Weekly report - March 17, 2023

Market Highlights

- SVB (Silicon Valley Bank) became the first bank bankruptcy since 2020 and the second largest bankruptcy recorded in the US at the end of last week.
- Traders are reducing their exposure to all products in a context of risk aversion.
- The next major USDA event will occur on March 31 with the scheduled release of the Grain Stocks and Planting Intentions reports.
- US farmers are expected to plant 90.414 million acres of corn in 2023 and 87.768 million acres of soybeans, according to surveys released this week.
- In the last month, wheat fell 10% and corn 7% on CBOT. Soybeans recorded the most support with a smaller drop of 2% respectively.
- Water deficit continues in the southern Great Plains, with only 55% of the winter wheat crop rated as good to excellent by the USDA.
- NOPA published its monthly US soybean crush data for February on Wednesday (15). Analysts expected a crush of 166.06 million bushels (4.51 million tons) and the actual figure was 165.41 million bushels (4.50 million tons).
- USDA reported US corn sales to China of 2.11 million tons this week, with daily volumes not seen since April 2022.
- IGC predicts a rebound in US corn production for the 2023 harvest to 377.7 million tons from 348.8 million tons last year.
- Argentina cuts soybeans and corn forecasts again as drought persists.
- In Brazil, the progress of the 2022/23 soybean harvest reached 52.9% compared to 64.3% a year earlier, while the historical average for the period is 56.9% respectively.
- FOB prices for soybeans in Brazil fall to nearly 14-month lows.
- Soybeans shipments from Brazil to Argentina in February were 226,000 tons, a historical record for that destination.
- Soybeans shipments from Brazil to China fell 17% in February compared to the same period last year.
- Soybean meal exports from Brazil would reach 2.091 million tons in March compared to the 1.905 million tons forecasted the previous week.
- EU soybean imports in the 2022/23 season, which started in July, reached 7.71 million tons on March 12, compared to 9.63 million tons last year.
- India's palm oil imports plunged 30% to a 7-month low.
- Egypt's strategic wheat reserves are sufficient to last for the next 3.3 months, Egypt's supplies minister said on Tuesday (14).
- China's new prime minister, Li Qiang, said that the country's food security is guaranteed and that state policies to support food production will increase.

Weekly market summary

This week, markets continued to be affected by the banking crisis centered in the United States, which added volatility. In commodity markets, there is greater risk aversion by funds, which is setting the price trend, although they continued to respond to intrinsic factors of the agricultural market. Finally, cereals registered a pause in the falls and an expected upward rebound in prices was observed, while soybeans, which had been registering significant support, could not recover from Monday's losses in line with lower crude oil prices.

Regarding the continuous wheat contract in Chicago, there is mostly a technical rebound after hitting a floor of US $245/t the previous Thursday after strong net sales by investment funds. This week, the ongoing tensions in negotiations between Russia and Ukraine supported prices. It is likely that next week there will be more news regarding the agreement between both countries, with the main discussions focused on commercial sanctions against Russia and the duration of the agreement. On Friday, wheat closed at US $261.78/t, a weekly increase of US $11.52/t.

As for corn, the significant purchases by China from the United States for four consecutive days were the main bullish factor. According to USDA data, the Asian country purchased at least 2.11 Mt, with daily purchasing volumes not seen since April 2022. The recent price declines of the grain likely motivated these purchases, indicating that corn was already seen as very cheap. It should be added that this is a time when US exports are stimulated since Brazil is temporarily out of the market until June/July. On the other hand, margins are very attractive for ethanol, which increases domestic demand. On Friday, the continuous corn contract closed at US $249.69/t, a weekly increase of US $6.69/t.

Finally, soybeans showed some signs of weakness this week. On Monday (13), it had a significant drop of 1.54% following crude oil in an unstable context, with no strong bullish factors to recover. External sales at this time of year begin to be lower due to Brazil's entry, making it difficult to find reasons for an increase. The South American country has a large shipping program for March, although there is still a lack of fluidity due to logistical problems. Finally, news of lower production from Argentina, which the market already sees below 25 Mt, could support prices in the coming weeks. It is still unclear how much Brazil and the United States can compensate for in exports of meal and oil. The continuous soybean contract in Chicago closed on Friday at US $542.83/t, a weekly decrease of US $11.21/t.

