BOCKEN TRADING
LLC

January 2016 Monthly Commentary

Markets tried the low end of the ranges early in the month. However the USDA was non bearish on stocks and carry outs and reported much lower than expected winter wheat area than expected and futures have basically been in short covering mode ever since. Corn finished the month up 13 cents with wheat up 9 in Chgo, 4 in KC, and 7 in Mpls. Beans were up 15 with meal up $7.00 and oil down 7 points. The market has found support on every break and has been unable to move lower on a considerable amount of bearish inputs. As I mentioned last month there is a lot of talk of the waning of El Nino and potential for crop issues this summer. Yes it seems early but the shorts are not getting paid and maybe the focus is just shifting early. We know SAm is going to have big crops; it's hard to go down every day on that with funds already short. There is selling on rallies but not overwhelming.

The USDA actually lowered the bean carryout in Jan due to lower final prod'n and no reduction in crush. The USDA is forecasting ending stocks at 440 milbus while most privates are closer to 500+ on lower crush and exports. The US export window is closing but we will have to see how Brazil's execution goes. US crush margins have improved and Arg crush may take a while to ramp up. There was some concern about dryness in Arg. This looks like it's going to get taken care of very soon. There is more talk about acreage next year in Arg with potential for bean area to be down significantly at the expense of corn. This is a year out but the market is already thinking about it. In add'n to a problematic summer, private forecasters are also gearing up for another wet spring. Assuming SAm harvest doesn't have any snags and Brazil's execution is relatively problem free, I expect we are going to have another leg down as the US export window closes. However, the dollar has been under pressure as of late and bears watching if these currency relationships start to turn. Soybean oil should continue to gain share as crush slows, biodiesel use increases, and the effects of drought in palm areas is felt.

The USDA lowered the corn yield as well but also lowered exports. Most in the private trade are even lower on exports. Ethanol prod'n and blending margins have spent the last few months "in the red". The corn market took a lot of short covering with not much of a rally. Argentine area/prod'n forecasts are rising as they added area after the election. This trend should continue for at least another couple growing seasons or until the soy export tax is eliminated. There is a big negative over hang with rhetoric out of China about drawing their stocks down and removing support prices etc. At some point this could be a big deal especially if they turn to a net exporter. In the meantime, corn seems to be in a holding pattern. As the funds cover, the producer lets some go. There is also a similar conversation going on about our growing season. It's the time of year that is hard to keep the markets honest – can paint a number of different scenarios for 16/17.

Wheat has also worked higher despite ongoing bearish sentiment. US exports continue to disappoint and US wheat is priced at a considerable premium to EU/Black Sea wheat. Winter wheat acreage came in nearly 3 mil below expectations and nearly 3 mil below year ago. This is a supportive feature for 16/17. There are a number of other issues worth watching which could change the sentiment in wheat. I touched on some of these last month. The India situation is still front and center. Lower area and ongoing dry weather has some forecasting a crop 10 mmt below last year. They have been drawing stocks down for the last three years. Private millers are reportedly paying the 25% import tax and buying Austr wheat. A large import program in 16/17 (5-10 mmt) would be a big deal for the

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world market. Canadian stocks are 5 mmt lower than last year and their exports are running nearly on par with last year's pace. They need to slow exports in the very near term which should benefit our export program. I also maintain that Braz will need to turn to the US for imports yet in the 15/16 crop year. N Afr is in a drought and this bears watching as this region is a large importer. These items, along with likely smaller crops in EU/FSU, and the major exporter balance could tighten considerably in 16/17. Market structure will continue to be a feature; especially if/when the market realizes the tighter scenario.

A fractionally positive month did more for morale than the bottom line but going in the right direction. Current market conditions do not offer "home-run" type opportunities but am happy to build a cushion and be in a position to have many bullets ahead of our growing season.

Regards,

Megan Bocken

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