
From: Jeffrey Epstein <jeevacation@gmail.com>
Sent: Thursday, August 12, 2010 5:39 PM
To: Jeffrey M Matusow
Subject: Re: Corn and Wheat

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On Thu, Aug 12, 2010 at 10:21 AM, Jeffrey M Matusow <[REDACTED]> wrote:

The USDA released updated supply/demand forecasts for the grains this morning.

For corn, higher supplies were offset by increase in demand. We still believe that the supply/demand dynamics are very tight and susceptible to any supply shocks. Corn is up a point on the news.

On Wheat, we still think that domestic inventories are high enough to cushion the supply disruption from the Russian drought.

We are buying puts on Wheat to pair with our long Corn exposure. What do you think?

Jeff

Jeffrey M. Matusow

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* The USDA updated US and World balance sheet estimates for major agricultural commodities in the World Agricultural Supply and Demand Estimate (WASDE) report at 8:30am (Eastern).

* Today's report is important given it presents the first survey-based estimates of new-crop corn and soybean yield prospects. In the event, upward revisions for both crops were largely in keeping with pre-report expectations. In the case of corn, larger supplies were offset by an increase in export demand; in light of our belief that yield will ultimately fall below the USDA's current estimate — and the risk that exports will increase still further — fundamentals remain constructive. The market is not well positioned to withstand a sub-optimal production outcome.

* The soybean market witnessed similar revisions, with larger domestic yield prospects offsetting significantly larger export demand. Although 2010/11 US soybean stocks are likely to be more comfortable than those faced during the currently concluding 2009/10 season, inventories will not reach formerly bearish estimates, arguing for a more neutral price trajectory.

* Revisions to US and global wheat forecasts were well anticipated; the USDA chose to make relatively large-scale downward revisions to global production and FSU export forecasts this month, bringing official estimates in line with private expectations already in the market. US exports saw a large-scale increase this month in consequence, but it is important to note that domestic inventories remain large relative to the bullish level witnessed in 2007/08.

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