BOCKEN TRADING

LLC

September 2013 Month End Comments

In typical seasonal fashion, beans made a new high and failed in early September and then liquidated throughout the rest of the month. Beans were down 74 cents for the month and had a 150 cent move from the high to low. I thought this year would be different but yields came in better than expected even in some of the driest areas. Yield ideas have increased from just below 40 to closer to 41-42.5 bu/a. Meal lost $18.50 and oil was down 319 points. The S&D was rationed, however the lower crop and a 41ish yield could still result in a fairly tight situation in beans. Corn basically went straight down on harvest considerations and better than expected yields losing 40 cents for the month. Wheat showed independent strength as a number of factors came together. Futures spent most of the month basing and then began to creep higher in anticipation of the stocks report and small grains summary. Shorts covered and Chicago gained 27 cents for the month with Kansas City up 36 and Minneapolis down 2. Minneapolis struggled on record Canadian crop prospects.

Harvest and better than expected yields pressured beans, and yield ideas grew. I didn't hang around this year and adjusted to market signals. Final yield and area will obviously be very important and large demand may still result in a tight situation. Flat price is difficult to forecast with a possibly tight situation but not a rationing situation combined with corn that likely still has considerable downside. Beans traded 3 to 1 vs corn early in the month. Previously I had thought it could go towards 4 to 1 but a higher yield should prevent that. I think inverses in bean and meal and meal spreads will widen further given the huge export program over the next three months.

Corn should continue to grind lower and may end up with a three in front of it before all is said and done. Bigger than expected Sep 1 stocks (by 150 milbus) left the market with no friendly inputs and coupled with bigger than expected yields suggests stocks should be comfortable/burdensome for the 13/14 crop year and most likely into the 14/15 crop year.

Wheat is the one with a "story" and has traded accordingly. Major exporter stocks are tight – possibly as tight as 07/08 (bigger Canadian and Australian crop ideas may have jeopardized that) but the US balance is tight, Argentina has a problem, Brazil has a problem, China demand may be bigger than expected, and Ukraine/Russia are running out of quality and are facing production issues with winter wheat (seeding well behind). Funds are still carrying a short position in Chicago and the market is waking up that wheat is not corn - it hasn't been for a while. The stocks report implied greater than expected SRW feeding and less HRW feeding, although the HRW crop was smaller than expected and Brazil keeps plugging along buying HRW. There was likely greater substitution of HRS for HRW as HRS stocks were lower than expected also. So we have fed too much and have a huge amount committed to exports. I think bull spreads should continue to work in both Kansas City and Chicago and wheat should continue to gain on corn. There has been a big move already however and further upside in wheat will depend on our export pace as well as demand out of Egypt, Brazil, China, Syria in addition to developments in the Black Sea – will they limit exports if nervous about new crop supplies?

Regards,
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