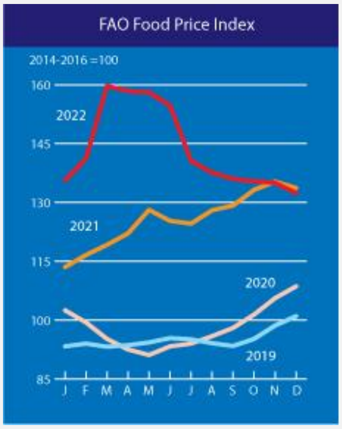
MACROECONOMICS

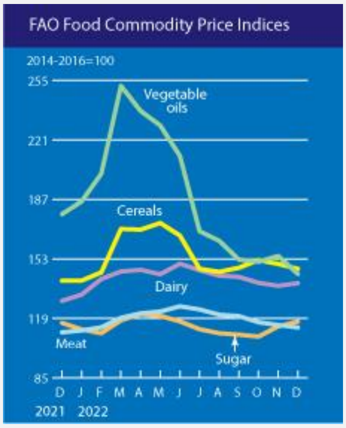
The recent contraction in demand for some raw materials, accompanied by a reduction in energy costs, is generating a drop in prices. Nevertheless, the current period continues to be characterised by high inflation, high interest rates, exchange rate volatility and difficulties in finding labour, hampering the reduction in market prices of finished goods.

- In 2022, global agricultural production was repeatedly affected by rising energy prices, increased production costs, the war in Ukraine, and food inflation. In addition, the highest temperatures in history were recorded, significantly affecting harvests throughout the year.
- **The Russia-Ukraine conflict aggravated the imbalance between supply and demand. The EU has been more affected than other parts of the world.** Due to its energy dependence on Russia, coupled with high inflation and a gradual depreciation of the euro, further exposed EU markets to volatility and increased the differentials between international and European prices.
- The FAO Food Price Index noted that **December 2022 was the ninth consecutive month that brought a further decline in prices** to an even lower value than declared precisely one year earlier. Nevertheless, increased production costs for packaging and logistics did not always offset the decrease in raw material at source.
- **Overall energy prices are expected to fall in 2023 after reaching record levels in mid-2022.** Despite declining Russian gas supplies to Europe, reduced global demand has forced prices down. Similarly, fears of a global recession are affecting oil demand expectations despite the latest batch of EU sanctions on Russian oil. **The easing of natural gas and crude oil markets is expected to reduce pressure on inflation in energy-intensive industries.**

FAO food price index

		Food Price Index [1]	Meat [2]	Dairy [3]	Cereals [4]	Vegetables Oils [5]	Sugar [6]
2021		**125.7**	**107.7**	**119.1**	**131.2**	**164.9**	109.3
2022		**143.7**	**118.9**	**142.5**	**154.7**	**187.8**	114.5
2021	December	**133.7**	111.0	129.0	140.5	178.5	116.4
2022	January	**135.6**	112.1	132.6	140.6	185.9	112.7
	February	**141.2**	113.9	141.5	145.3	201.7	110.5
	March	**159.7**	119.3	145.8	170.1	251.8	117.9
	April	**158.4**	121.9	146.7	169.7	237.5	121.5
	May	**158.1**	122.9	144.2	173.5	229.2	120.4
	June	**154.7**	125.9	150.2	166.3	211.8	117.3
	July	**140.6**	124.1	146.5	147.3	168.8	112.8
	August	**137.6**	121.1	143.4	145.6	163.3	110.5
	September	**136.0**	120.3	142.7	147.9	152.6	109.7
	October	**135.4**	116.8	139.3	152.3	151.3	108.6
	November	**135.0**	115.2	137.6	150.1	154.7	114.4
	December	**132.4**	113.8	139.1	147.3	144.4	117.2





