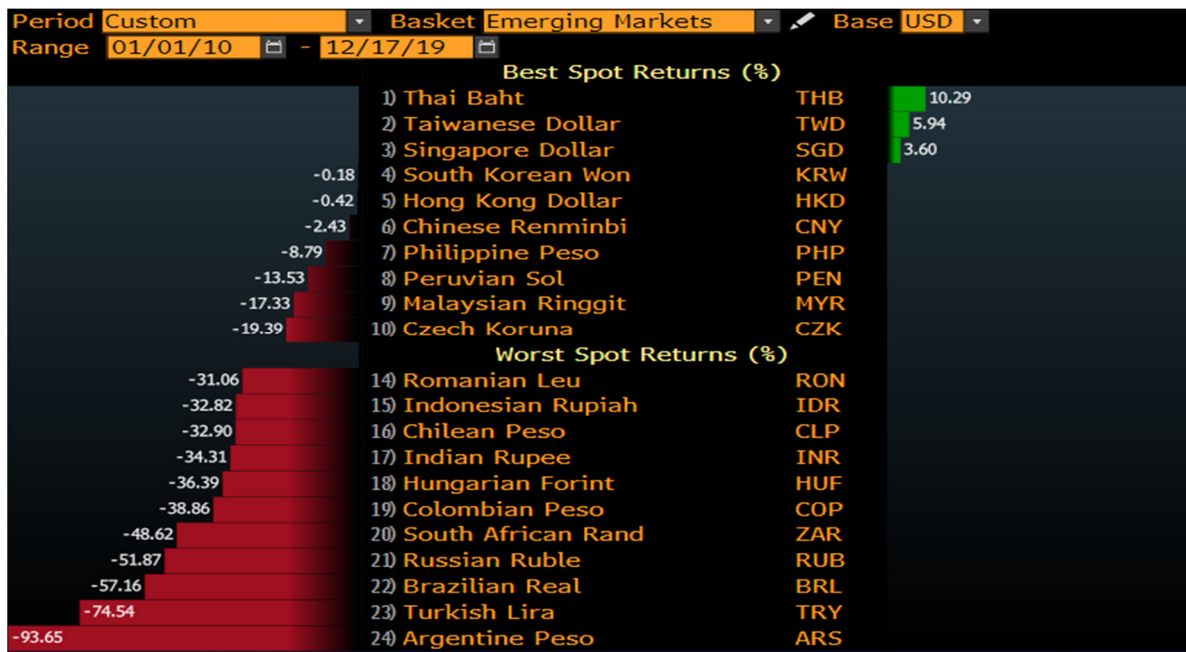


Financials

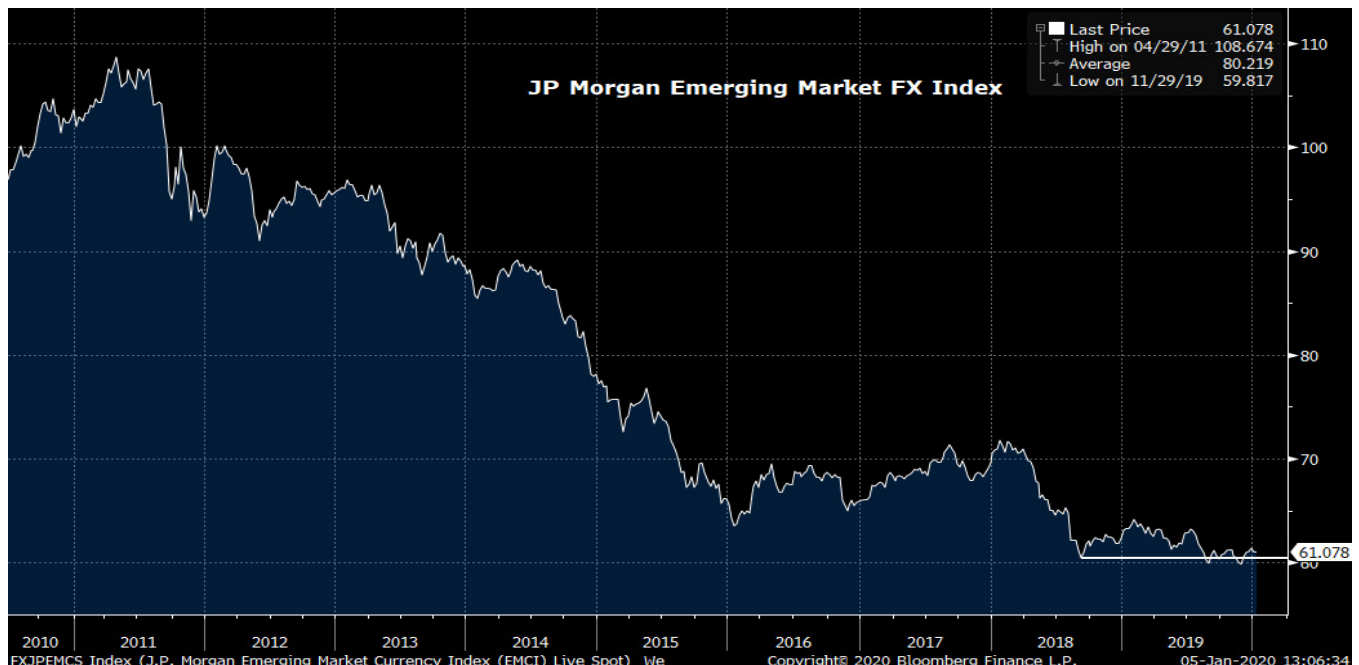
No major new information to pass along this morning. Of course we still have a lot of tension regarding the situation in the Middle East. There were a few more airstrikes through Iraq over the weekend. Meanwhile, Iran continues their period of mourning. IF Iran truly wanted to strike back at US targets, it is still not likely to happen until at least tomorrow after the period of mourning ends. Iran has said they will no longer comply with the 2015 nuclear agreement, but of course if that bothers you then you were assuming they were complying to begin with. President Trump has taken to Twitter to warn Iran against taking any further actions. And of course we also had the Americans killed in Kenya over the weekend, adding to the tough situation. We'll see if that gets a response to the al-Qaeda linked terrorists there.

