BOCKEN TRADING
LLC

January 2013 Month End Comments

After making new lows to start the year, lower than expected Dec 1 stocks (particularly in corn) as well as a drying trend in Argentina provided support. Nearby corn was up 42 cents in January (new crop down 9) with nearby beans up 59 (new crop up 25). Oilshare had a sizable move as the government made the biodiesel tax credit retroactive (from Dec 2011 through Dec 2013). Bean oil was up 316 points while soymeal was up $7.00. Wheat tried to follow but ultimately failed with Chicago up 1, Kansas City up 7, and Minneapolis basically unchanged.

The USDA reported Dec .1 corn stocks roughly 300 milbus below trade expectations and old crop corn provided support to the entire grain complex. Most in the industry raised crop year feed use by a similar amount and ending stocks were lowered to intolerable levels. CH rallied roughly 68 cents from the early Jan lows to Feb 1 on the tighter stocks scenario. In the meantime, however, ethanol margins got squeezed and US exports slowed even further. There was a slew of ethanol plant closings/ slowdowns as well a round of producer selling near 750 basis CH. In addition, Brazil corn exports continued much longer than expected and I raised Brazil exports, lowering US at the same time. I also lowered world trade thinking the world will wait as much as possible for new crop to be available. The other factor is South American feed wheat and Indian feed wheat that is also cutting into US corn demand. In the last analysis, despite larger feeding, old crop corn can be “solved” on paper due to slowing ethanol and lower exports. This will still be a formidable task and old new inverses are expected to stay wide. In addition, we need to continue to ration ethanol and exports. The new crop has traded mostly sideways with support from the old crop. However, the 13/14 situation is quite bearish with increased area and anything close to trend yields with ethanol use plateauing. There is a nagging concern about drought conditions continuing in the Plains and WCB that will need to be monitored. Major spring rains will be needed to get soil moisture to normal levels. I view old crop corn as a trading range with 750 likely difficult to breach and new crop having considerable downside potential.

Beans experienced similar price action with new lows made early in the month on Chinese cancellations and expected large South American crops. However smaller than expected Dec. 1 stocks (despite a larger crop) suggested the pace of use so far has been too large. The export shipment pace as well as the crush pace thus far suggests a big job is ahead for the last half of the crop year. In addition, Argentine dryness concerns surfaced with little/no rain falling in some of the key growing areas throughout the month. The forecast remains dry with a chance for better rain not seen until the last half of February (with little confidence in the extended outlooks). Private estimates for Argentine production are centering around 48-51 mmt vs the USDA’s 54 mmt. This has further downside risk if rains fail to materialize. This could keep the world balance quite tight longer than expected and despite record production in Brazil and may make increased US acres and a trend yield this summer all the more important. The other near term issue is Brazilian logistics – they have a record line-up to ship beans, meal and corn and we cannot afford to sell additional old crop beans if delays are prolonged. Direction going forward will be very dependent on Argentine weather and Brazil’s ability to get beans out the door. The world buyer will be turning almost exclusively to South America very soon and we will transition to a domestic market. There is a huge job to do as March-August use as a percentage of crop year use needs to be the smallest in recent history in order to balance. I view old crop as supportive and feel old/new spreads will invert further and am trading as such.

Wheat stocks were also lower than expected and futures gained support from corn. Rally attempts failed however as it is too late to tighten the 12/13 US balance. India has continued to cut into more markets than expected and Australian and Canada have been more aggressive than expected with their export programs. The US shipment pace has been horrid all year and the risk is that US exports end up closer to 1000 milbus than 1050. HRW conditions continue to deteriorate and crop prospects are not

gfirtik@nesvick.com • aduhon@nesvick.com
9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138 *phone:* 901.766.4446 • *fax:* 901.766.4406

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good (although spring moisture would still go a long way) but the problem is that 12/13 HRW export forecasts are also decreasing. 12/13 HRW ending stocks will be quite burdensome and can offset 13/14 crop losses. Summer feeding and US exports in 13/14 will be the key and if India continues to aggressively and if EU/Black Sea crops are normal, US exports in 13/14 could be as low as 800 milbus. Both Brazil and Russia are removing import duties during April-July but this is already in the 12/13 balance sheets and part of their needs will likely be met with new crop US. SRW crop prospects are quite good for now. In addition, the first major 13/14 crop to be harvested is in India and they are expecting another big crop and are experiencing storage issues so they will likely continue to be a factor in the world market going forward. I view new crop wheat (both WZ and KWZ) as very rich especially in relation to CZ.

Regards,
Megan Bocken
Bocken Trading , LLC
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gfirtik@nesvick.com • aduhon@nesvick.com
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