



## February 2013 Month End Comments

The past month has done little to change our long-term thoughts and objectives on grain/oilseed price direction. The supply side of the equation is little changed. US domestic supplies of corn and soybeans remain very tight. US soybean demand is supported by delays in shipping of new crop Brazilian supplies. Tight-fisted producers are working to keep US corn supplies tight, and interior basis levels continue to push higher. We also don't have any more clarity on South American production than we did at this time last month. Soybean harvest is roughly one-third complete in Brazil, but there is still a wide-range of estimates on production. Argentine weather conditions have improved in the past week, but one has to wonder if this improvement in weather is too little, too late or if it will have the desired impact to give yields a final boost before harvest.

In terms of demand, the only significant change to note is that US soybean demand is being extended longer than the market anticipated due to slow shipping out of Brazil. This is problematic as the market has felt comfortable with tight US supplies given that new crop Brazilian exports would offset US demand going forward. Unfortunately, demand for US soybeans will remain longer than expected, and this could give old crop prices support for one last rally effort. Demand for corn has improved a bit since the last update, but only modestly. Ethanol production margins have improved slightly, and this has put a bid into the corn-for-ethanol market. Export demand for US corn remains non-existent.

**I remain negative to new crop US corn futures.** As noted above, ethanol demand has improved somewhat but not dramatically. Gasoline demand remains subdued due to improved fuel efficiency, slow economic growth, and high prices. With the blend level of ethanol in gasoline essentially maxed-out right now, there is very little room for improved ethanol demand unless there is an uptick in gasoline demand. Export demand for US corn is nowhere to be found. South American supplies are still taking market share away from US exporters, and new crop Argentine supplies hitting the market soon should keep a lid on US exports. With the exception of destinations that allow for a US advantage in freight (Mexico and Latin America for example), the US is still expected to cede market share to South America for the remainder of the marketing year. My estimate for US corn exports this year stands at 800 million bushels, a full 100 million below the current USDA forecast. The other piece of the demand puzzle is feed demand, and the USDA will give us another look at feed disappearance at the end of the month with their Quarterly Stocks report. This will be a critical bit of information for the old/new crop spreads.

But regardless of how the stocks figure turns out later this month, prospects for new crop corn futures will remain decidedly bearish unless a weather development occurs that might change the situation. As the attached balance sheets show, normal weather conditions should produce a significant improvement in US corn production, and with depressed demand this should allow for a significant improvement in inventories. All of this is shaping up to be especially bearish to the new crop futures. That said, it does require some "faith" that weather will be "normal" this spring/summer. One can never be certain what the weather holds, and if weather develops in a manner that warrants a change in our position, we will be prepared.

**I remain bearish to new crop wheat futures as well.** World production of wheat and total feedgrains is responding to the sharply higher prices we have seen in the past few years. As noted in last month's update, it does appear the world might be turning the corner into a better-supplied feedgrain market. Weather conditions in the Black Sea region look good enough for a promising crop this year, and the weather pattern here in the US has shifted to provide more favorable moisture to the US crop. While US HRW condition ratings remain historically low, there is very little correlation between winter conditions and final yields. The HRW area still needs to be watched for yield potential, but SRW has been treated very well so far this winter. If SRW can avoid a late-season, yield-damaging



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freeze, conditions appear favorable for very impressive SRW yields. Assuming some loss in HRW yields and solid SRW, the US wheat 13/14 balance sheet is shaping up to be amply supplied.

It's likely wheat will continue to be priced as a feedgrain in the early stages of the 13/14 marketing year considering the expectations for tight corn supplies ahead of new crop harvest in the fall. The availability of summer wheat will temper some of this old crop corn tightness, but not eliminate it. I look for wheat prices to lose relative to corn prices in the weeks and months ahead. The December wheat-corn spread looks especially wide, and I look for that to narrow in over the long term. With that in mind, I have shifted a lot of my short December corn position into a short December wheat position.

