February 2016 Monthly Commentary

Wheat made new lows led by Matif, and corn and beans worked towards low end of the ranges. There were no real weather scares in SAm and both corn and bean prod'n ideas are getting bigger. For the month, corn lost 19-20 cents and beans were down 27. Meal was down $11.00 and oil down 25 points. Chgo was the biggest loser – down 35 cents with KC down 27 and Mpls down 16. Matif wheat was down $14.75 euros/tonne – 44 cents. French wheat is $20-25/ton below SRW and thus continues to bring Chgo down.

There was very little positive news in wheat. US export sales continued to be dismal and we have yet to see any business from Brazil or increased business from Canada slowing down (which they haven't yet). The India story is alive but import ideas range from 1-10 mmt which is obviously a huge difference. US winter wheat area was record low and there is talk of increased SRW abandonment. Flooding rains are forecast next week in SRW areas which may add to this idea. There are some issues with US winter wheat that bears are watching. HRW dryness has been creeping in and temps have been very warm with wheat coming out of dormancy early. As of now there is no cold threat but it has happened as late as Apr in the past. Each time there has been a forecast for nice rains in the southern Plains, it gets pushed further out in time or east of the main HRW growing areas. With record short positions in Chgo and KC, any real weather threat is going to be exaggerated.

Corn worked to the low end of the range with wheat dragging it down and as SAm crop ideas continue to get bigger. There are a few cross currents however in corn and the US export pace has picked up over the last month or so as Brazil's program wound down. In add'n ethanol margins have turned positive after spending much of Jan in the red. The USDA gave its first look at the 16/17 balance sheet at the Outlook Conference and there was nothing friendly. They forecast a 2.0 mil acre increase in area and a 168 bu/a yield and increased carryout to 1977 milbus from 1837 this year. This is basically a starting point. USDA will have prospective plantings at the end of the month and then actual planting weather will be the bigger deal. Many private forecasters continue to call for a wet spring. A 2 mil reduction in area and even a moderately lower yield can tighten the balance sheet rather quickly. There is also much press about potential for a warm summer, something we haven't had in a few years. We haven't had perfect weather the last couple years in the Midwest but cool temps have been the saving factor for corn yields. Funds are holding roughly 183k shorts, and if/when, they decide to exit for whatever reason (wheat rallying, wet spring), we can have a sizable move. There is nothing immediate at the moment but that seems to be a bigger risk than the potential for another 10-15 cents lower in the near term.

Beans also worked to the low end of the range but still haven't made a new low. The interesting thing to me on the break this time though was that it was led by cash markets – both US and Sam basis has worked lower. Brazil is facing another record harvest by 4-7 mmt and Arg could easily match last year's record and could very well surpass it based on their weather conditions. We are sitting on large stocks too and this is not going to be like last year where US stocks tightened into new crop. If anything, 15/16 carryout will likely inch over 500 milbus. The USDA forecast 16/17 stocks at 440 milbus. Others are in the 500-700 range. If there is a weather issue, it could tighten to the 200-300 range so there may also be a short covering push in beans at some point ahead of or during our growing season. However, I maintain that beans are going to have another leg down on SAm harvest considerations and the end to our export program.

Regards,
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March 4th, 2016

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