BOCKEN TRADING

LLC

October 2017 Monthly Commentary

It was a rather quiet month with small day-to-day ranges. I had thought we would have a “seasonal” bounce in beans and we did, but it lasted two and a half days starting on report day. The USDA lowered the bean yield instead of raising it and funds covered shorts/got long briefly. Oil share had a big month on positive biodiesel news. Beans finished the month up 7 cents, with meal down $3.40, and oil up 183 points. Corn remained within a tight previously defined range. Yields are getting bigger and there is nothing compelling at the moment to break out one way or the other. Corn was down 11 cents for the month. Wheat has continued to grind lower with funds getting shorter in Chgo and KC. Every rally is met with selling and the shorts are not threatened at this time. Chgo lost 30 cents with KC down 27, and Mpls down 11.

The post report rally in beans was sharp (44 cents) but short lived. Weakness in the Brazilian Real and the Argentine Peso provided resistance as South American selling accelerated. There is a general bearish sentiment in beans but futures have been unable to make new lows. China continues to support breaks. In addition, the later yields are generally 7-10% below year ago yields vs the USDA’s forecast of 5% below year ago. 17/18 ending stocks could be closer to 300-350 milbus than current ideas near 400 (USDA 430). Some are lowering exports due to slow pace of shipments and sales lagging year ago. My counter-argument is that China is spreading out their buying more evenly throughout the year given that both South America and the US are well-supplied. The export matrix supports the USDA’s export forecast of 2250 milbus, given the increase in China imports and world protein demand each year. Direction over the next few months will be dependent on South American weather. Their rainy season was delayed by 2-3 weeks with some areas (Mato Grosso and Goias) still dry. Most are expecting a return to more normal yields after last year’s record in Brazil, which if correct, means that world stocks may have already peaked. The US needs to maintain/increase soybean area next spring to avoid a shortfall. Beans should continue to gain on corn to ensure this happens.

I find the soybean oil situation rather compelling after the EPA said they will maintain or increase RFS mandates (not lower, as expected) and the Commerce Department indicated they will enforce antidumping duties on imports from Argentina/Indonesia. Given the combination of the above, the oil balance sheet could be in rationing mode. Oil should continue to gain product share and futures should invert.

Corn yields continue to exceed expectations by a wide margin. We basically don’t need water anymore to grow a crop (record crop?). USDA is expected to raise the national yield in the November report. They may eventually need to raise exports. Ukraine’s crop may be overstated and in turn their export potential may be overestimated by 2-3 mmt. Higher yields/higher exports may offset each other. The one area of concern is the possibility of lower safrina crop in Brazil due to a late bean crop. This would be a longer term issue as Brazil is currently well-supplied.

Wheat has been relentless with every bounce being pounced on. Russian crop estimates continue to inch higher, and their exports could be as high as 33-35 mmt vs 27 mmt last year. The US, Australia, and Canada are drawing down stocks while Russia and China continue to build stocks. EU should see a modest build. Their exports have been very slow – I’m not sure why they are not being more aggressive. US winter wheat area will likely be down again and US carryout can tighten modestly in 17/18. It is just extremely hard to tighten the major exporter situation materially without a serious crop failure in Russia. And it is unlikely that Australia will have two short crops in a row. So far, the shorts aren’t threatened and rallies should continue to be sold. If there is a catalyst to change sentiment, there will be an opportunity to profit from shorts running for cover, but in the meantime, the status quo is likely to continue.

Regards,

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