BOCKEN TRADING

LLC

April 2020 Monthly Commentary

Markets continued lower in April on ongoing quarantine/shut downs lead by energies. A death dive in crude with no driving demand/oversupply/lack of storage bled into ethanol and biodiesel. Closures of meat packing plants (due to COVID outbreaks) and slaughtering of animals has led to lower feed numbers. Equities recovered throughout the month and provided some late month stability in the Ag markets. For the month corn was down 27 cents with Chgo wheat down 38, KC down only 11, and Mpls down 33. KC has been at steep discounts to Chgo for a significant amount of time and corrected in April. HRW demand and dry conditions/freeze damage in the HRW areas supported KC while better rain forecasts in the EU weighed on Chgo. Beans were down 34 cents in April with meal down $23 and oil down 85 points.

We are now in the process of opening up the economy again state by state and this has provided support to start the month. We are hovering above the Apr lows. Crude has bounced off the lows and ethanol has seen a modest bounce as well. Am starting to wonder if the most negative news is priced in for now, at least regarding COVID. In the US, producer selling of corn and beans has dried up with interior basis levels firming. US corn is the most competitive in the world again and we are seeing consistently strong export demand. Feed and ethanol numbers are down but that may be discounted already. Safrina corn areas in Brazil are suffering from dry conditions which could be supportive down the line. On the other hand, the US planting pace is moving right along – no threat of delayed planting this year. There is potential for switching some corn area to beans, especially in the Dakotas, but the 20/21 corn balance sheet actually *needs* an area reduction. With an overall area increase from last year (how much is the question), a yield increase, and much lower feed/ethanol demand, the 20/21 balance should balloon to around 3800 milbus from 2400 this year. This would be the largest ending stocks recorded since the late 80's. Dec corn could see a fall low below $3.00/bu. But in the meantime, I am expecting the nearby to hold/firm as driving demand comes back, export demand remains strong, and producer selling remains slow.

I am a bit torn in wheat here as it's in a big chop. There are some concerns about HRW dryness as well as freeze damage in the Plains and an upcoming cold event for SRW. EU crop forecasts are down 13 mmt from last year. Russia and Kazakhstan should rebound while Ukraine is expected to be down about 3 mmt. Australian production is expected to come back significantly after consecutive drought years. US and major exporter stocks are forecast to tighten further in 20/21 and China demand could be a wild card going forward, one that could really tighten things up. However, wheat is already $2 over corn and there is really nothing compelling in the near term to latch onto.

Beans, on the other hand, seem undervalued at current levels. Brazil is exporting beans at a record pace at the same time their crop ideas are coming down. The USDA is 2-4 mmt too high on their crop estimate. The weakness in the Brazilian real spurred a wave of producer selling and Mch-Aug exports will be a record. Exports will have to slow considerably below the last few years' pace in Sep-Feb, but they will probably have to slow before that – likely in Jly-Aug. The US will need to make up the difference. Also China demand is likely being underestimated, possibly by a considerable amount. There were hints that Trump was/may be starting a trade war again. Even if the trade war does re-escalate, given Brazil's stock situation, China would still have to come to the US for their bean needs. ASF saved them from that in the first round of the trade war. World stocks have likely already peaked, and the US needs additional acres and a trend or higher yield to ensure adequate supplies.

Regards,

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