



November 7, 2014

**Monthly Agriculture Market Notes:**

The past month was a very difficult one for the program. Corn and soy markets rallied sharply, despite being in the midst of harvesting a record crop. With the benefit of hindsight, I can easily point out many warning signs that trouble was brewing around the middle of last month. Some of these “flashing red lights” could have been:

- A smaller than previously thought soybean carry-in of 92 million bushels
- A slowly progressing harvest, due to wet weather, that was not replenishing the already stretched “pipeline” supplies of soybeans and meal
- Speculative short positions that had grown huge (and complacent) in the bear market during the summer months following excellent weather and growing crop production ideas
- End-user complacency of remaining “hand-to-mouth” in their origination of beans, meal, and/or corn

The list can go on, but I feel the point has been made. Quite frankly, I had become complacent (along with others) towards an ongoing bear market in grains and oilseeds due to the huge record production levels currently being harvested. I had lost track of the short-term indicators that were flashing these warning signals that a short-term dislocation of supply and demand was shaping up. The program obviously paid a high price.

Though we must of course be mindful not to repeat these mistakes, we also have to move past them and keep our focus on the future. Unfortunately, the future is very clouded right now. On one hand we still have the same long-term balance sheet fundamentals that point towards eventual lower prices. On the other hand, the near-term cash market pull for both corn and soybeans is creating an environment where cash markets are chasing supplies and the short term indicators such as basis and spreads are providing support to prices.

The chart to the right shows a historical look at the soybean balance sheet for Q1 of the marketing year. The estimates shown for this year in yellow are just projections at this point.

Pay attention to the numbers in red at the bottom. Note the row for “needed sales.” This shows you an estimated of how much of the new crop is needed to be put into the pipeline right away to match the current projections for demand for the quarter. Note the row directly under that showing this year’s needed sales represent 93% of total Q1 demand due to the especially small carry-in. Finally, note that the “needed sales” represent 33% of entire

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
Carryin (Sep 1)	449	574	205	138	151	215	169	141	92
Production	3,197	2,677	2,967	3,359	3,329	3,094	3,034	3,358	3,927
Sep-Nov Imports	2	2	3	3	4	3	4	7	6
Total Supply	3,648	3,252	3,175	3,500	3,484	3,311	3,207	3,506	4,025
<b>Sep-Nov</b>									
Crush	459	467	420	445	443	412	452	446	436
Exports	374	328	387	536	622	425	618	677	803
Seed	-	-	-	-	-	-	-	-	-
Residual	113	97	92	181	141	105	171	229	155
Total Use	946	892	899	1,162	1,206	942	1,241	1,352	1,393
Stocks (Dec 1)	2,701	2,360	2,275	2,339	2,278	2,370	1,966	2,154	2,631
Stocks/Use	286%	265%	253%	201%	189%	252%	158%	159%	189%
Needed Sales	495	316	691	1,021	1,051	724	1,068	1,204	1,296
Needed/Use	52%	35%	77%	88%	87%	77%	86%	89%	93%
Needed/Crop	15%	12%	23%	30%	32%	23%	35%	36%	33%



new crop production. We've essentially asked the farmer to market one-third of his crop *immediately*. Of course the residual number is something of a guessing game, but I feel the demand projections here are realistic. If anything, given the huge export program we are currently facing, I should probably put that residual figure even higher. Also, keep in mind that the number for the crush is actually not as large as we were projecting earlier in the year. Due to the slow harvest and logistical constraints, the crush projection has backed off considerably. The demand was there for even more beans, and we just haven't been able to fully meet that demand.

We can see similar trends in the same analysis on the corn quarterly balance sheet. The situation clearly isn't quite as tight as with the case in soybeans, but we are still asking the farmer to market one-quarter of his new crop essentially on the spot. Obviously the slow progressing harvest hasn't helped with that effort, and the weak basis in certain locations isn't helping either. This is why we continue to see basis levels creep higher even with the rally on the board. The corn pipeline is not as tight as soybeans and the export demand isn't nearly what we have in beans, but we are still in a situation where we have to get corn to move.

