January 2013 Month End Comments

A key theme in most of our forward-looking assumptions on grain and oilseed supplies is the assumption of "normal weather". This can mean different things at different times of year, but the general idea behind that term "normal weather" is weather that would usually lead to average crop yields for a given location.

What we witnessed through most of the month of January was a shift from normal weather conditions in Argentina and southern Brazil to conditions that are drier than historical norms and likely causing some crop development stress. The soybean market in particular has responded very aggressively to this change in weather conditions in Argentina, remembering all too vividly the drier and hotter than usual weather last year and what it meant for final production.

Though I will not argue that there have likely been some production losses through sections of South America, I would make the argument that the market has become overly pessimistic of South American corn and soybean production prospects. It seems many are comparing this year's sub-par weather to last year (when we saw HUGE production losses in South America), but there are very big differences. The major difference between this year and last year are the temperatures. Last year saw temperatures in Argentina remain exceptionally above average for extended periods of time, while this year temps have mostly averaged near normal and the few instances of above normal temperatures have been short-lived. Subsoil moisture conditions are also much better this year in Argentina than what was seen last year, which should allow for the crop to endure some drier than normal conditions better than what was seen last year.

On top of the fact that I believe the market is overly pessimistic on production prospects, I also believe that even if I were to assume these lower production assumptions were to be realized, it still would have only a very limited impact on US prices and demand prospects. Whatever shortfall in production (relative to previous expectation) we might see in South America, they will regardless be amply supplied for the next several months to handle world demand and, in turn, cut-off US demand prospects. South American corn and soybean price levels are well under US levels. US corn demand has been non-existent for months now, and US soybean demand is expected to become virtually non-existent after this month as South America supplies the world (and a slight shortfall in production will not change this).

So, although these changes in weather have brought about some changes in the market's near-term attitude, I have not changed my long term thoughts on grain and oilseed prices going forward.

I remain very negative to new-crop US corn futures. December corn futures have rallied in sympathy with old crop corn and soybean values over the past month, but I believe this strength to be very short lived. Corn production in South America still looks to be very good, although lower than previous expectations. US corn demand outside of the livestock feed sectors is very quiet. Exports are non-existent, as US corn is the most expensive feedgrain in the world and end-users are finding other supplies (primarily South America). Ethanol demand has flat-lined as US ethanol production has finally bumped into the "blend wall", which essentially means ethanol demand is basically maxed-out at current gasoline consumption levels. Livestock feeding is the lone bright spot for corn demand, but wheat values have declined and with a strong SRW crop looking likely, wheat is likely to compete in feed channels this spring and further reduce corn demand.

In addition to worsening demand prospects for old crop corn, the market will soon be turning its attention to US summer production prospects. The USDA will release their first guesses at new crop balance sheets later this month. I have attached my current assumptions at the bottom of this note. Assuming "normal weather", the US corn balance sheet is poised for a very dramatic shift from one of tight supplies to potentially burdensome supplies. Some will argue that my baseline yield projection of 157.3 bpa is overly optimistic due to the current drought conditions and lack of subsoil moisture. I would counter that argument by suggesting that spring and summer precipitation, and more importantly temperatures, will have a larger influence on production potential than current dry soil conditions. I also am a true believer in the advanced genetics of these corn crops, and believe the market has lost perspective on the potential for yield following several years of poor weather.

I am bearish to new crop soybean and wheat futures as well, but not as aggressive as with corn. The situation in the soybean balance sheet is very similar to corn, where we could potentially be looking at a shift from nearby tight supplies to ample supplies over the course of the year. That said, one has to be a bit more careful in bearish positions in soybeans as the extremely impressive strength of soybeans and soybean meal exports has to be respected. The market has to essentially halt US export demand after February, and with solid South American crop prospects that looks like it could very well happen. That said, we need to continue to monitor weather develops as well as possible logistical constraints that could shift world demand back to the US. Such a shift in demand cannot be tolerated by the tight old crop balance sheet, and if it were to happen prices would react very sharply.

Wheat values also look long term negative. World production of wheat and total feedgrains has responded in the face of the sharply higher prices from the past few years and it looks like the world might be turning the corner to a better-supplied market. India is looking at another bumper year of production and could become a major exporter of wheat. Weather conditions in the Black Sea region have been much better so far this winter and their winter crop could be due for a sharp rebound in production. US SRW crop areas have also seen good weather so far this winter and, with added acreage, we could be due for a large crop this year. One problem to keep an eye on, however, is the continued dry conditions in the US southern plains HRW producing areas. HRW conditions are at historical lows due to the dry weather, and while there isn't a strong correlation between winter conditions and final yield, it is still a cause for concern. That said, even when assuming for modest losses in HRW production, the world wheat market is shaping up to be amply supplied for the 13/14, and I am cautiously bearish.

