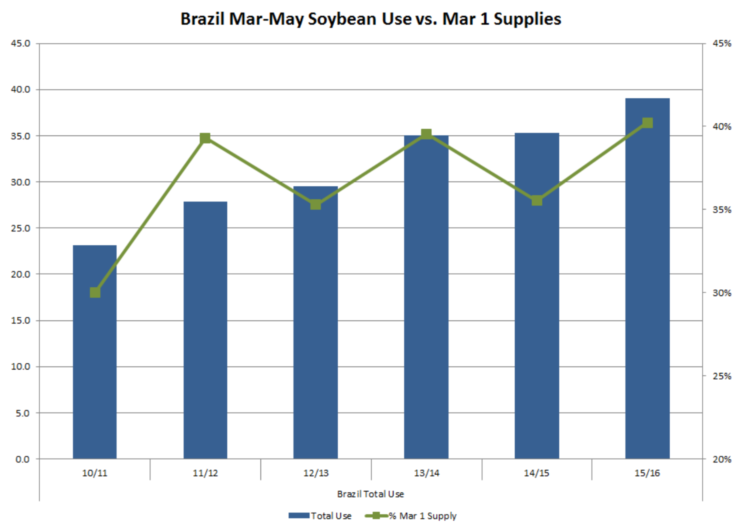
Opus LLC
FUTURES

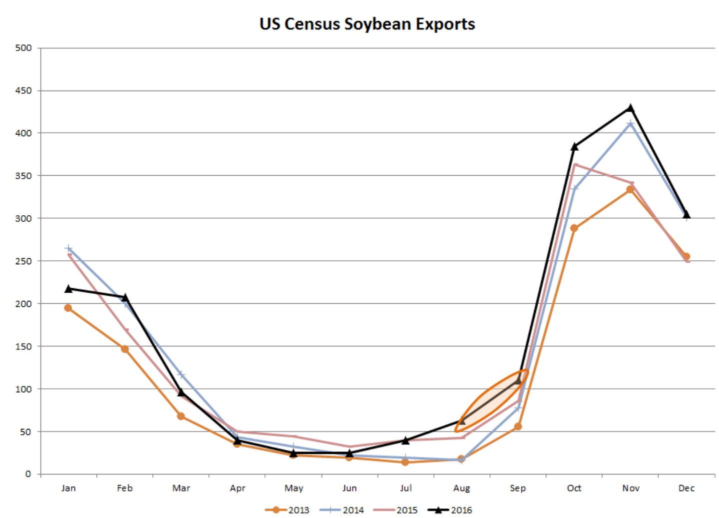
June 6, 2016

Agriculture Market Highlights:

There is no change in sentiment to report from the past month, so this commentary will be very short and to the point. Simply put, the market has still not fully come to terms with what the lost South American soybean and corn production (relative to expectations at the beginning of the year) will mean to US demand to finish the 15/16 marketing year and starting the 16/17 marketing year. Brazil's total soybean demand since harvest of their new crop began has been through the roof. Brazil has used more than 40% of their total Mar 1 supplies already in the Mar-May period. And of course this is still a moving target, as it appears that Brazilian soybean production estimates might still be getting smaller (we'll have another CONAB production estimate on 6/9).



It goes without saying that this will have a big impact on US soybean demand. Attached to the lower-right is a chart showing monthly US Census exports on a calendar year basis. The likely slowing of supplies moving out of Brazil going forward will create a faster than usual move towards US dominance of global soybean demand. The area on the chart circled in orange highlights the expectation for a stronger than usual surge in US export demand for Aug/Sep this year. Q1 16/17 exports are expected to be record large as well.



This is going to put a lot of stress on river logistics over the next several months. The total Delta soybean crop this year is expected to be smaller than the past few years, though admittedly area is likely larger than USDA presented in their March Planting Intentions report. I am currently projecting that the combined AR, LA, and MS soybean crop will represent only 32% of the total Q1 soybean export program in 16/17. That would be the lowest percentage we've seen since at least 06/07. What this means is that more of these beans will need to be sourced upstream on the river system. Firstly, this will not allow for any room for error in terms of Corn Belt production levels this summer. Additionally, it will require an aggressive pace of farmer marketing very early in the marketing year. And keep in mind that US crushers are sitting on fat margins themselves and will be very interested in keeping as many beans as they can to themselves.

