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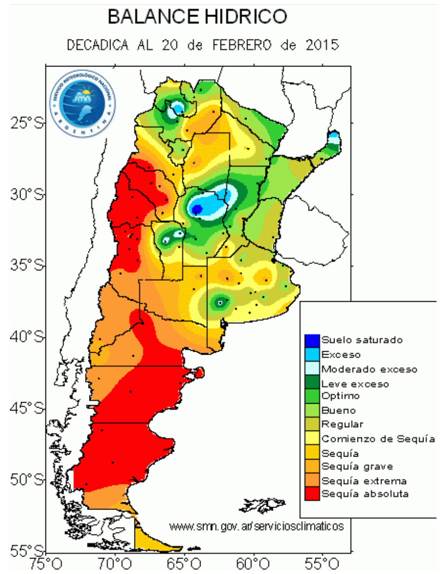
March 5 , 2015

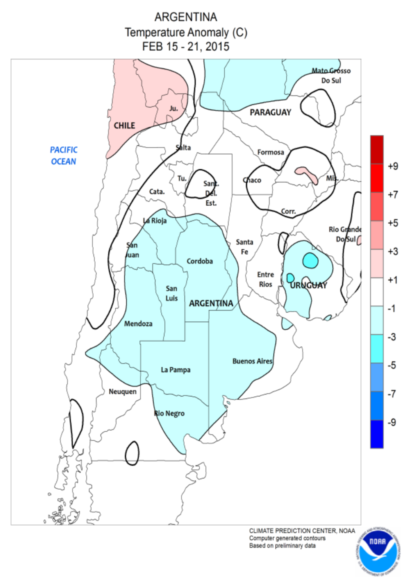
Monthly Agriculture Market Notes:

Despite the fact we're coming out of a very volatile month, very little has changed in terms of ideas on soybean price direction. We're moving into the tail-end of the South American production season. At this point, Brazil's soybean production is what it is. The consensus range of production estimates is mostly between 93-96 mmt at this point, and I have no solid reason to argue for anything outside of that range. Conditions in Argentina have been very favorable so far this season. Moisture has been very good (though excessive in a few spots) and temperatures have been very cool. Reports from contacts in Argentina imply record yields are possible, with ideas towards production increase. It seems most believe Argentine soybean production could range between 57-59 mmt, and again I find myself in agreement with consensus.

Though production prospects still appear bright, South American supply was the key focus of the market in the past few weeks. Brazilian truckers called for a nationwide strike that temporarily crippled Brazilian logistics. The list of grievances from the truckers is long, but government officials have conceded enough to this point that truckers have given up their roadblocks in the countryside and have headed to the capital for further negotiations. Soybean prices exploded higher on the news as the market viewed these strikes as coming as the worst possible time. The Brazilian harvest was just fully getting underway and the export program was just starting to ramp up. Delays in either of these efforts caused by the truckers' strike could have switched business back to the US.

Or so the market thought. With the benefit of hindsight, we can see that the strike may have actually been timed pretty well for the market to cope with it. The strike certainly could have been worse if the export program was fully underway and loading delays were really getting stacked up. Additionally, for at least one week of the strike, Chinese buyers were on holiday for their Luna New





Argentina crop areas have been treated fairly well this year. Soil moisture, measured in the map at the top, has been mostly favorable this season though there have been some areas that recently have turned excessively wet. Temperatures have averaged below normal, as shown in the bottom map, which adds to the favorable crop conditions.

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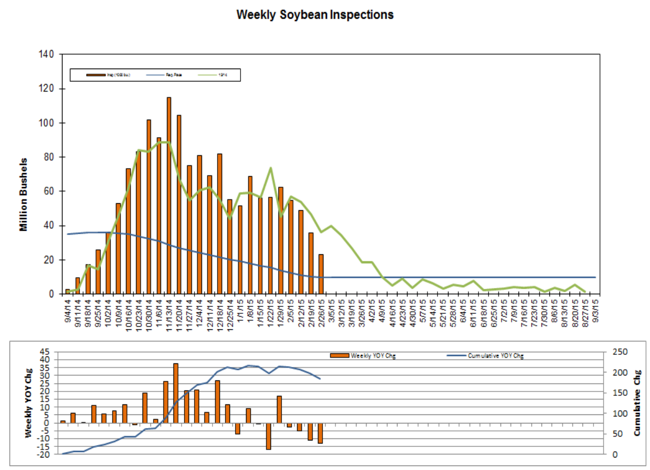
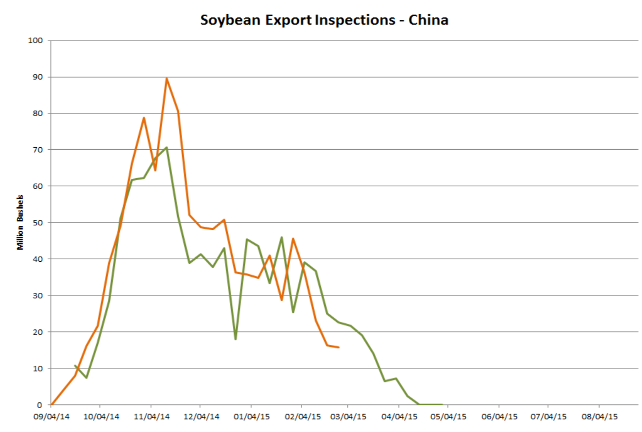
Year celebrations. This kept export demand quiet for a week, which allowed for fairly cool heads. Soybean prices over-reacted to the news, and now that the situation appears to be mostly cleared up, prices are in retreat.

