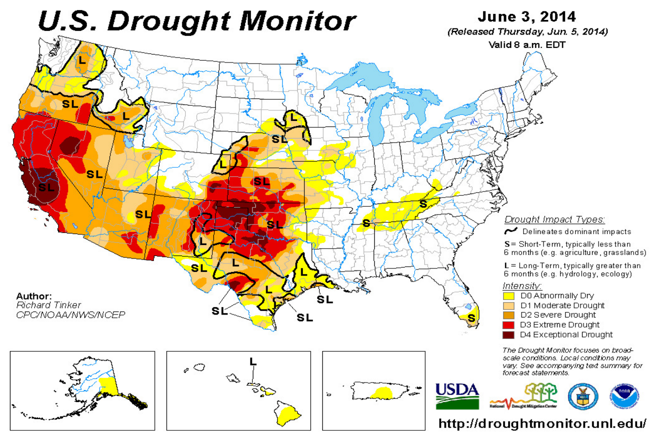
June 6, 2014

Monthly Agriculture Market Notes:

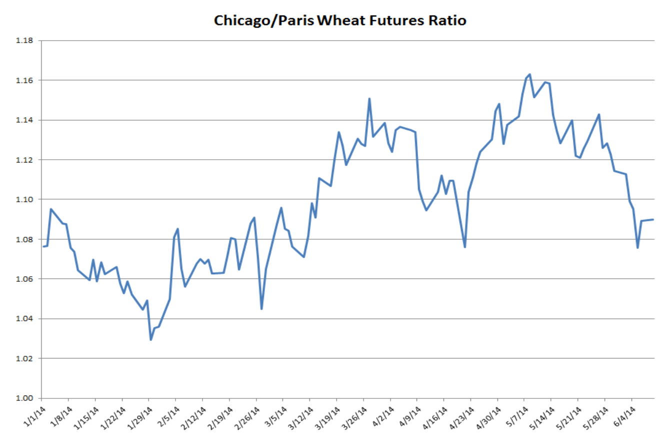
Wheat:

US winter wheat production prospects are still seen down dramatically from year ago levels. Last month we discussed the dry conditions in the Southern Plains and the likelihood that this would lead to high abandonment and low yields. The past month has brought some improvements to soil moisture profiles around the Southern Plains, but it has likely turned out to be too little, too late in many cases. The USDA will update their winter wheat production estimate later this week, but I am not expecting any dramatic change. It seems likely to me that total HRW is likely slightly smaller than the prior USDA estimate, but probably not by a significant amount.



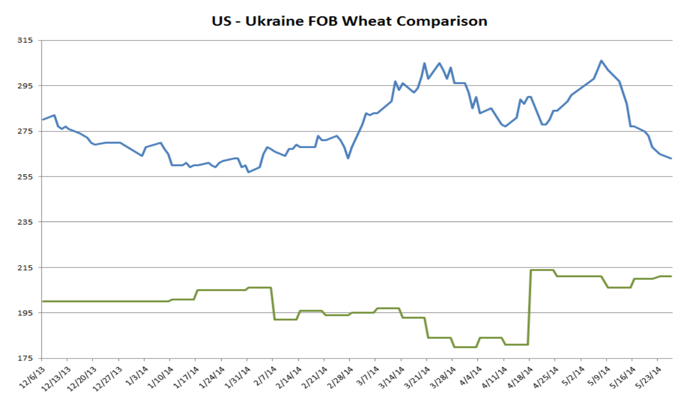
The US Drought Monitor has shown only modest improvement in the past month.

With a backdrop of continued poor conditions for HRW, one might have expected wheat prices to continue higher in the past month, but it has been quite the opposite. US wheat prices have corrected sharply from the highs. As noted in last month's update, wheat is a "global market" and world wheat prices never fully got behind the rally seen here in the US. Note the attached chart here showing the ratio of Chicago wheat against the world's other major wheat futures contract, Paris milling wheat. As US wheat futures bottomed in January, the ratio widened as the Paris market was reluctant to follow along with the strength in the US. The ratio has only now begun to work lower again.



Paris wheat futures did not advance in step with US prices.

