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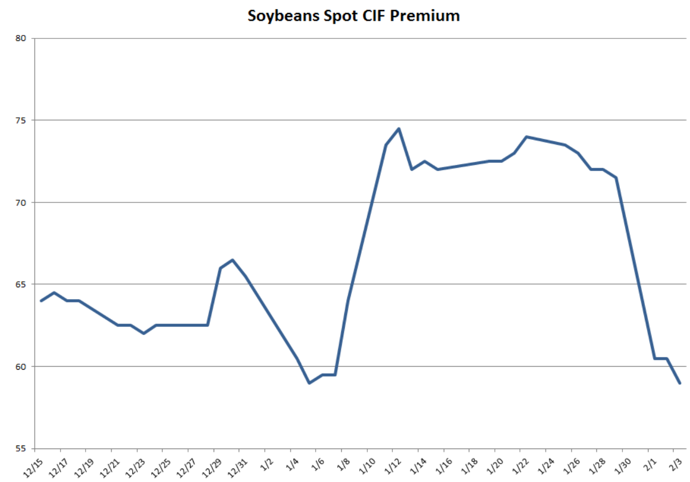
February 5, 2016

Agriculture Market Highlights:

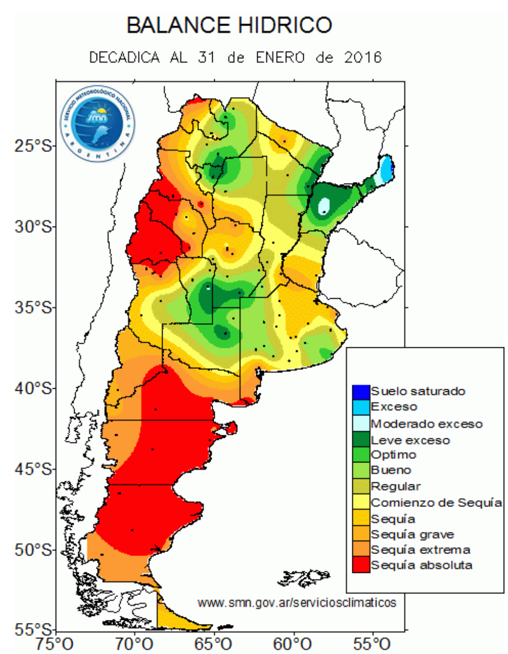
The new year has started on a sour note. With the benefit of hindsight, I can look back and point to three factors in the past month that have negatively impacted our performance.

1) Heavy rains through the central and eastern US have created major flooding problems for the Mississippi river and surrounding tributaries. This created a very temporary but dramatic shortage in the CIF soybean market, which helped fuel soybean prices and spreads higher despite active and ongoing farmer engagement on the rally.
2) WASDE's January crop reports posted slightly smaller crop figures than expected, but that wasn't the most puzzling issue. I take exception to WASDE's 15/16 soybean crush projection, which they left unchanged at 1,890 mil bu. That WASDE left this figure unchanged puzzled me and other analysts/traders, and gave the appearance of a "bullish" report based on expectations for carry-out.
3) An unusually high level of concern arose regarding a small portion of Argentine growing areas that received a bit under normal precipitation over the past few weeks. This particular area of Argentina is a key production area, but it was still relatively small in scope and the area wasn't completely dry. Still, concern ramped up very quickly , creating a persistent bid in the market.

For all of these reasons, and probably a few others I'm not mentioning, soybean and corn values worked higher through January and our short positions experienced losses. Still, based on the nearby fundamental outlook, I expect a lower price trend to reassert itself in the near future.



River logistics snarls created a squeeze in the CIF market, and this was part of the board's price rally during the month of January. Note, however, that CIF values have declined significantly as river conditions have normalized.



Argentine soil moisture levels have remained at mostly favorable levels through most of Argentina this season, despite some recent "hype" suggesting otherwise.

