



## February 2020 Monthly Commentary

The markets were overtaken by macro considerations and the escalation/panic of Coronavirus (now called Covid-19). Ags worked lower all month with meal and beans recovering late in the month on firming meal basis/slowing Arg crush and hoarding in Arg. Oil/meal had a big correction with oil weak on virus fears as well as market structure. For the month, corn lost 19 cents. Chgo wheat lost 27 cents, with KC down 19, and Mpls down 16. Beans made new lows but finished 5 cents higher while meal gained \$8.70 and oil lost 142 points.

The big move in February was meal bouncing off lows late in the month. Argentina threatened a further export tax hike on beans (going to be 3% on beans, meal, and oil to 33%) which caused further hoarding and slowed crush. They also halted export registrations ahead of the tax hike. Gulf meal basis rallied as did SAm basis. Funds have been carrying a large meal short which added to the strength. The Arg peso continued to weaken which also encouraged hoarding. The Brazilian real also continued to weaken – making new lows nearly every day, but in Brazil, this encouraged producer selling. On the break, US producer selling shut off, which contributed to the late month stability. After making new highs much of the month, the US dollar reversed course and had a steep break. Beans gained on corn on expectations that corn should gain a bigger acreage increase than beans. The Feb insurance prices came out at \$3.88 vs \$4.00 last year in corn and \$9.17 vs \$9.54 last year in beans. At the Outlook Conference, the USDA forecast 20/21 bean stocks tightening to 320 milbus with corn stocks building over 2600 milbus with privates even larger in the 2800-3000 range. Brazil's harvest should be approaching the halfway soon with most crop forecasts inching higher. Argentina has been dry, which could be a limiting factor although there has been very little heat accompanying it. It seems the market discounted all the bearish inputs in Jan/Feb. The market is short and Phase 1 is supposed to start soon which may keep fresh selling at bay. In addition, the bean balance sheet may need to compete for acres depending on China and world demand (currently it feels awful). I am trying to be nimble given the unknowns surrounding Covid-19, but it feels like the market is done going down for now.

Corn also ran out of selling and has bounced this first week in March. There continues to be talk swirling about China interest in corn (although Argentine is priced below US). China has been buying US sorghum again though as no waiver is needed. The big picture in corn is quite bearish, but the market is not going to go straight down and lack of producer selling in the US along with a massive short by the funds has provided near term support. Potential for Phase 1 China buying also looms. There is some concern about dryness for the safrina corn crop in Brazil which will need to be monitored. And we have to get through spring seeding here and the acreage report at the end of the month. I think there will be better opportunities to build a short position.

There continues to be a number of cross currents in wheat. Black Sea values continue to work lower and old crop needs to bridge the gap to new crop (suggesting further weakness). There has been no sign of China stepping in (yet) for US wheat, but it could be a big market factor if they actually fulfill their TRQ. There has been a wave of routine demand after the Jan/Feb break and much will depend on N Hem crops going forward. The EU has had issues and their crop is expected to be down 8-10 mmt from last year. At the same time, at least a modest rebound is expected in Russia, and Australia should see a big recovery, but there is some concern about dry conditions in Russia. Also, carry-in stocks are low, so unless there are major recoveries in Russ/Austr, US and major exporter stocks are expected to tighten further in 20/21 (possibility significantly depending on China). From a fundamental aspect, upside risks seem higher than downside, unless it's the end of the world due to Coronavirus.

Regards,

Megan Bocken

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

[newaccounts@bockentrading.com](mailto:newaccounts@bockentrading.com) • phone: 901.766.4446 • [bockentrading.com](http://bockentrading.com)