World cash markets also looked uninterested in following the US's lead. Note the chart here comparing US SRW FOB prices against those in Ukraine. This is all the more interesting considering many in the trade were very concerned about Ukraine's ability to successfully execute their export programs with the political turmoil over the past several months. Also consider this chart shows FOB prices, meaning various freight charges are not factored. This puts US wheat at an even greater disadvantage when looking towards the major wheat imports of North Africa and the Middle East.



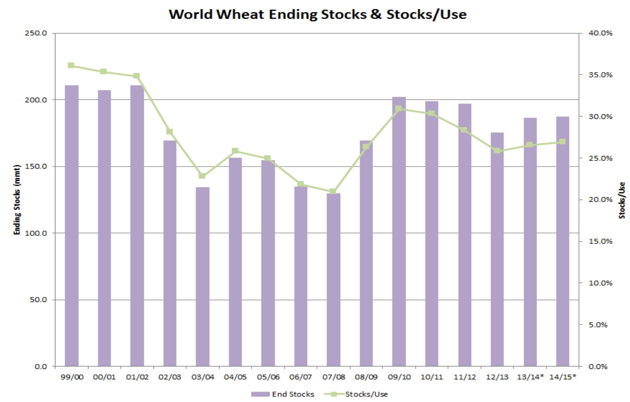
US wheat is <u>not</u> competitive.

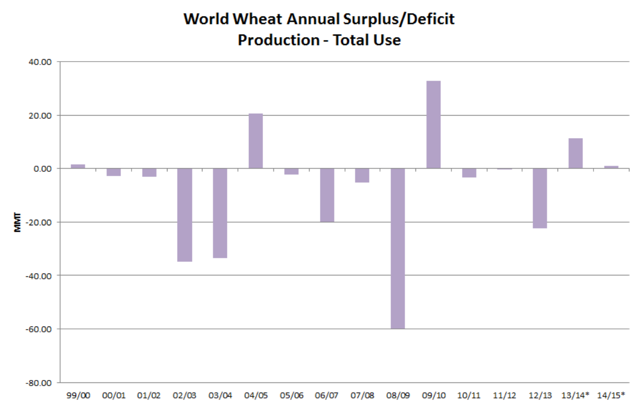
9047 Poplar Avenue, Suite 101, Germantown, TN, 38138
Tel: 901-766-4446 • Fax: 901-766-4406
www.opusfutures.com

As it turns out, the US is really the only part of the world experiencing a wheat production problem at the moment. European weather has been solid and the "whisper" wheat production number for the EU is around 150 mmt, which certainly seems possible considering the favorable weather they've experienced. This compares with the current USDA projection near 145 mmt. Russian and Ukraine prospects seems relatively favorable as well. The world should be amply supplied with wheat, despite US production problems.

In addition to the two strikes against US wheat demand already mentioned (over-priced and ample global competitive supplies) there are other issues that I believe most in the market might be overlooking. Feed demand for the first half of the marketing year will be nowhere near what we saw last year (when corn prices were still elevated), leaving a hole in the 14/15 balance when compared to this year. Additionally, the US likely faces another export demand problem due to less demand from the two major US wheat buyers of 13/14, China and Brazil. Combined, these two countries will have imported roughly 300+ million bushels of US wheat in 13/14. With an expected good crop in China and ample corn supplies, the demand for US supplies should be dramatically lower. In Brazil, they'll likely continue to take some US supplies, but improved production this past year from their key supplier Argentina will keep their pace under 13/14. With all of these export demand factors in place, I believe the USDA is still over-stating US export demand in their 14/15 balance sheet.

Bottom line:
Wheat futures have done a good job of correcting from the highs scored last month, but with US values still well over world levels, there is still probably more downside to come. If summer weather allows for good corn production and keeps wheat out of the feed channels, I look for further significant downside to develop in the near future. That said, we're still not finished with US production. Recent wet weather could be further damaging to production/quality, so





The world wheat balance sheet appears amply supplied.

