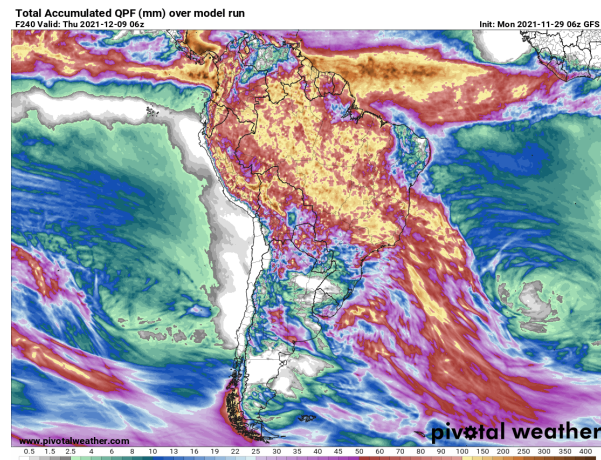


Weather

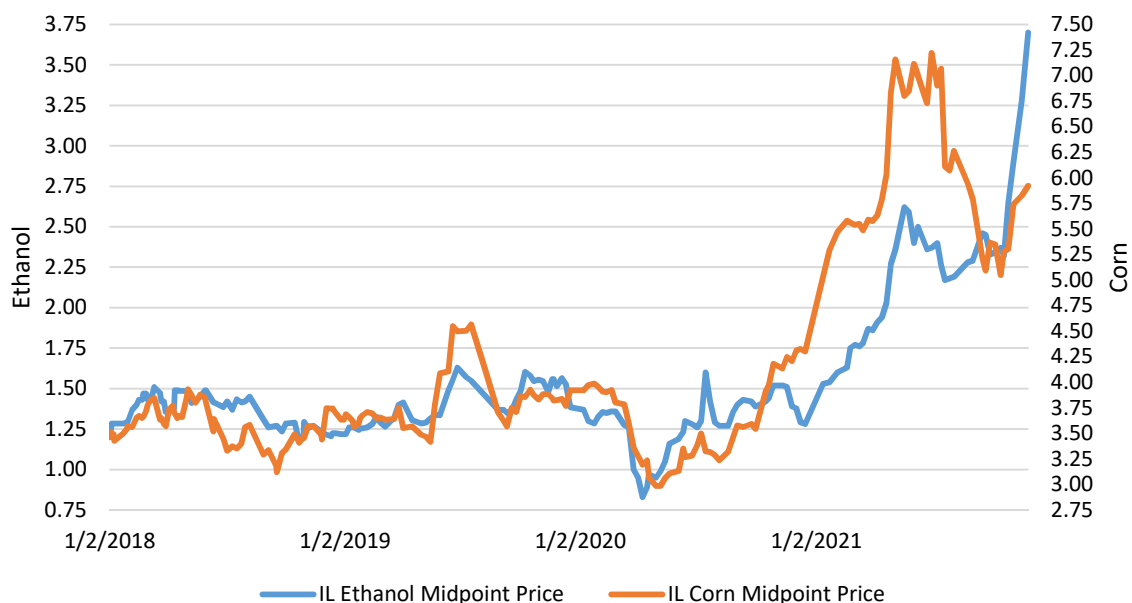
More of the same for northern Brazil with mostly near to above normal rainfall over the next two weeks maintaining very good growing conditions. Two week rainfall totals should range between 4-8". In southern Brazil, most of the region should see two week rainfall totals run below or even well below normal. Two week rainfall totals will likely be mostly under 2", with some portions of RGDS possibly running under 1". The good news is that there doesn't appear to be any major heat. Argentina will also see mostly below normal rainfall over the next two weeks. The exception will be in southern and southwestern areas, which could see some good rainfall chances this Thu/Fri. Temps here should remain fairly mild as well. The map shown here is the GFS 10-day outlook.



