

Weather

No big changes overnight. The QPF map at the right pretty much says it all. There just isn't much precipitation to worry about over the next week. Rains shown around the Great Lakes will be tonight and tomorrow. The light rains in ND will come during the weekend. Rainfall chances should start to slowly reemerge around the middle of next week. Chances will likely increase in the Northern Plains initially and slowly spread southwest into the rest of the Corn Belt. The pattern will be similar to the one seen earlier this summer, where disturbances can move across the top of the ridge of high pressure. This can typically produce very big rainfall totals, but it is difficult to determine who will be most favored for good rains more than a few days in advance.

We're still looking at big heat for the Corn Belt. Highs should be 90-95 for most of the Corn Belt, but states like NE, KS, and MO will definitely see chances for 100s. The peak of the heat should stretch from Saturday to Wednesday. There is still excellent model agreement that temps will moderate later next week.

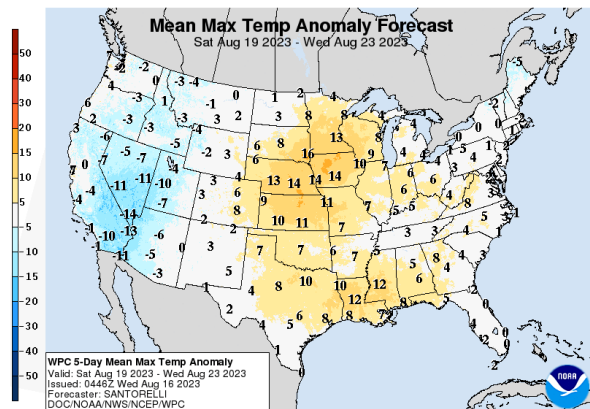
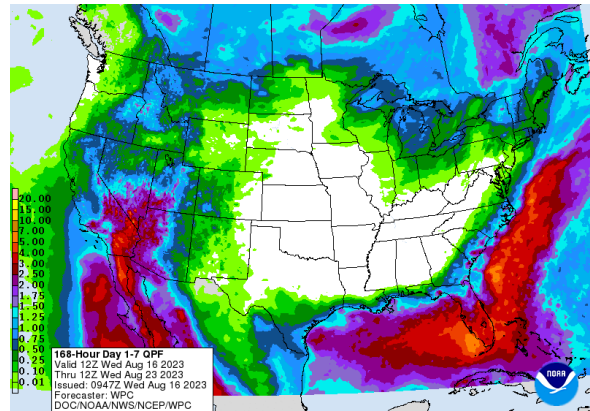
Crops

A quick addition to my comments from yesterday. I said that I couldn't recall anything special from 1995.

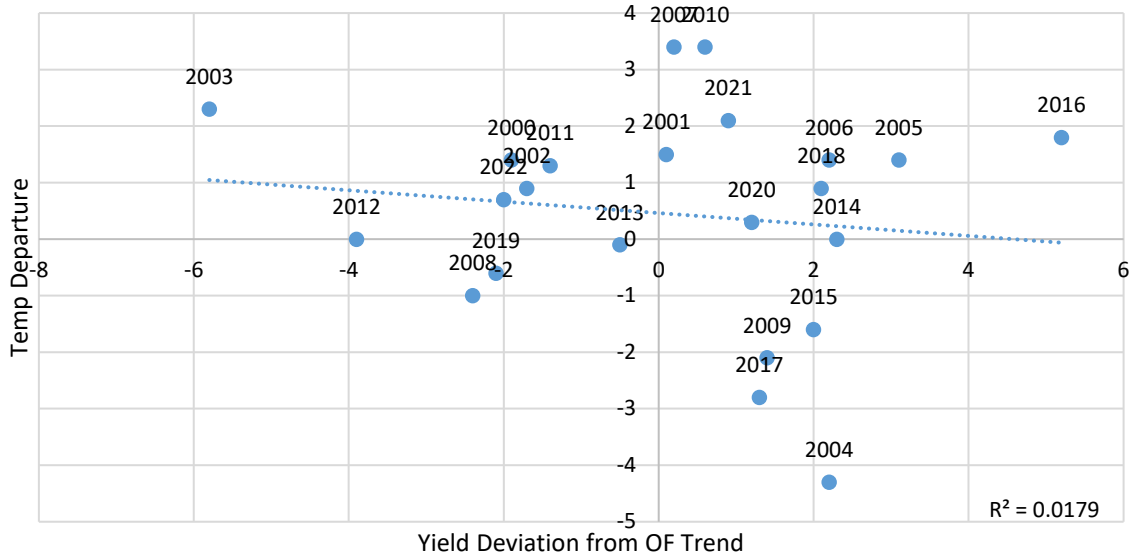
I'm not sure how I missed it, but our good friend Craig Solberg was able to point me in the right direction. He pointed out that *in 1995 (post Aug USDA crop report) we had big heat in August (6th hottest on record for the Corn Belt, 2nd hottest since 1947) and we had development of Gray Leaf Spot disease. And, we had an early September freeze...the earliest freeze on record in Des Moines was recorded in 1995. Good color on the 1995 Aug-final yield decline.*

