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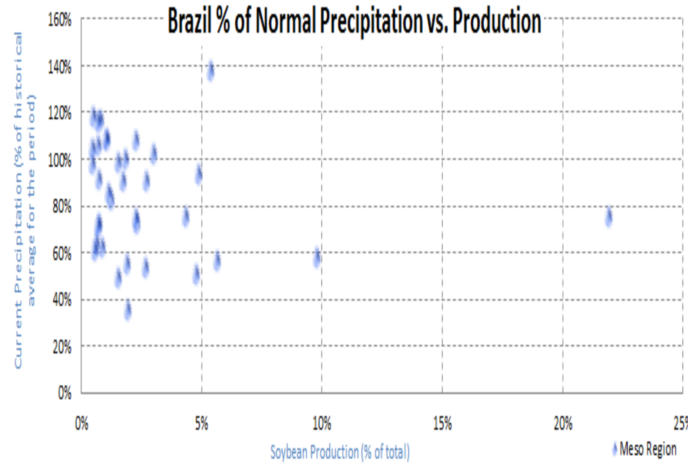
FUTURES

February 4 , 2015

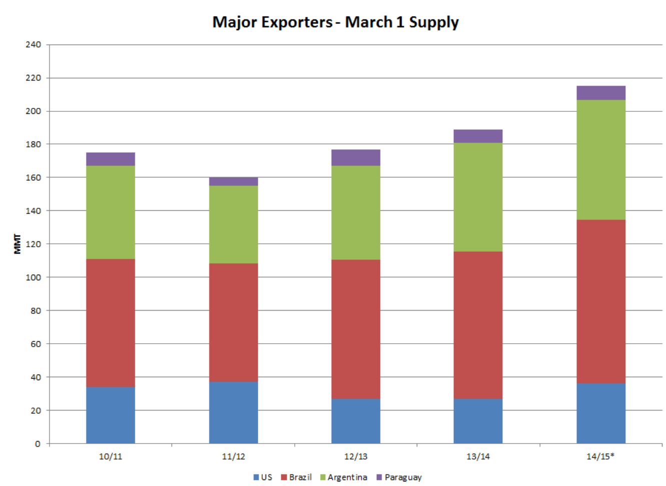
Monthly Agriculture Market Notes:

Very little has changed in terms of my thoughts on market direction going forward, so this month's update will be short and to the point. Starting briefly with a quick update on South American weather, the month of January featured a lot of below normal precipitation totals through key growing regions in Brazil. The graphic to the right attempts to show a breakdown of percent of normal rainfall vs. the weather station's approximate contribution of national soybean production. Clearly most areas in Brazil saw below normal precipitation in the past month.



This breakdown shows that cumulative rainfall totals in the past month have been relatively disappointing in several areas in Brazil.

So while this clearly takes the top-end off of total crop potential, we're still left guessing just what that total potential might have been and what total production might now turn out to be. For now, I am assuming Brazilian production +/- 93 mmt, which is actually a bit smaller than I mentioned in last month's update. However, prospects for Argentine production are increasing (some talking of potential of a 57 mmt crop compared to current WASDE expectations of 55 mmt) which could be an offsetting factor. Even if the Argentine crop doesn't impress as hoped, total soybean supplies in the major 4 world exporters on March 1 will be the highest we've ever seen.



Exporters will have plenty of soybeans available as we head into spring.

So as long as we don't see any significant surprises develop in the next few weeks in terms of South American weather (that would reduce crop size/potential), we can now sit here and feel pretty comfortable about the global soybean *supply* situation heading into US crop planting season. With that sense of relative comfort in hand, we can now turn our attention to demand, which as I've noted here before does not necessarily look quite as strong as some in the market would like to believe.

In the case of US soybean exports...yes, shipments have moved at an exceptional rate so far this year. MYTD soybean shipments are roughly 215 million bushels above