It remains my viewpoint that soybean prices continue to hold considerable downside. I continue to believe the market is over-excited with their export projections. Most private analysts believe WASDE remains too small with their export figure and are using some pretty aggressive figure. However, note that total export commitments are "only" 126 mil bu ahead of last year, while the WASDE export projection is 143 mil bu larger. Meanwhile current outstanding sales are roughly 26 mil bu *smaller* than they were at this point last year. Additionally, there are roughly 63 mil bu of outstanding sales on the books to China (and who knows how much of the unknown quantity is Chinese) while line-ups show only a small fraction of that amount queued up to be shipped. It would make it seem unlikely that all of these Chinese sales ship during the current marketing year, unless we get another problem in South American execution to develop again. South American export offers are well under US values well into the summer months, and the US should see very little additional soybean business outside of "captive" markets.



US export shipments of soybeans were exceptionally strong in Q1, but in recent weeks have fallen off sharply and are now coming in under year-ago levels.



Soybean shipments to China earlier this year were very strong, but have come off in recent weeks. Normally shipments to China only continue through late-April as the Chinese switch to South America as their main origin. US outstanding sales to China on the books look large, but line-up information doesn't show much ready to be shipped. One has to question whether outstanding sales will be shipped in this marketing year or rolled forward.

Looking then to crush demand, again it seems most analysts want to "take the over" vs. WASDE, but I look at the daily and month crush rates so far this year and note the current pace shows a greater likelihood that the crush comes in under the current WASDE projection. Even assuming solid YOY increases to monthly crush rates for the remainder of the year, my crush projection sits at 1,776 mil bu vs. the WASDE projection of 1,795 mil. I think the key issue here is the market can see strong domestic disappearance, and has to "solve" the meal balance sheet by increasing production. My argument, however, is that the meal balance sheet will be "solved" by a reduction to the export projection. Meal shipments have not achieved a level indicative of reaching the WASDE projection. Meanwhile South American meal

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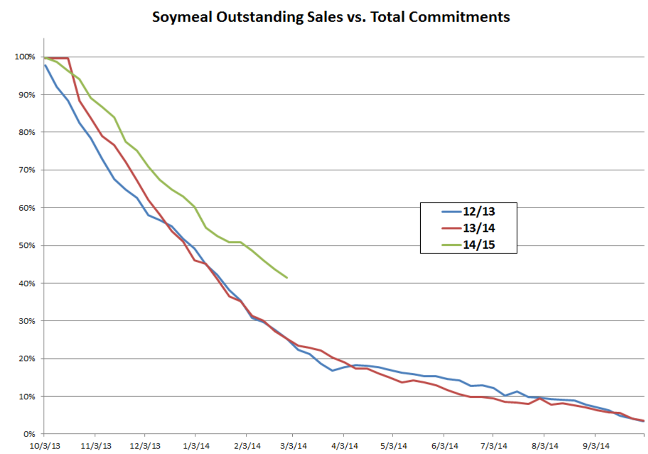
offers are weakening as new crop is sold to crushers and now these origins are scrambling for business. The level of outstanding sales in meal is certainly unprecedented, and it makes it hard to argue against the WASDE export projection. However, in the end, it seems highly unlikely that these sales will ship during this marketing year and a good portion will be rolled forward. It will probably take a few more months, but I think eventually the market will come to grips that the meal export program is struggling to reach its lofty expectations, and that is when expectations for annual soybean crush use will start to fall.

