Opus LLC FUTURES

Advanced Ag Program Commentary

While certainly an up-and-down ride, March turned out to be quite successful in the end. Much of the month was frustratingly sideways, but during the entire time we took solace in the fact that fundamental data inputs continued to support our analysis and positioning. In the end, our positions in both cattle and grain/oilseeds proved to be highly successful during the month.

We have liquidated our position in cattle as of the time of writing. Futures prices hit downside objectives and after a massive break (which we caught), it seemed prudent to take the profits on this position. While I do feel like there is certainly the potential for further downside in the cash cattle market, the futures basis is already very wide and the risk-reward just doesn't seem in the favor of shorts at this point in time. I'm pleased and thankful this position worked out so well.

Our positions in grain and oilseeds also performed well during March. In the case of both corn and soybeans, it was a mostly choppy and sideways month, but on March 29th, the USDA released their Prospective Plantings report. We correctly predicted that the market consensus was too optimistic on the overall acreage available, and as total acres were less than expected both markets rallied sharply to end the month. I continue to look for *extensive* upside in both corn and soybean prices in the months ahead.

In the case of soybeans, the Argentine crop continues to shrink and Brazil's crop might not be as big as we had hoped originally. Brazilian cash markets are on fire right now as the world is coming to them to fill the gap left with the Argentine production shortfall. This should lead to a sharp resurgence in US export potential in late summer and fall, if not sooner. Simply put, the US balance sheet will contract vs. current levels in the coming months, it's only a question of how much. At current price levels, I see the market showing virtually zero risk-premium in prices ahead of what could be a very tumultuous spring/summer planting/growing season.

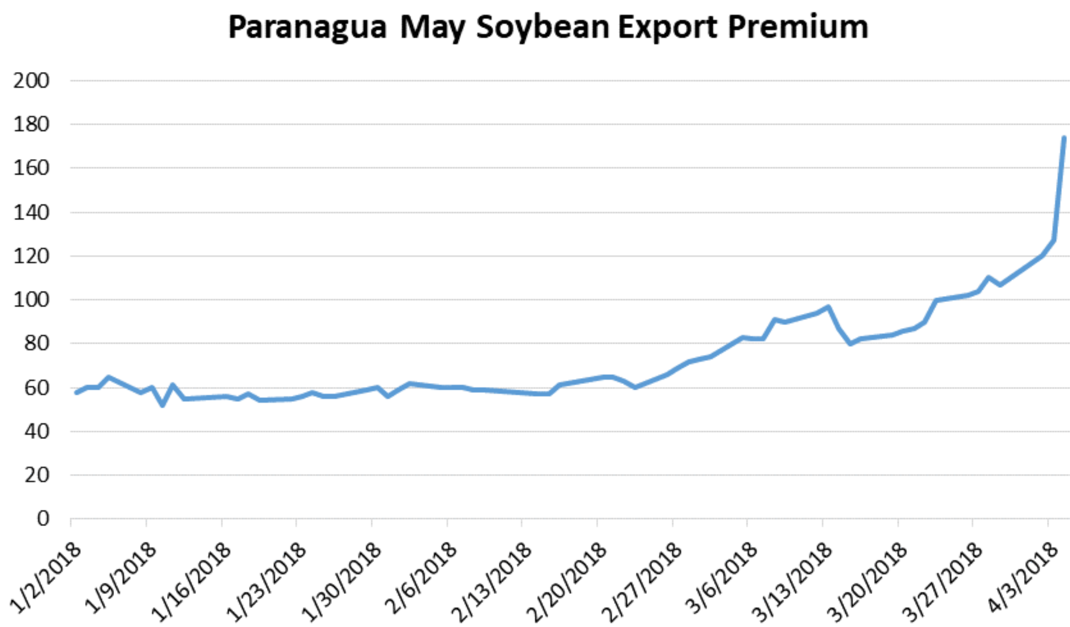
My outlook on corn is similar. US export demand is huge following several crop shortfalls around the world in the past 8 months. Ethanol production remains well supported by continued growth in US gasoline consumption and increasing export demand around the world. Meanwhile, area planted to corn this year is likely to be down and it would seem unlikely that last year's record yield is achieved again. The corn balance sheet will tighten *dramatically* in 18/19, and this should lead to considerable price upside potential. At current price levels, as is the case in soybeans, the market is factoring in virtually zero risk-premium into the US growing season. I also view very strong potential for Chinese import demand at some point in the next year, which will mean a further tightening of global supplies. I remain very bullish corn from these price levels.

The month of April, however, is off to a rough start as China has announced it will impose a 25% tariff on key US agricultural products, including soybeans, corn and beef, IF the US follows through on their proposed tariffs. Announced in the early morning hours of April 4th, the market reaction was swift and painful to our bullish positions. Our risk management procedures required us to take quick and decisive action to limit losses, but I want to be clear that I do not think these tariffs in the end will ultimately be bearish to either corn or soybean prices. In the case of corn, the US already only exports limited quantities of corn to China. In the case of soybeans, obviously China is THE destination for our exports, but Chinese import requirements continue to grow and there is simply no chance that the Chinese can eliminate imports from the US. This will push Brazilian export premiums sharply higher (pictured below) and will mean the US will do business to other destinations that Brazil might otherwise take. It is essentially nothing more than a reshuffling of the deck. Furthermore, the world was counting on Brazil to crush a lot of soybeans to make up for the Argentine crop losses, but IF China were to become almost solely reliant on Brazilian soybeans for imports, it would dramatically reduce Brazil's ability to crush beans and export meal. This would support US and Argentine crush margins and dramatically hurt Brazilian and Chinese crush margins. Argentina doesn't have

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

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

the bean tonnage to be a major supplier of meal to the world right now, so that again funnels that demand back to the US. Additionally, it would encourage expansion of South American soybean acreage, which of course would limit corn production and eventually lead to further US corn export demand.



So that explains the fundamental implications of Chinese tariffs, but unfortunately it is the psychological impacts that have been felt hard so far this month. We're going to need to tread carefully in this emotionally charged back-and-forth between the US and China. While I think yesterday's price action was a total over-reaction by the market, I will not be stubborn and watch our hard-earned gains dissipate on market emotions. We'll manage risk by mainly focusing on option plays. If you have any questions or comments, please don't hesitate to reach out to me.

Best Regards,

David Zelinski

April 5, 2018

9047 Poplar Avenue, Suite 101, Germantown, TN 38138

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