Federal Reserve Officials Meeting

Officials from the US Federal Reserve will meet again next week with the aim of taking action to tackle persistent inflation, but now balancing that with the first sharp tremors of the aggressive interest rate hikes the central bank approved last year.

Last week's sudden collapse of Silicon Valley Bank is not expected to prevent the Fed from continuing to raise interest rates at its March 21-22 meeting, with inflation still well above the Fed's 2% target and Fed Chair Jerome Powell indicating that monetary policy may need to be even more aggressive.

But it could add a dose of caution to the policy debate and undermine the feeling, common among officials so far, that the Fed's policy had not caused anything to "break" in an economy where spending and job growth have seemed immune to rate hikes.

New inflation data on Tuesday and retail sales data on Wednesday have the potential to push officials in any direction at the two-day meeting, which concludes on March 22 with a new statement and projections from the Federal Open Market Committee issued at 2 p.m. EDT (1800 GMT), and a press conference by Powell at 2:30 p.m.

While investors currently see lower odds of a return to higher rate hikes, there are still some doubts. Powell, in his comments to Congress last week, signaled that the new hike rate projections beyond March is likely to be higher than previously expected to slow inflation to the central bank's 2% target from levels more than double that.

Macroeconomic sentiment

The macroeconomic sentiment was strongly negative until the end of last week as investors digested Powell's aggressive policy comments and the collapse of Silicon Valley Bank. The fact that the SVB's fall coincided with the closure of another small bank midweek raised fears in the markets that this could be just the tip of the iceberg.

SVB (Silicon Valley Bank, the 16th largest bank in the US and the largest bank since the financial crisis) became the first banking bankruptcy since 2020 and the second largest bankruptcy recorded in the US last week. The fear is that the SVB situation - which sparked fears of stress in the banking sector - will trigger countless changes in business and markets in the coming weeks, months, and years.

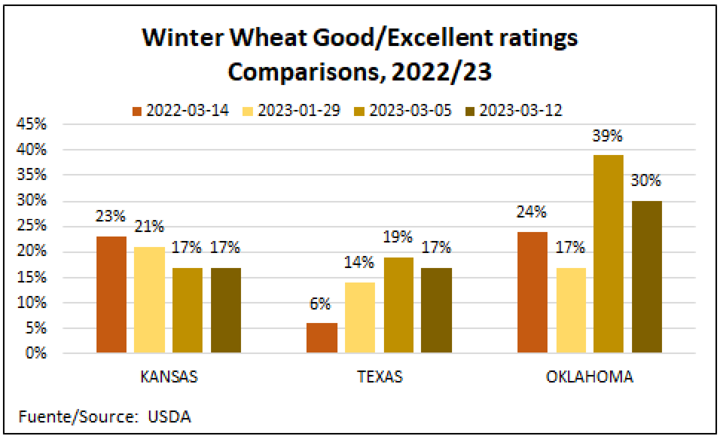
The market will continue to pay close attention to US-China relations, the Argentine climate, Brazilian logistics (if they get a record harvest from the country), and the climate/area of the US. At the same time, considering that Brazil is already becoming much more competitive than the United States.

The market is attentive to events in South America at this stage of the year as they enter their 2022/23 harvest, and are significant players in the global market along with the United States.

