November 2013 Month End Comments

November was a fairly quiet month in the grain and oilseed markets. Preparations for the holiday season took precedent over trading it seems, and generally speaking the markets trading fairly narrow ranges and mostly continued on their recent trends. Our positions, likewise, were little changed during the month.

There aren't a lot of new developments in terms of grain market fundamentals to report from the past month, so this commentary will be short and to the point. Demand for corn and soybeans remains impressive. In the case of corn, the demand is aggressive and with farmers reluctant to sell, this is leading to intermittent bounces in basis and futures prices from time to time. These bounces have usually stirred up enough cash movement to allow for the downtrend to continue shortly afterwards, and I would expect farmers to become more aggressive sellers in the new year. Additionally, Chinese import demand for US corn is now being called into question over unapproved GMO corn found in certain US cargoes. No US exporters can truly guarantee their supply does not have this variety of corn, so new sales to China are essentially halted. More important, however, is what happens to corn already shipped to China. Some will likely still be approved for import into China, but we also know that some cargoes have been rejected and will need to be redirected to other destinations. This creates a possibly negative spin on US corn export demand.

US soybean export demand can only be described as "out of control". There is simply a ridiculous amount of US soybean export commitments on the books right now. This means one of two things needs to happen: either some of these sales need to be cancelled or switched to other origins (Brazilian new crop?), or the market needs to focus on rationing demand through higher prices and further-inverted spreads. In the end, I think a likely combination of both will end up taking place, leaving me with little desire to participate in the front end of the soybean market.

The wheat market has essentially moved sideways in the past month, with little fundamental news to push the market in either direction. US wheat prices are competitive on a FOB basis, but when factoring in freight the US remains uncompetitive to major wheat buyers at the moment. Argentina's wheat production and exportable supply remains a major question mark that could lead to some additional US wheat business to Brazil, but outside of that "non-traditional" demand, there doesn't appear to be much working for the US at the moment. Current winter wheat conditions look very solid, and the new crop balance sheet could see supplies surge higher with strong production coupled with the removal of feed demand (as corn prices have worked lower this year).

I continue to expect downside in corn and wheat prices over the long term. In the short term, these positions could be a bit complicated. In corn, the specs remain aggressively short and the index fund rebalance looms at the beginning of the year. Index fund rebalancing should bring major buying in corn futures to start 2014, which could lead to a short term bounce in prices. I fully anticipate the farmer being more willing to sell corn on this expected bounce, if it materializes, which should limit the upside. Additionally, this situation with Chinese corn exports doesn't appear to be getting resolved especially quickly and could escalate into more cargo cancellations. It will need to be watched very closely.

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

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In wheat, my negative bias remains in new crop futures (July 2014 and forward). There is a small chance of some upside to old crop futures if Brazil returns to the US for additional Q1 2014 wheat shipments, but outside of that possibility I view wheat exports as likely under-performing vs. the USDA's balance sheet projection and I actually expect old crop ending stocks to work higher vs. the current USDA projection. With strong world production and a lack of feed demand in the new crop balance sheet due to lower corn prices, new crop wheat values look grossly over-valued here.

I am negative to new crop soybean values, but old crop still has some potential upside. As noted above, US soybean export demand is simply out of control, and either the market needs to see some cancellations, which are starting to be hinted, or the market needs to rally and invert the spreads further to ration demand. I suspect a combination of both might actually occur, making for a very choppy and volatile ride in the old crop futures. I have no interest in playing that game. For new crop, however, as long as South American weather remains favorable (I might describe it as "perfect" right now) and if the bean/corn price ratio continues to favor expansion in soybean acreage in the US for 2014, new crop soybean values are over-valued by a wide margin.

I have no position in the livestock markets. I remain negative to hog futures, but still don't see the timing to be very good for establishing a new position here. I will continue to monitor the situation. I am cautiously friendly to the cattle market, but again I feel it is prudent to wait and watch the situation further.

Happy Holidays,
David Zelinski
Opus Futures, LLC
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9047 Poplar Avenue, Suite 101, Germantown, TN, 38138
Tel: 901-766-4446 • Fax: 901-766-4406
www.opusfutures.com