



## September 2022 Monthly Commentary

September featured grains firming while the soy complex worked lower. Wheat was the upside leader on escalations in the Russian/Ukraine war and technical considerations with general balance sheet tightness underpinning futures. Corn conditions continued to decline throughout Sept and the USDA lowered the yield which provided support. The USDA surprised the trade with a lower bean yield which caused a strong rally early in the month. But demand considerations and lower MS river water levels and a huge increase in Arg selling weighed on beans. For the month corn was up 7 cents. Chgo wheat gained 90 cents with KC up 77 and Mpls up 53. Beans were down 57 with meal down \$19/tonne, while oil lost 376 points. Macro considerations also weighed with the Dollar making new highs, and crude/equity markets making new lows. Lastly, the Fed continued to raise rates.

There were numerous friendly supply side inputs in the corn market in Sept. Condition ratings continued to drop, the USDA lowered yield to 172.5 bu/a from 175.4 in Aug, and at the end of the month, Sep 1 stocks came in 135 milbus below expectations, which was partially due to a downward revision in last year's crop. Futures rallied but stalled near \$7.00 basis CZ. Futures are already high priced historically which is a limiting factor. In addition, export demand has been slow/routine with China continuing to be noticeable by their absence. I don't think there is much downside in the near term however given that the stocks-to-use ratio is forecast to be the tightest since the drought market of 2012/13. I am expecting another yield reduction in the October USDA report with corn numbers expected to look quite snug. The market is also aware of ongoing Argentine dryness which is expected to last at least through the end of the year. I expect futures to work higher in the near to intermediate term and am positioned accordingly.

The USDA gave the market a surprisingly bullish prod'n report in September, lowering the yield to 50.5 bu/a from 51.9 in Aug while many were expecting a yield increase. The market reacted accordingly, but then demand considerations took over. Argentina enacted a special dollar exchange rate for producers from Sep 5-30 which prompted roughly 16 mmt in producer sales. China took advantage and bought a chunk of Arg beans. At the same time, low river levels in the US severely limited movement (and it's still going on) during our key export window. A number of Delta River terminals remain non-functional. The trade has cut first quarter export estimates considerably as a result and the demand is not expected to be made up later in the crop year if there are no SAM crop issues. Then at the end of the month, the USDA reported Sep 1 stocks roughly 30 milbus larger than was anticipated with most expecting a reduction in last year's crop. Most are leaning towards a yield increase in October. 22/23 balance sheet considerations are shaping up to be fairly bearish given larger carry-in stocks and lower export forecasts. That said, sentiment is max bearish and a harvest bounce is likely so will wait for that bounce to sell.

Wheat remains tight on paper and got even tighter after the Small Grains Summary lowered US production by 133 milbus. There were numerous yield and harvested area reductions. Given the large reduction to the crop, Sep 1 stocks were larger than expected implying 1<sup>st</sup> quarter feeding the lowest in 50 years. The spread to corn was wide, but it's still rather surprising to be that low. The changes imply ending stocks near 500 milbus, the tightest since 07/08. There are other friendly factors including ongoing HRW dryness and indications that Ukraine's winter wheat area could be a third of last year. This is related to the ongoing Ukraine/Russian war which makes it extremely difficult to be short. The Oct WASDE should look friendly, and there is likely add'l further upside. However, it's been difficult to hold a position given large daily swings/headline risk.

Regards,

Megan Bocken  
October 5, 2022

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

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