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Subject: Corn Idea
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Inline-Images: image001.jpg; image003.jpg

Jeffrey

Our IB guys have come out bullish on Dec 2012 corn.

Corn idea:

Buy Corn calls

Contract: December 2012 (expires 23Nov2012)

Reference rate: 572.25 (cents/bu)

Strike: 600

Premium: 44.45 (cents/bu)

Strike: 625

Premium: 36.25 (cents/bu)

- **IB outlook**

- Corn: We have bullish take on Corn leading into 3q12 and 4q12. While we see the increase in acreage in the US from 91.9 million acres to 93.8million acres in 2012, there are many risks to the upside. Those upside risks including: possible disappointing US production due to wet spring or dry/hot summer as well as China being in the midst of its growing season in 3q12 and increasing its imports should droughts lead to a shortfall in their production. Additionally, higher gasoline prices during the summer will likely increase ethanol demand in the US. While the highest risk price occurs in 3q12 the Sep12 contract tends to be much less liquid than the Dec12 - so we would be long Dec12 futures over Sep12. Additionally, we like being long calls here to express a bullish view in corn as we think heading into US planting window vol should naturally be bid up and therefore you can be long the vol and the delta. Vol looks like a decent buy here in corn.
- Soybean: The Soybean complex is similar to corn especially in q3 and q4. The whole curve could shift higher to encourage the marginal planting of soybeans as opposed to corn in the US which we are beginning to see. We shifted our planting forecast from 93.5mil acres of corn and 75.2 million acres of soybeans - a .3 million acre shift from corn to soybean area due to higher prices of soybeans relative to corn. Upside risk comes from potential higher biodiesel blending mandates in Brazil and Argentina. In Brazil, the mandate could rise from 5-7% - resulting in Brazil demanding 2.3mmt of additional soybeans for the remaining 6 months of the 11/12 marketing year. Should the new policy go into effect starting in 12/13, it would require an additional 4.4mmt of soybeans through the whole crop year. The additional demand for biodiesel blending is about 25% of current 12/13 bean stocks in Brazil assuming soybean oil accounts for about 84% of feedstock for Brazilian biodiesel. Argentina is in a similar situation. We think the current mandate is around 6% and see that rising to about 10% which would increase the blending ratio to 7% in 12/13 crop year. As a result, the higher mandate would demand an additional 630kmt of soybeans in 12/13. The same idea of buying calls works for Nov11 Soybeans as well. Vol is low and

attractive and with a bullish view on flat price we like buying Nov11 soybean calls unhedged as a play on both vol and flat price view.

- **Upcoming things to watch**

- WASDE report on March 30th
- USDA Corn Percent Planted Crop Progress (PLNTCORN <CMDTY> SEAG <GO>)
- USDA Soybeans Percent Planted Crop Progress (PLNTSOYB <CMDTY> SEAG <GO>)
- JPMorgan Agriculture Weekly
- Weather reports from Paul Janish (JPMorgan)

- **Contract and liquidity information**

- The Private Bank trades these as futures look-a-likes (OTC forwards and options)
- Both corn and soybean trade in contracts of 5,000 bushels
- Corn is very liquid. JPMorgan estimates that about 300k contracts are traded per day and about 140-150k derivatives contracts
- Soybean is probably the second most liquid agriculture commodity behind corn. JPMorgan estimates about 140k contracts traded per day and about 50k derivatives contracts
- Exchange hours are 10:30am – 2:15pm NYT

- **Volatility charts**

- Corn – IB trader sees best value in the 15-25 delta calls for December 2012 corn



- Soybean



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