

# Soybean Focus Report

Friday, 15<sup>th</sup> July 2022

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## Welcome to the Soybean Focus Report Q3-2022, post WASDE July

The initial price shocks due to the Ukraine - Russia conflict seem to have subdued somewhat in the market, but the impact on food security in the long term are still unknown. Prices are coming back to more normal levels. We recently saw a significant round of funds liquidating their long positions on the theme of a potential global recession impacting the overall demand for commodities.

The “weather-market” for the Northern Hemisphere is now in full play, and will last at least for another 6 weeks. Many governments are talking about inflation hedges and are actively trying to control food and energy prices.

We are of the opinion that there is more volatility to come in the months ahead. There have been few changes to bullish fundamentals. For the latest updates and numbers, see the **Global Supply & Demand** section of this report that includes the WASDE report released on July 12<sup>th</sup>.

Instead, the price drop led by recession theme has made it more attractive for end-users to extend their coverage. In this report we will touch on the main topics to focus on, while making your investment decisions.

In the last part we will show some trade/hedge ideas and how to execute them.

## Quarterly Price Moves Overview

Price changes over the last 90 days

	12-Jul Price	10-Jun Change	Change%	90 Day High	90 Day Low
CBOT Wheat ZWZ22	830.25	-267.75	-24.39%	1282.00	802.25
Kansas Wheat KEZ22	875.75	-301.50	-25.61%	1376.75	841.25
Corn ZCZ22	586.50	-134.00	-18.60%	766.25	566.50
Soybeans ZSX22	1343.00	-225.25	-14.36%	1584.75	1302.50
Soybean Meal ZMZ22	389.70	-12.10	-3.01%	429.60	375.30
Soybean Oil ZLZ22	57.92	-18.10	-23.81%	79.29	55.69
Palm Oil CPOV22	957.00	-332.25	-25.77%	1432.75	940.00
Crude Oil CLZ22	86.65	-21.57	-19.93%	110.78	84.54

## Geopolitical Situation / Macro

The market is trying to factor in the impact of the lack of Ukrainian supply on the world market. However, we are not hopeful that there will be a lot of the +/-25mmt supply coming out. There are plenty of issues to be sorted out before the crops can be exported. This is causing stress in mainly North-Africa and the Middle-East that are heavily dependent on Blacksea origin grains.

Many have suspected that the recent collapse of Grain & Oilseed prices has been "macro" related and not so much about US weather (as the jury is still out on US weather/yields).

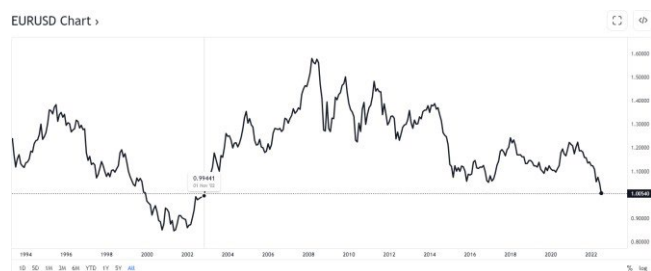
The high correlation between copper and soybeans suggests the "macro" attribution could go much deeper. and the perception that their economy could be less supportive due to continuous Covid restrictions than what we see on the surface. This could have been one of the triggers for the fund selling, and this may continue until Mother Nature puts her foot down, or not. We'll find out soon enough.



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## EUR/USD parity: FX

A big influence on global food prices has been currencies, or the strength of the USD mainly, against the EUR/INR/BRL/CNY/JPY etc. This is making alternative origins “cheap” and thus changes many of the export flows. On July 12<sup>th</sup>, the EUR/USD hit parity (1:1) for the first time since November 2002.



## Global Supply & Demand

June-July is full of “big” reports. We are in a crucial period for growth with both the USDA and WASDE publications attracting attention.

The June 30th USDA stocks and acreage reports came out with a bullish soybean acreage number (less acres than expected at 88.3mln) and an "about as expected" corn stocks and acres number for corn. Followed by the all important monthly WASDE report that came out earlier this week on July 12<sup>th</sup>.