US All-Wheat Supply & Demand Estimates (Million Bushels/Million Acres)

	USDA 11/12	USDA 12/13	USDA 13/14 May	Opus 13/14	USDA 14/15 May	Opus 14/15
Planted Acres	54.4	55.7	56.2	56.2	55.8	
Harvested Acres	45.7	49.0	45.2	45.2	45.9	
Abandoned Acres	8.7	6.7	11.0	11.0	9.9	
Yield	43.7	46.3	47.2	47.2	42.7	
Carryin (Sep 1)	862	743	718	718	583	574
Production	1,999	2,269	2,130	2,130	1,963	1,970
Imports	113	123	175	175	160	148
Total Supply	2,975	3,134	3,023	3,023	2,706	2,692
Food Use	941	945	960	950	970	955
Seed	76	73	74	74	76	77
Feed & Residual	165	390	220	245	170	184
Total Domestic	1,183	1,409	1,284	1,269	1,216	1,216
Exports	1,050	1,007	1,185	1,180	950	885
Total Use	2,232	2,416	2,439	2,449	2,166	2,101
Carryout (May 31)	743	718	583	574	540	591
Stocks/Use	33.3%	29.7%	23.9%	23.4%	24.9%	28.1%

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

a bounce from current levels cannot be completely ruled out.

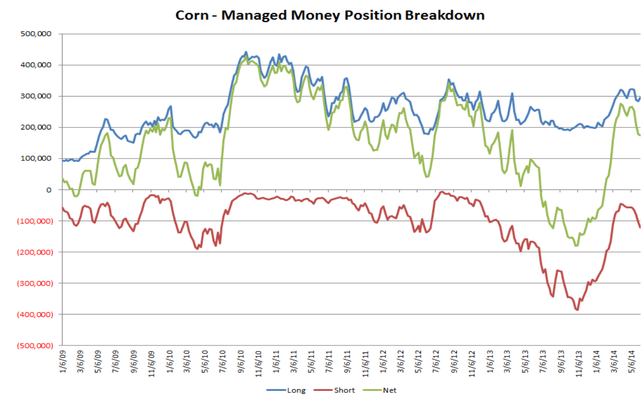
Corn:

We've seen a tale of two markets develop in corn lately. The futures board has been sold off relentlessly in the past month. The speculative length in corn had developed very large gross and net long positions. This was in part due to continued strong old crop demand and also due to fear (or hope, depending on how you look at it) of potential adverse weather conditions this summer. Although spring planting efforts got off to a slow start, weather conditions have improved and now the crop is looking to be off to one of its best starts in recent memory. This is forcing the spec length out of the market.

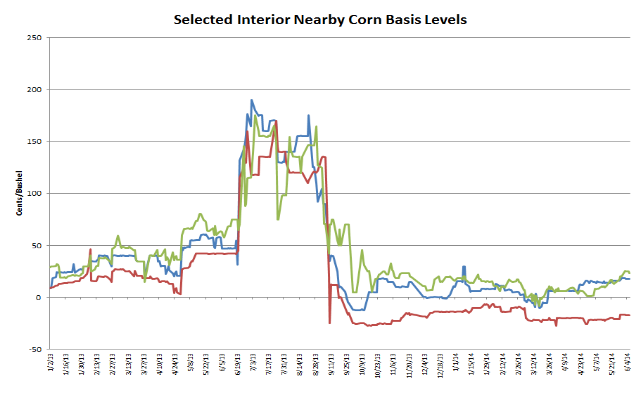
Yet the cash corn market hasn't been quite so ready to decrease in value. As noted in the chart here, basis levels at many notable interior spots in the US have firmed as the board has weakened. The farmer just doesn't appear to be interested in selling corn at these levels after having "tasted" the $5 mark just recently.

This, in my opinion, will set up what should be a sideways and choppy trading pattern in the near future. The farmer will likely remain uninterested in selling his remaining old crop supplies at these levels until he has a stronger understanding of how his new crop production potential is shaping up.

