



December 2018 Monthly Commentary

It was a challenging second half of the year to say the least. The China trade issues remain unresolved although there has been some buying of beans by China of late. The hope of grain buying continues to swirl around and provides support on breaks, making it difficult to be short. The final blow has been the government shutdown, as now we are trading in the dark with no export sales or daily reporting. All of the markets rallied in first half December on the hope of China returning to the US bean market. It turned out to be more of a “sell the fact event” as it is nearly impossible to tighten the US balance sheet (without a major yield disaster this summer). Beans finished the month down 12 cents with meal down \$3.00 and oil down 40 points. Wheat was under pressure despite advancing world values with Chgo down 13, KC down 11, and Mpls down 27 cents. Talk of lower HRW area and increasing HRS area narrowed the Mpls-KC spread. The corn market had gotten too long and sunk into the end of the year, finishing the month 3 cents lower.

2019 already seems to be presenting more opportunities. We’ve started the new year with eyes on South America weather with Brazil too dry in spots, and Argentina facing moisture deficits in the west while eastern areas are too wet. Brazil bean production ideas are as low as 115 mmt with many around 119 mmt vs the USDA at 122 mmt. This should lower their export potential considerably going forward, especially considering they are starting the year with tight stocks – both crush and exports exceeded expectations. Argentine crop ideas are also getting smaller. Combine this with China buying talk nearly every day, as well as index rebalancing (they will buy beans, meal, and oil), the market is well supported and could continue to rally in the near term. Longer term, it will be difficult to sustain as the US situation is very difficult to tighten without a major yield issue (even with higher exports). In addition, we will encourage more unneeded area if beans rally into the planting season.

US corn is the cheapest grain in the world right now with South American production less than ideal. The USDA is expected to lower the US corn yield in its final report next week (if it is released). We are also not likely gaining as much area as we thought we would, given that beans are holding up/rallying. The market also continues to speculate that China will start buying US corn and wheat after they are done buying beans. China buying corn could materially affect the balance sheet. There should be some index selling next week which could be a buying opportunity, especially if the USDA report continues as scheduled on the 11th.

Wheat felt like it was heading into the abyss into year end, but has since recovered some. Both US SRW and HRW are competitive with Russian wheat and there has been talk of some extra business in the last week or so. Given Russian exports will be roughly 8 mmt below year ago in the next 6 months, and with Argentine quality issues, this is the window the US has been waiting for. We are watching cash markets closely as there are no sales reports. Another supportive concern in the near term is that winter wheat acres are expected to be much below earlier ideas. It would be helpful for the USDA to release the report however. I expect wheat to have at least one more run higher in the near term as US wheat should dominate world trade.

Regards,

Megan Bocken

January 3, 2019

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

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