April 6, 2016

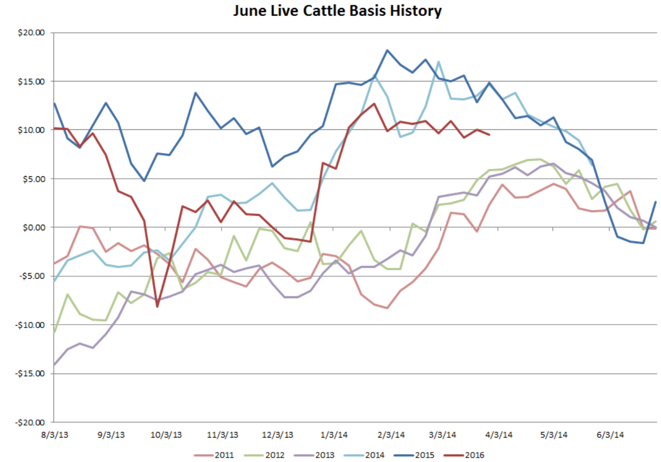
Agriculture Market Highlights:

Our back-and-forth performance over the past several months continued in March, with most of our positions experiencing losses. Before discussing what went wrong last month, I'll first point out what did work. Our small long position in live cattle did turn out favorably for us last month, though admittedly the late month break in prices did reduce the positive performance a bit. We still hold a very small long position in live cattle, but the position is a fraction of what it was to start last month. I still believe there is potential upside in cattle futures, as the board remains well below cash values. I may look to "re-own" some of this position on breaks.

Now on to what went wrong last month… usually with the benefit of hindsight I can identify where positions go wrong. Usually there is one over-looked bit of data or just a mistake in interpretation that I can single out and make a note of for future reference. In this particular case, even several weeks into the move, I'm at a loss to explain the rationale behind the soybean rally seen last month.

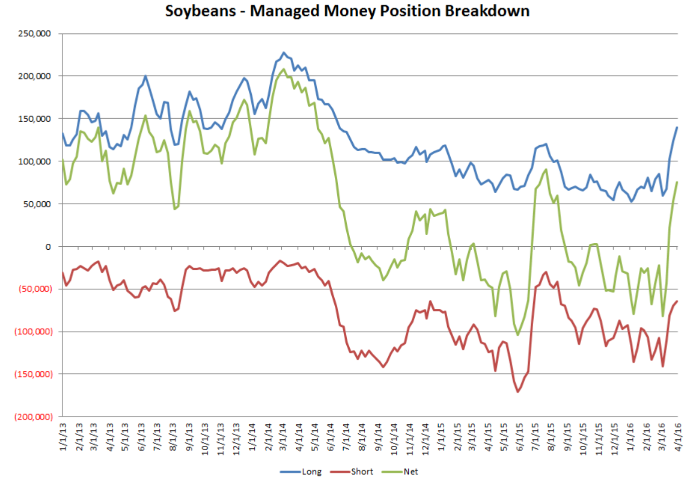
Soybean futures were trading near their recent lows to start the month but quickly reversed course and seemingly have yet to look back. Certainly there was an aspect of fund short-covering in the early stages of the rally. This actually was fully anticipated, and at first I relished the opportunity to add to shorts into the bounce, as cash markets remained weak and South America was beginning the early stages of its likely record soybean harvest. The fund short covering turned into something completely unexpected as funds continued buying and have now established a fairly aggressive long position in soybeans. The fund net long is now almost as large as what we saw last summer during the flooding seen in Illinois and Indiana.

June Live Cattle Basis History



The futures board and the cash market will eventually need to converge. Based on what we expect on cattle supplies and what we already see on forward beef sales, I still expect this to be resolved by a rally in the futures more than a break in cash prices.

Soybeans - Managed Money Position Breakdown

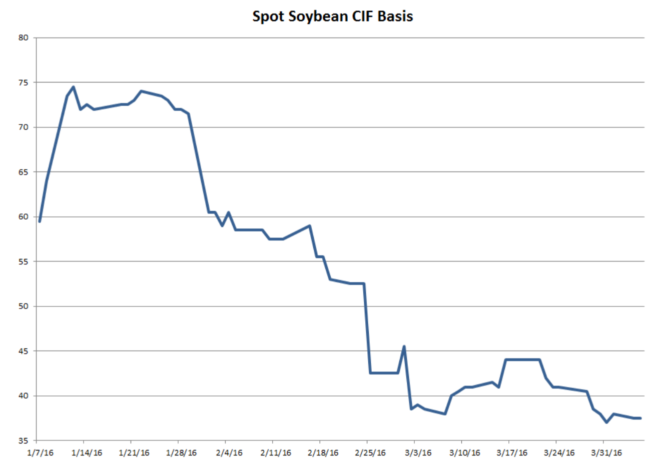


Yes, short covering has been a part of the rally in soybean prices, but we've also seen a huge surge in long positions. This gross long position is now the largest since mid-2014. Building such a sizeable long position into a weakening cash market is questionable. These new longs are certainly hoping for some "help" from adverse spring/summer weather.