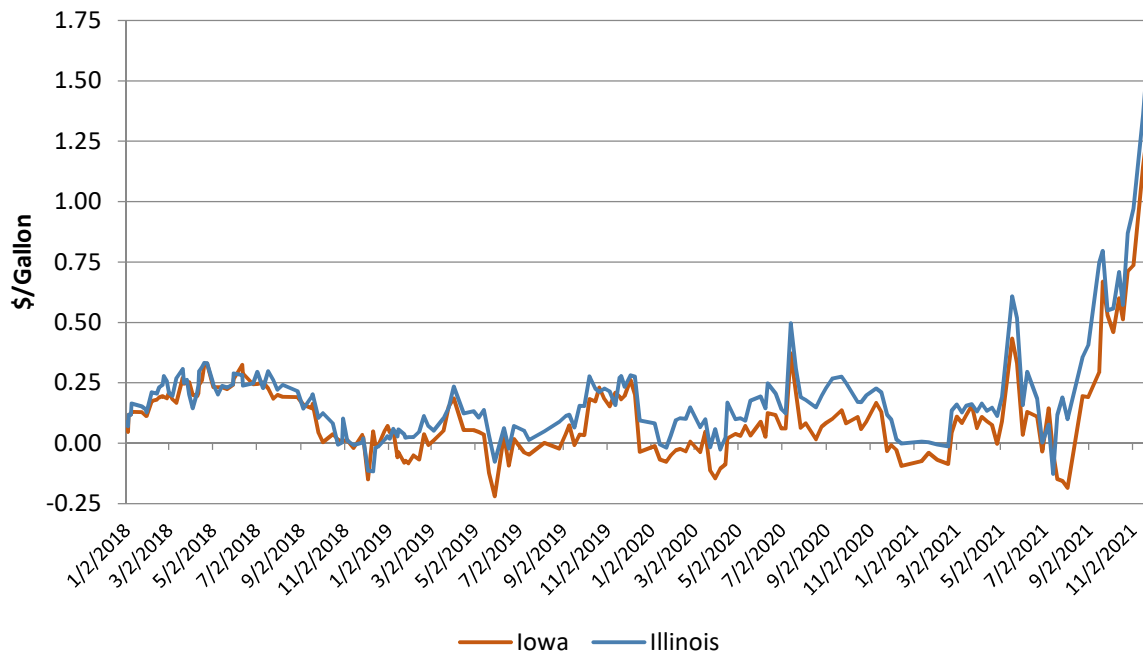
Crops

I'm back in the office today after being out for a week, so I can't say I've got my brain back fully functioning yet. One thing I like to do quickly when returning from a long absence is to look at end-user margins to see if anything changed while I was out. In terms of domestic end-users of corn and soybeans, nothing much has changed over the past week. The first chart below shows estimated ethanol prices compared with the price of corn in IL. Ethanol margins continue to set new all-time highs. Corn prices have obviously bounced recently as well, but not at the level of ethanol's ascent and thus margins continue to grow. The second chart on the following page is ethanol margins, and you can see these are truly unprecedented production margins. This should keep up a very elevated ethanol grind in the months ahead.

