BOCKEN TRADING
LLC

December 2013 Month End Comments

December saw small changes and sideways trade in corn and a two-sided trade with a lower close for the month in beans, but the feature was the death dive in wheat. A much higher than expected Canadian crop (by 4 mmt) and larger than expected Australian crop were the main catalysts. For the month, Chicago was down 64 cents with KC down 69, and Minneapolis down 73. Corn was down 2 cents in the March and 4 in the December. Nearby beans were 24 cents lower for the month with new crop down 12. Meal gained on oil with SMF up 1.10 for the month and BOF down 164 points. Corn short covered into year-end and beans liquidated – many in the trade had had the spread on and exited positions.

The Canadian crop estimate was a long term game changer, but I misjudged the market action and was watching world values stabilize/rally and thought that would provide support. Despite SRW being competitive, logistical constraints kept fresh sales slow and market went down relentlessly. I thought the large fund short was a bullish input, but the shorts were comfortable and firming Black Sea values were not enough of a catalyst for a short covering rally. Since late Nov, SRW FOB values broke \$20/ton, HRW broke \$25-30/ton, while French values were down only \$3/ton and Black Sea values rallied by \$10/ton. The larger Canadian and Australian crops pushed the major exporter exports to stocks ratio to much more comfortable levels than early in the crop year. Neither country's exports should increase for the 13/14 crop year due to export capacity already maxed out, but they will start the 14/15 crop year with big stocks and a sufficient cushion for any crop issues. US winter wheat areas have likely seen some winterkill but thus far it has not been major. Europe is having a mild winter and Russian/Ukraine crop prospects are favorable at this time. Ukraine/southern Russian areas are currently lacking snow cover and Russia had their warmest December in recent history. These areas would be vulnerable to a cold snap but currently the forecast remains mild. Without any major winter wheat crop threats in the US or EU/Black Sea region or unexpected demand from China/Egypt, there could be considerable downside in new crop wheat. Wheat will not need to be fed to the extent it was in the last couple crop years when feed grains were tight, and new crop futures are carrying a \$2.00/bushel premium to corn futures. In the very short term, stabilization/short covering is likely ahead of the December 1 stocks report. There is a risk that stocks are below trade expectations and there has recently been talk of US business to the Egyptian private trade. Wheat is certainly due for a bounce, but the long term opportunities are to the downside and rallies should be sold.

The feature in corn was China rejecting US GMO corn containing MIR 162. There have been roughly 700 tmt officially canceled and most in the trade are lowering their crop year China import forecast from the US. Late in the month they also began rejecting DDG's carrying the same strain. This may actually have more of an impact as it pushes more DDG's back in the US feed mix at the expense of corn and meal. The other feature was extremely favorable ethanol margins. Ethanol margins have come down, however, due to the DDG issue – DDG values dropped roughly \$60/ton in the span of a week or so. Index funds are set to rebalance their portfolios early in January and buy roughly 93k corn ctrs – this has provided support throughout the month and may continue to do so in the short term. However, most in the trade are expecting at least a modest increase in final US production and 13/14 stocks-to-use suggests current values are still overvalued by \$1.00+. The 14/15 balance is even more burdensome, and we should continue to grind lower.

Beans made a new high for the move early/mid-month on continued strong demand with exports/shipments continuing to exceed expectations. An extremely hot and dry spell in Argentina also provided support. Late in the month the weather forecasts turned more favorable – nice rains were seen in nearly all major growing areas – and the DDG/China rejection issue has spooked the trade that crush will be lower than previous ideas. It may actually mean more bean imports from China, but

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year-end liquidation ruled the day and with South American crop prospects remaining very favorable, and large acreage increase ideas in the US this spring should result in a much more comfortable supply situation going forward. In the near term, however, Brazilian logistics, Argentine politics, and Chinese cancelations (or lack thereof) may keep the trade on its toes. The stocks report and final production report should give a clue as to whether we need to ration or will get by in the US. The 13/14 US balance will likely remain snug, but ideas of considerably larger stocks in 14/15 may ultimately weigh on prices.

Regards,
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