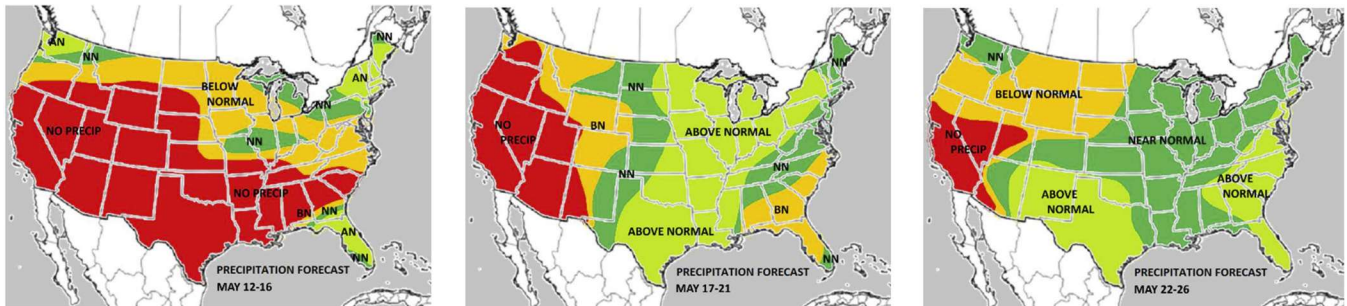


Weather

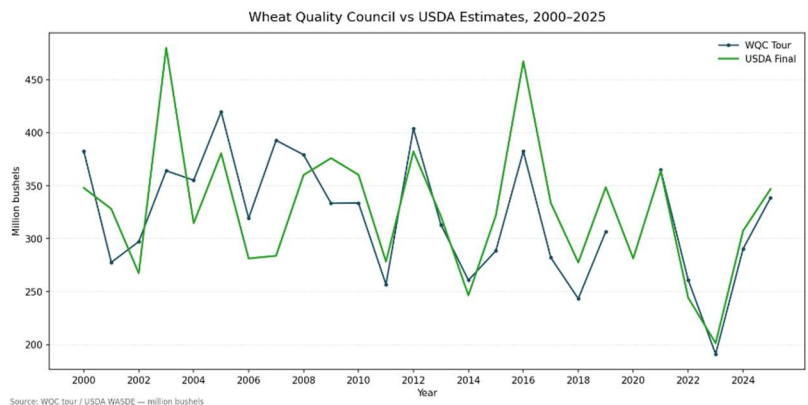
Weather across the United States remains sharply divided, featuring an abnormally warm western pattern and cooler eastern conditions through Friday, with extreme heat expected to push highs 10+ degrees above normal across the central Plains and western Corn Belt by Thursday and Friday. Precipitation will remain severely limited across the Corn Belt and hard red winter wheat belt through Thursday, which will facilitate a massive operational window for fieldwork and planting progress but will further deplete rapidly declining topsoil moisture levels across parched states like Nebraska and Iowa. The pattern undergoes a significant shift beginning Friday and extending into the 6-10 day period as an active system is forecasted to bring near to above-normal rainfall amounts across the middle of the country; this moisture will provide critical relief to deteriorating winter wheat and topsoil but will abruptly halt widespread planting operations. The Mid-South and Southeast will experience below-normal rainfall throughout Week One, offering a vital operational window to complete spring fieldwork before a notable transition to highly welcome, above-normal precipitation occurs in Week Two.



Grains

As I mentioned yesterday, I'm out on the Wheat Quality Council's HRW tour this week. It's a useful exercise in its own right, but the question I keep coming back to is: does this tour actually tell us anything? The answer, at least over the last five years, is yes.

From 2000 through 2019, the tour's HRW production estimate missed USDA's final Kansas wheat production number by an average of 42.9 million bushels – 12.5% – with some years off by 100+ million in either direction (2003 was 116 light, 2007 was 109 heavy, 2016 was 85 light). That's not really a forecast; it was more of a directional signal with a very large error bar.



However, over the last several years, that error bar has collapsed. The last five tours have averaged an absolute miss of 10.7 million bushels, or 4.0%, with the worst single miss running 17 million. The tour has trended modestly light on average – about 1.2% below final.

