



March 2013 Month End Comments

The past week has been one of great change to the grain and oilseed markets. The USDA released their Quarterly Stocks report alongside their Prospective Plantings report on March 28. The level of corn, soybean, and wheat stocks were a major surprise to the market, and prices for all three commodities have sold off sharply in the aftermath. As we were positioned bearish all three commodities heading into the report, we have been treated fairly well by this move.

The question now facing the market, particularly in corn, is whether or not to “believe” the USDA’s data. The quarterly stocks data is known for being wildly volatile, and often you will see adjustments in later reports to offset possible errors in their data. I have seen many traders speculate that the USDA will “correct” this corn stocks data with a lower than expected total in the next report. I will have to respectfully disagree with those particular analysts.

Take a look at the chart attached here. Much has been made about the Dec-Feb quarter’s feed/residual consumption coming in 30% below last year...which is seemingly an impossible number considering the information we have on GCAUs. However, if you take the first half of the marketing year together, total feed/residual use is “only” down 7% from the same period last year. This actually seems pretty reasonable considering our estimates on GCAUs and overall corn supplies. I think this illustrates the point that the first quarterly stocks report of the year (representing the Sep-Nov quarter) was in error and this report’s data is likely more accurate than most assume.

<u>Corn Feed/Residual Demand Estimates</u>				
	11/12	12/13	Diff.	% Chg.
Sep-Nov	1,828	2,063	235	13%
Dec-Feb	1,547	1,074	(473)	-31%
Total	3,375	3,137	(238)	-7%

The quarterly stocks estimate was higher than expected in wheat as well, which implies a bit less feeding of wheat than previously assumed. That, combined with weaker corn prices and the likelihood that those lower prices will eat into further wheat feeding this summer, is allowing the wheat balance sheet to loosen up considerably compared to previous expectations. The soybean quarterly stocks were also larger than expected, which likely implies that the USDA’s estimate on 2012 production was probably a little understated. This “extra” supply will allow for a bit more wiggle room in an old crop balance sheet that still is facing tight nearby supplies due to export demand flowing back into the US as Brazilian logistics have slowed exports of their sizeable crop.

So, despite the very important changes to the balance sheets (attached at the end) and the huge swing in prices over the past week, our long-term fundamental thoughts are actually very little changed this month.

I remain bearish to new crop corn values. No change here. If weather cooperates we could be looking at a massive swing from tight nearby supplies to abundant supplies in the fall. US export demand stinks. Even with the break in prices over the past week, we remain uncompetitive against cheaper Argentine and Brazilian supplies. Ethanol demand has improved, but remains at relatively depressed levels and is completely dependent on a rebound in gasoline demand (which has actually been trending lower in recent years). In regards to this summer’s production, I still believe most are under-estimating US production potential, although I concede that we need some cooperation from the weather. Right now conditions have improved in terms of moisture, but this is problematic as it is keeping some farmers out of the fields and planting is not getting rolling as early as many had hoped. I argue that I’d rather have the moisture than get the crop planted early, but in the short term the market might become concerned if the wet conditions delay planting efforts much further.



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I remain bearish to wheat values as well. This is no change from last month either. In the short term, this trade might be a bit difficult. US wheat values are among the cheapest in the world and French supplies are running tight, meaning world export business will default to the US in the short term. However, by late June and early July we will start working into new crop Black Sea supplies that should instantly undercut US demand. The lower corn values should also depress feed demand. There will likely be a few bumps in the road here, but I still feel the long term direction for wheat prices is lower.

I have no position in soybeans currently. Demand for US soybeans remains stronger than anticipated due to logistical constraints in Brazil. This combined with a lack of producer selling in the US sets up for a potentially explosive situation in nearby soybean contracts. The long term balance sheets continue to look negative to me, but with the uncertainty on the front-end, I'm staying out of this one for now.

I am negative to cattle prices in the long term. Depending on whether or not the spring/summer provides any improvement in pasture conditions in the US Plains, I feel that the tightest cattle supply conditions are likely behind us. Additionally, even with the break in feed prices in the past week, feedlots are still staring at negative margins and their cost-of-gains are negative, meaning they will likely be more aggressive sellers of their cattle (liquidating their supply). And on top of that, with an improvement in weather and improvement in feed prices (both far from certain at this point of course) I think the speculative zeal for cattle/beef prices will wane in the months ahead, leading to long-term weakness in prices.

Corn, Soybean, and Wheat balance sheets follow.

