BOCKEN TRADING LLC

December 2014 Month End Comments

December saw a big rally in wheat and new highs in corn mid/ late month, but the overall monthly changes were small as markets gave back much of the rallies. The soybean complex was the quietest with SH up 3 cents for the month, meal down $3.00 and oil down 25 points. Corn finished the month up 8 cents after being up 28 cents at one point. Wheat rallied a dollar on Russian crop/export issues but gave most back much of the gains to close 11 cents higher for the month in Chicago, 14 cents lower in Kansas City, and 6 cents higher in Minneapolis.

The dollar rally in wheat was due to the Russian currency crisis and their decision to effectively shut off exports with a prohibitive export tax. After the run-up, US wheat was very uncompetitive and thus far the situation hasn't translated to any extra US business so basically the market gave the rally all back. There are also new crop production risks in both Russia and Ukraine due to a dry/cold fall and multiple winterkill threats thus far. There are respected private crop estimates in Russia of 46.6 mmt vs 58.2 mmt this year. Ukraine has had similar issues with their crop and forecasts are in the 18-20 mmt range down from 22 mmt this year. There is also talk Ukraine has effectively run out of milling wheat and they too are concerned about new crop prospects. In the US, both HRW and SRW areas have already had winterkill threats and the January 12 acreage report could show much lower than expected acres both in SRW and HRW. Futures are back below where we started out the month of December and to me fundamentals are even more compelling now. The forward situation could be quite tight if Russian and Ukraine crops are short – they have already essentially stopped exporting. The US will need to make up for some of the potential reduction and the US crop has its own risks – we will know more on 12th about acreage, but crop ratings have dropped in major SRW and HRW states since late November. Morocco is dry, the Middle East is dry and unrest in Syria/Iraq doesn't bode well for their crop prospects. Many are expecting Argentina and India to supply the Russian/Ukraine shortfalls but India is valued well above world values and Argentina has not been reliable recently. In addition, whatever Argentina sells to non-South American destinations, the US will likely have to make up to Brazil. I may be early on my friendly analysis as the market has traded like death this week, but I maintain that the risks are to the upside going forward.

Corn continues to deal with the acreage "story" for 15/16 with carryout looking to drawdown at this point. Funds continued to pile into Corn during December, building a sizable long position. However at the same time, crude was in a free-fall (losing 20% in December) and ethanol production margins have crashed. Blending margins have been negative for a while now. Spot production margins are still positive but down $1.50 from December highs. It's really hard to have a strong opinion on corn going forward without knowing December 1 stocks and the 14/15 crop/acreage. There is a wide range of ideas on stocks – 300+milbus wide. If stocks are bigger than expected and the acreage does not go down (as the FSA data may have suggested), corn may have a swift break given the fact that funds are loaded up and ethanol margins are tanking. If stocks are in line with the average trade idea, corn may just trade in a range with downside limited until South American crop size and 15/16 US acreage is better known. US corn is currently the most competitive on the world market.

Beans seem to be in a holding pattern. Export sales continue to impress as the US hasn't turned over the reins to South America yet. Brazil crop ideas currently range from 89-94 mmt vs 86 last year. There is some recent concern about a

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warm/dry pattern in northern Brazil and possibly excessive rain in southern Brazil/northern Argentina. Overall, crop prospects remain generally favorable. However, the Brazilian producer has been a reluctant seller despite favorable currency considerations which has been supportive. The market has also not been able to follow-through and break below $10.00. Possibly the market is holding risk premium for any late South American weather issues or we just need to get through the stocks and final crop report on January 12. If the South American crop doesn't disappoint, and the market continues to expect larger acreage in the US in the spring, futures should work lower. Meal basis has come under pressure recently and processors are well supplied. Oil basis is rallying, both in the US and South America. The US oil balance is rather tight due to a low oil yield and there is growing concern about Malaysia palm production due to flooding. Oilshare has been trading at historically low levels (it only traded lower in the 70's) and may be poised for a big move, especially if South American weather cooperates.

Regards,
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