BOCKEN TRADING

LLC

# *January 2020 Monthly Commentary*

Markets gave back all of December's gains (and more in the soy complex) after Phase 1 of the China trade deal was finally signed. It was classic buy the rumor sell the fact. There was simply no evidence of China buying any US products. US beans were not competitive by a long shot in early January. Oil was the worst hit on the assumption that China will buy more beans (and crush more, producing more oil). Then late in the month, the news of the coronavirus hit the markets hard and accelerated losses with beans and meal making new lows. There were rumors that China was buying US corn that was good for a one-day rally and proved false in the end. For the month, corn was down 7 cents with Chgo wheat down 5. KC was 20 lower, with Mpls also hit hard – down 27. Strength in world wheat markets started to crack. Beans lost 83 cents with meal down $14 and oil down 493 points.

Very favorable South American weather with both Brazilian and Argentine beans at sizable discounts to US beans weighed on the complex in January. In addition, the Brazilian Real made new lows which spurred increased producer selling. Coronavirus made the market question demand in general and its effects are still an unknown, although panic may be subsiding. I had to lower my US export forecast and raise ending stocks throughout the month as the pace of exports slowed. My 19/20 carryout is now above 500 milbus vs earlier ideas in the 300-350 milbus range. The USDA lowered planted and harvested bean area but raised yield and punted on demand forecasts. December bean stocks were 65 milbus above average trade ideas mainly due to no reduction in the crop (many had lower yield forecasts). So, beans were down nearly a dollar for the move on all of the above factors. Now what. I am expecting at least stabilization, and possibly a rally early this month. The Brazilian Real may have turned and there is potential for harvest delays in the north of Brazil with excessive moisture forecast. Soon the market will start to trade new crop acreage ideas and S&D implications. The market is expecting an increase of at least 8 mil acres in the US this spring. This is going to be harder and harder to achieve the longer we stay under 9.00 (SX almost got to 900). The interesting thing (that some seem to be missing), is that even if we get the 8 mil more acres and a jump in yield, US stocks should decrease in 20/21 due to a return to pre-trade war demand ideas (US exports similar to 16/17 and 17/18). Am going to trade beans from the long side and at some point, sell corn against.

Corn stocks in 20/201, on the other hand, with an acre a yield increase, could balloon to 2450-2800 milbus (the highest levels since the late 80's). US corn is competitive with SAm and with Ukrainian corn for the first time in months, but the spread is narrowing and it will be a short window. Most in the trade had been expecting a crop reduction in January, but the USDA raised yield and didn't address the unharvested area in the N Plains. Stocks came in below expectations and the USDA manipulated 18/19 ending stocks as a result. This was an unprecedented move, one that doesn't bode well for confidence in the USDA going forward. The bottom line in corn is, there is nothing friendly going forward without a big China buying program or another spring filled with flooding/lost acreage.

Wheat came under pressure mid-month as Black Sea values peaked, there was no evidence of China buying, and better moisture was finally received in Australia as well as the Black Sea region. There is a $30/ton inverse in Russia from old to new crop, and the market will need to bridge that gap. Even with a big increase in area and crop size in Russia, their exportable supplies will not grow in 2020 and could decline if they have any crop issues this spring. Stocks in the other five major exporting countries are also not expected to build in 20/21. The real wild cards are China and India. China could really tighten the US balance if they have a decent import program. India, on the other hand, is expected to produce a record crop (by a large margin) and may have exportable supplies in the 7-8 mmt range. The last time they exported in size was 2012-13 (similar stocks and exported 6.8 mmt), however, when world values were much higher (Russian values peaked at $400/ton FOB). Both items need to be monitored. For now, prefer to trade the extremes and expect further weakness this month.

Regards,

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