GRAINS

COMMON WHEAT

Wheat price drops on international markets

- The absence of clear threats to the Black Sea 'wheat corridor' is favouring the current price declines of wheat on international markets. Despite disappointing supply in the US and the EU, the **market is now dominated by abundant Russian exports and a record Australian harvest**. At this stage, the strengthening of the euro, which has reduced the competitiveness of European wheat on the international markets and encouraged lower quotes on the EU market, remains crucial.
- **USA:** Despite an increase in the area sown to winter wheat in the USA for the 2023/24 crop, the record cold spell that hit the country will have caused major damage. Moreover, low rainfall is expected for the first quarter of 2023.
- **EU:** Cumulative European common wheat exports have increased. In contrast, imports from third countries have increased drammatically and already cover 86% of expected volumes.
- **UKRAINE:** Ukrainian wheat exports have so far been 46% lower than last year and have slowed down again due to ships blocked. Weather-wise, the warm winter has adversely affected winter crops, putting yield potential at risk.
- **RUSSIA:** The competitiveness of Russian wheat on the international market has been strengthened by the recent depreciation of the rouble against the dollar and the euro, which has allowed Russian wheat prices to gain market share.
- **AUSTRALIA:** Australia's crop estimate continues to grow. High rainfall has enabled record yields, which will allow Australia to export record volumes of wheat. However, the protein content is low, which will result in a large portion of the harvest being destined for feed.
- Bullish volatility cues during Q1 of 2023 may come from dwindling stocks in the EU, poor winter wheat conditions in the US, and news on the Russia-Ukraine conflict front.
- Good conditions and high yield potential for backup corn could allow wheat prices to fall over the summer, provided conditions are favourable.

DURUM WHEAT

Drought in North Africa causes concern for upcoming harvests

- **CANADA**: Spring sowing areas are expected to decline by 6% to the advantage of other grains and some oilseeds such as rapeseed and soybeans. Despite improved yields compared to 2022, production is expected to be similar to the last harvest.
- **USA:** The harvest was completed in all major areas and yields were above expectations. In the past two weeks, quotations have fallen sharply, driven mainly by the trend in common wheat as production in Australia reached record levels.
- **EU & NORTH AFRICA:** Quotations in Europe continue their downward trend. Meanwhile, looking ahead to the 2023 harvest, drought conditions across North Africa are becoming increasingly worrying in Algeria and Tunisia.

GRAINS

CORN

The downward trend in prices continues

- European prices fell more than US prices also thanks to a further strengthening of the euro against the dollar. The exchange rate remains a key variable to monitor in view of increasing European imports. **International prices will still remain historically high, but will continue the downward trend especially with the arrival of South American production, which remains at record levels overall.** The main factors to monitor for possible waves of bullish volatility remain Ukraine's export performance, the weather in South America, and the euro/dollar exchange rate.
- **USA:** The production forecast was lowered by 9% compared to 21/22, due to a downward revision of harvested areas that more than offset the higher yields. Exports and consumption were also revised downwards.
- **UKRAINE:** Ukrainian exports increased and at the end of December were only 4% lower than last year's, thanks to grain export corridors that allowed stocks from the previous marketing year to be exported in the current marketing year.
- **BRAZIL**: The production forecast was lowered due to lower yields of first-crop corn caused by drought, but would still be a record for the country. Record exports are also expected.
- **ARGENTINA:** Due to drought, the production forecast has been lowered, but the drop could be even greater if the drought persists. Exports have also been revised downwards.
- The US is expected to increase production to support higher exports and consumption, which are expected to grow mainly due to an increase in corn for energy use.
- A further decline in quotations is also expected for the European and Italian markets, partly due to a relaxation of macroeconomic support factors and a consolidation of alternative trade routes should the conflict in Ukraine continue. Prices are expected to be lower than for the current harvest, but historically high.
- **A 3% decrease in global corn demand in 2023 is estimated** largely due to consumers turning to more affordable sources of protein in order to cope with rising food prices. Reduced demand for meat from animals requiring a high level of nutrition (e.g., beef) will contribute to the decrease in corn prices in 2023.

