



July 2020 Monthly Commentary

Mixed markets with corn working lower all month, Chgo wheat rallying while KC and Mpls did next to nothing, and beans had small gains with oil the bigger winner. We started the summer in a hottish/dryish pattern, but it started raining in most areas in July and corn couldn't hold June's gains despite large buying out of China. There was major short covering in Chgo due to declining EU crop ideas. Beans were supported by strong demand and a firming world oils market. For the month, corn lost 24 cents while Chgo wheat gained 40. KC finished up a cent and Mpls was down 5. Beans were up 14 with meal losing 80 cents and oil gaining 223 points and the Aug contract inverting.

Corn rallied late in June on the weather pattern and the surprise of much lower than expected area. A yield issue could've made the balance sheet more interesting, especially when considering the ongoing China demand. Alas, it started raining and yield/crop ideas started getting bigger. Even with a sizable China import program, 20/21 ending stocks could still balloon over to 3.0 bln bushels with a 181+ yield. The market seems to be dialing in that type of yield currently. Stone X (FC Stone) came out at 182.4 bu/a this week and Informa implied a 179 bu/a yield. The previous record was 176.6 in 17/18 and last year's yield was 167.4. The only problem area currently is IA where many western areas have only seen 25-50% of normal rain this summer. There was also heat with overnight lows in the high 70s for a decent amount of time. However, subsoil moisture was good and record yields in the Eastern Corn Belt should more than make up for IA's issues. Eastern IA is also in good shape. China has bought a sizable amount of new crop corn from the US, but it would take massive buying to tighten the balance sheet. Once the biggest crop expectation has been discounted, corn should be able to begin the bottoming process, and we will need the producer to keep grain moving. Yet this may be a month or two away.

Beans traded demand more than supply in July and were able to work higher. Now that it's Aug (the critical growing period for beans), the trade has shifted its focus to supply. Crop ratings are generally the highest ever starting the month and coolish/wettish forecasts are providing basis for record yield ideas. A week or two ago I thought the market was trading a 51-52 bu/a nat'l ave yield vs the USDA's previous 49.8. Then Stone X shocked the market with a 54.2 bu/a forecast. The potential was there, even with a 51 yield, to tighten the US balance sheet considerably. But a 53-54 is a different story and is much less compelling. Funds will likely re-establish short positions this month as long as the weather remains favorable (as with corn, beans in western IA need a rain but it is not the difference that will make a difference), and futures should work lower. We should see a decent fall rally on expected record 1st quarter exports from the US. Brazil is on fumes and the US will have to supply the world until the next SAM harvest. The producer will have to keep beans moving to ports, which will either require a flat price rally or a move in spreads. Oil should continue to exhibit leadership on the tight world oils situation. Palm stocks are dropping contra-seasonally on top of flooding in China rapeseed areas, EU rapeseed crop issues, and Black Sea Sun oil issues. SAM oil supplies are tight with premiums historically firm, and US oil values should remain supported.

Wheat has given back a chunk of July's gains so far in Aug on Russian crop ideas that are getting bigger and on an expected front-loaded Black Sea export program (they will be aggressive early). Funds short covered last month, but there is no new news to sustain a further rally. US spring wheat ratings have improved, but there is still some concern about Russian spring wheat. Argentina is in a dry pattern, but Australia is in much better shape and the market is still expecting a big rebound in production after 3 consecutive drought years. The EU crop is expected to be down 20 mmt from last year with exports likely down around 13 mmt. Russian exports should rebound by 3 mmt or so, but Ukraine's will be down a similar amount. Australia can make up for some of the EU shortfall and world trade is expected to be down some, but I maintain that US exports will be needed to make up the rest of the EU deficit. Last year Black Sea values bottomed in early Sept and then futures bottomed and rallied into late Oct. I can envision a similar scenario although Russian spring wheat yields will also factor in. Black Sea values may bottom sooner given tight carry-in stocks.

Regards,

Megan Bocken
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