



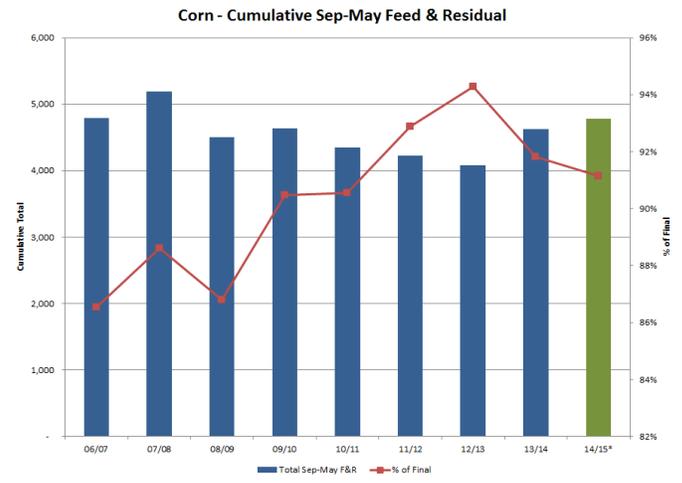
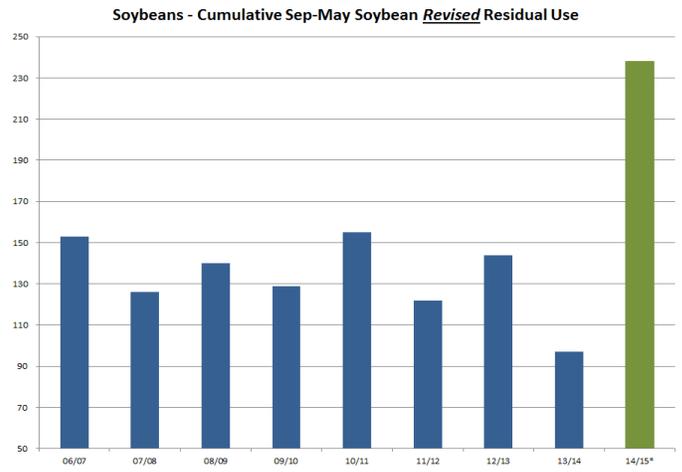
July 6, 2015

**Monthly Agriculture Market Notes:**

Last month’s update feels like an eternity ago, as so much has changed in the past month that has caused a total re-thinking of our positions. The wild action of the past month can be boiled down into two key fundamental developments. Firstly, weather conditions turned sour in eastern Corn Belt states, causing damage to already planted corn and soybeans and preventing remaining soybean acreage from being completely planted. Secondly, the USDA updated their Quarterly Stocks and this showed surprisingly smaller than expected old crop supplies of corn and soybeans. The combination of these two factors has caused the market to “reprice risk” in a dramatic fashion over the past two weeks. We need to look at these factors and what they mean before figuring out what to do next.

First, let’s examine the Quarterly Stocks data. For soybeans, NASS showed June 1 stocks of only 625 million bushels compared to expectations of 679 million. In corn, NASS showed stocks of 4.447 billion bushels vs. expectations for 4.557 billion. These are both dramatic misses vs. expectations and raise more questions than answers. In the charts to the right, I illustrate what this implies for Q1-Q3 cumulative residual use for both crops. Simply put, the implied use is staggeringly high. Note that I am comparing this year’s so far *unrevised* usage data against previous year’s *revised* data. My point here is, in the case of soybeans, last year’s crop was likely overstated by a large margin. In the case of corn, the difference isn’t large enough to expect that NASS will offer any revision to their previous crop estimate.

In both cases, this means WASDE is now faced with a situation where they have to tighten their old crop balance sheets. In the case of soybeans, this tightening could prove to be dramatic. WASDE could be forced to add 50-60 mil bu of “residual” use to their balance sheet until NASS gets around to lowering their 2014 crop estimate. This combined with expected increases to both crush and



*NASS’s June 1 stocks data for both corn and soybeans was surprisingly small, implying larger than anticipated use or, in the case of soybeans, a smaller than previously thought 2014 crop. While these figures do not imply “tight” old crop balance sheets, it creates a situation where the market needs to “reprice” the 2015 crop risk as carry-in supply is now smaller than expected.*