I have no position in the livestock markets currently. I lean long-term negative to prices, noting the potential improvement in feed supplies around the corner. However, the market has broken sharply in the past month and it is not in a position where I want to press the issue from the short side. One fact that we need to watch, in addition to feed prices, is the weather. An improvement in weather in the Plains would increase heifer retention in the short term and could push prices higher in the short term as the increased heifer retention would mean less herd liquidation and less nearby beef supplies. If and when this happens, I will watch for an opportunity to short the market. In the meantime, I would actually have to look at the market from a somewhat friendly bias for the short-term, but do not plan on establishing a position here in the near future.

Regards,
David Zelinski
Opus Futures, LLC
February 6th, 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 Jan**	**Opus 12/13**	**Opus 13/14**	**Excellent Yield**	**Poor Yield**
Planted Acres	86.0	86.4	88.2	91.9	**97.2**	**97.2**	**99.0**	**99.0**	**99.0**
Harvested Acres	78.6	79.5	81.3	84.0	**87.4**	**87.4**	**91.7**	**91.7**	**91.7**
Abandoned Acres	7.4	7.4	6.9	7.9	**9.8**	**9.8**	**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**
Carryin (Sep 1)	1,624	1,673	1,708	1,128	**989**	**989**	**602**	**602**	**602**
Production	12,101	13,092	12,447	12,360	**10,780**	**10,780**	**14,424**	**15,131**	**12,838**
Imports	15	8	28	29	**100**	**125**	**15**	**15**	**15**
Total Supply	13,740	14,774	14,182	13,517	**11,869**	**11,894**	**15,041**	**15,748**	**13,455**
Feed and Residual									
Total Feed and Residual	5,250	5,140	4,792	4,548	**4,450**	**4,550**	**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**
Other FSI	1,270	1,371	1,407	1,426	**1,367**	**1,367**	**1,400**	**1,400**	**1,400**
Total FSI	4,920	5,939	6,428	6,437	**5,867**	**5,917**	**6,300**	**6,300**	**6,300**
Total Domestic Use	10,170	11,079	11,220	10,985	**10,317**	**10,467**	**11,200**	**11,200**	**11,200**
Exports (Census)	1,800	1,987	1,835	1,543	**950**	**825**	**1,350**	**1,350**	**1,350**
Total Use	11,970	13,066	13,054	12,528	**11,267**	**11,292**	**12,550**	**12,550**	**12,550**
Carryout (Aug 31)	1,770	1,708	1,128	989	**602**	**602**	**2,491**	**3,198**	**905**
Stocks/Use	14.8%	13.1%	8.6%	7.9%	**5.3%**	**5.3%**	**19.9%**	**25.5%**	**7.2%**

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

	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	**USDA 12/13 Jan**	**Opus 12/13**	**Opus 13/14**	**Fantastic Yield**	**Poor Yield**
Planted Acres	75.7	77.5	77.4	75.0	**77.2**	**77.2**	**79.0**	**79.0**	**79.0**
Harvested Acres	74.6	76.4	76.6	73.8	**76.1**	**76.1**	**77.8**	**77.8**	**77.8**
Abandoned Acres	1.1	1.1	0.8	1.2	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**
Yield	39.7	44.0	43.5	41.9	**39.6**	**39.6**	**43.8**	**45.0**	**41.0**
Carryin (Sep 1)	205	138	151	215	**169**	**169**	**108**	**108**	**108**
Production	2,967	3,359	3,329	3,094	**3,015**	**3,014**	**3,410**	**3,503**	**3,192**
Imports	13	15	14	16	**20**	**20**	**15**	**15**	**15**
Total Supply	3,185	3,512	3,495	3,325	**3,204**	**3,203**	**3,533**	**3,626**	**3,315**
Crush	1,662	1,752	1,648	1,703	**1,605**	**1,650**	**1,700**	**1,700**	**1,700**
Exports (Census)	1,283	1,499	1,501	1,360	**1,345**	**1,335**	**1,400**	**1,400**	**1,400**
Seed	90	90	87	90	**89**	**90**	**89**	**89**	**89**
Residual	12	20	43	2	**30**	**20**	**20**	**20**	**20**
Total Use	3,047	3,361	3,280	3,155	**3,070**	**3,095**	**3,209**	**3,209**	**3,209**
Carryout (Aug 31)	138	151	215	169	**134**	**108**	**324**	**417**	**106**
Stocks/Use	4.5%	4.5%	6.6%	5.4%	**4.4%**	**3.5%**	**10.1%**	**13.0%**	**3.3%**

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