



February 2018 Monthly Commentary

Funds went from short to long as Argentine and HRW drought intensified while SRW areas flooded. For the month corn was up 13 cents. Chgo wheat rallied 30 cents with KC up 41 while Mpls was unch. The premium of Mpls over KC continued to narrow as winter wheat crop ratings dropped significantly since last fall. Meal led the complex with gains of \$56/ton on Argentine weather concerns, with beans up 47 cents for the month. Oil was down 111 points as crush ideas continue to grow, solving for any potential oil tightness.

February is going to end up the driest ever in Argentina. In previous drought years, rain has totaled anywhere from 99 mm to 190 mm (08/09, 11/12, 12/13) and this year was 31 mm. The forecast for first half March is very limited in rain and February/first half March will likely also be the driest ever. Starting the month, Argentina production ideas ranged from 46-51 mmt (USDA still 54mmt!) and they are now centering around 40-41, with increasing talk of a crop below 40 mmt (35-37 mmt being thrown out). Area is still an unknown and will make a difference. Argentine exports are going to end up nil to 2.0 mmt max. This compares to the USDA's 8.5 mmt. They would rather crush than export beans. They are already importing beans from Paraguay to crush. There will still be a deficit in the meal trade that the US and Brazil will need to fill. Brazilian bean and meal premiums have been firming of late with producers there remaining tight holders. US bean business is picking up for spring/summer. USDA will likely end up raising their export forecast from 2100 milbus. They are also too low on crush – could be closer to 2000 than the USDA's 1950 milbus. Even so, it's still hard to really tighten 17/18. Can get to 400 milbus (vs the USDA's 530), but tough to get much below that. 18/19 can tighten below 200 milbus even with a million more acres, as much of the 20 mmt South American losses will be felt in our 18/19 crop year. There are opposing ideas on Brazil's crop with some in the 111-113 mmt range and others over 117 mmt. The markets have seen a big move, but I do not think it's over. US business is starting and basis is firming in the US and Brazil. Much will depend on final Argentine and Brazilian crops. The extent of total losses will determine first quarter demand 18/19 for the US, and the increase in US acres will be a big factor in long term direction. For now however, we're still discounting production issues.

South American issues are driving the corn market as well. Low end ideas for Argentine corn are 30-31 mmt vs 35-36 a month ago. USDA is 39 mmt. Brazil is also a moving target. First crop ideas are down 5 mmt from year ago with safrina area and yields expected to be down due to late planting. USDA is using 95 mmt for Brazil while most in the trade are 86-88 mmt. The USDA has a LOT of work to do in its March Supply & Demand for both soy and corn. The market has absorbed a great deal of producer selling on the rally, as they were very undersold on old crop. US export sales have been very strong over the last month and this is expected to continue. US corn is still the cheapest feed grain in the world. The South American shortages should spill into 18/19 US exports. My ending stocks forecast for 18/19 is 1621 milbus with slightly lower acres. There remains very little downside in corn going forward.

Wheat had a huge move as HRW drought intensified and crop ratings dropped significantly. SRW areas experienced flooding over the last month. Black Sea values worked higher throughout the month, even as Russian export ideas continued to grow. HRW crop ideas have gone from 650-700 milbus to near 600 milbus. My current working estimate is 580 milbus assuming the current forecast, which remains dry. This puts 18/19 ending stocks near 240 milbus – a level not seen since 13/14. However, we are rationing at current levels and I have cut exports as a result. The major exporter balance can tighten also in 18/19, but this is assuming that Russia doesn't grow another record crop. There are also concerns about Turkey and Middle East dryness with India also in a hot/dry pattern. Wheat may have gotten ahead of itself this week and consolidation is likely in the near term. Winter wheat outcomes and spring wheat acreage will determine longer term direction.

Megan Bocken

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