

Weather

No changes to the South American forecast this morning. Northern Brazil should see near to above normal rainfall totals over the next two weeks with the heaviest rains likely in the next several days. Meanwhile Southern Brazil as well as most of Argentina should see mostly below normal precipitation over the next two weeks. The good news for this area is that temps should run well below normal over this period.

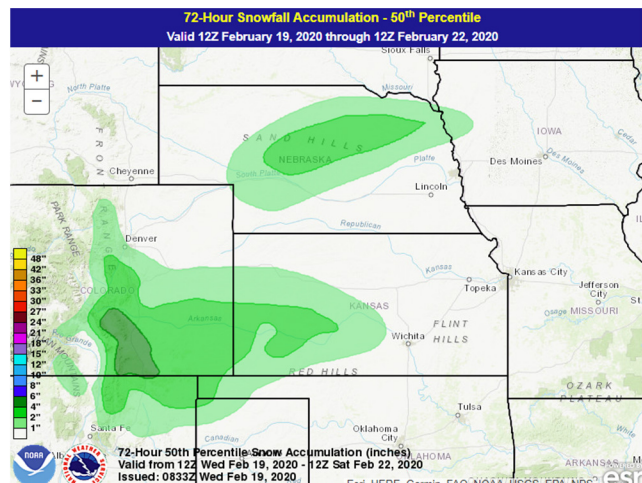
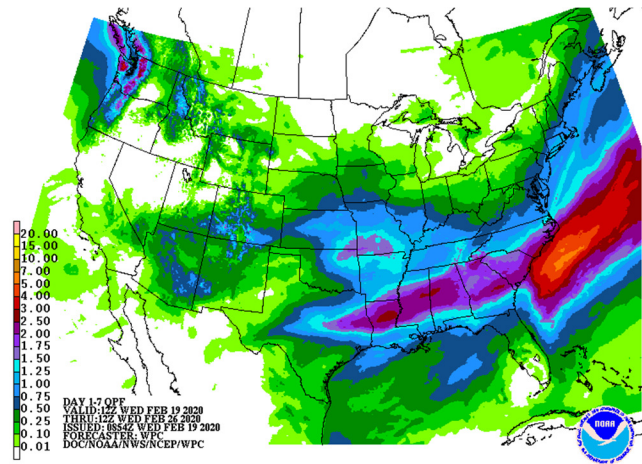
In the US, the southeast remains the focal point for precipitation chances over the next week. We will also see chances for snow in the feedlot areas later this week, though accumulations don't look like they will be anything huge. Temps should be turning much cooler across most of the country. Forecast models also continue to hint towards the possibility for a significant winter storm event in the Northern Plains around mid next week...but for now it is still too early to have specific details.

Crops

We have the USDA's annual Outlook Forum on tap tomorrow and Friday. The acreage and balance sheet projections released at the Forum can, at times, influence markets so it is important to consider what might be coming down the pipeline later this week.

Thankfully we got some newswire surveys from Bloomberg yesterday suggesting what the market might be looking ahead to in these numbers so we can have a baseline of expectations. We'll go through all of this information today. This might get a bit in the weeds at times, but just bear with me.

The first thing I want to look at is acreage. One thing we have learned in the past is that the USDA doesn't typically stray too far from their baseline projections on corn and soybean acreage in the Outlook Forum. In the baseline projections, USDA posted corn area of 94.5 million and soybean area at 84.0 million for a combined corn/soy package of 178.5 million. Honestly, I think that will probably prove a bit too big for the March Prospective Plantings report, but again we have to note that the Outlook Forum doesn't stray too far from these projections. Yesterday's Bloomberg survey showed expectations for corn area of 93.6 million and soybeans of 85.0 million. To be quite honest, I don't understand why the market has decided to take away 1 million acres of corn and give it to soybeans. If anything, I think I'd argue the market has been adding to corn area lately rather than the other way around. The bottom line I think the market is probably outsmarting itself a little bit here and I'd expect the Forum to show basically the same acreage numbers as we saw in the baseline projections – Corn of 94.5 million and soybeans of 84.0 million.



