Weekly Market Report

Monday, 7 Aug 2023

Proudly Sponsored by CME Group

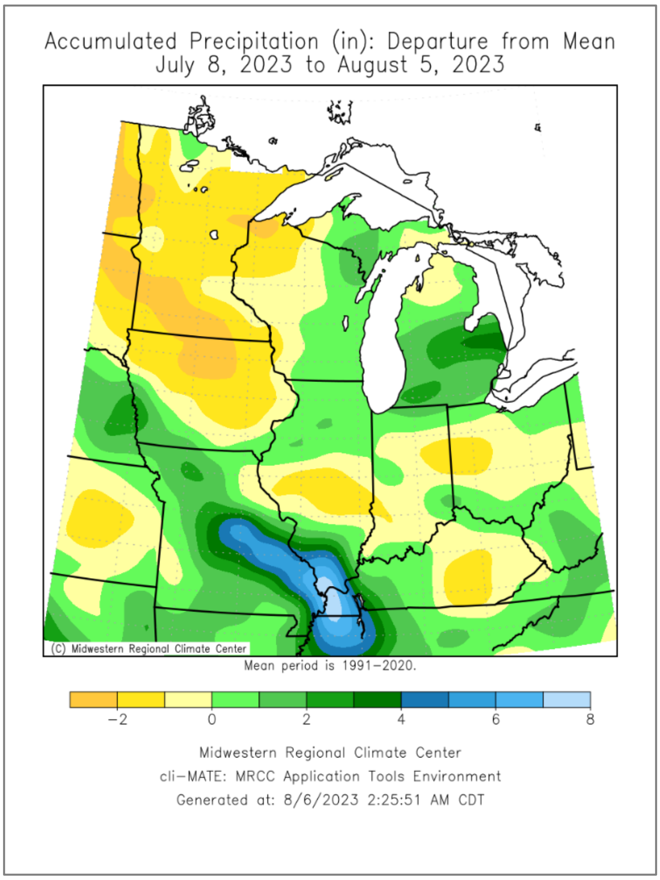
Weekly Overview

Price changes over the week.

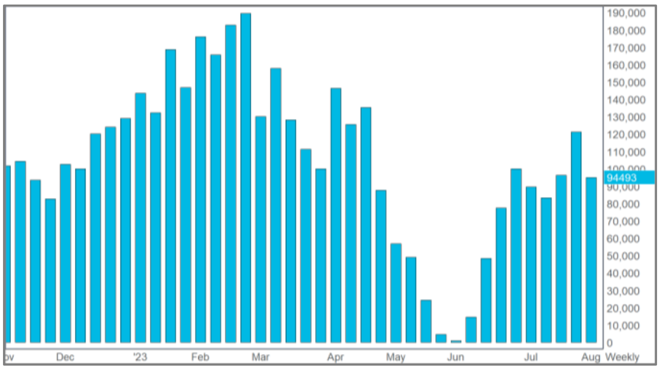
	Price	Change	Change%	30 Day High	30 Day Low
CBOT Wheat	655.00	-73.00	-10.03%	796.25	641.50
Kansas Wheat	782.00	-87.25	-10.04%	936.00	768.00
Corn	493.50	-36.75	-6.93%	572.25	481.00
Soybeans	1325.25	-57.25	-4.14%	1435.00	1315.00
Soybean Meal	398.50	-7.30	-1.80%	424.70	384.70
Soybean Oil	60.04	-2.36	-3.78%	65.58	58.20
Crude Oil	80.12	0.80	1.01%	81.53	70.50
Palm Oil	855.25	-36.25	-4.07%	920.25	836.00

Over the past week, grain and oilseed prices primarily closed lower. This trend reflects the potential optimism arising from enhanced weather forecasts and the reduction of corn yield uncertainty now that July - the most critical period for yield determination - is over. Even though accumulated precipitation is closer to normal, the heterogeneity of rainfall patterns in key growth areas still holds the potential for yield surprises. Especially in drier regions, reduced yield estimates are anticipated.

