Weekly Market Report

Monday, 8 May 2023

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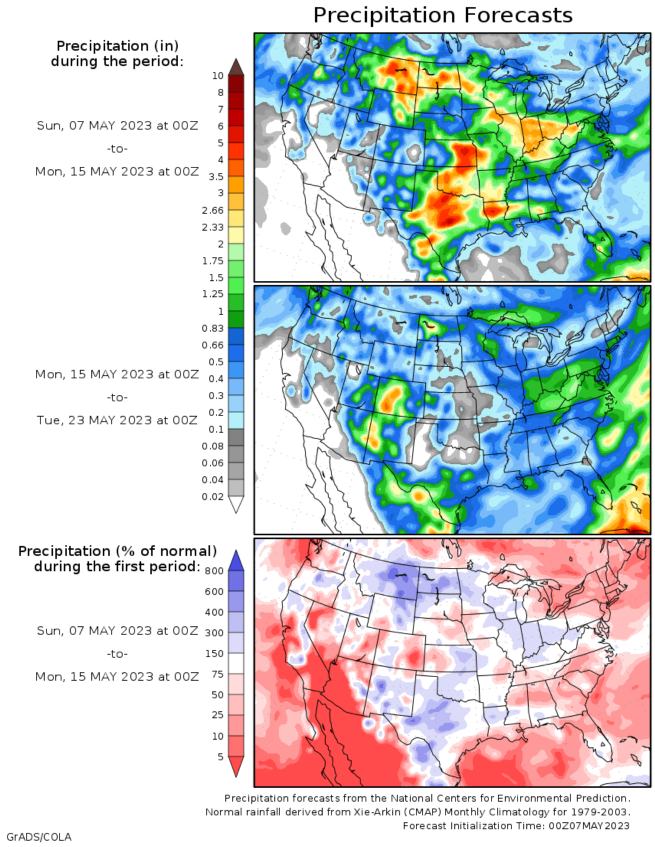
Weekly Overview

Price changes over the week.

	Price	Change	Change%	30 Day High	30 Day Low
CBOT Wheat	660.25	26.50	4.18%	717.25	603.75
Kansas Wheat	833.00	56.75	7.31%	886.00	736.25
Corn	596.50	11.50	1.97%	647.50	569.25
Soybeans	1436.50	17.25	1.22%	1501.00	1392.25
Soybean Meal	426.10	-6.30	-1.46%	468.20	418.00
Soybean Oil	54.33	2.66	5.15%	56.21	50.57
Crude Oil	71.27	-5.34	-6.97%	82.91	63.90
Palm Oil	795.00	49.25	6.60%	837.25	745.75

Grains prices rallied over the week on the back of news that the grain corridor deal has not been extended, as the three countries failed to reach an agreement, according to one of the news wires. However, we still believe that the grain corridor is essential for both countries due to the critical export revenue it allows. Therefore, some resolution should be reached in the coming weeks, where the grain corridor shall be extended.

Soybean complex was mixed with soybean meal, and soybean oil prices were higher by the end of the week after initially trading lower. However, soybean meal continues to be under pressure as managed money funds have continued to be net sellers of soybean meal.

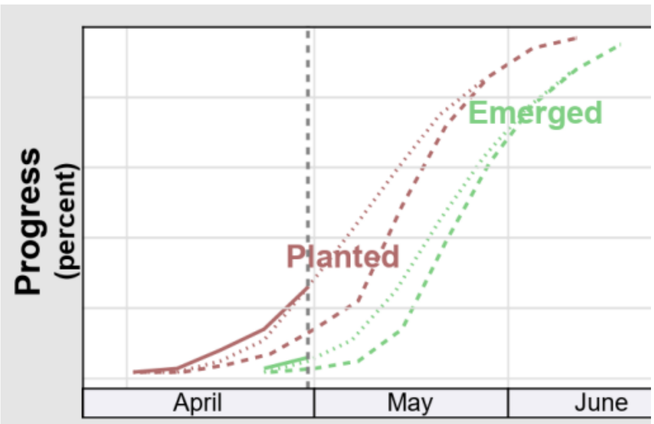


The prices, before last week, were mainly under pressure due to a larger than expected decline in FOB South American basis. However, the basis levels has since recovered from the lows made earlier.

For Corn and soybeans, regardless of the size of the old crop in Brazil, the critical factor for prices in the coming months will be forecasted weather in the mid-west US. The size and impact of the South American crop are factored into the current prices, and the size of the US crop is yet to be determined.

