



## October 2019 Monthly Commentary

Markets finished higher but gave back most of the month's gains (and we gave back all of our early month profits and more). I keep thinking the market has "more" and then we lose momentum and just fizzle, even when fundamentally nothing has changed and perhaps has become even more compelling. Cash markets have firmed considerably in the middle of harvest which used to be telling. Seems the market continues to focus on the China trade headlines. Whether a deal is signed really shouldn't matter at this point as we had written China off completely and they have recently bought roughly 8 mmt beans. Bean sales and shipments have been very strong and China and rest of world major buyers remain uncovered going forward. For the month, beans closed 12 cents higher (after being up 40 cents mid-month). Meal gained 4.00, but was clearly the weakest link. Oil rallied 162 points into new highs. China veg oil demand is strong as their crush (and meal demand) has slowed considerably in the wake of ASF. Corn was up 3 cents for the month with Chicago wheat up 13 and KC up 5. Mpls corrected against the other wheats as spring wheat harvest wrapped up and closed 20 lower for the month.

Corn just leaked all month despite slow harvest, snow delays, and firming cash. We lost 300 milbus in the September stocks report and the market is nearly back to pre-report levels. Funds covered half of their shorts in quick fashion and then started selling again. US export sales have been very slow and ethanol margins continue to suffer, but I thought we would stay above the pre-report levels, maintaining a bit of risk premium and acknowledging the tighter stocks situation. The market is expecting a yield increase in the Nov crop report. I am expecting at least another modest yield reduction, but we could see acres increase. Futures may not be able to firm until export demand comes back to the US – likely in DJF as SAM supplies tighten.

I maintain that soybeans are undervalued at current levels. The market seems comfortable with a USDA type carryout, while I am forecasting a lower yield, possibly lower area, and increased exports, resulting in a 200-300 type ending stocks. Exports have been strong, basis has firmed, and anecdotal yields continue to suggest a further decline is coming. China's meal market has gotten quite tight and SAM meal values have also started to firm. US and world stocks have already peaked with a significant drawdown expected even with normal SAM crops. Currently Argentina is dry and Brazil started off dry with planting slow. Any issue there would tighten the situation further and I'm having trouble understanding why the market isn't grasping on to this, but it may be a realizing market. Argentine politics should also provide support going forward as producers go back to hoarding as a currency hedge. Beans could have a dollar upside from here and I plan to capture the move.

Wheat remains difficult to trade. Firming world values led by Russia provided support early in the month as did S Hem crop ideas that continued to get smaller. The corn market however was a wet blanket for grains. Chgo and KC calendar spreads continue to narrow while KC continues to have a difficult time closing the gap to Chgo – likely due to the firm SRW cash and unwillingness to be short Chgo. The SRW market could get quite tight next year if area contracts further. US winter wheat area could be at an all-time low, but we won't know until Jan. If you take China and India out, the world and major exporter balances have been quietly tightening over the last three years.

Regards,

Megan Bocken  
November 7, 2019

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9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138

[newaccounts@bockentrading.com](mailto:newaccounts@bockentrading.com) • phone: 901.766.4446 • [bockentrading.com](http://bockentrading.com)