

GLOBAL STATE OF PLAY

Where we are & where we are headed for MY2023/24

TRANSITION CONTINUES: from supply chain concerns to demand unknowns in the midst of geopolitical tensions & a global recession risk

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KEY ITEMS – 2023 drivers + global landscape

1. Market structure – The M's: MM\$, momentum & money flows
2. Commodity prices bearish after early January highs and sharply lower vs this time LY
3. Global recession / economic headwinds
4. Freight – sideways despite “hype & hope” of China re-opening
5. Weather watch – from La Nina to El Nino
6. Geopolitics: RUS invasion + China vs U.S.
7. U.S. new crop (23/24) export sales books = problems
8. USD – hurdle for import countries correlated to USD
9. Wheat outlook : gauge values off corn values
10. Corn outlook – production recovers vs demand challenges

Market structure, momentum and market sentiment rule and rule the day CoT report – as of 16 May 2023. Rule: “don’t fight the flow”

05/09/2023 - 05/16/23

	Producer/Merchant		Swap Dealers		Managed Money			
	Net Position	Weekly Change	Net Position	Weekly Change	Net Position	Weekly Change	Record	
							Long	Short
GRAINS								
Corn	-117,725	-4,503	250,471	3,591	-91,985	17,658	429,189	-322,215
Wheat	17,826	-3,266	68,212	-438	-112,769	4,137	80,827	-162,327
Soybeans	-97,755	32,168	96,450	-2,001	23,942	-24,517	253,889	-168,835
KC Wheat	-34,854	-7,009	30,720	-218	16,593	9,147	73,111	-58,866
MN Wheat	-1,728	-4,794	1,432	62	-4,838	3,480	19,867	-25,401
Soybean Oil	-69,698	23,149	110,212	4,831	-36,381	-22,897	126,543	-109,950
Soybean Meal	-209,096	-22,207	92,366	-1,872	80,287	18,025	155,063	-77,112
Canola	55,038	-6,496	5,899	-667	-48,440	8,190	70,001	-75,701

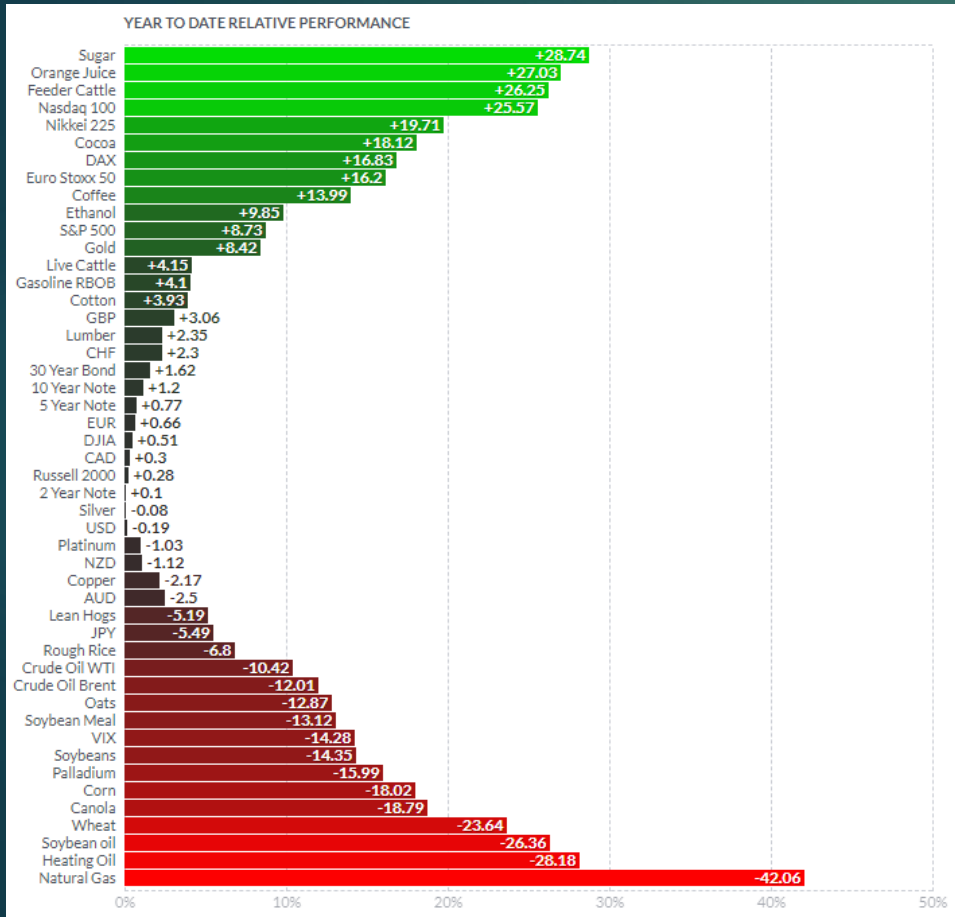
Commercial short in soybeans is the smallest since February 2020

MM\$ net short in the top 5 agriculture markets for the first time since June / August 2020

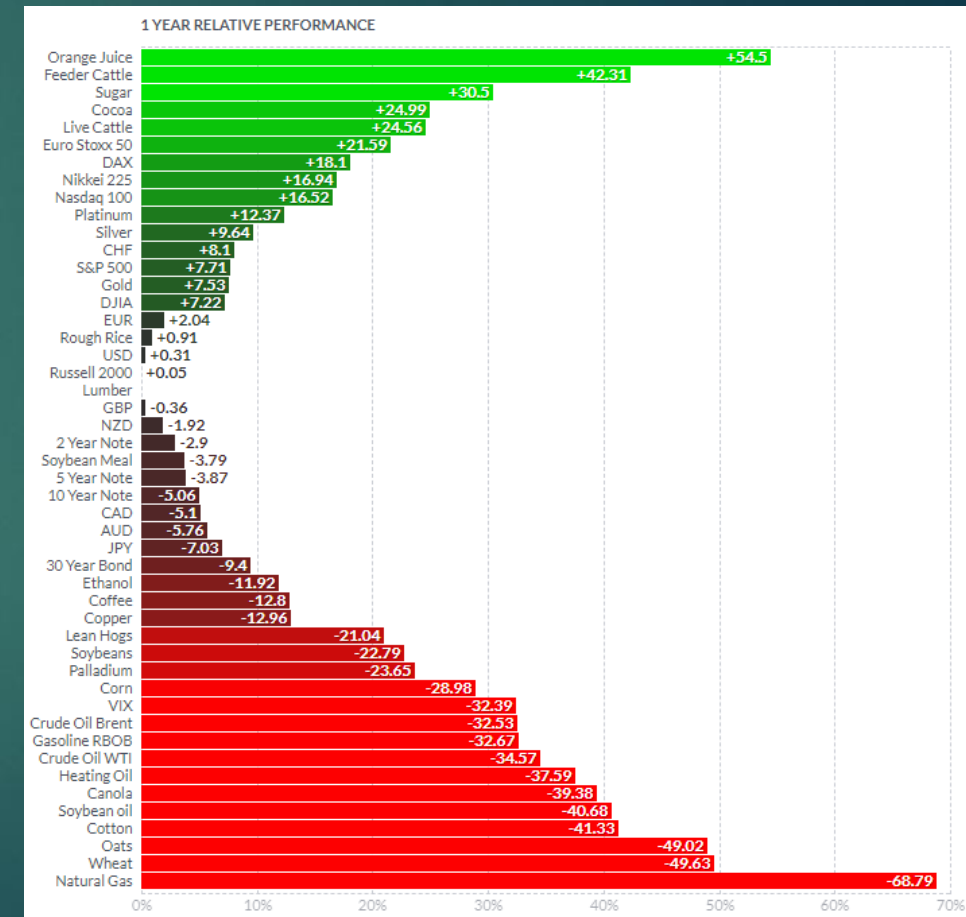
Managed money / funds long positions (market structure) – remains key driver as the market refocuses on demand

CYTD 2023 commodity performance: grains & oilseeds remain under pressure with MM\$ shifts short supplies rebuild (esp. for key exporters)

YTD 2023 – 19 May 2023



This time LY – 19 May 2023



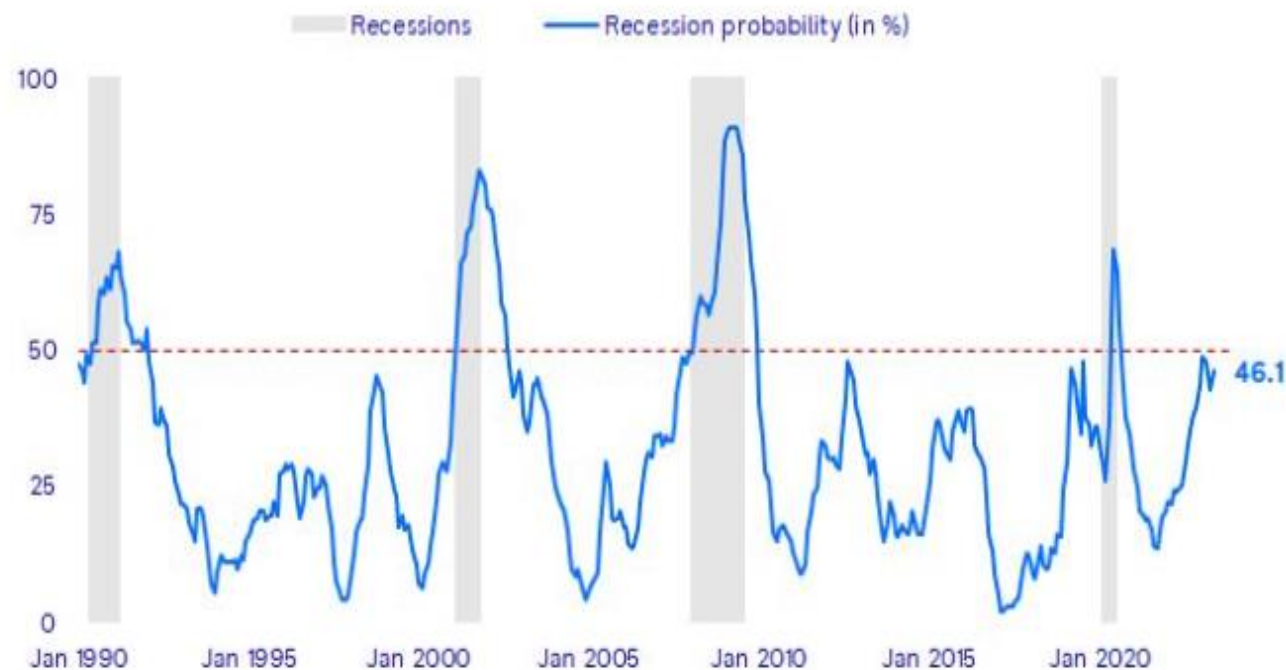
	YTD	Vs LY
USD	-0.2%	+0.31%
SM	-13.1%	-3.8%
Oats	-12.9%	-41.3%
Soy	-14.4%	-22.8%
Canola	-18.8%	-39.4%
Corn	-18%	-29%
VIX	-14.3%	-32.4%
Wheat	-23.6%	-49.6%
Soy oil	-26.4%	-40.7%

Global economy stuck in no man's land: Recession yes? Recession no?