RICE

Global market deficit confirmed

- The global 22/23 market is expected to have a deficit of around 12 million tonnes and with stocks at their lowest level since 17/18. Production is expected to drop by 2.3%, with a less marked reduction in consumption. **Factors such as adverse weather and rising input costs have negatively impacted output in key production and export areas:**
    - **INDIA:** Leading exporter and second largest producer. Production is expected to fall by 4%.
    - **PAKISTAN:** Fourth largest exporter and one of the most important origins for the EU market. Production is expected to fall by 29%.
    - **CHINA:** First producer but also first consumer. 2% drop.
- **EU:** Production drop is expected to be 25%. The production shortfall has led the area to a record import requirement (+9% compared to last year).
- **ITALY:** Accounts for more than 50% of the European market. A drop in production of more than 20% is projected due to drought, water shortages and production costs. Non-EU imports increased by 8% and stocks are expected to contract by more than 15%. The production shortfall mainly concerned Long grain A+Medium rice (-34%). The low level of market supply is also shown by the status of paddy rice transfers, which are 33% lower, with a decidedly slow pace of sales.
- International prices, aided by the low level of supply in a duty-regulated global market, limited stocks, and high production costs, remain high and are expected to remain at sustained levels in the short term.
- A bearish phase will characterise prices only in conjunction with the next harvest, which is expected to be better supplied both at the Italian and global level, but also due to the expected declines in other grains and the slight contraction of production costs. At the Italian level, the recovery in yields and a slight increase in areas (especially for the Long grain A variety) is expected to lead to a rebound in production of more than 20% with a consequent increase in stocks and less dependence on imports.

VEGETABLE FATS

SUNFLOWER OIL

Estimated increased production in Ukraine

- **UKRAINE:** Sunflower oil production projections and sunflower sown areas have increased. Although exports have also been revised upwards, sunflower oil shipments were halved in the new year due to high stocks accumulated in the main importing countries.
- **EU:** Large sunflower oil exports in the last period continued at a fast pace, due to a high increase in seed imports and crushing activity, mainly from Ukraine (76%) and Moldova (16%). Over the past year, exports have increased by more than 40%, and more than tripled in December due to high Indian demand.
- Competition with rapeseed oil in Europe, the still wide spread use of palm oil, and increased crushing activity in several countries around the world generated **pressure on quotes at the beginning of the year.** Under the assumption of increased imports from Turkey and Iran (which have reduced duties on vegetable oil imports), and in particular from China (following new, less restrictive COVID-19 policies and a recovery in domestic consumption), **international demand is expected to erode the high supply of recent months**.
- Other bullish factors to keep an eye on this year: oil mills in Ukraine are starting to buy seed more and more aggressively, leading to the first rises in the domestic seed market; the European Union's deforestation policy, which could incentivise the use of sunflower oil for biodiesel production.

PALM OIL

Heavy pressure on the Malaysian stock exchange

- **MALAYSIA:** The strengthening of the ringgit against the dollar is generating pressure on the falling Malaysian stock market prices. In addition, the recent reversal of the country's export trend, caused by slower shipments to India and China, is generating concerns around weak demand. Though in decline, **Malaysian production continues to exceed expectations and is expected to increase by 3.3 % this year,** easing labour shortages as early as mid-2023. A similar trend is observed for inventories, which still remain very high. **Furthermore, Malaysia recently warned that it might stop exporting palm oil to the EU in retaliation for the introduction of new legislation** to protect forests through the strict regulation of palm oil sales. If implemented, this restriction could have significant consequences in terms of redirecting trade flows and/or generating a substitution effect with other vegetable oils.
- **INDONESIA: T**o ensure sufficient domestic supply, the government will limit the country's exports depending on the domestic situation, including the availability and domestic prices of palm oil.
- The large discount on other vegetable oils and the high export volumes in recent months have generated a large stock build-up in several importing countries, especially in India. This is already causing the first slowdowns in international demand and will act as a cap on quotes in the coming months. However, **global consumption is expected to increase significantly in 2023 and global supply is expected to fall, which will offset the slowdown in international demand and generate tensions in the short term**.

