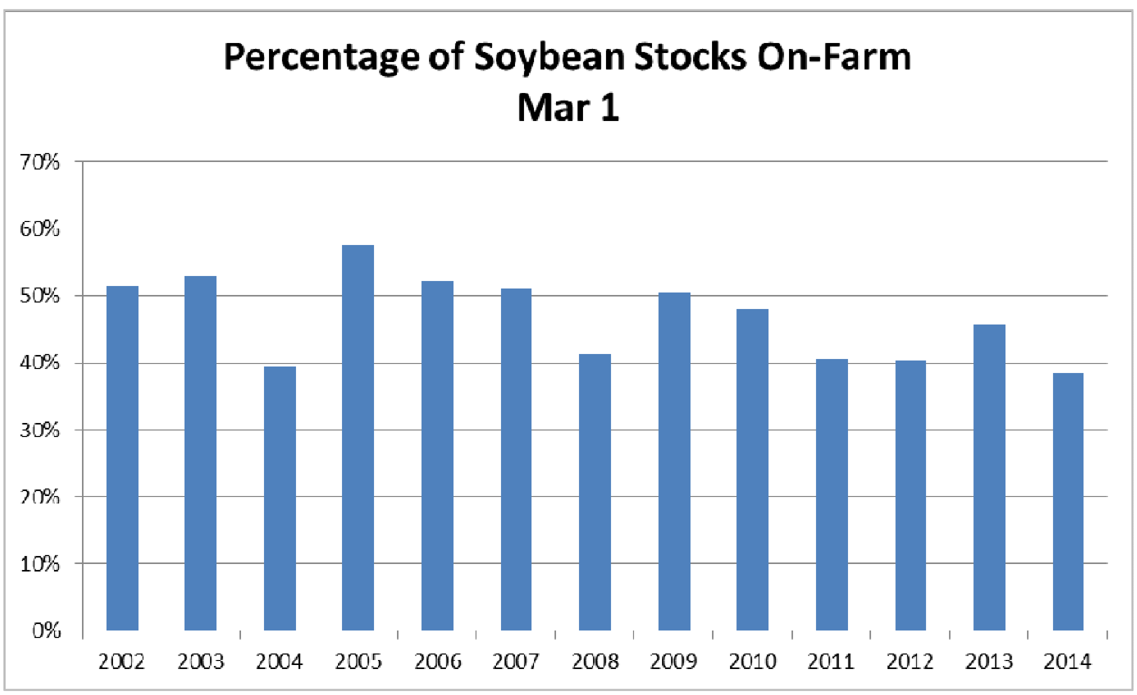
March 2014 Month End Comments

Our positions fared unfavorably again in March. Most of the month's trading losses occurred early in the month, as a short wheat position was punished with a sharp rally following the Russian annexation of Crimea. The reality of the situation is that Crimea has very little to do with grain production or transportation, but the market feared the worst and aggressively added risk premium to wheat values. I also humbly admit that my main position, the soybean crush spreads, worked against us at times, leading to losses in the middle part of the month. These spreads started working in our favor later in the month, but did not fully recover earlier losses.

