



December 2012 Month End Comments

The corn and soybean markets seem to be dealing with very similar situations currently. Both crops have just seen significant droughts harm production in South American and the US consecutively, and both have seen their prices rally to near all-time highs during the summer months as a result. However, in recent months those prices have faded. The bulls argue that this price decline is unwarranted, noting that current inventory levels for both crops are near record tight and that only higher prices will ration demand to allow for an acceptable level of supplies.

The bears - and I would include myself in that camp - will counter that the bulls are not seeing the big picture. One has to remember that we are involved in a "futures" market, not a "pasts" or even "currents" market. South American weather during the current season has been generally favorable so far. With the potential crop that could be developing in South America and with a return to even close to normal weather in the US this summer, the corn and soybean balance sheets will swing dramatically from the current historically tight supplies to very ample supplies by the fall.

So, while all markets are a battle of bulls vs. bears, corn and soybeans are especially interesting because both the short-term looking bulls and the long-term looking bears seem to have the right argument (short term tight supplies and long term ample supplies). We will see this fight play out in the weeks and months ahead. On January 11th, the USDA will give us their final estimate of 2012 US corn and soybean production, as well as their estimates of first quarter consumption. Both of those figures will be critical in determining which side (bulls or bears) will win the war. While I personally feel the USDA's last crop production estimates will end up being pretty close to the pending final estimate, I have to admit that the consumption estimates (for corn specifically) are a wildcard and could potentially turn the tides dramatically in favor of one side.

The battle line is drawn and January 11th is D-Day for these markets. It is likely I'll update with a note following that report.

As noted above I am firmly in the "bear" camp on corn and soybean prices. I only have to point to the potentially burdensome balance sheets shown at the end of this commentary as support for my position. With a return to even close to normal weather this summer in the US, corn and soybean supplies should bounce back sharply from the current tight levels. Admittedly this is still a while off, and there is a lot that could change (weather), but for now all signs point towards improved inventories. Also note that managed money and large spec accounts still have very large net-long positions in both corn and soybeans, and I suspect that they too will note this potential increase in supply and will use any rallies to lighten their positions and potentially switch to net-short.

I remain friendly to feeder cattle, and the weaker corn prices of late have certainly helped our positions here. Weather in the southern plains has improved somewhat, although the drought remains fully intact. The northern plains remain very dry and have only gone downhill in the past month in terms of soil moisture. For this position to work as we would like, we need to see both lower corn prices (so far so good) and an improvement in the weather in the plains (not yet). In the short term, I have a slightly negative lean on the fat cattle market. I believe that fund inflows at the end/beginning of the year have pushed the basis too wide in that market and that the current supply of fat cattle is too ample to support prices at these levels. I have established a small short position in the front end of the fats, but this will be a short term trade and I will monitor the cash market movements for timing an exit.

Regards,
David Zelinski
Opus Futures, LLC
January 8th, 2013



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

	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	USDA 12/13 Dec	Opus 12/13	Opus 13/14	Excellent Yield	Poor Yield
Planted Acres	86.0	86.4	88.2	91.9	96.9	96.9	99.0	99.0	99.0
Harvested Acres	78.6	79.5	81.3	84.0	87.7	87.7	91.7	91.7	91.7
Abandoned Acres	7.4	7.4	6.9	7.9	9.2	9.2	7.3	7.3	7.3
Yield	153.9	164.7	152.8	147.2	122.3	122.3	157.3	165.0	140.0
Carryin (Sep 1)	1,624	1,673	1,708	1,128	988	988	589	589	589
Production	12,101	13,092	12,447	12,358	10,725	10,726	14,424	15,131	12,838
Imports	15	8	28	28	100	125	15	15	15
Total Supply	13,740	14,774	14,182	13,514	11,814	11,839	15,028	15,735	13,442
Feed and Residual									
Total Feed and Residual	5,250	5,140	4,792	4,562	4,150	4,250	4,600	4,600	4,600
Food, Seed, and Industrial									
Corn for Ethanol Fuel	3,650	4,568	5,021	5,000	4,500	4,550	4,900	4,900	4,900
Other FSI	1,270	1,371	1,407	1,421	1,367	1,350	1,400	1,400	1,400
Total FSI	4,920	5,939	6,428	6,421	5,867	5,900	6,300	6,300	6,300
Total Domestic Use	10,170	11,079	11,220	10,983	10,017	10,150	10,900	10,900	10,900
Exports (Census)	1,800	1,987	1,835	1,543	1,150	1,100	1,350	1,350	1,350
Total Use	11,970	13,066	13,054	12,526	11,167	11,250	12,250	12,250	12,250
Carryout (Aug 31)	1,770	1,708	1,128	988	647	589	2,778	3,485	1,192
Stocks/Use	14.8%	13.1%	8.6%	7.9%	5.8%	5.2%	22.7%	28.4%	9.7%

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

	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	USDA 12/13 Dec	Opus 12/13	Opus 13/14	Fantastic Yield	Poor Yield
Planted Acres	75.7	77.5	77.4	75.0	77.2	77.2	79.0	79.0	79.0
Harvested Acres	74.6	76.4	76.6	73.8	75.7	75.7	77.8	77.8	77.8
Abandoned Acres	1.1	1.1	0.8	1.2	1.5	1.5	1.1	1.1	1.1
Yield	39.7	44.0	43.5	41.9	39.3	39.3	43.8	45.0	41.0
Carryin (Sep 1)	205	138	151	215	169	169	135	135	135
Production	2,967	3,359	3,329	3,094	2,971	2,971	3,410	3,503	3,192
Imports	13	15	14	16	20	20	15	15	15
Total Supply	3,185	3,512	3,495	3,325	3,160	3,160	3,560	3,653	3,342
Crush	1,662	1,752	1,648	1,703	1,570	1,600	1,675	1,675	1,675
Exports (Census)	1,283	1,499	1,501	1,360	1,345	1,325	1,450	1,450	1,450
Seed	90	90	87	90	89	90	89	89	89
Residual	12	20	43	2	26	10	15	15	15
Total Use	3,047	3,361	3,280	3,155	3,031	3,025	3,229	3,229	3,229
Carryout (Aug 31)	138	151	215	169	130	135	331	424	113
Stocks/Use	4.5%	4.5%	6.6%	5.4%	4.3%	4.5%	10.2%	13.1%	3.5%

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