BOCKEN TRADING

LLC

September 2016 Monthly Commentary

Markets bounced from late Aug lows and traded in rather small ranges for the month. The trade is well aware we are dealing with big supply/big demand situations in both corn and beans and both have had trouble following through on rallies or breaks. Everything but meal was higher in September as Argentina continued to undercut US meal prices and overall meal demand remained a drag (huge corn and feed wheat supplies cutting into meal demand). Wheat has seen better demand especially in the hard wheats. That combined with expectations for a large 1st quarter feeding number provided support throughout the month. Monthly changes are as follows – corn up 21 cents, Chgo wheat up 6, KC up 18, and Mpls up 30. Beans were up 13 cents with meal down $6.00/ton and oil up 50 points.

The trade continues to expect yields in corn to come down further. The USDA's Sept yield was 174.4 bu/a and the trade is now in the 171-174 bu/a range. This would put 16/17 ending stocks in a range of 2400-2700 milbus. The USDA's Sept carryout was 2376, but most in the trade (myself included) feel they are too high on feed use by at least 300 milbus. So we are looking at a 700-1000 milbus increase in stocks from 15/16 to 16/17. Going the next step, even with lower area and a 170 yield in 17/18, stocks can still build further. In add'n, both Arg and Braz are expected to see significant acreage increases in corn this growing season. China announced they are planning to start exporting and may provide VAT rebates to compete. Everything adds up to a negative fundamental picture in corn. In the near term however, weekly sales and shpts are quite strong with Brazil out and Arg high priced. Also the funds are net short the biggest position we have seen in quite some time and the producer is opting to store corn and sell beans at harvest. So in the near term there is no natural seller and the market action is spooking the shorts. I am negative in the bigger picture but want to give the technical rally some room.

I had thought wheat was turning the corner so to speak throughout the month. But then we got a few bearish surprises in the Fri report. The final crop was bigger than expected and feed use was much less than expected. The balance sheet implications were bearish with ending stocks raised further – mostly in HRW. HRW was going to be the shining star given world protein shortages and increasing export demand. It is extremely difficult to tighten the HRW balance sheet and it may take another cycle or two with low acres. My HRW carryout is near 600 milbus – with a higher export forecast than the USDA. KC may go back to a discount to Chgo. As bearish as wheat is, I am just having a hard time finding much enthusiasm to get short at these levels.

Soybeans are confusing many in the trade. Cash markets are breaking, the Sept export program is less than expected, anecdotal yield reports are over the top, and yet the market continues to hold the 930-940 level basis SX. One of two things is going to happen – A) futures are going to break well below this level the next time it breaks through or B) we've already seen the lows and cash markets are doing all the work (of pricing in the big crop). Meal found better user pricing below 300 and has bounced. Fund length is cleaned up in meal and pared down in beans. We have gone from a 49-51 yield forecast to a 52-53 and futures have worked higher. Argentina confirmed they are going to wait until 18/19 to lower the soybean export tax further which may lower bean planted area even further. With lower Argentine area, and near unchanged area in Brazil, the market may be adding risk premium already for a SAm crop issue. It won't take much to tighten the US and world situation if one or both countries has lower than expected prod'n. We are in transitioning mode and I typically do not trade well in that environment. I'm basically sidelining for the moment so I can be nimble when something becomes clearer.

Regards,

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