OLIVE OIL

First effects of demand destruction in the EU

- The high premium of olive oil over other vegetable oils generated the first **effects of demand rationing and substitution by the ample supply of sunflower oil in Europe**, generating the first price declines.
- The new supply balances published by the European Commission show a drop in demand, mainly outside the Italian domestic market. On the other hand, high domestic stocks in Italy are now the main bearish factor that is expected to put some pressure on prices in the short term.
- In Spain and Greece, drought and water shortages are having a significant effect on production in the current marketing year, leading to higher prices.
- The weather conditions in the Mediterranean area in the next few months will be decisive for next year's production, which is expected to be abundant in Spain and Italy, provided that water reserves are restored and the weather is favourable.

COMMODITY MARKET TRENDS

MILK AND EGGS

MILK AND DAIRY PRODUCTS

Demand contraction drives the market

- After the price drops recorded by processed products, spot milk quotes, which had reached all-time highs, also recorded slight percentage declines.
- The **price weakness** is mainly attributable to the following factors:
  - Contraction of foreign demand (especially from China, due to pandemic containment policies) and domestic demand due to high inflation levels, economic slowdown and the resulting restrictive monetary policies of central banks in the major advanced economies.
  - Improved milk deliveries in the main EU production areas due to favourable weather. The increase in deliveries gave processing some respite.
  - The low competitiveness of EU product compared to other international origins.
  - The drop in the cost of production inputs. By way of example, the price of maize on the EU market has fallen by about 15% since October; natural gas prices (NGT) have fallen by 50%.
- **Further price declines are expected, especially in view of the new spring production peak.** Bullish risk factors, especially for the powder market, include the **possible restart of demand from China** (with the easing of restrictive measures and post-New Year) and Algeria.

EGGS

EU: 2022 and 2023 production revised downwards

- The egg market continues to be characterised by a **substantial supply shortage and prices at record levels.**
- There are two main factors in the EU that continue to encourage slaughtering in favour of stock replacement:
  - Avian flu outbreaks throughout the year, which have affected (and still affect) the whole of Europe.
  - Production input costs: feed prices continue to rise, partly due to the heavy drought in the European Union. Energy prices also continue to support the market.
- According to the European Commission, total egg production for 2022 is projected at -2.3% compared to 2021, down for the second year in a row. **Previous projections for egg production for 2022 and 2023 consumption have been revised downwards.**
- Demand, already seasonally buoyant, shows a good level of rigidity, with eggs being one of the cheapest noble proteins, despite inflation and limited economic growth.
- In the short term, the situation of limited supply and sustained demand will keep prices at record levels. During the early months of 2023, the seasonality of consumption and production will begin to reverse, transmitting declines to prices that will, however, remain in line with those of 2022.

LEGUMES

LENTILS

Declining Surfaces in Canada and Crisis in Pakistan

- **AUSTRALIA:** Very high production estimates confirmed. However, the pace of exports is still slow due to harvesting delays.
- **CANADA:** Spring sowing areas are expected to decline. However, production is expected to increase.
- **PAKISTAN:** Around 6,000 legume containers were stranded at ports due to the shortage of dollars in the country. National lentil consumption is 100% dependent on imports. The country therefore risks a deep crisis in supply and prices. Import permits are to be suspended until stocks at the ports are released.
- Supply from Australia and Canada is driving the decline in **red crop** quotes. In addition, the outlook for the upcoming Indian harvest is confirmed as positive, both in terms of areas sown and growing conditions.
- The **green** market, on the other hand, continues to offer little sign for possible declines in the short to medium term.
- For the market as a whole, Canadian exports remain to be monitored at least throughout the first half of the year. After abundant sales in the first part of the campaign, they may slow down due to ending stocks, developments for spring sowing, and weather in North America.

CHICKPEAS

Stable international quotes

- **PAKISTAN**: Around 6,000 legume containers were stranded at ports due to the shortage of dollars in the country. 30% of national chickpea consumption depends on imports. The country therefore risks a deep supply and price crisis. Import permits are to be suspended until stocks at the ports are released.
- **CANADA:** Spring sowing areas are expected to grow by 11% and production is expected to increase significantly (+33%).
- **INDIA:** Prices declined marginally on the back of modest trading activity by storekeepers, millers and processors. Sowing has confirmed the expected declines in areas, but there are indications of an increase in those destined for Kabuli chickpeas. Overall, harvest conditions are good so far.
- **International quotes remained broadly stable.** Traders remain quiet, especially for Desi quotes, waiting for the upcoming Indian harvest and aware of the difficulties for Australian export production, particularly to Pakistan. For Kabuli chickpeas, the balance sheets of the main producing areas confirm low stocks, so prices remain anchored at historically high levels.

