BOCKEN TRADING
LLC

September 2020 Monthly Commentary

Futures continued to rally into mid-month, making new highs for the move before setting back and consolidating ahead of the USDA stocks report on Sep 30. The stocks report was resoundingly bullish and all markets rallied back on the last trading day of the month with corn and wheat making new highs. Declining crop ratings followed by variable harvest results, along with continued huge demand throughout the month, fueled the rally. For the month, corn was up 11 cents, Chgo wheat up 26, KC up 35, and Mpls just up 1. Beans gained 70 cents while meal gained $30 and oil lagged, only up 33 points.

Beans continue to have the strongest bull story given China demand and lack of South American availability until new crop is harvested in Feb-Mch. The USDA reported Sept 1 stocks (old crop carryover) 50 milbus below the average trade guess. The revision to last year's crop was minor and the lower stocks may be reflective of the huge pipeline being built for record first quarter exports. 20/21 carry-in is now 523 milbus, which sounds bearish, but given yield uncertainties and the huge demand we are facing, 20/21 ending stocks are now forecast in the 100-200 milbus range. Some may think it's too early to look at the 21/22 balance sheet, but I think it is imperative to do so. Even with a big jump in area in 21/22 and a record yield next summer, ending stocks do not build (assuming similar demand). Given that Brazil is essentially out of beans until new crop, there is a great deal of pressure for Brazil to produce another record crop. Currently their wet season is delayed by about two weeks and this alone is cause to put on more risk premium. The USDA Oct report at the end of the week is expected to see a lower yield, along with the lower carry-in and an increase in exports, show a tighter picture. Funds are now carrying a massive long, but currently there is little reason for this to change. Corn stocks were underestimated in a big way also and we may be setting up for an acreage fight here next spring, something we haven't seen in years. Both corn and beans remain undervalued and I am going to continue to buy breaks and trade from the long side.

Corn had the biggest bullish surprise in the stocks report with Sept 1 stocks coming in 271 milbus below trade expectations, much of this coming from a 200 milbus revision in Jun 1 stocks. Many thought last year's crop was understated but the revision was negligible. Regardless the reason, we are now starting the 20/21 crop year with carry-in stocks 270 milbus lower than was thought a few weeks ago. Given that, along with a likely further yield reduction, and an expected increase in exports, unknown China demand, and with Ukraine's corn yields coming in 25% below year ago, futures are likely undervalued. With bean area expected to go up next spring in the US, corn may lose acres which I'm not sure it can afford to lose. The function of the market may be for corn not to lose further value to beans to ensure adequate acres. In addition, dryness in Brazil is also a risk factor for corn. I plan to maintain length in corn until something materially changes.

Wheat has showed upside leadership in the early days of Oct. The stocks report was also friendly to wheat by 70 milbus – can't remember the last time that happened. Sept 1 stocks were the tightest since the 15/16 crop year. We have a few weather issues currently that are providing support in wheat as well. Russia and Ukraine have been in a drought and now winter wheat seeding and germination is at risk. The forecast is dry and there could be significant loss to Black Sea winter wheat production if the crop isn't properly established before the cold weather sets in. One well respected private outfit suggested a total Russian crop of 60 mmt (vs 82 mmt this year) is possible if dryness continues. Black Sea values have been steadily rising since mid-August. The other main area of concern is US HRW areas which are also quite dry with little rain in the forecast. All of the above argues for additional risk premium. The move in wheat hasn't been as orderly as corn and beans. It has been much more volatile, but the trend is higher. If corn is undervalued and Russia has a wheat issue, both feed and food grains are going to firm further.

Regards,

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