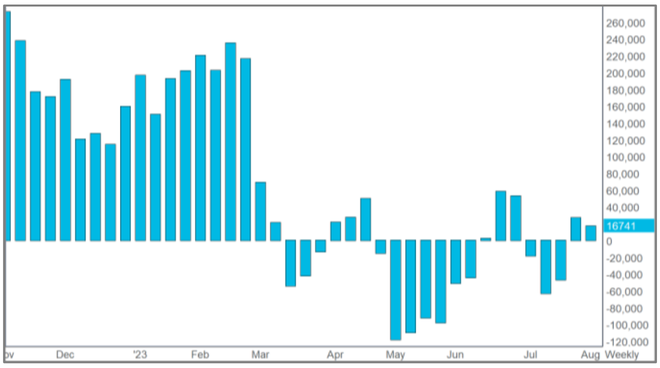
Amidst this background, the lack of uniform rainfall in the Midwest is contributing to a broad spectrum of yield estimates in private sector analyses. Until the USDA releases more definitive, survey-based yield figures, trading strategies should be framed around the potential room for error in the supply and demand balance sheets



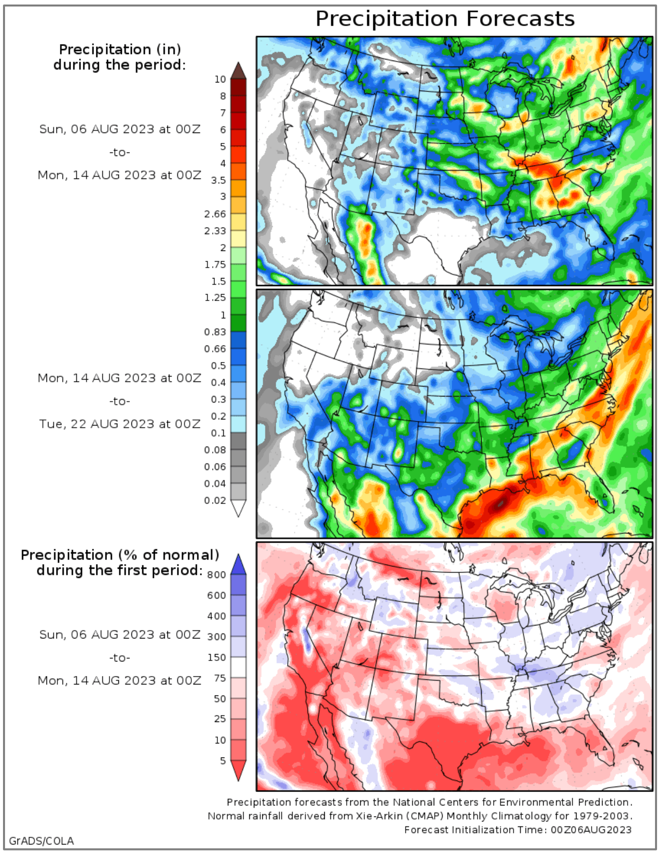
Moreover, the ongoing geopolitical turbulence in the Black Sea region continues to inject volatility into the markets. In the absence of Black Sea supply, the world balance sheets for both corn and wheat become considerably tighter.



Soybeans Managed Money Fund Net Position (in contracts)



Corn Managed Money Fund Net Position (in contracts)



Wheat prices, in particular, are vulnerable to rallying on the back of supply stoppages from the Black Sea, given the tighter global carry out expectations.

Despite the current geopolitical volatility, a modicum of grain export through the Black Sea region is expected to continue, with Russia taking on a larger share. However, Ukraine's export capacity may be further compromised due to Russia's ongoing attacks on its infrastructure.

Market movements last week, including the notable price decline, hint at a belief that wheat exports from the Black Sea region will persist.

