BOCKEN TRADING

LLC

October 2016 Monthly Commentary

It was a firm month overall with massive China pricing supporting beans. For the month, corn was up 18 cents, Chgo wheat up 14, KC down 1, and Mpls up 12. Beans were up 55 cents while meal was up $16 and oil was up 188 points. The huge crops had been priced in and moved from trading huge supply to huge demand. Even meal perked up with user pricing seen below $300/ton. The other big issue for beans was strength in the Brazilian Real which provided support. US futures are well above year ago futures but beans priced in Reals are down 10% vs last year. Corn rallied on technical considerations and fund short covering. Wheat also firmed as world values bottomed and funds covered shorts.

In corn, we have big crops/big demand and stocks building. The final quarter of harvest should see more producer selling/pressure due to storage constraints. Futures are likely to continue to grind lower over the next few months unless there is a crop issue in SAm. Next year's US balance sheet can build stocks further even with lower acres and a lower yield.

Wheat is getting a bit more interesting. The quality issues continue to get worse. Canada is struggling with their last 20% of harvest. Australia has been too wet in the east with frost damage in the west. Argentina has been too wet which looks to continue over the next couple weeks. Southern Brazil (where half their wheat crop is grown) has also had flooding issues with quality and quantity damage expected. This should eventually lead to Brazil buying more US wheat (HRW). World values have been firming as India has been quietly buying Ukrainian wheat, and Ukraine offers to the rest of the world are lacking. The pace of EU exports needs to drop dramatically over the next 6 months as their crop size was down 15 mmt from last year. The world is looking to Russia for record shipments this year but given all the above issues, US wheat will not be the residual supplier this year – it will be more in demand. Indian stocks have dropped considerably and I am beginning to think their crop was overstated and their import needs are understated. The other issue at play in wheat is the potential for a significant drop in US winter wheat area. It is unprofitable to grow and there is talk of 10-15% declines in both SRW and HRW. We will get the first look at this in January from the USDA. The bottom line is I think we have seen the most bearish outlook for wheat and the wheels are slowly turning. The funds covered shorts in October but loaded back up on shorts by the end of the month which could exaggerate a move if there is a catalyst for a rally.

The big story of the month was China pricing and the Brazilian Real. The Real has turned weak to start the month and beans have been under pressure. Historically, November can be rather ugly. However, I expect that beans will need to maintain some risk premium into the SAm growing season. There is not a huge margin of error, and things can tighten pretty quickly with a 5 mmt difference in one or both of their crops. Sep-Feb bean exports out of Braz/Arg combined will be down at least 6 mmt from year ago, and with stepped up China buying, I have US exports up 8 mmt in that same time frame. IF there are crop issues, the world will be forced to take more from the US during Mch-Aug as well. So there is a lot riding on their next crop cycle. Arg and Braz have both slowed crush considerably over the last few months and this is expected to continue over the next few months. Poor meal demand and lack of producer selling was the reason, but the net effect is likely a further tightening in the oil market. The global oilseed market is very tight already, and with end users still not entirely covered we could see a move higher. Oil should continue to gain on meal in the near term.

Regards,
Megan Bocken
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9047 Poplar Avenue, Suite 101 • Germantown, Tennessee • 38138

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