The current makeup of the global supply and demand balance sheet puts a higher risk of a rally on the soybean vs. Corn. The supply and demand balance sheets are tight; anything lower than a trend yield can increase prices. Soybean prices are at higher risk of the rally, as even with trend yield, carry-out expectations stand at a low 200 million bu. If the crop yield were to drop by a couple of bushels per acre, soybean prices could significantly rally from current levels.

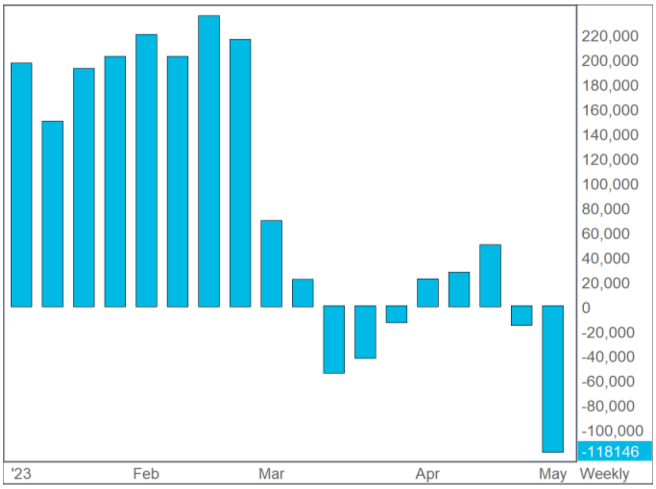
As we mentioned last week, it is still too early to make anything but statistical model estimates on the yields, as long-range forecasts are unreliable.



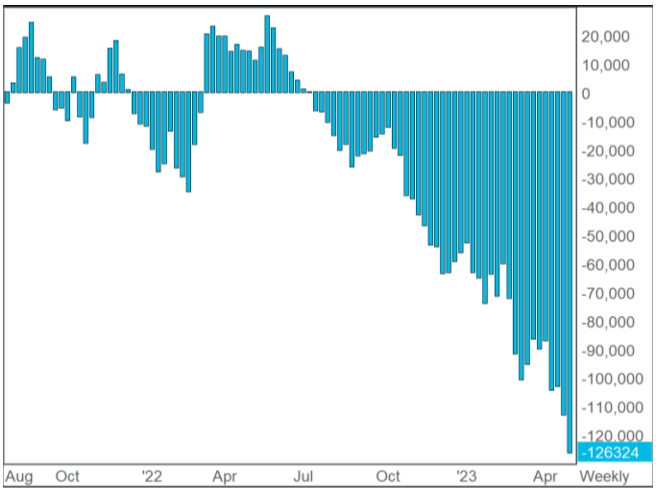
Corn Planting Progress

Planting progress in Corn and soybean is going well and should not have an adverse impact on the crop size due to lower planted acres.

CFTC COT Report showed a large net selling by Managed money funds in Corn, taking the net short positions to net 118 k contracts short. However, the cut of the report is as of Tuesday, and we expect a significant portion of this to have been reversed, given the price rally.



Corn Managed Money Fund Net Position (in contracts)

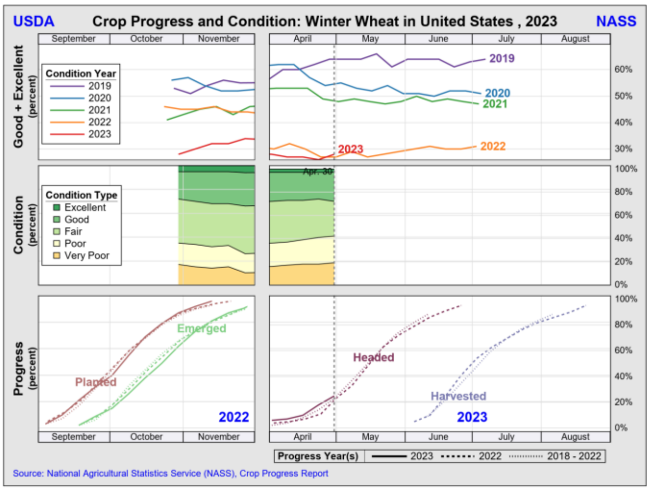


Wheat Managed Money Fund Net Position (in contracts)

Managed money funds have continued to add to short positions on wheat, but like Corn, we should see some position reversal in next week's report.

