BOCKEN TRADING

LLC

May 2019 Monthly Commentary

The beginning of the month felt like the end of the world for the grain community. SAm crops were getting bigger and bigger, and instead of a trade deal, which was widely anticipated, we got more tariffs slapped on China. Then the weather took over. We are now in an unprecedented situation in corn with only 67% complete as of June 2nd. The next slowest year was 1995 and that year was 77%. All other slow years were in the 85-92% range and the recent 5 year average is 96%. The WCB prevent plant dates have passed and the ECB dates are approaching mid-week. Corn was the leader for the month – up 65 cents. Wheat, even as a follower, was up more due to a thinner market with Chgo up 72 cents and KC up 80. Mpls was “only” up 45 as the intermarket spreads corrected. Spring wheat saw better seeding progress than corn or beans. Beans were up 24 cents for the month but rallied nearly a dollar off the early month lows. Meal was up 21 dollars and oil lost 35 points with a big correction in the share seen.

So to breakdown the corn issue further, we are now looking at a potential 10-15 mil acre loss in corn as 31.6 mil acres are still unseeded. There is also a yield drag with late planting. We have gone from a surplus situation forecast to a possible rationing situation within a matter of weeks. A 15 million acre loss with a yield loss of 6% from last year, would leave us with a 250 milbus c/o. Obviously the market won’t let that happen so we would need to ration the supply by cutting exports, feed, and domestic use by at least 750 milbus. We may actually need the wheat crop for feeding. The market should be adding risk premium and incentive to keep the planters rolling. SAm has the supply to fill in exports although capacity could be an issue with Brazil supplying most of China’s soybean needs as well. The market should have another leg up as the realization sets in that we could lose 15 mil acres.

The bean market definitely has more of a buffer given the huge carry-in we are dealing with, but with 61% left to plant on June 2nd vs 21% ave (last 5 years), and not a dry forecast, beans could have their own issues. This is also the slowest bean planting ever with 40% seeded at this time in 1995. If the forecast was warm and dry for the next 2 weeks, there wouldn’t be much concern. But it isn’t and the Prevent Plant dates will be up in a couple weeks for beans as well. In addition, the market is still short. Beans can go higher if corn makes another leg up purely following, not taking into account a possible reduction in acres and yield drag too. Longer term, if corn gets into a rationing situation, one could expect SAm to plant more to corn and less to beans. This could be the light at the end of the very oversupplied bean market.

Wheat has been along for the ride, but also had some issues of its own that may or may not change the bearish fundamental outlook. Both HRW and SRW areas have been extremely wet which could cause quality as well as quantity declines. The Black Sea winter wheat region has turned hot and dry and is forecast to remain that way for the next couple weeks. Things aren’t perfect in Aus/Can either and we could end up knocking 10+mmt off production from these areas. Russia and Ukraine had low stocks coming in, so any reductions in their crops will come straight off exports. In addition, last year we saw world trade drop significantly, which likely won’t be the case two years in a row. The KC-corn spread is historically narrow, so even if there are no major problems with wheat crops, wheat can rally along with corn if we see more strength. Funds are also still short wheat.

I see big opportunities in the near term. Am focusing on corn length, but have small length in beans and wheat as well. Am lightening up on rallies and adding on breaks until we have discounted the problem in corn.

Regards,

Megan Bocken

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

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