Weekly Market Report

Monday, 29 January 2024

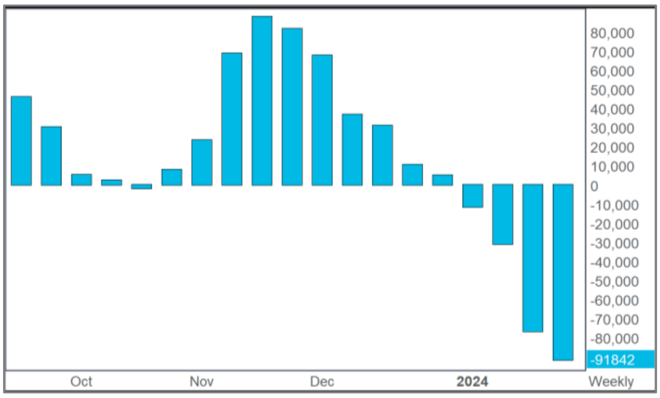
Weekly Overview

Price changes over the week.

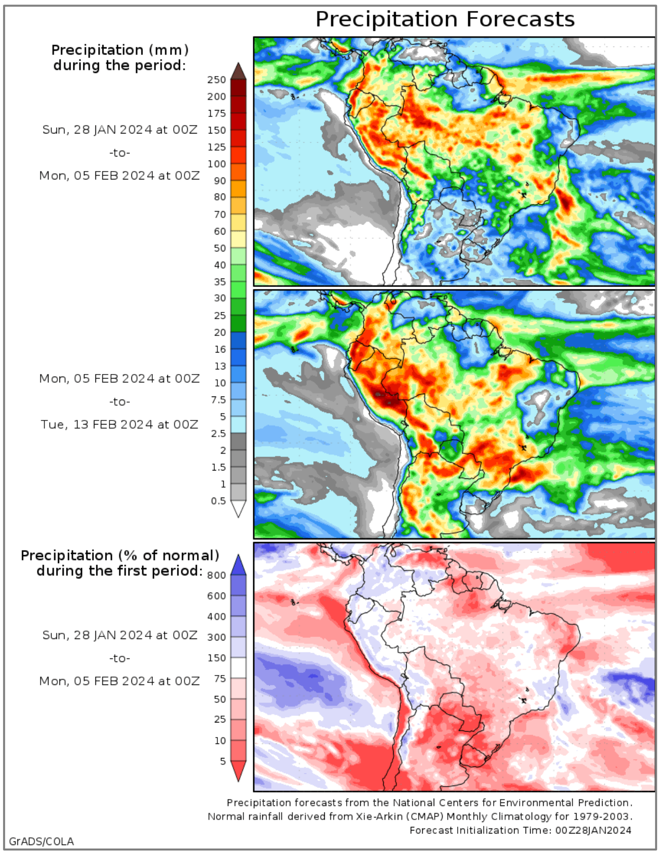
	Price	Change	Change%	30 Day High	30 Day Low
CBOT Wheat	600.25	7.00	1.18%	636.25	573.25
Kansas Wheat	624.75	16.75	2.75%	648.50	586.75
Corn	446.25	0.75	0.17%	478.75	436.75
Soybeans	1209.25	-4.00	-0.33%	1327.50	1201.00
Soybean Meal	349.00	-7.50	-2.10%	397.50	348.60
Soybean Oil	46.93	0.03	0.06%	49.65	46.08
Crude Oil	78.01	4.76	6.50%	78.26	69.56
Palm Oil	812.25	14.75	1.85%	812.25	769.50