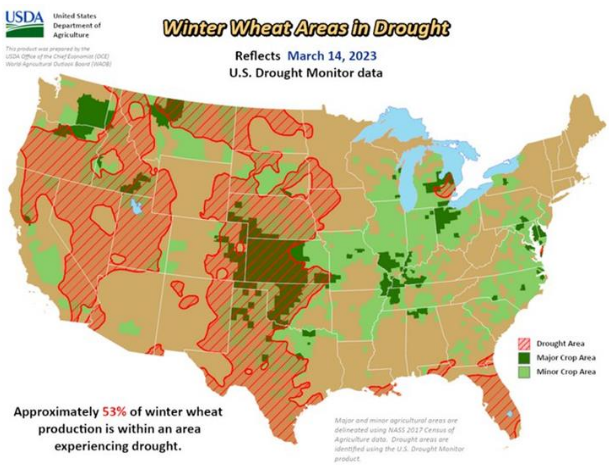
WHEAT

There was a slight pause in the decline of wheat prices in Chicago this week. It's important to note that the cereal has been in a downward trend since October of last year. Attention should be focused on the 2023/24 Northern Hemisphere campaign, which will generally indicate the state of the world wheat balance sheet. In the United States, the weather situation is being closely monitored.

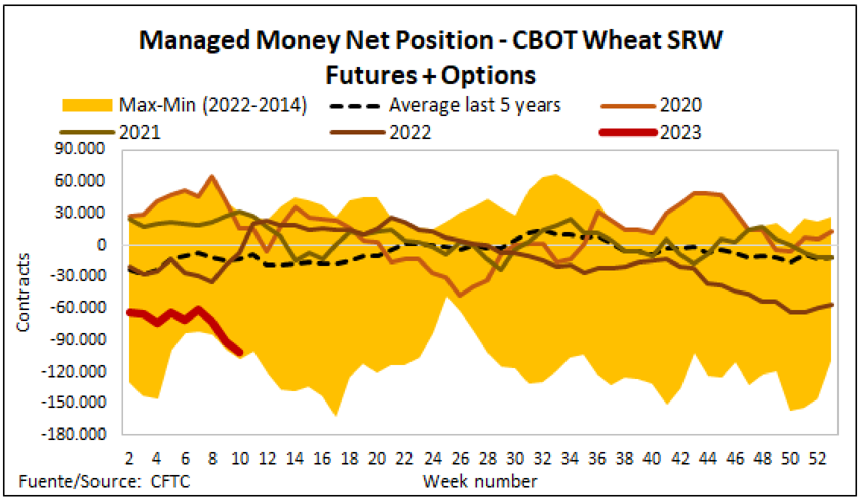
On Monday, the USDA rated 17% of winter wheat in Kansas - the main producing state - as in good to excellent condition, unchanged from the previous week. Approximately 53% of the US winter wheat area is produced in an area currently experiencing drought, the USDA said last week, up from 54% the previous week but down from 69% at the beginning of the year. In Kansas, topsoil moisture was short to very short in 66% of the state, up from 64% the previous week, according to the USDA.



For Oklahoma, the USDA rated 30% of the winter wheat crop in good to excellent condition, a decrease from 39% last week. For Texas, 17% of the crop area was rated as good to excellent, down from 19% the previous week, and 50% was rated as poor to very poor, unchanged from a week ago. Compared to the previous year, there is generally a better situation for the main winter wheat-producing states, except for Kansas which is still more affected this year.



On the other hand, the fund positioning data is information that the market was waiting for, after significant delays in the publication by the CFTC due to a virus that affected its computer systems. It is remarkable the abrupt increase in net selling positioning of funds in CBOT wheat futures and options until March 7th. According to the latest data, net sales amount to 100,636 contracts, being the most important bearish positioning since January 2018.



The market began to discount that U.S. wheat was expensive compared to other origins, which is reflected in the evolution of external sales and exports. At the same time, a production rebound of 2023/24 wheat in the United States is approaching, something that the market is also analyzing. The key support will be the production of spring wheat, as winter wheat would not see a significant improvement from last year's severe drought.

European Union

According to FranceAgriMer, 95% of France's winter wheat is considered good to excellent, unchanged from last week thanks to recent rains, although they were considered insufficient. The winter barley crop index in France has decreased by one point to 92%. Spring barley planting is already complete.

FranceAgriMer has left its estimate of third-country wheat exports unchanged at 10.45 million tonnes this month and revised its estimate of EU exports to 6.51 million tonnes from last month's forecast of 6.59 million tonnes. Ending stocks are slightly revised upwards to 2.51 million tonnes from 2.46 million tonnes.

