BOCKEN TRADING
LLC

January 2018 Monthly Commentary

Early month follow-through weakness gave way to the evolution of a short covering rally in wheat, corn, and beans. Concerns over a dry pattern in Argentina provided support in beans and corn while winterkill and drought concerns sparked a wheat rally. Record short positions were held in wheat, corn, and beans starting the year, and perfect weather was priced in. Currency considerations also provided support with the dollar under pressure and the Brazilian Real strengthening (giving their producers less). The move in the Real negated our board rally. Meal was the strongest as Argentina is the world's largest meal exporter and a short Argentine bean crop will affect meal the most. For the month, corn was up 10 cents, Chgo wheat up 22 cents, KC up 40 cents, and Mpls down 8 cents. Beans were up 34 cents with meal rallying $20 and oil down 15 points.

Corn labored the most on the rally as the US producer was undersold both old and new crop, so each tick higher was met with selling. However there are some compelling arguments for further strength. US corn remains the cheapest grain in the world with no Brazilian offers and Ukraine uncompetitive. Ukraine's crop was likely overstated and in turn their exportable supply was overstated as well. Argentine values have been (and remain) premium to US corn. US business has been strong in recent weeks and the USDA could be underestimating 17/18 exports by 100+ milbus. The other risk is South American production. Argentine dryness has some dialing down their corn crop to 35-36 mmt vs the USDA's most recent forecast of 42 mmt. In addition, slow harvest in Brazil could lower their second crop potential, and first crop is already expected to be down 5 mmt from year ago. Most private forecasts for Brazil corn are in the 85-89 range vs the USDA forecast of 95 mmt. Basically the USDA could be overstating South American crop potential by 10-15+ mmt. This will increase US export potential out to 18/19. Even with unchanged area in 18/19, the US S&D could tighten for the first time in five years. Funds remain short and upside potential remains greater than downside currently.

Wheat rallied into the January 12 reports as most were expecting another sizeable decline in acres. The acreage report was deemed as bearish (nearly unchanged from last year) and wheat sold off. However winterkill threats and ongoing drought, along with a sizable drop in monthly condition ratings, sparked a short covering rally into month end. HRW crop ideas are now centering around 650 milbus (750 year ago), and HRW as well as overall US carryout is expected to decline in 18/19. Major exporter stocks can also tighten somewhat in 18/19 given tight carry-in stocks. Russian stocks will continue to be a drag however, even if they have a smaller crop next year. Russian export ideas continue to increase but their FOB values firmed throughout the month on tight producer selling, which also provided support. Our board rally worked against US export interest, and consolidation is likely in the near term.

Beans started off the month weak but turned after December 1 stocks were reported below trade ideas. A combination of large fund shorts, meal basis strength, and ongoing Argentine dryness provided support. Strength in the Brazilian Real alleviated pressure from producer selling in Brazil. They didn't "feel" the board rally. Crop ideas are inching higher in Brazil. The USDA is forecasting 110 mmt while some are as high as 114-116 mmt, which you can't rule out. Although early yields in both Mato Grosso and Parana are below year ago so far. Increasing crop ideas for Brazil are limiting near term upside, but there is potential that a story is brewing in Argentina. Crop ideas are going down with the most recent in print 51 mmt (BACE) vs the USDA's 56 mmt. There is talk that yields could be anywhere from 2.5-2.8 tonnes per hectare, which would mean a crop significantly lower – 41 to 46 mmt. Even the high end of that range would put Argentina into rationing mode with bean exports being the first thing to go. They would rather crush and keep their meal/oil exports going. But crush will also have to slow, which it already has. The market has sold off as Commitment of Traders showed more short covering than expected (and a very long meal market) as well rain forecast for Argentina over the next week. It seems premature to remove all of the risk premium before the rain has even fallen, as it will likely still not be enough. I'm in buy break mode but treading lightly.

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