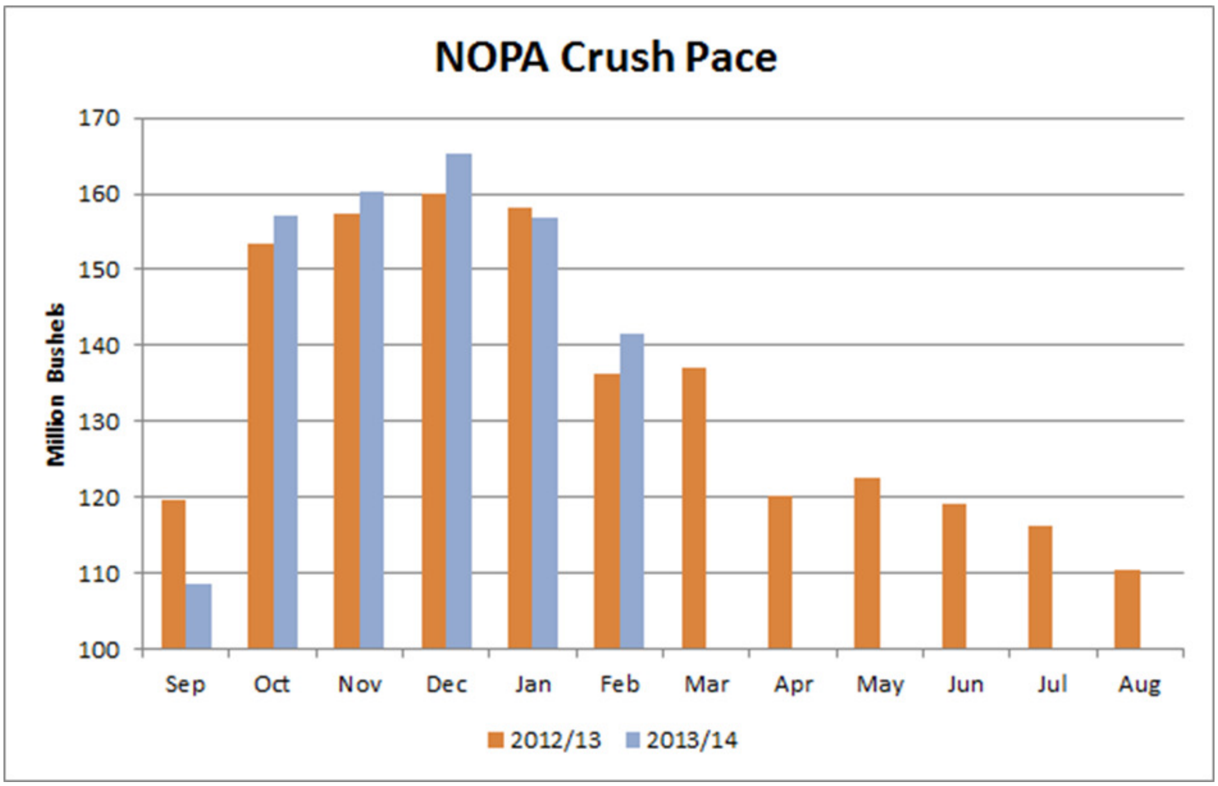
The board crush margin spread is still my favored position at the moment. No, this position hasn't worked for us thus far…at least not much. That said, I don't see any reason why this position won't turn out favorably for us in the near future. The US soybean export program is essentially wrapped up, so there won't be any export sales cancellations of major importance now. The March 1 stocks report confirmed that last year's soybean crop was probably understated, but not enough to help solve the tight old crop soybean balance sheet. The only way we can "solve" the old crop balance sheet is through imports and a reduction in crush activity. Crushers are looking at good ownership of soybean supplies (thanks to farmers' willingness to sell) and still exceptional crush margins. The crush margin strength has been aided to this point by willing farmer selling, but that is about to abruptly come to an end. It is now estimated that US farmers have marketed roughly 85-90% of last year's crop. Note that this year total March 1 soybean stocks were down roughly 7 million bushels from last year, but on-farm stocks were down almost *75 million bushels*. The farmer is essentially sold out, with on-farm stocks now at their lowest level since 2004. Without a willing farmer, and with crush supplies of only another 3-4 weeks, securing additional soybean ownership will be tough on the crusher and should squeeze their margins.



9047 Poplar Avenue, Suite 101, Germantown, TN, 38138
Tel: 901-766-4446 • Fax: 901-766-4406
www.opusfutures.com

March 2014 Month End Comments

The market also has to ensure that crushers slow down any "discretionary" crush. Any crush demand that isn't absolutely needed to match meal/oil demand has to be rationed away in order to secure adequate pipeline soybean supplies. The USDA is attempting to factor this type of rationing into their balance sheet right now, calling for a marketing year crush of 1,690 million bushels compared to a 1,689 million bushel crush last year. So far this year, however, the crush is running well ahead of last year's pace, and given the current margin situation we can very confidently forecast the Mar/Apr crush rates will continue to run above year-ago levels. Some sort of "pain" must be inflicted on the crush industry to curb this demand rate.



This position has been stubbornly slow to move, and perhaps I'm in the wrong spot along the curve. I am currently using May futures to express this trade, but perhaps I need to roll some or all of this position into the July futures. Regardless of whether it happens with the May or July futures, it needs to happen sometime soon to keep the crush from getting out of hand and the soybean balance sheet from getting any tighter.

I "want" to be negative to new crop soybean over the long term, but the timing will be tricky. The timing is certainly not strong to establish new short positions now. The short range weather forecast looks problematic at the least for early planting progress. This actually could turn out to be negative to soybeans in the end, as planting delays for corn could result in more soybean acres. However, the market's initial response to this type of situation is normally to rally first and ask questions later. This might set up favorably

March 2014 Month End Comments

for us down the road if prices do rally and we get a few more soybean acres, which would only add to my negative sentiment. For now, however, we're stuck waiting for a little more clarity.

I don't have a strong bias in either corn or wheat at the moment. Wheat fundamentals lean negative, but the weather in the HRW production areas of the country remains very dry with very little improvement in the forecast. That will keep me sidelined in wheat for the near future. In corn, demand has been much stronger than I've anticipated, and as such I've covered my short position. At the time of writing, I have a small long position in corn due to a forecast that calls for a difficult planting season.

I remain friendly to the cattle market. The cattle market underwent a major correction late last week, but I remain friendly to prices. Cash cattle prices are trading in the $148-150 range, leaving the June board at a very large discount. I don't expect significant near term weakness in the cash market, meaning the board should have some catching up to do towards the upside. This is record-wide basis we're seeing right now, and something has to give…and soon.

It has been a challenging start to 2014 to say the least, but I firmly believe that excellent opportunities lie ahead.

Thank you,
David Zelinski
Opus Futures, LLC
April 7, 2014

9047 Poplar Avenue, Suite 101, Germantown, TN, 38138
Tel: 901-766-4446 • Fax: 901-766-4406
www.opusfutures.com