Brazil

With record wheat production, Brazil could become the tenth largest wheat exporter in the world.

Official estimates indicating that Brazilian wheat production could set a record have offset the lower supply in Argentina, which is Brazil's number one supplier. In addition, the larger crop is favoring wheat exports, which are expected to increase compared to the previous season and make Brazil the tenth largest wheat exporter in the world.

In Brazil, the season ended in 2022 and Conab estimated production at 10.55 million metric tons, a record, with a projected productivity of 3.4 tons per hectare and an area with wheat crops of 3.08 million hectares. This productivity is the highest ever recorded in Brazil. Conab estimates that between 22/08 and 23/07, Brazil will import 5.8 million metric tons and export 3.1 million metric tons; if confirmed, the exported volume will be 1.8% higher than the previous season.

Black Sea

When analyzing the situation in the Black Sea region over the past few months, it is evident that it is putting pressure on prices. One noteworthy factor is that, in the current season, Russia partially changed its export seasonality, starting with low shipment volumes, which then accelerated towards the end of the year. In February, logistics faced difficulties due to storms in Novorossiysk, one of Russia's most important ports. For the month of March, private consultants estimate that Russia will flood the wheat market with 4.2 million tonnes, which would be double the amount compared to the same month last year. In seasonal terms, between July and March, Russia would have placed 32.1 million tonnes of wheat, a volume close to the maximum of the last four seasons. For the remaining months from April to June, it is likely that the country will continue to export strongly.

Lastly, another factor weighing on the market is the recent confirmation of the continuity of the Black Sea Grain Initiative, which was due to expire on March 18th. However, negotiations are still ongoing, as Russia agreed to a 60-day extension and Ukraine seeks to reach a longer period. On the Russian side, they demand that international commercial sanctions be lifted, a topic that the United Nations agreed on in order to ensure global food security. More news on the progress of this negotiation, which affects one of the main grain-exporting regions worldwide, is expected next week.

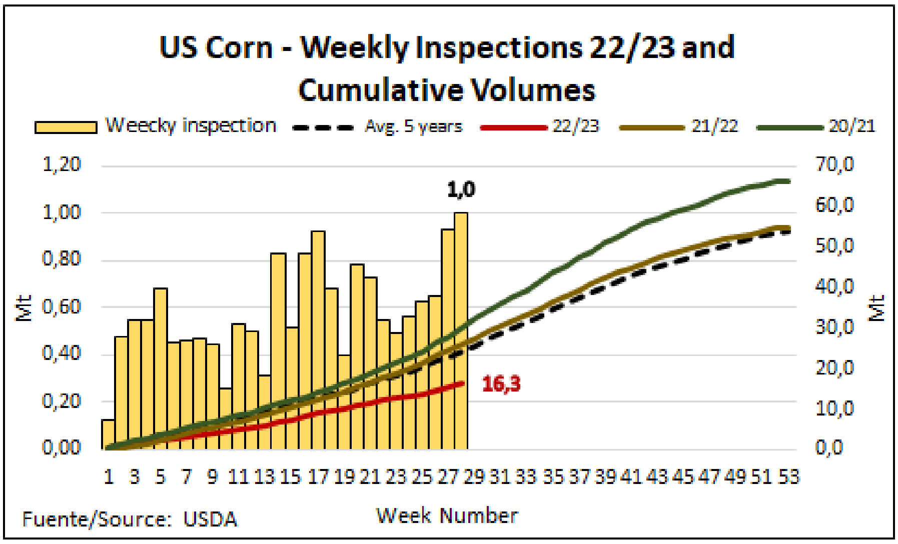
Recommendations

Bulls continue to point to the uncertainty in Ukraine and poor winter wheat crop conditions in some key US growing regions. Bears point to record crops in Russia and Australia, and some sort of agreement likely being reached with the "grain corridor" involving Ukraine. The strength of the US dollar and rumors of a global recession give funds a bearish inclination towards commodities, making it difficult to sustain significant rallies. Without a real growth driving demand story, and funds not overly excited about holding commodities, it's hard to be bullish long term. Yes, I think there are some weather and war "wild cards" that could turn things around in the next 90 days and cause bullish momentum.

