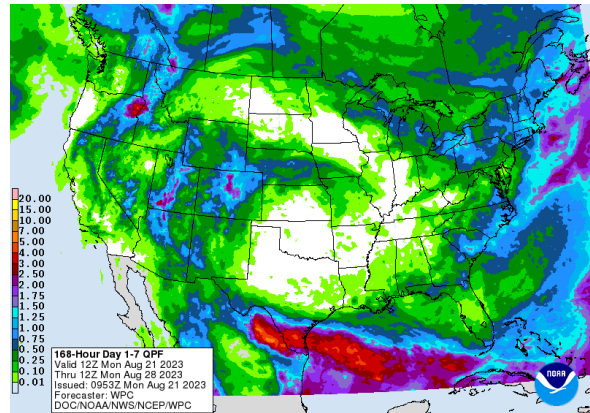
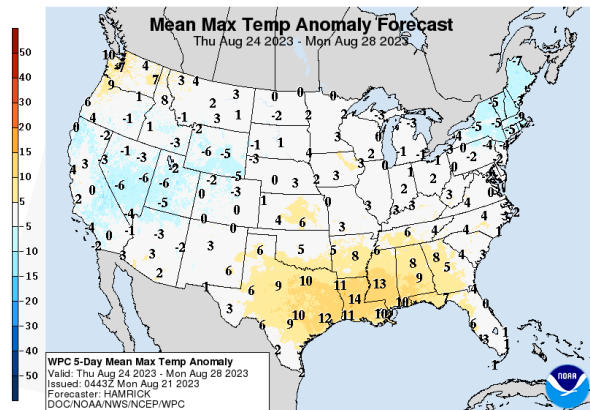


Weather

The 7-day QPF map is shown at the right. The bottom line is there just isn't much precipitation to get excited about through the Corn Belt for at least the next week. The rains shown in the NE/IA/MO area would potentially fall Sat-Sun but there isn't a lot of model agreement on this forecast so I'd expect to see some changes on that outlook before too long. The change in the outlook over the weekend is that the forecast for Week 2 precipitation has become much more pessimistic. It is highly likely that well below normal precipitation would continue through the duration of the two week forecast period.