While five tours isn't long enough to truly statistically significant, it clearly does show that the tour has been able to consistently come within a small margin of the final crop. But the practical takeaway is the same either way: when this year's tour number lands later in the week, it's worth treating as a real signal rather than background noise. Coming just a few days after the WASDE report (which releases today, 5/12, at 11 AM Central), it should give us a good indication as to which direction that USDA may revise the crop over the next several months.

Grains commentary provided by Zachary Davis. For questions or comments, Zachary can be reached by email at zdavis@nesvick.com or on Trillian at zdavis@nesvick.com.

Livestock

I hope many of you got to experience the roulette wheel that is the CME—where markets can reprice themselves by \$7/cwt in a 2-minute window, all without the ability to trade. Today, the Trump administration made a live, intraday announcement that the U.S. would remove import tariff rate quotas (TRQs) in an effort to increase beef imports and bring down domestic prices. The Wall Street Journal provided an outline of the press release. As a reminder, we discussed import pricing a few weeks ago. At that time, importing Brazilian hindquarters cost roughly \$2.50/lb. With the 26.4% TRQ tariff, that pushed the landed cost closer to \$3.20/lb. This compares to US 85 lean, which is \$4.00/lbs. Removing that tariff now creates about a \$1.50/lbs incentive to bring product into the U.S. This shift is even more significant given that China implemented its own TRQ on Brazilian beef earlier this year. Since early May, Brazil has been actively searching for a destination for roughly 100,000 metric tons of beef. As of today—or realistically, as of last Tuesday—it appears the U.S. has become that destination. From what I’m seeing in the underlying trade flows, approximately 2,500 loads, or about 45,000 metric tons, were already on the water headed to the U.S. as of last week, with more to follow now that it has been made public today. Based on this, we should expect Brazilian imports to ramp up through the remainder of May, continue into June, and extend into July. From a timing perspective, this also makes sense. Importers are incentivized to move product now, before prices potentially soften into the fall. What’s important to understand is how this impacts the forward curve. Futures markets reacted as though November and December contracts would bear the brunt of this shift—but that’s far from certain. In fact, the opposite may be true. As a result I am expecting Brazilian imports to be 20% over a year ago in late May and likely +25% in June but 50% larger than July and holding at something closer to 12,500 mt a week. Remember last years imports fell from June into the Fall bc of Trumps 86% tariffs on imports and today those tariffs had been 26.4% and are now 0%. This \$1.40 incentive will bring the beef. Also, this is my opinion only, a comparison of a large US packer that is an importer vs a US packer that is not (after these changes), their margins are likely \$150/hd different, all things equal. I would appreciate some feedback on this math from anyone who can help me get this dialed in.

Also, a quick reference and possible confirmation about the slowdown for beef at US retail and food service business. The USDA comprehensive cutout value volumes fell to their lowest non-holiday levels since 2023 for last week's sales. Everything from formula to forward orders to exports to spot sales fell hard. Does price finally matter? Or is this just a one-and-done pullback in purchasing? Only time will tell but as a reference, here is another look at Retail prices.

Trump Clears Way for More Beef Imports, Aiming to Bring Down Record-High Prices -- WSJ

By Patrick Thomas and Gavin Bade

(Wall Street Journal) -- The Trump administration is opening the way to import more steaks and ground beef from overseas, part of a broader effort to address record-high beef prices.

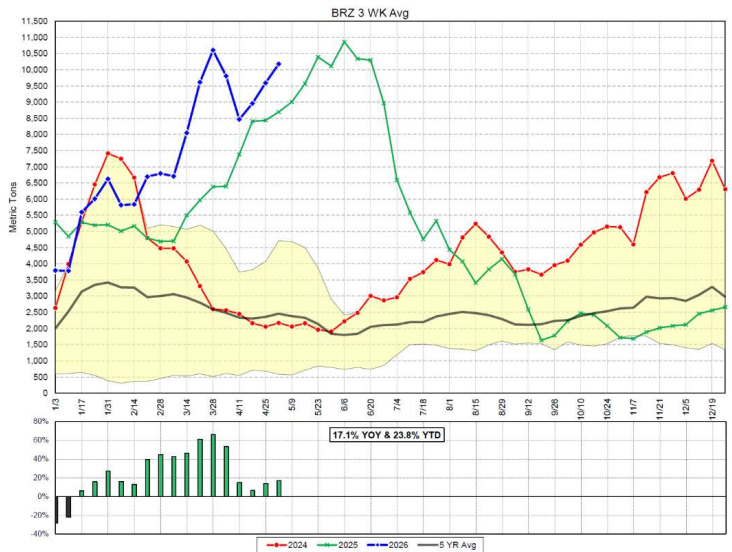
The administration is planning to temporarily reduce tariffs on beef imports as soon as Monday, according to people familiar with the matter. The move would suspend the annual tariff-rate quota -- which applies a higher tariff rate after a certain level of beef imports are reached -- on all beef-exporting nations, enabling more of the product to enter the U.S. at low rates.