So with that in mind, let's look at the rest of the survey guesses and see what they imply about the market's lean into this week's Forum. We'll start with corn. Below I have a historical look at the past few years of balance sheets as well as the latest Feb WASDE projections. I also have the November baseline projections (adjusted for the new WASDE beginning stocks) and at the far right I have a table breaking down some implications of the survey. A few things I find interesting from the implications – First, I think it is interesting that the average guess on production combined with the guess on acreage seems to be implying a lower yield than the baseline projection's yield estimate. I again think it is unlikely that the Forum will stray far from what the baseline projection was showing, so I think it is likely that the yield (and thus production) could come in larger than shown here. And again, keep in mind I'm thinking both acreage *and* yield are probably too low here. I'd look for production to be something closer to what is shown in the baseline projection. What is also interesting is that the implication from the Bloomberg survey is calling for slightly lower demand. I think that makes some sense. I wouldn't be surprised to see the Forum come in with a lower export figure than shown in the baseline. Bottom line – I think it is likely the 20/21 ending stocks shown later this week could be even larger than the Bloomberg survey released yesterday might suggest.

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

	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Feb	OCE-LTP 20/21	Survey Implications
Planted Acres	88.0	94.0	90.2	88.9	89.7	94.5	93.6
Harvested Acres	80.7	86.7	82.7	81.3	81.5	87.1	86.2
Abandoned Acres	7.3	7.3	7.5	7.6	8.2	7.4	7.4
Yield	168.4	174.6	176.6	176.4	168.0	178.5	176.3
Carryin (Sep 1)	1,731	1,737	2,293	2,140	2,221	1,892	1,892
Production	13,602	15,148	14,609	14,340	13,692	15,545	15,196
Imports	67	57	36	28	50	25	25
Total Supply	15,401	16,942	16,939	16,509	15,962	17,462	17,113
Feed and Residual							
Total Feed and Residual	5,131	5,470	5,304	5,432	5,525	5,775	
Food, Seed, and Industrial							
Corn for Ethanol Fuel	5,206	5,439	5,605	5,376	5,425	5,450	
Other FSI	1,429	1,446	1,452	1,415	1,395	1,420	
Total FSI	6,635	6,885	7,057	6,791	6,820	6,870	
Total Domestic Use	11,766	12,355	12,361	12,223	12,345	12,645	
Exports (Census)	1,898	2,294	2,438	2,065	1,725	2,100	
Total Use	13,664	14,649	14,798	14,288	14,070	14,745	14,617
Carryout (Aug 31)	1,737	2,293	2,140	2,221	1,892	2,717	2,496
Stocks/Use	12.7%	15.7%	14.5%	15.5%	13.4%	18.4%	17.1%

Turning to soybeans, I have the same sort of setup as shown above with corn below indicating the baseline projections for soybeans (updated with new beginning stocks) and the survey implications for this week's Forum estimates. I'll again note that I think it is likely that the survey guess on soybean area might be too large. Looking at the production figure, however, it seems the market is actually adopting the baseline projection for the trendline soybean yield so I'll have no argument with that. Taking the survey guess for ending stocks vs. the implication for supply, it seems the survey is basically just taking the baseline projection's guess on total demand

for the year and that seems a bit...curious. Considering WASDE just raised their estimate for 19/20 exports based, in part, on increased Chinese demand and considering the trade deal had not been signed when the baseline projections were completed it seems reasonable to assume that the Forum will have soybean demand something larger than what is implied here. The combination of possibly lower production (same yield but smaller area) and higher demand (exports) makes me believe we could see 20/21 ending stocks turn out something smaller than the Bloomberg survey is showing...perhaps significantly so. This could be a mildly bullish scenario for soybeans temporarily. The question will be how might the USDA justify a higher soybean export projection alongside what should be record production levels out of South America.

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

	USDA 15/16	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Feb	OCE-LTP 20/21	Survey Implications
Planted Acres	82.7	83.4	90.2	89.2	76.1	84.0	85.0
Harvested Acres	81.7	82.7	89.5	87.6	75.0	83.2	84.2
Abandoned Acres	1.0	0.7	0.7	1.6	1.1	0.8	0.8
Yield	48.0	52.0	49.3	50.6	47.4	50.5	50.5
Carryin (Sep 1)	191	197	302	438	909	425	425
Production	3,926	4,296	4,412	4,428	3,558	4,200	4,248
Imports	24	22	22	14	15	20	20
Total Supply	4,140	4,515	4,735	4,880	4,482	4,645	4,693
Crush	1,886	1,899	2,055	2,092	2,105	2,135	
Exports (Census)	1,936	2,174	2,134	1,748	1,825	1,895	
Seed	97	105	104	88	96	132	
Residual	24	36	5	43	32	-	
Total Use	3,943	4,213	4,297	3,971	4,058	4,162	4,160
Carryout (Aug 31)	197	302	438	909	425	483	533
Stocks/Use	5.0%	7.2%	10.2%	22.9%	10.5%	11.6%	12.8%