Looking quickly at both corn and wheat, I have no strong conviction toward either market at the present time. There is no true reason to want to own wheat, unless we get a weather development that harms northern hemisphere crops this spring. Wheat supplies remain ample overall, though there will be some complications at times as remaining old crop supplies are of poor quality. I have no interest in piling in on the short side of this market either right now. Wheat prices appear to be priced into feed rations in the US southeast, which could boost demand a little. The balance sheets appear able to absorb this demand, but it could prompt some short covering from a very heavy fund-short.

In corn, I think there are reasons to like owning new crop corn futures in the future. I think early expectations for 2015 yield (in the 167 bpa area) are optimistic and I think there is a chance that acreage could disappoint. However, I also know that if spring weather is favorable for planting (and early forecasts suggest it might be—though these are obviously not 100% reliable) corn will likely gain some additional area and prices will struggle. <u>Without a crop threat this summer, corn is not bullish.</u> The long-corn, short-anything else trade is extremely popular right now on fears of such a crop threat. Until that develops however, I'm fairly content to sit on the sidelines and wait for something to develop here. That being said, there might be reason to own corn into the March 31 Planting Intentions report, depending on price action up to that point.



Outstanding export sales of soymeal as a percent of total commitments is a truly astonishing figure. As South American supplies are now more competitive for April-forward slots, it really makes one wonder if these sales will get shipped this marketing year or rolled over (or cancelled?).

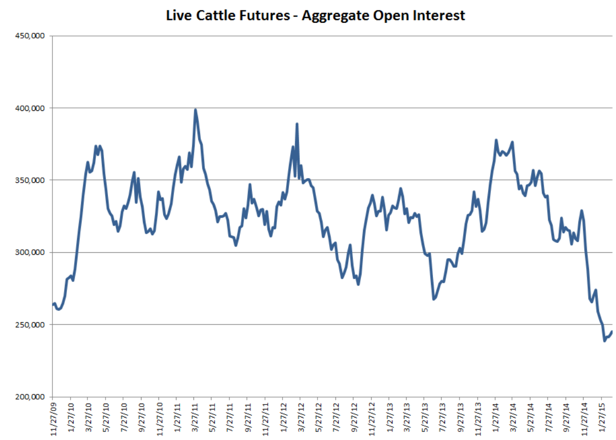
US Corn Supply and Demand (Million Bushels/Million Acres)

	USDA 12/13	USDA 13/14	USDA 14/15 Feb	Opus 14/15	USDA 15/16	Opus 15/16
Planted Acres	97.2	95.4	90.6	90.6	89.0	89.0
Harvested Acres	87.4	87.7	83.1	83.1	81.5	81.5
Abandoned Acres	9.8	7.7	7.5	7.5	7.5	7.5
Yield	123.4	158.1	171.0	171.0	166.8	167.0
Carryin (Sep 1)	989	821	1,232	1,232	1,827	1,843
Production	10,780	13,829	14,216	14,216	13,595	13,611
Imports	162	36	25	25	25	25
Total Supply	11,932	14,686	15,472	15,473	15,447	15,479
Feed and Residual						
Total Feed and Residual	4,335	5,036	5,250	5,200	5,275	5,200
Food, Seed, and Industrial						
Corn for Ethanol Fuel	4,648	5,134	5,250	5,250	5,225	5,250
Other FSI	1,396	1,367	1,395	1,395	1,410	1,400
Total FSI	6,044	6,501	6,645	6,645	6,635	6,650
Total Domestic Use	10,379	11,537	11,895	11,845	11,910	11,850
Exports (Census)	731	1,917	1,750	1,785	1,850	1,900
Total Use	11,111	13,454	13,645	13,630	13,760	13,750
Carryout (Aug 31)	821	1,232	1,827	1,843	1,687	1,729
Stocks/Use	7.4%	9.2%	13.4%	13.5%	12.3%	12.6%

With 89 million acres and a "trend" yield, the corn balance sheet does not look at all bullish at current price levels. The market seems to be "hoping" for a crop threat to develop this summer. The futures board does need to build some risk premium into prices to account for this threat, but it is debatable whether current prices are sufficient. Spring planting weather will be the first major test of the 2015 growing season.

There is nothing to report on the livestock sector at the moment. Cattle open interest has dropped incredibly sharply over the past several weeks. This has led to lower daily volume and seemingly extreme day-to-day price moves. The daily volatility makes this market unattractive at the moment, however there is probably a time in the not too distant future where we may entertain returning to short positions here.

Regards,
David Zelinski



Live cattle open interest is at its lowest level in years...and it shows in the daily price swings.

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