

July 8, 2014

Monthly Agriculture Market Notes:

Weather Recap

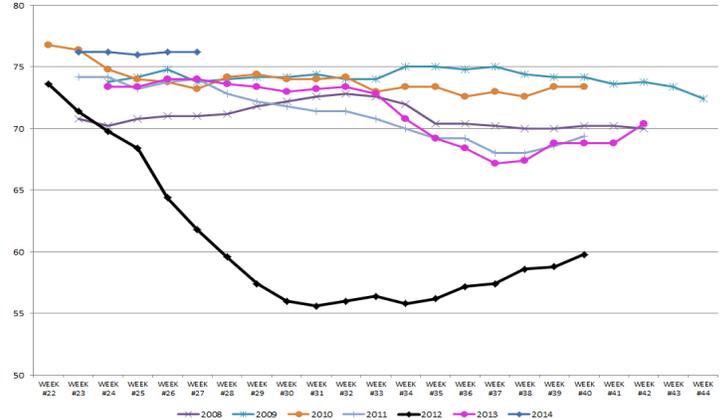
During the summer months, the market's price direction is more reliant on weather dynamics than the usual supply and demand discussion seen here. With that in mind, I'll spend a little time discussing the recent weather trends and outlook going forward.

By most accounts, weather so far this spring has been very favorable for crop production prospects. Attached to the right are the most recently calculated condition index figures for both corn and soybeans. Both crops, at least according to the NASS Crop Progress condition ratings, are off to their best start in recent years.

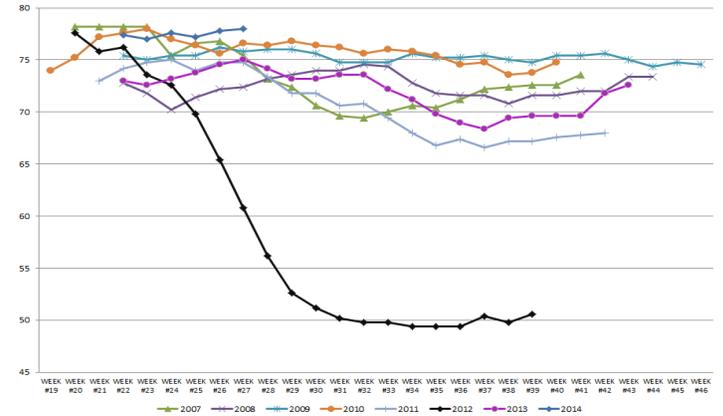
It hasn't been all good, however. We've seen excessive moisture develop in spots throughout the Corn Belt. Hardest hit is southwestern MN, but excess moisture can be found in several spots around IA and into parts of IN and OH as well. For the moment, however, the good far outweighs the bad.

Looking ahead, 15 days is about as far into the future as we can have any degree of confidence in the forecast. This essentially puts us through the corn-critical month of July. The forecast through the end of the July, for now, holds no major adverse weather. We appear to be on track for near to slightly above normal precipitation through much of the country during this period. While that might develop into some problems in a few spots, overall this is viewed as a mostly favorable set up for corn production. Temps are expected to average below normal for much of this period as well in key corn production regions. The corn plant is one that responds favorably to cool conditions, especially during the key pollination phase of development. Some might complain that temps are *too cool*, but again, I think the positives outweigh the negatives with this weather forecast.

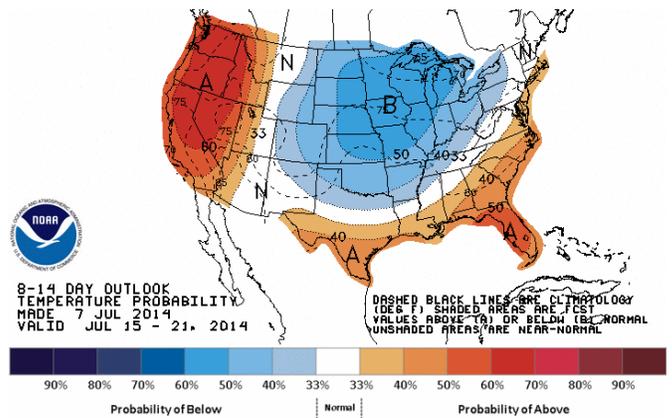
National Soybean Condition Index



National Corn Crop Condition Index



Both crops, on paper, appear to be off to their best start in several years.