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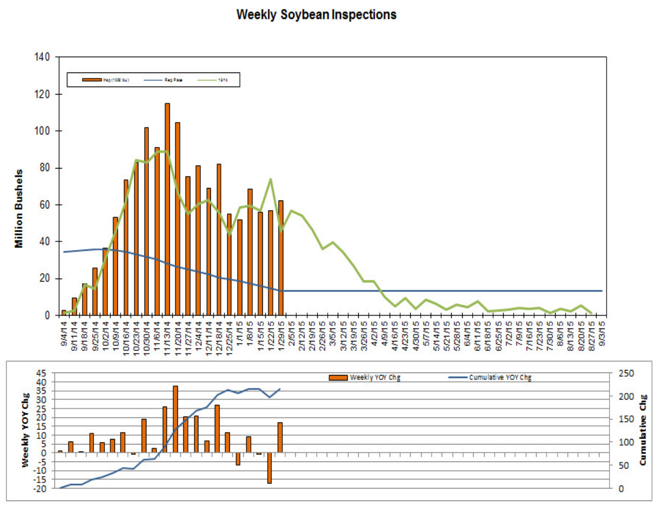
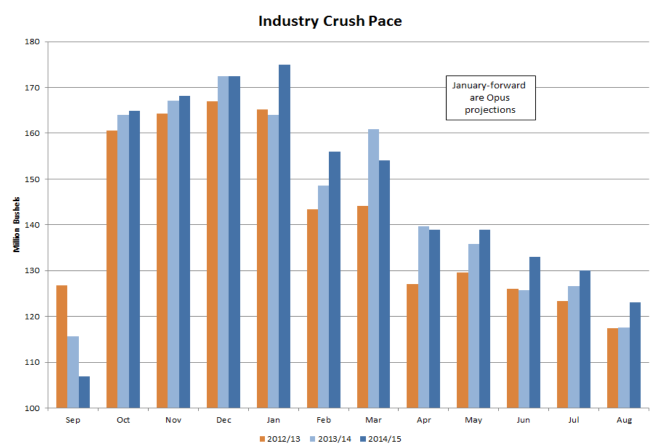
this time last year. However, the problem is that current outstanding sales are now about 65 million bushels under the level seen at this time last year. Total commitments are “only” up 96 million bushels from this time last year, while the current WASDE projection calls for an annual export figure up 123 million bushels from last year. With what should be a record large South American crop about to be harvested in the next two months, further demand for US soybean exports will come under increased competition. That said, the US has ample soybean supplies to export more than the current WASDE projection. Simply put, I <u>do</u> think eventual total marketing year exports will exceed the WASDE projection, but I think it will take <u>lower</u> prices to make it happen.



Shipments are ahead of last year’s pace, but should follow last year’s pattern of sharply lower weekly totals going forward.

Looking at the other demand component of the soybean balance sheet, the high expectations for crush are not quite being met according to the monthly NOPA figures. Crush rates so far this marketing year are not consistent with the WASDE annual crush projection, and while it is possible this projection can still be met, I feel that meal export expectations still appear over-inflated. As the market recalibrates its meal export projections lower in the months ahead, it would also seem appropriate to perhaps scale back on crush expectations.

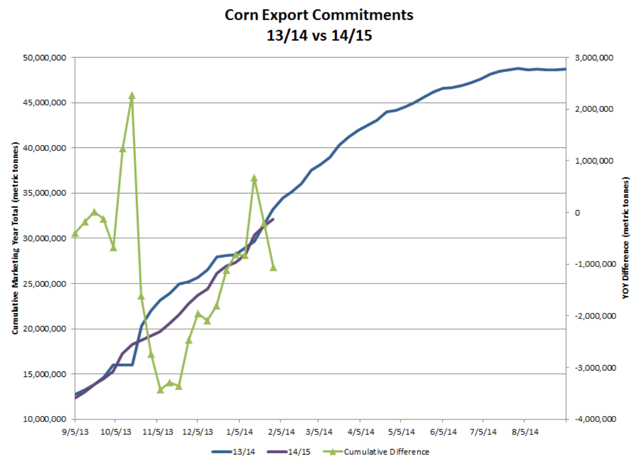


Though data to-date doesn’t “force” WASDE to change anything soon, I still suspect that their projection for annual crush use will turn out to be optimistic.

The combination of a slightly higher export projection and slightly lower crush projection gives my personal balance sheet a carryout estimate of 391 million bushels. This is obviously lower than WASDE, but still more than ample and, as noted above, the higher export figure likely only occurs if prices decline in an effort to remain competitive globally.

