BOCKEN TRADING

LLC

September 2017 Monthly Commentary

The main feature was a correction in oil share – going from 37% to 34%. Meal found support under $300/ton, and the EPA suggested they may alter the biodiesel mandates following the ruling on imports. The soyoil S&D is very difficult to balance without the imports, so it seems likely the EPA will dial back requirements. Funds are still long soybean oil and there may be additional liquidation. Beans rejected lower trade and worked higher supported by active China buying and early month strength in both the Brazilian Real and the Argentine Peso. Corn traded in a narrow range. Early yields have been variable, but supply is plentiful, and there really is nothing compelling to sustain upside or downside. Wheat worked higher throughout the month on Australian crop ideas getting smaller, rising Russian values, and an expected smaller HRS crop. The wheat thesis was blown away on the last day of month – more below. For the month, corn was down 1 cent, Chgo was up 14, KC up 6, and Mpls was down 17 cents. Beans finished the month 22 cents higher with meal up $14.50 and oil down 229 points.

Wheat stocks came in 50 milbus above trade expectations but 150 above my number. I was expecting a considerably smaller HRS crop due to a combination of much lower harvested area and slightly lower yields than the USDA. However the USDA raised planted area in Montana and raised yields considerably in North Dakota. I also expected higher first quarter feeding so it was a double whammy. I have adjusted the crop and feed/residual accordingly. I am a bit discouraged however – there was a lot of time watching weather and analyzing condition ratings that now seems rather futile (this goes for beans and corn as well). Canada had similar if not worse weather than the Northern Plains, and their crop estimates continue to rise as well. Mpls futures are still at historically wide premiums vs KC and Chgo and these likely continue to narrow. Australian crop ideas have dropped to 18-20 mmt from the USDA's 22.5 mmt. Given that Russian exports will max out around 32 mmt (while building massive stocks), and with the Australian losses, US exports have the potential to be 50-75 milbus over the USDA's forecast of 975 milbus. This should be partially offset by lower feed use. There is no reason to sustain rally attempts. Russian values will set the tone and Mpls premiums should continue to shrink vs KC and Chgo.

Corn stocks came in below expectations – more corn fed, less wheat. Yields have been a bit variable and most are still expecting a final yield slightly below the current USDA forecast of 169.9 bu/a. Yields have been quite impressive given dry summer weather as well as a dry/hot finish in many areas. There is nothing compelling here one way or another. There is some concern about dryness in Brazil and their summer corn crop could be 5-6 mmt below year ago. Their crop year exports should be down a similar amount. If there are any issues with second crop, exports will be down even more. Futures should continue to grind lower finding support as producer selling slows. Would need a major South American issue to change the tone.

Bean stocks were also lower than expected and 16/17 carryout will end up just above 300 milbus. Not tight, but less than the 450-500 carryout ideas last fall. Demand continues to impress. But so do yields and production potential. Anecdotal yield reports are rather stunning given the lack of moisture seen in many areas throughout the summer and the hot/dry September. Most are on board with the USDA's 49.9 bu/a yield forecast and history would suggest it can continue to inch higher. Given crush and exports are already penciled aggressively for 17/18, it's hard to get carryout

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much below 450 milbus. The only potential "story" is in 18/19 if US bean acres are lower. Most are expecting Brazil's crop to be down 5-7 mmt this coming year but their stocks remain large as does their export potential. There is some concern about dryness in north and central Brazil, but it is still early and the US is carrying over more stocks than the last few years. Should continue to be a drifting trade in the near term with the South American growing season and China demand the key swing factors in coming months.

Regards,

Megan Bocken

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