**I am long-term negative to soybean futures, but continued strong export demand has me leaning slightly friendly to the front end of the market.** If export demand continues to flow to the US for the next few weeks due to slow Brazilian shipping, it will create the potential for one last pop in old crop US futures. With that in mind, I don't have much interest in being short the new crop futures right now. I will look to add that position if and when the timing is right.

**I am neutral to live cattle futures right now and have no position.** I had been short term negative to cattle futures through February, but with the choppy action of the market those positions didn't yield much. With the recent blizzards in the Plains over the past few weeks, cattle weight losses could be supportive to both the cash cattle market and beef prices in the short/medium term. I think the slow pace of slaughter along with heavy-weight placements could be backing up some cattle supplies and helping to resolve some of the supply tightness, but from currently depressed price levels, I don't want to press a short position here. I'll wait and watch patiently.

Regards,  
David Zelinski  
Opus Futures, LLC  
February 4th, 2013



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

	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	USDA 12/13 Feb	Opus 12/13	Opus 13/14	Excellent Yield	Poor Yield	2012 Yield
Planted Acres	86.0	86.4	88.2	91.9	97.2	97.2	98.0	98.0	98.0	98.0
Harvested Acres	78.6	79.5	81.3	84.0	87.4	87.4	90.7	90.7	90.7	90.7
Abandoned Acres	7.4	7.4	6.9	7.9	9.8	9.8	7.3	7.3	7.3	7.3
Yield	153.9	164.7	152.8	147.2	123.4	123.4	157.3	165.0	140.0	122.0
Carryin (Sep 1)	1,624	1,673	1,708	1,128	989	989	657	657	657	657
Production	12,101	13,092	12,447	12,360	10,780	10,780	14,267	14,966	12,698	11,065
Imports	15	8	28	29	100	125	15	15	15	15
<b>Total Supply</b>	13,740	14,774	14,182	13,517	11,869	11,894	14,939	15,638	13,370	11,737
Feed and Residual										
Total Feed and Residual	5,250	5,140	4,792	4,548	4,450	4,500	4,900	4,900	4,900	4,900
Food, Seed, and Industrial										
Corn for Ethanol Fuel	3,650	4,568	5,021	5,011	4,500	4,550	4,900	4,900	4,900	4,900
Other FSI	1,270	1,371	1,407	1,426	1,387	1,387	1,400	1,400	1,400	1,400
Total FSI	4,920	5,939	6,428	6,437	5,887	5,937	6,300	6,300	6,300	6,300
Total Domestic Use	10,170	11,079	11,220	10,985	10,337	10,437	11,200	11,200	11,200	11,200
Exports (Census)	1,800	1,987	1,835	1,543	900	800	1,350	1,350	1,350	1,350
<b>Total Use</b>	11,970	13,066	13,054	12,528	11,237	11,237	12,550	12,550	12,550	12,550
<b>Carryout (Aug 31)</b>	1,770	1,708	1,128	989	632	657	2,389	3,088	820	(813)
<b>Stocks/Use</b>	14.8%	13.1%	8.6%	7.9%	5.6%	5.8%	19.0%	24.6%	6.5%	-6.5%