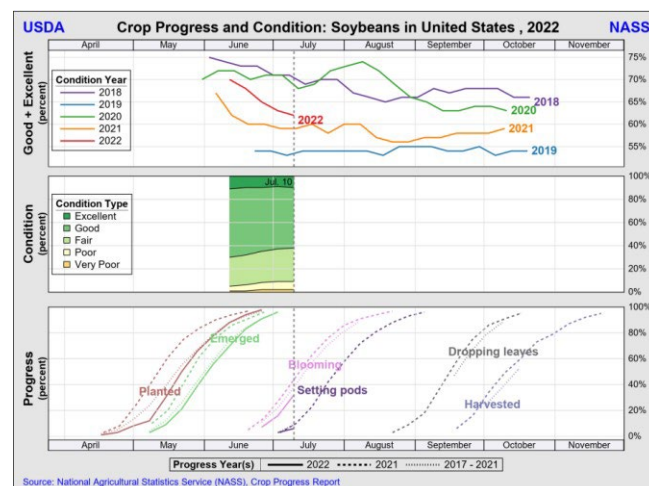
U.S. oilseed production for 2022/23 is projected at 132.7 million tons, down 3.9 million from last month with reductions for soybeans, canola, peanuts, and cottonseed partly offset by an increase for sunflowerseed.

The 2022/23 global oilseed supply & demand forecasts include lower production, lower exports,

higher crush, and lower ending stocks compared to last month. Global oilseed production is reduced 3.7mmt to 643.1mmt on lower soy, rapeseed, cottonseed, and peanut production with higher sunflowerseed production partly being offset.

The 2022/23 global soybean ending stocks are reduced slightly to 99.6mmt tons as higher stocks for Argentina are more than offset by lower stocks for the USA, Brazil, and China.

## Crop Progress Report / Conditions

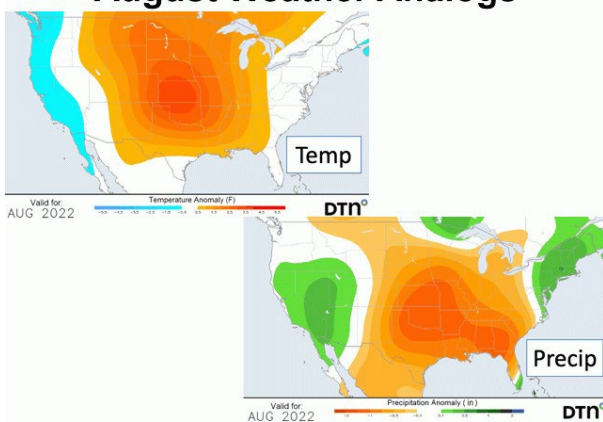


The initial crop conditions were high with 62% in good-to-excellent for the week ending July 10<sup>th</sup>; however, in our view it is still quite early to correlate these conditions for soybeans to their final yield. Most of the yield will be a function of realized weather in August. Blooming and Pods setting is somewhat ahead of the 2017-2021 average at 44% (vs38%) and 9% respectively per July 10<sup>th</sup>.

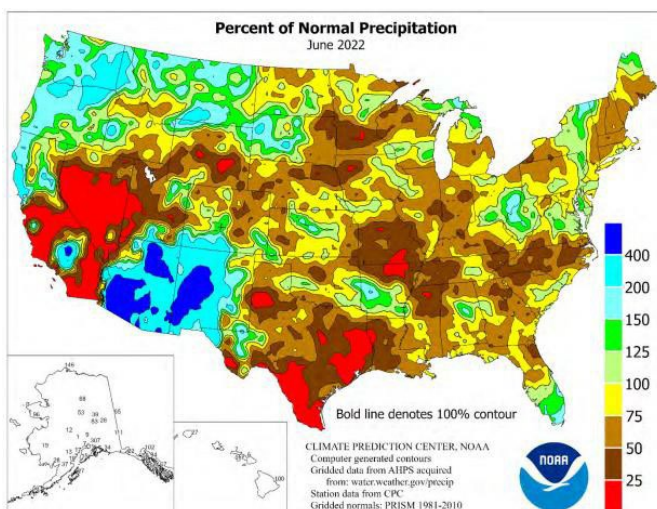
## Global Weather

These months are determining the size of the US crop, which is a function of weather. July has the most impact on corn yields, while August weather conditions will be a significant determining factor for soybeans yields. For now, it looks to be a dry and warm summer, based on similar August Weather Analog years (these are similar La Nina years like 2008, 2010, 2011, 2020 that started the same way).

### August Weather Analogs



These composite analog graphics indicating above-normal temperatures and below-normal precipitation – thus warm and dry – in all primary U.S. crop areas for August 2022 (DTN Graphic).