Earlier this week I plotted corn yield deviation from trend vs July weather to illustrate that the weather conditions we've seen so far this summer would seem to be relatively inline with what the USDA has given us on corn yields. There is a long way to go, of course, and weather can still add to or subtract from yield potential.

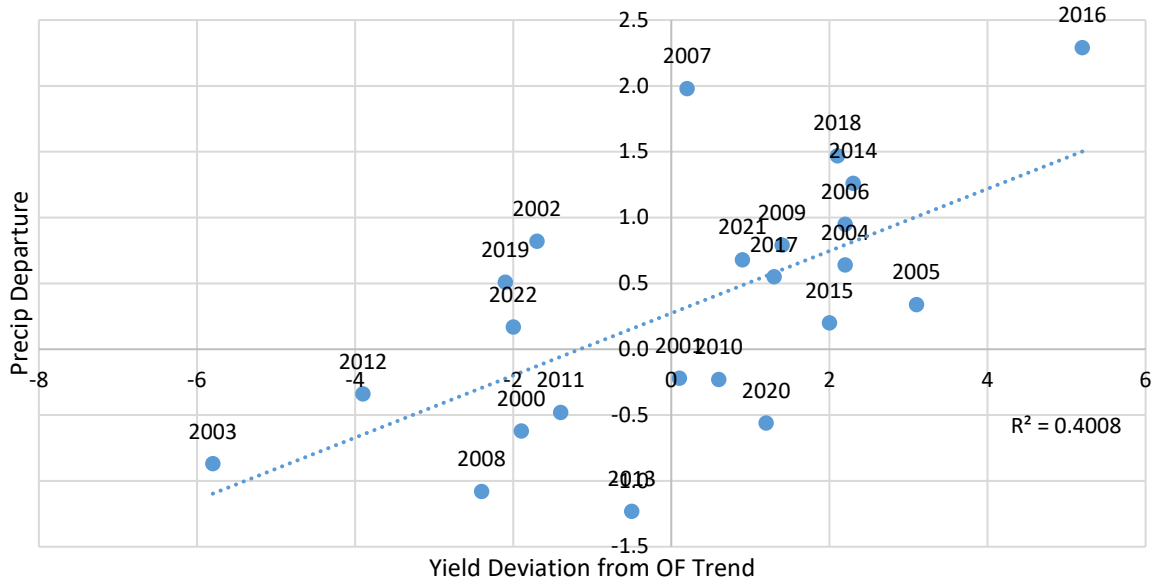
Recent price action is indicative of a renewed focus on weather conditions, but this time more focused on soybeans. With that in mind, I thought I'd put some similar charts together for August weather and soybean yields. The charts below compare August soybean belt departures vs normal temps and precipitation against the deviation from trend yields over the past ~20 years. Unlike what we know about corn, the deviation from temperatures doesn't seem to have a strong correlation to yields...though clearly cooler temps seem to be helpful. However, the precipitation totals would seem to be very important during August...which should come as no surprise...