Global debt surges higher in Q1 CY2023

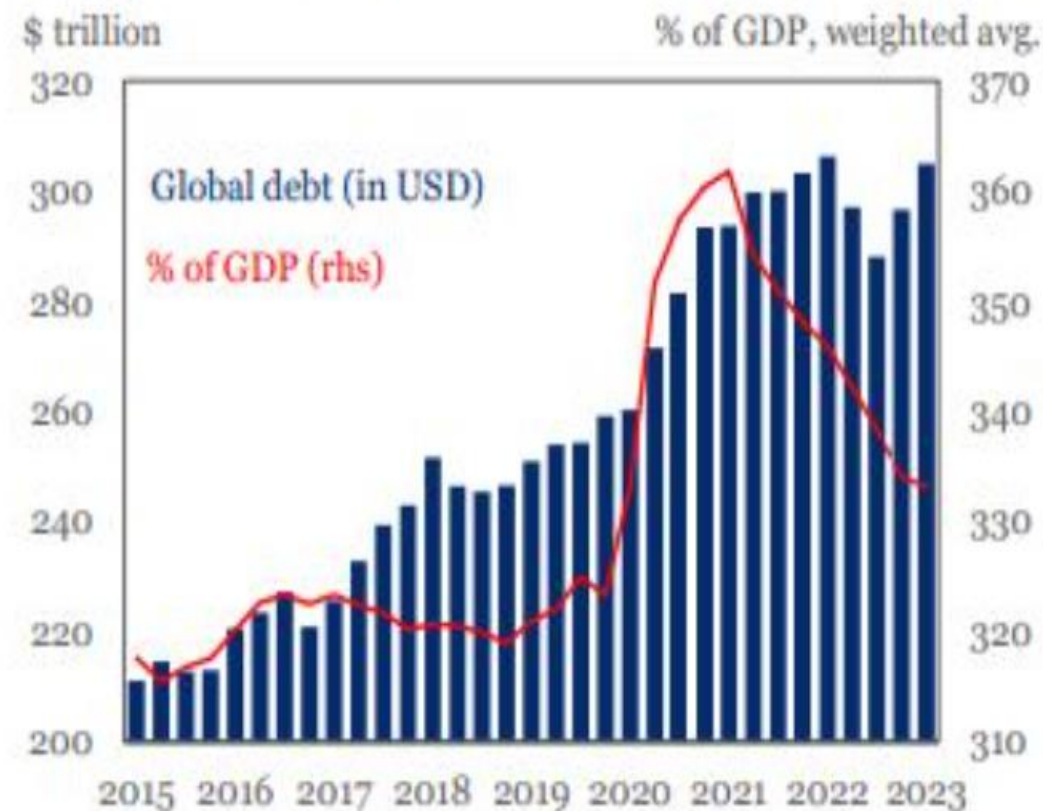
Global economy stuck in no man's land

Recession probability for global economy based on various economic indicators



Sources: National Statistical Offices, DBNomics, OECD, FRED, own calculations

Chart 1: Global debt surpassed \$300 trillion in Q1 2023

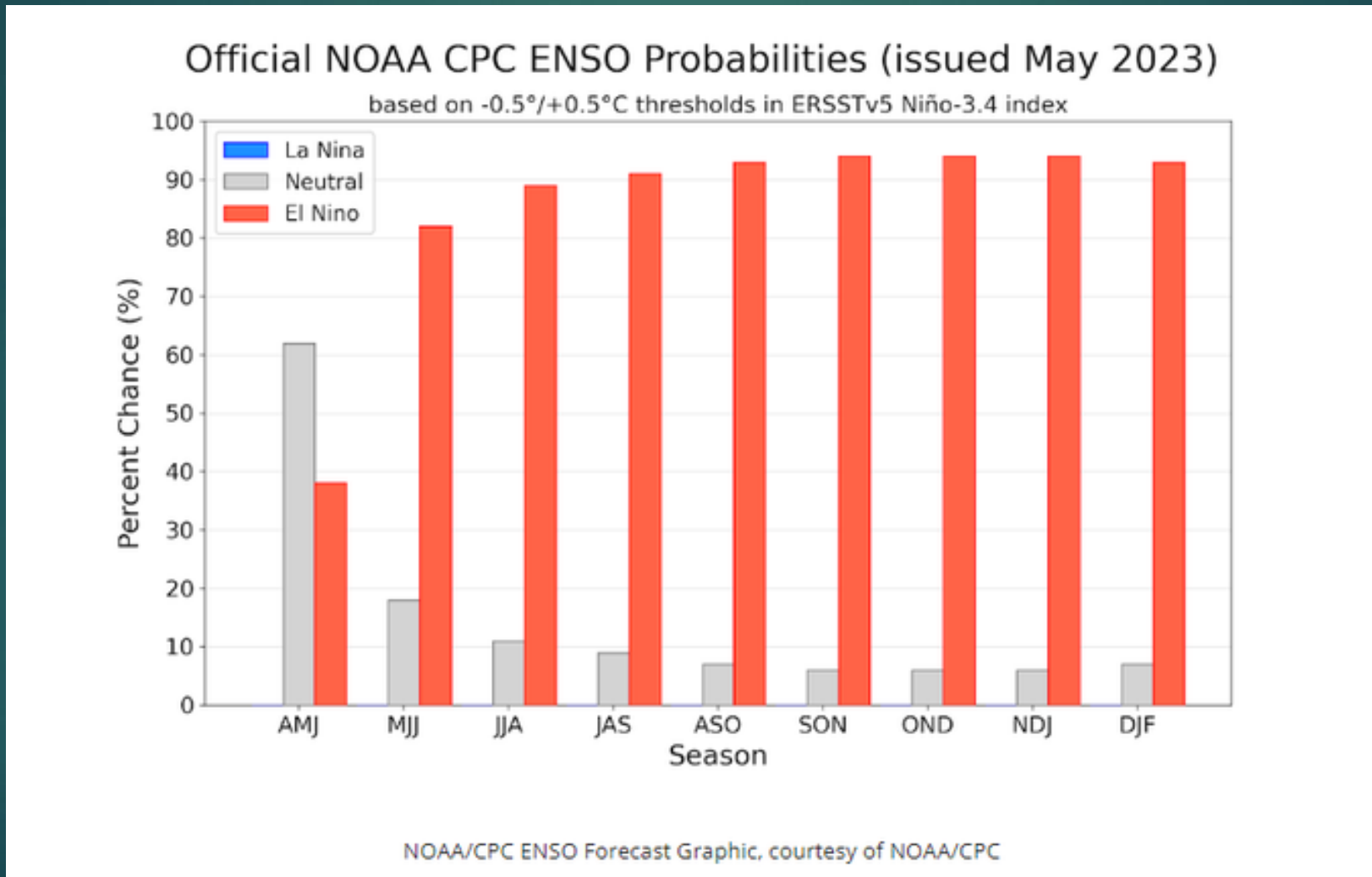


Source: IIF

Baltic Dry Index – made CY lows in the early going of CY2023 – bounced in February on the “hype & hope” of China’s reopening – and has trended sideways for much of April-May



U.S. CPC El Nino watch – places 82% odds (62% LM) on El Nino conditions for May-July period. Dec 23-Feb 24 @ 93%. ARG and Kansas to benefit. Palm oil at greatest risk. Risk also to Australia



U.S. new crop (23/24) export books spells very real P O T E N T I A L demand problems ahead – expands its “role” as the “world backstop” for importers

U.S. soy and corn plantings – off to a very solid start. Corn a crop of July. Soy a crop of August.

As of 11 May – U.S. new crop book:

U.S. new crop soy book = 2.55MMT vs 11.38MMT LY – **down 8.83MMT or 77.6%**

China book = 1MMT vs 7.3MMT LY

USDA 23/24 export forecast = 53.75MMT – **down 1.1MMT or -2%**

U.S. new crop corn export book = 2.7MMT vs 5.58MMT - **down 2.88MMT or 51.7%**

China book = 272KMT vs 2.72MMT LY

USDA 23/24 export forecast = 53.3MMT – **up 8.26MMT or 18.2%**

U.S. new crop wheat export book = 1.96MMT vs 2.76MMT – **down 795.4KMT or -28.8%**

China has no new crop on the books

USDA 23/24 export forecast = 19.73MMT – **down 1.37MMT or -6.4%**

USD – an impressive CY2022 performance adversely impacted importing countries that are USD denominated. USD has strengthened over the past +month and is now YTD **-0.2%** and is **+0.31%** vs this time LY

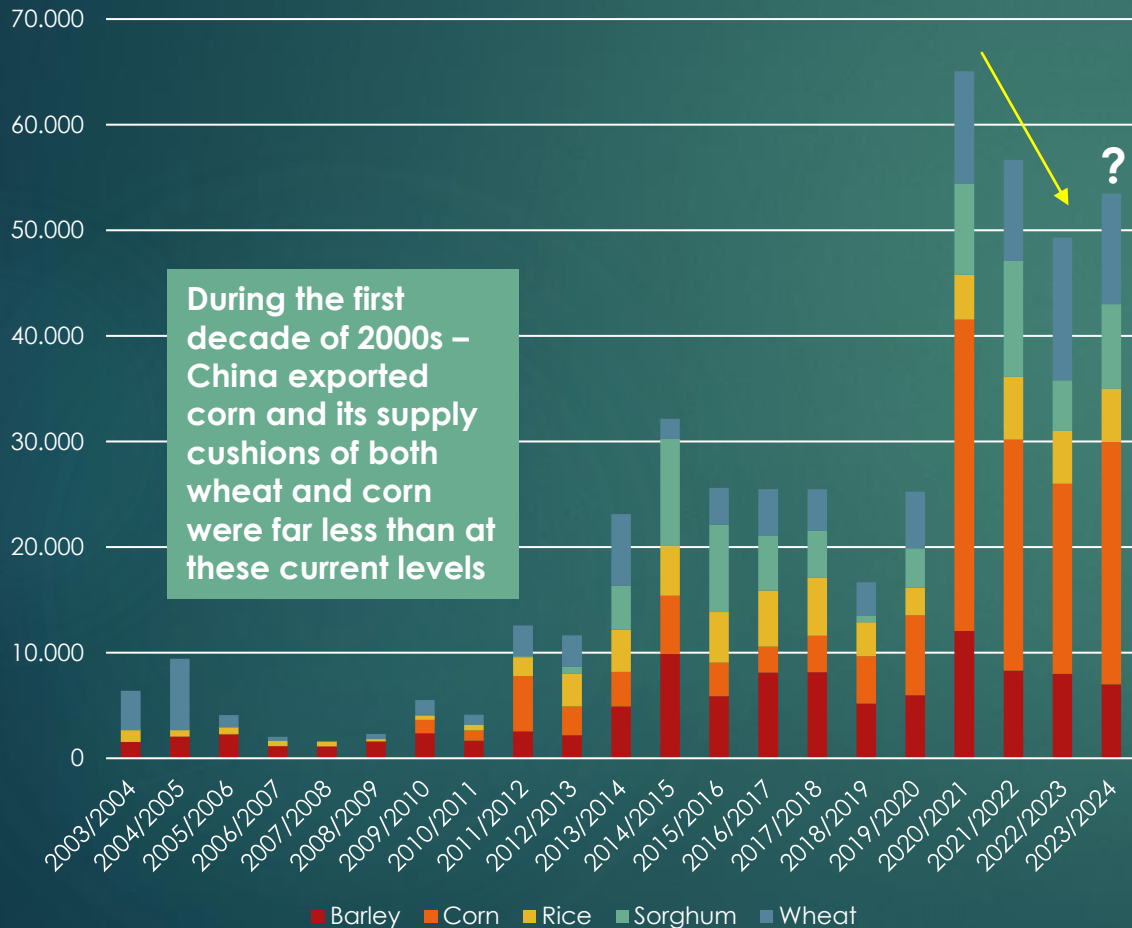


Demand challenges remain:

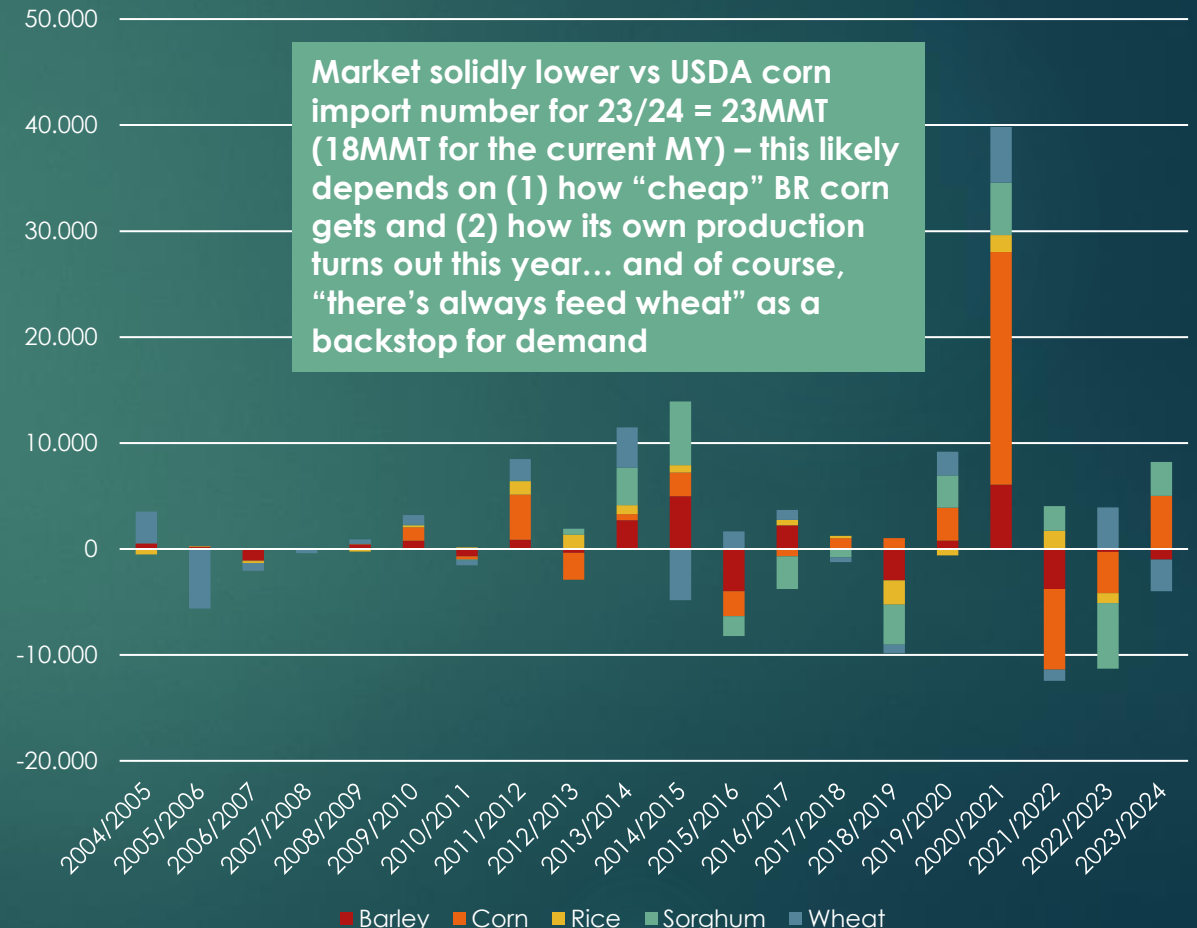
- Cost of finance
- Money is expensive
- Interest payments
- Lack of liquidity
- Credit limitations
- China’s “tailwinds” (or lack thereof for countries that have and remain important to the global dietary shift)

China: the critical and absolute key for world grain import demand, trade flows and overall flat price – with peak grain imports in 20/21 = 65MMT coming out of “Phase 1” ... for 23/24 -> sorghum = 8MMT (4.8MMT 22/23) – up 3.2MMT (??)

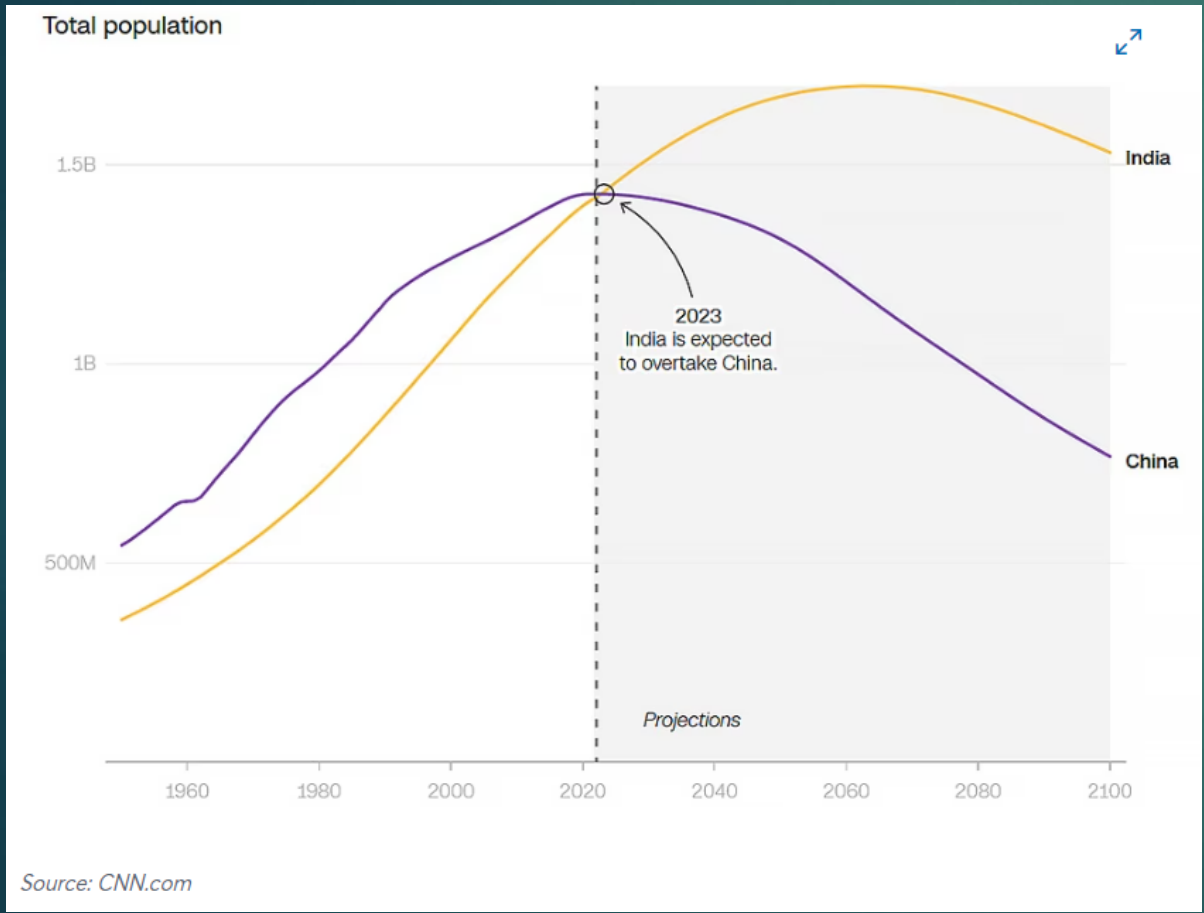
China grain imports: forecast to rise 4.2MMT in 23/24 vs this year = 53.5MMT vs peak Phase I = 65MMT