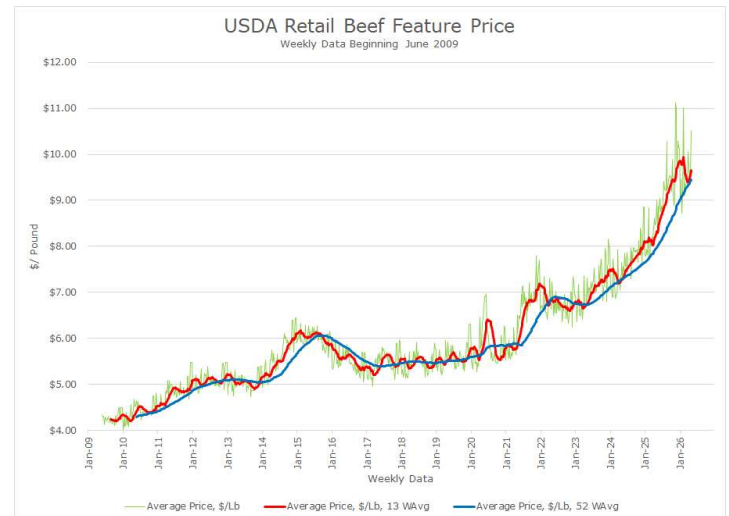
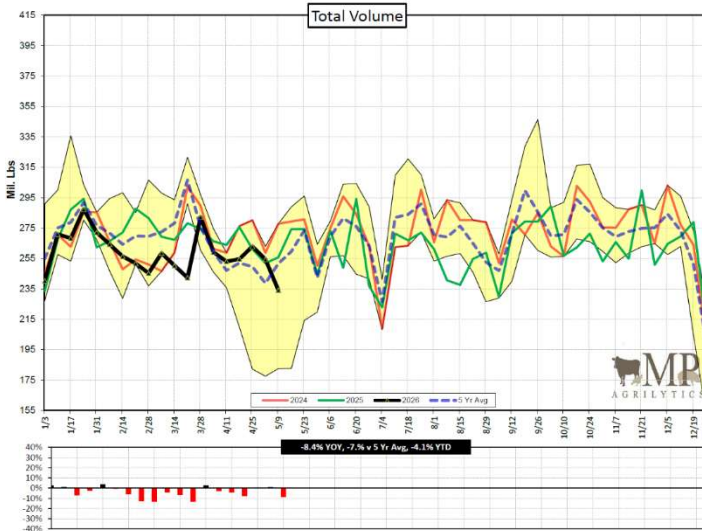
The administration also plans to direct the Small Business Administration to increase loans and access to capital for U.S. ranchers, and to reduce protections for gray and Mexican wolves under the Endangered Species Act, a focus of rancher complaints. The administration will reduce some regulations for U.S. cattlemen, including Agriculture Department rules requiring them to use electronic ear tags on livestock.

A White House official said the tariff decision aims to address short-term supply issues with beef in the U.S., while the deregulatory efforts will help lower ranchers' costs over time.

The pair of executive orders aims to tackle one of the most persistent sources of inflation for U.S. consumers. While prices over the past year and a half have eased for eggs, milk and other products, beef has continued to rise. Ground beef prices are up 40% from five years ago.

The administration in February allowed more beef imports from Argentina in a bid to bring down domestic prices.



