BOCKEN TRADING
LLC

November 2016 Monthly Commentary

It was quite a volatile, humbling month. Currencies and macros had wild moves following the election. There has also been an underlying "buy commodities" push over the last 3-4 weeks which was led by China. Their markets made new highs and there was spillover into our markets as the Chinese gov't tried to crackdown on speculation. The other whopper was the EPA announcement raising the advanced biodiesel mandate much more than expected, which threatens an already tight soybean oil balance. For the month, beans were up 19 cents, meal was nearly unchanged, and oil was 155 points higher pushing the oilshare to new highs. Corn was down 18 cents. Chgo wheat was the weakest, down 36 cents with KC down 24, and Mpls up 12. The high protein shortage in the world continues to widen Mpls vs the other wheats.

Despite potential for 500+ milbus ending stocks in beans, numerous calls for 800-850 levels, and very weak cash markets, futures continue to work higher. China is worried about further depreciation in their currency and really stepped up their buying this fall. I have raised my crop year import forecast for them, which will put more pressure on South America's growing season. I continue to think about the big picture trend in soybeans – increasing protein demand – and how US demand is underestimated nearly every year. I think the reason we haven't been able to break in beans (despite bearish crop and S&D) is the need to increase soybean area to meet continually increasing protein demand. With SAm area down this year in Arg and marginally higher Brazil, the market needs to ensure that US area increases next spring. And this is before knowing what yields Braz and Arg will have this year. I know it is extremely early but the market has the jitters over potential Arg dryness. I am starting to think the function of the market is to make sure the US plants 90 mil acres. Even after the monster US crop we just harvested, we are still one crop issue away from a problem. It may be hard to get the needed acres in the US at current new crop ratios (there is talk of increasing corn area in the Plains). If SAm prod'n has no issues, and prices leak, we may not get the needed increase (buffer for crop issues/increasing demand). If SAm has a crop issue – i.e. Arg crop 50 mmt or Braz 98, then it will be even more important that we get the needed acres. At the same time, the market is saying we do not need wheat or corn acres. We are drowning in grains and the ethanol expansion has peaked. The EPA decision on raising the advanced biodiesel mandate almost turns soyoil into a domestic market (could get very tight) and should continue to provide underlying support to beans.

As for grains, supply is adequate/surplus and while the market will be nervous about corn prod'n if dryness continues in Argentina, there is more of a buffer in corn. Even with lower area in the US next spring and a lower yield, I struggle to tighten the corn balance sheet. Without a major prod'n loss in SAm, corn should grind lower over time and I don't expect the market will earn the carry.

I had thought that wheat was slowly turning the corner and we had seen the most bearish scenario. But with S Hem harvest underway and both Arg and Austr crops getting bigger (Austr by a huge amount), it is difficult to see any reason to threaten the downtrend. The EU crop shortage was not enough to change the big picture with the US, Russia, and Austr seeing record yields by a large margin. It will also be difficult for the wheat market to earn its carries in this environment. I maintain that US winter wheat (and spring wheat) could be much lower than expected but maybe that is the function.

I have been trading tentatively recently. There are going to be many opportunities going forward and I am going to be much more disciplined in my approach. Looking forward to a much more fun and prosperous 2017.

Regards,

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