

Weather

No major changes to the forecast. The map to the right shows the 10-day GFS precipitation outlook.

In northern Brazil we should see two week rainfall totals run close to normal with amounts ranging from 2-5" with some locally heavier totals. The rainfall will be lightest in Week One with bigger amounts in Week 2. Temps will average near to above normal, with the hottest temps of the period likely being seen in the next few days.

In southern Brazil we should see two week rainfall totals average slightly above normal with amounts ranging from 3-5". We should see rains develop tonight and this will kick off a period of daily rains which lasts through about Jan 16. Rainfall during the 11-15 day period will likely average below normal.

Temps should be hot today with some highs of 100 possible in RGDS, but closer to normal temps will be seen as rainfall chances return.

Argentina should see rainfall totals near normal in northern areas and below normal in southern areas. Amounts will be 1-2" in southern areas while northern areas should see 2-3" amounts. There will be some rains today and there will be daily chances for rains through mid-next week. Coverage of the rainfall will somewhat spotty. A more widespread rainfall chance will develop Tues/Wed next week. The 6-10 day period will be dry and rains in the 11-15 day period should be below normal as well. High temps should not be an issue over the next two weeks.

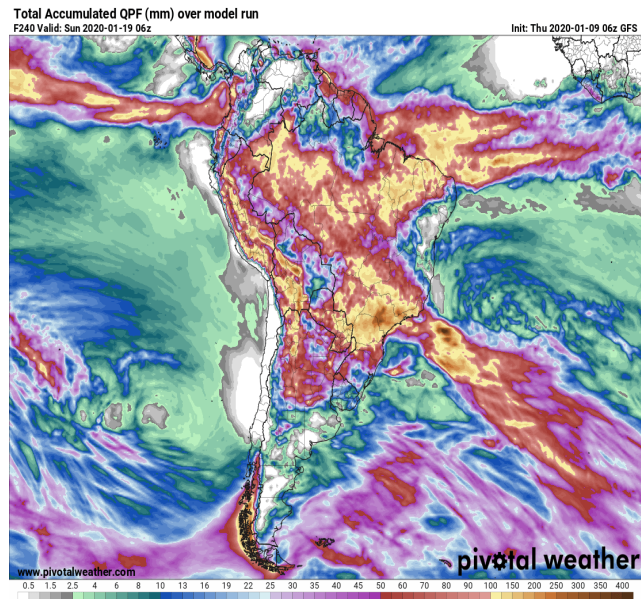
No change in the US forecast. A simply massive divergence between AN temps in the southeast and BN temps in the northwest will develop over the next few days. The spread between the national high and the national low temp could be 100 degrees potentially at some point next week. In the meantime, we should see big precipitation totals develop in the Mid-South and Southeast, with a lot of potential for severe weather in those areas in the next few days.

Crops

We'll review possible balance sheet changes today.