Illinois Corn Price vs. Ethanol

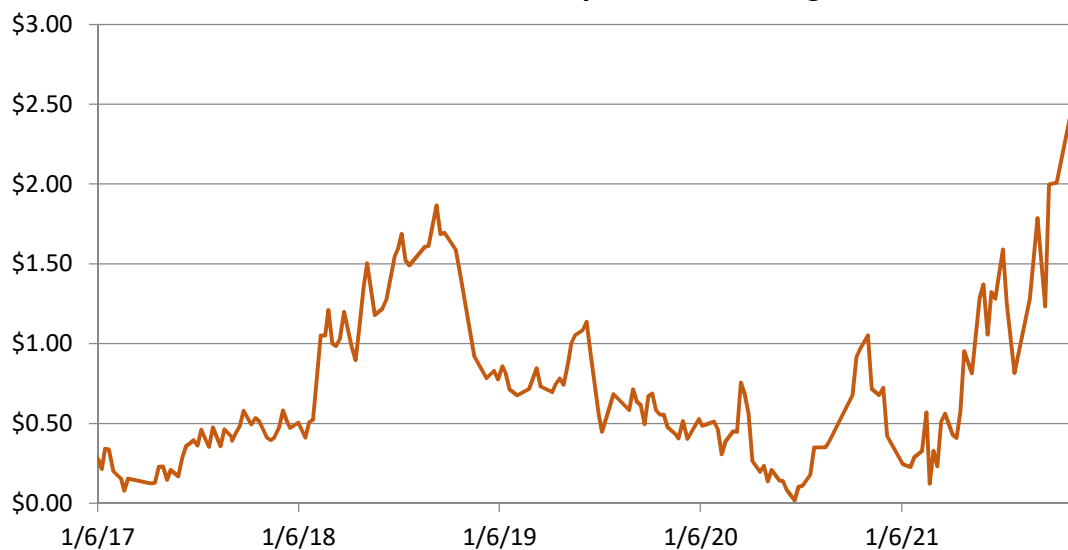


USDA Ethanol Plant Report - Estimated Spot Production Margin



The next chart looks at the estimated spot soybean crush margin in IL. We've backed off a little recently, but we're still looking at extremely big margins. This should keep the soybean crush rockin' as well.

Illinois Estimated Cash Soybean Crush Margin



What about internationally? Well I don't have the time or space here to review all the various margins around the world, but I can quickly compare some prices between major exporters. The breakdowns below are ones

that I have shown several times before. This shows FOB basis levels plus freight rates into Asia to give an idea of how US prices stack up vs competition in South America. Corn is shown first. I think most analysts expected US corn to see strong business this fall/winter due to a weaker crop in Brazil last year, but that isn't entirely the case. As shown below, both Brazil and Argentina are still very much competitive against the US into Asian destinations. This should keep US corn export business confined to "captive" markets.

| Landed Value Comparison | | | | | | | | | | | | | |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------------|-----------|-----------|--|---------------------|-----------|-----------|
| USG Values | | | | | | | Brazil Paranagua Values | | | | Argentina | | |
| | Nov | Dec | Jan | Feb | Mar | Apr | | Dec | Jan | | Dec | Jan | |
| FOB Basis | 98 | 98 | 88 | 86 | 84 | 83 | Paper Premium | 103.5 | 112.75 | | Basis | 55.4 | 66.8 |
| CBOT Futures | 585.5 | 585.5 | 591.25 | 591.25 | 591.25 | 594 | CBOT Futures | 585.5 | 591.25 | | CBOT Futures | 585.5 | 591.25 |
| | CZ | CZ | CH | CH | CH | CK | | CZ | CH | | CZ | CH | |
| USD/MT Conversion | \$ 269.08 | \$ 269.08 | \$ 267.41 | \$ 266.62 | \$ 265.83 | \$ 266.52 | USD/MT Conversion | \$ 271.25 | \$ 277.15 | | USD/MT Conversion | \$ 252.31 | \$ 259.06 |
| USG-China Pmax | 74.3 | 74.3 | 74.3 | 74.3 | 74.3 | 74.3 | Santos-China Pmax | 50.44 | 50.44 | | Arg-China Smax | 67.7 | 67.7 |
| Total Landed Ex-Tax | \$ 343.38 | \$ 343.38 | \$ 341.71 | \$ 340.92 | \$ 340.13 | \$ 340.82 | Total Landed Ex-Tax | \$ 321.69 | \$ 327.59 | | Total Landed Ex-Tax | \$ 320.01 | \$ 326.76 |

The chart below is a similar breakdown comparing US vs. Brazil soybeans to China. At no point in the next few months does the US look competitive against Brazil. Of course this shows USG values and not PNW, so it is certainly possible we could continue to do some modest PNW business. However, more importantly, note the drop off in Brazilian values from Feb forward. This shows the effect of new crop harvest, meaning the US export window is very narrow. With export commitments already running well behind the pace, this is not an encouraging sign. Of course there is still a lot of weather to deal with in Brazil, but for now crop conditions appear mostly favorable in my opinion.