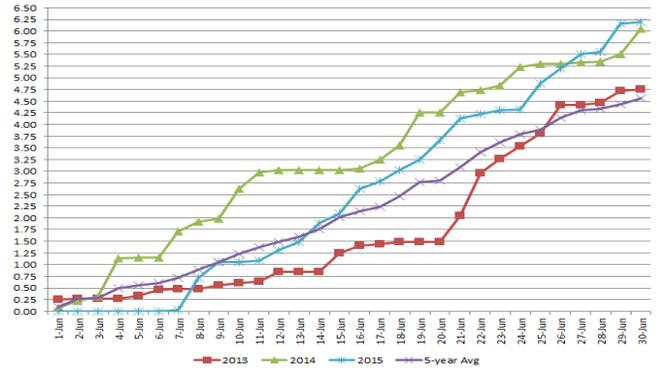
exports could lead to a very sharp drop in 14/15 ending stocks from last month's 330 mil bu estimate to something closer to 250 mil bu. In the case of corn, the expected decline in old crop supplies is not as extreme, something probably around 50-75 mil bu. But the key to both markets is not the actual decline in old crop stocks. Instead, the importance of this development is that it has put increased pressure on the 2015 crop in order to maintain 15/16 supplies.

The 2015 year was off to a great start through most of the country, and if this were still the case the market would be far less concerned with these smaller than expected inventories. However, crop conditions have taken a dramatic turn for the worse in some important production regions. Excessive rainfall has fallen stretching from MO through IL, IN, and OH. This excessive rain has caused two major problems in these areas. Firstly, while corn area has largely been seeded as planned, there is still a lot of expected soybean area that has not been planted. Based on NASS data as of July 6, there are roughly 3 million acres of expected soybean area that is yet unplanted. Based on the current look of the forecast and the time of the year, it is a reasonable conclusion to expect a solid portion of that 3 million acres might never get planted.

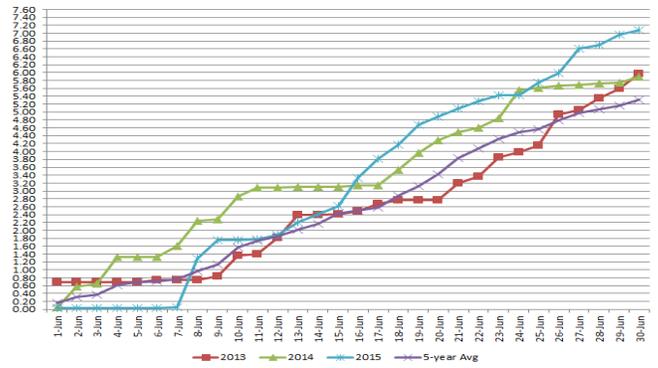
The other problem caused by the excessive rainfall is damage to the already planted acreage. As noted above, corn area has been largely planted, but the excessive rainfall has damaged fields and lowered yield potential through these eastern Corn Belt states. The same is seen in soybeans, where the heavy rainfall and cloudy skies has slowed plant development and are reducing yield potential. If you exclude the 2012 drought disaster year, the calculated corn and soybean condition indices are the lowest since 2008.

Given the commentary to this point, one might think it would be an easy call to turn bullish corn and soybean prices. Unfortunately, I don't view it being that clearly defined. While crop conditions are clearly less than desired in eastern

June Cumulative Precipitation Total By Date  
Illinois - Corn Production Weighted

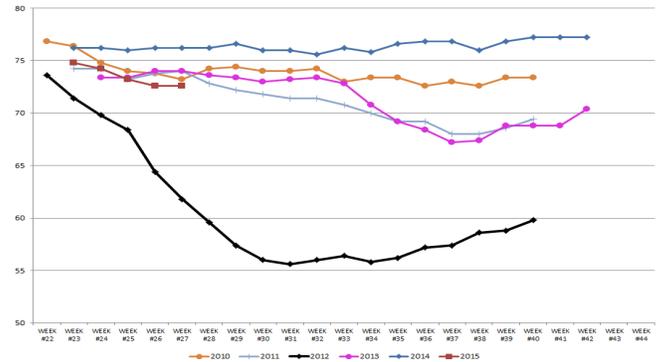


June Cumulative Precipitation Total By Date  
Indiana - Corn Production Weighted



Excessive rainfall was seen during June in major production areas including Illinois and Indiana.

National Soybean Condition Index



Soybean conditions have struggled as the result of wet weather. Though not pictured, the corn condition chart looks essentially the same.



