BOCKEN TRADING
LLC

March 2018 Monthly Commentary

It was basically a month of liquidating trade with new highs made near the end of February/early March on Argentine drought concerns. China trade war fears stopped the rally and the market has been on edge ever since, even though soybeans weren't specifically named (until last night – midway through writing this). The market also feared a large prospective planting number in beans, which weighed on the market into the month-end USDA reports. Both corn and bean acres were considerably below trade expectations, and the market made back a chunk of the mid-month losses on the last trading day. For the month, corn was up 7 cents. Chgo wheat was down 44, with KC down 55, and Mpls down 44. Wheat lost 80 cents to nearly a dollar from the highs on forecasts for better moisture in the HRW areas and on one moisture event. HRS acres came in bigger than expected. For the month, soybeans were down 11 cents with meal down $8/ton, and oil down 30 points.

Meanwhile, March was the driest on record in Argentina with precipitation totaling under 31 mm in key production areas. This compares to the previous drought years of 08/09 and 11/12 where 99.8 mm and 105 mm were received respectively. This drought has been historic, and it will be a big test for genetics and whether the newer technology seed can withstand drought conditions. The one saving grace was that heat wasn't a big factor. Only February temps were above normal. Soybean crop estimates have dropped to the mid- high 30's from the low 40's mmt over the last month while USDA remains at 47 mmt. March 1 stocks were roughly 75 milbus above trade ideas and 35 milbus above my estimate. We are looking at a very low residual or a crop that was understated. The big shock was acres coming in at 89.0 mil vs trades ideas of 91.0 (fear of 92) and 90.0 mil last year. Given Argentina's shortfall this year and taking into account growing world/China demand next year, US crush and exports should smash previous records and be well above what the USDA forecast at the Outlook Conference. With the 89 mil acres, my 18/19 US ending stocks forecast is 133 milbus. The function of the market from here is to gain more acres. My S&D is not factoring in a yield issue. Other issues going forward are South American crop outcomes. Argentine harvest is just getting underway and it is going to turn wet finally, which could cause quality issues. Anecdotal yield reports have been of 30-50% yield losses. Record yields have been seen in northern Brazil, but southern yields may not perform as well. US weather and planting pace going forward will also be watched. Cold/wet is the current forecast which could delay corn and help add bean acres. Also, HRS prices have dropped significantly since the survey and the N Plains could add bean acres. However they have additional snow in the forecast and it could be a bigger prevent plant year. There is considerable upside from here and not much downside. The trade war issue is a headline risk which came to fruition overnight. Now China has used its biggest threat against the US, but most don't expect the tariffs will ever get enacted. Even if they do, Brazil cannot supply the world. If China tries to take all their beans from Brazil, the US will have to supply the rest of the world. Brazilian premiums have spiked over the last month and skyrocketed overnight on the tariff news. Both Brazil and Argentina may end up importing US beans for crush. The near term risk is liquidation (funds still holding major longs), but longer term there is considerably more upside than down.

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Corn stocks were also well above trade ideas – by 185 milbus with part of that due to revised Dec 1 stocks. It is hard to explain the low feed for both corn and wheat given animal numbers have been quite strong. The bigger issue however was acres coming in at 88 mil, vs 89.4 expected, and 90.0 mil last year. The current fear is they will be even less due to wet weather/flooding in the Mid-South/Delta and cold temps/snow in the N Plains/northern Corn Belt. There has already been talk of intended corn acres being switched to beans in the Delta. US corn is still the cheapest feed grain in the world. Export demand should continue to be strong given Argentine losses (which we still don't know the extent of yet) and a smaller Brazilian crop. The "dry" season is starting in Brazil which could affect second crop yields. With 88 mil planted acres (even with a larger carry-in due to bigger stocks), my 18/19 ending stocks forecast is 1491 milbus (lowest since 14/15) which doesn't take into account any further acreage losses or any yield issues. Corn has no risk premium built in and needs additional acres. There should be very little downside while upside could be significant.

Wheat lost 80 to 100 cents on one rain event in the S Plains. Granted, they had priced themselves out of the market in a big way. Winter wheat ratings came out this week at the lowest level in at least 10 years. The forecast is not promising for rain, and freezing temps were experienced last night and are forecast again this weekend. We are also likely losing HRS acres given the price move since the acres survey and given the current snow pack. US wheat is competitive in the world market and Russian values continue to firm. We likely need another major problem area for a sustained rally, but in the near term, the market (particularly KC) should maintain risk premium until we know what we're dealing with.

There are better opportunities in the markets than I've seen in a few years due to the Argentine drought coupled with lower than expected US acres (producers barely breaking even and worn out on trade wars combined with less than ideal early planting weather). I am planning to maintain a core long position in corn, beans, and meal and plan to trade wheat.

Regards,

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