| Landed Value Comparison | | | | | | | | | | | | | | |
|-------------------------|-----------|-----------|-----------|-----------|--|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|
| | | | | | | | | | | | | | | |
| USG Values | | | | | | Brazil Paranagua Values | | | | | | | | |
| | Nov | Dec | Jan | Feb | | | Dec | Jan | Feb | Mar | Apr | May | Jun | |
| FOB Basis | 101.5 | 101.5 | 97 | 87.5 | | Paper Premium | 142.88 | 142.88 | 109 | 43 | 24.5 | 18.5 | 26 | |
| CBOT Futures | 1259.25 | 1259.25 | 1259.25 | 1269.75 | | CBOT Futures | 1259.25 | 1259.25 | 1269.75 | 1269.75 | 1279 | 1279 | 1286 | |
| | SF | SF | SF | SH | | | SF | SF | SH | SH | SK | SK | SN | |
| USD/MT Conversion | \$ 499.99 | \$ 499.99 | \$ 498.34 | \$ 498.70 | | USD/MT Conversion | \$ 515.19 | \$ 515.19 | \$ 506.60 | \$ 482.35 | \$ 478.95 | \$ 476.75 | \$ 482.08 | |
| USG-China Pmax | 74.3 | 74.3 | 74.3 | 74.3 | | Santos-China Pmax | 50.44 | 50.44 | 50.44 | 50.44 | 50.44 | 50.44 | 50.44 | |
| | | | | | | | | | | | | | | |
| Total Landed Ex-Tax | \$ 574.29 | \$ 574.29 | \$ 572.64 | \$ 573.00 | | Total Landed Ex-Tax | \$ 565.63 | \$ 565.63 | \$ 557.04 | \$ 532.79 | \$ 529.39 | \$ 527.19 | \$ 532.52 | |

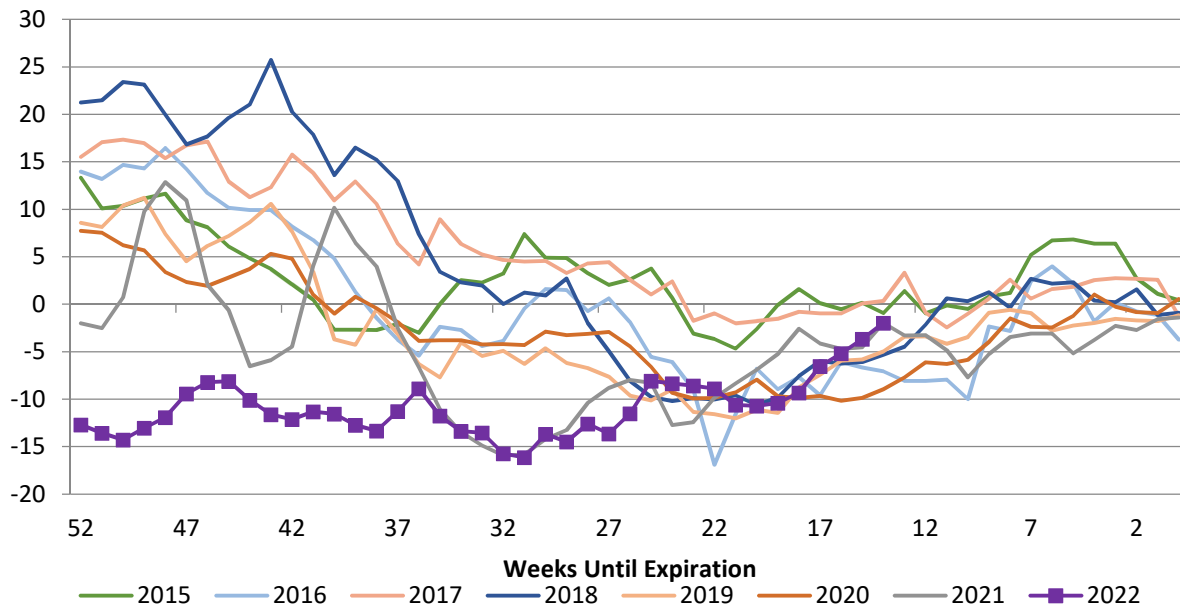
So the bottom line here is that US domestic end-user margins are very strong, which should continue to encourage strong production levels and high domestic basis levels. The export arena looks very different, however.