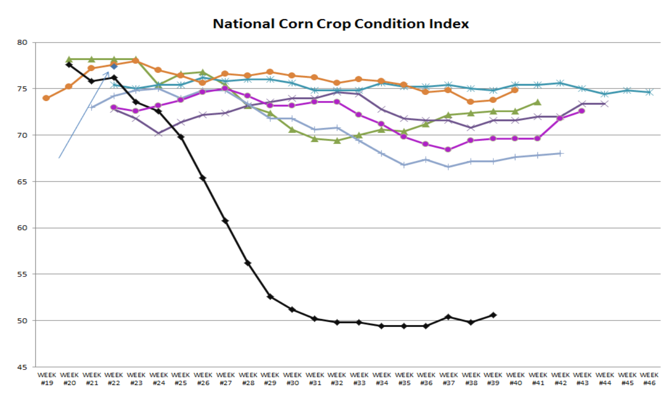
Production potential, for now, appears excellent. Soil moisture should be ample just about everywhere in the main production area following a wet spring. Long range forecast models continue to show odds of near normal precipitation with near to below normal temperatures this summer… and this would be an excellent combination for the crop if verified. It is the summer, however, and it will get hot at times. My concern in the short term here is that new crop corn futures are mis-pricing some risk here. With basis levels firm and the crop just now gaining traction, I



Managed money has been forced to back down off their long position with favorable weather so far this spring.



During recent weakness on the futures board, US interior cash corn basis levels have firmed.



The US crop is off to a good start.

think there is risk for a sharp corrective bounce in the short term if weather forecasts show even some temporary heat.

That said, with some heat and firm basis, I remain negative to corn prices overall. I think old crop export demand has been overstated by the USDA. The "official" export commitments on the books would support the current USDA projection, but if you dig into the numbers you see 16 million bushels outstanding to China which won't ship due to MIR 162 concerns. On top of that, probably 40% of the 151 million bushels sold to "unknown" is thought to be Chinese, and that likely won't ship either.

Bottom Line:

I am long term negative to corn prices here, but I think there is reason to be cautious establishing short positions at present levels as I think there will certainly be times this summer where the market becomes concerned about the weather forecast. I think the crop is off to a great start and will be able to withstand temporary heat/dryness, but the market's perception could be different. I feel corn weather premium is mis-priced here, and I am hopeful for a bounce to sell.

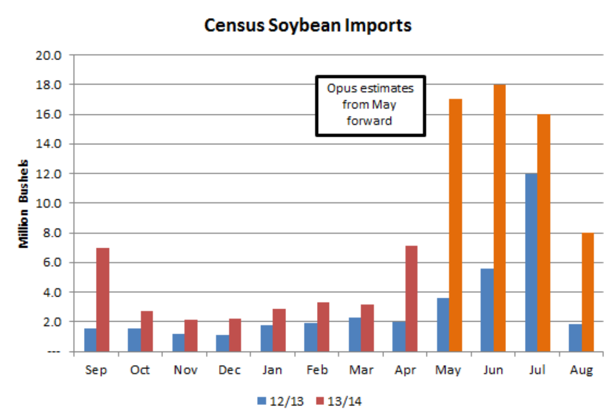
US Corn Supply and Demand (Million Bushels/Million Acres)

	USDA 11/12	USDA 12/13	USDA 13/14 May	Opus 13/14	USDA 14/15 May	Opus 14/15
Planted Acres	91.9	97.2	95.4	95.4	91.7	92.0
Harvested Acres	84.0	87.4	87.7	87.7	84.3	84.6
Abandoned Acres	7.9	9.8	7.7	7.7	7.4	7.4
Yield	147.2	123.4	158.8	158.8	165.3	162.0
Carryin (Sep 1)	1,128	989	821	821	1,146	1,296
Production	12,360	10,780	13,925	13,925	13,935	13,705
Imports	29	162	35	35	30	25
Total Supply	13,517	11,932	14,781	14,781	15,111	15,026
Feed and Residual						
Total Feed and Residual	4,548	4,335	5,300	5,300	5,250	5,300
Food, Seed, and Industrial						
Corn for Ethanol Fuel	5,011	4,648	5,050	5,050	5,050	5,050
Other FSI	1,426	1,396	1,385	1,385	1,385	1,385
Total FSI	6,437	6,044	6,435	6,435	6,435	6,435
Total Domestic Use	10,985	10,379	11,735	11,735	11,685	11,735
Exports (Census)	1,543	731	1,900	1,750	1,700	1,670
Total Use	12,528	11,111	13,635	13,485	13,385	13,405
Carryout (Aug 31)	989	821	1,146	1,296	1,726	1,621
Stocks/Use	7.9%	7.4%	8.4%	9.6%	12.9%	12.1%

Note the conservative yield assumed in the Opus balance sheet. Current conditions argue for something higher, which would obviously add bushels to the balance sheet.

