June 2017 Monthly Commentary

Markets rallied early in the month on a less than favorable start to the growing season with planting issues in the Eastern Corn Belt and building dryness in western areas. Given the huge South American crops and continued weakness in South American currencies, gains could not be sustained and fresh lows were made in corn and beans near the end of the month. Wheat found independent strength over major concern about HRS crop prospects. Concerns about production prospects in Canada, the EU, and Australia, combined with a large fund short, propelled wheat sharply higher in the last few days of the month. Both HRS and Canadian wheat area was reduced, adding to the issues there. Wheat provided support to row crops near month end as did less than ideal Corn Belt weather. For the month, Chgo finished the month up 82 cents, with KC up 79 cents, and Mpls up $2.00/bu. Corn finished a half a cent higher. Beans were up 27 cents for the month, with meal up $5.90, and oil up 162 points.

The dynamics changed rather quickly in wheat. Last month, the market was very complacent about a number of building issues with the US HRS crop at the forefront. The Northern Plains have had the driest conditions since 1988. Then the USDA lowered acres even more than expected. HRS acres are the lowest in 30 years at 10.3 mil acres. The USDA is using harvested area at 95% of planted area. Given the weather, ratings, and anecdotal reports of wheat already being baled, this seems way too high. In 1988 (the moisture situation was very similar), HRS harvested area was only 78%. Most in the trade are estimating HRS production near 325-375, but the reality is, it could be as low as 275 milbus, given the low acres and ongoing hot/dry conditions. It was 105 F in ND/SD/MT recently. There is no relief in the forecast. Similar conditions are occurring in the Canadian Prairies (the only available crop to substitute with our HRS wheat). The US HRW crop was less than ideal with higher than normal abandonment and white wheat had heat/dryness too. EU crop prospects are less than expected with tight beginning stocks. Ukraine's crop was dialed down some too and they also have tight stocks coming in. Russia should have another big crop but their exports are already maxed out. The next major crop to watch is Australia where they have had their driest start ever. Given declining US and Canadian crop prospects, and Australia on the watch list, the major exporter balance could tighten significantly in 17/18. Funds were caught with a massive short position and users were caught flat-footed/ uncovered. Chgo and KC can correct a bit further after the sharp run-up. Mpls is consolidating around the $8.00 level. If the dry/hot weather forecast holds for the Northern Plains/Canadian Prairies, there will be another leg up and the spreads will need to invert further in order to ration supplies. Without meaningful relief in Australia, the trade will increasingly be talking about a crop of 20 mmt or less and the major exporter balance sheet will be the tightest since 07/08.

June 1 bean stocks were less than expected and acres did not see an increase as the trade anticipated. Condition ratings are off to the worst start in the last 6 years (excluding 2012) with a forecast that is warm and dry in the western third to half of the Corn Belt. Everyone knows a bean crop is made in August, but more risk premium is needed given the fact that the Dakotas are now a major soybean area. ND/SD have more area than the entire Delta/southern region. This year, the Dakotas have 1.7 mil more acres planted to soybeans than IN/OH combined. Most in the trade seem to have 400-500 c/o in their heads for 17/18. However, the USDA still needs to raise old crop exports (not as much as I

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

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

previously expected, but likely by 50-100 milbus) and if the trade starts to consider a yield near 46 bu/a, 17/18 stocks can drop below 200 milbus rather quickly (I am using higher new crop exports than the USDA given expanding China demand). I am near term friendly given current weather to date/threatening forecasts and given that funds are still short.

Corn acres were bigger than expected with stocks also higher than trade expectations, which adds a bit of a buffer for a lower yield. However, a big part of the growing area is under stress with more heat and no rain coming. Funds are still short roughly 100k contracts. Brazil exports are ramping up and the USDA is likely overestimating US new crop exports, but even considering that, it doesn't take much to tighten the balance sheet if yield ideas get smaller (they should, given current temperature/precipitation forecasts in the western third of the Corn Belt). The market seems too complacent given pollination weather and I prefer to keep a friendly bias unless that changes dramatically in the near term.

Regards,

Megan Bocken

July 6, 2017

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