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

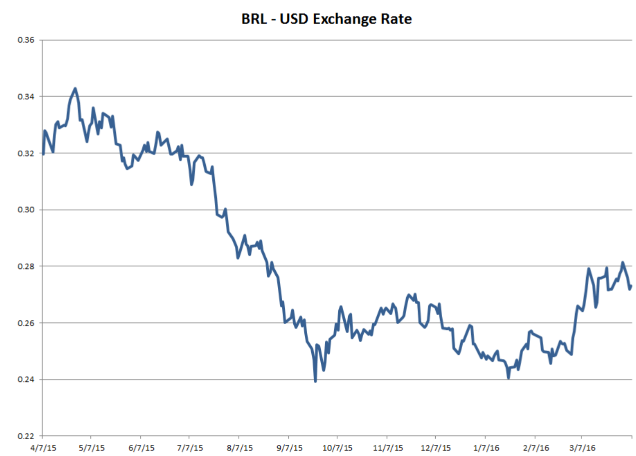
newaccounts@opusfutures.com • Tel: 901-766-4446 • opusfutures.com

The fund buying frenzy pushed soybean futures much higher than anticipated, and this has created a wide dichotomy between the futures board and cash prices. As the funds were major buyers in soybean futures, farmers and commercial grain handlers were *major* sellers of soybeans in cash markets. During the month of March, I am estimating US farmers marketed perhaps as much as 500 million bushels of soybeans (and possibly larger). This is essentially like a "second harvest" for US cash markets. As you would expect, basis levels have been under considerable pressure in recent weeks. Interestingly, this surge in cash pressure comes as the US demand "season" starts to slow down. Export demand has shifted to South America, and US crush rates seasonally slow into the summer months as well.



Cash soybean markets last month were very weak, both in the export market (shown above) and at interior crush plants. The strong farmer marketing comes at a time when soybean demand seasonally declines.

Some will point out that Brazilian soybean premiums have remained firm throughout harvest, and certainly the spread between US and Brazilian premiums leaves the door open for some additional US business. That said, there is already an armada of boats headed to China, and Chinese crush margins are under considerable pressure. New business transacted to Chinese buyers has slowed considerably in recent weeks. The recent strength in the Brazilian real has kept new farmer selling there sidelined for now, but this strength is likely to be short lived as the fiscal situation in Brazil is a mess, regardless of whether or not Rousseff is able to keep her post or not.



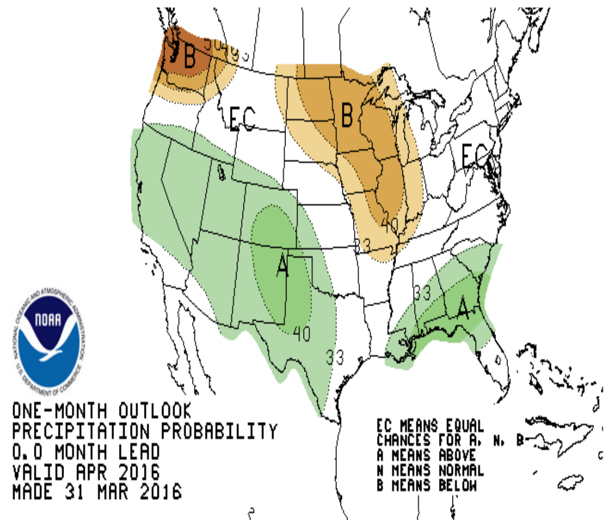
The Brazilian Real has been one of the world's strongest currencies so far in 2016. This has slowed the pace of farmer marketing considerably, and has supported Brazilian export premiums. Still, it appears this <u>has not</u> lead to any increase in US export business on top of our usual seasonal demand.