Wheat-

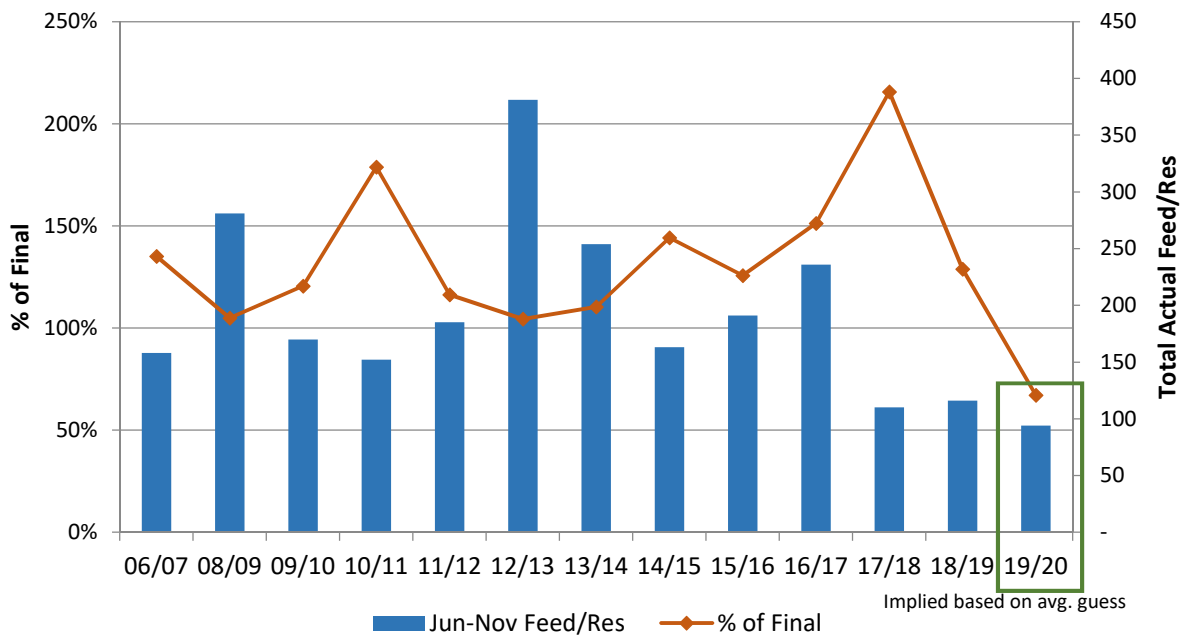
Unlike corn or soybeans, we don't have US production changes to worry with today. For the US balance sheet, we're primarily concerned with exports and feed and residual based on what we get from the quarterly stocks report. In the case of exports, for now I'm inclined to believe WASDE will leave their prior projection unchanged. World production numbers could see some reductions (Australia again?) and I also think it is possible WASDE is too high with their Russian export projection. I think that would argue against aggressively



cutting right now. However the pace of commitments doesn't argue for any increase either in my opinion. I look for exports to be unchanged.

The average guess for US ending stocks is basically unchanged from last month, so it seems the market as a whole is stopping their analysis with the unchanged outlook for exports. I caution, however, that I think it is quite possible WASDE could find themselves needing to cut their feed and residual use estimate this month. Recall in the October report they cut their F&R estimate from 170 mil to 140 mil bu, where it remained through last month. Even if the average guess on Dec 1 wheat stocks is correct, it implies WASDE is WAY too big with their annual F&R estimate. Note the chart below. The orange line represents the percentage of the annual F&R figure that is "consumed" in the Jun-Nov period. You can see that more than 100% of F&R is seen in all of these years during the Jun-Nov period (with negative residual noted in H2), but the implication for this year is that Jun-Nov F&R use will be "only" 67% of the annual total.

Q1 & Q2 Combined Wheat Feed & Residual



For that reason I think we need to be on guard today for a cut in WASDE's F&R estimate. I have posted a reduction in my "sample" balance sheet below. My bottom line toward wheat today is that we shouldn't necessarily be surprised to see an unchanged balance sheet but odds probably favor a reduction in F&R and thus I'll bet the over on ending stocks.

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 Dec	Possible? 19/20
Planted Acres	55.0	50.1	46.1	47.8	45.2	45.2
Harvested Acres	47.3	43.9	37.6	39.6	38.1	38.1
Abandoned Acres	7.7	6.2	8.5	8.2	7.1	7.1
Yield	43.6	52.7	46.4	47.6	51.6	51.6
Carryin (Sep 1)	752	976	1,181	1,099	1,080	1,080
Production	2,062	2,309	1,741	1,885	1,920	1,920
Imports	113	118	157	135	105	105
Total Supply	2,927	3,402	3,079	3,119	3,105	3,105
Food Use	957	949	964	955	955	955
Seed	67	61	63	59	61	61
Feed & Residual	152	156	51	90	140	110
Total Domestic	1,177	1,167	1,079	1,103	1,156	1,126
Exports	775	1,055	901	936	975	975
Total Use	1,952	2,222	1,980	2,046	2,131	2,101
Carryout (May 31)	976	1,181	1,099	1,080	974	1,004
Stocks/Use	50.0%	53.2%	55.5%	52.8%	45.7%	47.8%

Corn –

Recall from yesterday that I’m simply assuming a round-number guesstimate of 13.5 bil bu for US corn production. As it turns out, that is fairly close to the average guess from the Bloomberg survey. On the supply front, I’m also going to assume a modest reduction in WASDE’s import projection. I know that might be splitting hairs here, but based on SON imports I just don’t think we’re on pace for WASDE’s 50 mil bu projection.