Grains

Wheat prices were lower earlier in the week, as forecasts have continued to improve for HRW wheat; however, given that the precipitation improved late into the crop year, we don't expect a huge uptick in the crop size. However, the crop conditions for the HRW have not improved significantly.



Price rallied later in the week when there was news that the grain corridor might not be extended, though we continue to believe that the grain corridor will be extended and some solutions will be found in the coming weeks.

As we mentioned last week, Fundamentally, not much has changed for the global wheat crop (assuming continued grain corridor).

Price will be a function of the Northern Hemisphere crop performance in the coming months. Supply and demand balance sheets do not have room for a large crop reduction from the major exporting countries.

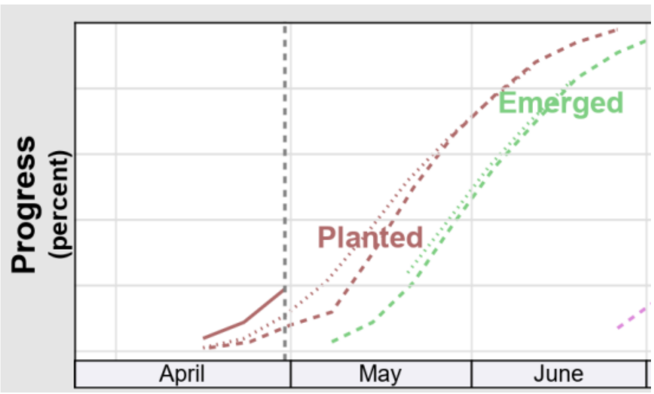
We have been right on the price move; even though the pace of the rally has been sharp due to fear of stopping the black sea supply, we continue to be bullish about wheat prices in the longer term due to the dependence on the size of the North Hemisphere crop.

Higher wheat prices supported the corn price rally. As stated earlier in this report, corn prices will be a function of the forecasted weather in July, as corn crop yields are most sensitive to rainfall in July.

Additionally, as the South American premiums have not stabilized, we expect pressure on prices to reduce significantly. However, the market needs to see a clear threat to the US new crop to have a sustained price rally.

Oilseed complex

Soybean prices were trading lower earlier in the week, but with Brazilian premium values stabilized, the market has started to build in the risk premium for the new crop size uncertainly.



NX spread also rallied last week in line with our expectations.

We hold that soybean fundamentals have not changed significantly, and the risk of new crop carryout being smaller than current estimates remains. Any threat to the new crop soybean size will propel the price even higher. As a result, the price move probability skew remains to the upside.