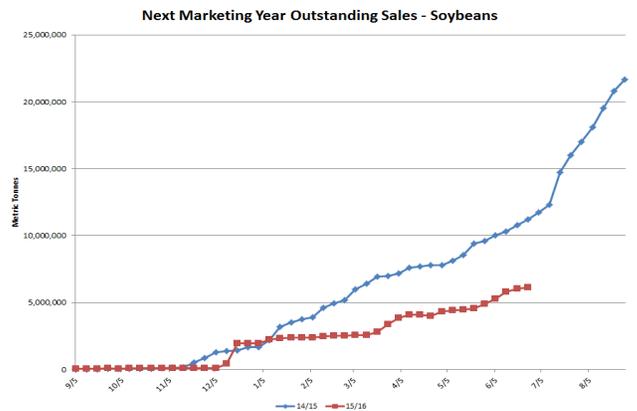
states, reports from western Corn Belt states imply stellar conditions. States including NE, MN, SD, and IA are all reporting very solid crop conditions and prospects for record yield potential. The strong conditions in these western states cannot be understated. Note the chart to the right, which breaks down the estimated corn area in the top 8 states in the US this year. The western Corn Belt states of IA, MN, NE, and SD (which all are reporting very strong condition ratings) represent 60% of the 8-state total area. The eastern Corn Belt states of IL, IN, and OH and plus MO (which I am lumping in the east only as an illustration of the "problem areas") represent "only" 40% of the 8-state total. The point of this illustration is to show that excellent conditions in these strong production areas can potentially offset some of the losses expected in the areas where we are seeing weather problems. It will become critical over the coming 4-6 weeks to determine just how good the good area is, and just how much damage the east has seen. So, while the summer season has not gone as hoped, the jury is still out on the 2015 corn and soybean crops, and we should not write off the potential for near trend yields just yet.

The demand side of the balance sheet also does not clearly point towards a higher trend in prices, especially in the case of soybeans. Following last year's record production levels in both Argentina and Brazil, South American exports have been large recently and appear likely to continue at large levels into the fall. Argentine exporters are aggressively offering cargoes into October, and following the rally in US prices they are undercutting US values and taking business away from the US. These fall months are typically the biggest timeframe for US exports, so this is certainly a cause for concern when reviewing 15/16 soybean demand.

Corn demand appears to be on better footing for new crop. Brazil also produced a record corn crop this year, and remains more competitive than the US from August forward, which will initially limit new crop corn export demand. However, I am not especially interested in shaving corn export projections just yet due to hot and dry weather through

**2015 Corn Planted Area Breakdown**

	Area	Weight
IOWA	13,700	22%
ILLINOIS	11,800	19%
NEBRASKA	9,300	15%
MINNESOTA	8,200	13%
INDIANA	5,700	9%
SOUTH DAKOTA	5,200	9%
OHIO	3,500	6%
MISSOURI	3,200	5%
	60,600	
<b>West Corn Belt</b>	<b>36,400</b>	<b>60%</b>
<b>"East" Corn Belt</b>	<b>24,200</b>	<b>40%</b>



*The lack of next marketing year sales on the books for soybeans and meal clearly illustrates the "hangover" from last year's record South American crop.*



much of Europe so far this summer. The attached map to the right shows temps have averaged above normal through June, and rainfall totals have also been extremely disappointing. A smaller EU corn crop will likely result in an increase in import requirements. This could essentially offset the increase in Brazilian exportable supplies, leaving US demand unchanged or perhaps even slightly higher than currently anticipated.

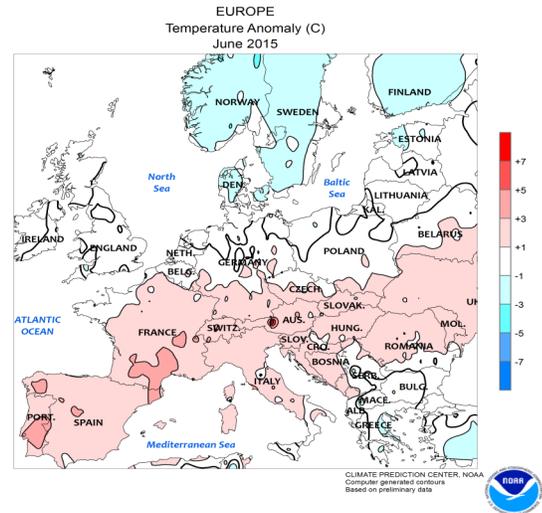
To sum up the commentary to this point:

Soybeans—Demand projections paint a very bearish picture, but crop losses due to excessive rainfall leave a lot of uncertainty.

Corn—Demand projections are fairly robust. While there are some limited concerns over production prospects, good weather in western Corn Belt areas could still lead to a trend crop or better.

The uncertainty shown in the above comments leaves me in a *reactionary* mindset....one where I am forced to take small positions and wait for some sort of clarity on crop development before establishing a long-term bias. As of today, I feel this will eventually mean a negative bias to soybean prices and a neutral to slightly negative bias to corn, but with such great uncertainty in 2015 crops, confidence is not as strong as I'd prefer.

Regards,  
David Zelinski



*Weather has been very unfavorable for crops so far this summer across a wide section of Europe.*

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