BOCKEN TRADING
LLC

October 2014 Month End Comments

October took most in the trade by surprise with rather violent rallies seen in all three markets as harvest delays set in, later yields continued to disappoint, and funds covered short positions. While I sensed some of this, I mostly played defense throughout the month and stayed in "sell rally" mode which was obviously the wrong way to be. It was frustrating as there were missed opportunities. For the month, corn was up 56 cents, Kansas City wheat was up 36, Minneapolis wheat was up 41, and Chicago wheat was up 55; Chicago was the strongest on structural considerations. Beans rallied 122 cents with meal up $89 and oil finally showed some life in LH October and finished the month up 243 points.

During October there was a movement of fund money into grains, particularly corn. Corn has an acreage "story" for 2015/16 – with most in the trade expecting lower corn area in both South America and the US. The US carryout is expected to tighten in 2015/16. The market discounted the largest yield projections during the break in September when 180 bu/a was thrown around. The later yields disappointed with most dialing back Iowa and Minnesota due to weather related issues (wet/frost). The producer has not been an aggressive seller so far. We will see if they get more aggressive with the last third of their harvest as storage gets tighter. Globally, US corn is the most expensive by $5-14/ton and export interest is not robust especially as EU crop ideas continue to get bigger. One item to watch is the Brazil corn crop prospects; their 2nd crop area could be down significantly. It looks like the corn market may turn into a big chop. Carryout prospects are big enough that it should be difficult to sustain rallies while at the same time we need to continue to entice producer sales and the 2015/16 acreage question may make it difficult to break too far.

Wheat bottomed in late September as world FOB values stopped going down. Russian, French, and SRW values rallied $25/ton from late September. SRW is not competitive but continues to do routine business and I maintain that Egypt may need to come to the US for SRW later in the marketing year. Russia has heavily frontloaded their exports and their quality deteriorated as spring wheat harvest progressed. Both Russia and Kazakhstan have spring wheat that has not been harvested as snow/cold set in early. Russia's winter wheat also did not get established favorably before the cold set it, this is setting up for additional winter kill issues. Russia's winter can make or break a crop. The world is running short on quality wheat and Australia's crop ideas continue to get smaller and Argentina and Brazil are also facing quality issues. SRW seeding was behind schedule due to the late bean harvest and area ideas are down. A month or two ago, I was expecting further stocks increases in 2015/16 in wheat for both the US, world, and major exporting countries. Now there is the potential of tightening balance sheets, with the possibility of considerable tightening if Russia has a short crop. Funds are still carrying a large short position which may be at risk as a tighter situation becomes more apparent to the trade. I will continue to watch world values, the US export pace, Southern Hemisphere crop prospects, and Northern Hemisphere winter crop prospects but I feel there may be a "story" brewing in wheat.

Like corn, the trade discounted the largest soybean yield/carryout ideas in September when the market was talking 50 bu/a. Since then, yield ideas have been dialed back as Iowa and Minnesota yields disappointed due to Sudden Death Syndrome, frost, and too much rain. The USDA likely needs to raise yields in Illinois and Missouri but also needs to cut back in Iowa and Minnesota. They will likely increase overall but not nearly as much as the trade was expecting 4-6 weeks ago. They also

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need to increase exports. First quarter exports are running 55 milbus ahead of year ago. Crop year exports could easily reach 1800 milbus vs the USDA's 1700 setting up for ending stocks under 400 vs ideas a month or two ago above 500. Given beginning stocks under 100 milbus, huge bean and meal export commitments, a late harvest, and rail delays the pipeline was down to fumes. It is easy in hindsight to explain the October rally. Cash is still not breaking, we need to keep beans moving; I would not be surprised to see bean spreads invert. The next big issue is South American production and they are not starting off in an ideal situation. The rainy season was 3-4 weeks late in getting started and planting is still behind. If there is adverse weather during the growing season, the market will react swiftly as there will be more pressure on the US.

Regards,
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