Opus LLC
FUTURES

September 3, 2015

Monthly Agriculture Market Notes:

The month of August was volatile and choppy, but that is not necessarily uncommon in the grain and oilseed markets as the focus in squarely on US production prospects. Changes in various weather models/forecasts often create significant swings in price direction, even intraday. While this obviously creates a difficult trading environment, it also creates opportunities. Looking back on the past month, it is refreshing to see that we were able to take advantage of some of these opportunities.

As we move into the month of September, the changes in the weather forecasts are slightly less impactful on day to day trade, as the market focus remains squarely on US production forecasts. The looming September 11 NASS Crop Production report is the next critical hurdle for the agriculture futures markets, as private groups are in a rush to produce their own production estimates ahead of the USDA.

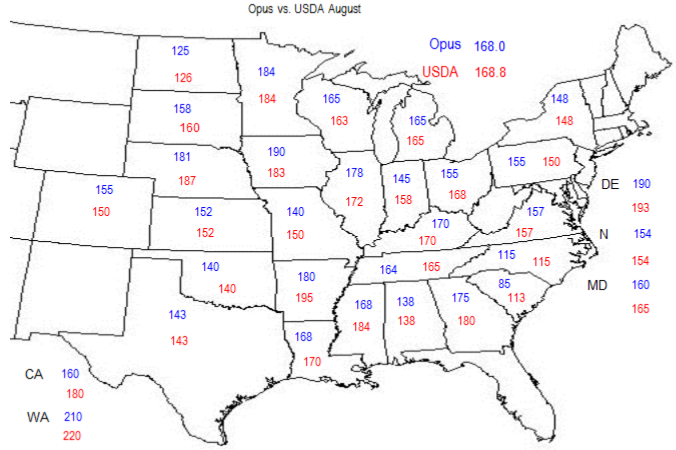
To that end, I (along with a few colleagues) recently conducted a trip around the key production regions of the US in an effort to form a determination of US corn and soybean production potential. The trip focused on the states of Illinois, Iowa, Minnesota, Nebraska, and South Dakota, covering just under 3,000 miles to collect objective yield samples. These samples taken are compared against our database of prior trips, which date back to 2005.

The maps shown to the right show my yield expectations for individual states and the national average for both corn and soybeans. For states that we did not collect yield samples, I have utilized different weather and condition index yield models.

My national average corn and soybean yield estimates are actually fairly close to the prior NASS estimates, but the state-level data has many notable differences. As a general rule, my conclusion is that NASS overstated yields in the southern/southeastern US and in parts of the east-

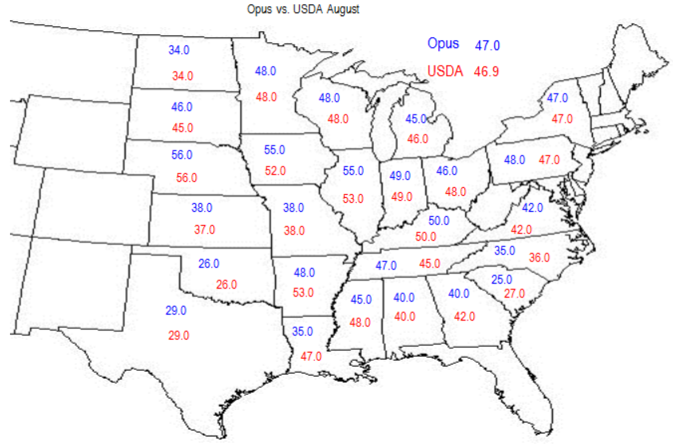
US Corn Yield Estimate Snapshot

Opus vs. USDA August



US Soybean Yield Estimate Snapshot

Opus vs. USDA August



The yield estimates shown above are my own personal expectations, which are based mostly off our annual crop trip through the Corn Belt. Various weather and condition models supplement the crop trip data.

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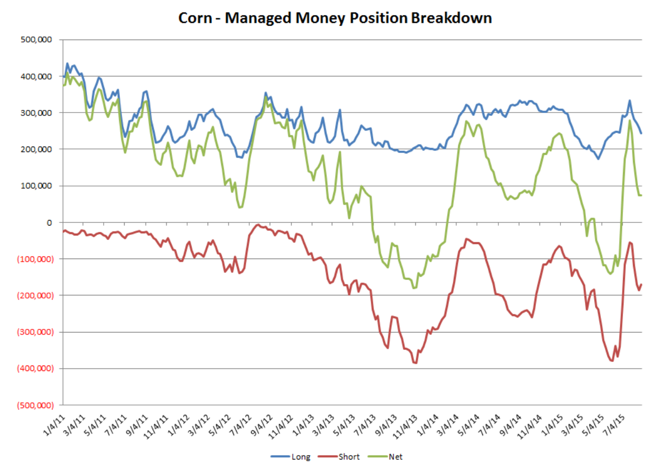
ern Corn Belt. I think NASS was a bit conservative in their yield projection for the key states of Iowa and Illinois.