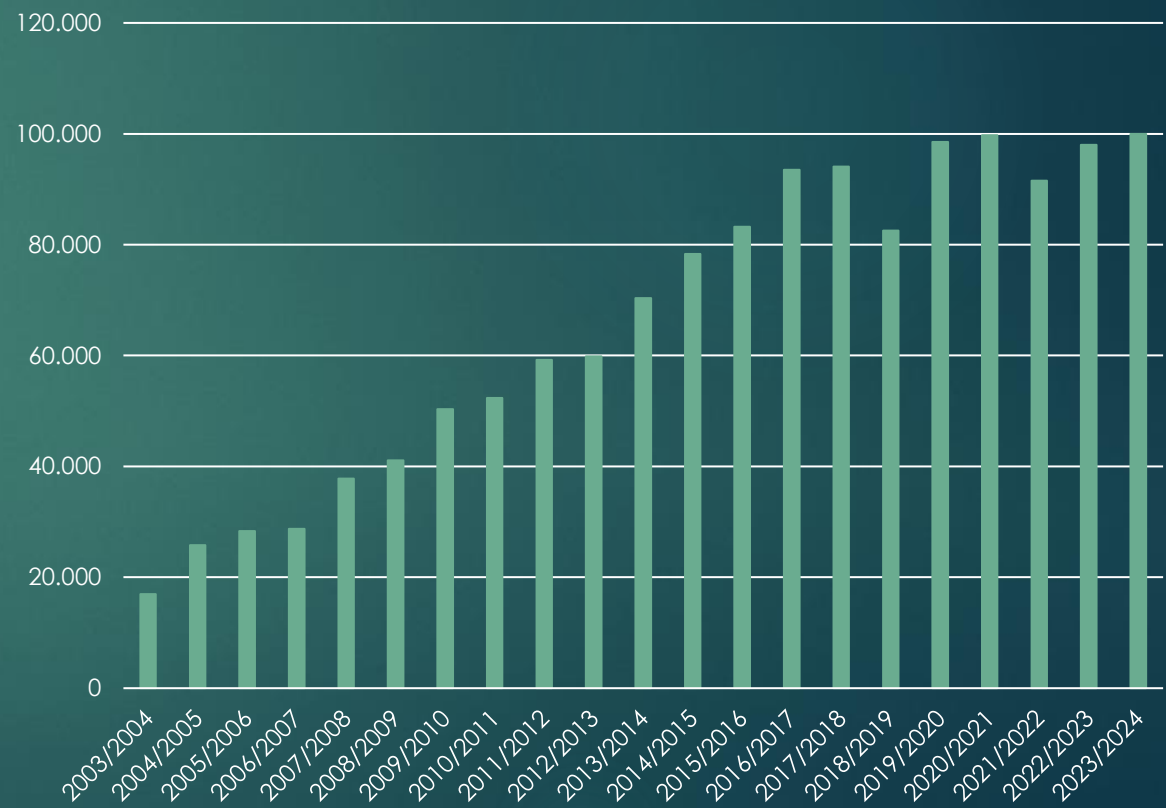
China grain imports: change vs previous year: For 23/24: Barley - 1MMT. Corn +5MMT. Rice - flat. Sorghum +3.2MMT. Wheat -3MMT



China: peak population = peak soybean import demand? What will the world do with growing oilseed (soybean) production / crops (BR, BR, BR) – forecast to expand **40.2MMT** vs 22/23 (ex-China). China soy import demand **+2MMT** = **100MMT** (soy will need to get “cheap enough” that China will store it) & ROW **+2.57MMT**

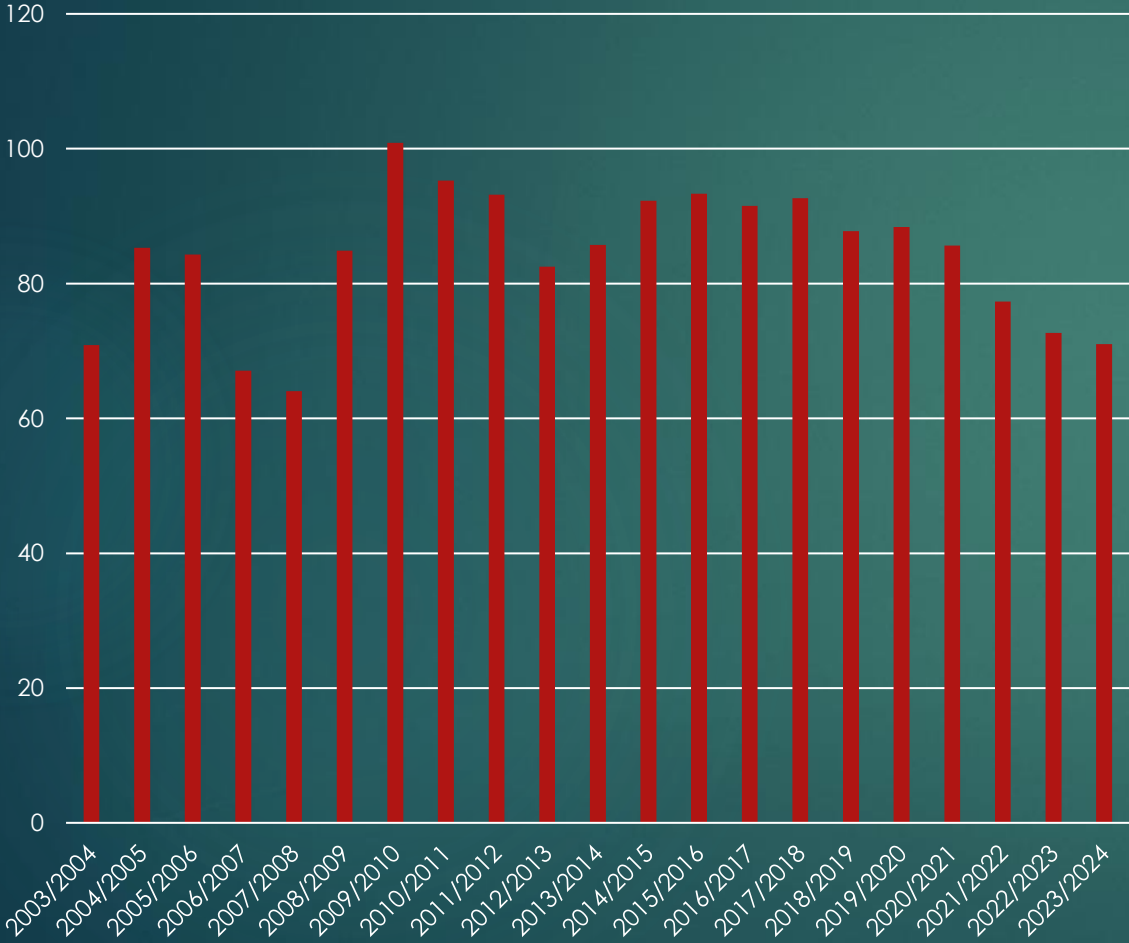


Peak China soybean import demand? Population declines + expanded domestic production + China government (CASDE) = **94.2MMT** for 23/24

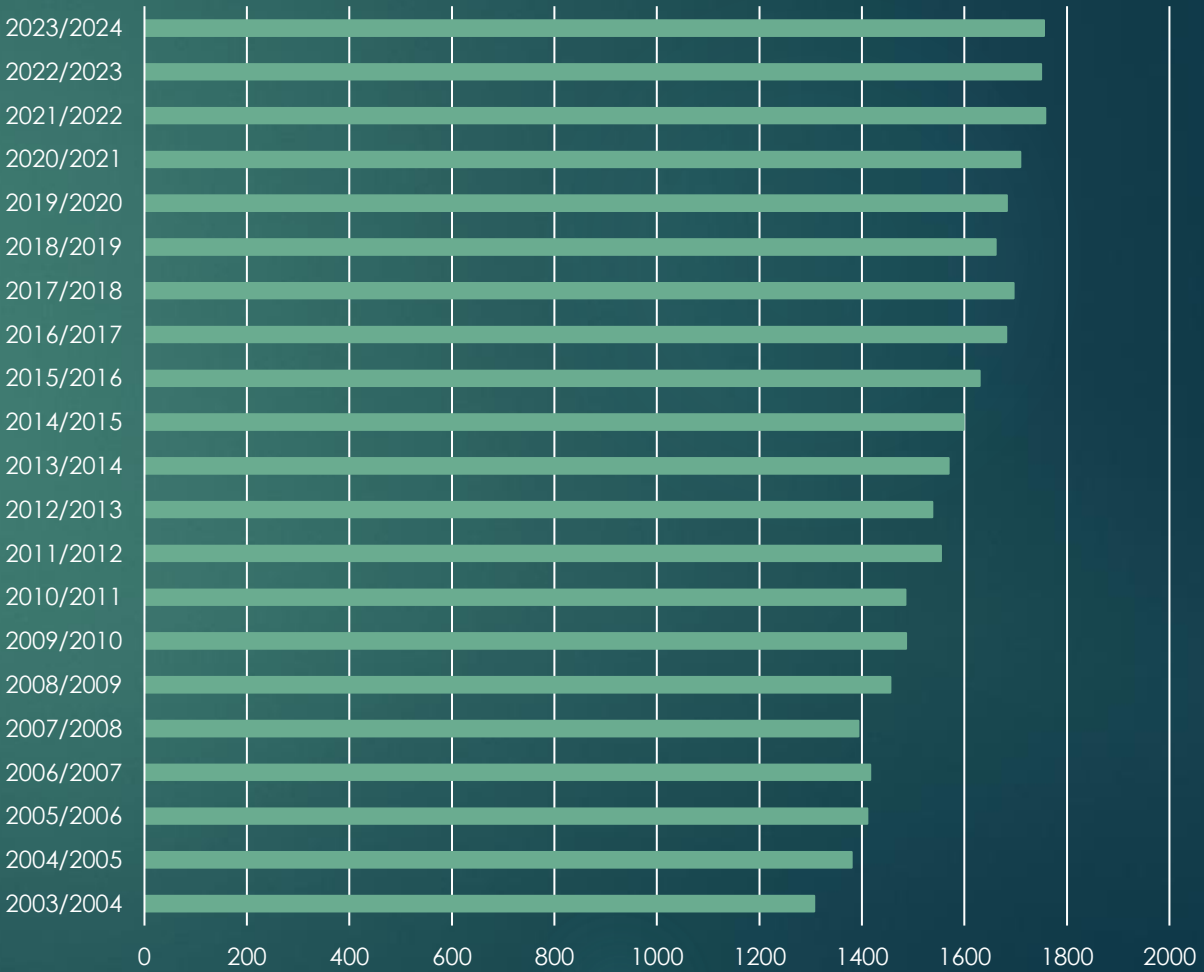


ROW (ex-China) wheat supply cushion = 71 days (72.7 days LY) with daily demand unchanged vs 22/23. Feed wheat demand faces contraction once again

ROW wheat supply cushion holds steady / minor decline in 23/24
= 71 days (72.7 days LY, 77.3 days 2Y)



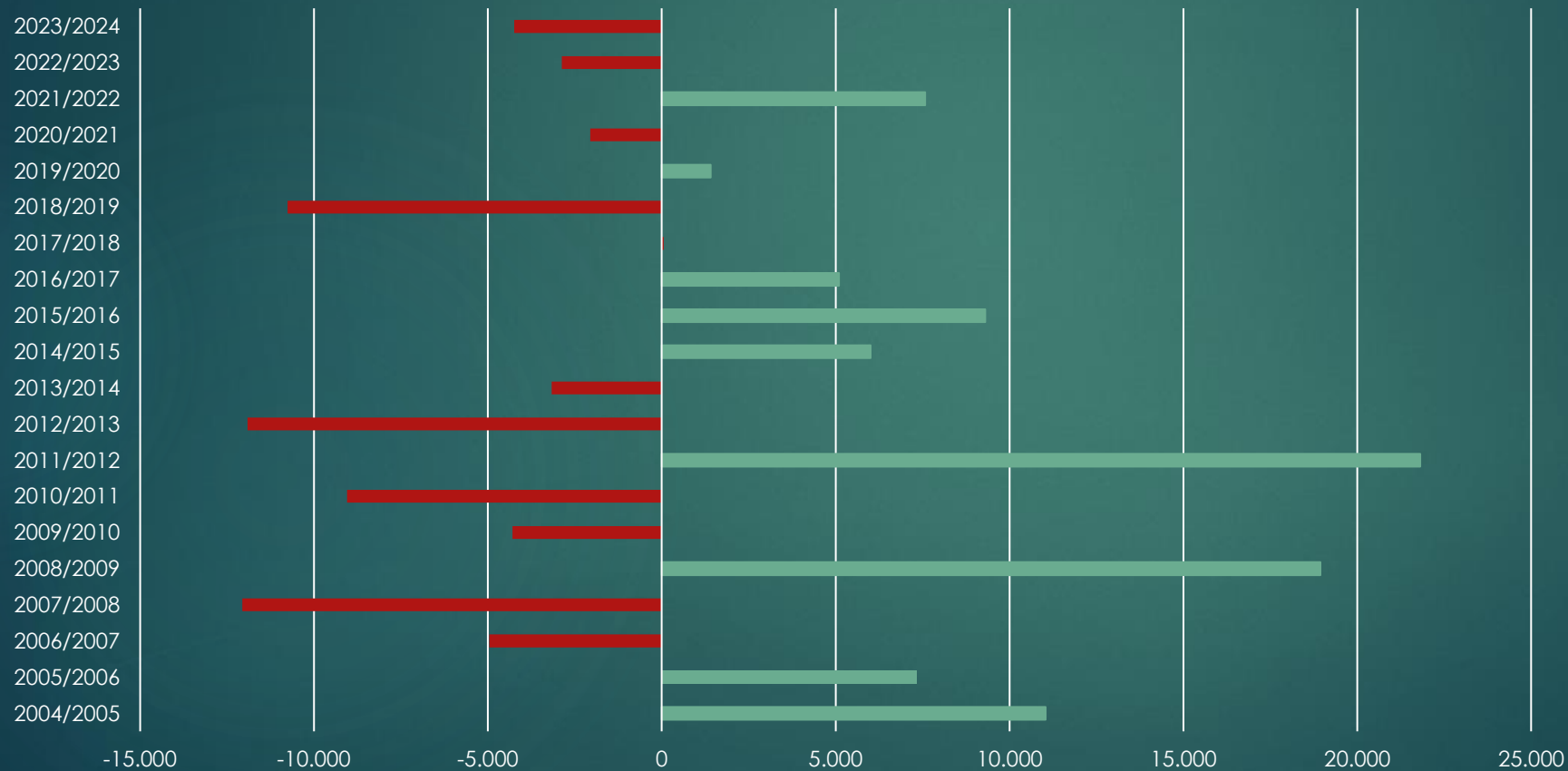
ROW daily wheat demand = 1.75MMT - same as 22/23



