# December 2013 Month End Comments

December turned out to be a favorable month for our positions, ending a solid 2013 on a strong note. Corn and wheat prices were under pressure for most of the month, and soybean prices fell late in the month. Wheat prices continued to find no interest from world importers at continually lower prices, and while the corn market sees strong demand, corn supplies are ample to the task. Soybeans have been a bit more volatile following South American weather developments, but so far the weather has been mostly cooperative and for now prospects are strong for another solid crop.

Looking ahead to January and 2014 in general, I'm looking for many of the same themes to continue:

**I continue to look for downside pressure in corn prices in the months ahead.** I actually think the market is underestimating corn demand, but in the end I don't think it is enough to matter to a well-supplied corn market. Producer selling has been very slow this year, keeping cash markets fairly well supported, but due to the wet nature of the corn harvest (corn was harvested at high moisture content in many areas) I suspect many producers will not be willing to hold significant amounts of grain much longer and risk loss of quality in their supplies. I think the cash market will become a bit more "loose" in the weeks and months ahead, allowing further pressure to be applied to the futures market. Additionally, South American production prospects look solid. Corn acreage is down this year (soybean area is higher), but the crop should still be decent enough to provide further export competition against US supplies. We also have the unresolved matter of US-China corn export problems. China has rejected several cargoes of US corn (and DDGs) due to unapproved GMO strains found. This seems to be a clever, yet legal, way for the Chinese to discourage imports and support their domestic prices without having to stockpile more grain. While we await some sort of resolution to this matter, these cargoes of US corn are being diverted - at large discounts - to other destinations (mostly South Korea for the moment). This will likely mean fewer corn export sales later in the marketing year as these other destinations have a larger quantity of their needs covered earlier than usual. Looking even further down the road, it does appear likely that soybeans will "steal" some acreage from corn in the US in 2014, but with normal weather and a trendline yield the corn balance sheet would still be amply supplied and argue for significant downside for corn prices.

**The long term holds significant downside for wheat prices as well.** As noted above, wheat has just not been able to find many friends in the recent downtrend, which has seen nearby wheat futures lose more than $1.20 over the past few months. That being said, we are starting to hear of some interest in US wheat by a few important export destinations, Egypt being one. This is an interesting development, as it implies that old crop wheat values might have found a "floor" of support at current prices. Wheat prices are long overdue for a corrective bounce, and this is the sort of situation that could create that. However, I still think that current wheat demand projections from the USDA and several other private analysts are optimistic even with the newly found (and I should add, small) business and that the wheat carryout will get larger over time rather than smaller. We also entered the winter with excellent winter wheat conditions, which should provide a good base for an excellent crop (assuming favorable spring weather). If these two factors combined with the lack of a feed wheat demand market (corn prices at these levels discourage "marginal" wheat feeding) the new crop balance sheet shifts from the current "snug" supplies to ample in a hurry.

**While in the short term soybeans will remain volatile, I expect significant downside to develop in the next few months.** Soybeans are really a tale of two contracts: the old crop contracts vs. the new crop contracts. Old crop

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contracts still have some upside in the short term, although I view this as more and more limited every day. Export demand for old crop soybeans has simply been ridiculous, and this alone certainly argues for higher old crop prices. However, meal export demand has slowed, meaning US crush demand could decrease in the months ahead, providing some balance sheet relief for larger exports. Also, I am also strongly convinced that many of these sales have been set-up as "frame contracts" that might be cancelled if Brazil's export loadings proceed more smoothly this year than last. With some minor port improvements and substantially fewer corn commitments in their export lineup, I expect far less logistical challenges for Brazil this year, essentially meaning I'm anticipating a few rounds of soybean export sales cancellations ahead of us. This should open up considerable downside for US old crop soybean prices.

New crop futures also have substantial downside in my opinion. As noted above, I do expect the old crop balance sheet to figure itself out in the coming weeks/months, and I expect a slightly larger carry-in for new crop than most expect at the moment. Additionally, current economic models would suggest substantially larger soybean area in the US for 2014, and with a trendline yield this could produce a burdensome production figure. With production prospects strong for South America at the moment, we could be looking at a situation this fall where the world is essentially saturated with soybeans. That is a long way off, and a lot has to go right between now and then to get there, but I think it is a strong possibility on the present course. I think 2014 could be to soybean prices what 2013 was for corn prices: a slow and steady grind lower when and if the market realizes world soybean producers have risen to the challenge following a few years of tight supplies.

**I currently have no position in the livestock markets and I don't anticipate participating in the market much in the short term.** US cash cattle values have exploded to record levels in recent weeks and beef prices are near record levels as well. Cattle supplies remain tight, and as noted several times here in the past that is not something that can be remedied very quickly. It will take years to rebuild the herd. In the meantime, feeders are taking advantage of the lower price in corn to push weights to the max, but the rough winter weather is a complicating factor. These fundamental factors argue for further upside in cattle prices, but I feel the market is leaning a bit stretched at the moment and I'm not interested in participating. If there is a sizeable correction in prices, I might give it another look.

For the most part, I missed the boat on the recent break in hog prices. I was negative to hogs, but I just didn't stick with the position long enough to take advantage of the break. From these lower levels, and with PEDv still spreading, I don't have much interest in being short here. This is a wait-and-see market for now.

Best of luck in 2014
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January 8, 2014



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