BOCKEN TRADING

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January 2017 Monthly Commentary

It was a positive month for prices on Argentine flooding issues, lower than expected winter wheat acres, a weakening dollar, and a general inflation play for commodities. For the month, corn was up 8.5 cents, Chgo wheat was up 13 with KC up 11 and Mpls up 10 (after being up 52 cents mid-month). Beans were 19 higher with meal up $18, and oil down 86 points. The Arg flooding issue has raised expectations for US crush and oil share had a big correction as a result. The month's gains were cut late in the month on structural considerations and volatility/uncertainty with the new Administration. There are many things up in the air currently that may weigh on our markets including trade – with China and Mexico the big ones. The EPA and the RFS mandates are on hold causing a great deal of uncertainty to the biodiesel industry and also ethanol. Currencies are also still playing a big role with dollar policy from the new Administration seemingly weak, and expectations for numerous rate hikes this year being dialed back. The Brazilian Real continues to move higher which is providing support for beans as the Brazilian producer is not incentivized to sell at current levels.

On that note, origination in Brazil may be the next issue on currency considerations and a wet forecast for harvest. The world is counting on 5-6 mmt more bean exports out of Brazil in the Mch-Aug time frame than they did last year. China is still wide open for half of their Mch needs and all of Apr/May. Crop outcomes are still not set in stone in SAm. February is a key month for southern Braz and Arg yields, and we have harvest to get through. The dire expectations of 50 mmt and below in Arg have quieted, but we really won't know until harvest. The USDA is still forecasting 57 mmt. World stocks are in the process of peaking even with a huge increase in bean acres in the US this spring. I maintain that we need 90 mil acres planted to beans this year (up from 83.4 mil last year). This may not be as easy as the trade thinks. Producers like to plant corn and corn isn't breaking. The biggest switches to beans should be in the Eastern Corn Belt and South. I am maintaining a friendly bias until we have a better idea on SAm crop outcomes and execution.

Corn has found fund interest and technically continues to be constructive. Demand overall continues to be better than expected with export ideas increasing and ethanol use also impressing week after week. The USDA may still be too high on feed use but they are low on exports/ethanol. 16/17 ending stocks are settling in the 2300-2400 area vs 2700-2800 six months ago. The US is still the primary supplier to the world with Arg not being aggressive, and Brazil won't be in the game until after their second harvest. US producers are not very interested in selling at current levels, and with the increased demand, less competition, and fund appetite, futures continue to move higher. The effects of a huge Brazil crop won't really be felt until FH of 17/18. Currently, I am forecasting 17/18 corn acres at 91.5 mil, down from 94.0 last year. With a 170 yield and lower exports, stocks can be unchanged. That said, the market won't be happy about losing too many more acres. Private forecasters are already talking about the potential for a wet spring and flooding in the north due to a heavy snow pack. It's hard to see a lot of downside in the near term, but can't get real excited about upside either. Will likely stay sidelined in corn aside from trading the extremes.

Wheat continues to hold support and grind higher. US winter wheat acres were down nearly 4.0 mil from last year and came in 1.6 mil below trade ideas. There is also a tendency for acres to continue to get smaller with many in the trade expecting a further reduction in SRW. Both SRW and HRW areas received good moisture over the last month but spring rains will still be key. Cond'n ratings in all the major HRW states are now below year ago. There is also the risk of lower HRS acres given budgets and snow pack/flooding. The HRS balance could tighten fairly quickly with a drop in acres and Mpls is at wide premiums to KC and Chgo as a result. US export sales have perked up recently and may continue. Arg will be out of quality soon and there are signs that the EU's exportable surplus is waning. Ukraine is doing the majority of the Indian business and not leaving much for other destinations. Russia is also behind the pace they need to be with world FOB values edging higher. I am tentatively constructive wheat as US and major exporter stocks may be in the process of tightening.

Regards,

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