Turning to demand, the big question mark of the day will be F&R use following the release of Dec 1 stocks. You’ll see below that I’m actually going to assume WASDE keeps their projection unchanged. Based on a smaller production figure, we “should” assume WASDE will lower their F&R figure but as noted yesterday it seems WASDE’s F&R is starting from a smaller level than we’d assume based on the prior NASS production figure. With that in mind, a lower production figure would line-up well with WASDE’s current F&R projection, assuming no major surprises on the Dec 1 stocks. In terms of export demand, I’m trying to think of the proper way of describing the pace of US export commitments. Horrid...atrocious...adjectives like that. I just don’t see how WASDE can avoid lowering their export projection based on the pace of sales at this point in time and considering I don’t anticipate any significant changes to South American production estimates. I couldn’t decide if WASDE would cut 50 or 100 mil bu from their prior estimate, so I split the difference and cut exports 75 mil bu in the breakdown below. I do not anticipate a change in the ethanol grind this month. I think most are assuming that WASDE will simply leave export demand unchanged ahead of the upcoming Phase 1 deal signing, and I’ll concede that is a risk. However, if WASDE follows what I believe to be their standard protocol, it would argue in favor of a reduction.

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

	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Dec	Possible 19/20
Carryin (Sep 1)	1,731	1,737	2,293	2,140	2,114	2,114
Production	13,602	15,148	14,609	14,420	13,661	13,500
Imports	67	57	36	28	50	40
Total Supply	15,401	16,942	16,939	16,588	15,825	15,654
Feed and Residual						
Total Feed and Residual	5,131	5,470	5,304	5,618	5,275	5,275
Food, Seed, and Industrial						
Corn for Ethanol Fuel	5,206	5,439	5,605	5,376	5,375	5,375
Other FSI	1,429	1,446	1,452	1,415	1,415	1,415
Total FSI	6,635	6,885	7,057	6,791	6,790	6,790
Total Domestic Use	11,766	12,355	12,361	12,409	12,065	12,065
Exports (Census)	1,898	2,294	2,438	2,065	1,850	1,775
Total Use	13,664	14,649	14,798	14,474	13,915	13,840
Carryout (Aug 31)	1,737	2,293	2,140	2,114	1,910	1,814
Stocks/Use	12.7%	15.7%	14.5%	14.6%	13.7%	13.1%

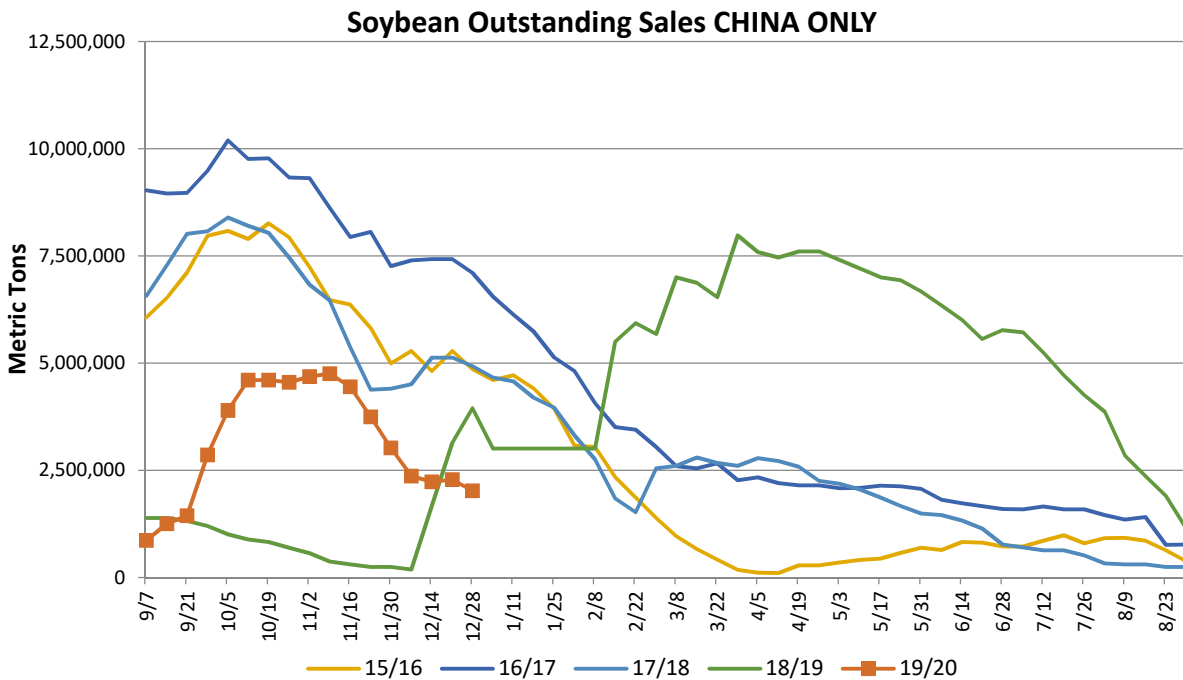
What the above breakdown implies to me is that IF we get something close to expectations on production and Dec 1 stocks (those are already two big IFs) then I think the odds would favor US ending stocks turning out higher than the average guess (Bloomberg showed 1,776 mil bu).