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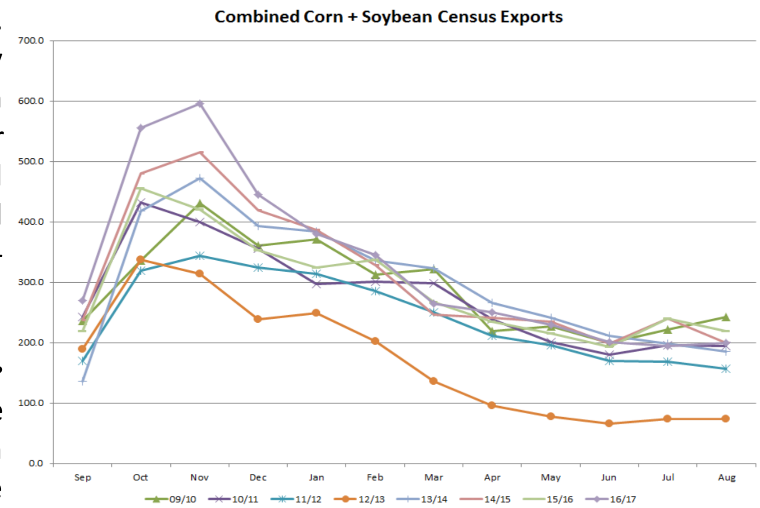
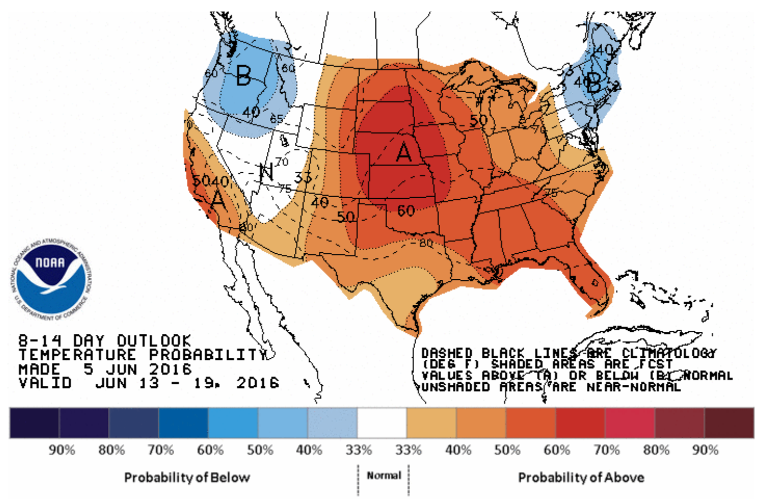
Of course this doesn't just apply to soybeans. Corn export demand is expected to remain very solid in the months ahead as the world copes with sky-rocketing internal Brazilian prices and lower production. The chart to the right shows combined corn and soybean exports by marketing year, and as you can easily see, I'm projecting Q1 export demand to be a record by a wide margin.



We haven't seen a "demand-pull" market like this in years. Again, this will require aggressive farmer marketing and it allows no room for error in this year's US summer growing season. Along those lines, forecasts have turned warmer and potentially drier in recent days. Prices will remain hyper-sensitive to weather developments going forward, meaning increased price volatility in the weeks and months ahead.



Looking ahead a bit beyond this summer, note in the chart to the top-right I have US exports tailing off later in the marketing year on account of improved South American supplies following their crops this winter...but is that a sure thing? La Nina is expected to be in place by this fall and that typically leads to poor crops in Argentina and sometimes in southern Brazil. The recent crop losses in South America have taken all room for error out of US and next year's South American production. This should mean we keep "risk premium" in prices for some time to come.

Respectfully,

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