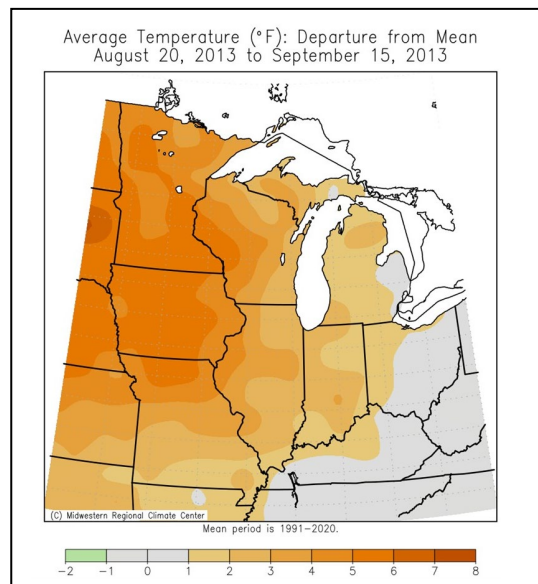


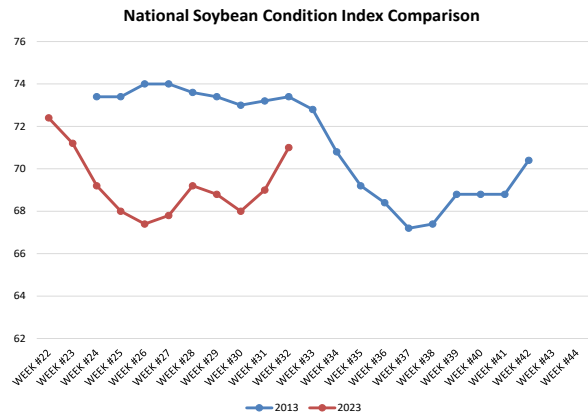
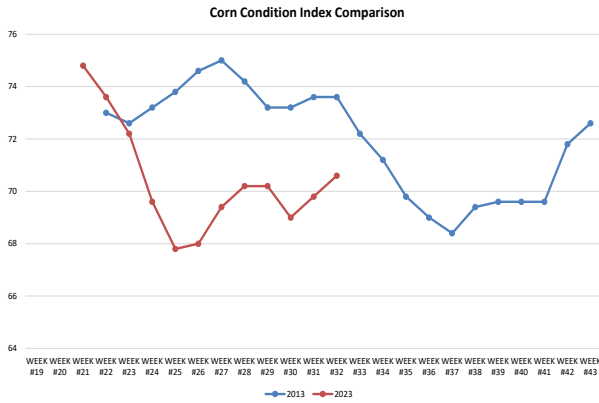
Big heat still expected through the middle of the country through later this week. Widespread 100s are possible in the Plains and WCB. The good news is that we should see cooler temps later in the week. The map at the right shows the forecast departure from normal high temps for the Days 3-7 period, and during that period you can see we're looking at only slightly above normal readings for the Corn Belt. We could see temps warm up again in the 11-15 day period, but nothing like what will be seen in the next few days.



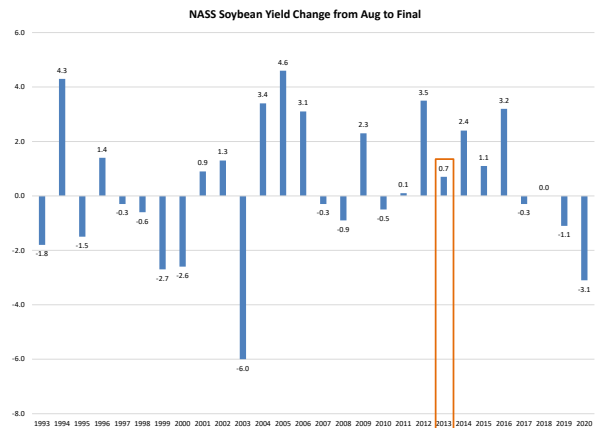
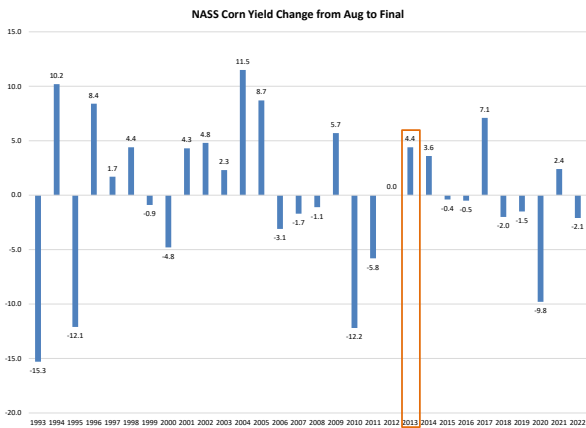
Crops

Our friend Craig Solberg pointed out on Friday that the last time in recent years when we've had a similar heat wave through the Corn Belt was in 2013. He pointed out that in 2013 highs in Des Moines (just to use one example) from Aug 26 through Aug 30 were 99, 99, 99, 96, and 104. In fact, it actually stayed hot in 2013 for a long while. As an example, Des Moines had highs of 101 and 99 on Sep 9-10, respectively. A map showing the departure from normal temps from Aug 20 through mid-Sep in 2013 is shown at the right. Time will tell if this late Aug and early Sep weather actually proves to be similar, but I suppose we can certainly point out some similarities. With that in mind I wanted to look at 2013 as a sort of case study this morning. The first charts that follow on the next page are corn and soybean condition ratings. I've also posted this year's ratings. You can see that we're starting below the 2013 levels at this point in the year. You can also see that conditions declined sharply during the hot and dry stretch that lasted from late Aug through mid Sep.