ROW feed wheat demand: 22/23 feed wheat demand was revised lower (shows contraction at **-2.9MMT) and joined the bearish ROW corn feed demand cycle. With further contraction for 23/24 (**-4.2MMT**). This is the biggest “flex” point when it comes to world wheat demand**



ROW feed wheat demand: now shows contraction for 22/23 with further loss in 23/24



Europe feed wheat demand forecast to be 37.9% of ROW feed wheat demand

Gains:

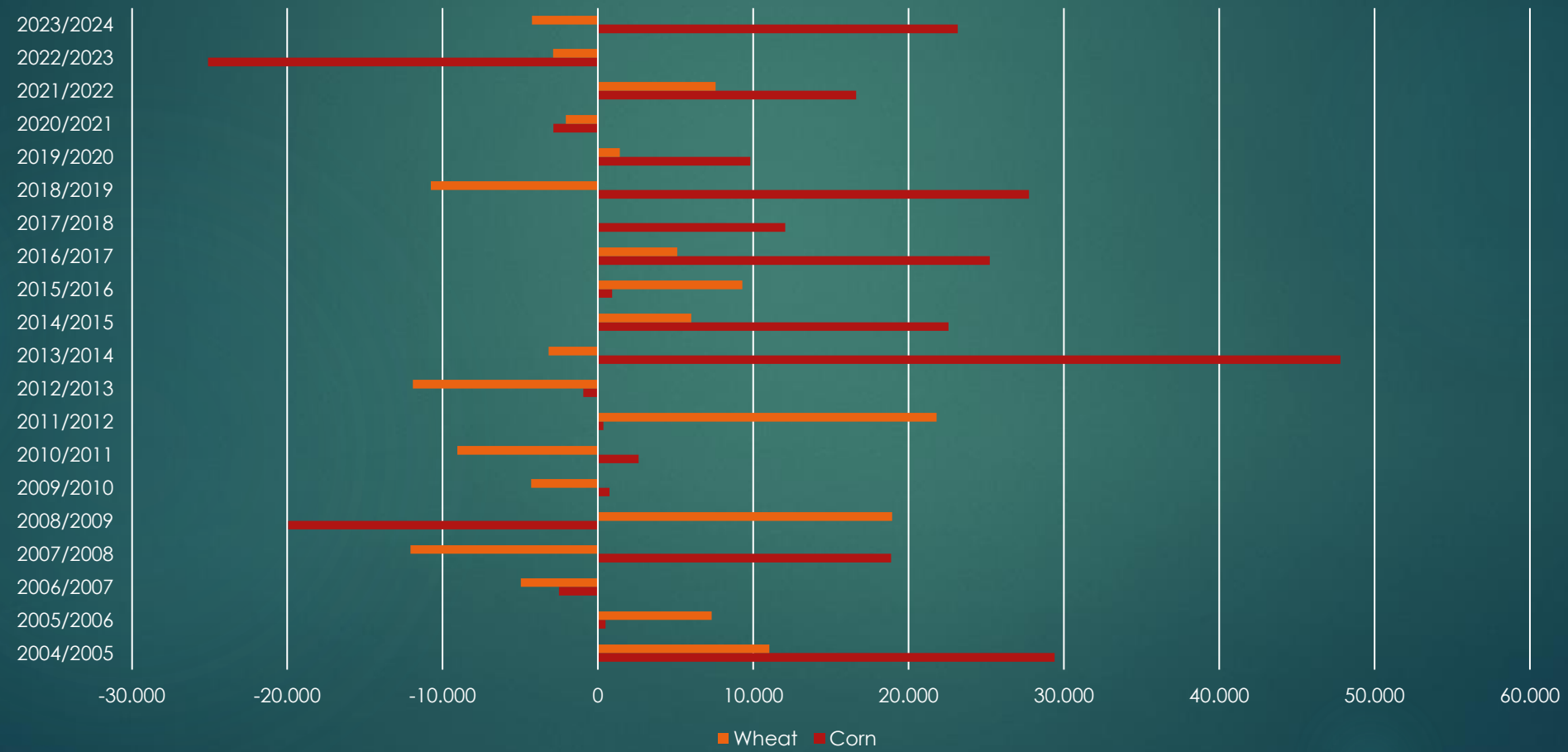
- Europe** +1500KMT
- Ecuador** +100KMT
- Indonesia** +200KMT
- U.S.** +408KMT (doubtful)
- UK** +300KMT

Losses:

- Australia** -500KMT
- India** -1500KMT
- Kazakh** -700KMT
- Korea** -800KMT
- Pakistan** - 200KMT
- Russia** -1MMT
- Thailand** -100KMT
- UKR** -1.5MMT
- Vietnam** -400KMT

ROW world feed demand (corn vs wheat): in 22/23 – corn feed demand was down a record 25.1MMT and now projected to recover 23.2MMT in 23/24. Feed wheat demand forecast to contract once again

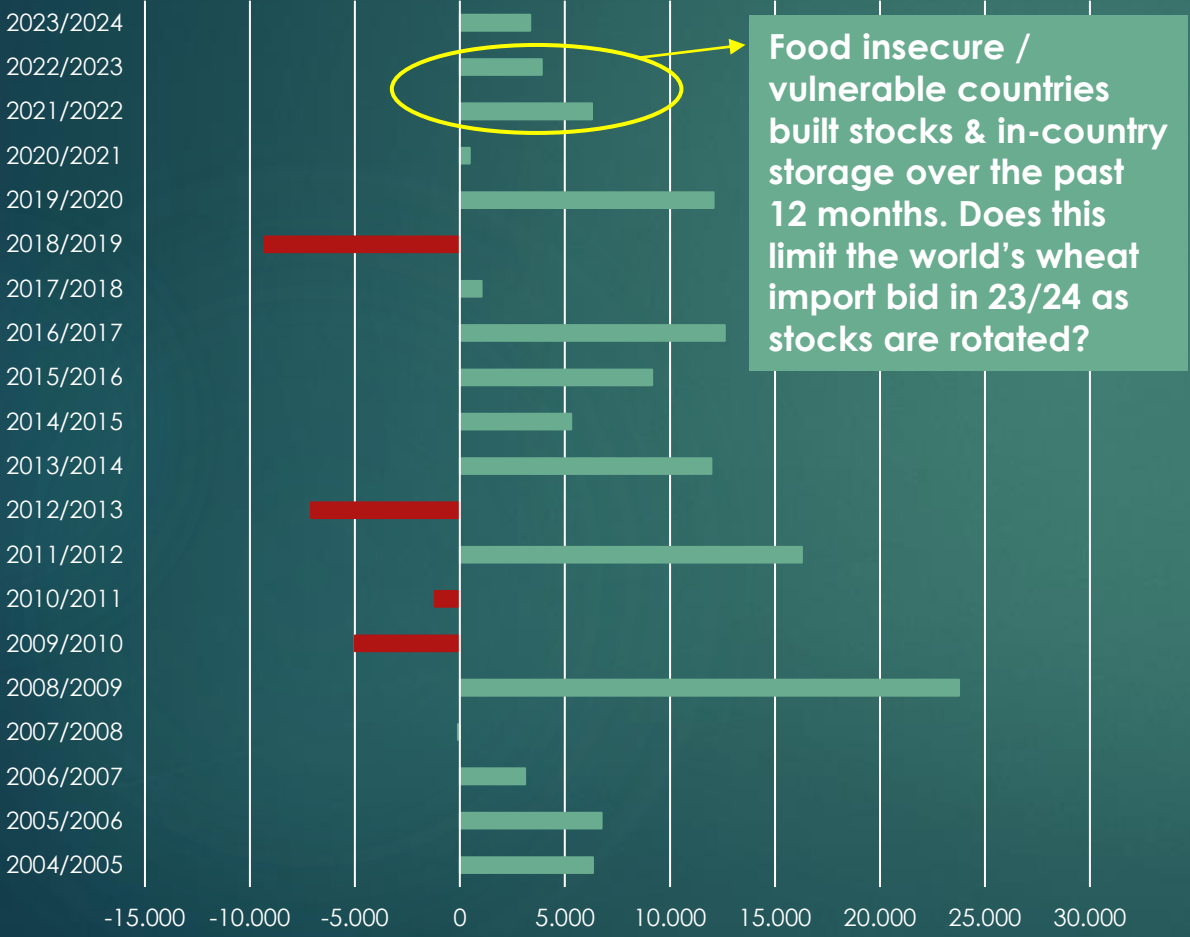
ROW feed demand: corn +23.2MMT (-25.1MMT 22/23). Wheat -4.2MMT (-2.9MMT 22/23)



World wheat import trade: ROW (+3.35MMT) and China (-3MMT) for a total world wheat import increase +340KMT

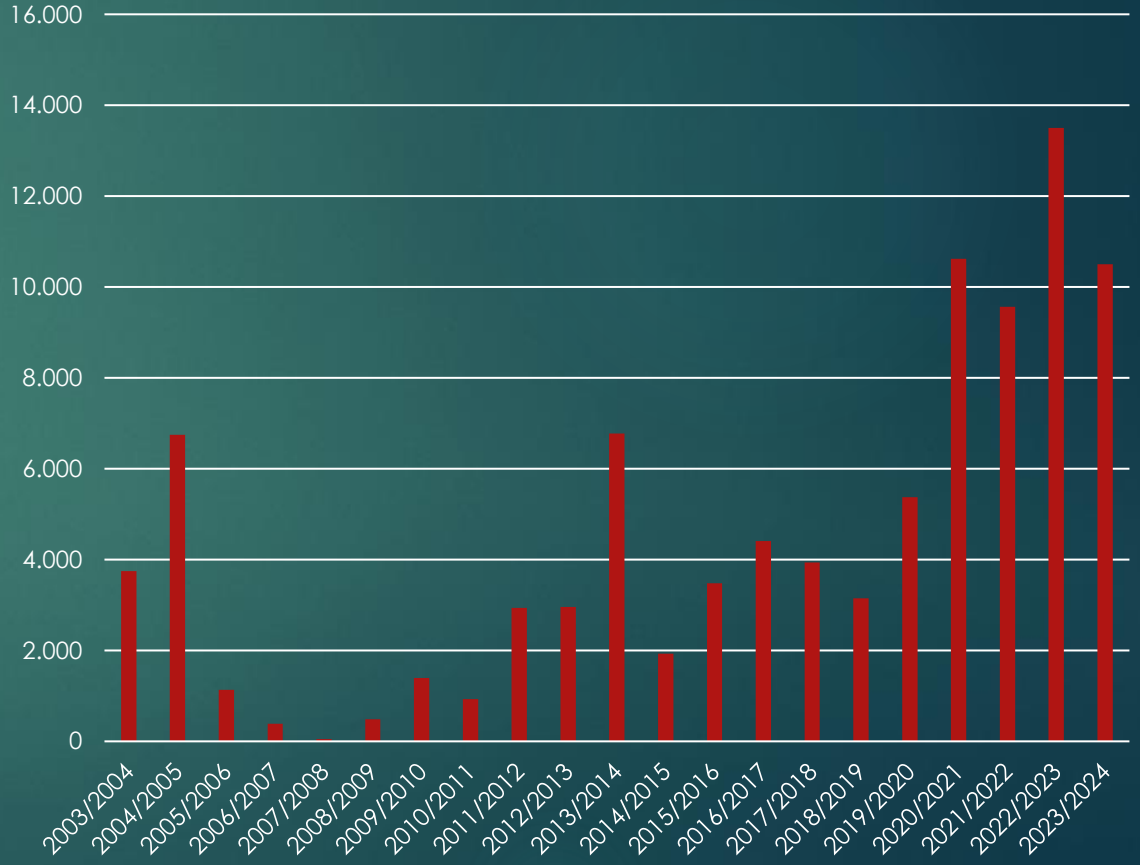


ROW world imports +3.35MMT (+3.9MMT LY, 6.3MMT 2Y) - will the bid be that deep with countries having built reserves?



Food insecure / vulnerable countries built stocks & in-country storage over the past 12 months. Does this limit the world's wheat import bid in 23/24 as stocks are rotated?

