BOCKEN TRADING
LLC

September 2019 Monthly Commentary

Markets rebounded in September in a choppy fashion. News was all over the place with back and forths on the China trade war and also on a biofuels package. Many of the early anecdotal yields came in below expected and below year ago which provided support. Mpls lead wheats higher on major quality issues/harvest delays with quantity being affected in addition to quality. A major snowstorm in MT and Canada is adding to the problems. Southern Hemisphere wheat crop ideas are getting smaller which also provided support. Much lower than expected corn and bean stocks in the final day of trading boosted futures further and has changed the tone of the markets. For the month, corn was up 17 cents. Chgo wheat gained 33 cents while Mpls was 48 cents higher with KC lagging and only up 10. Beans saw gains of 36 cents while products didn't keep up. Meal was up $4.00 and oil up 30 points.

September corn stocks came in 300 milbus below expectations implying increased feed use and likely that last year's crop was overstated. Nearly everyone was thinking that stocks could come in above expectations if there was a miss given all the talk/ reports of sizable wheat feeding, so the trade was positioned for a bearish report. A 300 milbus reduction in 19/20 carry-in is significant and places more importance on the final yield. Even if the final yield doesn't go down (am assuming it will at least be 1-2 bu/a lower), the stocks to use ratio suggests the low $4.00 area is value. Funds held a massive short. Some of this has been covered, but if the market suspects a lower yield or there any other issues going forward (Arg dryness, Braz late planting), market can rally a bit further. However, longer term, an increase in area next year can push stocks back to much more comfortable levels next year and this could provide a bearish overhang.

Wheat has a few issues going on. Australia remains extremely dry and some are forecasting productionn may only be 15-16 mmt, down from 17.3 last year and the USDA's most recent forecast of 19.0 mmt. This could push exports down further and the US could benefit. Argentina is also dealing with late season dryness and their crop/exports could be dialed down as well. The US HRS crop is a mess with massive rains/late harvest and a September snow storm. There is talk that a sizable area will not be harvested. USDA did not reflect any of this in their Small Grains Summary, but there will be a re-survey of the affected areas. Canadian crops are experiencing similar issues but the extent of damage is not known. Black Sea values appear to have bottomed for now with a better tone in the world market. US HRW is at a discount to US SRW for export and I continue to like length in KC – either flat price, vs corn, or vs Chgo.

The bean complex continues to have the most compelling story for a move higher. Sept 1 Stocks came in below trade expectations due to a downward revision of 116 milbus to last year's crop. Like corn, that makes this year's yield that much more important, especially given the very low acreage. Early yields have been disappointing in major Corn Belt states with yield reductions expected in both the Oct and Nov production reports from the USDA. Development remains way below average and in line with 1993 and the crop could run out of time. China has allowed some tariff free US imports and the trade is a bit more optimistic going forward. My 19/20 ending stocks forecast is 412 milbus, still comfortable but down from 913 in 18/19 and suggests the market is undervalued at current levels. The forward story is also compelling with stocks likely to contract in 20/21 even with a big jump in acres and yield. Stocks have peaked, and if China opens up more trade, or they get their hog industry back, or SAm has any crop issues, the balance sheet can tighten further.

Regards,

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