Soybeans-

As noted earlier in the week, I'm simply assuming a 25 mil bu production cut for soybeans. That isn't too far off from the average guess, but a little larger (Bloomberg is 3,513 mil bu). I'm also going to split hairs again here and call for a reduction to the import figure. I don't know if WASDE will be interested in this or not, but again I just simply don't believe we're on pace to match their current guess.

For the demand figures, I am VERY torn on what to expect. In the case of exports, I actually think WASDE should lower their projection. You'll see below I'm penciling in a reduction of 25 mil bu. I'm sure you're wondering – why would I do that when we're about to sign the Phase 1 China trade deal? Well, firstly I agree that it is questionable whether WASDE will want to lower exports in front of the trade deal. However, let's keep in mind that current export commitments are roughly 1.5 mmt below year ago level and WASDE is currently projecting a YOY increase in exports. I would also point out that export commitments to China right now are *already* ~7 mmt larger than they were at this point last year. That means, of course, that commitments to non-China destinations are down roughly 8.3 mmt YOY *already*. Now consider the pace of sales from this point forward last year. Chart below shows outstanding sales to China only. You can see at this point last year is when we started selling an aggressive amount of soybeans to China. So, even if we were to sell big amounts to China again this year, I'd argue we're still running behind levels we saw last year due to the lack of non-China business. As of now, South America is still expected to produce a very big crop this year, which will compete against US supplies to both China and the rest of the world. You have to assume the Chinese will be willing to pay a premium over South American prices to support US demand at this point. They might be willing to do so, but I'm inclined to believe the best demand we get from China will come during the seasonal norm – around US

harvest. The bottom line is, I think the odds are stacked against US exports right now even with the Phase 1 trade deal. That said, I will concede WASDE might punt on this topic for additional information in the coming months.



I'm also very torn on what to think about crush. The November crush level was disappointing and cash crush margins are not especially robust. Meal exports are lagging and the latest Fats & Oils report showed disappointing meal disappearance. While one month doesn't make a trend, I think there is enough information to argue that meal production "should" be cut to avoid ballooning ending stocks. However, on the flip side of the coin is the soyoil balance sheet. There is good reason to argue for a lower oil yield which will cut production even without a reduction to crush. Additionally, export demand is strong enough to maintain the WASDE projection right now. One could make an argument for lower biodiesel use, but it is too early in the season to get too carried away with that considering the blending tax credit was just reinstated. For the sake of argument, in my balance sheet scenario below I'm leaving the crush total alone but I do believe there is a chance it is lowered in addition to lower export demand.