There is typically a strong correlation between cool temps and strong corn yields.

Late July into early August is usually the most crop-critical timeframe for soybeans. We don't currently have a good deal of confidence in any forecast that far out, but generally speaking the set-up mentioned above for corn will also be favorable for soybean development. What we have to be watchful for is any potential build-up of heat in the key pod-filling stage for soybeans, typically in August. Long range projections don't show that for now...but these sort of long range projections can change at any time.

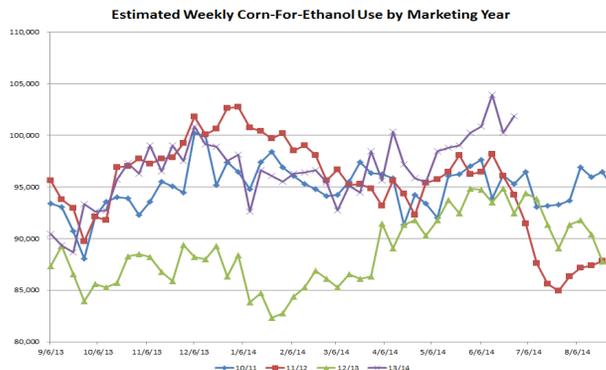
Bottom line:

Weather looks mostly favorable for crop development at the moment. We still have to be on guard for heat to develop later in the summer, but one has to admit we're off to a good start so far. The excess moisture in parts of the Corn Belt has likely taken the top end of crop potential, but we're still looking at what could be one very good crop. Another issue we will eventually have to worry about is the prospect of an early freeze should temps remain below-normal stretching into the fall, but that worry can wait for another day.

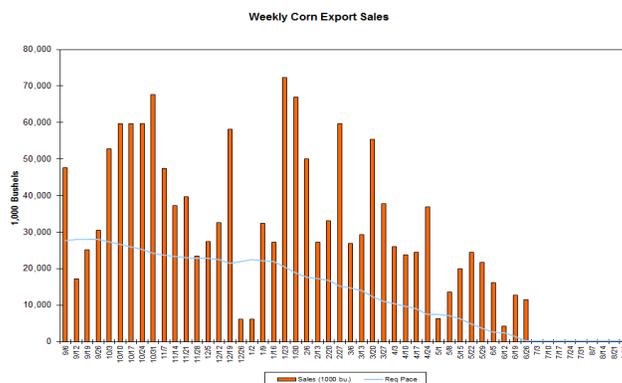
Corn:

Last month I wrote that while I was overall negative to corn prices over the long term, I expected there could be a bounce in prices to capitalize on and establish a short position. Clearly that significant bounce never materialized, and I'm still a bit surprised by that. Old crop corn demand remains relatively robust. Ethanol production margins remain strong and ethanol production continues to run at a pace that exceeds current USDA projections. Export commitments, on paper, also appear very strong, although we've seen both sales and shipments slide in recent weeks. I thought that would be enough to inspire even a modest bounce in corn values....I thought wrong.

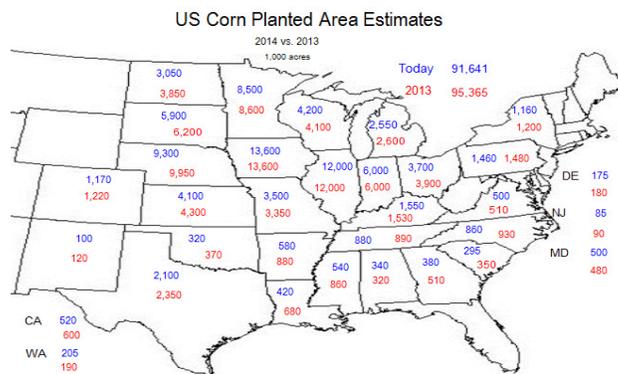
Instead, the market has focused its attention on the very favorable crop prospects as noted in the previous section on weather. The June 30 Acreage report removed any lingering fears of a major reduction in corn area, with corn area seen



The corn-for-ethanol grind is proceeding at a very strong pace and margins would imply no slowdown is coming.



US corn commitments are very strong, but what actually gets shipped is a matter of much debate.



Corn planted area is down significantly from last year, as expected, due to a major increase in soybean area.



near expectations at 91.6 million acres. With prospects for a strong yield due to the favorable weather so far this summer, the new crop balance sheet is looking towards another year of inventory gains.