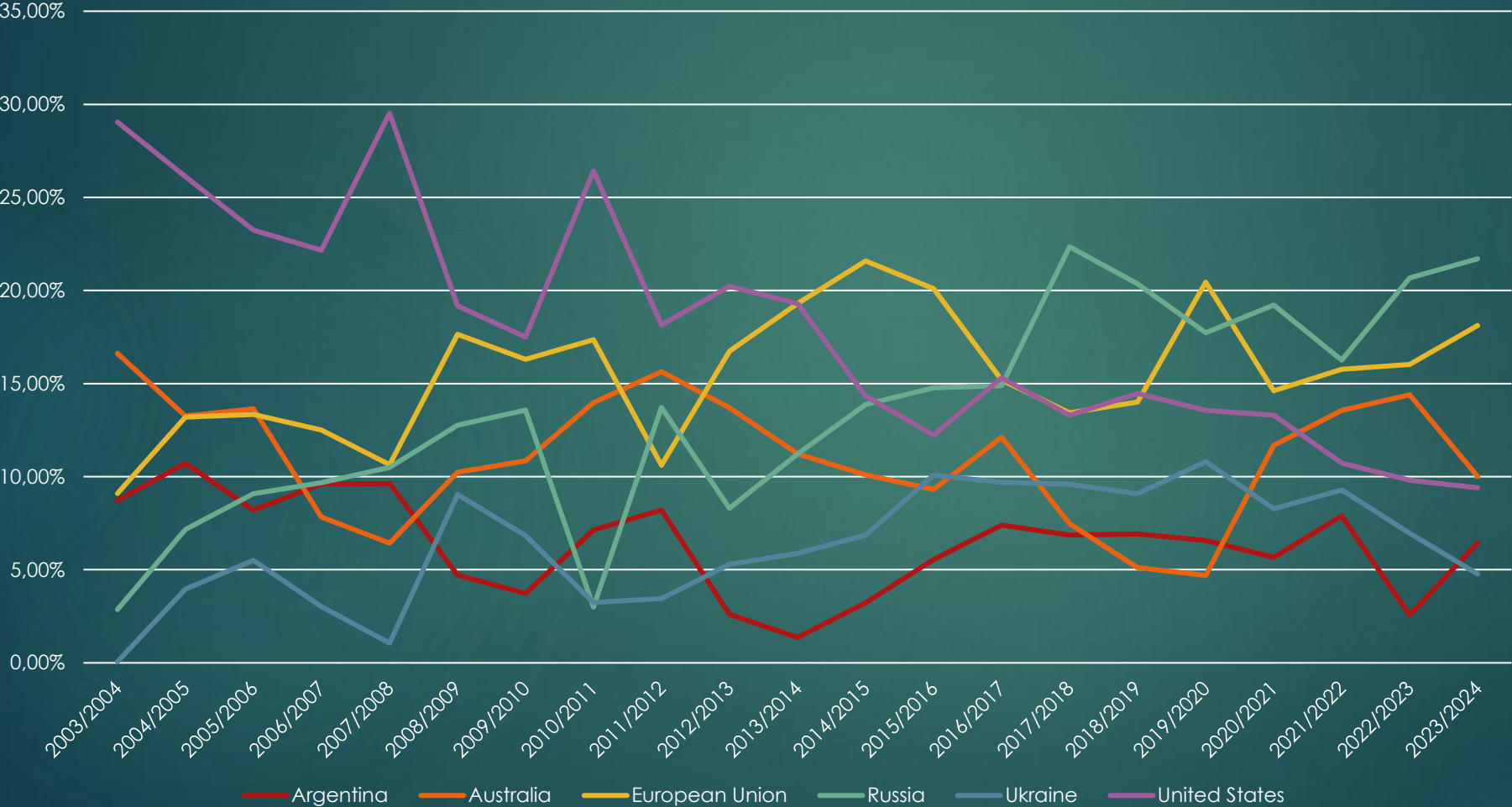
China wheat imports revised to a record 13.5MMT for 22/23 (Australia) and forecast at 10.5MMT in 23/24 as Australia production & exports cut an equal 10MMT each as El Nino stares down the global ag markets



World wheat export trade: RUS exports forecast at a record 45.5MMT (21.7%), followed by EUR = 38MMT (18.1%) and Australia = 21MMT (-10MMT vs LY and 10%). RUS sets world wheat values – EUR right behind...



World export trade flows: RUS and Europe to set the tone for 23/24



World wheat export trade = 209.7MMT (215.2MMT LY) - **down 5.5MMT**

ARG = 13.5MMT (5.5MMT LY) **+8MMT**

Australia = 21MMT (31MMT LY) **-10MMT**

EU = 38MMT (34.5MMT LY) **+3.5MMT**

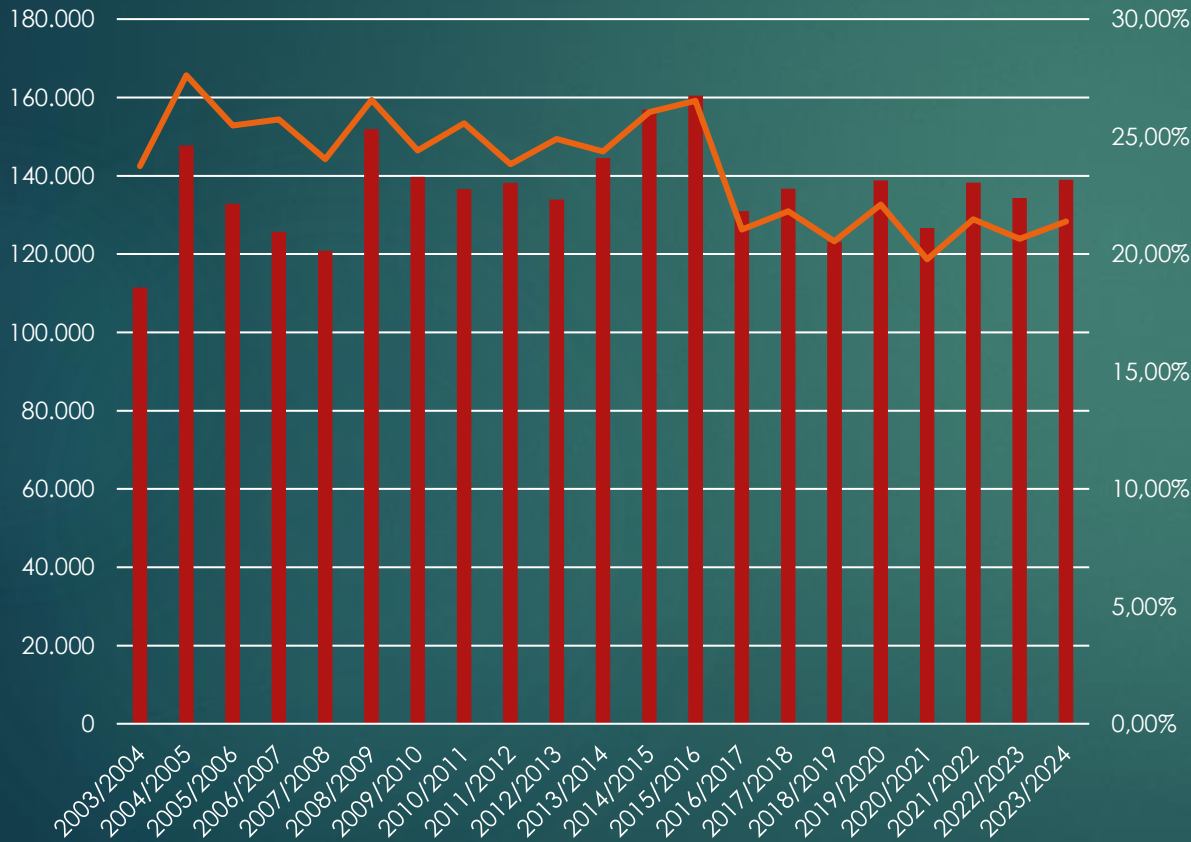
RUS = 45.5MMT (44.5MMT) **+1MMT**

UKR = 10MMT (15MMT) **-5MMT**

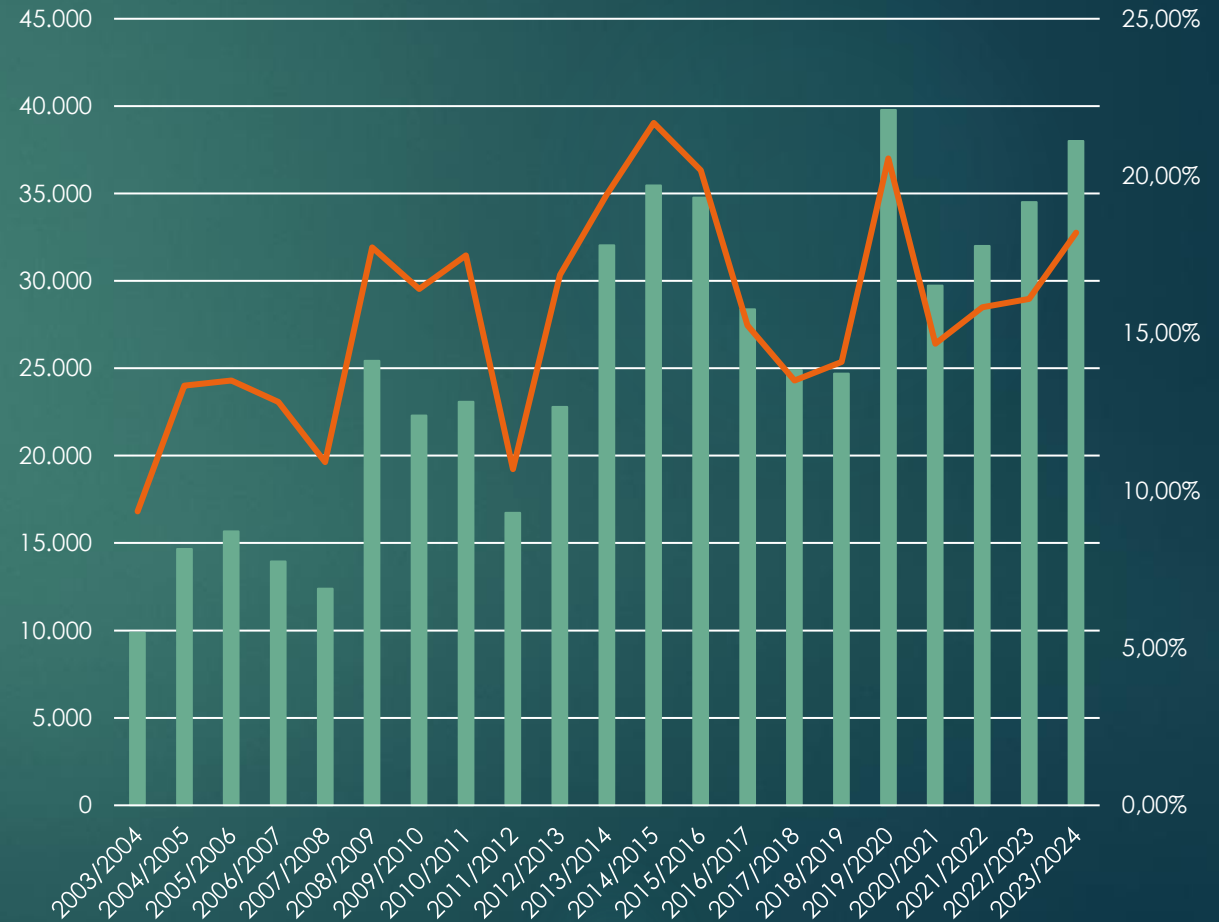
U.S. = 19.7MMT (21.1MMT LY) **-1.4MMT**

Europe – wheat production returns to the upper end of the past 8 year's range (21.4% of ROW production). Exports return to near record levels = 38MMT (40MMT peak). Combined W (-3.5MMT) + C imports (-4.5MMT) to decline 8MMT in 23/24. Goes to offset reduce UKR W (-5MMT) + C exports (-9MMT) – to decline -14MMT

Europe wheat production = 139MMT (+4.7MMT LY) or 21.4% of ROW production

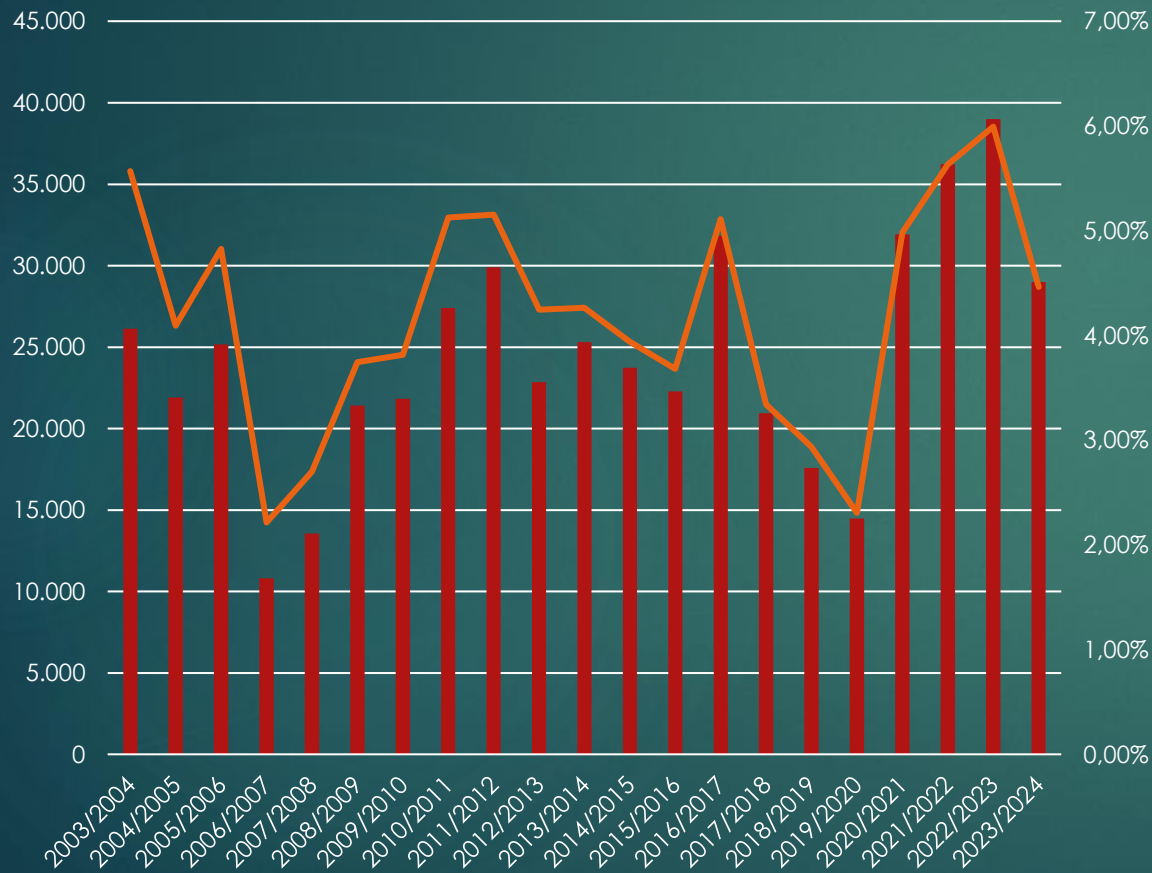


Europe wheat exports return to near record levels (40MMT) with a 38MMT starting point (18.2% world trade) - up 3.5MMT

