Weekly report - May 5, 2023

Market Highlights

- Traders are awaiting the new USDA monthly supply and demand report for May 12, which should bring the first projections for the 2023/24 crop.
- The Federal Reserve raised interest rates above 5 percent for the first time since 2007.
- The commodities market is under very strong downward pressure, although this week ended with rises in prices.
- Soybean gains are limited by slowing export demand, as a record Brazilian soybean harvest floods the market.
- Favorable winter wheat harvest rains and poor export performance from US origins are weighing on the market.
- Delayed US exports have also impacted corn, as well as the prospect of drier, warmer weather for planting in the central Corn Belt.
- In March 2023 in the US, 5.94 million tons of soybeans were crushed compared to 5.31 million tons in February 2023 and 5.79 million tons in March 2022.
- US corn planted is at 26% (expected 27% with a range of 22-35%). Last week 14%, last year 13%, average 26%.
- US soybeans planted is at 19% (expected 17% with a range of 15-22%). Last week 9%, last year 7%, average 11%.
- Shortages are driving up urea and potassium prices in the US.
- StoneX released its total corn production projection for Brazil in 2022/23, which should reach a record of 131.59 million metric tons.
- Brazil's soybean harvest is 93.7% complete.
- Brazil's record soybean harvest has created many logistical problems that have led to a sharp drop in premiums.
- The EU bans the import of four Ukrainian agricultural products to EU bordering countries until June 5th.
- Russia claims that Ukraine attempted to attack the Kremlin with a drone overnight.
- Talks on the grain agreement between Russia and the UN are scheduled for Friday as tensions escalate.
- The International Monetary Fund (IMF) raised its economic forecast for Asia, as China's recovery supported growth.
- Egypt's GASC buys 655k of wheat, paying $19/ton less than the previous tender.

Weekly market summary

Week marked by volatility and uncertainty in the grain market. On Thursday (27) and Friday (28) prices had plummeted and technical rebounds were expected. Despite not very positive signals in general, the prices of the main commodities managed to improve and deepen increases at the end of the week.

In the wheat market, the cereal fell to lows not seen since mid-2021 on Tuesday. Technical indicators showed oversold conditions, and market operators reacted with strong buying opportunities on Wednesday (3) that extended until Friday (5). However, this does not mean that the market trend has been reversed, but the tension between Russia and Ukraine may be a factor that supports prices until there is some resolution. On the other hand, a large supply of wheat is expected in the European Union and North America, while Russia will start with high stocks. At the same time, the new tender of the GASC of Egypt sets the pulse of the market and closes with increasingly lower prices. Regarding the outlook for the 2023/24 campaign in the southern hemisphere, Argentina and Australia are about to enter the sowing period. In the case of Argentina, the situation of water reserves is worrying, which is not allowing planting, coupled with projections of rain that would have to be much more positive for the situation to improve. In the case of Australia, it begins with adequate reserves, but rain projections are very bad given that we are entering a Niño scenario and producers will plant less. In general, we see good supply at the beginning of the 2023/24 campaign in July, and supply problems could come more towards the end of the year with Australia/Argentina. Wheat on CBOT closed Friday at US $243.26/ton, a weekly increase of US $9.76/ton.

Corn prices have been experiencing significant weakness since mid-April, and with a sharp drop on Friday (28) affected by cancellations of purchases from China and also bearish pressure from negative premiums in FOB prices with origin in Brazil. This week, it was difficult to continue breaking new lows in prices because technical indicators are very saturated. One factor that limited the declines was the greater tension in the Black Sea region from Wednesday (3), a fundamental that allowed a rebound in prices. As for the United States, demand indicators are not convincing. The market will be attentive to the next monthly publication of the USDA; there should be some news. The demand for corn for ethanol remains stable, but it is not enough to respond to the expectations that the USDA expects. On the side of corn export sales, this week reflected the cancellations made by China on April 27. This is important because this time of year (approximately from February to June) is usually when the United States is the main exporter in the world market. Corn ended the week at US $234.83/ton, a weekly rebound of US $4.5/ton.

