May 2017 Monthly Commentary

It was a month of grains gaining on soy with an early May snowstorm pushing wheat higher and Brazilian currency weakness (political scandals) pressuring beans. South American producers increased selling on the currency weakness. At the same time, China's huge shipments are weighing on meal supplies and there has been talk of washouts, etc. The other negative in beans was a very disappointing NOPA crush report due to terrible domestic meal demand. Most in the trade have dialed back crop year crush considerably as a result. Corn traded in the same basic range all month. Wheat gave back most of the early month gains and has turned sideways. For the month, corn was roughly up 6 cents, Chgo wheat down 3, KC down 5, and Mpls up 17. Beans were down 40 cents with meal down $17/ton and oil down 40 points.

For all the talk of bean sales being washed out and China meal backing up, there have been no cancellations and the US continues to do business. We are on track for crop year sales in the 2200-2300 milbus range while the USDA sits at 2050 milbus. US beans are competitive through the end of the year. While I am not expecting the 16/17 balance to get "tight," I think carryout will end up well below the USDA's forecast of 435 milbus (I'm forecasting near or just below 300 milbus). This will put more pressure on this summer's yield. Considering funds are carrying massive short positions into the growing season and the market has yet to realize the increased demand, I am cautiously friendly at this time, as the market is carrying zero risk premium. As we get further into the growing season, and if it appears we will have another massive 50+ yield, I will reposition accordingly.

Corn is the opposite on the demand side, with the Brazilian crop continuing to get bigger. The US export program should begin to slow in the near term with Brazil taking over for the most part soon. South American producers will be willing sellers of corn while they continue to hold back beans. Most in the trade and the USDA are overestimating US exports for 17-18, possibly by 200 -300 milbus. That said, the growing season has started out less than perfect with flooding/low early crop ratings in the Eastern Corn Belt, and again, the market is carrying no risk premium and a huge fund short. The market is extremely complacent with crucial months just ahead. Corn has been stuck in a range and I am not really excited either way but don't feel it's the time to be short.

Wheat is even more complacent. KC futures are trading below levels before the snow storm. There is a wide range of production and yield ideas. I think the trade is underestimating abandonment in KS, CO, NE, SD, and OK. The US balance sheet could tighten considerably from last year. HRS area could be lower than first reported and the Northern Plains are currently the driest they have been since 1984. Canadian spring wheat is also not off to the best start. EU crop ideas continue to get smaller with Spain's crop being downgraded due to hot and dry conditions. The EU balance was already tight to start with and their exports may be paired down. The EU market doesn't seem to care, yet. Ukraine and southwest Russia have been on the dry side too. Australia has also started out dry for seeding. Even with the return of normal yields this year in major growing countries, the major exporter S&D is going to contract. If there are any issues, major exporter stocks can contract significantly. The trade seems to be fixated on last year's huge stocks and the world S&D (of which China makes up a huge chunk). I maintain that the fundamentals are shifting and wheat is too cheap to corn, and remained positioned as such.

Regards,

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June 5, 2017

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