BOCKEN TRADING
LLC

October 2015 Monthly Commentary

October saw relatively small changes with the main features being Chgo wheat gaining on corn and hard wheats, and oil gaining on meal. For the month corn was down 6 and beans were up 2 – an easy environment to get chopped. It has been a trying market and I am disappointed in my performance but I have been here before. Better opportunities should present themselves and I am working to turn things around. Chgo wheat was up 10 cents with KC down 8 and Mpls down 2. The main input in wheat was the massive fund short in Chgo. Fundamentals are not bullish but all the bearish inputs were in the market and structure/technicals took over.

The major issue this month was the election in Argentina which was a bit of a surprise. The opposition candidate did better than expected. There will be a run-off election on Nov 22 and Marci (opposition) has some momentum. He is the candidate that is most likely to devalue the currency and reduce export taxes – possibly to zero on corn and wheat and incrementally on beans. There is talk that corn area could increase if he wins. Some private estimates had called for a 20% reduction. No reduction vs a 20% reduction could be a difference of 5 mmt. This is a big deal and has weighed on market sentiment. The ruling party candidate, Scioli, is also now saying he will reduce export taxes but is not a proponent of devaluing. The market is expecting the Arg producer to let go of the roughly 10+mmt beans they have been sitting on if there is a devaluation and a relaxation in export taxes.

The USDA raised the corn yield slightly in Oct when most were expecting a further slight decrease. Most are dialing down their export forecast as the pace has been dismal while Brazil has been rocking. US exports should pick up in the second half of the marketing year as Arg/Ukr exports slow. EU imports may also be bigger than some expected. Interior basis has been firming as the producer has sold less than they normally do. This may force a rally in the basis and the board. Rallies will likely be difficult to sustain however without a SAm crop threat. Most are expecting increased US corn acres next spring.

In beans, the quick harvest and lack of logistical issues has muted the typical "post-harvest" rally. Argentine politics as detailed above have also weighed on beans. Arg crush expectations for Jan-Mch have increased roughly 3 mmt from previous ideas. But US export ideas are quietly increasing. Oct exports are set to be a record. A few months ago, first quarter exports were expected to be down considerably from a year ago due to the slow sales pace. But shipments have surprised and first quarter exports should surpass last year's record. Crop year export ideas are now in the 1750-1800 milbus range vs the USDA's most recent forecast of 1675 milbus. Given abundant supplies and favorable crop outcomes the last 2 cycles in the US/SAm, China is now buying hand to mouth. It is very likely that most in the trade are underestimating China demand. If the USDA doesn't raise yield by much, US stocks could decline into the 300's. If they print a 48 yield though, it may be hard to tighten stocks much. That said, option vol is historically very cheap and the market is holding little/no risk premium for larger than expected China demand or any SAm weather issues. Tightening in world oils due to drought in SE Asia palm areas (El Nino) and increased biodiesel mandates around the world has piqued my interest. The tightening "oil story" always seems to be just around the corner but it feels like something is brewing.

As mentioned above in opener – bearish inputs are well known in wheat and the market has become technical and structural. The market talks about dryness issues in Ukraine and the EU has also turned dry. Ukraine may have lost area due to dryness and the seeding window closing but mostly these are excuses following market strength. That said Black Sea values have held after bottoming in Sept. SRW quality issues have tightened spreads and Chgo continues to gain on KC/Mpls. Austr may be facing quality issues as well given ill-timed rains. Wheat had a sizeable short covering rally into year-end last year on similar dryness issues and structure. The ingredients are there, it is just difficult to know what we are trading from day to day.

Best,
Megan Bocken
11/05/2015

9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138

newaccounts@bockentrading.com • *phone:* 901.766.4446 • *fax:* 901.766.4406