CORN

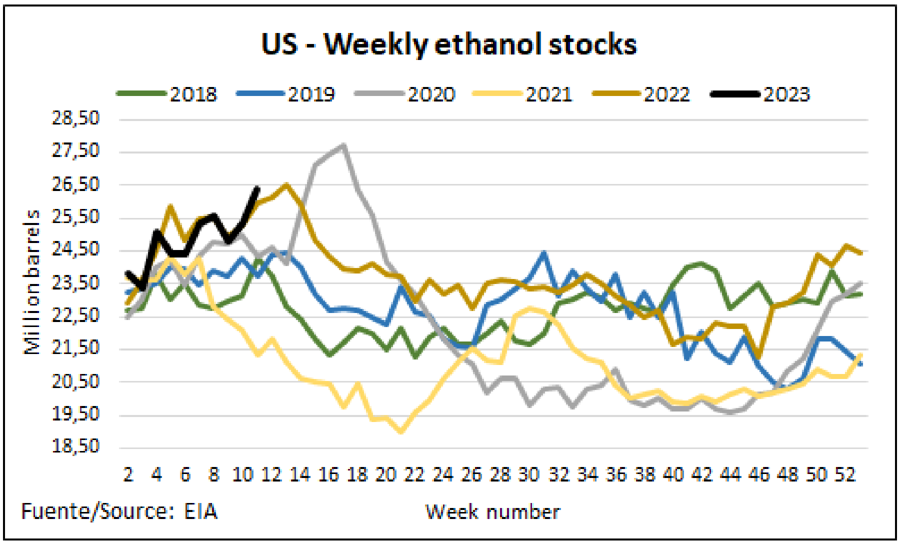
Like wheat, corn also saw cuts in price declines this past week. The main bullish factor in recent days was the strong rebound in demand for U.S. corn from China, with purchases of 2.11 million metric tons in four days according to USDA data. This also marks that the Asian country waited for a significant drop in prices to strategically start its purchases.

Weekly export inspections are growing each week, which should not come as a surprise, as this time of year Brazil exits the market and the United States begins to supply heavily. In February, Brazilian corn exports to China were only 70,000 tons, with grain shipments more concentrated on the new soybean crop. Currently, the United States has export inspections of 16.3 million metric tons, with shipments continuing to accelerate in the coming weeks and perhaps reducing the year-on-year drop in exports.



The high ethanol margins in the US continue to boost biofuel production in 2023, although production levels are still slightly below average but constant. As of March 14, average ethanol margins in the corn belt are at US $0.54/gal, a 9-year high.

With lower domestic demand in the US and an expected increase in US corn supply for 2023/24, corn prices have lost pressure, which is likely to result in good margins for the ethanol industry. The four-week average of implied gasoline demand in the US increased 13% since late January but remains about 4% below "normal" levels for the date. Very similar to this point last year and well above 2021 levels. With demand that would have to be even stronger, ethanol stocks rose 6.5% in the last two weeks to 26.4 million barrels, the fifth-highest record in any week.



Fall in fertilizer prices in the United States

Nitrogen and phosphate prices continue to fall, with fertilizers under pressure from low demand and falling raw material costs after historic increases following last year's large-scale invasion of Ukraine in February.

Most nitrogen prices remain weak in the US as buyers delay spring purchases. Application is underway in the south, while the corn belt is awaiting warmer weather. China is increasing spending on agricultural policy to get more production, and fertilizers are key. Domestic reserves and urea production rates are increasing as the local producer expects a bumper crop.

