

Analysis of the USDA Monthly World Supply and Demand Report

March 8, 2023

On Wednesday, March 8, the USDA released its latest World Agricultural Supply and Demand Estimates, or WASDE. This article discusses the main impacts of the report on the soybean, corn and wheat market considering the analysts' estimates prior to its publication.

Regarding the prices of the main ag commodities, prior to the report's publication, soybeans were trading higher, with corn mixed with the nearest contract showing slight gains and the farther positions showing declines, while wheat had widespread declines. After the report, the March soybean contract consolidated its gains and reached peaks of US \$565/t, although it fell over time and ended the day stable at US \$561/t (↑ US \$0.55/t). Corn deepened its declines, and all positions finished below the previous day. The nearest position ended the day at US \$249.89/t (↓ US \$2.85/t). Wheat did not show much volatility, with the nearest SRW contract closing at US \$247.84/t (↓ US \$3.77/t), and the HRW reversing its declines only in the March position, which ended at US \$296.34/t (↑ US \$0.37/t).

SOYBEANS

On the US side, a decrease in stocks for 2022/23 was expected and they fell more than expected, to 5.7 Mt (↓0.3 Mt), which was a bullish factor for the market. The US supply did not change, the movement came from the demand side with a projection of less crush and more exports. Shipments abroad increased by 0.7 Mt between months due to higher shipments than expected up to February. The delay in the Brazilian harvest was an incentive in this regard.

Clearly, the market focus was on how much the USDA was going to change production in South America. Despite the delay in the Brazilian harvest, the USDA did not consider it as a factor affecting yields at the moment. It kept the production projection for 2022/23 unchanged at 153 Mt, an increase of 23.5 Mt from the previous cycle.

In the case of Argentina, the USDA surprised the market as it was expected to adjust production downwards but at a slower pace. In February, the USDA published 41 Mt, for March the average of estimates was 36.8 Mt and the figure was 33 Mt. The tonnage remains very high, and the Argentine market expects a much lower production.

The reality is that the stocks do not reflect serious problems despite the result in Argentina for the moment. The key point is that Brazil increases its production by more than 20 Mt. Without that support, the market situation would be different.

Globally, final stocks were expected to decline and were very much in line with market expectations. In this case, the USDA lowered the demand for Argentina and China, which prevented a greater drop in stocks that would have strongly affected the global stock/consumption ratio.

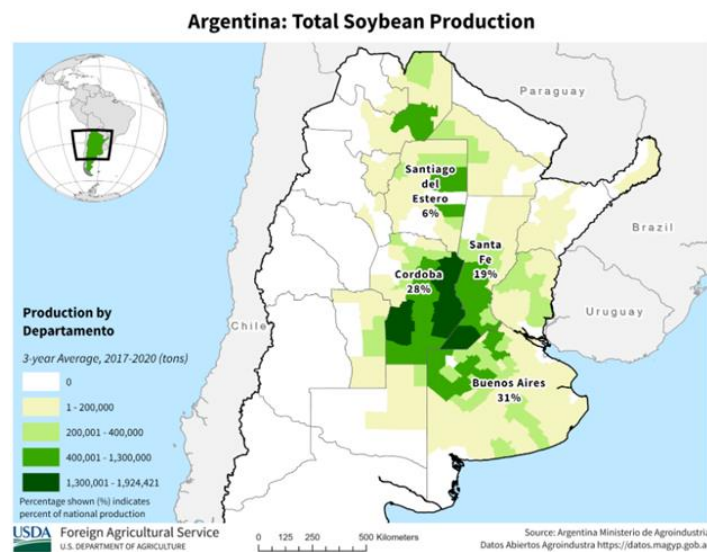
Argentina

The production of soybeans in Argentina is plummeting, with impacts on the global trade of soybeans and its byproducts.

For the third consecutive month, the production of soybeans in Argentina for 2022/23 has decreased, as warm and dry weather continues to put pressure on key growing regions. This month, production dropped by 8 million metric tons to a 14-year low of 33.0 million metric tons. Additionally, soybean crushing is forecasted to be at the lowest level in over a decade, with supplies and crushing in Argentina falling sharply. This will have implications for the global trade of soybeans, protein meal, and vegetable oils in the coming months. It is very likely that the United States will benefit from increased exports of soybean meal.

To help offset the shortage of national soybean supplies, it is forecasted that Argentina's soybean imports (October-September) will reach a record 7.3 million metric tons. Argentinian importers are expected to capitalize on a record Brazilian harvest and the recovery of production in Paraguay to supplement the weak national harvest. As a result, Argentina is expected to have the second-largest increase in soybean import growth in 2022/23, behind China.