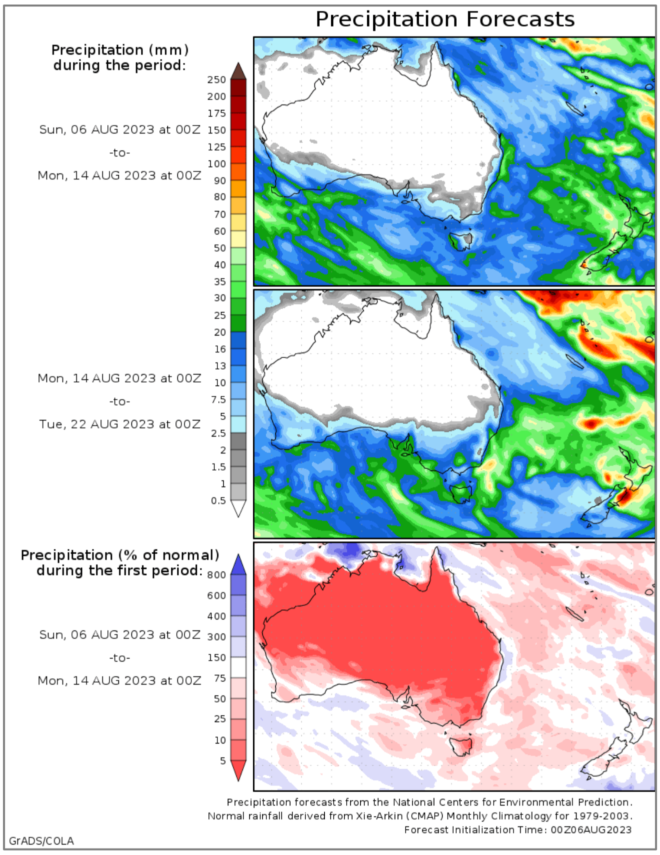
In terms of managed money positions, no significant shifts were observed, except for a reduction of soybean positions by 25kmts.

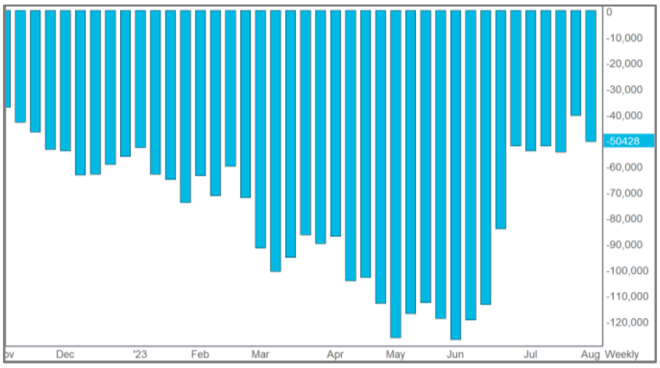
Looking ahead, the market-determining factors remain consistent, focusing on weather forecasts for final yield determination and the evolution of the Russia-Ukraine grain corridor situation.

Grains

Wheat futures ended the week sharply lower, confirming the wide-swinging, directionless market pattern observed since late winter. Funds continue to hold short positions in wheat, with considerable uncertainty surrounding Ukraine's capacity to exceed current export flows and lack of clarity on crop size.

The major global threat to wheat prices stems from uncertainties regarding Russian and Ukrainian supplies. We anticipate some form of resolution will be reached, or at the very least, Russia will maintain exports from its ports. An additional risk factor is the potential for a grain ship to be attacked, which could dramatically impact war risk insurance and result in significantly reduced exports from the region.





CBOT Wheat Managed Money Fund Net Position (in contracts)

Rumours of India potentially allowing wheat imports have begun to circulate, though no confirmation has been received. The market is currently pricing in a range of potential import estimates. Further, the Australian wheat supply to the global export market may face significant disruption in Q4 if El Nino conditions affect yield potential. The critical period for the Australian wheat crop falls between August 15 and September 15, and forecasts suggest dry weather that could curtail crop size potential.

