April 2018 Monthly Commentary

Wheat was the leader in April on very low HRW crop ratings, dry weather, and freezes, as well as HRS seeding delays due to heavy snow pack and cold weather. Early month selling made way for a late month come back. KC was the leader in the wheat complex gaining 51 cents for the month with Chgo up 42 and Mpls up 29. Corn and beans liquidated fund length during much of the month on trade war issues, as China imposed a 25% import duty on US beans and a 179% anti-dumping duty on US sorghum. China cannot source all of their soybeans from Brazil (even supplemented by Canada) and in the end they will need to buy US. However, the uncertainty weighed on the market with many in the trade downgrading China demand overall. The sorghum issue was complicated with many boats en route and sorghum area expected to be up given the recent strong demand from China. Meal led the complex higher into month end on Argentine crop shortages, and dryness in Brazil was supportive for corn. Corn finished the month 5 cents higher. Beans were down 6.5 cents after being down as much as 40 cents. Meal saw gains of $7.20 with oil down 153 points. Increasing US crush ideas continue to weigh on oil.

Wheat has had a big run, but there may be more to go depending on the HRW crop outcome, HRS seeding progress (currently only 10% seeded vs 36 ave), and weather in Australia and the Black Sea region where it has been and is forecast to be dry for the next couple of weeks. The huge crops and exports out of the Black Sea region has been the major bearish input in the wheat market the last couple of years. Russian values have been firming for months (recently gave back a little) despite a record crop. If there is a problem there, the market will react swiftly. Although it is early, Australian dryness is also getting press as they are seeding currently into very dry ground. Australia is starting with low stocks and cannot afford another short crop. Crops and yields in Russia the last couple of years have been huge and it is easy to forget when they have a problem, it can be significant. Currently there are additional upside risks. If weather turns more favorable in either the Black Sea region and/or Australia, there could be a good opportunity to trade from the short side. We will stay nimble.

Corn may also have considerable further upside depending on weather in the safrina crop areas of Brazil as well as the Ukraine. Brazil was unseasonably dry in April and now it is officially their "dry season" with little rain in the forecast. Their safrina (second) crop is being downgraded and will translate to increased US exports if the downgrades materialize. Given that US area was lower than expected, even with a trend yield, the 18/19 balance sheet can tighten in a hurry with increased exports. The market needs to maintain risk premium given the expected stocks decline (even without further reductions in Brazil), the need for a trend or better yield in the US, and weather issues in Brazil and Ukraine.

Meal is retaking leadership as the Argentine shortfalls are being felt. Argentine crush ideas continue to be lowered as producers are not selling and Argentine crush margins sink as bean values rally. Argentina has bought 500 tmt US beans so far (mostly for new crop) to crush and they are buying most of Paraguay's surplus. The Brazilian Real has weakened throughout the month and is at the lowest levels since 2016. Brazilian producer selling has been aggressive as a result. The concern is that they oversell, especially given the huge China demand as a result of the US tariffs. The Argentine Peso is also in new lows but it is having the opposite effect there - making producers tighter holders.

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

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

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Meal could be explosive once Argentine harvest is complete. There are also concerns about heavy rain and flooding slowing harvest as well as causing quality and quantity downgrades. Going forward much will depend on the Argentine crop outcome and the China trade talks, NAFTA, etc. Without further acreage increases, the world will need a trend yield in the US this summer to avoid tightness into the next South American growing cycle. US crush capacity should be maxed out going forward as we make up for Argentine shortfalls. Beans may be a drag if no progress is made on trade. Currently, I plan to maintain length in meal as $400/ton will not get the rationing job done.

May/early June is typically when markets add risk premium for the US growing season and this year there is even more reason to maintain premium given Argentine shortfalls and current weather patterns around the world. This should create increased near and intermediate term opportunities.

Regards,

Megan Bocken

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