



November 2020 Monthly Commentary

Beans and corn had another strong month with futures making new highs. Beans rallied a dollar and a half to \$12 before setting back. Corn also made a new high of \$4.30. USDA yields were much smaller than expected and demand continued strong which propelled additional buying momentum. Corn finished the month up 22 cents with beans gaining \$1.12. Meal was up \$14.60 while oil rallied 419 points. Wheat was the laggard with Chgo and Mpls down 18 cents and KC up 5 cents. There was nothing pressing to keep the wheat rally going. KC corrected relationships in the nearbys vs both Chgo and Mpls.

The USDA shocked the market printing a corn yield of 175.8 bu/a vs 178.4 in Oct and well below trade expectations. They also raised exports by 325 milbus. Feed was lowered 75 milbus and the net was a carryover reduction of 465 milbus to 1702 milbus. They finally acknowledged the problems with Ukraine's crop and lowered production to 28.5 mmt from 36.5 mmt and also lowered Ukraine's exports by 8 mmt. They also acknowledged China imports and raised them to 13 mmt from 7 mmt. There is more to go but they finally made a move. It is difficult to know how large China corn demand could be. Their domestic values continue to make new highs. Currently US corn is the cheapest grain in the world – below SAM by \$11-22/ton and below Ukraine by \$14/ton. Any fresh demand should come to the US and so far, exports continue to be very strong each week. Looking ahead, beans will need a considerable acreage increase in the US next spring. Corn area should be flat to down slightly. So, even with a jump in yields and reduction in use, US corn stocks could be down slightly. This means there is no room for a yield issue/weather threat. Funds are long and there has been some liquidation, but this shouldn't change unless something major happens. SAM crops are still under watch due to dryness issues in both Brazil and Arg and US demand has been unwavering. Futures have little downside from here and there could be further upside depending on SAM crop forecasts and/or China demand.

The bean yield was also lower than expected at 50.7 bu/a vs 51.9 in Oct. This was the only real change they made in the balance sheet and carryout was forecast at 190 milbus, down 100 milbus. They are still forecasting exports at 2200 milbus. Even though the export pace has slowed recently, US exports are still on pace for close to 2300 milbus which could take ending stocks below 100 milbus. Brazil is essentially out of beans until new crop is available. Even with a 130-132 mmt crop, Brazil's situation will stay tight in 21/22. That means that any crop losses below 130 mm (even though would still be a record), could be explosive for futures. Both Arg and Brazil are experiencing dryness issues which need to be monitored. The forward US balance sheet also stays tight even with a 6-7 mil acre increase and a higher yield even if use is just flat. There will also be no room for a US weather issue next year. Beans just had a 60 cent break off the highs on China buying slowing and wetter SAM forecasts. I maintain that further downside is limited in the near term unless SAM production prospects increase well above 132 mmt.

Wheat has been the weak one of late as there was nothing pressing going on. HRW areas have received better moisture. Both Australia and Canada's crop ideas have gotten bigger. Even Russian crop ideas continue to edge up. Black Sea FOB values have remained at high levels though while US has become more competitive. Wheat has narrowed to corn also. World demand has been steady/strong. I continue to expect the nearby KC to gain on Chgo as it has been discount for roughly a year and a half. Otherwise I don't see many "plays" in wheat. It has been a lot choppy than corn/beans, and I think there will be better opportunities down the road.

Regards,

Megan Bocken
December 3, 2020

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

newaccounts@bockentrading.com • phone: 901.766.4446 • bockentrading.com