With these uncertainties in mind, geopolitical factors and less than ideal weather conditions throughout the northern hemisphere's growing season will continue to contribute to wheat price volatility. Prices are expected to trade within a wide range due to uncertainties in the Black Sea, lacking a clear directional trend.

Corn prices began the week under pressure due to declining wheat prices. Although current corn yields are largely undetermined, the inconsistent nature of precipitation over the past month suggests that yield determination may take longer.

The USDA WASDE report due at the end of this week will shape the future direction of corn prices. Nevertheless, unless there is a significant downward surprise in yield numbers, a price rally might be difficult given the sufficient room in the balance sheet for a lower yield number. Even a sharp decline in yield would likely result in limited upside potential for price rallies as long as Black Sea supply flow remains uninterrupted.

On the supply side, Argentina has included corn in its Export Increase Program, aiming to boost the country's foreign exchange reserves until August 31. This extra supply of corn in the export market could suppress price growth. At the same time, abnormally high summer temperatures in China's corn-growing areas have led to retreating private crop estimates, possibly establishing a higher price floor.

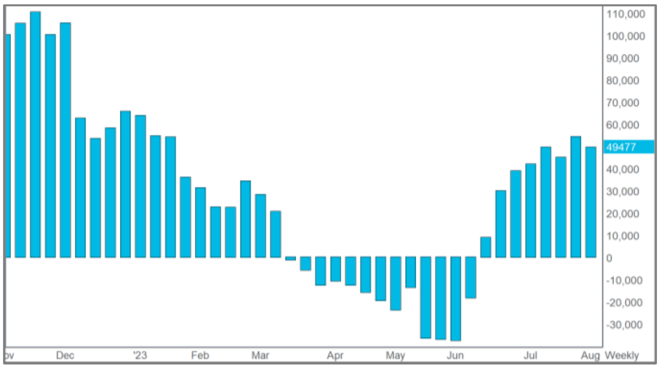
Despite the room for lower yield in the balance sheet, a yield drop below 170 could significantly reduce carry-out estimates, potentially leading to a price rally. However, we currently view this as a low likelihood scenario. Corn prices are expected to trade within a large range, with the main volatility driver being Black Sea export capacity.

Oilseed complex

Soybean prices experienced downward pressure over the past week as the market continues to remove risk premiums during the critical yield-establishing phase of plant growth. The uneven distribution of rainfall raises concerns that the market may be prematurely discounting risk premiums.

Although soybean crop conditions experienced a minor downturn, we caution against overemphasizing small changes at this stage, as most of the yield is yet to be determined next month. Given the zero tolerance for larger yield decline in the supply and demand balance sheet, any threats to the crop could cause a significant price reaction.

The August Crop Report could become a substantial market mover if yield expectations disappoint, particularly given the recent market price declines. Ultimately, future soybean prices will depend heavily on weather patterns in the coming months, with August being the key determinant for soybeans.



Soybean Oil Managed Money Fund Net Position (in contracts)

Given the lack of room in the balance sheet for yield decline, even a 3-4 bushel yield drop could lead to very tight carry-out estimates, suggesting that price risk remains on the upside.

Trade-Ideas:

Soybeans: continue to hold long call options on SX. Look to buy SN4/SX4 calendar spread at current levels.