Now we'll turn to wheat quickly. The January winter wheat seedings were down only slightly vs. last year and slightly larger than expected so it seems logical to expect that total all-wheat planted area might be slightly larger than previously shown in the baseline projections. The Bloomberg survey showed a modestly larger area. Based on the guess for production and my guess on harvested area (simply assuming the same abandonment from the baseline projection) it seems the market is dialing-in a near-trend yield...so no argument from me on that front. Backing out demand from the ending stocks figure and we have demand that is modestly larger than implied on the baseline projection. This makes sense as WASDE has ramped up 19/20 exports since November and the USDA will likely feel more optimistic towards 20/21 exports than the 925 mil bu originally penciled in. I think there is a possible offset here with smaller feed & residual use, but we'll see how that is handled. It will also be interesting to look for any specific commentary on what USDA is assuming on Chinese imports going forward. The baseline projections did not project China meeting their TRQs for wheat imports, and if USDA is going to pencil in such levels that might mean significantly higher import totals. I still have my doubts that China will actually meet its TRQs on wheat, but I'll discuss that either later this week or early next week. For now we've got nothing to do but wait and watch to see what USDA thinks they might do. I would say there is more risk for a smaller ending stocks number than shown below than seeing something larger.

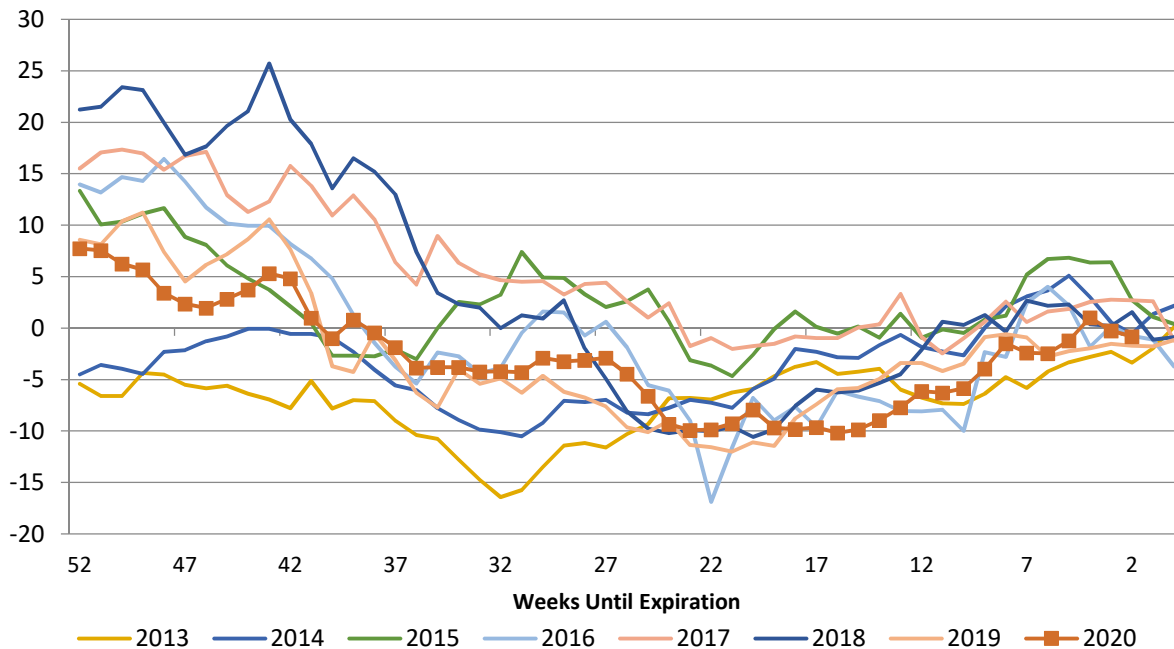
US All-Wheat Supply & Demand Estimates (Million Bushels/Million Acres)