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

	USDA	USDA	USDA	USDA	USDA	Opus	Opus	Fantastic	Poor	2012
	08/09	09/10	10/11	11/12	12/13 Feb	12/13	13/14	Yield	Yield	Yield
Planted Acres	75.7	77.5	77.4	75.0	<b>77.2</b>	<b>77.2</b>	79.0	79.0	79.0	79.0
Harvested Acres	74.6	76.4	76.6	73.8	<b>76.1</b>	<b>76.1</b>	77.8	77.8	77.8	77.8
Abandoned Acres	1.1	1.1	0.8	1.2	<b>1.1</b>	<b>1.1</b>	1.1	1.1	1.1	1.1
Yield	39.7	44.0	43.5	41.9	<b>39.6</b>	<b>39.6</b>	43.8	45.0	41.0	39.3
Carryin (Sep 1)	205	138	151	215	<b>169</b>	<b>169</b>	<b>116</b>	<b>116</b>	<b>116</b>	<b>116</b>
Production	2,967	3,359	3,329	3,094	<b>3,015</b>	<b>3,014</b>	<b>3,410</b>	<b>3,503</b>	<b>3,192</b>	<b>3,059</b>
Imports	13	15	14	16	<b>20</b>	<b>20</b>	15	15	15	15
<b>Total Supply</b>	<b>3,185</b>	<b>3,512</b>	<b>3,495</b>	<b>3,325</b>	<b>3,204</b>	<b>3,203</b>	<b>3,541</b>	<b>3,634</b>	<b>3,323</b>	<b>3,190</b>
Crush	1,662	1,752	1,648	1,703	<b>1,615</b>	<b>1,640</b>	1,750	1,750	1,750	1,750
Exports (Census)	1,283	1,499	1,501	1,360	<b>1,345</b>	<b>1,335</b>	1,400	1,400	1,400	1,400
Seed	90	90	87	90	<b>89</b>	<b>92</b>	89	89	89	89
Residual	12	20	43	2	<b>30</b>	<b>20</b>	20	20	20	15
<b>Total Use</b>	<b>3,047</b>	<b>3,361</b>	<b>3,280</b>	<b>3,155</b>	<b>3,080</b>	<b>3,087</b>	<b>3,259</b>	<b>3,259</b>	<b>3,259</b>	<b>3,254</b>
<b>Carryout (Aug 31)</b>	<b>138</b>	<b>151</b>	<b>215</b>	<b>169</b>	<b>125</b>	<b>116</b>	<b>282</b>	<b>375</b>	<b>64</b>	<b>(64)</b>
<b>Stocks/Use</b>	<b>4.5%</b>	<b>4.5%</b>	<b>6.6%</b>	<b>5.4%</b>	<b>4.1%</b>	<b>3.8%</b>	<b>8.6%</b>	<b>11.5%</b>	<b>2.0%</b>	<b>-2.0%</b>

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

	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	USDA 12/13 Feb	Opus 12/13	Opus 13/14
Planted Acres	63.2	59.2	53.6	54.4	55.7	55.7	56.2
Harvested Acres	55.7	49.9	47.6	45.7	49.0	49.0	48.8
Abandoned Acres	7.5	9.3	6.0	8.7	6.7	6.7	7.4
Yield	44.9	44.5	46.3	43.7	46.3	46.3	45.3
Carryin (Sep 1)	306	657	976	862	743	743	715
Production	2,499	2,218	2,207	1,999	2,269	2,269	2,211
Imports	127	119	97	113	130	130	130
<b>Total Supply</b>	<b>2,932</b>	<b>2,993</b>	<b>3,279</b>	<b>2,975</b>	<b>3,142</b>	<b>3,142</b>	<b>3,056</b>
Food Use	927	919	926	941	950	950	950
Seed	78	69	71	76	75	77	75
Feed & Residual	255	150	132	165	375	375	250
Total Domestic	1,260	1,138	1,128	1,183	1,400	1,402	1,275
Exports	1,015	879	1,289	1,050	1,050	1,025	1,050
<b>Total Use</b>	<b>2,275</b>	<b>2,018</b>	<b>2,417</b>	<b>2,232</b>	<b>2,450</b>	<b>2,427</b>	<b>2,325</b>
<b>Carryout (Aug 31)</b>	<b>657</b>	<b>976</b>	<b>862</b>	<b>743</b>	<b>691</b>	<b>715</b>	<b>731</b>
<b>Stocks/Use</b>	<b>28.9%</b>	<b>48.4%</b>	<b>35.7%</b>	<b>33.3%</b>	<b>28.2%</b>	<b>29.5%</b>	<b>31.4%</b>

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