Overall market sentiment clearly contradicts my estimates. Almost without exception, most private analysts and individual traders believe the USDA national average yield projections are optimistic. I would call current “market consensus” centers around a national average corn yield of 164-165 and a soybean yield of 45-46. My crop production estimates are certainly the outlier right now.

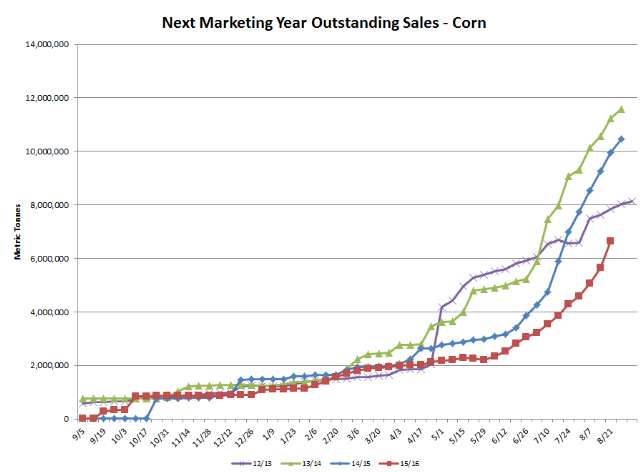
While I certainly have confidence in my estimates and I believe I’ll be proven correct eventually, I’ll fully concede that it is quite possible the market is right and I am wrong. Crop production projections are more art than science...anyone who says otherwise is not being honest. That said, whether or not the final figures turn out closer to my projections or the current market consensus, I don’t view it as particularly important to nearby price direction.

The corn market in particular is leaning bullish into next week’s Crop Production report. A smaller production estimate closer to the above mentioned market consensus figures would have a greater impact on the corn balance sheet than you would see with soybeans. The spec community (managed money) is carrying a long position into the report. Perhaps more importantly, the US farmer is also “long” corn as he remains significantly under hedged/sold. As both these “entities” are already long the market, there will be less buying interest on a smaller production estimate from NASS than there might be otherwise. Additionally, with harvest approaching rapidly, the US farmer would likely use any short term rally as an opportunity to catch up on the slow marketing pace. Meanwhile, if the production estimates come in closer to what I am projecting, the spec is likely to cover his long position and the farmer might be left stuck wondering what to do next.

Following next week’s report, the focus of the market will also start to turn more towards demand projections. In the



Though off highs seen in late spring, the managed money community continues to hold a net long position in the corn market in anticipation of smaller yields.



Current 15/16 marketing corn export sales are well behind the average pace we’ve seen over the past several years. A record crop seen in Brazil, along with their favorable exchange rate, could continue to keep pressure on US export sales in the months ahead.

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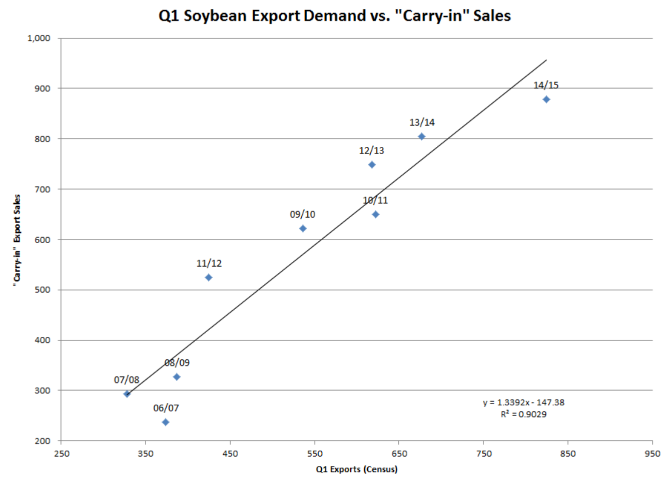
case of both corn and soybeans, current export demand projections are not optimistic. Corn 15/16 export sales are off roughly 30% from this time last year and Brazil continues to offer corn cargoes aggressively for fall and winter months following a record crop. Soybean 15/16 export sales are off more than 40% from this time last year and this is indicative of potentially the smallest Q1 export program we've seen in several years. Specs and the generic "farmer" are long the board into an environment where a potentially large crop is coming to a cash market that isn't in dire need of bushels.

The bottom line is that it appears most market participants are "hoping" for a USDA production estimate decline next week. The "farmer" is hoping to use a price rally from that scenario to advance marketing of his crop. Instead of hope, I prefer to play the odds. My analysis tells me that even if I'm optimistic on yield prospects, the current demand environment is not one that will support a significant price rally. I remain bearish.

Regards,
David Zelinski



"Carry-in" soybean export sales are a very reliable indicator of the Q1 export program. Right now current indications are that this year's Q1 soybean program will be the smallest since 11/12.

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