August 2016 Monthly Commentary

Markets extended losses in August after a mid-month rally. There were no notable weather issues with August continuing the wet pattern with seasonable temps. Wheat made lows not seen since 2006. Hard wheats gained on soft with high pro in tighter supply this year. For the month, Chgo was down 48 cents, KC down 39, and Mpls down 22 cents. Corn was 29 lower. Beans lost 60 cents with meal the leader down nearly $41/ton. Oil gained on meal – oil was up 192 points as the tightening palm story came back to the forefront.

August is the key month for soybean production and the weather was nearly ideal. Some spots were likely too wet and disease may be more prevalent than recent years but no one seems too concerned. Most in the trade are expecting the nat'l ave yield to continue to get bigger than the USDA's 48.9 bu/a. FC Stone and Informa recently forecast 50.1 and 49.4 respectively. I have been working with 49.4 bu/a, and even with this record yield (by 1.4 bu/a), my 16/17 ending stocks do not build. My 16/17 exports are 100 milbus above the USDA's forecast, and have the potential to be even higher depending on the SAm growing season. Argentine soy area is expected to be down at the expense of grains due to the unfavorable bean export tax and delaying of the 5% reduction this year. Brazil's bean area may also be unch to slightly lower as corn supplies are very tight and credit issues may prevent expansion of acres. The 3 country S&D should tighten into the spring which should limit downside. We are dealing with a big supply/big demand market. Export sales and shipments have been huge the last four weeks and should continue to be solid with first quarter demand expected to be a record by 75-125 milbus. Most in the trade are well aware of the big demand but even with a 50 yield, futures are likely undervalued given the stocks to use forecast. Direction in September will likely come from actual yield reports and whether the trade has discounted to the biggest yield estimate. Anything below 50 bu/a for a final yield will now be viewed as supportive.

The trade seems a bit more torn on whether corn yields will continue to get bigger. The Pro Farmer tour suggested the USDA's Aug estimate of 175.1 bu/a was too high but then FC Stone and Informa raised their yield estimates further. The issue with corn is that even with a 170 yield, 16/17 stocks are expected to build from 1700 milbus to 2600 milbus. A 175 yield could result in stocks close to 3000 milbus. The USDA was roughly 400 milbus too high in their Aug feed estimate. There is an abundance of feed wheat in the world that is cutting into both export and feed demand. In add'n, both Arg and Brazil are expected to plant more area to corn and could have record prod'n in their next growing cycle. All this points to further grinding lower. However, funds have gotten quite short and the producer has slowed their selling pace which may provide support in the near term. Early anecdotal yield reports have been rather disappointing. If this continues, funds may cover shorts.

Wheat remains plentiful. The only point of interest is the short EU (particularly French/German) crop. EU exports should be down 11-12 mmt in 16/17. Russia, Austr, and the US should make up the difference. Canada and Ukraine don't have much room for export growth. Currently most (including myself) are forecasting Russian exports at 30 mmt – a new record by 6 mmt. It is not a guarantee however that they can fulfill this. Producer selling has been slow and much will depend on whether they have a harsh or mild winter. Russia's crop also has a much higher percentage of feed wheat this year. The loss of French exports will leave N African demand open. Much of this may go to HRW. HRW exports are on pace for 425-450 milbus exports vs 226 milbus last year and the USDA forecast of 340 milbus.

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

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

BOCKEN TRADING

LLC

August 2016 Monthly Commentary

HRW ending stocks should still be ample unless feed use is much higher than expected. But there is more and more talk of a considerable cut in HRW area and also SRW. Running the US S&D through 17/18 with lower acres and a slightly lower yield, stocks can draw down by roughly 200 milbus. We are likely in the process of wheat stocks peaking. It may take a while to turn the boat around, but if corn is done going down, for now, I'm not interested in pressing wheat at multi-year lows.

Regards,
Megan Bocken
September 7th, 2016

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

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