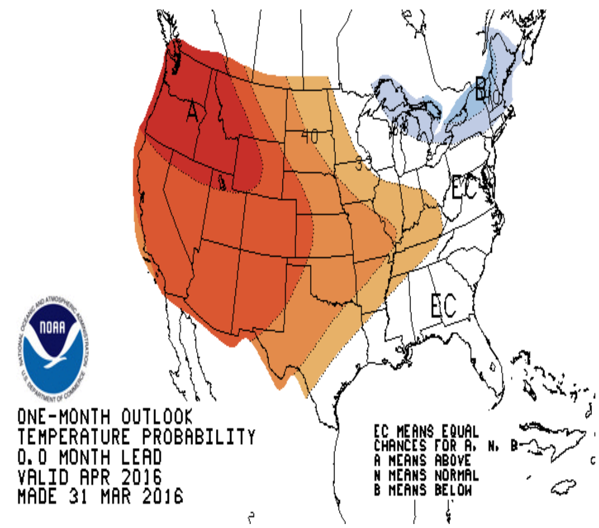
And meanwhile estimates for Argentina's crop are finally starting to grow. I've noted several times in the past that expectations for Argentina's crop have seemed overly pessimistic. Last week the Buenos Aires Cereals Exchange finally raised their projection to 60 mmt, compared to WASDE's 58.5 mmt. BACE's own yield data actually argues for an even bigger production figure than they are officially using for now, so as long as weather remains favorable I suspect their estimate will grow in the weeks ahead.

So summing up all of the above, very little has changed in the underlying supply and demand elements other than cash markets *weakening* as the futures market has rallied. The only other change has been the flip-flop in fund consensus from holding a short position to an aggressive long position. *We've seen a massive shift in soybean ownership from the US farmer to the futures speculator in the past month*.

I'd love to say that the above information all points in the direction of lower prices in the near or medium term, but unfortunately it isn't quite that easy. We've reached the early stages of US planting season now, and price direction from this point forward will be largely dictated by weather developments. If crops, both soybeans and corn, are able to get planted in a fairly timely manner this spring, it will likely produce a major correction (lower) in prices and we'll likely see this fund positioning scaled back considerably. Still, we have a long summer ahead of us, and price action will be increasingly dependent on weather forecasts as the weeks advance.

NASS's March 30 Prospective Plantings report showed massive corn area, which smacked corn futures sharply lower to end last month. In the end, it is highly unlikely that such high corn area is realized, as farmers still have time to switch and the net revenue difference between corn and soybeans right now clearly favors soybeans. That said, if planting weather is favorable, it is highly likely that the total acreage pie ends up larger than NASS's previous projection. The bottom line is: even with some switching from corn to soybeans likely, total acreage seems more than sufficient when assuming normal yields. Then again, we get back to our discussion about weather being the primary driver of price action in the weeks ahead.



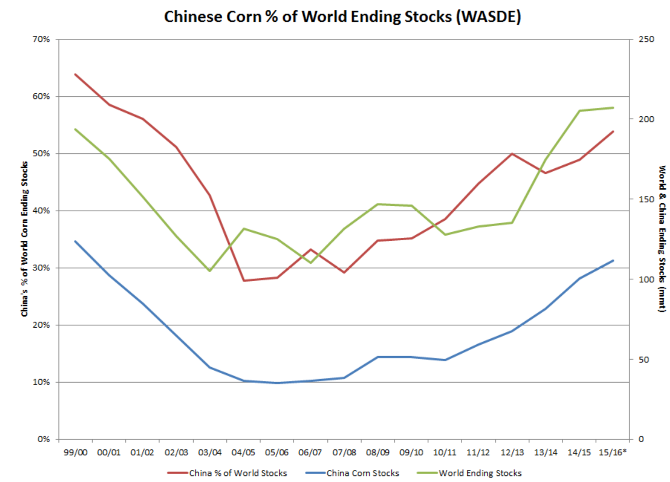


The monthly precipitation and temperature outlooks from the NWS would certainly point towards a rapid start to spring planting, but unfortunately it seems the current weather pattern is going to be especially hard to predict this year. There is a very wide range of spring and summer outlooks from meteorologists, which could add volatility to price action heading into spring.

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

newaccounts@opusfutures.com • Tel: 901-766-4446 • opusfutures.com

To recap, the more immediate term issues we will have to deal with are the acreage “shifts” and weather forecasts. These will be the primary drivers of price action over the coming months. Looking further down the road, however, there are some reasons to look potentially towards long positions in the long term. The trend in lower demand out of the US might be starting to bottom. Argentine soybean production is likely to decline next year due to a shift to corn area. Meanwhile Brazilian corn exports have likely topped as the Brazilians are unlikely to continue drawing down domestic stocks to meet export demand. We still don’t know the potential impact on Chinese meal demand following their change to corn policies, but for now meal disappearance appears to be running at a strong pace.



China is in the process of changing their internal policies in an attempt to work through their massive corn stockpiles. Our research would indicate this could have a bigger impact on their soymeal requirements than on corn imports, but all the details on their policies are still not fully known.

There are potential longer-term friendly items in the distance, but I suspect in the near term weak cash markets will be a drag on prices. Our attention turns to the weather as the next significant driver of sentiment.

Regards,
David Zelinski
Opus Futures, LLC

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

newaccounts@opusfutures.com • Tel: 901-766-4446 • opusfutures.com