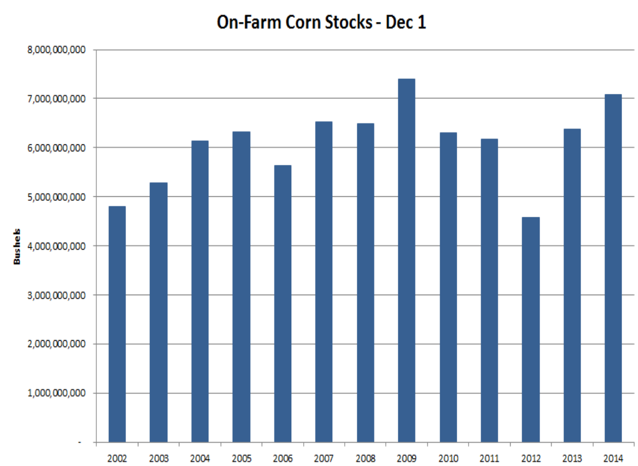
Switching to corn, I have been leaning friendly towards prices here for two primary reasons. The first reason is that the market was underestimating old crop demand. Ethanol production totals so far this marketing year have greatly exceeded expectations and WASDE just recently upped their projection last month. Based on expectations for gasoline demand growth and the *required* 10% ethanol blend, I think it is safe to say that ethanol demand will remain strong enough to eventually force WASDE to up their projection further in months ahead.

Export sales to this point have also exceeded expectations. Inspections have not been impressive, but seasonally shipments will pick up in the second half of the marketing year as the US winds down its soybean export program and South America winds down its corn program. So, while shipments have been relatively light, total commitments appear ample enough to support the current WASDE projection or higher.



It seems possible that total corn export commitments could start to lag behind last year's pace.

However, it seems suddenly "everyone" is starting to figure out demand is exceeding expectations….at what might be the moment it starts to slow down. Ethanol production margins have been under considerable pressure and while demand should remain constant, the industry will need to find a reliable outlet for exports to maintain the current production pace. Corn export commitment gains have slowed over the past two weeks' data, and comparisons vs. last year's commitments will be difficult as at this point last year we were dealing with a lot of destination switching following the Chinese GMO situation.



US farmer inventories of corn are near record levels, which could serve to cap upside potential into the spring.

In additional to the prospect of slowing demand, the US farmer is also sitting on a *huge* amount of unpriced corn. Attached here is a breakdown showing Dec 1 on-farm corn stocks according to the USDA. Following record production this past summer, the US farmer is sitting on a lot of corn and our indications suggest that much of this is unsold. This could prove to be a limiting factor to any effort of the corn market to stage a rally in the near future.

The point here is, my interest in owning corn as a "hedge" against short soybeans has diminished considerably recently. However, the second reason I have been friendly to corn remains expectations for a tighter 15/16 balance sheet. I still feel there is a potential "story" in the new crop balance sheet due to smaller acreage and potentially smaller yield than currently assumed by most (this has been discussed repeatedly in previous updates, so no point in rehashing it

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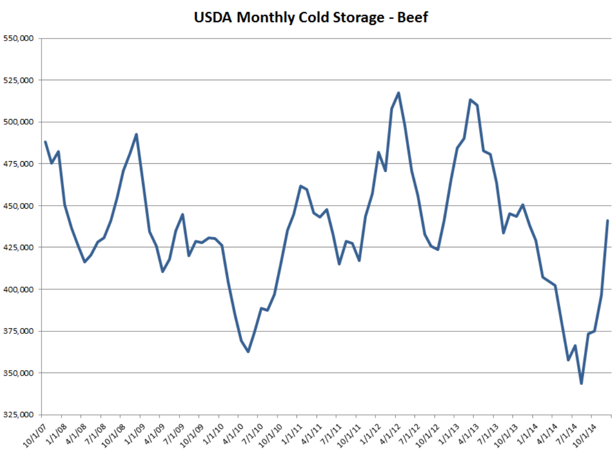
all here again), however that situation will take a while to play out. I do feel that CZ'15 futures are not accurately pricing in spring/summer risk premium at current price levels, but I also don't feel the need to yet establish an aggressive position there as old crop futures are not expected to show any significant price strength in the near future. I will look to establish additional length in CZ'15 on price weakness.



Cattle supplies are down, but for now it appears the futures board is singularly focused on beef demand.

I don't see much of interest in either the wheat or livestock markets. I do feel there are potential supply issues ahead in wheat, but for now the lack of significant demand should weigh on prices. In cattle futures, it feels like the market has started to become overly pessimistic towards cattle prices. The latest COF data indicates a "hole" in cattle supplies this spring. Yet the board is under considerable pressure as beef demand struggles and cold storage inventories start to accumulate. This is a seasonally low time for beef demand typically, however, and I suspect the market is starting to over-do the downside.

Regards,
David Zelinski

9047 Poplar Avenue, Suite 101, Germantown, TN, 38138
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