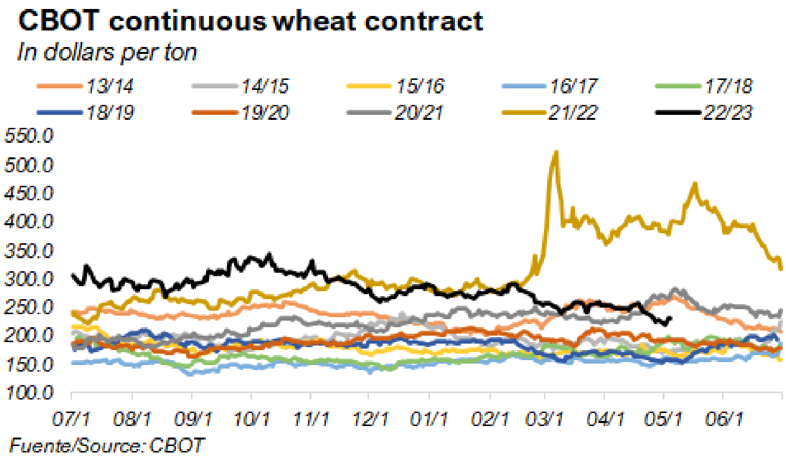
The soybean market traded sideways this week and rallied strongly on Friday, resulting in a positive balance for the week. Weekly exports reached 289,730 tons, within the range expected by analysts, while planting progress showed an advancement over 19% of the estimated area, above recent years. The oilseed is still heavily influenced by the Brazilian harvest and export sales, which, although within the expected range, are low volumes, with cumulative sales below the average of the last 5 years. On the other hand, the USDA expects a record soybean crush this season, and the accumulated amount until March is below last year. China is heavily focused on buying soybeans from Brazil, reducing demand for the United States, which puts downward pressure on prices. Soybeans ended the week at US $528.12/ton, a rebound of US $6.34/ton. Meanwhile, soybean meal finished with a weekly decline of US $6.3/short ton to US $426.1/short ton.

WHEAT

The wheat market experienced a week of strong price volatility, with the JUL23 contract on the CBOT reaching a low not seen since April 2021 on Tuesday (2). Technical indicators showed oversold conditions, and market operators responded with strong buying opportunities from Wednesday that extended through to Friday. However, this does not mean that the market trend has been reversed. A large supply of wheat is expected in the European Union and North

America, while Russia will begin with high stocks. At the same time, the new tender from GASC in Egypt sets the pace of the market and closes with increasingly lower prices.

On the other hand, the conflict between Russia and Ukraine escalated during the week, which also contributed to reversing the downward trend. Russia claimed that Ukraine attempted to attack the Kremlin with a drone during the night, and geopolitical tensions increased. On Friday (5), a meeting was scheduled between Russia and the UN to continue negotiations and try to reach an agreement before May 18, the deadline to achieve an extension of the safe grain corridor.



Global market

Egypt → Recently purchased 655,000 tons of wheat from Russia and Romania for delivery in the coming months. The price reached US $276/t for discharge in June and US $270/t for July. The speculation of the week was that it could have been done at a price as low as US $255-260/t. Finally, this did not happen and was a factor that limited the cereal's decline.

Russia → As of April 1st, Russian total wheat stocks amounted to 27.6 million metric tons (MMT), according to Rosstat data processed by SovEcon. The numbers are record-high for the beginning of Q2 and exceed the five-year average by 79%. The stocks have significantly surpassed the average due to the record-high wheat crop and relatively sluggish exports.

The key factor contributing to the accumulation of stocks was the record-high crop of 2022. Rosstat estimates the Russian wheat crop at 104.2 MMT, which is 32% higher than the five-year average.

