



January 2014 Month End Comments

The main feature in January was wheat continuing to make new lows. Chicago was down 50 cents for the month with KC down 35 and Minneapolis 31. As if sentiment wasn't bad enough, December 1 wheat stocks came in 100-150 milbus above expectations which put a wet blanket on trading. The market kept going down despite weather issues and unexpected business. Corn stocks, on the other hand, came in low as did the final crop/yield which has led to short covering. Beans had a choppy month with the same themes in place – a tight old crop situation with record South American crops coming. Beans finished the month down 9 cents while meal was up 9.00 and oil was down 149 points.

The stocks report in wheat basically forced everyone to lower their feed/residual use number and raise carryout. There have been a number of winterkill threats but the market didn't care during January. US has been the cheapest wheat for a while and doing unexpected business (Egypt SRW, additional Brazilian HRW, Korean SWW). GASC has basically excluded French in upcoming tenders by lowering its max moisture requirement to 13% from 13.5%. There has also been talk of additional China interest for April/May. Black Sea values have come down but remain premium to SRW. Most of the Toledo receipts were canceled late in the month and are expected to be loaded out. SRW area was roughly 1.0 mil acres below trade expectations. Given numerous winter kill threats and dropping condition ratings, harvested area ideas are coming down as are yield ideas. This may continue to support spreads and a further short covering rally is likely in flat price. I'm not sure we can sustain a flat price rally, however, on US crop issues alone given large carry-in stocks in Australia/Canada and, so far, mostly favorable crop conditions in the EU/Black Sea region. US exports could be below 1000 milbus in 14/15. However the risk is a 700ish HRW crop and a SRW crop below 400 milbus. Wheat may need a risk premium until the winterkill damage can be better assessed.

Corn made new lows in the hours leading up to the December 1 stocks report. The market was given a double whammy of a smaller than expected crop and smaller than expected stocks. The market has been grinding higher ever since, with funds covering shorts and producers selling into the rally. Ethanol grind has been solid and exports continue to surpass expectations despite China cancelations. The EU has been a big buyer recently. South American corn exports are tapering off and Ukraine is experiencing shipping delays/logistical issues due to ice/cold. Argentine crop ideas are getting smaller and there are concerns about Brazil's second crop due to a hot and dry pattern that has set in recently. Corn may be stuck in a range in the near term. 13/14 carryout ideas are getting smaller but should still be ample while 14/15 still looks to build stocks with trend type yields even with lower area.

The bean trade was quite volatile in January with meal the clear leader. Rumors of cancelations were never confirmed and bean and meal sales and shipments continue to outpace expectations. Weakness in the Brazilian real has been a negative input with Brazilian basis down hard during January on increased producer selling. They have a record crop coming and open harvest/shipping weather. There continues to be much uncertainty in Argentina. The government is trying to force producer sales and they have devalued the peso, but the official rate remains well below the black market rate and there is a major lack of trust. Producers likely won't sell until they absolutely have to. Argentina has received much better moisture recently although there is some concern about flooding. Final South American crop outcomes, Brazil shipping pace, US cancelations, and China demand (have they overbought or will it continue robust?) are all factors in the near/intermediate term for beans. There is eventually considerable downside in beans but until the US sales/shipment pace slows or imports happen, spreads and flat may need to continue higher in order to ration supply.

Regards,
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February 7, 2014

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