Bottom Line:

I've been waiting for a bounce to sell, and that clearly has not developed. I don't anticipate a significant bounce developing any time soon unless the weather changes for the worse. At this point I'm inclined to sit on the sidelines here and watch spend more of my time on a market that has more potential....like soybeans.

Soybeans:

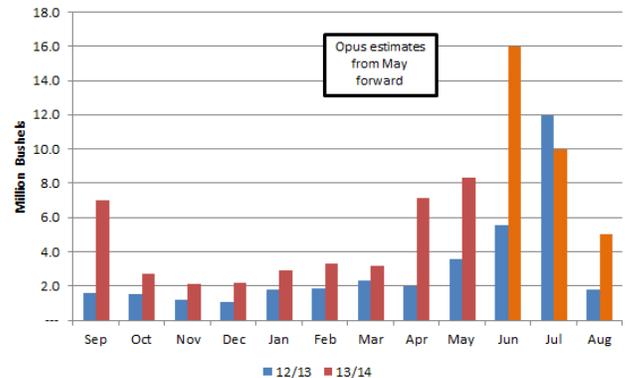
For months now I have explained a bearish case for new crop soybeans in these reports. For the first time, it finally appears that the market is starting to see things my way.

To be fair, the case to be bullish new crop soybeans was primarily due to the bullish potential in the old crop balance sheet. On paper, the old crop balance sheet appeared unsolvable. Domestic crush and exports were far exceeding "rationed" USDA estimates and imports were just not working into the US in a meaningful manner.

The old crop balance sheet story changed completely last week with the release of the USDA's Quarterly Stocks report. With June 1 stocks estimate at 405 million bushels, it now appears last year's soybean crop was understated by 70-80 million bushels. This revelation completely changes the landscape of the old crop story. It doesn't necessarily mean old crop soybean supplies are "loose"; they certainly are not. However, the overall larger than expected supplies combined with the smaller percentage of on-farm stocks should lead to a lower chance of the cash market "squeeze" the market had been fearing.

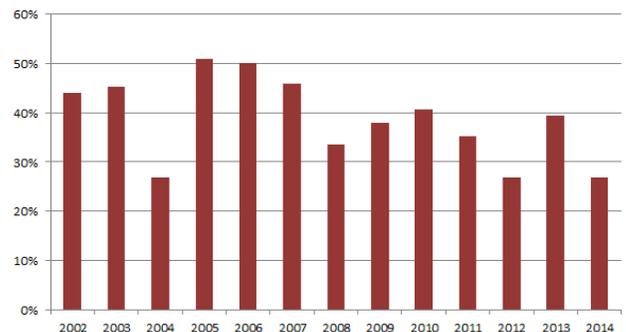
This sudden shift in mentality towards old crop soybeans has eased some of the fear in an outright short position in new crop beans, but more importantly to new crop futures is the

Census Soybean Imports



Opus is now forecasting soybean imports of 70 million bushels, or roughly 20 million below the current USDA projection.

Percentage of Soybeans Stocks On-Farm June 1



The low level of on-farm soybean inventories suggest that old crop supplies have already been "commercialized". This could mean a less active cash market than feared for the remainder of the marketing year.

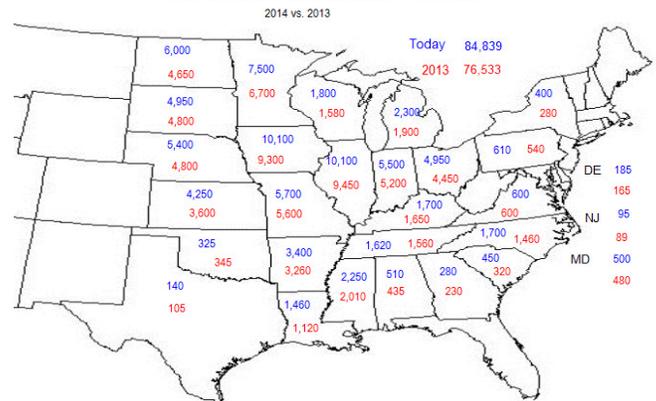
fact that the USDA finally showed the increase in soybean area we have been arguing for all year. The USDA's previous acreage estimates (first at the Outlook Forum in February, then in the Prospective Plantings report in March) were woefully inadequate in their overall acreage package. My argument all along has been the "missing" acres would likely be planted to soybeans due to the strong financial incentive given by stubbornly high futures values. The USDA's June Acreage report finally picked up on this, and in fact showed an even larger soybean acreage than some of the most optimistic projections.