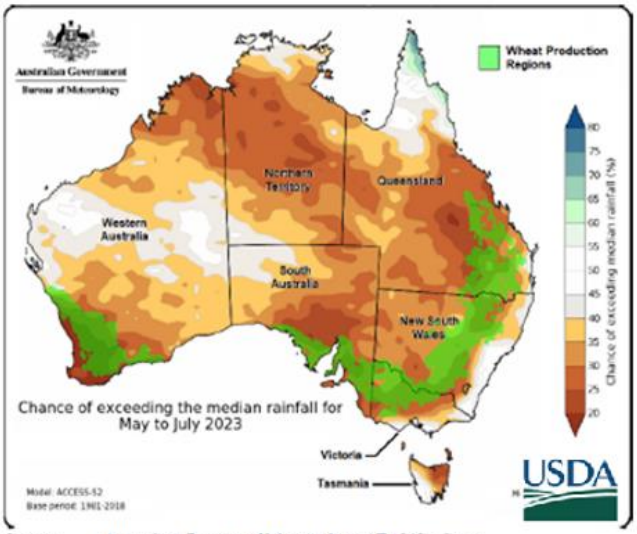
Export volumes during the 2022/23 season (July-June) did not match the major crop. Due to unfavorable weather, high freight rates, strengthening of the ruble, and export taxes, the export pace exceeded the average numbers only by February.

SovEcon estimates Russian wheat exports in July-March at 33.8 MMT, which is 10% higher than average. Overall, SovEcon expects Russia to export 44.4 MMT of wheat during the 2022/23 season.

Australia → After a record winter harvest in the 2022/23 marketing year, Australia is expected to produce a more moderate but still strong grain harvest in 2023/24. The area sown with winter cereals is expected to be lower, but the main factor being considered is the impact of below-average rainfall forecasts in late autumn and winter months. Wheat and barley exports are expected to decrease in the projected year from historically high volumes due to the forecast of reduced production.

USDA FAS/Canberra predicts that wheat production will decrease significantly to 29 Mt in 2023/24, a drop of 10 Mt between seasons. Soil moisture conditions in wheat-producing regions are mostly good, but rainfall prospects for the critical period of May-July are very poor.

Australia – Rainfall Forecast Map May-Jul 2023



Source: Australian Bureau of Meteorology / FAS/Canberra

Argentina → In April, the rainfall anomaly according to the Climate Prediction Center (CPC-NOAA) shows that precipitation was between 30 and 90 millimeters less than usual throughout the wheat region, from northern Argentina to the southernmost tip of Buenos Aires. While for May, forecasts do not indicate that the low rainfall of April will be compensated for. This means that planting will have to be done without optimal reserves, which reduces yield potential from the start, and even though indicators suggest that El Niño is coming, it does not necessarily mean that it will suddenly rain enough or above average.

With the driest scenario in the last 15 years, wheat planting would decrease in Argentina's core region. The campaign starts with a much drier scenario than May 2009. The lack of water in the region is a major concern as conditions are not suitable for planting. If the projection comes true, planting would be at levels similar to those before 2016.

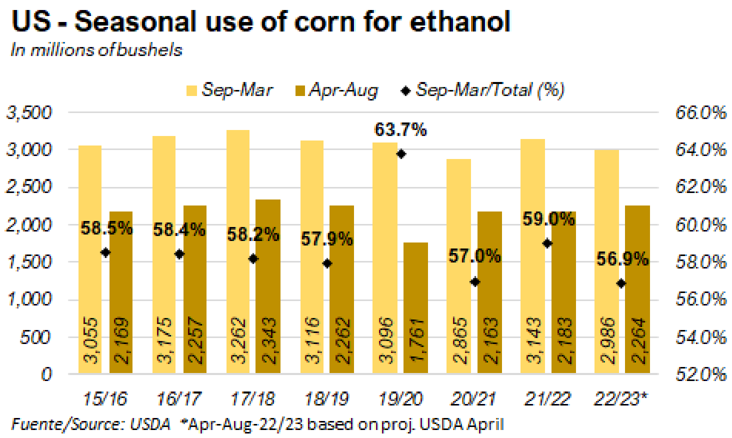
Recommendations

In the wheat market, bears made some short covers due to the tension between Ukraine and Russia and the fall in production in Oklahoma. However, the report of a drone attack in the Kremlin increases uncertainty and concern that Russia will not renew the "grain corridor" agreement with Ukraine. The weather is a bit bearish, but some investors are stepping back due to the first HRW crop tours in the southern plains. Wheat bulls are happy to see some short covering this week due to the intensification of tensions between Russia and Ukraine. As a speculator, some long positions were opened and the recent short covering was used to make a profit. As a producer, patience is being exercised in fixing prices for more bushels of the new crop. In summary, the market was oversold, and a short-covering rally was expected based on weather or war headlines. As a producer, it is also important to have a written plan BEFORE entering into trading positions and to know oneself to avoid impulsive reactions.