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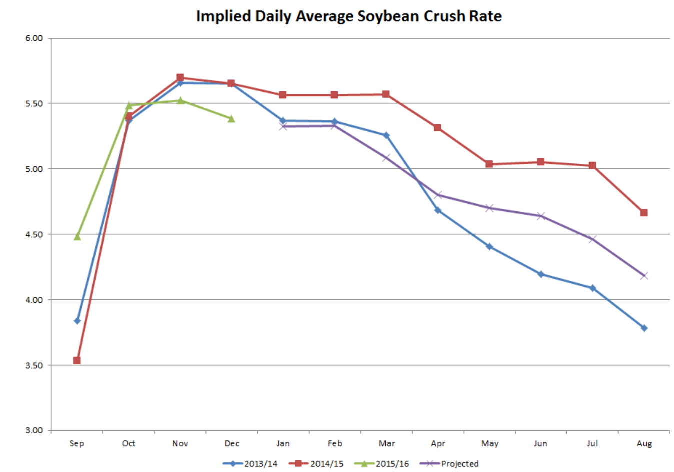
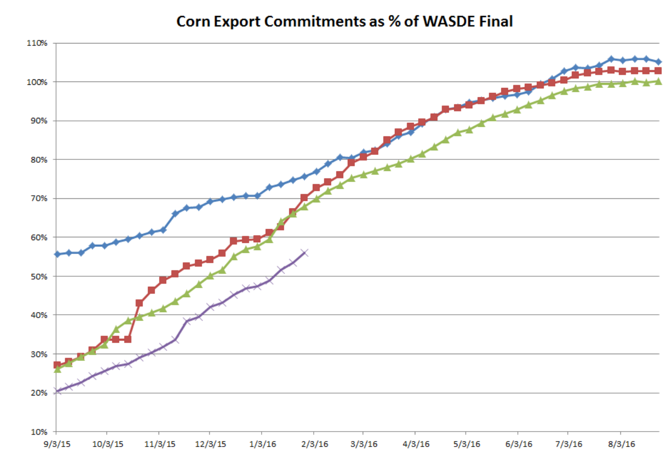
Starting on soybeans, let's look at the aforementioned crush estimate. WASDE is currently projecting the 15/16 crush at 1,890 mil bu, and I believe they're too high by *at least* 40 mil bu. We've passed peak crush season here in the US, and due to some of the smallest margins seen in years, crushers did not meet levels seen over the past few years. As the crush rate is expected to seasonally decline in the months ahead, it will be increasingly difficult to even come close to the WASDE projection. Attached to the right is a graphic showing the recent history of the implied daily average crush rate. The purple line is a seasonal pace based on what we've crushed so far this year. This seasonal pace, which seems fairly inline with recent history, would actually only end up totaling a marketing year crush of 1,810 mil bu...far short of the WASDE projection.



A seasonal pace on the US soybean crush shows WASDE is entirely too optimistic with their current projection. The pace show above would imply a marketing year crush of 1,810 mil bu. While I believe the end result will likely be larger than 1,810, the point remains that evidence points towards a lower figure than WASDE shows.

Export demand, in the case both soybeans and corn, also argues for weaker prices. The soybean export program is winding down as global buyers turn their attention to new crop South American supplies. Brazilian offers are under US prices and the US will likely serve as only a "fill-in" supplier in the weeks and months ahead. Corn export demand has struggled all year, and remains well short of a pace necessary to meet the current WASDE projection. Demand will likely improve from these depressed levels in the second half of the year, but I doubt that demand will be great enough to fill the gap. Argentine corn offers have become very aggressive and will compete vs. the US in the months ahead. The finite amount of export demand will be split between the US and Argentina, along with some plenty of available feed-wheat, leaving WASDE's export projection probably 50 mil bu too large.



Corn Export demand has improved in recent weeks, but the pace remains especially slow compared to what we normally see. Continued competition from South American supplies should continue to keep a lid on demand out of the US.

Keeping all of the above in mind, it is worth pointing out that some weather forecasts are already hyping concerns over potential problems in the 2016 US sum-

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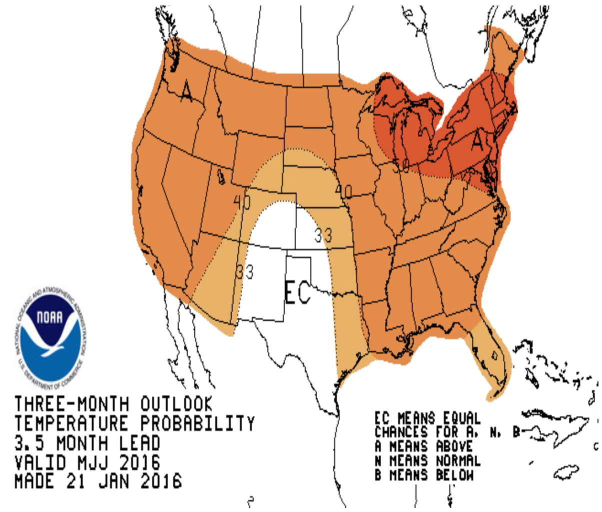
mer season. To be certain, weather adversity in the US this summer is likely the only factor that could derail the bearish fundamental arguments in place. There seems to be almost a “hope” for a 2016 crop disaster among those in the grain business, looking for any possible way to see higher prices again.

In my experience, it is always best to enter any growing season with an outlook of “normal” weather. That said, there are certainly weather forecasters that I know well and trust that have brought up some concerns about the 2016 season and I will position accordingly as we move closer to the spring. Positioning for such a crop problem *now*, however, seems self-defeating in the face of continued bearish cash market developments.

Regards,
David Zelinski
Opus Futures, LLC



Long range projections showing prospects for above normal summer temps have certainly generated some excitement in recent weeks, but it is entirely too early to trade “hopes” for a summer weather problem.

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