BOCKEN TRADING
LLC

August 2020 Monthly Commentary

We had a very strong month in the Ag space as crop perceptions took a drastic turn. USDA (and Stone X) likely pegged the biggest crops/ yields in their Aug report this year. Nagging dryness in IA expanded to neighboring areas along with heat. In addition, an inland hurricane that caused major destruction in IA and came with little warning, added to the drought issues. Corn harvested area in IA will likely be reduced as a result. We had a double whammy as demand was also quite strong with China aggressively buying US beans, corn, and wheat. For the month, corn was up 34 cents as funds started covering shorts. Wheat lagged as it had a strong month in July. Chgo was up 13, KS up 22, and Mpls was only up 4. Beans gained 61 cents with both products strong - meal firmed 14 dollars and oil was up 250 points.

Sentiment in corn was majorly bearish starting the month with yield ideas around 182-184 bu/a. Between the drought and derecho, crop ratings steadily declined throughout the month with IA the stand out problem state. Yield ideas are now in the mid-high 170s. Carryout ideas have gone from over 3 bln bushels to less than 2 bln. Stocks to use in 20/21 may end up around 12-14% which suggests CZ futures could see prices of 380-400. We recently peaked at the 360 level and are in a period of consolidation. US corn is competitive with Brazilian and Ukrainian corn and is not far above Argentine even after the August rally. Finishing weather has been less than ideal and there is still much uncertainty regarding yields and harvested area. There also may be reason to believe overall planted area needs to be revised down. The other big unknown is China. They may have bought up to 15 mmt for 20/21 already. Their internal prices have been rising for years and this year their crop has seen major flooding in some areas and drought in others. Flooding is expected to continue in some areas through September. It is just not known how big their demand could be. From current levels, downside should be limited in the near term with further upside possible depending on crop outcomes and whether China demand persists.

Wheat was the laggard in August after outperforming in July. Russian crop ideas have been inching higher – from the 75-76 mmt range to the 82-83 mmt range currently. This weighed on Black Sea and world values. Russian values bottomed in mid-Aug however and have recently jumped in value. Their stocks were tight to start and there are some caught short Black Sea. Futures have rallied nearly 70 cents since early Aug and will likely stall out. Not sure they need to fall apart though given ongoing dryness in Argentina and a dry spell in Australia. In addition, US sales have been good and China has been buying HRW. Major exporter stocks are rather tight given the shortfalls in the EU this year, and additional unexpected China demand could tighten the balance sheet even further.

The most obvious "story" is in beans. August is the key month for production and dryness prevailed in much of the Corn Belt with IA running deficits since June in some parts of the state. Yield ideas have gone from 53-54 to 49-51 since early August and there are indications that planted area may be down by at least a half a million acres. The other key component here is that Brazil is essentially out of the export market until their new crop is available (Feb-Mch) and China demand is really ramping up post swine fever and Covid. So even starting the 20/21 crop year with close to a 600 milbus carryin, ending stocks may finish the crop year under 200 milbus. It is essential to also look ahead to the 21-22 balance sheet. Given Brazil's current tightness, if their production improves to 133 mmt next year (up 7-9 mmt from this year and a new record, which many in the trade are using as a starting point), they will not build stocks even with reducing exports by 8 mmt. I am assuming we gain acres in the US next spring – using 90 mil, up from 83.8 this year. Given this year's expected stocks drawdown in the US, and Brazil's shortfalls that will carryover into next crop year even with a record crop, and China import projections that could still be understated, we are facing a US carryout in 21/22 of under 100 milbus. This means we have no risk premium built in for any issues in SAm and everything will have to go perfectly from here out. I am not sure what level it will take to price in the above issues, but I suspect it is somewhere well above $10. I also do not think that most of the trade has thought about the forward story yet, only the yield reductions and the demand story are in the market currently.

Regards,

Megan Bocken

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

newaccounts@bockentrading.com • *phone:* 901.766.4446 • bockentrading.com