



October 2012 Month End Comments

The grain markets in October were volatile and choppy, but at the end of the month, not much had been accomplished. On September 28, for example, December corn closed at \$7.56 $\frac{1}{4}$ and on October 31 the close was \$7.55 $\frac{3}{4}$. So over the course of a month, the value of spot corn futures changed less than one cent. The basic underlying thought of sideways trade was seen in soybeans and wheat as well.

The slow trade does make some sense, however, as not much has changed in the US or internationally to greatly impact prices. The US harvest is winding down, but the market now seems to have a firm grasp on the size of the crop and the general supply we will have to work with over the months ahead. South American crops are getting planted right now, and although there are some problems (too wet in Argentina primarily), overall I would say conditions are "ok" with some room for improvement if the weather cooperates.

With that in mind, I would expect more of the same from markets through at least the end of the year, assuming no major changes are seen in South American weather. Both the corn and soybean markets are looking at tight nearby supplies, but we can also point to expanding supplies in 13/14 balance sheets assuming normal weather. My assumptions on balance sheets can be found below.

With little action in the markets, it probably comes as no surprise that my long term thoughts have changed only a little in the past month:

I remain cautiously bullish on nearby corn futures, but I have also started to place some short positions in new crop 2013 positions. Although corn export sales continue to run at a very sluggish pace, it is starting to look more and more likely that world end-users will be forced to come to the US for their needs from January/February forward. Offers on corn out of South America from January forward are becoming scarce, and the new crop corn will take a back seat to soybean exports in the spring. This will leave the US as the key supplier of corn to the world going forward. I still believe that corn prices will be capped near \$8/bu unless there is some unforeseen development in South American weather or elsewhere. As noted above, I have somewhat worked into a spread position in corn, because I am establishing a short in new crop positions. As the following balance sheets show, if weather returns to anywhere close to normal this summer, production could dramatically increase from the past few years. This combined with lower demand due to livestock herd reduction and the ethanol blend wall could push corn stock levels from tight to ample quickly. This position will take time and patience, and of course could change following possible developments in the weather.

I have no positions in soybeans currently and likely will not add a position in the near future. My bias is that soybeans still have some upside in the near term, as export demand still looks to be exceeding USDA projections and current price levels have not done enough to ration demand. However, with the surprise in soybean stocks a month ago and increasing production estimates, there is plenty of risk in being long soybeans. South American weather, while not perfect, also appears to be developing without any major complications, adding an additional weight to prices. The balance sheets shown below also indicate US soybean supplies could swell next year, but I'm also not convinced the risk/reward set-up is favorable to establish a short position in 2013 soybeans, so I will wait and see.

Information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opus Futures, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such. Opinions expressed reflect judgments at this date and are subject to change without notice. There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. The contents of this report are informational purposes only and under no circumstances should they be construed as an offer to sell or a solicitation to buy or sell any futures or options contracts. This material cannot be copied, reproduced, modified, or redistributed without the express written consent of Opus Futures, LLC. No one has been authorized to distribute this for sale.

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

Tel: 901-766-4446 • Fax: 901-766-4406

www.opusfutures.com



I am negative to new crop wheat futures, but am currently on the sidelines. US wheat is uncompetitive in the export market, and although the spread appears to be narrowing, I suspect the USDA will need to lower their export projection in the near future. SRW crop prospects appear to be robust considering added acreage and decent weather conditions right now, but the HRW weather conditions are not as good and concern over crop prospects there is reason enough to stay on the sidelines for now. I do anticipate I will be entering a short position in new crop wheat in the near future.

I remain friendly to feeder cattle, notably in the spring months. However, I may need to reevaluate this position in the near future if weather conditions in the Plains do not improve at least somewhat. The feeder market needs better pasture conditions to regain some leverage and avoid sending everything to feedlots. I do not expect corn prices to be a major consideration in the long term to the feeder market, because as noted above I believe the corn market most likely will find a cap near/above \$8/bu.

Again, I also expect continued volatile and choppy action through the end of the year in all markets. The Presidential election and upcoming debates on the Fiscal Cliff will also have to be closely monitored for a read on market psychology.

Regards,

David Zelinski



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

	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	USDA 12/13 Oct	Opus 12/13
Planted Acres	86.0	86.4	88.2	91.9	96.9	96.9
Harvested Acres	78.6	79.5	81.3	84.0	87.7	87.7
Abandoned Acres	7.4	7.4	6.9	7.9	9.2	9.2
Yield	153.9	164.7	152.8	147.2	122.0	122.0
Carryin (Sep 1)	1,624	1,673	1,708	1,128	988	988
Production	12,101	13,092	12,447	12,358	10,706	10,706
Imports	15	8	28	28	75	125
Total Supply	13,740	14,774	14,182	13,514	11,769	11,819
Feed and Residual						
Total Feed and Residual	5,250	5,140	4,792	4,562	4,150	4,250
Food, Seed, and Industrial						
Corn for Ethanol Fuel	3,650	4,568	5,021	5,000	4,500	4,600
Other FSI	1,270	1,371	1,407	1,421	1,350	1,350
Total FSI	4,920	5,939	6,428	6,421	5,850	5,950
Total Domestic Use	10,170	11,079	11,220	10,983	10,000	10,200
Exports (Census)	1,800	1,987	1,835	1,543	1,150	1,100
Total Use	11,970	13,066	13,054	12,526	11,150	11,300
Carryout (Aug 31)	1,770	1,708	1,128	988	619	519
Stocks/Use	14.8%	13.1%	8.6%	7.9%	5.6%	4.6%

Opus 13/14	Excellent Yield	Poor Yield
98.0	98.0	98.0
90.5	90.5	90.5
7.5	8.0	8.0
157.3	165.0	140.0
519	519	519
14,236	14,933	12,670
25	25	25
14,780	15,477	13,214
4,800	4,800	4,800
4,900	4,900	4,900
1,400	1,400	1,400
6,300	6,300	6,300
11,100	11,100	11,100
1,600	1,600	1,600
12,700	12,700	12,700
2,080	2,777	514
16.4%	21.9%	4.0%

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

	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	USDA 12/13 Oct	Opus 12/13
Planted Acres	75.7	77.5	77.4	75.0	77.2	77.2
Harvested Acres	74.6	76.4	76.6	73.8	75.7	75.7
Abandoned Acres	1.1	1.1	0.8	1.2	1.5	1.5
Yield	39.7	44.0	43.5	41.9	37.8	37.8
Carryin (Sep 1)	205	138	151	215	169	169
Production	2,967	3,359	3,329	3,094	2,860	2,860
Imports	13	15	14	16	20	20
Total Supply	3,185	3,512	3,495	3,325	3,050	3,050
Crush	1,662	1,752	1,648	1,703	1,540	1,575
Exports (Census)	1,283	1,499	1,501	1,360	1,265	1,265
Seed	90	90	87	90	89	90
Residual	12	20	43	2	26	10
Total Use	3,047	3,361	3,280	3,155	2,920	2,940
Carryout (Aug 31)	138	151	215	169	130	110
Stocks/Use	4.5%	4.5%	6.6%	5.4%	4.5%	3.7%

Opus 13/14	Fantastic Yield	Poor Yield
79.0	79.0	79.0
78.0	78.0	78.0
1.0	1.0	1.0
43.8	45.0	39.0
110	110	110
3,416	3,510	3,042
15	15	15
3,541	3,635	3,167
1,600	1,600	1,600
1,350	1,350	1,350
89	89	89
20	20	20
3,059	3,059	3,059
482	576	108
15.8%	18.8%	3.5%