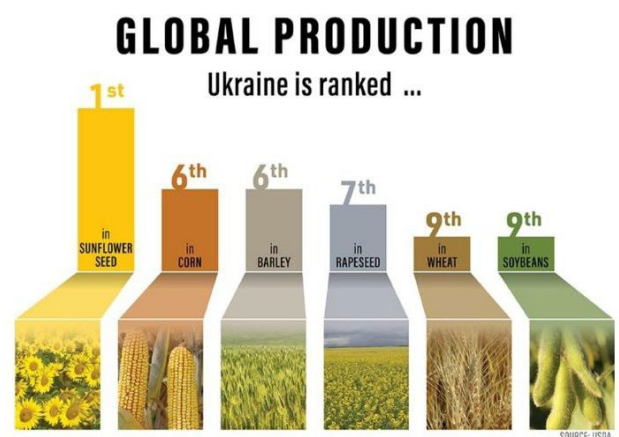
### Other Competing Products/Markets/Tools

**Palm Oil:** Indonesia will update its biodiesel blending mandate from 30% currently (B30) to B35 or even B40 in the coming months to support local production prices. This is very supportive for global vegetable oils prices.

**Ukrainian Grain & Oilseeds:** exports will be limited this year, as capacity is blocked or destroyed. Some Ukrainian products are now being exported out of Romanian ports, but there is little spare capacity there. Additionally, there are growing concerns about planting the next crop as farmers are getting low cash prices due to the high transportation costs and very high input costs. This could lead to significantly lower planting for the next crop leading to a tight balance sheet for next year.

For our price analytics we use CME's [Quickstrike](#).

A simple visualization on how big a producer the Ukraine is in some of the major grains can be found below.



**Trade-Ideas:**

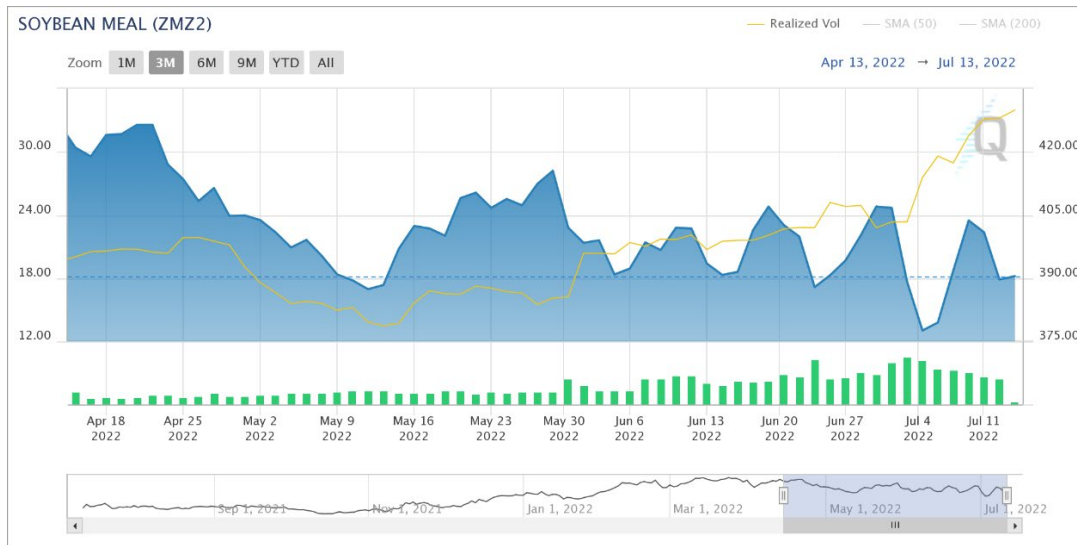
As markets remain very volatile, you could consider spreading your risk, by using not only the standard CME contracts, but perhaps the conveniently sized 1/5<sup>th</sup> mini-contracts. This is a lower-risk and affordable way to access CME products that requires lower initial capital outlay, with lower margin and exchange fees while offering the same features as the standard-sized contracts.

**Soybeans:** The oilseed complex price will continue to be driven by the direction of energy prices and weather in the coming months. August weather is the critical yield-determinant month for soybeans. Till that is over, it is better to play spreads and optionality over outright price positions.

