April 2016 Monthly Commentary

April was very fast moving with market fundamentals shifting drastically from "there could be" a new crop story to "there very well may be an old and a new crop story in beans". Corn has also turned more constructive as Brazilian second crop losses are evaluated and the US is expected to do much more export business, both old and new crop. Wheat followed along at times in volatile, whippy trade. For the month, Jly corn was up 37 cents with Dec up 27. Chgo wheat was 5 higher while KC was 9 lower and Mpls was 9 higher. Much lower than expected spring wheat area supported Mpls while favorable crop ratings and drought busting rains weighed on KC. Old crop beans were up 113 with new crop up 66 and old crop meal was up nearly $61 with new up $50/ton. Oil was down 126 points as the focus shifted to meal and there was a big un-wind in the share trade.

Argentine harvest delays sparked the initial push higher with 10-20" rain seen in the first 19 days of Apr. These rains are unprecedented and losses are estimated at 5-10 mmt with quality issues expected on up to 12 mmt. It has taken so long to get back in the fields even after it stopped raining that tonnage and quality are still major unknowns. On top of this, yields in Brazil were worse than expected with the risk being that the crop was no bigger than year ago or up to 1 mmt below year ago vs early season ideas of a 4-6 mmt increase. At the end of Mch, I thought we had lost 5 mmt off the top of Arg/Braz prod'n but now it is closer to 10-15 mmt. Uruguay was the worst hit. Although they only grow 2-3 mmt, they basically export their entire crop which means another 1-2 mmt exports are at risk. The world was expecting Brazil to export 49+ mmt in Mch-Aug and it is looking increasingly likely that they may have overcommitted and may only be able to export 47 mmt. Arg exports are also in decline for this time slot, leaving the US to pick up the slack. US old crop crush and export ideas are increasing with Arg crush off to a slower than expected start and both US domestic and export demand for meal outpacing expectations. World protein demand has exceeded expectations as well. There is a hole in Mch-Aug that the US may have to fill and there will be a bigger hole for Sep-Feb (US 16/17 balance sheet). With old crop carryout getting smaller and new crop demand ideas much increased, the US needs more bean area and a yield similar to year ago if not better in order to balance the world matrix. Arg bean area is expected to decline sharply for their next crop as corn and wheat area increase due to a more favorable export tax situation for grains. This will put even more pressure on the US, and private weather forecasters have been throwing up red flags for months about the potential for a warmer than normal summer and a dry Aug. Beans and meal have moved a long way in a short time but the market still has the function of trying to entice more US bean area in a hurry, and I think the other function will be to entice Arg producers not to switch to grains in their next cycle. The world needs three record soybean crops each year to satisfy world protein demand and this reduction in SAm crops is going to have long lasting effects, creating a situation where we need more and more soy area each year. The market also needs to add more risk premium for adverse US weather.

Corn has its own issues given Brazil is experiencing its first real dry season in 5 years with a 5-10 mmt reduction in their winter crop likely. They oversold their crop and have no offers until Aug/Sep. Ukraine is out of exportable corn supply until September. Arg corn harvest was also delayed and the focus will be on soy harvest before corn harvest. The US is doing extra business as a result of the above. My old crop carryout is getting smaller and I have raised my corn exports for new crop. Despite the much bigger than expected area the USDA gave us in Mch, my new

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crop carryout is well below the USDA's given the higher exports. There is not much room for a yield issue in corn either and risk premium should be maintained through at least Jly.

Wheat remains burdensome with no real crop issues currently. HRW prod'n prospects are quite favorable despite the lower area with potential for a 500+ carryout in HRW alone. However, world values have been increasing, and I don't think corn has a lot of downside in the near term. Wheat should remain the weakest commodity but may experience volatile short covering pushes at times. I am not focusing on wheat currently as there is no real function here.

Markets are likely to get more volatile with daily ranges also bigger. There is a long term/ bigger picture issue in beans/meal that needs to be resolved and I plan to stay long and bullspread new crop as I think we are in early innings of this move. The broader trade is not even sure why we rallied in the first place, which gives us an edge.

Regards,

Megan Bocken

May 4th, 2016

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