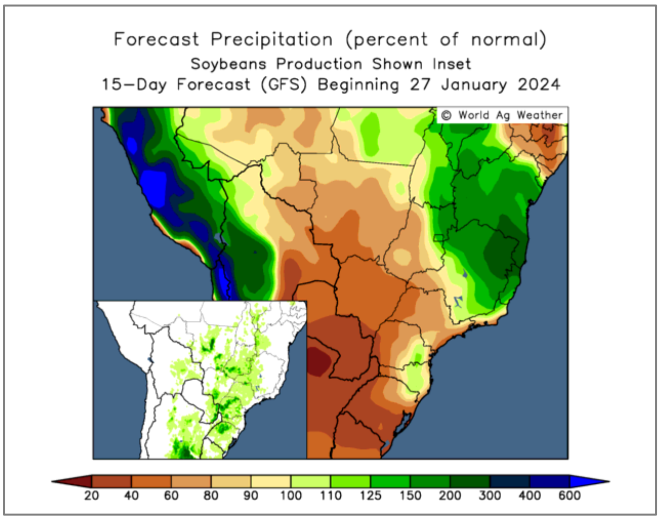
The past week witnessed a marginal uptick in grain and oilseed prices. Traders are closely monitoring the South American weather and the potential crop sizes in the region, as these factors are expected to be crucial price drivers in the coming months. Additionally, the upcoming crop profitability in the U.S. will play a significant role in determining planting intentions, which are due in a couple of months.

Brazil's weather forecast for the next week has worsened, potentially supporting commodity prices going forward. Conversely, the Commitment of Traders (COT) report indicates that managed money funds were net sellers in soybeans and soybean meal, resulting in a net short position in soybeans of 90,000 contracts. These funds continue to maintain sizable shorts in corn and wheat as well.

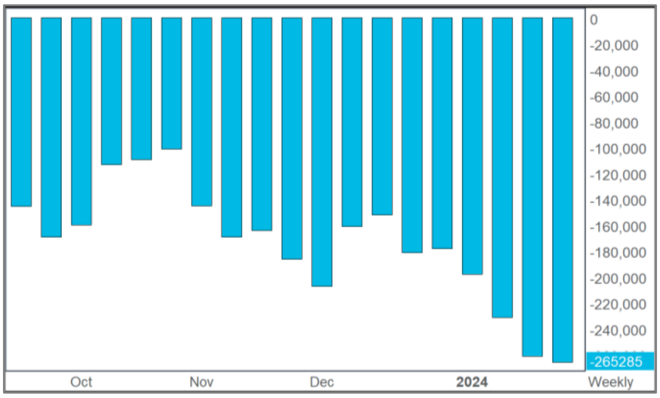


Soybeans Managed Money Fund Net Position (in contracts)





The flow of commodities from the Red Sea is being hampered as securing war risk insurance becomes increasingly challenging amidst escalating attacks. This situation might have broader implications for the global supply chain.

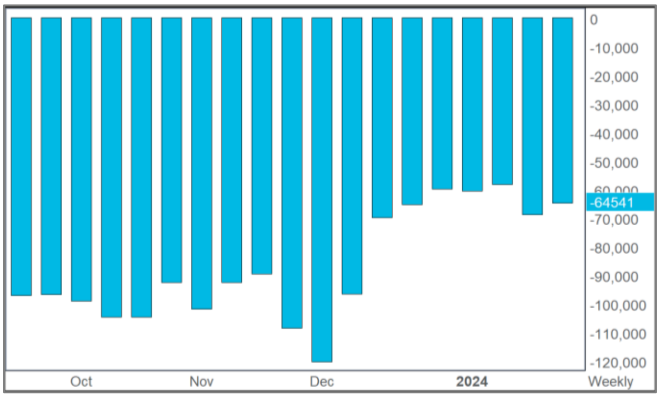


Corn Managed Money Fund Net Position (in contracts).

Grains

U.S. wheat futures closed the week on a firmer note, with new crop supply risks fully offsetting the large existing stocks in Russia, Ukraine, and Europe. The market is currently grappling with a fundamental bullish narrative, as global import demand surges and a need for trend or above-average yields in 2024 emerges to stabilize exporter stocks.

The key long-term focus for wheat is the potential decline in winter wheat acreage in the U.S., Western Europe, and Ukraine. Without ideal weather, the EU and UK could see a production drop of 6-8 MMT year over year. Despite ongoing grain exports from the Black Sea region, the availability and cost of vessel insurance due to the Ukraine conflict remain primary concerns.