Soybeans:

There are tons of moving pieces in soybean fundamentals, but to simplify things, lets just break it down by old crop and then new crop. In old crop, the balance sheet simply appears unsolvable. The market just doesn't feel like its done enough to either eliminate export interest and/or encourage imports. The USDA is currently assuming 13/14 soybean imports of 90 million bushels, and I've attached a graphic here showing what would be necessary for that to happen. Obviously we're talking record levels of imports, and based on a review of US and South American line-ups, I'm not convinced we'll have all of that on the books in time for it to add up. Canadian imports in April were disappointing at only 1.7 million bushels. In order to get to a 90 million bushel levels, I've assumed monthly Canadian imports of 3.0 million bushels. Getting 90 million bushels of imports is doable, but remains a stretch.



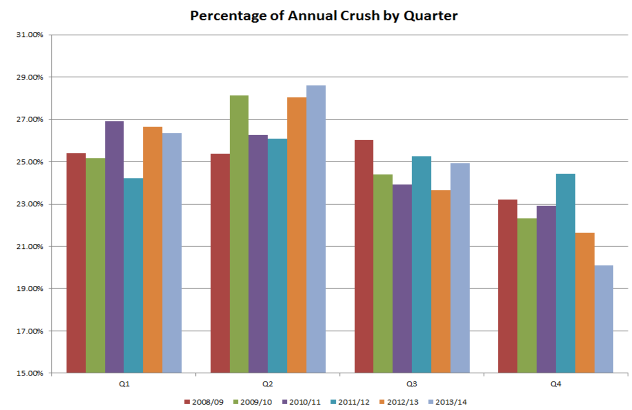
The USDA's import projection of 90 million bushels is asking a lot of the market in the final few months of the marketing year.

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

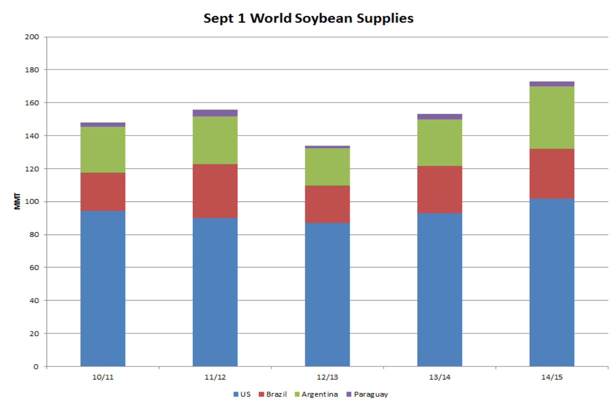
And even if we are able to pull off 90 million bushels of imports, old crop demand still appears to be exceeding current USDA projections. New export demand has mostly died off, but we still are seeing some demand from "captive" markets as the spread between US and South American supplies has failed to get wide enough to encourage those markets to considering switching. Crush demand also is believed to be continuing at a strong pace as crush margins remain excellent. Overall, this all seems to add up to an old crop situation that remains untenable and a futures board that still has some work to do to the upside. The problem here is that the spec length has been well advertised for a while now and these positions are starting to be liquidated and/or rolled. I still suspect there is potential for explosive upside in old crop soybeans, but the risk is too great for me to participate.

