Outlook—2016

Needless to say, I am quite happy to have turned the calendar over to 2016. So far the themes haven't changed much from 2015, but no two years are ever the same. We are starting out with well-supplied markets with sentiment about as bearish as can be and near record fund shorts in wheat, corn, soybeans, and record shorts in soybean meal. Market structure, currency considerations, and world politics (think China/Argentina) should continue to be features at least early on in the year. We have a big report next week – Dec 1 stocks and winter wheat seedings.

The soy complex is the most well-supplied we have seen in a number of years. The 15/16 US carryout is expected over 500 milbus. Last year, 14/15 carryout prospects were trimmed on increasing crush and export ideas throughout the crop year. This does not look to the be the case for the 15/16 S&D with crush margins under pressure, meal demand weak, SAm crop prospects generally favorable, and Chinese economic concerns looming. With increased US acreage in 16/17, US carryout could be quite burdensome at over 600 milbus depending on yields. In the near term, beans likely remain range-bound – we hit a wall of producer selling (US and SAm) on rallies and find support near the lows on fund short covering. The strategy in the near term is to trade the range and maintain puts for the next move lower – likely during SAm harvest. There could still be a further move in oil share with crush ideas getting smaller (smaller oil prod'n), increased biodiesel use, and on drought considerations in the SE Asian palm areas.

One issue that will need to be monitored closely, and could have a big impact on futures this spring/summer, is the transition out of El Nino. A rapid shift from El Nino to La Nina *could* cause issues for the US growing season. One private forecaster is already tying the wettest Nov/Dec on record to potential Jly/Aug heat and possible reduced yield potential. I do think, given that there is so much doom and gloom regarding commodities in general, that there will end up being better price opportunities/more volatility than what appears at the moment. That is the best part of this job – the unknown.

Currently it seems grains have the better potential for tightening in 2016 and there could be a play in either flat price and/or vs oilseeds. The 16/17 corn balance looks rather flat and could tighten with a yield issue. We also have the second year of S African drought underway and India turning to an importer as well as large import needs from the EU as potential issues for support.

The bearish index on wheat is off the scales and the fund commitment proves it with funds near a record short in Chgo and a new record short in KC. The biggest risk facing wheat is a trigger for a short covering rally. There is no immediate catalyst but there are a number of items that may add up to something. Indian wheat area is down and they are in a drought. Their stocks have been drawing down over the last few years, and depending on the extent of the crop reduction, one could make a case that they have import needs in the 5-10 mmt range vs 500 tmt last year. We also have potential winterkill issues in Ukr/Russ after a recent cold spell with limited snow cover. Winter area was down considerably in Ukraine and most are forecasting reductions in both Ukr and Russian wheat crops in 16/17. SRW areas saw flooding in late Dec and could also be at risk for winterkill with the upcoming cold spell. Argentine protein issues may also be a market feature with roughly half of the recently harvested crop thought to have substandard protein levels and up to 80% of last year's carryover stocks

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considered substandard. This could result in a significant increase in US exports to Brazil versus current market expectations. A lower than expected winter wheat seeding number or lower than expected stocks could also be a catalyst.

The Jan USDA reports rarely lack a "surprise" of some sorts in one or more markets. I will go into the reports relatively flat and with an open mind. I will strive to be adept as opportunities in the grain markets surface this year.

Regards,

Megan Bocken

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