BOCKEN TRADING

LLC

July 2015 Monthly Commentary

The June story of too wet could not carry through into July as the weather turned much more benign and funds continued to buy as the market went lower throughout the month. We ended the month with a structure problem and a wide range of yield ideas. For the month, corn was down 51 cents, wheat down $1.17 in Chicago, $1.18 in KC, and $1.14 in Mpls. Nov beans were down 96 cents. Nearby meal was actually up $3.00 for the month while Dec was down $22.00. Oil was down 367 points. I spent much of the month trying to pick a bottom in vain—it still seems we are undervalued. Structure remains a concern as does the general commodity meltdown and currency considerations – Brazilian Real at new lows.

There is really not a whole lot to talk about in corn. The damage was done in June but it is very difficult to keep trading that throughout the summer. That said, condition ratings have not improved that much from early on and remain well below a year ago. It will likely be a case of low ECB yields partially offset by good/great WCB yields. National ideas range from 162-168ish generally. Two well followed private estimates came out this week at 165.0 and 165.4. Both of these would suggest we are undervalued. There is a potential negative input to the corn market – China. They have been propping up domestic values for years and have a huge stockpile to the tune of 100 mmt, give or take. They are talking about cutting domestic prices and going toward a market based price. They have been importing a considerable amount of corn, sorghum, barely, and DDGs over the last few years. They are also talking about stricter controls on imports. If or when this gets implemented, it could weigh on grains in general as these other grains would work back into our domestic market. There is also a chance China could eventually return to exporting corn. The market may stabilize and bounce into the Aug crop report, then direction will depend on finishing weather and yield outcomes. My bias is that ECB yields will disappoint but I have lost some of my conviction on the huge washout. Currently there are hot/dry conditions in Ukraine/EU; the market doesn't seem concerned but it could become an issue.

Wheat gave back everything. All of the problem areas of the world that I was concerned about basically got taken care of. It started raining in Canada, Australia has seen ongoing timely rains in both WA and in the east (mainly southeast), EU yields have been better than expected, and there has been no pick up in US exports. My fear in June was a Canada crop in the 20-22 mmt range and ideas now are 24-25 mmt. My fear in Australia was 20 mmt and 24-25 mmt is where the market is now. There could still be an issue in Australia, but for a "strong" El Nino, rains have been pretty impressive so far. EU wheat fared better than expected and US export interest needs to pick up. Direction in the near term likely depends on corn and then Southern Hemisphere weather. We ran in all the shorts, smoked those trying to be long, and wheat is back to being the preferred short leg. Overall demand is lacking and world values continue to leak. Can't sell here and nothing making me want to buy so will wait for something to become clear.

I underestimated the impact of the huge South American supplies. Market ran in the shorts and then got all dressed up with nowhere to go. The move in the Brazilian Real also had a big impact. Beans have more potential to recover from the early excessive rain. Acreage is still in question and we are well below late June/early July highs. Yield ideas are mixed but improving. Aug weather is key and there are some hints that it's going to be warmer/drier than would be ideal. China bought South American beans in our typical fall slot and it is unlikely that we get that business back. However, beans should maintain some risk premium for Aug weather. Lower acreage and slightly lower yield ideas could tighten up the balance sheet fairly quickly, but it's difficult to ascertain with any confidence at this point if headed toward a 44 or 46 yield. Will trade weather and the direction of crop ratings going forward. My inclination is to buy breaks but not get married to a position.

Regards,
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8/5/2015

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