Outside of the Middle East, China has officially announced plans to send a delegation to the US on Jan 13-15 for the Phase 1 trade deal signing. Any other day that would be good enough news to put a bid in the market but not today. China's services PMI was released overnight and it was a bit weaker than expected. European composite PMI rose to 50.9, however, coming in slightly better than expected and holding above the 50-level.

I want to look at the past decade of the dollar again this morning. I don't think we've talked much about the dollar vs emerging markets yet, and I want to quickly look this morning at how poorly emerging market currencies have performed against the dollar over the past decade. The breakdown of the returns of several EM currencies is shown below. You can see there are a handful that performed ok against the dollar, but otherwise you can see that the past decade has been very clearly one-sided with the dollar clobbering most of EM-world.



However, as my friend Tony Greer from TG Macro points out, the JP Morgan index of EM currencies has *potentially* formed something of a bottom here. Note in the chart below the market bottomed in mid/late 2018 and spent most of 2019 merely chopping around sideways. We certainly can't say we're out of the woods yet and we of course could always push into new lows, but this is a chart I'll be watching more closely going forward. EM strength would potentially be good news for certain economic indicators and it would also probably support commodity markets on the margin.



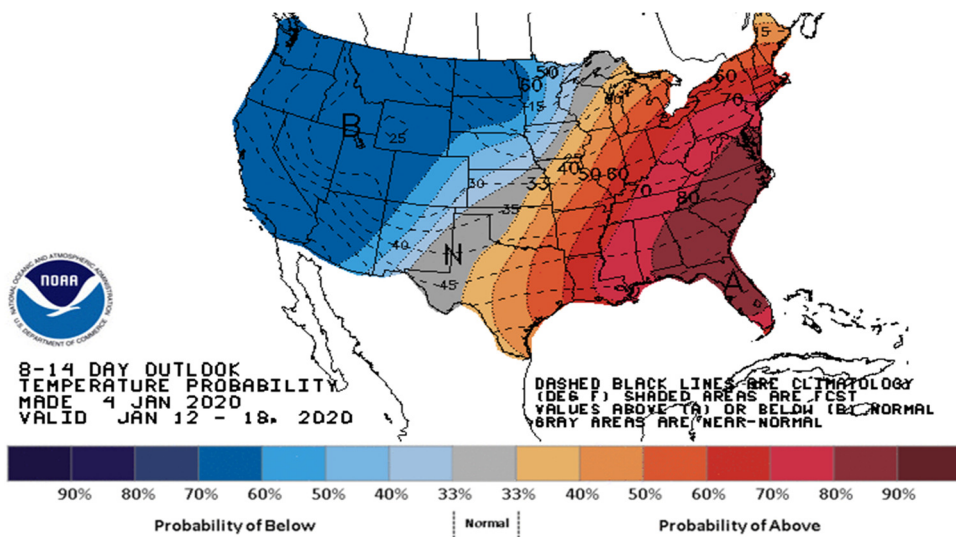
Energy

Looking at natural gas storage this morning, the breakdown below is part of the EIA’s weekly report on natural gas inventories. What I want you to focus on is the comparison of current natural gas stocks vs. year-ago levels and the 5-year average. Current inventories are sharply higher than last year (18%) and they’re just barely under the 5-year average (-2%). What I want to think about is what this might start to look like going forward. The map below shows the current NWS 8-14 day temperature outlook. You can see that over the course of the next two weeks the eastern half or more of the country is expected to see well above normal temperatures. This could keep natural gas demand somewhat muted during this period, and if that pattern were to persist a bit longer we might start to see inventories move above the 5-year average. Just something to think about going forward.

Working gas in underground storage, Lower 48 states

[Summary text](#) [CSV](#) [JSON](#)

Region	Stocks billion cubic feet (Bcf)				Historical Comparisons			
	12/27/19		12/20/19		Year ago (12/27/18)		5-year average (2014-18)	
	Bcf	% change	Bcf	% change	Bcf	% change	Bcf	% change
East	771	16.3	796	1.7	663	16.3	758	1.7
Midwest	905	13.0	923	0.1	801	13.0	904	0.1
Mountain	173	17.7	177	-3.9	147	17.7	180	-3.9
Pacific	251	14.1	260	-12.5	220	14.1	287	-12.5
South Central	1,093	24.9	1,094	-0.7	875	24.9	1,101	-0.7
Salt	313	6.8	309	-4.9	293	6.8	329	-4.9
Nonsalt	780	34.0	786	0.9	582	34.0	773	0.9
Total	3,192	17.9	3,250	-1.2	2,708	17.9	3,230	-1.2



Today's Calendar (all times Central)

- Markit US PMI – 8:45am
- Export Inspections – 10:00am

Thanks for reading.

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