BOCKEN TRADING

LLC

August 2015 Monthly Commentary

Early month strength gave way to bearish USDA reports and new lows. The USDA came in well above trade expectations for yields in both corn and beans and then China devalued causing a macro sell-off. Funds went from long to even in corn and long to short in beans. Corn was down 6 cents for the month with beans down 54 cents. Share was sideways with meal down 13.50 and oil down 230 points. Wheat just continued lower as world crop ideas inched higher. Chicago Wheat was down 20 for the month with KC Wheat down 28 and Minneapolis down 27. Nearby KC traded nearly 30 cents under nearby Chicago.

The USDA forecast national corn yield at 168.8 vs market expectations of 164-165 bu/a. Their ending stocks forecast of 1700 was 300-400 milbus above trade ideas. The market made a low of $3.57 CZ on report day and that low held throughout the month. There is still a faction of the trade that thinks USDA yields were too high (myself included). Even if the USDA yield was correct, historically speaking, CZ is fairly valued. But… basis is eroding, world values are under pressure, world wheat supplies continue to get bigger, and sentiment is deathly. The other negative is China: they are restructuring their grain policy. They have been propping up corn prices for years and have huge stockpiles. The last few years, China has increased imports of “other feed grains” such as sorghum, barley, and DDGs. No import permits were required for these other grains. They are going to start requiring permits and also lower the minimum purchase price for corn to make it more market orientated. They have a long way to go as Chinese corn is well above world values. Futures likely continue to leak into next week’s USDA report. Then we’ll see if the USDA gets bigger or smaller on yields and production. If the USDA increases yields further, CZ is likely headed towards the $3.20 area – which is where the market went last year. A smaller yield should result in a rally. The actual yields coming out of fields (at least the ones that get published) are signaling that the USDA is too high already.

Wheat continues to sink into the abyss. Crop ideas continue to increase in every single major production area. There is really not much else to it; too much supply chasing too little demand. Black Sea and EU values continue to trade lower and lower. Not sure anyone will ever worry about El Nino in regards to Australian crops again. They have had timely rain all along. Sept is the key month – the forecast is dry for the next week to 10 days but production ideas have already edged up from a few months ago. Stats Canada said Canada is carrying over more wheat stocks than we thought and they revised year ago stocks up as well. Futures are likely to continue to drift lower unless corn finds support. 16/17 balance sheets look heavy with more stock building in the US and major exporters.

The USDA also forecast a much bigger bean yield and carryout than the trade was expecting in the Aug report. They forecast a yield above last year’s Aug forecast (at the time it was the biggest Aug yield ever) while condition ratings this year have been well below year ago. The USDA forecast was 46.9 while the average trade estimate was 44.7 bu/a. They forecast carryout at 470 milbus – up from July while most in the trade were expecting something in the 300-350 milbus range. So this was obviously quite bearish and then you had China devalue their currency and the Brazilian Real continued to make new lows which also weighed on futures. Currently the range of yield ideas is 45.5 bu/a to 47.0. The USDA is high on new crop exports, low on crush, and also needs to raise 14/15 crush/exports further. If they leave their yield unchanged and lower exports, they could print ending stocks over 500 milbus. They could lower yield and exports and it may not change much. The point is it may be difficult to have a friendly report without a materially lower yield and carry-in. The Brazilian Real continues to make new lows but selling has slowed out of South America and Asian/China buying has picked up below $9.00. May be a sideways/drifting lower affair until yields are better known. We’re not having the best finish with hot/dry weather. The last few years have been helped by wet finishes.

Regards,
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