Sounds bad, huh? Not so fast. Conditions are one thing, but what about actual yields? Remember that discussion on August-to-final yields in corn from last week? Remember I didn't mention 2013 as a year that featured a big yield decline. Well, that's because the corn yield increased from Aug to final in 2013 despite the string of hot and dry weather in late Aug and early Sep. The chart at the right shows that soybean yields increased that year too. In fact, soybean yields finished 2013 right at the record level (at that time).

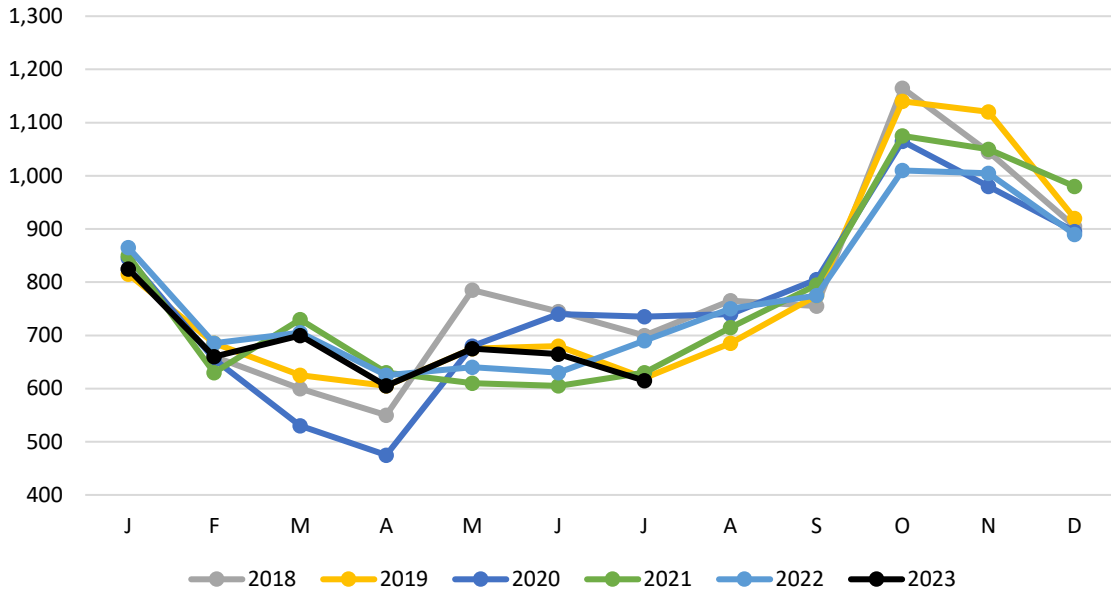


I'm not exactly sure what to think about crops with this weather forecast. Obviously, the forecast is less than ideal. However, I do think that 2013 serves as a warning for those who want to get really fired up about crop losses. Also keep in mind that 2013 saw very dry conditions during the month of July. All things considered, at least this year's crop is going into this situation with fairly decent precipitation behind us.