CORN

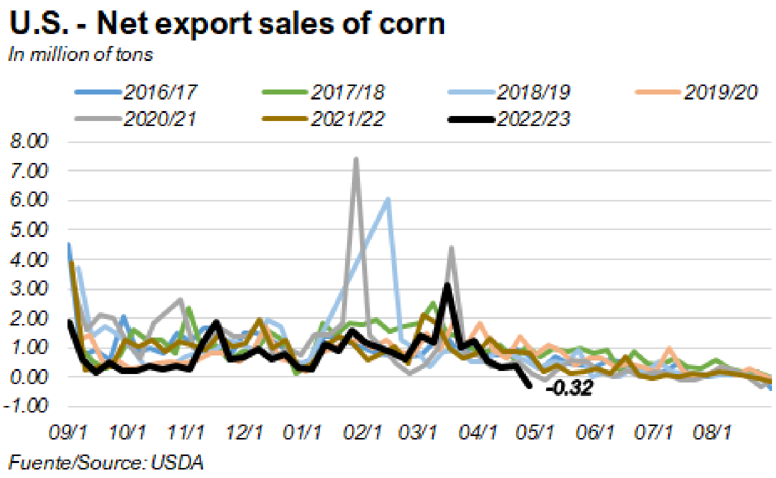
Corn prices have been experiencing significant weakness since mid-April and with a sharp drop on Friday (28) due to canceled purchases from China and also bearish pressure from negative premiums in FOB prices originating in Brazil. It was difficult to keep breaking new lows in prices this week because technical indicators are very oversold. A factor that limited the declines was the increased tension in the Black Sea region starting on Wednesday (3), a fundamental that allowed for a rebound in prices.

As for the United States, demand indicators are not convincing. The market will be watching for the next monthly USDA publication, which should have some news. Corn demand for ethanol remains stable, but it is not enough to meet USDA expectations. Last week, data on corn usage in fuels was released, and from September to March, 2.986 billion bushels of corn were used to produce ethanol. The USDA did not change its projection of 5.25 billion bushels for the entire 2022/23 marketing year. This means that 56.9% of the total was used, a very low percentage compared to recent campaigns. Between April and August, usage should be 2.264 billion bushels, a record since the 2017/18 marketing year.



On the side of corn export sales, this week reflected the cancellations made by China on April 27. The United States had not recorded negative net corn export sales for April in at least the past 20 years until last week when China canceled eight shipments. This is significant because this time of year (approximately February to June) is usually when the United States is the top exporter in the global market.

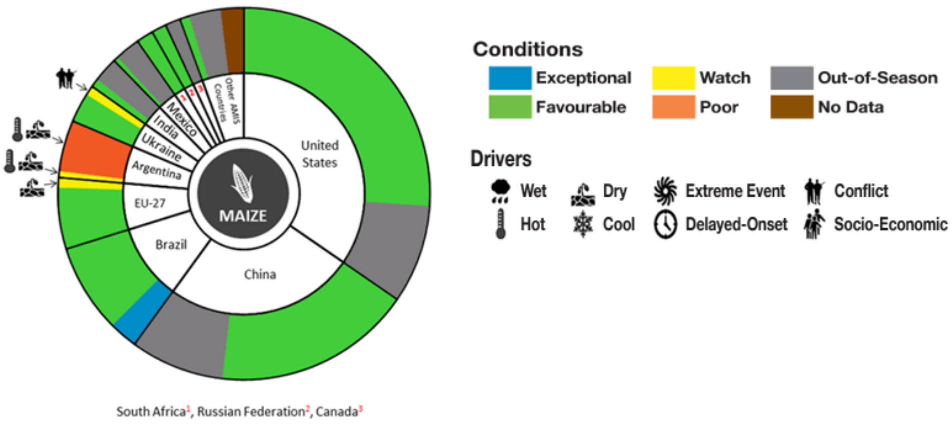
The total commitments for the United States are 38.13 million tons, a 35% year-over-year drop. The USDA projects exports of 46.99 million tons in the 2022/23 campaign ending in August. That is, 81% of what was projected has been committed, while the average for the last 5 years at this time of year is 94%. To reach these levels, 6.1 million tons would have to have already been sold above the current volume.