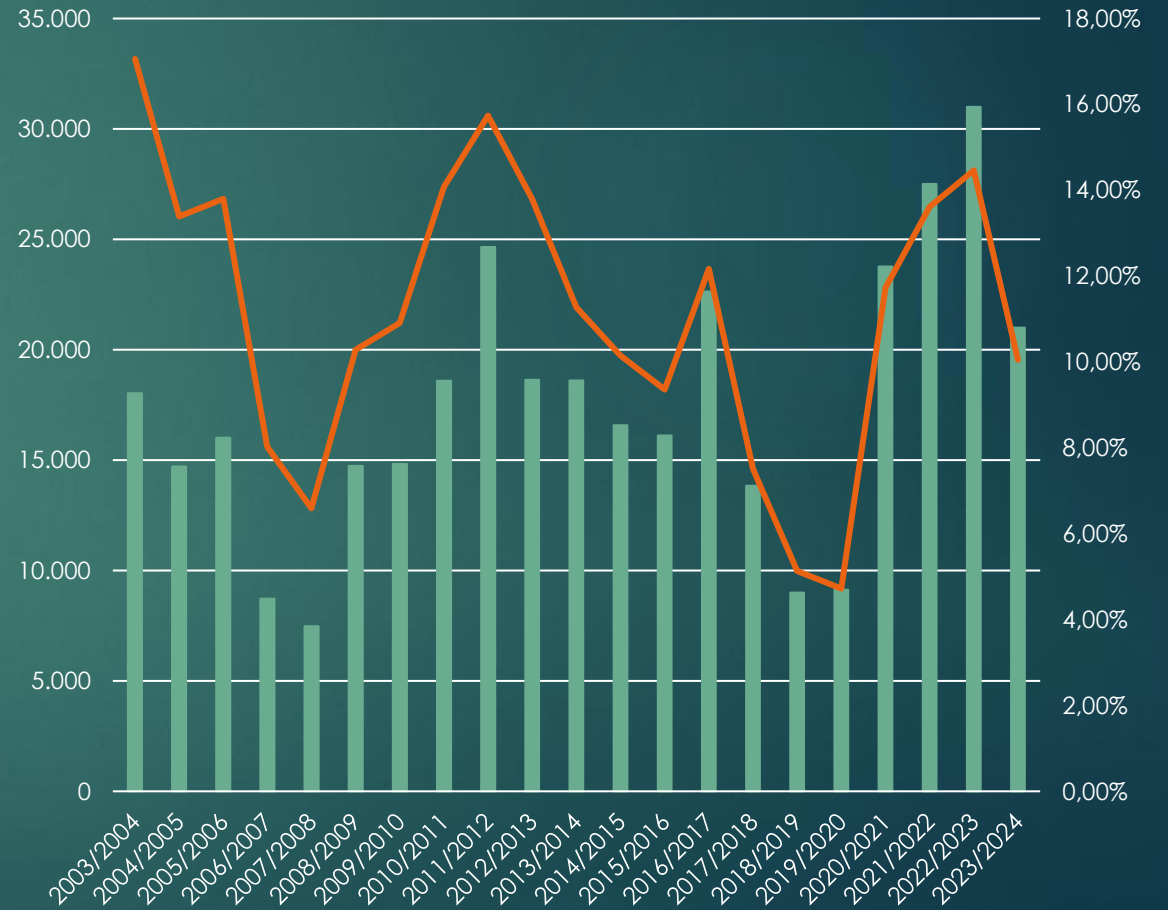


Australia – comes off 2 monster back-to-back crops with El Nino dead ahead. Aug-Sept rains will be key-critical to its production for 23/24. Its production will be influential to China W imports for 23/24

Australia wheat production = 29MMT (-10MMT) after 3 years of bumper / record wheat crops. El Nino risk



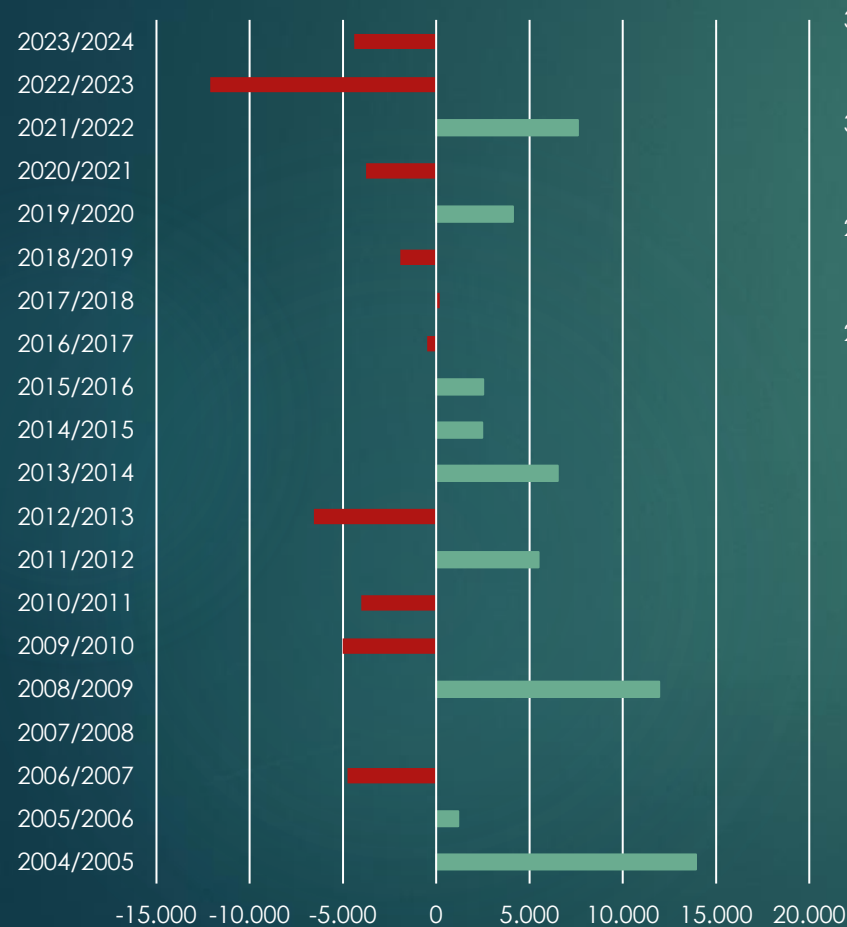
Australia wheat exports decline a like amount (10MMT) as production for 23/24 as USDA jumps on the El Nino risk early -- 10% of world trade (14.5% for 22/23)



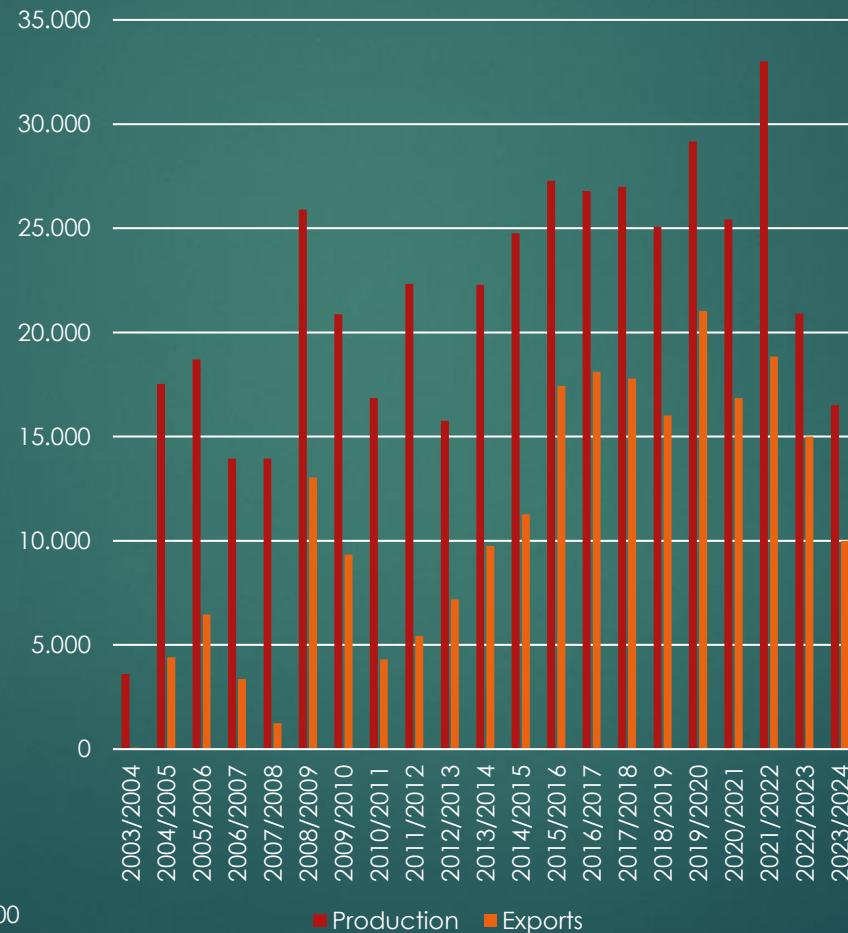
Ukraine – UN grain corridor is important; however, the reality is production and exports for both wheat and corn are far smaller for 23/24 vs this year. EU will “sort out” how it handles UKR grain flows



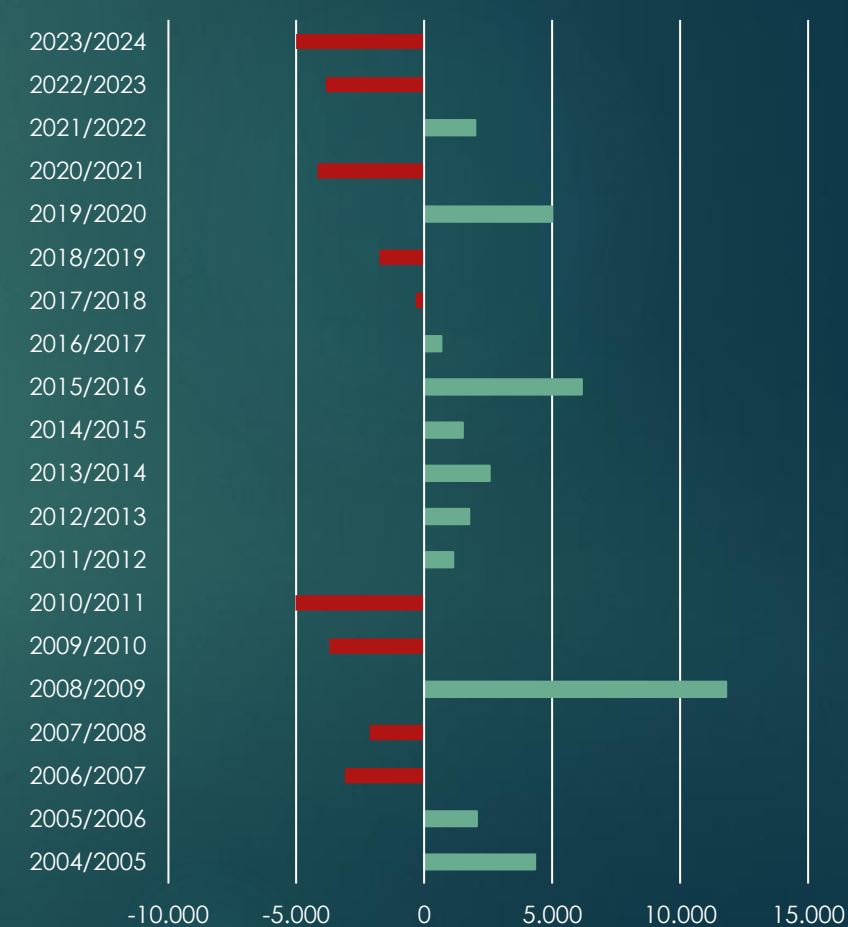
UKR wheat production = 16.5MMT (-4.4MMT LY, -12.1MMT 2Y)



UKR wheat production (16.5MMT) and exports (10MMT) forecast



UKR wheat exports - down 5MMT = 10MMT or 4.8% of world wheat trade

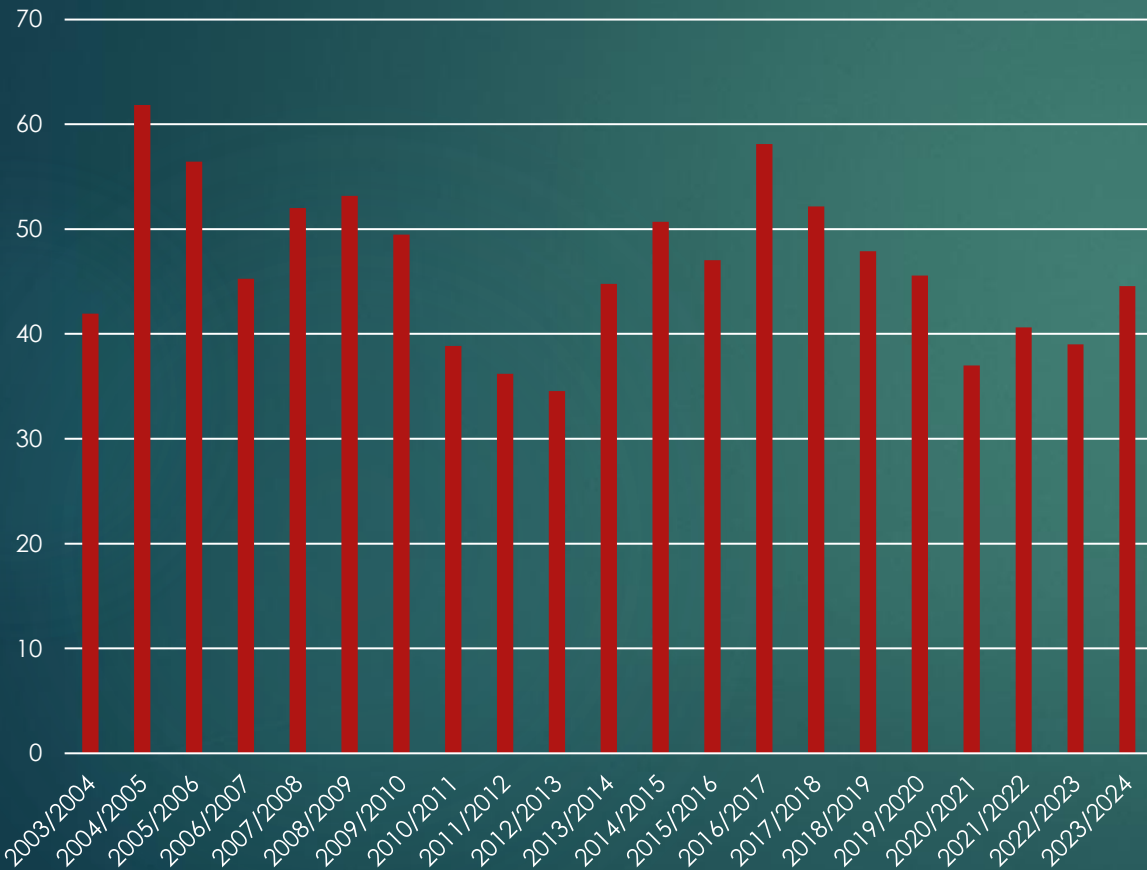


Weekly wheat charts – DOWNTREND is dominated by MM\$ in Chicago and there is no one willing to take that market segment on (e.g. – on the buy side). Gauge Chicago W values versus corn prices. KW trades the U.S. HRW balance sheet as protein spreads blew out to record levels. Corn-KW spreads – no one should feed HRW in the U.S. in 23/24