Regards,
David Zelinski
Opus Futures, LLC
April 4, 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 Mar	Opus 12/13	USDA 13/14 Feb	Opus 13/14	Excellent Yield	Poor Yield	2012 Yield
Planted Acres	86.0	86.4	88.2	91.9	97.2	97.2	96.5	97.3	97.3	97.3	97.3
Harvested Acres	78.6	79.5	81.3	84.0	87.4	87.4	88.8	90.0	90.0	90.0	90.0
Abandoned Acres	7.4	7.4	6.9	7.9	9.8	9.8	7.7	7.3	7.3	7.3	7.3
Yield	153.9	164.7	152.8	147.2	123.4	123.4	163.6	157.3	165.0	140.0	122.0
Carryin (Sep 1)	1,624	1,673	1,708	1,128	989	989	632	772	772	772	772
Production	12,101	13,092	12,447	12,360	10,780	10,780	14,530	14,157	14,850	12,600	10,980
Imports	15	8	28	29	125	140	25	15	15	15	15
Total Supply	13,740	14,774	14,182	13,517	11,894	11,909	15,187	14,944	15,637	13,387	11,767
Feed and Residual											
Total Feed & Residual	5,250	5,140	4,792	4,548	4,550	4,400	5,400	4,900	4,900	4,900	4,900
Food, Seed, & Industrial											
Corn for Ethanol Fuel	3,650	4,568	5,021	5,011	4,500	4,550	4,675	4,900	4,900	4,900	4,900
Other FSI	1,270	1,371	1,407	1,426	1,387	1,387	1,435	1,400	1,400	1,400	1,400
Total FSI	4,920	5,939	6,428	6,437	5,887	5,937	6,110	6,300	6,300	6,300	6,300
Total Domestic Use	10,170	11,079	11,220	10,985	10,437	10,337	11,510	11,200	11,200	11,200	11,200
Exports (Census)	1,800	1,987	1,835	1,543	825	800	1,500	1,350	1,350	1,350	1,350
Total Use	11,970	13,066	13,054	12,528	11,262	11,137	13,010	12,550	12,550	12,550	12,550
Carryout (Aug 31)	1,770	1,708	1,128	989	632	772	2,177	2,394	3,087	837	(783)
Stocks/Use	14.8%	13.1%	8.6%	7.9%	5.6%	6.9%	16.7%	19.1%	24.6%	6.7%	-6.2%

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

	USDA	USDA	USDA	USDA	USDA	Opus	USDA	Opus	Fantastic	Poor	2012
	08/09	09/10	10/11	11/12	12/13 Mar	12/13	13/14 Feb	13/14	Yield	Yield	Yield
Planted Acres	75.7	77.5	77.4	75.0	77.2	77.2	77.5	77.1	77.1	77.1	77.1
Harvested Acres	74.6	76.4	76.6	73.8	76.1	76.1	76.6	76.2	76.2	76.2	76.2
Abandoned Acres	1.1	1.1	0.8	1.2	1.1	1.1	0.9	0.9	0.9	0.9	0.9
Yield	39.7	44.0	43.5	41.9	39.6	39.6	44.5	43.8	45.0	41.0	39.3
Carryin (Sep 1)	205	138	151	215	169	169	125	144	144	144	144
Production	2,967	3,359	3,329	3,094	3,015	3,014	3,405	3,338	3,429	3,124	2,995
Imports	13	15	14	16	20	20	15	15	15	15	15
Total Supply	3,185	3,512	3,495	3,325	3,204	3,203	3,545	3,497	3,588	3,283	3,154
Crush	1,662	1,752	1,648	1,703	1,615	1,650	1,660	1,700	1,700	1,700	1,700
Exports (Census)	1,283	1,499	1,501	1,360	1,345	1,330	1,500	1,450	1,450	1,450	1,450
Seed	90	90	87	90	89	89	87	90	90	90	90
Residual	12	20	43	2	30	(10)	48	20	20	20	15
Total Use	3,047	3,361	3,280	3,155	3,080	3,059	3,295	3,260	3,260	3,260	3,255
Carryout (Aug 31)	138	151	215	169	125	144	250	237	328	23	(101)
Stocks/Use	4.5%	4.5%	6.6%	5.4%	4.1%	4.7%	7.6%	7.3%	10.1%	0.7%	-3.1%

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

	USDA 06/07	USDA 07/08	USDA 08/09	USDA 09/10	USDA 10/11	USDA 11/12	USDA 12/13 Feb	Opus 12/13	Opus 13/14
Planted Acres	57.3	60.5	63.2	59.2	53.6	54.4	55.7	55.7	56.4
Harvested Acres	46.8	51.0	55.7	49.9	47.6	45.7	49.0	49.0	47.9
Abandoned Acres	10.5	9.5	7.5	9.3	6.0	8.7	6.7	6.7	8.5
Yield	38.6	40.2	44.9	44.5	46.3	43.7	46.3	46.3	44.5
Carryin (Sep 1)	571	456	306	657	976	862	743	743	740
Production	1,808	2,051	2,499	2,218	2,207	1,999	2,269	2,269	2,132
Imports	122	113	127	119	97	113	130	130	115
Total Supply	2,501	2,620	2,932	2,993	3,279	2,975	3,142	3,142	2,987
Food Use	938	948	927	919	926	941	950	950	950
Seed	82	88	78	69	71	76	75	77	75
Feed & Residual	117	16	255	150	132	165	375	360	250
Total Domestic	1,137	1,051	1,260	1,138	1,128	1,183	1,400	1,387	1,275
Exports	908	1,263	1,015	879	1,289	1,050	1,025	1,015	1,000
Total Use	2,045	2,314	2,275	2,018	2,417	2,232	2,425	2,402	2,275
Carryout (Aug 31)	456	306	657	976	862	743	716	740	712
Stocks/Use	22.3%	13.2%	28.9%	48.4%	35.7%	33.3%	29.5%	30.8%	31.3%

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