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

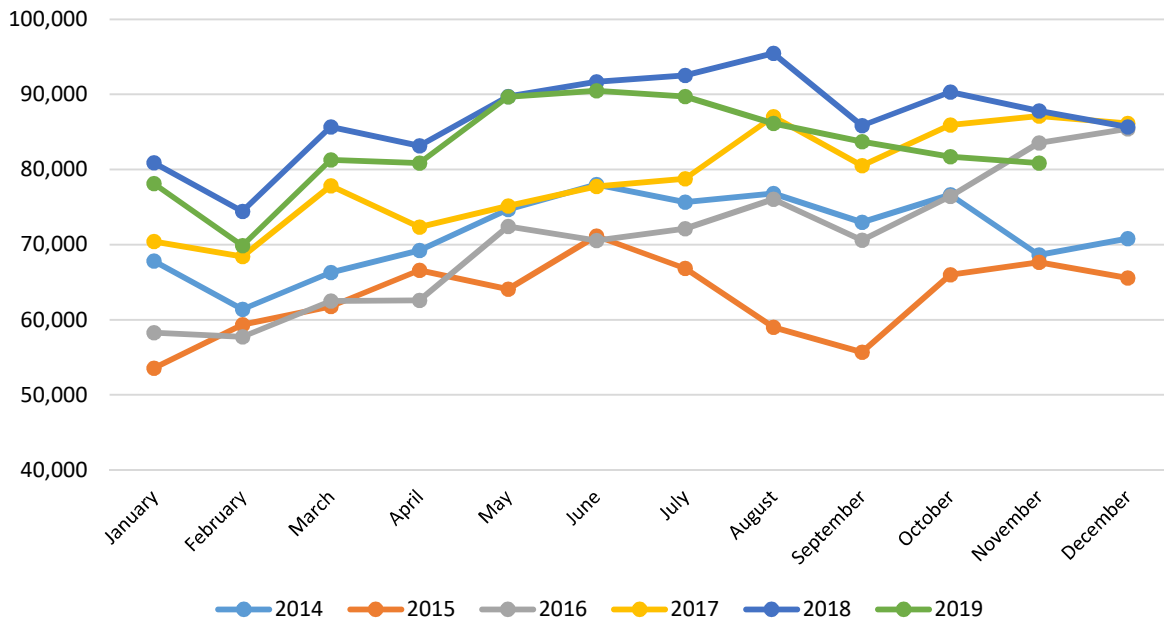
	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Dec	Possible? 19/20
Carryin (Sep 1)	191	197	302	438	913	913
Production	3,926	4,296	4,412	4,428	3,550	3,525
Imports	24	22	22	14	20	15
Total Supply	4,140	4,515	4,735	4,880	4,483	4,453
Crush	1,886	1,899	2,055	2,092	2,105	2,105
Exports (Census)	1,936	2,174	2,134	1,748	1,775	1,750
Seed	97	105	104	89	96	96
Residual	24	36	5	39	32	32
Total Use	3,943	4,213	4,297	3,967	4,008	3,983
Carryout (Aug 31)	197	302	438	913	475	470
Stocks/Use	5.0%	7.2%	10.2%	23.0%	11.9%	11.8%

The average guess on ending stocks seems to be simply carrying through the reduction in production into a reduction in ending stocks. I think that is unlikely, as the reduction in production is probably going to be at least partially offset by a reduction in demand. I'd be betting the over on soybean ending stocks.