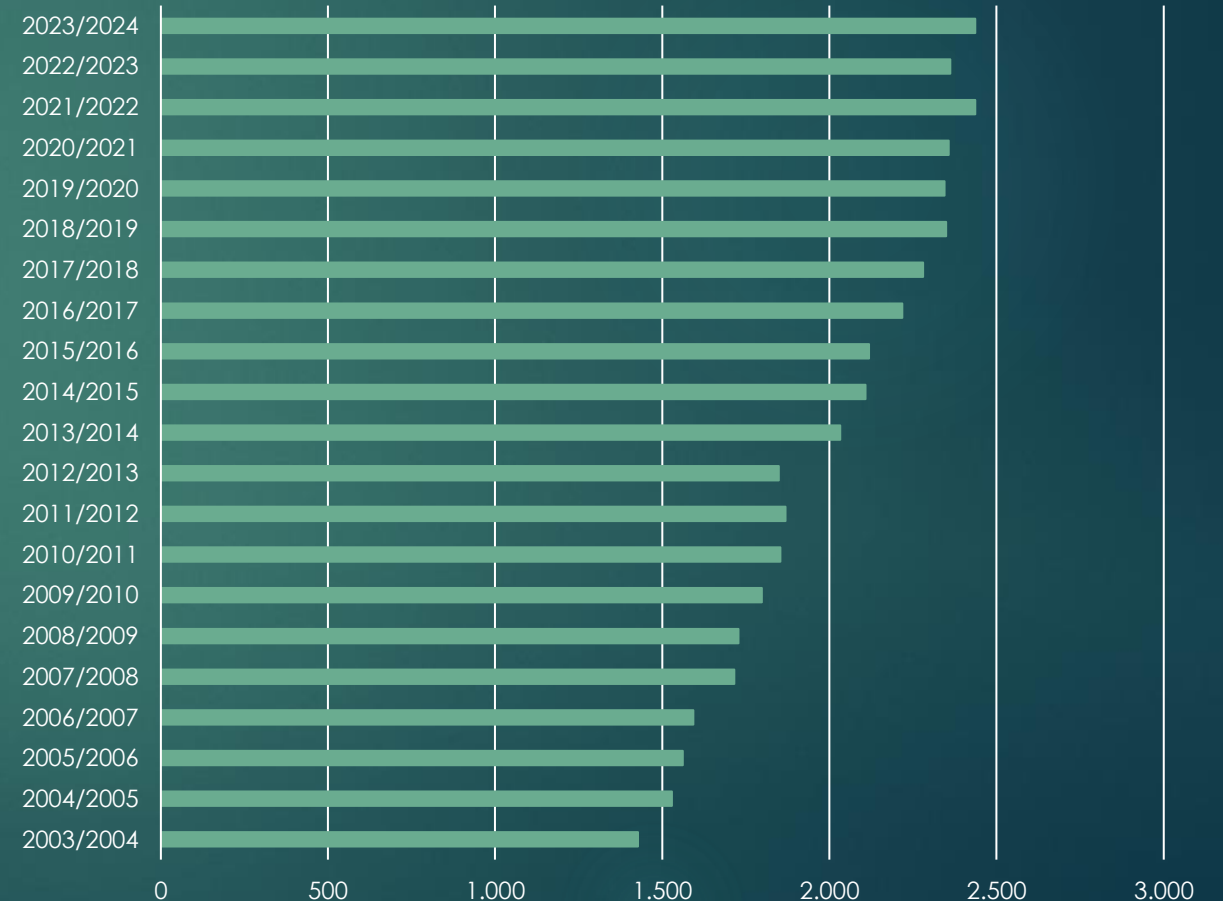


ROW (ex-China) corn supply cushion forecast = 44.6 days (39 days in 2022/23) – U.S. ending stocks surge and will act as the largest storage tank for world corn importers / buyers (ergo – backstop / “worse case” scenario on replacements)

ROW corn supply cushion = 44.6 days for 23/24 (39 days this year ending 31 August)

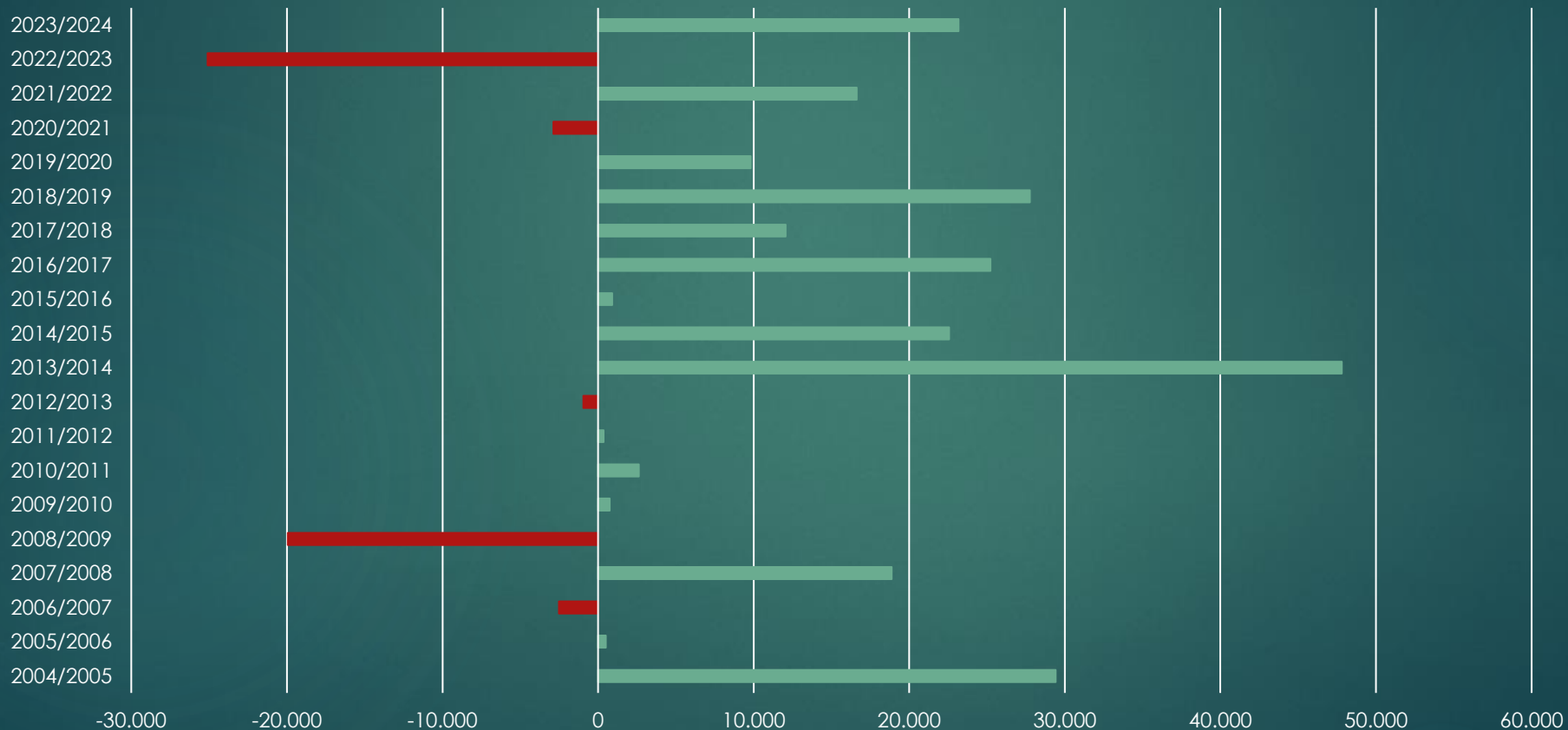


ROW daily corn demand = 2.44MMT per day (2.36MMT / day in 22/23)



23/24 ROW feed corn demand projections: extremely aggressive given the current state of play in the macro environment. From record decline in 22/23 to the 5th largest “recovery” in the past 2 decades

ROW corn feed demand from -25.1MMT to +23.2MMT in 23/24 -> in a global recession, high interest rate + expense cost of funds: RISK = downside

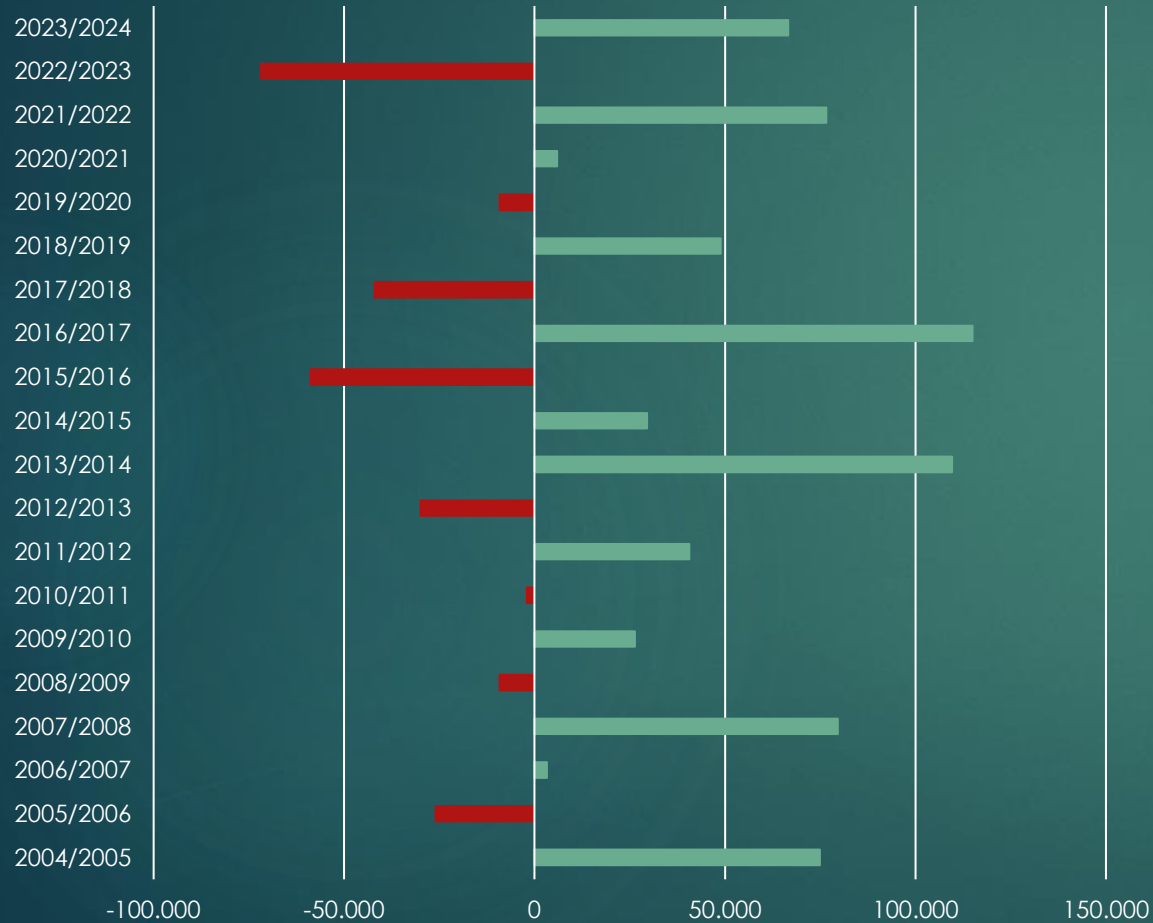


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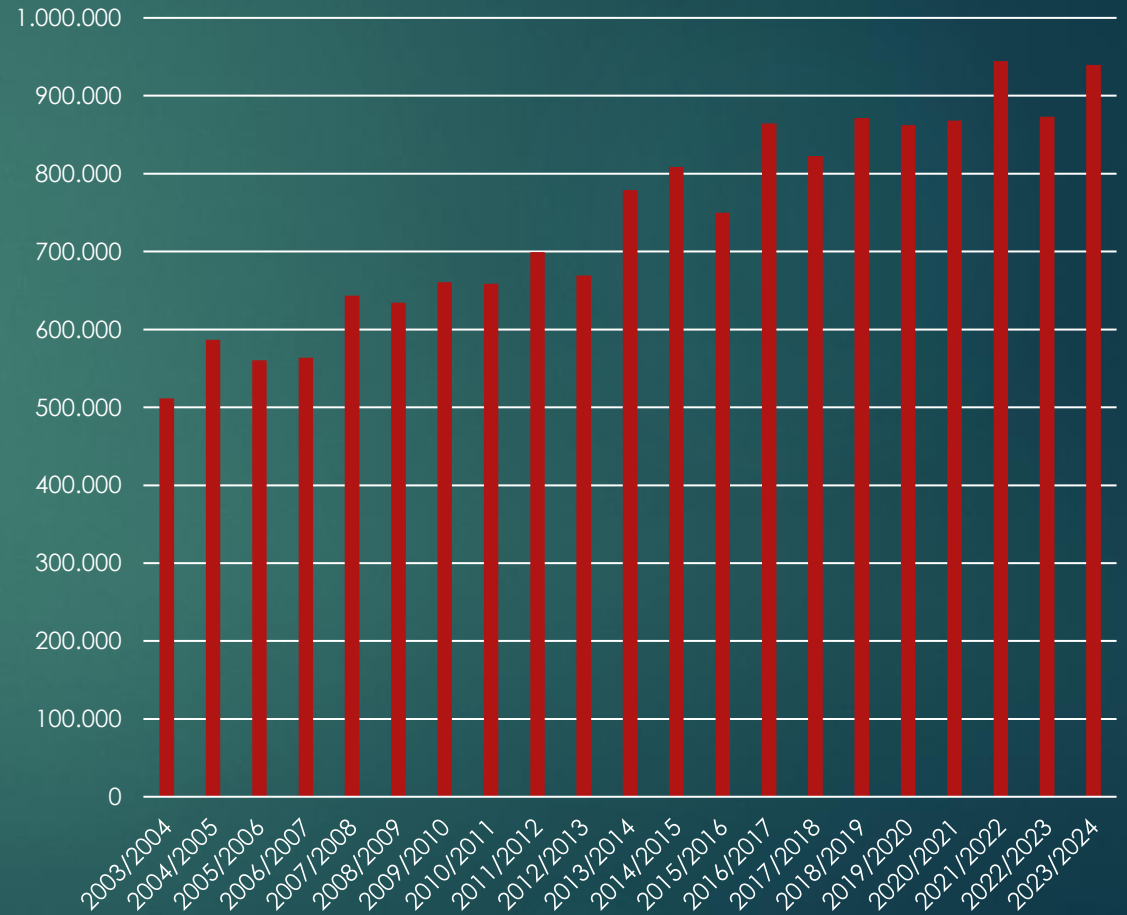
23/24 ROW corn production changes vs previous years: from short supplies in 22/23 (-71.8MMT – a record) to solid gains in 23/24 (+66.6MMT) as the starting point for 23/24