The decreases in yields and low production of soybeans in Argentina due to drought continue to surprise us, with the worst drought in over 60 years. The last 15 days in the core zone were very difficult for crops, particularly soybeans. ***While the USDA now acknowledges a decline in soybean production in Argentina, and the market is seeing production levels at 27/28 million tons, there are already traders and operators who are beginning to see soybean production in Argentina for 2022/23 below 25.0 million tons.***



CORN

In corn, prices have been falling since late February. The USDA's 2023/24 outlook, with increased planted area and a large production recovery, was a heavy blow to the market. These estimates will only be reflected in the USDA's May report, primarily because a domestic demand problem is expected in the US, and this situation is bearish for prices in Chicago. In this sense, an increase in final stocks was expected in the North American country, but the USDA increased it more than analysts had anticipated. This result is due to slow exports at present.

In terms of numbers, US corn final stocks for 2022/23 increased from 32.18 to 34.09 million tonnes, and exports decreased from 48.9 to 46.99 million tonnes. On the other

hand, there may have been a decrease in the use of corn for ethanol production, but the USDA maintained it at 133.36 million tonnes.

World corn production was revised downward from 1,151.36 to 1,147.52 million tonnes (down 3.8 million tonnes). However, final stocks increased from 295.28 to 296.46 million tonnes (up 1.2 million tonnes). Brazil's production is still estimated at 125 million tonnes, while Argentina's has been reduced from 47 to 40 million tonnes from the USDA's perspective. Ukraine's harvest remained at 27 million tonnes.

The USDA report also noted that Brazilian corn exports are still estimated at 50 million tonnes, while Argentine exports were revised from 35 to 28 million tonnes.

South America

Drought in Argentina reduces corn exports with the world's lowest trade in three years.

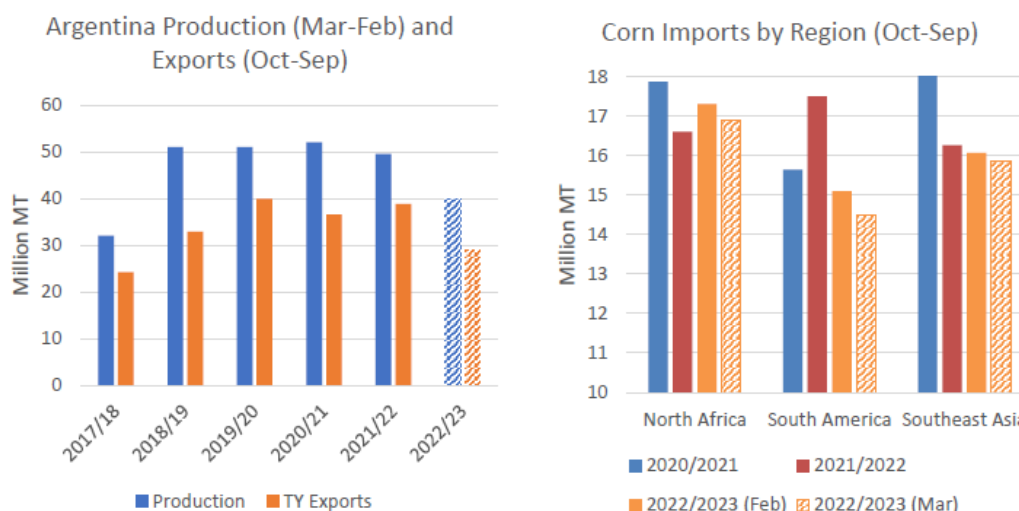
Corn exports from Argentina (October 2022 to September 2023) are forecast at 29.0 million tonnes, the lowest since 2017/18. The production for this 2022/23 campaign, like that of the 2017/18 cycle, has been greatly affected by drought, which is expected to reduce available supplies for export according to USDA data from March.

The cut comes at a difficult time for global corn supplies. At the start of the 2022/23 marketing year, U.S. exports were limited by logistical problems and relatively uncompetitive prices. Since mid-January, U.S. price competitiveness has improved, but export sales have declined and have been slow to respond. At the same time, combined export inspection data for January and February are about half the average shipped during the same period in 2020/21 and 2021/22.