Global market

The production situation appears very favorable overall, except for Argentina which is experiencing a historic drought that is affecting its corn production for 2021/22. The late corn harvest will reach the market in July, considering that bad weather conditions caused 80% of the corn to be planted late. In the case of Brazil, the crop status is between favorable and exceptional, early corn is being harvested while the second corn is currently in vegetative reproductive stages under favorable conditions and will also be harvested towards the middle of the year, with prospects of a large harvest that will pressure prices.

Corn – Crop conditions according to selected regions and countries



Fuente/Source: AMIS

Then, the EU and the United States are in the period of planting for corn 2023/24. In general, the progress is very favorable, except for Spain and the north of Italy, which are experiencing a significant drought. Finally, in Ukraine, plantings are also starting favorably in regions far from the war.

The corn export window of Brazil is very likely to overlap with the soybean export window in the second half of the year, which could create logistical and supply problems due to lack of storage space and delays in shipments.

Brazil's record soybean harvest has created many logistical problems that have caused a sharp drop in premiums. In the months of June, July, and August, which are usually the key months for corn exports, the transition is expected to not be as smooth this year, which could create problems for ports and logistics. In addition, demand is low and corn prices are falling, with some future months already in negative territory and premiums collapsing.

Recommendations

There are concerns about supply and demand, as exports and ethanol are decreasing, while supply seems to have stabilized after the crop failure in Argentina and production in Brazil. Corn planting in the United States appears to be in line with historical averages, but there are concerns about the weather in northern states and the conflict in Ukraine. Prices have been in a downtrend and war and weather headlines are expected to be the driving force for a significant market change. We think bulls need to find a new catalyst to reverse the current trend.

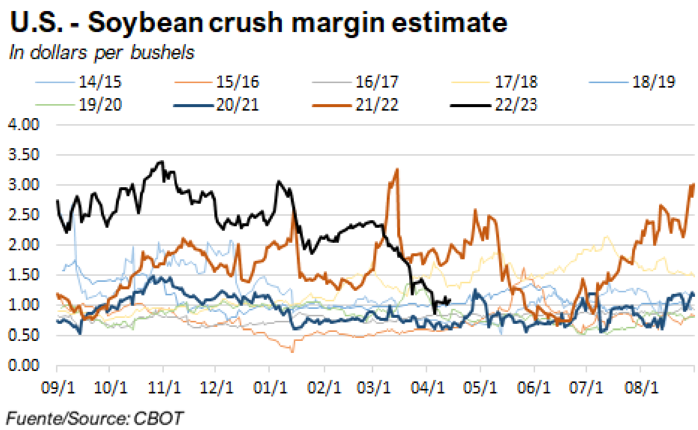
Regarding old crop JUL23 corn, prices are trading well below their major moving averages after making a new one-year low this week. But when looking at the 20-year chart, things don't look so bad. The $6.00 level seems to be a nearby resistance in the JUL23 contract and the $5.50 level should act as resistance for the new DEC23 crop.