August Soybean Belt Departure from Avg Temp vs Yield Deviation from Outlook Forum Trend



August Soybean Belt Departure from Normal Precipitation vs Yield Deviation from Outlook Forum Trend



So with a dry outlook for the next 7-10 days, what degree of concern should we have for soybean yields? Well the good news is this dry weather is coming after a period of very good rainfall for much of the region. Again I'm

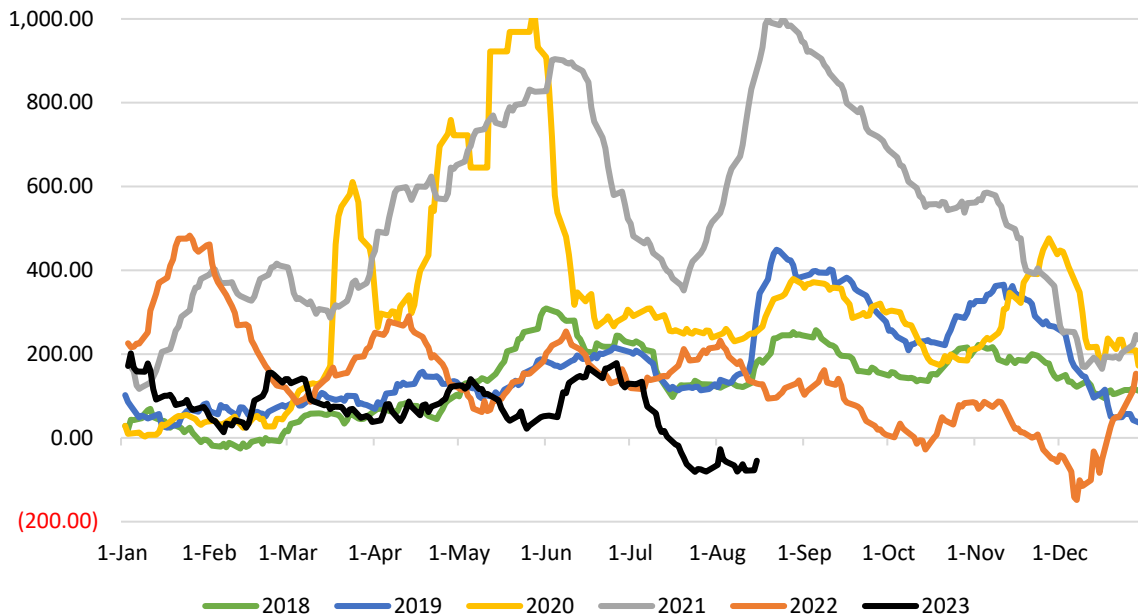
going to lean on my good pal Craig Solberg for a moment. He notes: *Normal Aug 1-31 rainfall for the soybean belt is 3.55 inches. We are 45% done with the month, so normal rainfall by now would be 1.60". I'd guess that we are about 140% of normal right now...so let's call MTD rainfall this year as 2.25" or about 0.65" above normal.*

It's important to keep in mind that Craig is guesstimating there as we don't have completely official soybean belt totals for the month. Still, the point is – we should be a decent bit above normal on rainfall so far this month, so the upcoming dry spell comes at a fairly good time if you're going to have a dry spell. With the forecast as it looks today, I would say there is still a pretty good shot that August monthly precipitation might end up pretty close to normal even after the dry weather.

Livestock

Not exactly breaking news here, but packer margins remain in the toilet. Interestingly, we “should” normally see a seasonal bounce in margins around this time of year. The question I have right now is...how is that going to happen this year? Beef seems sluggish and cash leverage doesn't seem to be on the side of the packer right now. Thoughts?