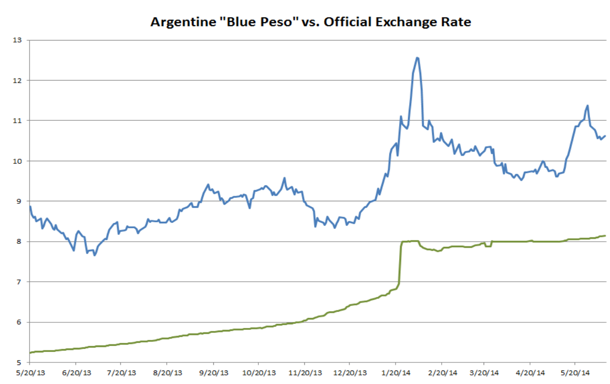
While old crop soybeans look like they still have explosive upside potential, it appears all is shaping up well for a major move to the downside in new crop soybeans. As is the case in corn, new crop soybean conditions appear to be getting off to an excellent start. In addition to the positive crop conditions, it appears that the USDA is likely too light on their overall soybean acreage total. I would anticipate soybean area to end up, conservatively, between a 0.5-1.0 million acres higher than the current USDA projection. The stage appears to be set for a big US crop (assuming cooperative weather) and a return to an ample US soybean balance sheet.

The world soybean balance sheet also appears healthy, despite the tight US old crop supplies. Coming off of strong production this past winter, South American soybean supplies are rebounding this year as well. However, that does bring up the one question mark, in my mind, surrounding US new crop soybean demand. The Argentine farmer is hoarding large supplies of his soybean crop due to massive inflation, so the question is how much does he sell? My current working assumption is that the Argentine farmer will hoard roughly the same amount as at this time last year.



Q4 US crush demand is projected to be a historically low percentage of annual crush...and yet the USDA annual projection still appears too low.

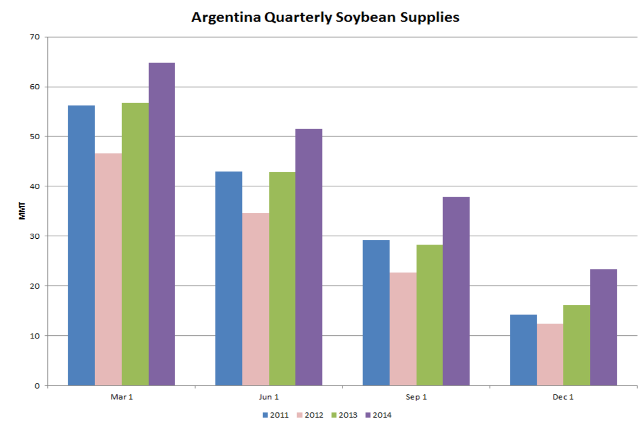




The Argentine farmer is staring at major inflation and earns a "carry" by hoarding his crop.

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

However, with a larger crop than last year, this should allow for more Argentine supplies to hit the market this fall than we saw last year. The lack of Argentine selling was a major issue for US supplies last fall/winter, but with a larger crop to market this year I believe we'll have a bit more competition to worry with this year. This should keep US export demand fairly elevated for the first half of the new crop marketing year, but the total export demand is unlikely to match this year's robust level.



Argentine supplies into the US new crop are expected to total historically high levels as the farmer hoards the crop. The question becomes, how much makes it to the market?

Bottom Line:

Old crop soybeans promise to finish in an unpredictable and volatile fashion, and I'm resigned to watch from the sidelines other than to monitor their influence on new crop prices. As we move into the summer months, new crop should take overall leadership of price direction, which should make it less correlated to old crop swings and more focused on crop production potential. The stage is set for a big US soybean crop, and global soybean supplies are ample. It seems that all signs point to lower new crop soybean values, but the potential fireworks in old crop could make this a bit difficult in the near term.

Wrap-Up:

It seems the agricultural markets are finally starting to settle into their summer trading fashion. This is both good and bad news. On the plus side, the market turning its attention to new crop fundamentals as the price leader allows our long term philosophy to work a bit better than we've seen in the highly volatile old crop markets. However, this focus on new crop production potential will make the weather forecasts highly important to short term price direction and these can turn volatile at times during the summer months.

I continue to look for impressive downside potential in new crop soybeans. I am also long-term bearish to both corn and wheat futures, but I am fearful of short-term bounces in this markets for the moment.

Respectfully,
David Zelinski

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