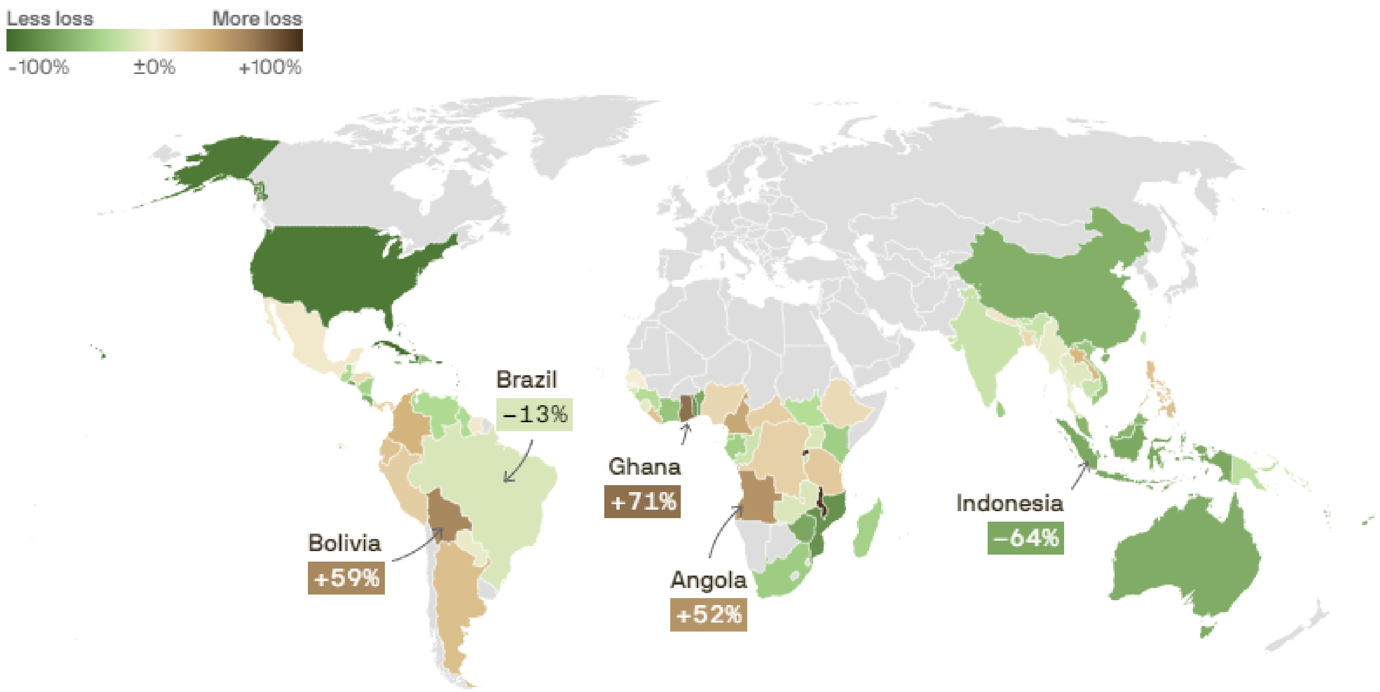
Corn: consider going long at reduced levels

Wheat: stay close to home, too many variables in play, can consider owning volatility

Food for Thought: the change in loss of primary forest around the world

Change in primary forest loss

Change in average loss from 2015–17 to 2020–22



Data: Global Forest Watch/World Resources Institute; Note: Includes countries with at least 1 Mha of tropical primary forest in 2001; Map: Alice Feng/Axios

Despite global commitments to halt the loss of tropical forests, the world lost 10% more primary rainforest in 2022 than it did the year before.

Disclaimer and Important Disclosures

The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many varied views over the past 12 months, including contrary views. A large number of views are being generated at all times, and these may change quickly. Any valuations or assumptions made are based solely on the author's market knowledge and experience. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. The given material is subject to change, and although based upon information that we consider reliable, it is not guaranteed as to accuracy or completeness. PRETB Pte Ltd believes that the information contained within this report is already in the public domain. The material is not intended to be used as a general guide to investing or as a source of any specific investment recommendations. Investors with any questions regarding the suitability of the products referred to in this presentation should consult their financial and tax advisors.

This material does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. Persons into whose possession this document may come are required to inform themselves of and observe such restrictions.