US ammonia prices are falling again, while urea remains weak. Ammonia producers cut prices from Midwest terminals once again to stimulate purchases for the spring season. New prices in the Corn Belt fell to $670-750 per short ton (st) from the previous $725-850, depending on location, and offers in the Southern Plains fell $15/st to $585-610. Urea prices also softened in New Orleans (NOLA) and inland, while news that India would limit urea purchases to 1.1 million metric tons (mt) in its latest tender, at prices of $243/mt and below its previous tender, caused additional declines in China, the Middle East, and Brazil.

The delay in spring application continued to pressure phosphate and potash prices in the US interior, although barge prices in NOLA rose slightly for potash during the week. Urea ammonium nitrate (UAN) also rose in NOLA, while UAN prices inland were mixed.

Brazil

Brazilian farmers are expected to produce the highest volume of corn in history despite risks associated with delays in planting in some areas. Total corn production in Brazil will reach 126.63 million tons in the 2022/2023 cycle, up 11.93% from last year, according to a Reuters survey of 12 consultancies. The potential increase in Brazil's corn production is due to a larger planted area (up 4.4%) and the expectation of higher yields.

Meteorologists said the outlook remains positive despite ongoing delays in planting the country's second crop corn, which is planted after soybean harvest in the same areas. It is key as it represents 70-75% of the national cereal production. Late planting means a greater risk of adverse weather events before harvest. The overall optimism comes from good prospects for second corn in Mato Grosso, Brazil's largest agricultural state.

The spot price of granular potash CFR Brazil, a benchmark for potash fertilizers, fell 4.17% to $460/mt in the week ending March 10, according to Bloomberg data. In the last month, there has been a drop of 8.46% and 13.2% in the last 3 months. The price of corn, a driver of fertilizer purchases, decreased 4.2% in the last week and dropped 9.6% in the last month.

Recommendations

Bulls are pointing to another large export sale of US corn to Chinese buyers. Bulls are also pointing to ongoing production uncertainties in South America and export uncertainties involving Ukraine. On the other hand, bears are pointing to a large drop in crude oil prices, an accumulation in ethanol inventory, further comments on global economic weakness, and a stronger US dollar. Optimists believe that US new-crop corn acres could be smaller than currently forecasted, especially in states like Minnesota and Dakota where early spring conditions could be too wet in some fields.

Technically, we have a psychological downside support around the $6.00 level and a more significant downside support at the contract low registered on July 22nd at $5.73. On the upside, bulls would like to see this market close back above the $6.40 level, and then perhaps make a run towards the major moving averages.

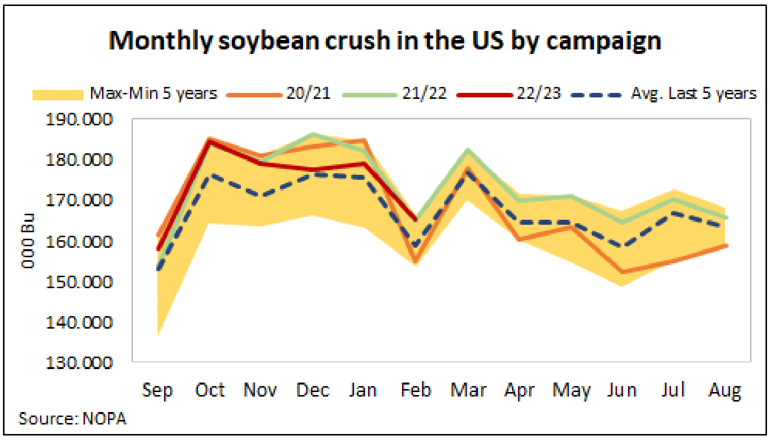
SOYBEANS

Soybean in Chicago showed certain signs of weakness this week. The instability in the international financial system generated a widespread aversion to risk, hitting crude oil early in the week. This had an impact on soybean with a 1.54% drop on Monday (13), while the following days maintained some stability but without the strength to continue rising.

Regarding demand factors in the United States, weekly external soybean sales were in the expected range and close to the upper limit with 665,000 tons, although the distance from the volumes sold last year is slightly widened, with a year-on-year drop of 8% so far.

