BOCKEN TRADING

LLC

February 2019 Monthly Commentary

It was another trying month with the daily threat of a trade deal with China interrupting normal trade patterns. Fundamentals were generally bearish with South American weather improving and crop ideas stabilizing. Weather is much better for safrina corn area in Brazil. World wheat values sunk and wheat had a swift break. For the month, corn was down 14 cents, Chgo wheat down 63 cents, with KC down 67, and Mpls "only" down 15 cents. There was a big move mid-month in Chgo vs KC that has since corrected and Mpls has gained on KC and Chgo in a big unrelenting way as spreads remain firm there and as HRS tries to gain area.

The extra wheat business that the US gained was less than expected and was also masked by the gov't shutdown. The tightness in the EU/Australia and Russian shortfalls did not translate to much extraordinary business for the US. Instead world trade is down considerably. Now we are looking ahead to new crop and it is highly unlikely that the EU and/or Russia will have issues again. Australia is entering the third year of consecutive drought and could have another problem, but there is plenty of time for that to change. There is talk of increased SRW abandonment due to flooding in the Delta/Southeast. The extreme cold temps may also be an issue for SRW and/or HRW, but damage won't be apparent until the spring. Even with small US winter wheat crops, it is difficult to tighten the US situation without a crop problem somewhere else that translates into increased US exports. Futures may be low enough for now and entitled to consolidate, but without China or one to two crop issues in major growing areas, additional downside is likely over the longer term.

The corn market has also been disappointing especially in regard to ideas that corn should gain on beans into our growing season. Argentine corn is currently at a $10-12/ton discount to US and thus US business should start to slow. Ukraine has also been exporting aggressively. In addition, favorable weather in South America is going to make it difficult for US exports to reach 2100 milbus in 19/20 without a major import program from China. This announcement could come any day any minute. It is extremely difficult to be short given that fact, but there is no way to get an edge on the Trump/Xi deal. The one thing that does stand out, and should provide support in the near term is the excessive rain/flooding in the Delta/Mid-South where corn planting should be starting currently. Planting delays in the south could lead to less corn area and more beans. Also, the excessive, prolonged cold in the Western Corn Belt and heavy snow pack could delay planting in the Midwest, which could also point to more bean area and less corn. The high cost of corn inputs may also factor in. Corn has traded in a sideways/nothing range for roughly 5 years. It will take China buying or an acreage and/or yield issue to break out to the upside. Otherwise, we likely continue in this sideways range, drifting lower if US exports slow as expected.

The bean market is fundamentally the most bearish market out there, but has not been able to sustain breaks given the China deal that is never reached, but also never ending. The market may be coming around to the realization, finally, that even once a deal is concluded, our excess supply issues will not be solved. We lost some demand that we cannot make up and in the meantime, African Swine Fever has destroyed protein demand in China. The function of the market in the near term should be to discourage bean area so the market can begin to work off these excesses. At the same time we may not be able to sustain a break until the US producer starts letting go which may not be until deeper in the spring/summer.

Regards,

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