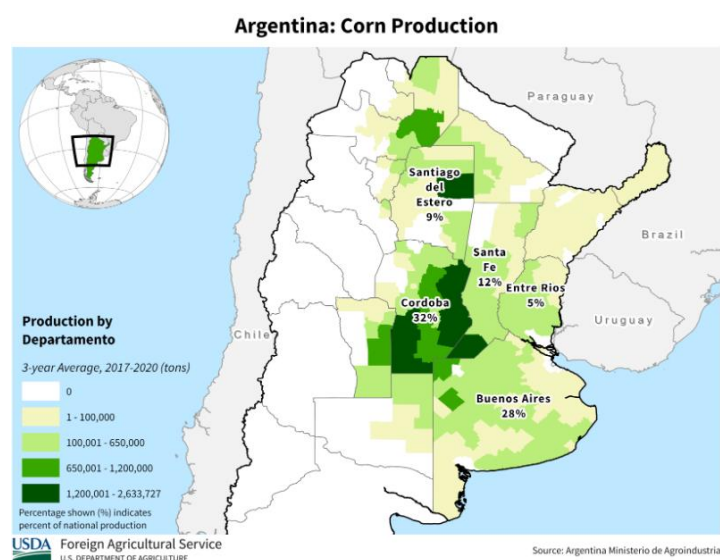
As a result, the U.S. export forecast is reduced by another 2.0 million tonnes this month. The renewal of the Black Sea Grain Initiative has not yet been renegotiated since its current expiration on March 18, leaving some uncertainty about the future of Ukrainian cereal exports. In stark contrast, Brazil is forecast to reach a record harvest of 125.0 million tonnes and export a record 52.0 million tonnes (October 2022 - September 2023).

Although Brazil is expected to export large volumes between July and September after its safrinha or second crop corn, ultimately, in the 2022/23 cycle, global trade is forecast to fall by 2.6 million tonnes this month. Argentina mainly exports to South America, Southeast Asia, and North Africa. As expected, Argentina's reduced exportable supplies are expected to result in lower imports for countries in these regions, including Peru, Malaysia, and Egypt, highlighted the USDA report.

Tight global supplies offer limited options for substitution from other origins, although competitively priced forage wheat supply could play a key role in these three regions. Southeast Asia is forecast to contract less, driven by India's record corn exports. India is currently forecast to export 4.0 million tonnes of corn, the highest volume since 2012/13, when exports reached 4.8 million tonnes amid a U.S. drought-affected crop. With strong exports to start its marketing year, India will once again strive to help fill the void left by a major exporter like Argentina, which is experiencing very dry conditions according to data published by USDA's March WASDE report.



Fuente/Source: WASDE/USDA



WHEAT

In the case of wheat, there were no major developments. On one hand, the balance sheet in the United States remained unchanged from the February report. There was expected some upward adjustment in US ending stocks was expected, probably due to lower exports, but it did not.

With only a few months left in the 2022/23 wheat campaign, the market is already starting to focus on the prospects for the next harvest 2023/24, which begins its trading year in June of this year. In this case, the USDA predicts more production for the U.S. and a relatively balanced balance sheet, although with downward price pressure.

Globally, the main news this month came from the initial stocks for the 2022/23 cycle. China's initial stocks for 2022/23 were reduced by nothing less than 5 Mt. This reduction is based on an updated analysis of the Chinese government's wheat stock data from the previous harvest.

Clearly, this neutralized the increase in global production for 2022/23 of 5.14 Mt. The USDA improved production estimates for Kazakhstan (↑ 2.4 Mt), Australia (↑ 1 Mt), and India (↑ 1 Mt). The Indian data is somewhat surprising, as the latest reports and local

estimates for the country put its production closer to 100 Mt, but the USDA increased it to 104 Mt.

As for global ending stocks, they fell by 2.14 Mt to 267.2 Mt, while the market expected a marginal decline to 296.15 Mt. In general, supply increased more than demand, and without those adjustments in China, global stocks would have rebounded strongly. This situation marks the good level of wheat supply for the 2022/23 cycle, which explains the recent price decline.