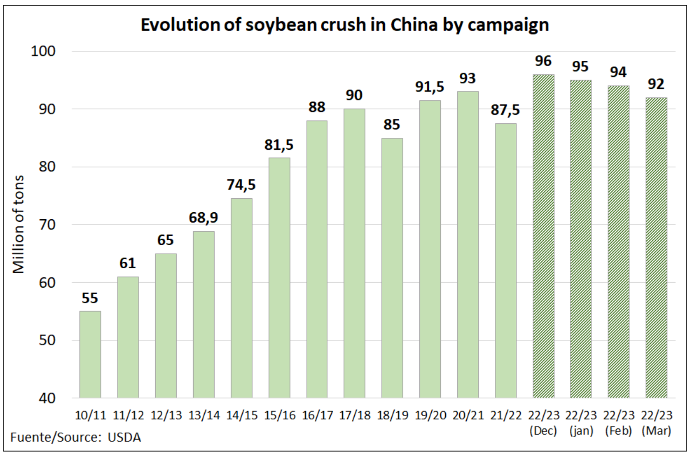
At the local level, on Wednesday (15), the National Association of Oilseed Processors (NOPA) published crushing data in the United States. US soybean processing was slightly below commercial expectations in February, although the average daily processing rate was the highest recorded for the second month of the year.

NOPA members, who represent around 95% of soybeans processed in the United States, processed 165.414 million bushels of soybeans last month, 7.6% less than the 179.007 million bushels processed in January, but 0.2% more than February 2022's processing of 165.057 million bushels. As for market expectations, the median of analyst estimates surveyed by Reuters was at 166.060 million bushels, a volume that was not achieved.



China

The soybean crushing projection for China's 2022/23 season was lowered by 2 Mt this month to 92.0 Mt due to a slower crush pace to date. According to available information from China's National Grain and Oils Information Center, the USDA estimates China's crushing from October to February will be just over 35.0 Mt, only 1.1 Mt more than in the same period in the 2021/22 cycle. Thus, since December, the USDA has been lowering its optimism for China's soybean crushing and has already cut it by 4 Mt.



Last month, China's national production of soybean meal and oil was lowered to 72.9 million metric tons and 16.5 million metric tons, respectively, due to lower soybean consumption in the pork and poultry sector than expected. This week, a significant outbreak of African Swine Fever was reported, which will result in reduced meat production and demand for feed. Analysts estimate that 10% of the production could be affected.

Brazil

Regarding progress in commercialization, forward sales of Brazil's 2022/23 soybean crop reached 33.8% of the projected harvest of 153 million metric tons, well below last year's 46% and the five-year average of 51%, according to market analysts.

FOB soybeans prices in Brazil fall to almost 14-month lows.

Participants attributed the bearish situation mainly to the historically large Brazilian soybean crop. Despite some harvest delays caused by rain in recent weeks, the country is still on track to produce a record 153 million metric tons of soybeans, 18% more than the previous year, according to the latest USDA estimate.

Farmers' sales pace has improved recently in response to the strength of the U.S. dollar against the Brazilian real and the need for producers to make space in their stores for the coming months, when the winter corn crop will be harvested.

Spot demand for Brazilian soybean supplies has been relatively low in domestic and export markets, further pressuring immediate premiums.

Chinese importers have already secured all their soybean needs for March, three-quarters for April, and a little over 50% for May, according to market sources' estimates. With most of their near-term demand commitments covered, there is no real rush for new Brazilian shipments.

The fall in domestic soybean meal prices and negative milling margins have also discouraged additional purchases by Chinese buyers.

Argentina

The soybean crushing factories in Argentina are operating at the lowest capacity in history due to the impact of a severe drought, the leader of the country's top grain processing chamber said on Wednesday. Argentina, the world's leading exporter of soybean meal and soybean oil, is likely to have a soybean production of 27 million tonnes this season, the lowest in almost a quarter of a century, as a result of the shortage of rain and high temperatures. On our side, we are seeing soybean meal production below 25 Mt. In 2022, exports from the complex, Argentina's main source of foreign currency, totaled US $18.519 billion.