SOYBEANS

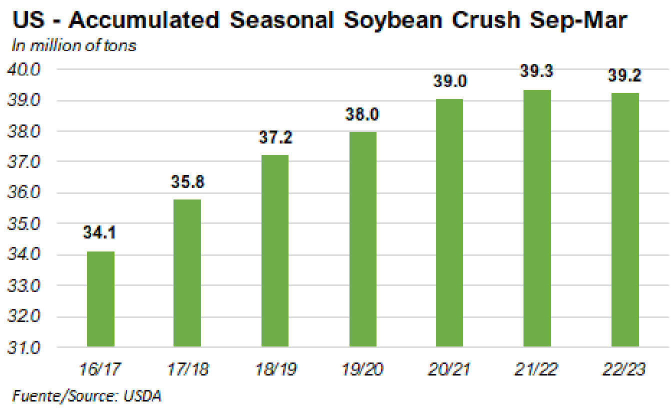
The soybean market traded sideways this week and rallied strongly on Friday, allowing for a positive balance for the week. Weekly external sales reached 289,730 tons, within the range expected by analysts, while planting progress marks progress on 19% of the estimated area, above the last few years.

The oilseed is still heavily influenced by the Brazilian harvest and export sales, which, although within the expected range, are low volumes, with cumulative sales below the average of the last 5 years. On the other hand, export sales of the new 2023/24 campaign mark progress of 1.83 million tons, while last year sales had already advanced by 11.1 million tons. This is explained by China's low demand for soybeans from the upcoming commercial campaign, as industry margins have improved but only for shorter shipments, while they remain negative for longer shipments. This point is important, as it incentivizes China to store as much soybeans as possible from Brazil in the short term and puts pressure on FOB export prices from the United States.

As for the domestic demand for soybeans in the United States, processing margins fell sharply last month, although this is not just a phenomenon in this country, something similar is also happening in Brazil, while in China they also fell but have at least recovered for the spot market.



For the current 2022/23 season, USDA projects a record soybean crush in the United States, but when looking at the cumulative data from September to March, soybean processing volume is below the previous year. The March crush data released last week was very high, related to high industry margins that no longer exist.

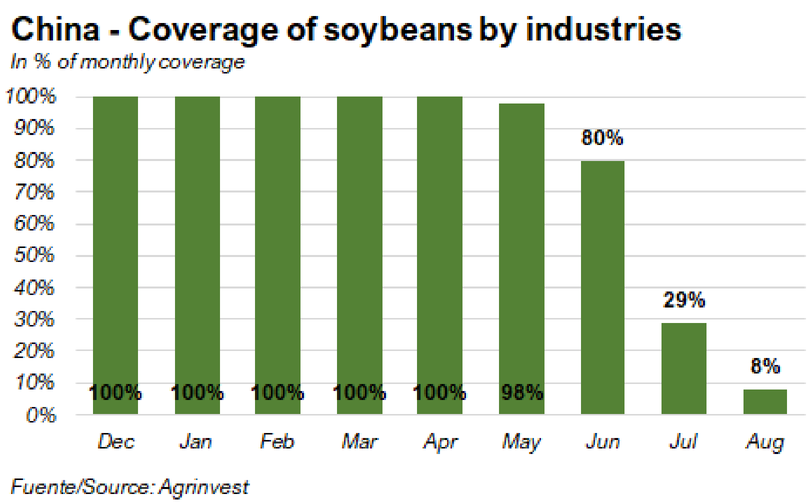


Global Market

China → Soybean and meal stocks in China have grown again after the lunar holidays. The maintenance of the shipping pace in the US and the drop in internal processing during the lunar holiday at the end of January boosted soybean stocks at Chinese ports in week 17 to a monthly high of 6.9 million tons.

However, the dynamics have changed again. Delays in soybean shipments from Brazil have depleted soybean stocks at Chinese ports, reducing processing and derivative supplies in the domestic market. Apart from that, factory coverage has grown rapidly in June and July, and meal sales in the Chinese market have accelerated in recent weeks. As mentioned earlier, margins in China have turned positive for the spot with the drop in the fixed price of soybeans CFR China, a $45 per ton drop just this month. This motivates the demand for soybeans, but traders have reported a lack of supply.

As for soybean coverage by Chinese industries, they have almost all of June covered and are moving forward with purchases for July/August. That is, we are close to the point where demand for new crop soybeans has to pick up in the United States, which is currently moving slowly.