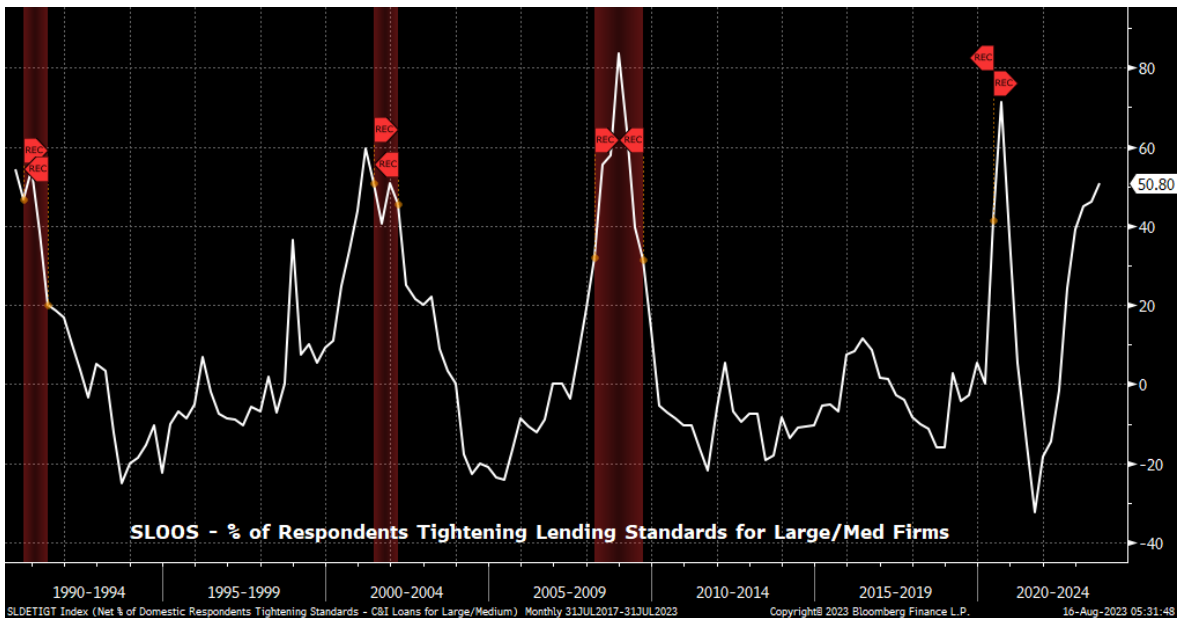
HedgersEdge Beef Packer Margin Estimate (\$/hd)



Financials

Not much to discuss this morning. One interesting bit of data released overnight was UK inflation. CPI was stronger than expected at +6.8% YOY vs +6.7% expected. This stronger than expected reading supports the thought for further BOE rate hikes and is supporting a mild pop in the BP at the time of writing this morning. Otherwise, no major earth-shattering economic releases due out this morning. Housing starts will get a look, but probably won't be a big deal. On tap this afternoon is the minutes from the last FOMC meeting, which will get more attention.

One thing I forgot to point out earlier this month was the Fed’s Senior Loan Officer Opinion Survey. The report showed that banks were sharply tightening lending standards. Note the chart below. Since the inception of the report, any time that greater than 50% of respondents were tightening lending standards to large and medium sized firms was followed by a recession. I suppose this time could be different....



Energy

A significant sell-off in WTI yesterday and a slightly weaker board at the time of writing this morning. The chart looks at spot CL, and you can see we failed at resistance last week and yesterday broke through the short-term uptrend we’ve had since late-June. I suppose this could mean a test of those key moving averages below could be in the works. I suppose some of the sell-off yesterday was related to concerns over Chinese economic data. Here today we’ll get the weekly release of US inventory figures. I think it is worth pointing out that yesterday the API posted a sharp 6.2million barrel decline in US crude oil stocks last week. I guess we’ll have to wait and see if the EIA is similar.



Today’s Calendar (all times Central)

- Housing Starts – 7:30am
- Industrial Production – 8:15am
- EIA Petroleum Inventories – 9:30am
- FOMC Minutes – 1:00pm

Thanks for reading.

David Zelinski

dzelinski@nesvick.com

901-766-4684

Trillian IM: dzelinski@nesvick.com

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