BOCKEN TRADING
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September 2014 Month End Comments

Harvest got underway in southern areas and anecdotal yield reports for both corn and beans were records by a large margin. Weather was also cooperative; we had a warm/dry run which helped get harvest going.

After trading sideways in August, corn broke down and lost 46 cents for the month. Beans lost 111 cents, meal was down $51.80, and oil up 33 points. Wheat lost 85 cents in Chicago and Kansas City, and it was down 96 in Minneapolis. Black Sea and EU wheat values continued to work lower as crop ideas edged higher. Corn was a negative influence – grains were heavy in general and wheat had been at a wide premium to corn.

The first week and a half of October has seen short covering rallies on potential freeze damage in northern areas, and a very wet forecast in the south which could keep harvest behind normal. Also, a big rally in the Brazilian Real and dry conditions in N. Brazil have been supportive, especially in beans.

Looking forward, the USDA will release their crop report Friday, October 10. The market has already dialed in pretty big yields.

The trade is nervous that the USDA will lower corn area significantly. If they do and yields are in line with trade ideas, corn may turn into more of a sideways affair. The market is already expecting lower South American and US corn area and stocks to tighten in 15/16. Corn is the favored long leg of spreads - corn vs wheat and corn vs beans. Funds are actually long corn and never really built up a short. If yields are larger than expected, in the 178-180 bu/a area and carryout is much above 2200 milbus, the case could be made that prices will grind towards 300 in the nearby. The one glaring negative item is that the producer still hasn't sold much and there is a lot of harvest left in front of the market. We need to get the report out of the way, but my sense is most in the market will want to buy the break if we have a bearish report.

Beans also depend on whether the USDA alters acreage and what yield they report. The trade has likely dialed in something near 48 bu/a. If the USDA prints a carryout over 500 milbus, we should resume the downtrend. Bean area is expected to expand in South America and in the US next spring (given current economics) with 15/16 stocks likely to expand to the 600-800 milbus range. It looks like beans have more downside exposure than corn. Corn may have 20-40 cents downside (if any) while beans could still have $1-2 given longer term acreage expansion ideas. Currently, northern Brazil is too dry – it is early but this is something that needs to be monitored. If South America doesn't have any major issues and if later bean yields continue to impress, beans should remain in "sell rallies" mode. There have been some disappointing yields in Iowa, Minnesota, and Nebraska due to freeze damage, wet weather, and sudden death syndrome. We need to see how final yields turnout but given that the stocks to use ratio hasn't been this big since 06/07, I maintain there is still considerable downside in beans and meal.

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Politics in South America also remains a factor. In September, the Brazilian Real made new lows not seen since 2008. Their runoff election at the end of October should have a big impact on their currency. Argentine producers remain tight holders while the government is in panic mode for grain/tax revenue.

In wheat, the case can be made for further short covering in the near term given Southern Hemisphere crop ideas are getting smaller and the Black Sea export pace is slowing while the US is picking up. However, world wheat stocks are at all-time highs and US stocks are currently expected to build further in 15/16. Rallies will likely be difficult to sustain without a major crop issue or two.

Regards,
Megan Bocken
Bocken Trading, LLC
October 8, 2014

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