Brazil → The sale of producers last week totaled 2.7 million tons, compared to 2.9 million the previous week. To reach the historical average of 65-70% by the end of June, weekly farmer sales must grow to 4 million tons per week for 10 consecutive weeks. Soybeans continue to lose value, and the producer continues to alternate between selling soybeans and corn, but the batch size is still very small.

Commercialization until last week reached 49%, behind the average of 55% but ahead of last year when it reached 43%. Assuming a harvest of 155 million tons and a seed consumption of 3.2 million, there are still 77 million tons to be sold. Last year, that amount was 70 million.

According to different analysts, in soybean trade between Brazil and China, exports are expected to concentrate in March and then gradually decrease. However, this year soybean flows are above the average of the last 5 years. China is the largest importer of Brazilian soybeans, and demand is expected to increase in the second half of the year, which could increase freight rates for bulk carriers operating between the two regions. Although animal feed costs have been high, pork prices are expected to rise in the coming months, which could incentivize the use of soybeans as animal feed again. Competition between Brazil and the United States to supply China in the second half of the year could create opportunities for ships operating between the two regions.

Recommendations

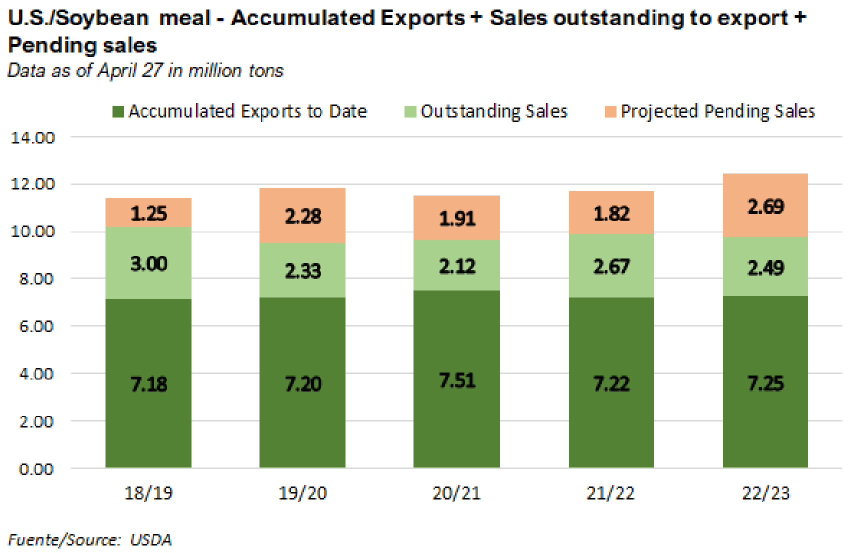
The soybean market has been affected by the fall in corn and wheat prices, which worries bulls who do not know if the recovery will be temporary or long-term. Technically, the JUL23 soybean contract is expected to trade between $13.80 and $14.40, while the NOV23 contract could trade in a range of $12.20 to $13.20. Although record production in Brazil has been harvested, its export prices remain lower than US prices. Demand for China's soybeans is uncertain and worries bulls, and production is expected to increase in the future. Regarding renewable energy demand, it may take longer to develop than many believe. Overall, producers should be patient and look to lock in prices on new batches

SOYBEAN MEAL

Soybean meals continue to fall in Chicago, with only a pause on Friday (28) and Monday (1) of this week. Technical indicators remain oversold, and the moving average convergence indicator continues to give a sell signal but is approaching a buy signal. Always thinking about short-term positions to try to obtain some technical rebound.

Regarding O&D fundamentals, we are approaching a new monthly report from the USDA, and the idea is to focus on how the main indicators are progressing to analyze whether any surprises can be observed in the balance sheets next Friday (12).

