BOCKEN TRADING

LLC

September 2015 Monthly Commentary

Wheat stopped going down as world values bottomed, Australia turned dry, and dryness in US and FSU winter wheat areas garnered attention. Corn also inched higher as anecdotal yield reports came in. Some were shockingly low and some down considerably from year ago. The trade is expecting a further reduction in yield and likely area in the Oct report. Beans traded sideways throughout the month but yield ideas got bigger as the month went on. For the month, Chgo was up 28 cents, KC up 14, and Mpls up 14. Chgo led as had the biggest short position and SRW has the tightest balance sheet relative to the other classes. Corn was up 13 cents for the month. Beans were up 5 with meal down $5.30 and oil down 93 points.

El Nino finally set in in Australia during the key phase of production with crop ideas back down to 22-24 mmt after peaking at 26 mmt. The fear early in the season due to El Nino was 20 mmt but moisture was timely up until Sept. HRW dryness as well as dryness in Ukraine and Russian winter wheat areas is also getting attention. I had been downplaying it as it didn't end up mattering last year. World values stabilized by mid-month with Black Sea FOB near $180 on Sep 11 and currently near $195/ton. Russia lowered their export tax which at face value was bearish but actually uncovered demand that had been awaiting a decision. Then the USDA reported Sep 1 wheat stocks 80-100 milbus below trade ideas which spurred more short covering. The lower stocks were due mostly to a reduction in the crop (both acreage and yield) and the US situation (particularly SRW milling) is not as bearish as the market thought. Chgo has had a 68 cent rally from the early Sept lows to the highs in early Oct (so far). Funds are still carrying large shorts in Chgo and KC (and Matif as well) and am now struggling with whether this is a rally to sell or if this rally is just getting started. Last year, futures rallied $2.00/bu from early Sept to mid-Dec from higher values (Black Sea FOB was $235 mid-Oct). The initial look at 16/17 shows more stock building. We are starting to see more world buyers show up, FOB values continue to move higher, and there are some prod'n concerns (Austr and Brazil for 15/16 and US/FSU for 16/17 winter seeding). The US is not capturing any of the business however and it would take more than one major crop shortfall to meaningfully tighten stocks. Once short covering has run its course, I am looking to sell.

The USDA lowered the nat'l ave yield in Sept (mainly due to reductions in the WCB) and most in the trade are expecting a further reduction in Oct and possibly a reduction in harvested area. Sept 1 stocks were right in line so there was not much to go on there. The USDA needs to lower Ukraine's crop and exports – they are at least 4-6 mmt too high on the crop and 3-5 mmt too high on exports. This could be a big deal especially if they lower the US crop. Black Sea feed wheat values are $15/ton off their lows. US corn is still premium to South American corn and Ukraine corn as well as Black Sea feed wheat, but world values have stabilized for now at least. Much depends on the Oct report – I do not want to make any big proclamations ahead of that. My bias has been that USDA was too high on yield and area and 15/16 stocks are going to tighten from last year. Futures rallied 40 cents from the early Sept lows and the yield/ending stocks forecast from the USDA on the 9th may have to show a considerable reduction to extend the rally much beyond 420 in the near term.

9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138

newaccounts@bockentrading.com • *phone:* 901.766.4446 • *fax:* 901.766.4406

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Beans have been quite choppy – got into the low 850's three times but never felt really comfortable there and have bounced back. Funds are short and producers are not selling much. The board is low and basis is low. There is a not a huge export pull like last year but the Delta/southern harvest is not moving as fast as it should. Some of the yields have been off the charts and most are now comfortable near 47 bu/a and even higher. The big question mark is area. The area reduction in wheat lent credence to ideas that the USDA is too high in both corn and beans as well (and the FSA certification data also supports this). The upside near term risk is that harvested area is down 1.5 – 2.0 mil acres and yield holds near 47 bu/a. This could tighten the S&D to 350-375 milbus. If area is not down much and the USDA prints a 48 yield – stocks could be 500+. This is a big difference. The other issue is the Brazilian Real made a low of 4.25 on Sept 24th and has strengthened ever since. This could be supportive if continues to strengthen. The US producer is not excited to sell with the board below 900 and basis in some cases 60 cents under the board. Funds are still short which may matter if the report is friendly. Waiting on the USDA for the next move.

Best,
Megan Bocken
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