CBOT Wheat Managed Money Fund Net Position (in contracts)

The wheat market in early 2024 is expected to be a battleground between large existing supplies in Europe, Ukraine, and Russia, and elevated forward supply risks due to reduced planted acres. Furthermore, new threats, such as the ongoing historic drought in North Africa, are emerging and could significantly impact global trade flows and stock levels.

March CBOT corn futures remained unchanged for the third consecutive week, with no significant fundamental news to sway prices notably.

The managed funds' sizable short position of 265,000 contracts and end-user pricing during market dips are providing some support to the prices.

Brazilian crop forecasts have again turned worse, yet it's too early to assess any meaningful impact on the corn crop, as the key yield-sensitive months for Brazil's second crop corn begin from mid-March onwards.

The U.S. continues to attract import demand due to its competitive position in the world feed market, expanding U.S. corn export demand.

The market’s next price reset will likely hinge on the performance of Brazilian safrinha yields, which cannot be accurately predicted until spring.

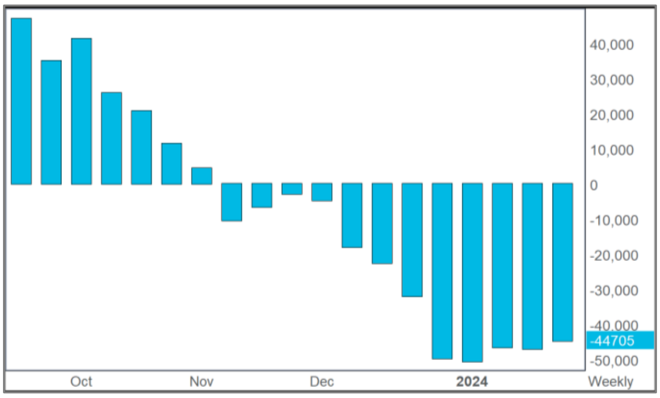
While U.S. corn demand remains strong, USDA’s February and March WASDE reports are expected to show unchanged balance sheets for the U.S., exporters, and the world, indicating a current abundance of supply.

Oilseed complex

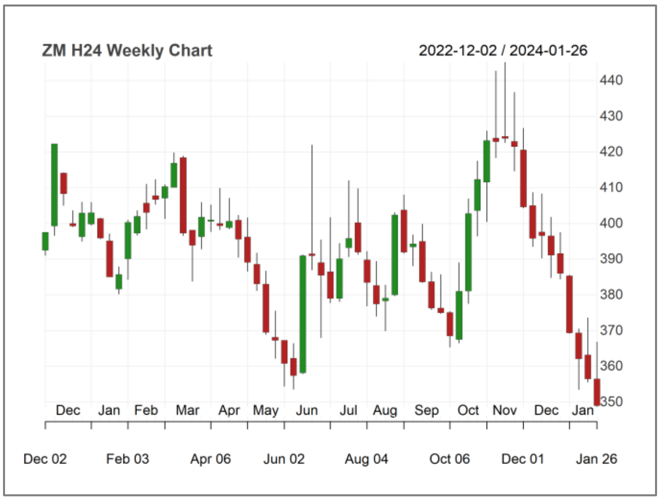
Soybean futures experienced volatility, trading higher in the first half of the week due to short covering but relinquishing those gains in the latter half.

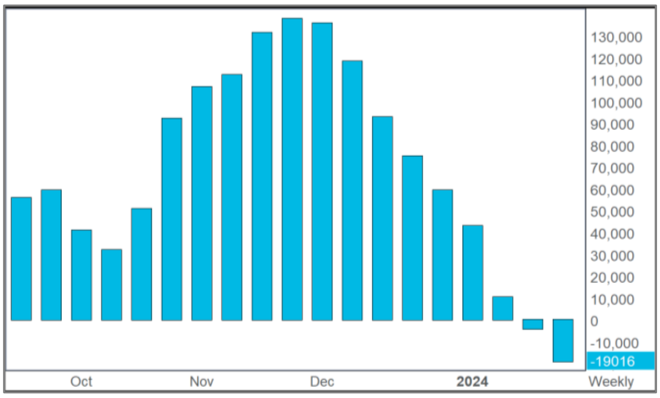
Fund short covering provided early-week support, but slow U.S. exports and a lack of bullish news hindered sustained market momentum.

