Opus LLC FUTURES

January 2014 Month End Comments

We've seen 2014 get off to a pretty slow start, but my long term views towards markets are essentially unchanged from this point last month.

I continue to look for downside pressure in corn prices in the months ahead. I noted last month that I thought the market was underestimating corn demand, and it appears that the market has now caught up to that argument. I also said last month that the stronger than consensus corn demand wouldn't have a huge impact on corn prices in the long run, and I still believe that. But to be honest I've clearly underestimated the short term impact it would have, and that has led to giving back some of our earlier gains. I do expect this situation to be temporary. The weather is having a major impact on producer marketing at the moment. Much of this year's corn harvest is poor quality corn (harvested too wet) that will have to be moved as soon as the weather starts to thaw out before the corn rots. I feel this spring will be a major timeframe for producer marketing of the crop. In between now and spring, cash movement might turn out to remain slow, but I also feel that the USDA's first look at the new crop balance sheet (later this month at the annual Outlook Forum) might provide some initial selling pressure as well. We have to remember that the spec and managed money positions have covered a considerable amount of their shorts here.

My long term thoughts are unchanged on new crop futures. If weather cooperates and this summer's yield is anywhere near trend, I expect December '14 corn futures to head below $4/bushel.

While in the short-term soybeans will remain volatile, I expect significant downside to develop in the next few weeks. Soybeans remain a tale of two contracts: the old crop vs. the new crop contracts. I view time as running out for old crop contracts, however. Brazil's early shipping pace is exceeding expectations so far. It is too early to say yet, but it looks like lessons learned from last year's loading problems are helping. There is also the situation in Argentina where farmers are hoarding millions of tonnes of old crop soybeans and appear to be on pace to harvest a fairly good soybean crop this year. Those soybeans will move eventually, and when they do the global cash markets for soybeans and soy products will suffer. In the short term, the weather has produced conditions that are leading to a slow down in the US domestic crush, which is creating a short squeeze in meal. This appears to be providing a great deal of support to old crop soybean values for now, but I suspect that will be short-lived as well, as a slowdown in the crush will only lead to "extra" soybeans on the balance sheet over time. The old crop soybean bull "cycle" is almost complete in my opinion.

My thoughts on new crop soybeans are largely unchanged from last month. It appears very likely we'll see higher soybean area in the US this summer, and with anything near a trendline yield soybean supplies will surge in the fall. Prospects for South American production for now look very solid, and this could lead to greater competing supplies into our new crop marketing year. I feel November'14 soybeans have significant downside, perhaps under $10/bushel.

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I currently have no position in wheat or livestock markets and I don't anticipate participating in these markets in the short term. I'm negative to wheat values over the long term, but I don't feel like the risk-reward setup in wheat is very favorable at the moment. There is still a great deal of uncertainty on the condition of winter wheat crops after such a harsh winter so far.

The cattle market is highly volatile as the market tries to ration beef demand through higher prices and rebuild the herd. This will take a very long time, and cattle numbers look very tight through at least this summer. I am exploring a cattle-hog spread as a potential trade in the near future, but for the moment I don't feel comfortable with the hog market considering the uncertainty surrounding the PED virus. We will take a wait-and-see approach.

Thank you,
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