Weekly Market Report

Monday, 22 May 2023

Weekly Overview

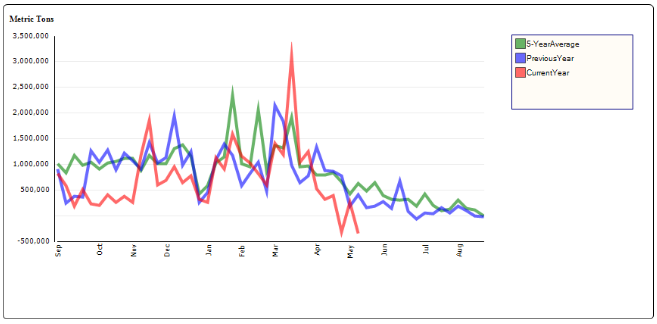
Price changes over the week.

	Price	Change	Change%	30 Day High	30 Day Low
CBOT Wheat	635.50	-28.75	-4.33%	711.25	632.75
Kansas Wheat	807.00	-39.75	-4.69%	890.25	736.00
Corn	499.75	-9.00	-1.77%	559.25	490.75
Soybeans	1175.50	-48.25	-3.94%	1302.00	1173.25
Soybean Meal	377.40	-14.60	-3.72%	414.80	376.50
Soybean Oil	47.05	-1.32	-2.73%	53.46	45.67
Crude Oil	70.17	1.79	2.62%	76.50	63.00
Palm Oil	768.25	-16.25	-2.07%	825.50	749.25

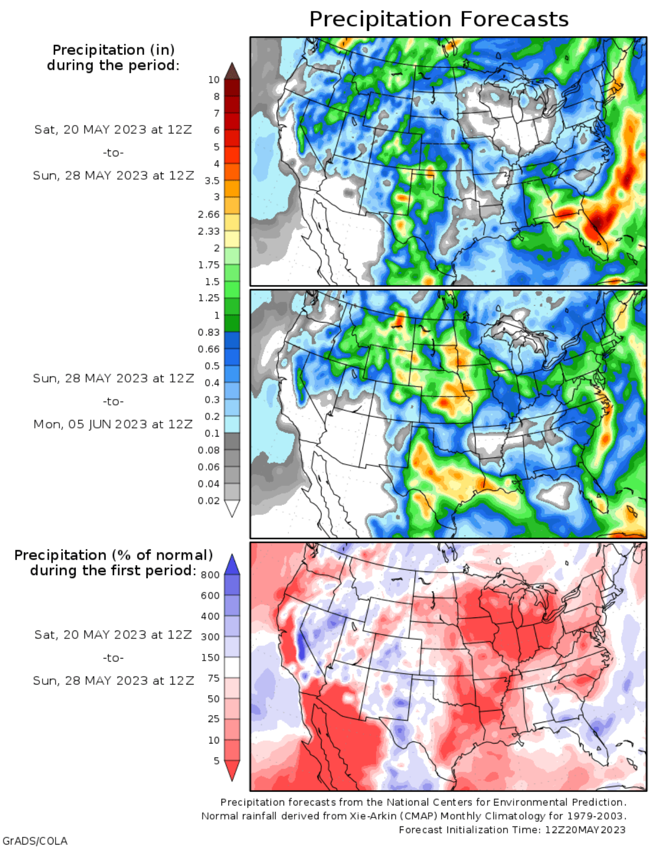
Grain and oilseed continued to drop this week with pressure from managed money selling and continued planting progress. The sell-off has been deeper than anticipated as the market continues to underprice the inherent risk to supply from weather-related factors in the coming months. The additional trigger for the sell-off was some of the export cancellations of US exports from China.

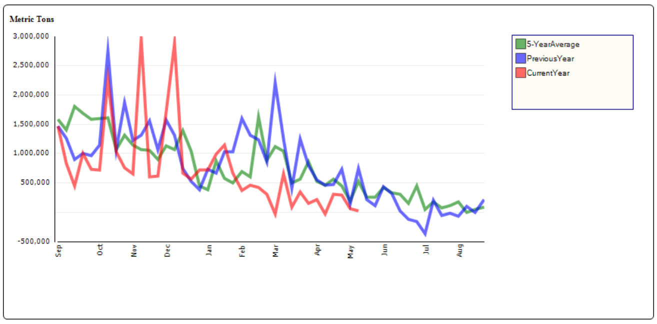
The black sea grain corridor deal was extended for another 60 days, in line with our expectations that a solution will be found and the deal will continue to be in place as it is in the interest of the countries involved.

The current period is not a peak export shipment period of US corn and soybeans, as most of the supply to China is from South America (harvest period of Dec–Mar) so cancellation from US origin is not unexpected. However, the market may be using this as an indicator of lower demand from China in general, with the expectation that this will also help increase new crop carry-outs.