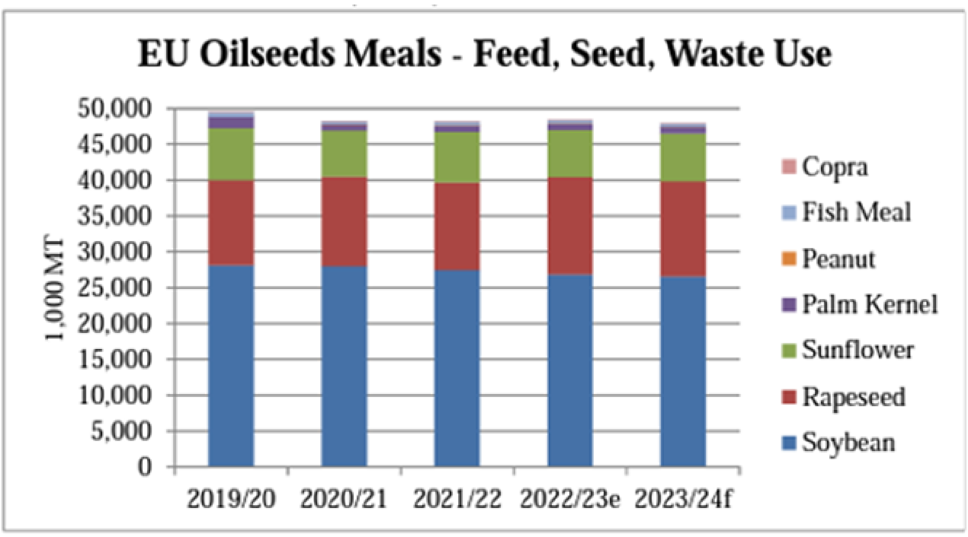
The soybean meal market is currently experiencing a lack of demand signals. Prices could potentially increase if export sales from the United States become more dynamic. According to data as of April 27, the United States exported 7.25 Mt, with 2.49 Mt already committed and 2.69 Mt needing to be sold in the next four months to meet USDA forecasts. This volume seems significant, but Argentina is actually exporting less. It is crucial to record higher external sales to confirm a more solid demand; otherwise, the market would seem well-supplied by other flours and make significant price increases difficult.



Last week, we showed that the European Union is demanding less soybean flour, while rapeseed flour imports increased by 39% compared to last year.

Regarding the 2023/24 campaign, this week the USDA published a report with projections for the 2023/24 oilseed market in the European Union. In general, it projects a slight increase in flour production, fewer imports, a drop in total consumption, and an increase in ending stocks.

The key point is that a declining livestock market is assumed, which will affect flour consumption in general terms. The following table shows the EU's demand for flour for animal feed, seed, and other uses. 47.9 Mt would be demanded, a minimum since at least the 2019/20 cycle.



e = estimate, f = forecast
Source: FAS EU

Finally, in South America, soybean factories in Brazil are slowly advancing with the crush, as margins fell with the decline in FOB premiums for flour and oil for shipments in July and August. If there are positive demand factors for the coming months, prices should rise to favor the crush of soybeans and exports. In the short term, we are still looking for a floor in the quotes but with attention to a possible technical rebound at least in the short term.

Brief commentary on fertilizers:

All at once, US fertilizer buyers are rushing for supplies. An increase in spring fieldwork and short-term demand has caused a shortage of fertilizer supplies in New Orleans and inland areas, contributing to higher prices for urea, phosphates, and potassium. The expected supply contract for potassium from China looks to be later and cheaper as domestic stocks build during the spring season.

The shortage is driving up prices for urea and potassium in the US.

Fertilizer prices in the US were mixed at the end of April, with supply shortages and logistical issues pushing up prices for urea and potassium, while prices for ammonia and urea ammonium nitrate (UAN) fell. As expected, the price of ammonia in Tampa for May fell again to $380 per metric ton (mt) cost and freight, compared to $435 in April. Urea in New Orleans (NOLA) was quoted in a wide range of $340-$450 per short ton (st) compared to $338-$390 the previous week, with the confirmed maximum at the end of the week, which led to a $50/st increase in urea prices in the corn belt. NOLA potassium remained firm at $380-$400/st compared to $370-$380 the previous week, but new business was limited due to a shortage of barge supply. Interior potassium also rose $10-$40/st, depending on the location. Phosphate prices rose in some inland markets as demand stretched supply, while UAN fell in the southern plains due to drought-related demand delays.

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