US Corn Quarterly Supply and Demand									
	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
Carryin (Sep 1)	1,967	1,304	1,624	1,673	1,708	1,128	989	821	1,236
Production	10,531	13,038	12,092	13,092	12,447	12,360	10,780	13,925	14,476
Sep-Nov Imports	1	2	3	1	5	4	35	15	7
Total Supply	12,499	14,344	13,719	14,766	14,160	13,491	11,804	14,761	15,719
<b>Sep-Nov</b>									
Feed & Residual	2,159	2,387	1,978	2,017	2,069	1,825	2,082	2,409	2,400
Food/Seed/Ind	811	986	1,219	1,380	1,582	1,613	1,469	1,549	1,616
Exports	596	693	449	467	452	406	221	350	399
Total Use	3,567	4,066	3,647	3,864	4,103	3,844	3,771	4,308	4,415
Stocks (Dec 1)	8,933	10,278	10,072	10,902	10,057	9,647	8,033	10,453	11,304
Stocks/Use	250%	253%	276%	282%	245%	251%	213%	243%	256%
Needed Sales	1,599	2,760	2,020	2,190	2,390	2,712	2,747	3,472	3,173
Needed/Use	45%	68%	55%	57%	58%	71%	73%	81%	72%
Needed/Crop	15%	21%	17%	17%	19%	22%	25%	25%	22%

The point here is that while we can look at a balance sheet and point to an *ending* stocks figure or stocks/use ratio and feel positive that prices should remain in a bear market, the cash market is still struggling to find its footing. This is a type of situation where long-term fundamentalists struggle to find a "home" in the market. Absent a weather problem, we "know" prices should resume their trend lower at some point in the future. However, the ongoing cash struggles will keep prices volatile in the short or medium term. Timing changes in cash market trends is especially difficult to do.

With all of the above in mind, we will have to take a much more active approach in our positioning in the weeks and maybe months ahead. I still view the long-term fundamentals as negative. South American weather so far can be described as "adequate"....far from problematic. Without the development of a weather situation in South America, I look for the lower trends to resume in both corn and soybean prices at some point in the not too distant future. I view soybeans as having more downside over the long term, but in the short term soybeans will remain the most volatile. Balance sheet estimates are attached on the next page for your review.

Respectfully,  
David Zelinski  
Opus Futures, LLC



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

	USDA 11/12	USDA 12/13	USDA 13/14	USDA 14/15 Oct	Opus 14/15	Opus 15/16
Planted Acres	75.0	77.2	76.8	84.2	84.2	87.5
Harvested Acres	73.8	76.2	76.3	83.4	83.4	86.5
Abandoned Acres	1.2	1.0	0.5	0.8	0.8	1.0
Yield	41.9	39.8	44.0	47.1	47.1	45.0
Carryin (Sep 1)	215	169	141	92	92	407
Production	3,094	3,034	3,358	3,927	3,927	3,893
Imports	16	36	72	15	15	10
<b>Total Supply</b>	3,325	3,239	3,570	4,034	4,034	4,310
Crush	1,703	1,689	1,734	1,770	1,770	1,800
Exports (Census)	1,360	1,320	1,647	1,700	1,750	1,730
Seed	90	89	98	92	102	90
Residual	2	1	0	22	5	20
<b>Total Use</b>	3,155	3,098	3,478	3,583	3,627	3,640
<b>Carryout (Aug 31)</b>	169	141	92	450	407	670
<b>Stocks/Use</b>	5.4%	4.6%	2.6%	12.6%	11.2%	18.4%

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

	USDA 11/12	USDA 12/13	USDA 13/14 Oct	USDA 14/15 Oct	Opus 14/15	Opus 15/16
Planted Acres	91.9	97.2	95.4	90.9	90.9	88.0
Harvested Acres	84.0	87.4	87.7	83.1	83.1	81.0
Abandoned Acres	7.9	9.8	7.7	7.8	7.8	7.0
Yield	147.2	123.4	158.8	174.2	174.2	163.0
Carryin (Sep 1)	1,128	989	821	1,236	1,236	2,132
Production	12,360	10,780	13,925	14,475	14,476	13,203
Imports	29	162	36	25	25	17
<b>Total Supply</b>	13,517	11,932	14,782	15,736	15,737	15,352
Feed and Residual						
Total Feed and Residual	4,548	4,335	5,125	5,375	5,350	5,400
Food, Seed, and Industrial						
Corn for Ethanol Fuel	5,011	4,648	5,130	5,125	5,125	5,130
Other FSI	1,426	1,396	1,374	1,405	1,405	1,410
Total FSI	6,437	6,044	6,504	6,530	6,530	6,540
Total Domestic Use	10,985	10,379	11,629	11,905	11,880	11,940
Exports (Census)	1,543	731	1,917	1,750	1,725	1,950
<b>Total Use</b>	12,528	11,111	13,546	13,655	13,605	13,890
<b>Carryout (Aug 31)</b>	989	821	1,236	2,081	2,132	1,462
<b>Stocks/Use</b>	7.9%	7.4%	9.1%	15.2%	15.7%	10.5%



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