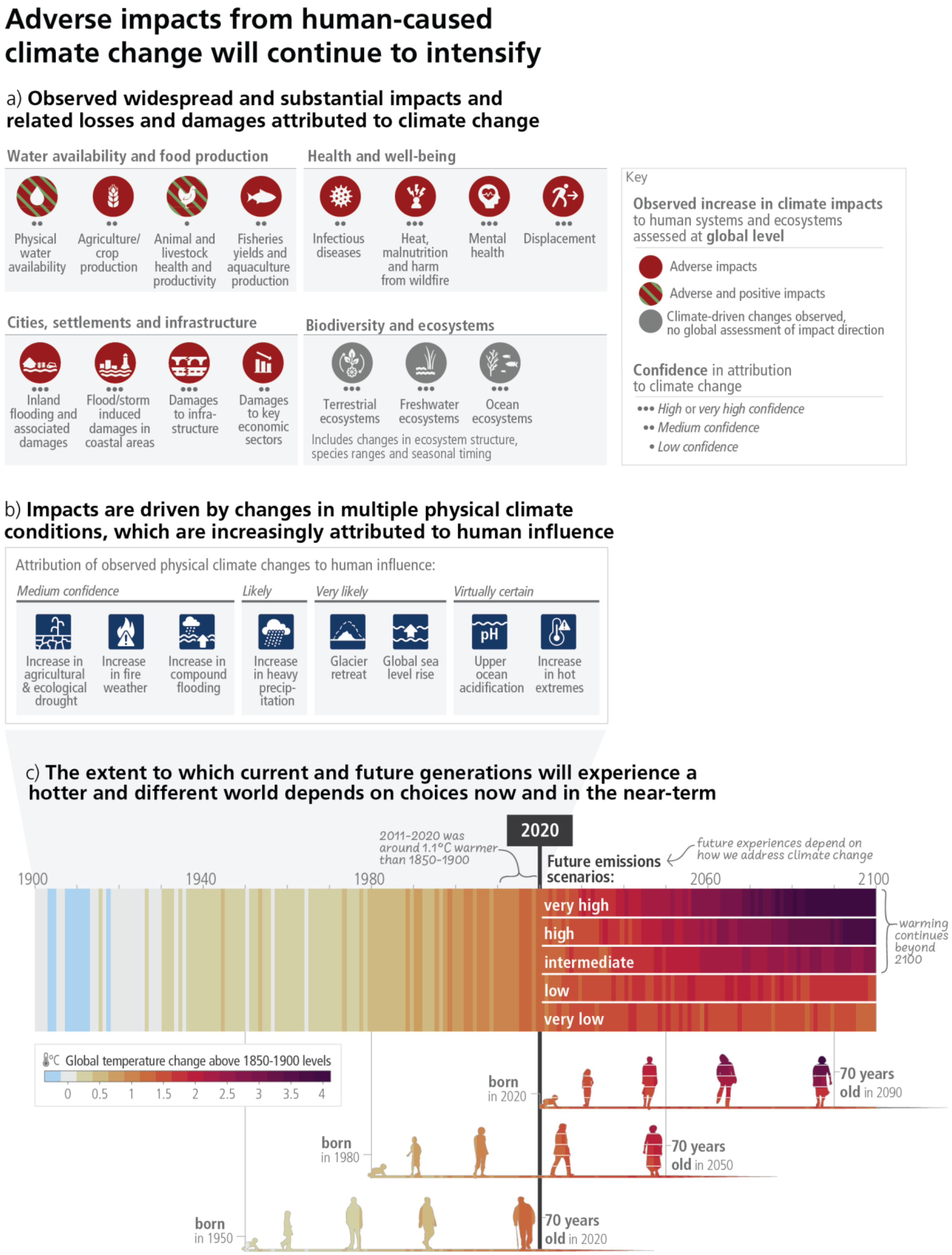
Trade-Ideas:

Wheat: continue to hold long options calls or call spreads.

Soybeans: long on the N/X spread between 150-160 range. Add long options (call, or call spreads) on SX, as implied volatility levels are low, and underpricing the risk to new crop in our view.

Corn: stay humble and trade volatility over rain fall events. Use Quickstrike to optimize option ideas with short dated tenors

Food for Thought: The impact of of client change on humans in various scenarios.


Adverse impacts from human-caused climate change will continue to intensify
a) Observed widespread and substantial impacts and related losses and damages attributed to climate change
Water availability and food production
Physical water availability
Agriculture/ crop production
Animal and livestock health and productivity
Fisheries yields and aquaculture production
Health and well-being
Infectious diseases
Heat, malnutrition and harm from wildfire
Mental health
Displacement
Cities, settlements and infrastructure
Inland flooding and associated damages
Flood/storm induced damages in coastal areas
Damages to infra-structure
Damages to key economic sectors
Biodiversity and ecosystems
Terrestrial ecosystems
Freshwater ecosystems
Ocean ecosystems
Includes changes in ecosystem structure, species ranges and seasonal timing
Key
Observed increase in climate impacts to human systems and ecosystems assessed at global level
Adverse impacts
Adverse and positive impacts
Climate-driven changes observed, no global assessment of impact direction
Confidence in attribution to climate change
••• High or very high confidence
•• Medium confidence
• Low confidence
b) Impacts are driven by changes in multiple physical climate conditions, which are increasingly attributed to human influence
Attribution of observed physical climate changes to human influence:
Medium confidence
Likely
Very likely
Virtually certain
Increase in agricultural & ecological drought
Increase in fire weather
Increase in compound flooding
Increase in heavy precip-itation
Glacier retreat
Global sea level rise
pH
Upper ocean acidification
Increase in hot extremes
c) The extent to which current and future generations will experience a hotter and different world depends on choices now and in the near-term
2020
2011-2020 was around 1.1°C warmer than 1850-1900
Future emissions scenarios:
future experiences depend on how we address climate change
1900
1940
1980
2060
2100
very high
high
intermediate
low
very low
warming continues beyond 2100
°C Global temperature change above 1850-1900 levels
0
0.5
1
1.5
2
2.5
3
3.5
4
born in 2020
70 years old in 2090
born in 1980
70 years old in 2050
born in 1950
70 years old in 2020

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