ANNEX

Soybeans - Supply and demand balance

	2020/21	2021/22est	2022/23p prev.	Avg. Latest proy.*	2022/23p latest	Δ MoM proy.
US (Million of tons)						
Beginning Stocks	14,3	7,0	7,5		7,5	0,0
Area Harvested (Mha)	33,4	34,9	34,9		34,9	0,0
Production	114,8	121,5	116,4		116,4	0,0
Imports	0,5	0,4	0,4		0,4	0,0
Consumption	60,9	62,8	64,0		63,7	-0,3
Exports	61,7	58,7	54,2		54,8	0,7
Ending Stocks	7,0	7,5	6,1	6,0	5,7	-0,4
Stocks/Consumption	11,5%	11,9%	9,6%		9,0%	-0,6%
World (Million of tons)						
Beginning Stocks	95,0	100,0	98,8		99,0	0,2
Production	368,5	358,1	383,0		375,2	-7,9
EE.UU.	114,8	121,5	116,4		116,4	0,0
Brasil	139,5	129,5	153,0	153,0	153,0	0,0
Argentina	46,2	43,9	41,0	36,8	33,0	-8,0
Demand	364,0	362,3	376,4		371,1	-5,3
China	112,7	107,6	115,3		113,3	-2,0
EU	17,4	17,0	16,2		16,2	0,0
Ending Stocks	100,0	99,0	102,0	100,0	100,0	-2,0
Stocks/Consumption	27,5%	27,3%	27,1%		26,9%	0,0

Source: based on USDA and Bloomberg

*Average projections made prior to the publication of the last WASDE report

Corn - Supply and demand balance

	2020/21	2021/22est	2022/23p prev.	Avg. Latest proy.*	2022/23p latest	Δ MoM proy.
US (Million of tons)						
Beginning Stocks	48,8	31,4	35,0		35,0	0,0
Area Harvested (Mha)	33,3	34,5	32,1		32,1	0,0
Production	358,5	382,9	348,8		348,8	0,0
Imports	0,6	0,6	1,3		1,3	0,0
Consumption	306,7	317,1	303,9		303,9	0,0
Exports	69,8	62,8	48,9		47,0	-1,9
Ending Stocks	31,4	35,0	32,2	33,1	34,1	1,9
Stocks/Consumption	10,2%	11,0%	10,6%		11,2%	0,6%
World (Million of tons)						
Beginning Stocks	307,4	292,8	306,3		305,7	-0,6
Production	1.129,4	1.216,0	1.151,4		1.147,5	-3,8
EE.UU.	358,5	382,9	348,8		348,8	0,0
China	260,7	272,6	277,2		277,2	0,0
Brasil	87,0	116,0	125,0	125,1	125,0	0,0
Argentina	52,0	49,5	47,0	43,5	40,0	-7,0
Demand	1.144,0	1.203,2	1.162,4		1.156,8	-5,6
China	285,0	291,0	297,0		297,0	0,0
EU	77,7	82,7	78,1		78,1	0,0
Mexico	43,8	44,0	44,2		44,2	0,0
Ending Stocks	292,8	305,7	295,3	293,2	296,5	1,2
Stocks/Consumption	25,6%	25,4%	25,4%		25,6%	-21,0%

Source: based on USDA and Bloomberg

*Average projections made prior to the publication of the last WASDE report

Wheat - Supply and demand balance



	2020/21	2021/22est	2022/23p prev.	Avg. Latest proy.*	2022/23p latest	Δ MoM proy.
US (Million of tons)						
Beginning Stocks	28,0	23,0	19,0		19,0	0,0
Area Harvested (Mha)	14,9	15,0	14,4		14,4	0
Production	49,8	44,8	44,9		44,9	0
Imports	2,7	2,6	3,3		3,3	0
Consumption	30,4	29,6	30,6		30,6	0,0
Exports	27,1	21,8	21,1		21,1	0
Ending Stocks	23,0	19,0	15,5	15,6	15,5	0,0
Stocks/Consumption	75,6%	64,2%	50,5%		50,5%	0,0%
World (Million of tons)						
Beginning Stocks	298,2	284,9	276,7		271,5	-5,3
Production	774,4	779,2	783,8		788,9	5,1
EU	126,7	138,2	134,7		134,7	0,0
Russia	85,4	75,2	92,0		92,0	0
Canada	35,4	22,4	33,8		33,8	0
Australia	31,9	36,2	38,0		39,0	1
Argentina	17,6	22,2	12,5		12,9	0
Ukraine	25,4	33,0	21,0		21,0	0,0
Demand	787,7	792,7	791,2		793,2	2,0
China	155,0	148,0	144,0		144,0	0,0
India	102,2	109,9	104,1		105,5	1,4
N. Africa	46,6	47,0	47,2		47,2	0
Ending Stocks	284,9	271,5	269,3	269,15	267,2	-2,1
Stocks/Consumption	36,2%	34,2%	34,0%		33,7%	-0,4%

Source: based on USDA and Bloomberg

*Average projections made prior to the publication of the last WASDE report

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