March 2014 Month End Comments

Everything but soyoil rallied in March with wheat the upside leader. Funds covered shorts and got long wheat on US production risks and added risk premium for Ukraine/Russia tensions. Corn was supported on strong export demand and extremely strong ethanol margins. The same themes continued to support beans and meal – we have oversold our supply and need to ration for the remainder of the crop year. Oil made new highs early in the month in sympathy with strength in beans and on dryness in Southeast Asian palm production areas but sold off as rains materialized.

Technical momentum as well as structural considerations propelled wheat futures to rally $1.20 in Chicago – closing 95 cents higher for the month. Kansas City was up 90 and Minneapolis up 86. Winter wheat crop ratings deteriorated throughout the month and the extent of winterkill damage is still unknown. HRW areas remain in need of much better moisture with the forecast less than promising. SRW areas have been wet, possibly excessively so. The EU has turned dry of late and Ukraine and Russian winter wheat areas are also dry. The Ukraine/Russian tensions added to the support. Ukraine is 90% winter wheat and it was planted last fall, so the crop should not be affected and weather will be key. Exports may be an issue in 14/15, however, if tensions escalate as Black Sea exports are obviously a huge portion of the world export matrix. Futures priced in a lot of risk on the rally; US winter wheat crop outcomes as well as crop prospects in the EU/FSU should determine direction going forward, in addition to political issues in Ukraine/Russia or lack thereof. As it stands now, world trade is expected to be down next year with Brazil and China forecast to import less. US exports may be quite low if this is the case and if Black Sea exports are normal. March 1 stocks were higher than expected and the USDA likely needs to lower feed/residual and exports in their April S&D. There are still many moving parts yet to determine how comfortable or tight new crop US and major exporter stocks are, but the market has priced in a great deal of risk premium. If US crops are better than expected and Russia stops at Crimea, there will likely be a quick and sharp break.

Corn rallied early in the month as Ukraine/Russian tensions escalated, then spent much of the month in a narrow range, and eventually made new highs following a lower than expected March 1 stocks number. For the month, corn was up 38 cents. The trade had feared a large number after December stocks were much lower than expected, but March 1 stocks were nearly 100 milbus below trade ideas confirming larger feed/residual ideas. Export demand continues to be better than expected as does corn for ethanol use. Spot production margins topped $5.00 late in March. My 13/14 carryout is below 1300 milbus with stocks-to-use below 10% suggesting current prices are justified/slightly undervalued. In addition, planting has been behind year-ago pace and behind average in the Delta/Southeast with additional wet/cool weather forecast. Given carryout ideas in the 1200's vs 2000 a few months ago, there is not as much cushion for new crop and a risk premium should be maintained until growing season weather is better known. If El Nino materializes as many private forecasters expect, we may finally see record yields. The Ukraine risk is higher in corn than wheat. Planting is just underway and maize area has increased significantly in recent years. Lower area and a smaller crop due to lack of financing may result in lower exports. Ukraine 13/14 exports are forecast at 20 mmt vs. anywhere from 200 tmt to 15 mmt in the previous 5 years. If Ukraine exports were cut in half in 14/15, US exports could reach 2000 milbus, making it even more important that the US sees favorable weather this summer.

The same themes continue in the bean complex with the old crop situation the tightest in recent history. China has been active canceling/rolling Brazilian cargos, but this does little to alleviate US tightness. Some of the Brazilian cargos have been diverted

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to the US and record imports are forecast/needed. Second half of the crop year use needs to be the lowest ever as a percentage of crop year use. Crush needs to slow considerably, imports need to keep coming, and fresh sales need to be nil in order to balance. South American premiums have been under significant pressure recently, but it remains to be seen how aggressive Argentina will be. Bean area is expected to be considerably higher in 14/15 and stocks could finally build to comfortable levels with favorable weather. This seems like a world away right now – we still need to solve the old crop balance sheet. Spreads and flat price likely have further work to do.

Regards,
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April 8, 2014

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