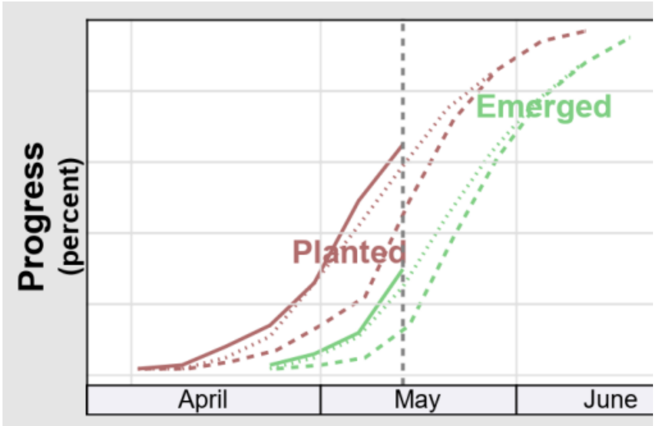
Corn Weekly net sales





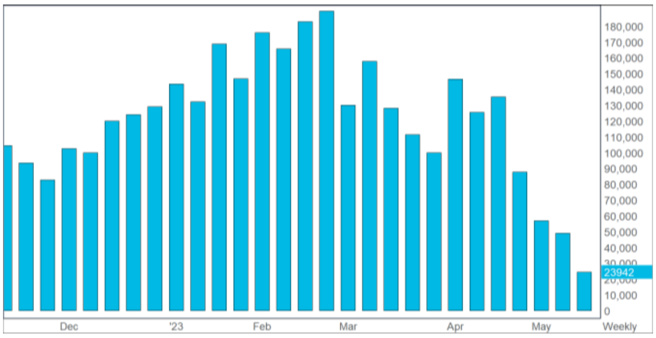
Soybeans Weekly net sales

The low net sales, or negative net sales (due to cancellations) combined with the USDA estimates of higher carryout expectations for new crop weighed on the market prices. Though prices have dropped more sharply than anticipated, we believe the market is underpricing the risk of lower-than-expected yields in soybeans and corn crops. Corn yields will be a function of the weather in July, while soybean yields will be driven by precipitation in August. The critical factor driving prices in the coming months will be forecasted weather in the mid-west US. The planting of corn and soybeans is progressing well ahead of schedule.

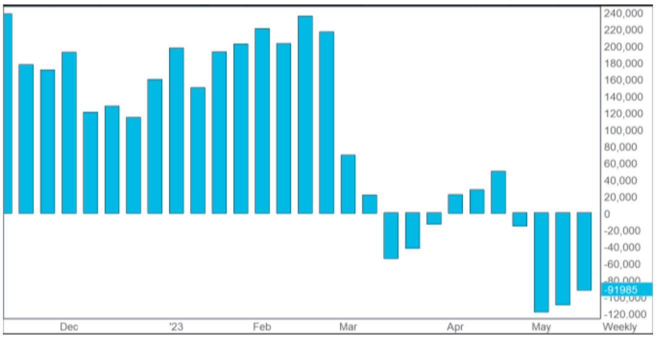


Corn Planting Progress

CFTC COT Report showed that the funds are still short in corn and a sizeable short position in wheat. In addition, funds again reduced their long exposure in the soybeans this week, with net long only at 24k contracts. Managed money funds have also been selling soybean oil positions and are now short 36k contracts.



Soybeans Managed Money Fund Net Position (in contracts)



Corn Managed Money Fund Net Position (in contracts)

Grains

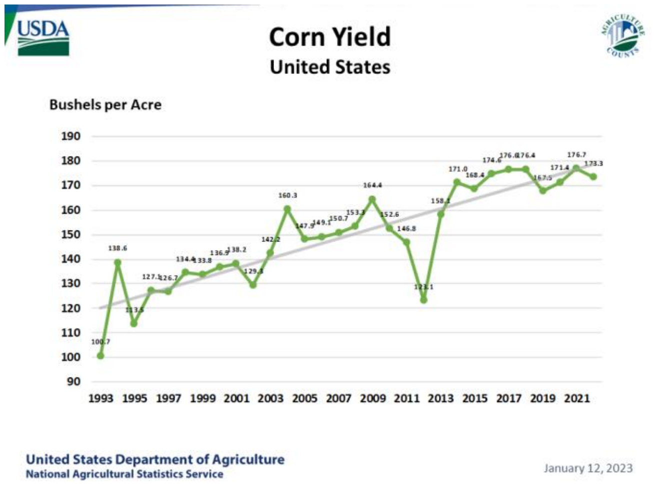
Wheat prices were lower sharply this week on both CBOT and Kansas. The extension of the grain corridor helped push the prices lower. Another bearish reason was that some of the crop tours for HRW wheat resulted in a higher yield than USDA estimates.

The key factor for world prices remains unchanged, i.e. the size of the Northern Hemisphere crops, which will be determined in the coming months.

In recent weeks, it is hard to be bullish in the face of relentless price pressure. However, the lower prices, in our view, are under pricing the risk to global supply. Fortunately, we had recommended going long via options or spreads, as the risk to the downside is limited. Nevertheless, we would suggest adding to the long optionality in case there is a pause in price decline.