The focus on Brazilian soybean harvest reports and private crop estimates will be crucial for price direction in the weeks ahead. Soil moisture in northern Brazil remains a concern, and short-term forecasts are drier. This situation might lead to significant production estimate cuts if conditions don't improve.

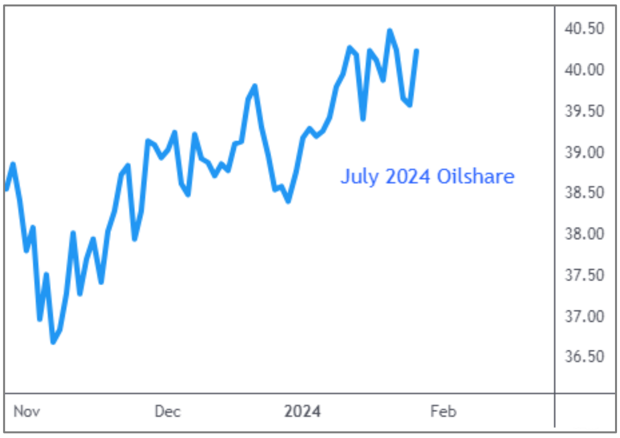


Soybean Oil Managed Money Fund Net Position (in contracts)





Soybean Meal Managed Money Fund Net Position (in contracts)



Private estimates for the Brazilian crop have slipped below 150 MMTs, with some even falling below 145 MMTs, contrasting with the USDA and CONAB estimates in the mid-150s. A crop size below 145 MMT could be bullish for nearby CBOT soybean prices, though the declining basis for Brazil March/April shipments indicates a lack of immediate spot demand.

The market's primary focus moving forward will be the South American crop size, as determined by upcoming weather patterns. This factor, along with Chinese crush margins turning positive, could lend some short-term price support. However, the possibility of additional U.S. export demand is limited due to already historically low U.S. soybean stocks.