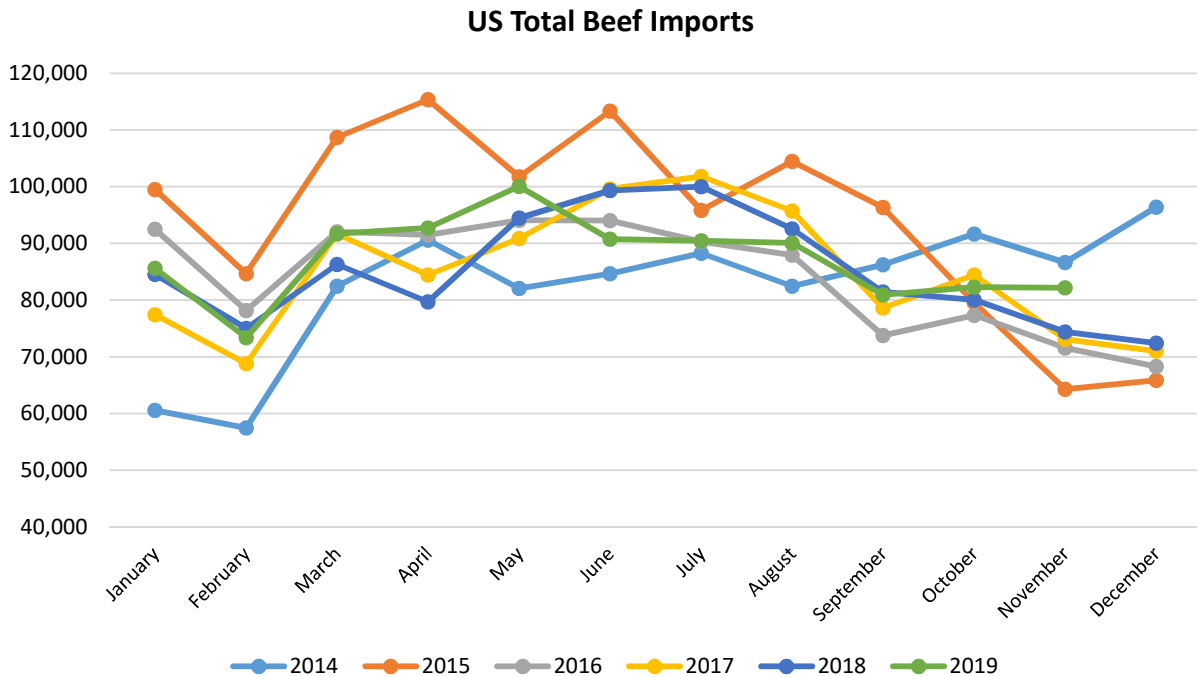
Livestock

Yesterday we saw that Nov pork exports from the US were exceptionally strong...probably stronger than even most bulls would have expected. Nov beef exports, however, were not as impressive. You can see in the chart below that US beef exports have been running well below year ago levels for almost the entirety of 2019. Nov '19 shipments were down roughly 8% YOY. YTD beef shipments through Nov were down about 5% YOY.

US Total Beef Exports



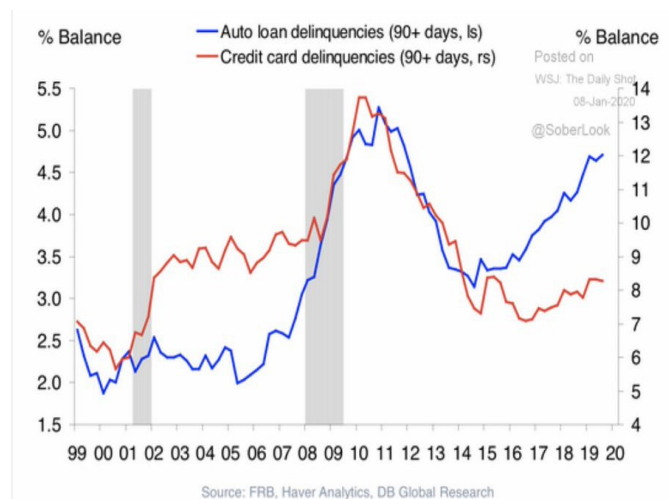
Not only have beef exports been running below year ago levels, beef *imports* have been running above year ago levels through 2019. The chart below looks at total imports, and you can see we've tracked above year ago most of the year with the exception of the summer months. In Jan-Nov of 2018 the US actually had posted net exports of beef. That shifted to net imports during the same period in 2019.



Financials

Nothing new to report this morning. US equities continue to march higher this morning as war fears are done for now. On tap today we have several Fed speakers to keep an eye on. Otherwise, no major economic data until tomorrow's NFP release. Yesterday's ADP print is likely allowing the market to feel pretty relaxed going into the NFP. One bit of data from overnight that I think is worth pointing out is German industrial production. German IP was +1.1% vs. expectations for +0.8% and the best in 18 months. Put that in the solid European economic data column too.

At the right is a chart I thought would be of interest this morning. I pulled this from the WSJ's Daily Shot blog. It simply shows US auto loan and credit card delinquencies. You can see both are trending higher, but the delinquencies on auto loads are almost back to GFC levels.



Energy

Nothing new to report on crude oil this morning. Obviously we saw a simply massive reversal across the energy charts yesterday. I've got the spot WTI continuation chart below. We've given up all post-Soleimani killing gains in WTI. I suppose you could make the argument that we've temporarily scored a double-top near that \$66 =67 level. Then again, looking at the chart, what sort of downside do you want to point towards? The key MAs as shown on the chart should provide a pretty solid floor of support. The curve structure remains massively inverted, which means longs can hang on to their position and roll out the calendar at favorable spreads. Simply put, I think at worst this means we get back to range-trading crude oil for a while. Thoughts appreciated.



Today's Calendar (all times Central)

- Natural Gas Storage – 9:30am
- Several Fed speakers throughout the day

Thanks for reading.

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