The sharply larger than previously thought acreage combined with excellent early-season weather conditions sets the stage for a record soybean crop. This also comes at a time when world soybean supplies are near record levels as well. This all bodes very negatively for new crop soybean values.

Attached here are my balance sheet projections as well as a chart showing what my projections for ending stocks and stocks/use ratio look like relative to recent history. This points to further significant downside price potential for new crop soybean futures.

I'm sure there will be some debate as to whether my projection for new crop soybean exports is too low. I think it will certainly start to look that way initially as we move into the 14/15 crop year. US export demand is likely to be front-loaded in the marketing year, which probably means many analysts will be in a rush to increase their export projections above mine. However, keep in mind that Argentina is still sitting on record soybean supplies that they'll eventually *need* to move. Additionally, I do believe we are still over-stating Chinese demand, though I'll admit I can't prove that in data for now. The Chinese meal market seems to remain flooded with meal at the moment, and though crush margins using US new crop soybeans remain positive for now, I wonder how long that will remain the case. In any event, I feel comfortable with my lower-than-consensus export projection for now. If exports turn out to be larger than this projection

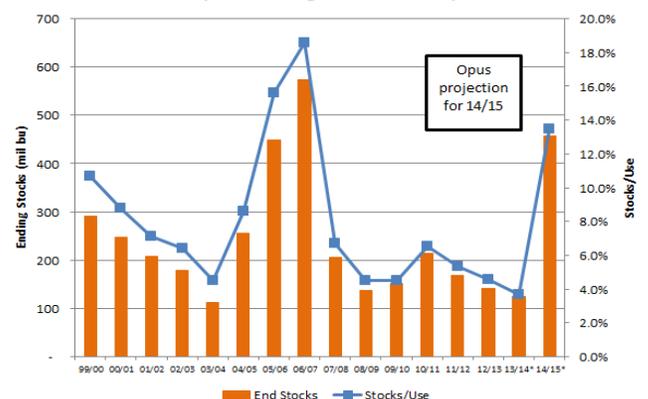
US Soybean Planted Area Estimates



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

	USDA 12/13	USDA 13/14 Jun	Opus 13/14	USDA 14/15 Jun	Opus 14/15
Planted Acres	77.2	76.5	76.5	81.5	84.8
Harvested Acres	76.2	75.9	75.9	80.5	83.5
Abandoned Acres	1.0	0.6	0.6	1.0	1.3
Yield	39.8	43.3	43.3	45.2	44.5
Carryin (Sep 1)	169	141	141	125	125
Production	3,034	3,289	3,289	3,635	3,716
Imports	36	90	75	15	15
Total Supply	3,239	3,519	3,505	3,775	3,856
Crush	1,689	1,700	1,725	1,715	1,740
Exports (Census)	1,320	1,600	1,610	1,625	1,550
Seed	89	95	95	92	88
Residual	1	0	(50)	18	15
Total Use	3,098	3,395	3,380	3,450	3,393
Carryout (Aug 31)	141	125	125	325	463
Stocks/Use	4.6%	3.7%	3.7%	9.4%	13.6%

US Soybean Ending Stocks & Stocks/Use





in the end, it is likely because a sharp decline in prices “bought” additional demand...and as shown in the graphics the balance sheet is amply supplied to provide those additional shipments.

Bottom Line:

Short new crop positions have been a painful and frustrating ride all year, but we’re finally starting to see the market come around to our line of thinking. The June 30 Acreage report showed an even larger soybean area than our optimistic expectations, however, adding more potential downside to the market.

We need to continue to monitor developments in Argentina, where the government is still facing a potential debt default. Farmers continue to hoard soybean supplies, but any significant devaluation in the official peso rate closer to the black-market “blue” peso rate could stir up some movement in soybean supplies which could create a suddenly over-supplied global market temporarily. Actual downside potential in soybean prices is hard to grasp until we get a better handle on South American soybean production this winter. In the coming months we will closely monitor reports on planting expectations.

Respectfully,
David Zelinski
8 July 2014

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Argentina "Blue Peso" vs. Official Exchange Rate