Livestock

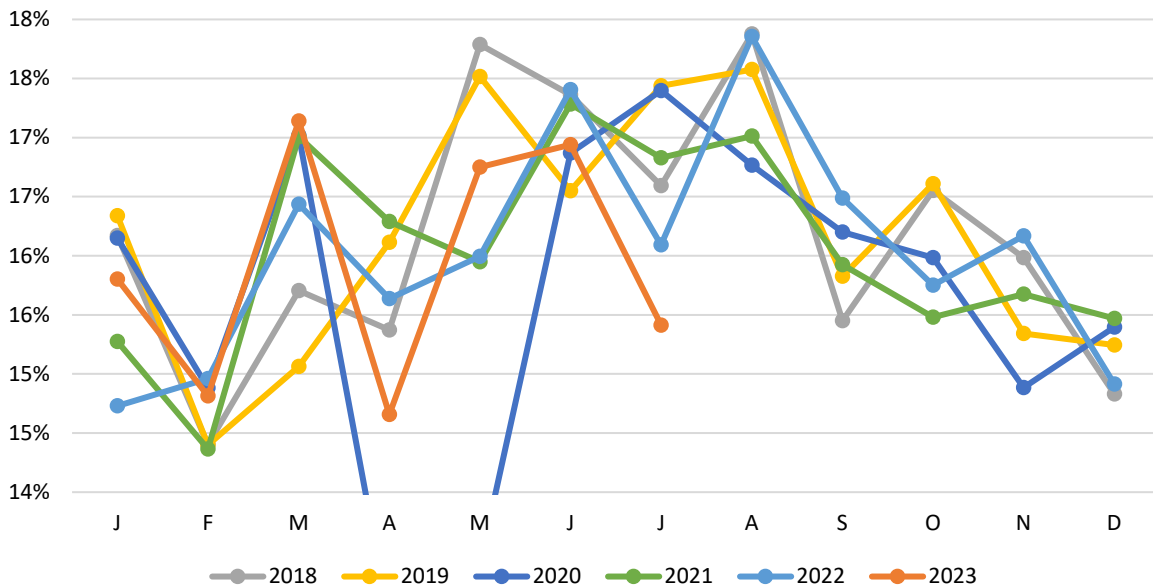
Friday's Cattle on Feed is viewed as somewhat friendly, with placements coming in well under expectations. Looking at the breakdown on placements, I think it is worth noting that the heavier weight placements were steady to slightly higher YOY. Instead, it was the light weight placements (calves) that were off sharply YOY. I think the obvious possible excuse for this miss is that the calves are on grass everywhere but in TX where the drought it still very bad.

US Placements < 700 lbs.



Marketings were also very soft. It isn't a surprise, of course, but the soft level of marketings does limit some of the sting from the lower-than-expected placements...at least in my opinion.

Marketings as % of On-Feed



So a few thoughts here:

- Despite the low placements number, COF came in relatively close to expectations.
- The low placements combined with soft marketings could potentially support bear spreads.
- No argument from me that futures will be higher initially this week, but are packers going to chase cash higher right now as they just barely clawed back some margin over the past couple of weeks?

What am I missing?

Financials

One quick observation this morning. We've seen US yields moving higher recently, but most of that action has been at the long end of the curve. That being said, the short end of the curve remains near the recent highs. In the chart below, the white line shows US 2Y yields. We're still sitting right at major technical resistance here. Any major hawkish rhetoric from the Fed would potentially push 2Y yields into new highs. What makes that interesting is the possible effect on commodities. The pink line shows the Bloomberg Commodity index, with the axis inverted. As rates have been moving higher, the BCOM has been sinking lower. If rates were to breakout to new highs, it would likely mean a breakdown in commodities as a whole. Just something to consider...



In economic data overnight, not much to look at but one thing that sticks out to me is German PPI. German PPI was -6.0% YOY vs expectations for -5.1% YOY. This is the weakest reading on PPI since the GFC in '09. I'm surprised to see the Euro trading modestly higher with that sort of number this morning.

Don't forget, the big ticket item on this week's agenda is Fed Chair Powell's speech at Jackson Hole on Friday. Expectations are for a mildly dovish tone, which is probably why the dollar is softer to start the week.

Energy

No new information to pass along this morning. There is a refinery outage in Europe. Total's Antwerp refinery is the third largest oil processing complex in northwestern Europe and processes 338k bpd of oil. No word on how long it might be down.

Oil and product futures are higher this morning. Getting my attention today is the recovery in diesel spreads. The chart at the right shows the Oct-Nov spread, just to show one example. It has moved to new highs overnight. Obviously a sharply inverted prompt calendar spread is probably warning of tight physical markets, so this is theoretically a bullish signal for flat price here.



Today's Calendar (all times Central)

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

Thanks for reading.

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