Corn prices continued to be under pressure with USDA expectations on carry out at over 2 billion bu, with the yield at 181.5. the yield of 181.5 is a trendline yield, and we would need to see near-perfect weather conditions in July to see a number close to that. However, in case the corn yields come under threat, the price risk will be to the upside.

The market we under pressure this week due to the cancelled sales of corn, but as mentioned earlier in the report, the current period is the main season for US exports, and given how low the South American premiums were, it is understandable that some of the corn origins switching took place.



For corn, the market needs to see a clear and significant threat to the US new crop for a sustained price rally.

Oilseed complex

This week, soybean prices were under pressure again, driven lower by a good planting process, low net export sales numbers, and continued fund selling.

NX spread also declined; with the export sales number being this low, we recommend stopping out of the positions in N/X.

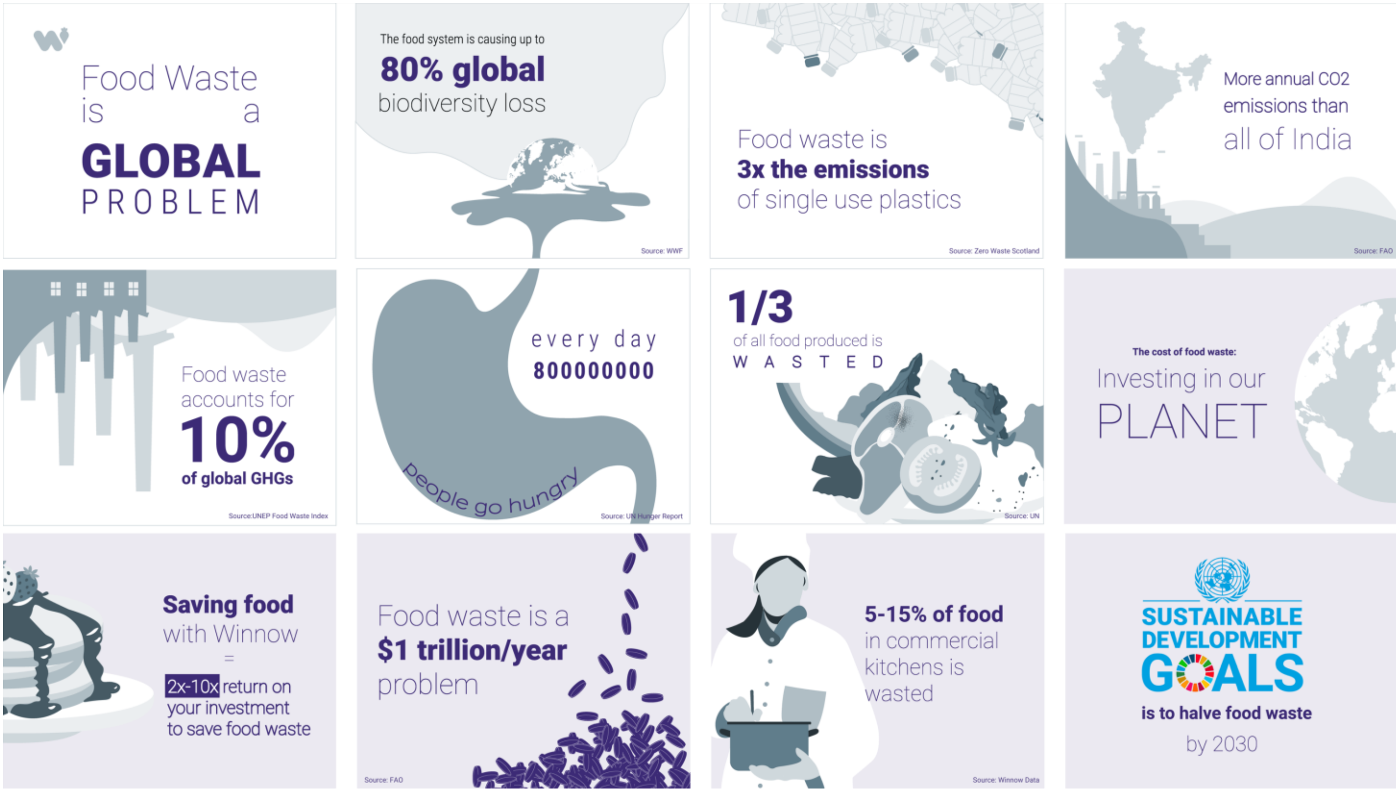
However, given the price decline, and the inherent risk to the new crop, we recommend going long SX mainly via options. Furthermore, it is hard to estimate when the price decline will pause; hence, adding long exposure via options makes sense.

Trade-Ideas:

Wheat: continue to hold long options calls or call spreads. Add long calls on the pause of price decline.

Soybeans: stop out of the N/X spread. Add long call options on SX

Food for Thought: Food waste is a global problem



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