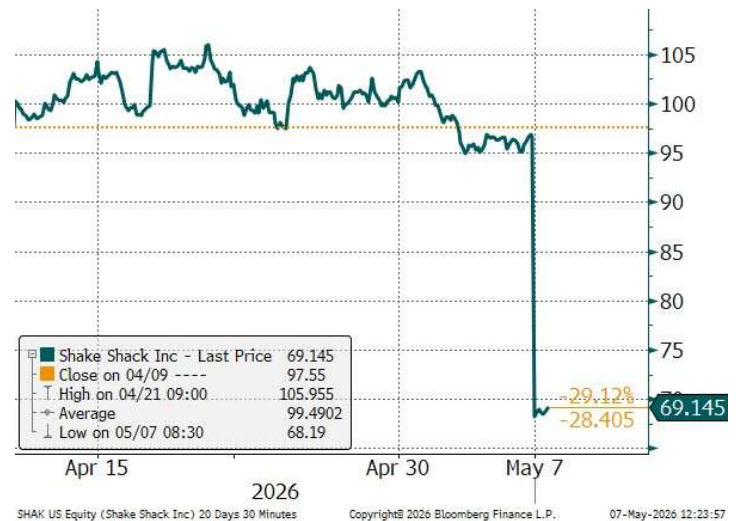


Livestock commentary provided by Scott Shepard. For questions or comments, Scott can be reached by email at scott@mnrcapital.us or on Trillian at scott@nesvick.com.

Macro/Financials

Last week brought two QSR earnings prints that tell the same story once you sit with them. McDonald's beat in what CEO Chris Kempczinski openly called "a challenging environment," and the stock held. Shake Shack lost roughly a third of its market cap on a print where revenue missed by about 3%. The easy read is that the consumer is trading down, and there's some of that, but it underplays the real cleavage. The cattle cycle is paying out in the QSR P&L, and you can see exactly where the pain lands.

McDonald's posted +3.9% U.S. comps, the fourth straight positive quarter, though down sharply from +7% in the prior quarter and driven by check rather than traffic. Kempczinski's framing of the consumer was unusually blunt: things are "certainly not improving, and it may be getting a little bit worse," with elevated gas prices "disproportionately impacting low-income consumers." MCD's response has been to lean harder on value, with a new sub-\$3 menu and a \$4 breakfast meal deal launched in April on top of the existing \$5 and \$6 deals. CFO Ian Borden was equally direct on the cost side: "There continues to be pressure on a commodity like beef." Yet MCD reaffirmed full-year U.S. food-and-paper inflation guidance in the low-to-mid single digits. That is the playbook scale buys you. Pass some of it through, eat some of it, and use the value menu to keep traffic from breaking. Defensive, not triumphant, but it works.



Shake Shack cannot run that playbook. Revenue came in at \$366.7 million against a \$378.9 million consensus, EPS broke even versus a \$0.12 estimate, and the company swung from net income last year to a net loss this quarter. CEO Rob Lynch attributed the shortfall to winter storms and an accelerated store-opening schedule, both real and at least partially transitory. But the line that matters most is beef costs. SHAK uses 20% brisket in its burger grind, the same cut leading the boxed-beef move, with Choice cutout running up roughly 15% year-on-year and live cattle up 18 to 40 percent depending on class. A premium burger chain with limited pricing power and no franchise-scale buffer is the worst possible exposure

profile in this cycle. CAVA fell about 4% in sympathy, but they do not report until May 19, so call that noise rather than signal. The cleaner tell is the rest of the QSR tape, where Chipotle, Domino's, and Texas Roadhouse held in or traded up modestly. This is not a consumer-cohort story. It is a beef-cost story.

With the U.S. herd near multi-decade lows and any meaningful supply relief still 18-24 months out at the earliest, beef-cost pressure is a multi-year setup rather than a quarterly headwind. The dispersion in QSR equities is going to keep widening as the cycle plays out, and scale plus value-menu flexibility is the moat that matters now. CAVA's print on the 19th will be the next stress test of the framework. Watch traffic versus check and any commentary on commodity costs and pricing actions. For now, I would be careful catching the knife on Shake Shack. Earning back margin while the input cost grinds higher takes longer than the market typically gives, and the boxed-beef chart has not rolled over yet.

Macro/Financials commentary provided by Zachary Davis. For questions or comments, Zachary can be reached by email at zdavis@nesvick.com or on Trillian at zdavis@nesvick.com.

Today's Calendar (all times Central)

- ADP Weekly Employment Change – 7:30 AM
- CPI – 7:30 AM
- WASDE – 11:00 AM

Thanks for reading,

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