BOCKEN TRADING
LLC

October 2018 Monthly Commentary

Corn and beans moved higher into mid-month on extremely wet conditions, harvest delays, and quality issues, but worked lower into month end on the realization that exports were dropping off fast. US corn went from the cheapest grain in the world to the most expensive corn as Argentina, Ukraine, and Brazil moved below US. Export business has dropped off significantly. Wheat barely made a high mid-month as Russia continues aggressive with their exports. Wheat made new lows late in the month with Chgo down 9 for the month, KC down 16, and Mpls 3 lower. Corn was 7 higher (after trading 22 higher at mid-month). Beans finished the month 7 cents lower with meal down $2.60 and oil down 97 points.

In corn, yield ideas are generally 1-2 bu/a below the USDA which could mean a 100-150 milbus drop in crop size. At the same time however, exports have slowed and may be lower than previously thought as US isn't competitive anymore. Exports could end up 50-100 milbus below the USDA's 2475 milbus. Ethanol margins have come under significant pressure in recent months. I am not sure year round E15 can save the day. 18/19 ending stocks likely remain in a 1800-1900 milbus range which is rather unexciting. The market is also anticipating a modest to sizable increase in corn acreage in the US next spring, which, with increases in South American crops this round, should result in plentiful US stocks by 19/20. There is really nothing compelling looking forward unless South America has crop issues again which isn't expected currently, and would be rather rare two years in a row. Will be looking to sell strength.

The pressure in wheat has come from Russia supplying the world despite major exporter tightness on paper. Their crop ideas moved higher as Siberian harvest resumed and export forecasts are now near 34 mmt - not far from the USDA's 35 mmt (which looked pretty high a few months ago). It seems the government is getting concerned about the export pace and measures may be taken in the next couple months to slow the pace. Their internal prices should do the job if their domestic market is getting tight, which could make US the cheapest wheat. US SRW and Argentine wheat are currently the cheapest wheats, but there are not many offers of SRW for export. We finally did sell a cargo of SRW to Egypt, but given discounted freight in that deal, it may not be a regularity going forward. Australian crop ideas have been lowered to 16-17 mmt vs the USDA's 18.5 mmt. Export ideas are in the 6-9 mmt range vs the USDA's 13 mmt. Australia's harvest results have been quite disappointing in the east and there could be additional reductions. Given the Australian reductions, there still may be a window for US wheat to do extra business. Regardless, it will be difficult to tighten the US S&D. The next cycle in wheat has started with winter wheat seeding ongoing in the Northern Hemisphere. US HRW acreage ideas have gone from up 5-10% to flat to down slightly with wet weather. There is some concern about dryness in the EU for winter wheat seeding but most major crops are likely to rebound in 19/20 – US, EU, Russia, Australia should all produce significantly larger crops which should limit longer term strength.

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The bean situation remains decidedly negative even with a China resolution. The US has missed its main export window. If there is a resolution right away, the USDA's export forecast could be attainable and possibly low if China import ideas revert back to 100 mmt instead of 90ish currently. However, it is not known how much other meals and feedstuffs they have/have planned to substitute, so 100 mmt may be a stretch. Even with a slightly lower yield and 2100 exports, 18/19 carryout will be in the 750-800 range. That is somewhat different than 1100 milbus, but still more burdensome than the 06/07 situation when futures were in a $5-6 range. And with a resolution likely comes little/no reduction in bean area which could balloon 19/20 carryout, especially if Argentine production rebounds as expected. I'm long term negative but there is still headline risk with funds still short if a resolution is made. It may be hard to stay short in front of the G20 meeting at the end of the month but strength will be viewed as a selling opportunity.

Regards,

Megan Bocken

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