	USDA 16/17	USDA 17/18	USDA 18/19	USDA 19/20 Feb	OCE-LTP 20/21	Survey Implication
Planted Acres	50.1	46.1	47.8	45.2	45.0	45.2
Harvested Acres	43.9	37.6	39.6	37.2	38.1	38.3
Abandoned Acres	6.2	8.5	8.2	8.0	6.9	6.9
Yield	52.7	46.4	47.6	51.7	48.2	48.9
Carryin (Sep 1)	976	1,181	1,099	1,080	940	940
Production	2,309	1,741	1,885	1,920	1,836	1,873
Imports	118	157	135	105	140	140
Total Supply	3,402	3,079	3,119	3,105	2,916	2,953
Food Use	949	964	955	955	963	
Seed	61	63	59	60	61	
Feed & Residual	156	51	90	150	120	
Total Domestic	1,167	1,079	1,103	1,165	1,144	
Exports	1,055	901	936	1,000	925	
Total Use	2,222	1,980	2,046	2,165	2,069	2,108
Carryout (May 31)	1,181	1,099	1,080	940	847	845
Stocks/Use	53.2%	55.5%	52.8%	43.4%	40.9%	40.1%

Livestock

Maybe worth noting that Feb cattle basis finished last week right around par. With only a few days left until expiration, I don't see any reason for basis to swing wildly at this point. This leads me to believe that board action will be the key driver of cash trade this week. With the board higher yesterday, it seems for now the path of least resistance in cash will be higher.

February Live Cattle Basis History



That said, boxes were off fairly sharply again yesterday. The choice cutout is now at its lowest level since October 2018. Packer margins (on paper) have stabilized here lately but as long as boxes remain weak I'm not sure how aggressive the packer will be with cash.

Financials

US equity futures and most international equity markets are higher at the time of writing this morning. There isn't much new to report on the transmission of the coronavirus. It still appears that new confirmed cases are growing at a slowing pace. Confirmed deaths have officially exceeded 2,000, however. The focus on the market seems to be switching a bit from disease "containment" (as new cases are not as alarming) to how will China respond to the massive impact this will have on their economy. The reports overnight suggest the Chinese government is looking very closely at its airline industry. The big players in Chinese airlines, as you'd probably expect, are government-controlled. However, there are several smaller private airline companies and it sounds like the government is considering some sort of bailout for these firms to help cope with the massive losses due to travel restrictions. The travel sector is of course just a fragment of the damage to the economy here so far in Q1, and I continue to expect that the Chinese government will throw the "kitchen sink" of stimulus at the market and the economy. I apparently am not alone in that assessment. I don't think it is any coincidence that gold and silver are both moving sharply higher at this point in time. Bitcoin has also been acting strong lately. And of course US equity markets, among the least-exposed to global trade, will remain supported by any and all global central bank stimulus efforts.

Speaking of central banks, there will be several Fed speakers making the rounds today. Also we will get the minutes from the last FOMC meeting this afternoon. In terms of economic data, on tap we have PPI and housing starts but neither is likely to be a huge market mover. That said, remember that last month's housing starts figure posted an insanely high upside surprise...probably due to mild winter weather conditions. It shouldn't come as a big surprise to see a bit of a hangover-effect from that big surge in December starts with today's January data.

Energy

Crude oil futures are higher this morning. This is part due to the lessened concerns over coronavirus. More importantly, however, we have the situation in Libya devolving into violence again. There were rocket attacks reported in Tripoli yesterday and the "unity government" has announced it will pull out of UN-led peace talks to be held in Geneva. The lack of negotiations means that a resumption of significant oil production from Libya is not likely in the near term. Additionally, the US announced yesterday it will sanction a unit of Russia's oil trading company Rosneft for maintaining ties with the Venezuelan government. This won't impact much oil flow other than what Rosneft was handling for the Venezuelans, but that is still something. Most Venezuelan oil went to China or India last year.

Today's Calendar (all times Central)

- Housing Starts – 7:30am
- PPI – 7:30am
- FOMC Minutes – 1:00pm
- Several Fed speakers throughout the session

Thanks for reading.

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