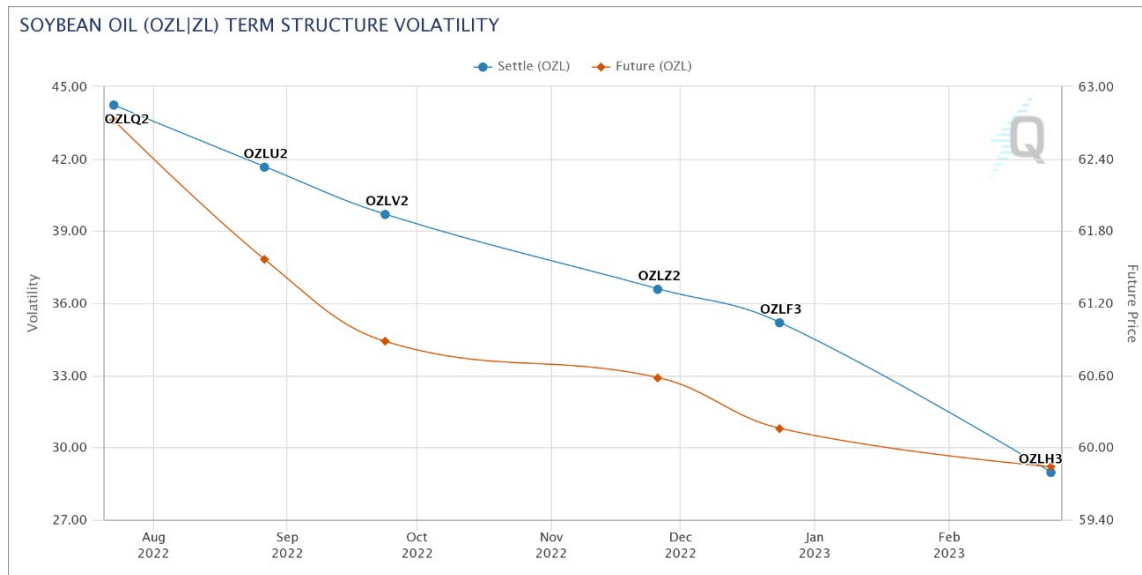
As we are still fundamentally friendly the New Crop over Old Crop, we like to shorten the spread SQ-SX at 125 with a target of around 90.



**Soybean Meal:** look to own calls on breaks over the friendly outlook in the mid-longer term.



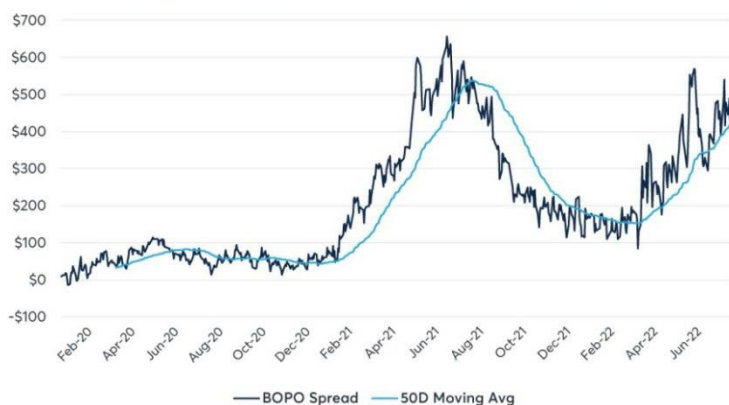
**Soybean Oil:** nearby volatility seems fairly priced for the potential large moves that we are still expecting, but looking down the curve, owning BOZ vol around 36% and 60c seems to be good ownership by buying calls, or buying straddles (+BOZ60C // -BOZ60P)



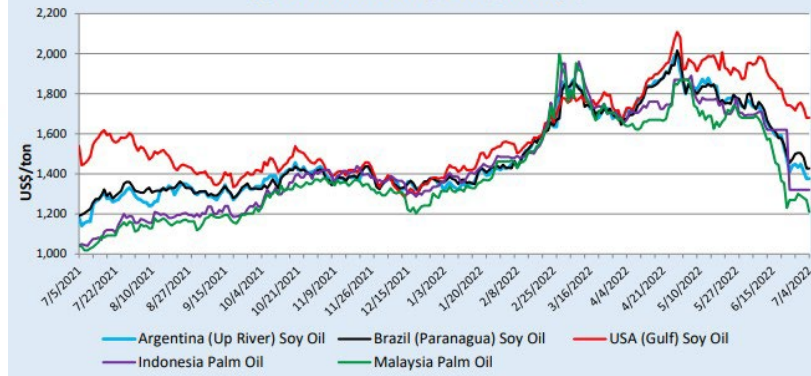
**Oilshare:** Had a huge break over Energy weakness, but is fundamentally a bit undervalued in our opinion currently. Look to own it at around 42% with a profit target of 46-48%.

**Palm/Soya:** The Soybeanoil/Palm oil spread in June increased by over \$130 and has relentlessly moved up. With Palm oil under pressure over accessible stock in Indonesia and lower demand recently, we think this could create a nice opportunity to own palm oil over soybeanoil as the long-term spread is likely to go down to more like the long term average \$200 kind of levels.

Bean Oil - Palm Oil Spread (dollars/metric ton)



SOYBEAN AND PALM OIL EXPORT PRICES



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