BOCKEN TRADING
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July 2017 Monthly Commentary

All the markets made new highs early in the month on warm/dry forecasts for the Northern Plains and western third of the Corn Belt. Seems like deja vu now to last July, but this year there are real issues that warrant risk premium. Mpls, which had been the leader in wheat, peaked above $8.50 early in the month after a $3.00/bu rally and has since been leaking. The Canadians continue to offer cheaper wheat (despite their own crop issues) and specs liquidated in a thin market. Mpls lost 85 cents throughout the month and dragged KC and Chgo with it – down 55 and 52 cents respectively. Corn finished the month down 8 cents (36 cents off highs) as the area of concern got smaller throughout the month despite ratings continually declining. Beans made new highs early and consolidated the rest of the month finishing up 55 cents. Meal was $13.60 higher and oil was up 173 points.

Chgo and KC have given back all gains since early June and both SRW and HRW are competitive with EU and Black Sea wheat. The recent weakness in the dollar is also a supportive feature. If Black Sea wheat doesn't fall apart, we should find support near current levels. The USDA came in much bigger than expected on their spring wheat crop mainly because they didn't touch harvested area (could be considerably smaller). We may not get a better idea until the Sept 30 small grains summary. At the same time, the Canadian crop is getting smaller with dry and hot weather continuing. We are going to find ourselves needing to ration HRS supplies. Late rain in Germany/Poland has raised quality concerns and HRW may be back in the mix to North Africa. Australia wheat is also still an area of concern. Forecast models have offered better rain chances but significant deficits remain. The critical period is still ahead. EU crop ideas have creeped higher after their heat wave and Ukraine/Russian crop ideas are also getting bigger. The main issue with Russia is export capacity. Last year, they had supply available to export 30+mmt and they only managed to ship 26.9 mmt. Most are expecting 30-31 mmt this year, but their July exports did not start off as strong as they should have. The US and major exporter situations are tightening and Canadian and Southern Hemisphere crop outcomes will be watched closely, as will Black Sea values.

Early month strength in corn was met with massive producer selling. There was still a large amount of old crop to sell. South American selling also provided resistance. We are now back to the low end of the range of the last 9 months. The market seems a bit complacent about corn ratings/production prospects. A number of major growing states' ratings are well below the last few years, with NE and the Dakotas the worst. Temperatures were warmer than normal, both highs and lows, with July precipitation below normal in much of the western part of the belt. The precipitation forecast for August is still lacking in some of the main areas, with deficits especially in Iowa. Temperatures are expected to be below/much below normal the first half of August which will be helpful. A yield in the 161-162 bu/a area (which is what I am using) would draw stocks down to the 1600-1700 level. This compares to 2370 milbus carryout in 16/17. My export forecast is 175 milbus below the USDA's for 17/18 given the huge export prospects out of South America. I may be too low as EU crop potential is getting smaller due to hot/dry weather and their import needs may be larger than forecast. No interest in selling at current levels when IA still needs a widespread rain and stocks are expected to drawdown.

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Beans are 75 cents off the early July highs on cool/wet forecasts for much of the Corn Belt to start August. It does appear that much of IA/IL may get missed. Most yield forecasts are in the 46-48 bu/a range which is a huge difference in terms of balance sheet considerations. Favorable rains in August could still support a 48 bu/a yield which would result in ending stocks near 300-400 milbus. The USDA still has to raise old crop exports and old crop residual (based on June 1 stocks). I also contend their new crop export forecast is too low, but that may be a realizing item. South American selling shut off in July as the Brazilian Real moved back towards the highs. Basis is firming there. Am a bit surprised the market didn't hold on to some risk premium going into the critical month of August. A yield of 47 bu/a gets interesting, especially once the USDA corrects the old crop balance sheet. It does seem we trade and discount things faster than we used to and I need to do a better job adjusting to the new faster paced market. Will tread lightly until have a better idea of August weather and if crop ideas are getting bigger or smaller.

Regards,

Megan Bocken

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