Livestock

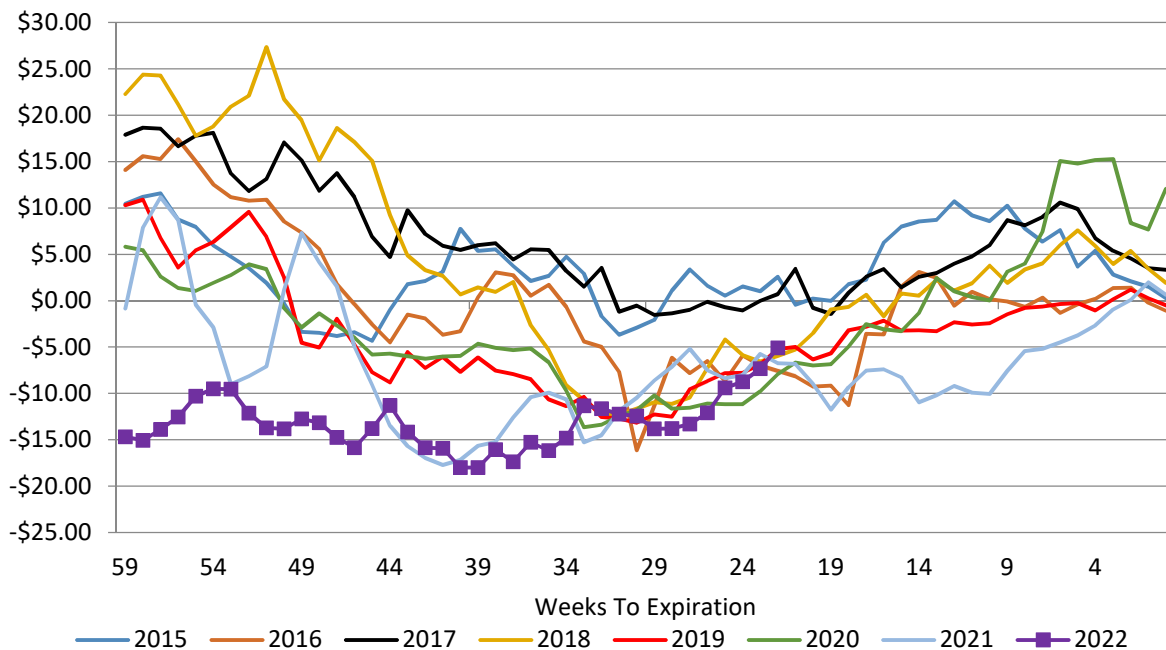
Again, still getting my head wrapped around the newsflow of the past week. It appears it was another good week for cash trade with solid volume and higher prices. The early indications seem to imply expectations for higher trade again this week. Beef prices stabilized last week, though seasonally speaking it looks like we normally see some modest downside into the final days of the calendar year. If that were to be the case again this year, one has to wonder how much margin the packers are willing to give back without putting up at least a little fight...though obviously their margins are nothing to cry about right now either.

Basis continues to narrow significantly. The charts below look at Feb and Apr basis. After having near record weak basis just a few weeks ago, we're now looking at somewhat stronger than normal basis.

February Live Cattle Basis History



April Live Cattle Basis History



Financials

Friday's sell-off was extreme and today we're seeing a not-so-unexpected rebound from that massive swing. The new Covid variant, apparently called Omicron, hasn't gone anywhere and remains largely unknown. However, we have to keep in mind that we're going to be dealing with new variants going forward. This is something the market will have to learn to live with...just like society at some point I'd hope. Remember, even with the advancement of the Delta variant the market mostly continued to rally...though it did certainly have some ugly sessions mixed in at times. The one big difference between that ongoing rally in Delta and the current questionable response to Omicron is the central bank reaction function. When Delta first spooked the world, the Fed and all other central banks around the world were still pumping out liquidity and hammering home the idea that inflation was entirely transitory. This is obviously no longer the case. The Fed is tapering their asset purchases and most recently has hinted at tapering at a faster rate than originally planned. Other central banks have slowed asset purchases as well. Inflation is clearly not transitory, and central banks are slowly but surely adjusting forward guidance to tighter policy. How do central banks imply they'll support markets through Omicron without pouring more gas on the inflation fire? It'll be an interesting tight rope to watch...depending of course on just how the news develops around Omicron. Here in the US, I would have to imagine there is no political support for a resumption in lockdown anywhere...though I suppose I could be wrong about that.

Energy

Like equities, oil futures are recovering some of their losses from Friday. In addition to simply a turnaround bounce, oil is supported by comments from OPEC+ officials suggesting they are debating whether to follow through with planned production increases going forward. This was already a question following the reserve releases from multiple countries, but now the news on Omicron has added another layer of uncertainty. Today's planned meeting has been postponed to Wednesday.

Today's Calendar (all times Central)

- Export Inspections – 10:00am
- Crop Progress - 3:00pm

Thanks for reading.

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