



BOCKEN TRADING
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February 2014 Month End Comments

We continued to sell/ship too many beans in February, while Brazilian crop ideas were getting smaller at the same time. Wheat rallied throughout the month on deteriorating crop ratings and continued strong export demand. Corn has also rallied as ending stock forecasts have slipped below 1500 milbus, ethanol margins are outstanding, and export demand continues to be strong.

Beans and meal went straight up as we continue to do too much business, and we now face a major rationing job in the last half of the crop year. The Argentina situation hasn't gotten much better but there was some selling of old crop on the rally. Brazilian bean and meal premiums firmed throughout the month, keeping US competitive with some Brazilian ports. Brazilian wait times are growing and wet weather has raised concerns about both harvest delays and quality issues. Brazilian crop ideas have gotten smaller with Oil World forecasting 84 mmt vs early ideas of 90-93 mmt and USDA at 90 mmt. 84 mmt is only 2-3 mmt up from last year, and given the world de-stocked last year plus increased China demand this year I'm not sure it is enough. Currently at 1510 milbus, the USDA is roughly 100 milbus too low on its export forecast. Crush will have to be shut off dramatically and/or increased imports of beans and meal need to happen to solve the balance sheet. The US producer has sold large amounts on this rally and there may not be a lot left later in the crop year. March 1 stocks are expected to be tighter than last year and March-August use as a percentage of crop year use will have to be the smallest in recent history. It is going to be quite volatile going forward, but spreads and flat price likely have more work to do to ensure adequate supplies going forward and I am positioned as such. November beans likely need to maintain additional risk premium and corn seems to be fighting for acreage now. We need at least a 44-45 bu/a yield to build stocks meaningfully next year.

The USDA surprised the trade in the February Supply and Demand Estimates, lowering the corn carryout more than expected by raising exports 150 milbus to 1600. Export demand continues to be strong and ethanol production margins are off the charts. Brazil crop ideas are edging lower and 2nd crop is just getting planted so there is additional risk there. The Ukraine situation also needs to be monitored as spring maize planting and fresh sales could be affected. On top of that, our cold winter is never ending and an early spring/early planting is seeming more and more unlikely. The funds have gone from short to long in rather quick fashion. I missed the move higher and was short part of it, but I'm realizing the market doesn't need to break much until the crop is planted and there is a better idea of summer weather. We may transition to El Niño which would be bearish, but some private forecasters don't expect it to happen until late summer/fall which could prolong drought in the west. If corn acres are 94 mil (vs 95.4 last year and the USDA outlook conference forecast of 92.0 mil), we need a yield near 163 bu/a in order to build stocks next year.

After pretty much going straight down in December and January, the wheat market recovered and rallied throughout February on a considerable drop in winter wheat condition ratings. The market realized, given production risks, that US wheat didn't need to be the cheapest wheat in the world. Funds were holding a massive short, which they have nearly covered. All three markets went to inverses at least briefly. SRW has priced itself out of the market on the rally and Egypt has canceled two cargos of SRW. The main upside risks going forward are worse than expected winterkill in the US, another cold shot once the snow is gone, further tensions and execution problems out of Ukraine, or a crop threat in another major growing area. So far western Europe has been very wet and the FSU has been warmer than normal but there are no major concerns at the moment. There

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could be issues in Australia if it is El Niño, but that is not a near term worry. Given logistical issues in both Canada and Australia, major exporter stocks should be large to start 14/15 and should build further without any major production losses. Risks seem skewed to the downside but am nervous about US crop size and further tensions in Ukraine/Russia. I will likely stay on sidelines until an opportunity becomes clearer.

Regards,
Megan Bocken
Bocken Trading, LLC
March 5, 2014

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