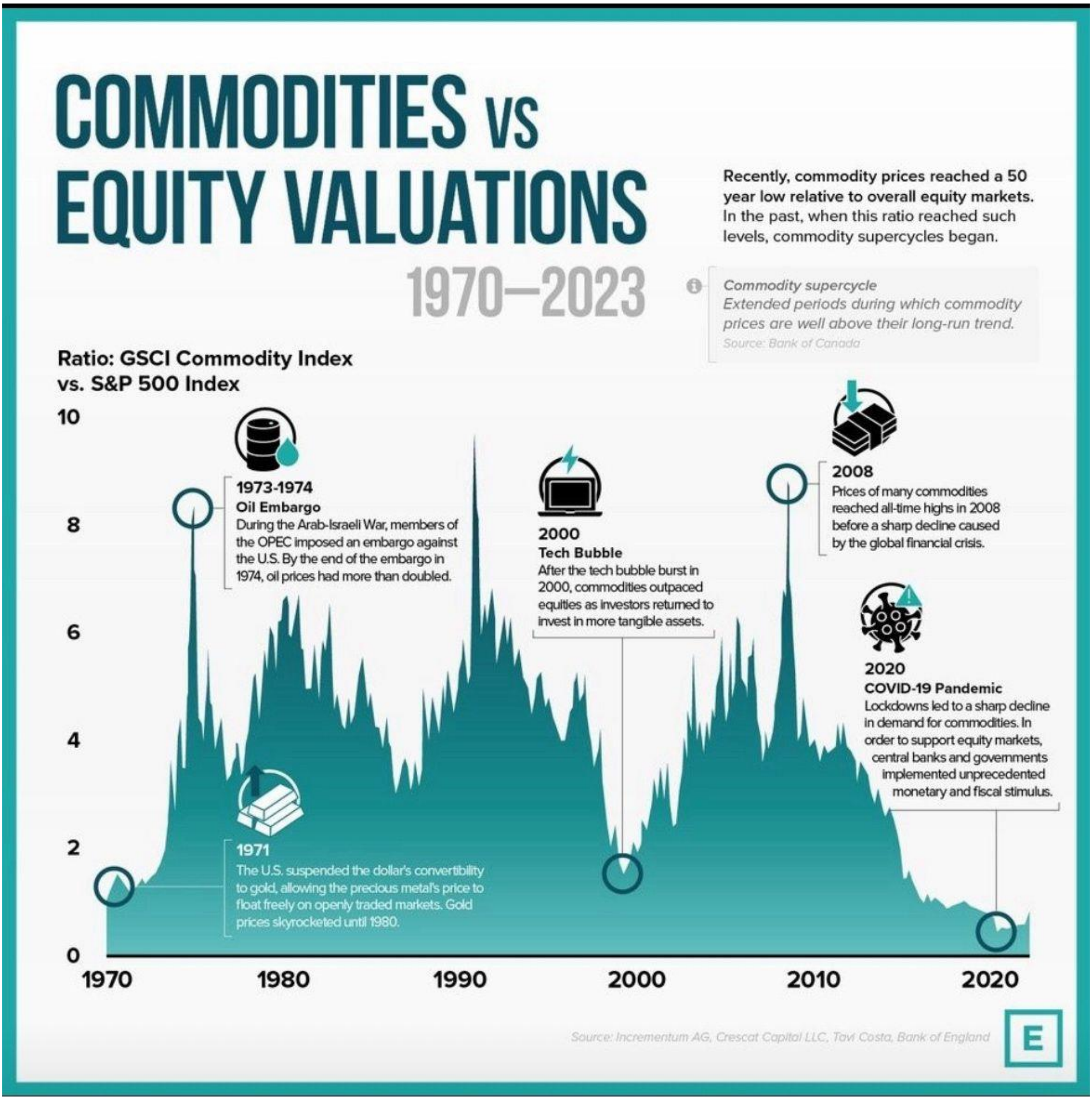
Trade-Ideas:

Soybeans: hold long SN4 call options

Wheat: Hold long WH4 call options (Seasonal recovery + risk or carry out deficit in Q1/ Q2)

Oilshare: continue to hold longs in oilshare.

Food for Thought: Commodity vs Equity Valuations over the years


COMMODITIES vs
EQUITY VALUATIONS
1970—2023
Recently, commodity prices reached a 50 year low relative to overall equity markets. In the past, when this ratio reached such levels, commodity supercycles began.
Commodity supercycle
Extended periods during which commodity prices are well above their long-run trend.
Source: Bank of Canada
Ratio: GSCI Commodity Index vs. S&P 500 Index
10
8
6
4
2
0
1973-1974
Oil Embargo
During the Arab-Israeli War, members of the OPEC imposed an embargo against the U.S. By the end of the embargo in 1974, oil prices had more than doubled.
2000
Tech Bubble
After the tech bubble burst in 2000, commodities outpaced equities as investors returned to invest in more tangible assets.
2008
Prices of many commodities reached all-time highs in 2008 before a sharp decline caused by the global financial crisis.
2020
COVID-19 Pandemic
Lockdowns led to a sharp decline in demand for commodities. In order to support equity markets, central banks and governments implemented unprecedented monetary and fiscal stimulus.
1971
The U.S. suspended the dollar's convertibility to gold, allowing the precious metal's price to float freely on openly traded markets. Gold prices skyrocketed until 1980.
1970
1980
1990
2000
2010
2020
Source: Incrementum AG, Crescat Capital LLC, Tavi Costa, Bank of England
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