March 2020 Monthly Commentary

Was a very volatile month as the global pandemic took hold and there was a macro meltdown. The dollar made new lows and then new highs. Equities had their worst month ever. Energies got pummeled which spilled into ethanol and biodiesel. Everything made new lows by mid-month with the exception of meal. Wheat, beans, and meal had big come backs the second half of the month. Corn was under the most pressure due to ethanol collapsing and huge carryout ideas for 20/21. Oil made a meager comeback, but remains under significant pressure due to drastically cut energy demand and much reduced restaurant demand etc for vegoils. For the month, corn was down 26 cents. Wheat was firmer on strong demand (including the first Phase 1 China purchases of US HRW) and rising Russian values. Chgo gained 44 cents for the month with KC up 40 and Mpls lagging – only 12 higher. Beans finished the month down 8 cents, but were 65 cents off the lows. Meal gained $16 for the month while oil was down 176 points.

Both ethanol production and blending margins went deeply into the red in March and we are seeing production drop off sharply as a result. 19/20 crop year corn for ethanol use could be down 300-400 milbus from the USDA's most recent forecast. The loss of DDG production from slowing ethanol grind could boost feed use, but the livestock industry is also in trouble. The Mch 1 quarterly stocks estimate implied a huge quarterly feed number or that the crop was overstated. China has been buying of late with 800 tmt old crop commitments so far. It seems they have shifted the buying to new crop though. The USDA reported 97.0 mil acres were expected to be planted to corn in 20/21 in the Mch 31st prospective plantings report. This was 2-3 mil higher than trade expectations and 7.3 mmt higher than last year. 97 mil would be an all-time record. The market does not need this many corn acres. As it is, with a higher yield than last year, 20/21 stocks would balloon to 3200-3500 milbus – almost double from this year. The function of the market should be to discourage extra corn acres. I am not sure if it is too late considering many inputs have already been purchased. We are doing a decent amount of old crop business so old-new spreads may narrow, but I think it will happen as prices move lower. CZ could eventually work towards 300 and will be positioning as such.

Wheat should have better support than corn. There is decent world demand while Russian stocks are running low, and with Australia and EU tight. US HRW should see good demand going forward. HRW remains priced below SRW. China demand for US wheat could really alter US S&D. There are also weather concerns in EU/FSU with a dry/warm winter continuing into spring. Much will depend on winter wheat crop outcomes and how much of a recovery Australia can have for their next crop. But for now, US and major exporter stocks look to tighten further and US should see decent demand in the near to intermediate term.

I have been a bit torn on beans as overall demand could slump if we go into a global recession. But China demand seems to be coming back, and after two very slow years due to the trade war, increased demand is expected. Argentine producer selling has been very slow with crush and exports being affected. Brazil is likely going to over-export in the next four months. The Real continues to make new lows. In addition, both Brazil and Argentine crop ideas are coming down. There are credible forecasts for each that are roughly 5 mmt below the USDA. That is a difference that will make a difference. US Planting intentions were also below trade ideas, and if China demand comes back, we may need additional acres. SX near 850 will not get the job done and it may be too late to change intentions materially. I think beans should gain on corn.

Regards,

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April 3, 2020

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