Argentina is facing its worst drought in 60 years and the highest temperatures since the 1900s, resulting in early frosts that have further worsened the farmers' situation. This is causing the country's economy to contract, with analysts revising their 2023 GDP forecast to -3.1%. Monthly inflation has also increased to 6.6% month-on-month in February.

The drops in yields and low soybean production in Argentina due to the drought continue to surprise us. The last 15 days in the core zone were very complicated and difficult for crops, particularly soybeans. As we have already mentioned in this report, soybean production in Argentina and the market are seeing production below 25.0 Mt.

Some key facts from the latest USDA Report

Argentina's soybean production was revised from 41 to 33 million tons, a figure that was below market expectations. Soybean crushing for Argentina fell from 37.3 million to 35.25 million tons, and soybean meal exports were 25 million tons compared to 28 million tons in the 2020/21 season. Brazil can cover part of the soybean meal demand that will be lacking in the market, but not all of it, as well as the United States, which is where the soybean meal balance becomes increasingly tight.

Brazil's 2022/23 soybean production, on the other hand, remained at 153 million tons, and exports were revised upward from 92 to 92.7 million tons according to USDA data.

Regarding China, the USDA brought a slight decrease in its estimate of the country's soybean production from 20.33 to 20.28 million tons, while imports are still estimated at 96 million tons.

Thus, global soybean production fell from 383.01 to 375.15 million tons, while final stocks fell from 102.03 to 100.01 million tons.

Sunflower Oil Imports from India

India is likely to import 1.5 million tonnes of duty-free sunflower oil during the current fiscal year ending March 31, according to trade and government sources, half a million tonnes less than the government-assigned quota. Of this total, India has already imported 1.3 million tonnes, leaving 200,000 tonnes to be imported.

India, the world's largest importer of vegetable oil, buys sunflower oil from the Black Sea region which accounts for 60% of global production and 76% of exports.

The lower imports reflect traders' growing concerns over securing deals to import large volumes of cooking oil from Russia and Ukraine. A recent increase in shipping and insurance costs from the Black Sea has also deterred buyers. There has also been a shortage of availability of sunflower oil from other origins such as Argentina.

Recommendations

The global soybean market continues to be supported by a combination of weather dynamics/harvest progress in South America and export/import complexities involving the competition between the US and Brazil for soybean shipments to China amid a strong recovery in demand.

The short-term direction of the market is likely to be dictated by the supply side of the equation: the main focus will be on how much production loss in Argentina will be offset by Brazil's record production amid harvest delays and unfavorable weather conditions at the end of the season.

Commodity markets are also being affected by the financial crisis linked to the collapse of SVB bank. Traders are reducing their exposure to all products in a context of risk aversion.

China's strong post-COVID-19 demand recovery and recent internal restrictions are making the US and Brazil compete to export soybeans to China amid a strong dollar environment.

SOFT COMMODITIES

Unrefined sugar for May delivery SBc1 rose 0.26 cents on Thursday (16) or 1.3% to 20.76 cents per pound. Over the last week, there was a decline of 1.84% which partially cuts into the significant increases recorded by sugar since November of last year. Overall, the market continues to receive support due to concerns over the decrease in production prospects in countries such as China, India, Thailand, and the European Union. Speculative funds are raising their long position in sugar contracts, which mainly influences price trends. In the last week until March 7, the net bought position increased by 8,629 contracts to 151,779.

On the other hand, distributors also pointed out that delays in shipments from the Brazilian port of Paranaguá could interrupt the flow of sugar and soybeans, providing support for prices.

Arabica coffee for May delivery KCc2 rose 7.45 cents on Thursday (16), or 4.3%, to $1.8005 per pound. This implies a weekly increase of 2.85%. It is noteworthy that coffee started the week weak, and this significant daily increase on Thursday was very important. Traders said that the supply was expected to remain scarce until the Brazilian harvest begins next month.

On the other hand, US green coffee stocks fell by 159,994 bags to 6.1 million 60-kg bags at the end of February, their lowest level since the end of June, according to data from the Green Coffee Association.

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