ROW corn production - from -71.8MMT in 22/23 to a gain of +66.6MMT in 23/24

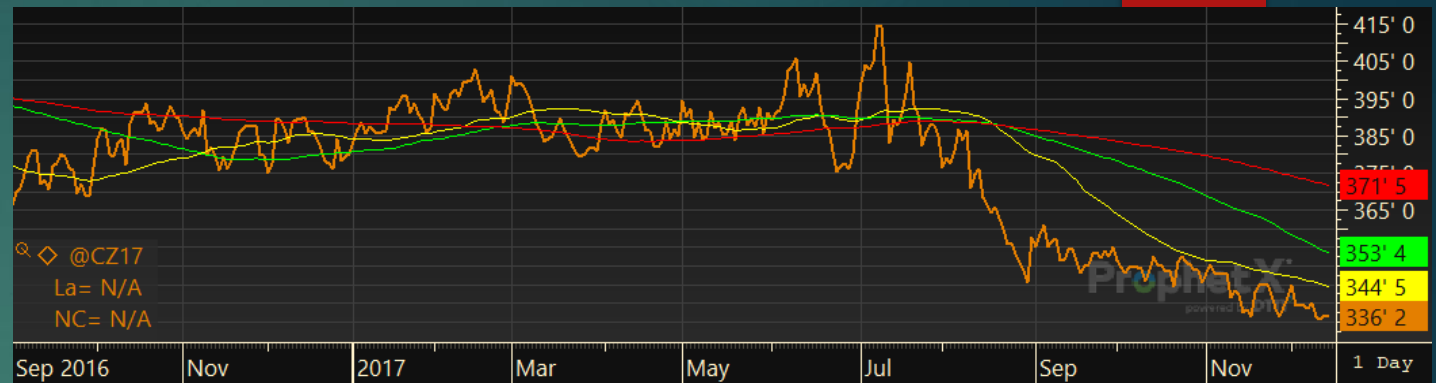


ROW corn production = 939.6MMT (873MMT LY) - shy of the previous record = 944.8MMT (21/22)



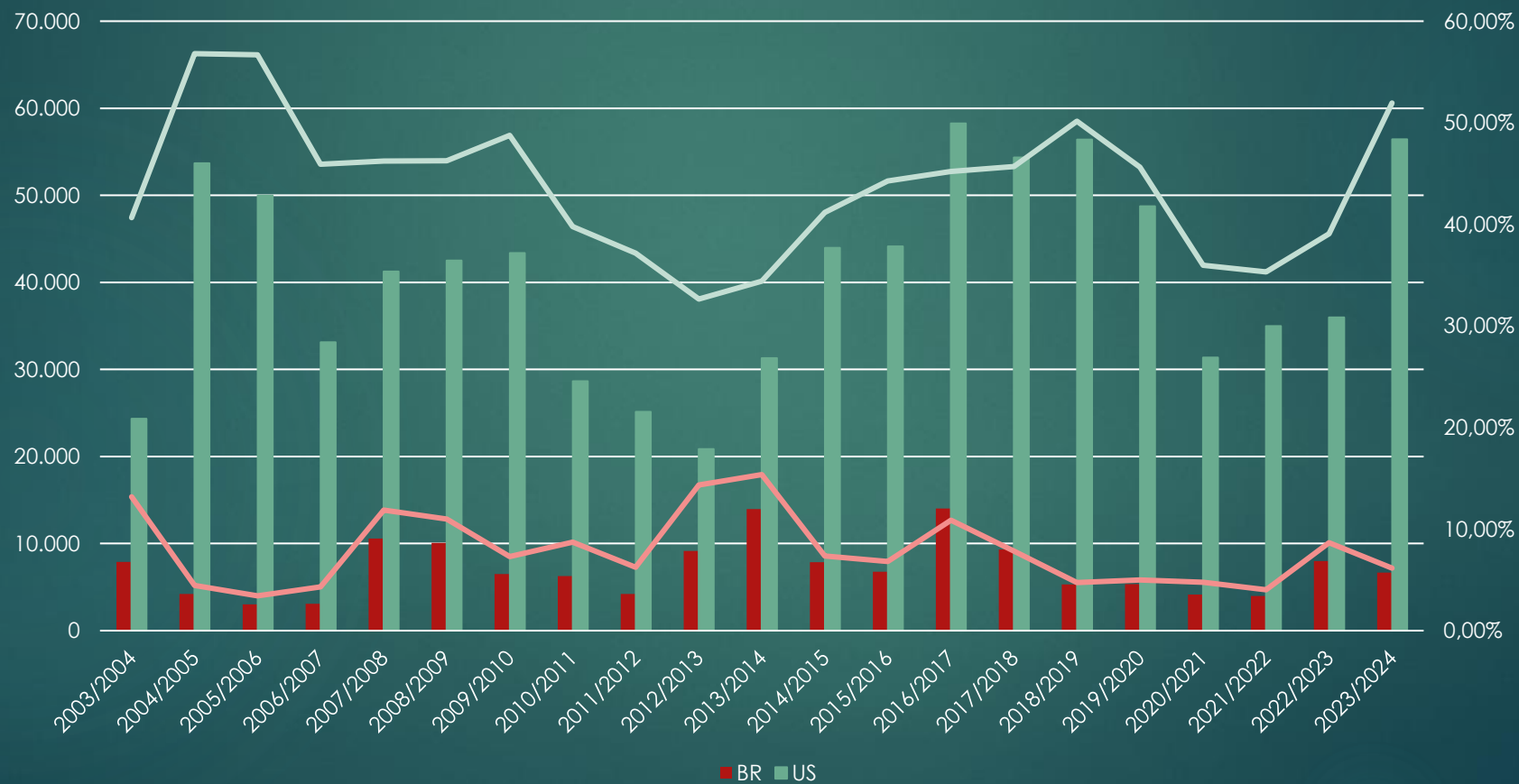
U.S. ending stocks – return to the levels of the 2016 – 2019 timeframe. Not bullish

U.S. corn ending stocks = 56.43MMT. Last time at these levels was 2016 - 2019 period. Revert to CME futures range in that period? Past is prologue



ROW corn ending stocks – the U.S. expands its profile if its production is realized vs USDA projections. This will be the “tale of the tap” – if or as MM\$ continues to build a net short position

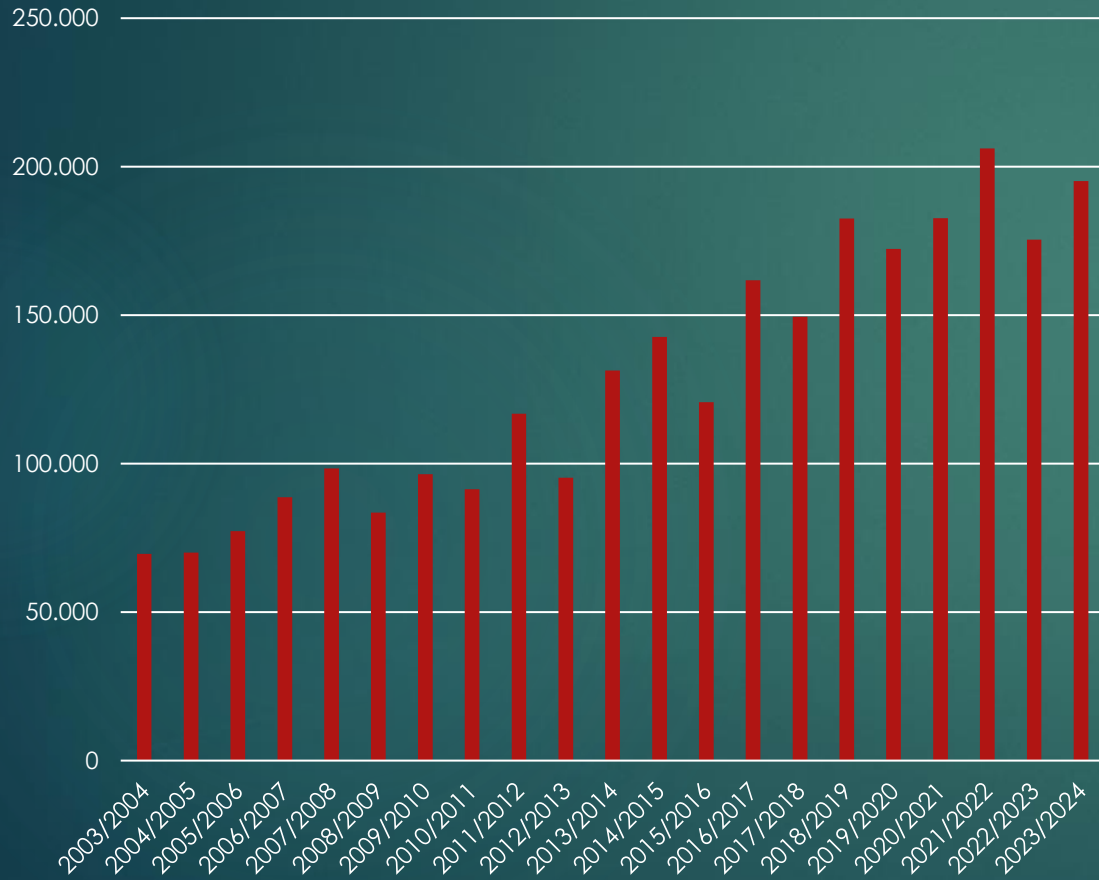
The U.S. will hold 52% of the ROW corn stocks in 23/24 (39.1% this year). BR will hold 6.1% (8.7% this year)



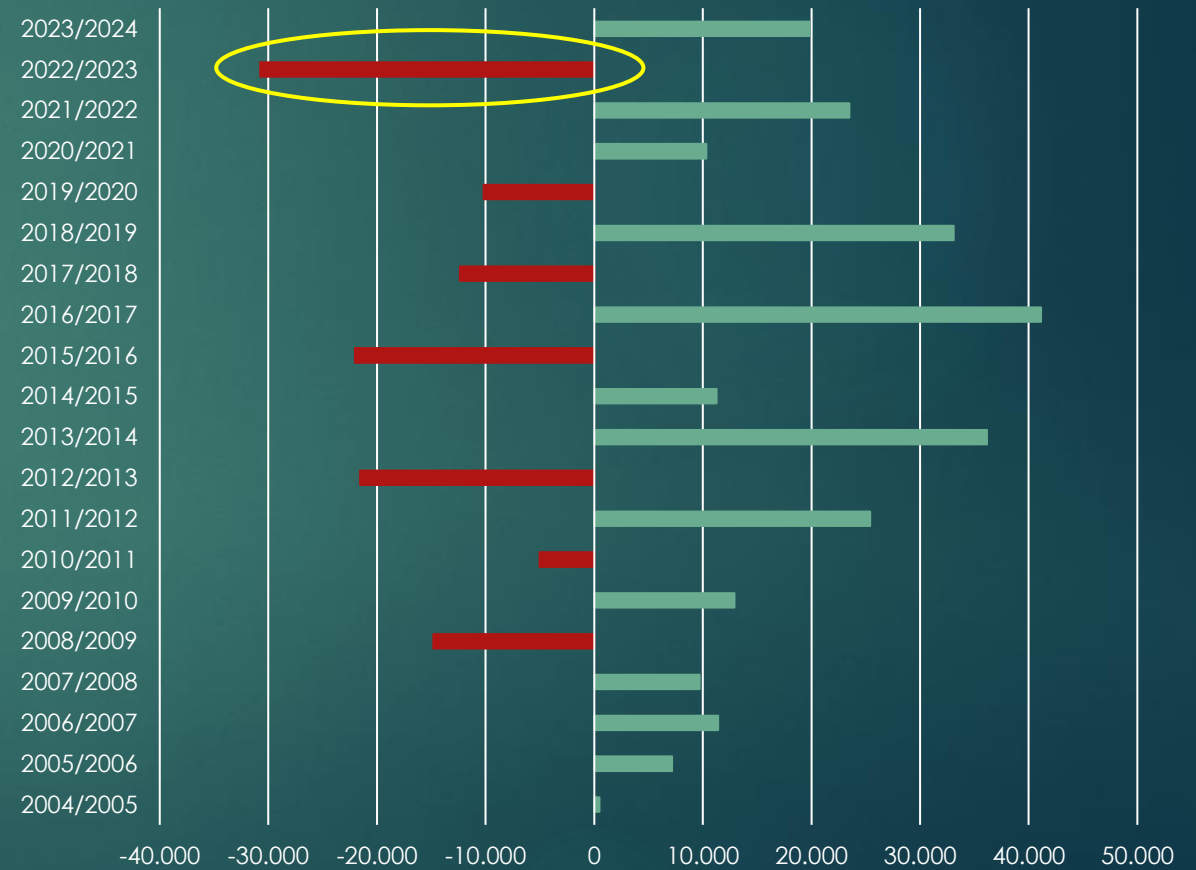
23/24 world corn export trade: forecast = 195.2MMT (+19.8MMT) – this will mandate that USDA is correct that ROW corn feed demand will rebound over 23MMT in 23/24. World corn export trade was down a record -30.8MMT in 22/23



ROW corn export trade = 195.2MMT in 23/24 (175.4MMT this year) vs record = 206.2MMT in 21/22



ROW corn export trade: from record decline to a +19.8MMT gain in 23/24



Weekly corn charts: solidly below all major moving averages. MM\$ short -92K (record -322.2K). Who is there to take on that market segment? Don't fight the flow as U.S. ending stocks surge higher in the May WASDE for 23/24 – and will hold 52% of ROW corn stocks (if record production is realized)