PEAS

Fourth consecutive year of decline in Canadian surface areas

- **CANADA:** Spring planting areas are expected to decline for the fourth consecutive year, to the advantage of other cereals and some more profitable oilseeds such as rapeseed and soybeans. Production is expected to decrease by 5%.
- **RUSSIA:** By 2023, the government plans to increase the area sown to pulses, especially peas, thanks to the measures of the state programme for the effective turnover of farmland.
- **INDIA:** Production is likely to be lower than last year due to the reduced area sown this year, which could create a supply crisis during the new crop year, given import duties.
- **PAKISTAN:** Around 6,000 legume containers were stranded at ports due to the shortage of dollars in the country. 95% of national pea consumption depends on imports. The country therefore risks a deep supply and price crisis. Import permits are to be suspended until stocks at the ports are released.
- First declines in quotes for the **yellow** variety in Canada, supported in the recent period by Canadian farmers continuing to sell at lower prices. Faced with tighter supply, however, **green peas** became more widespread, and market stress is expected to continue until the arrival of the new crop.
- Bird flu continues to progress across Europe and is limiting the demand for peas in Europe. Stable quotes are expected in the short to medium term with likely tensions caused by reduced pea availability in France and more generally across Europe.

COFFEE

Certified Arabica stocks still high

- **BRAZIL:** Leading producer and exporter of **arabica**. Certified arabica stocks increased for the third consecutive month in December, reaching the highest level since June (in contrast, **robusta** stocks were down). Possible declines will be mainly due to expectations of improved supply.
- **COLOMBIA:** Second largest **arabica** producer. Persistent slowdown in Colombian supply with a 17% drop in production compared to the same period last year.
- **VIETNAM: Robusta** supply improved and exports were 16% higher than in the same period last year.
- Potential bullish factors are risks related to Brazilian crop developments and the macroeconomic environment, in a persistent limited stock scenario.

COCOA

Quotes remain high, quality is a concern

- **IVORY COAST:** Arrivals at Ivory Coast ports are 9% higher than in the same period last year. However, at a cumulative level, exports are still slowed down by the strikes at the ports.
- **GHANA:** Purchases by the Ghana Cocoa Board in mid-December were 76% higher than in the same period last year.
- Following this trend, global production in 2023/24 should grow, however, quality is a concern due to the impact of drought and hot Harmattan winds (from April) on the forthcoming African mid-crop.
- As a result, cocoa bean prices, in the wake of an improvement in supply and a slowdown in demand, have fallen by 4% since the beginning of the year, but are still well above last year's levels.
- The slowdown in raw material prices interrupted the ongoing increases in butter and cocoa mass, which nevertheless remain at high levels.
- **High consumption and uncertain supply, especially in terms of quality, will keep quotes higher than last year.**

SUGAR

Higher bids lead to lower international prices

- **BRAZIL:** The cumulative increase in production was confirmed (+4.4%), with production from October to the end of December 150% higher than in the same period of the previous marketing year.
- **INDIA:** Production from the beginning of October to mid-January was 4% higher than in the same period of the previous marketing year.
- **THAILAND:** High sugar yields and a higher cane processing rates support expectations of increased production for this marketing year.
- The **improvement in supply will bring down international quotes,** although EU prices will still remain high. The forthcoming sowings and the development of demand will be decisive, particularly against a background of inflation and low economic growth prospects.
- At the global level, stocks are expected to continue to rebuild slowly. At the European level, production will struggle to grow substantially and stocks will remain in deficit. In addition, the duties imposed by the EU on sugar imports are prohibitive.

The Atlante technical team draws on multiple sources for the preparation of this bulletin. We would like to thank our business partners for the information they shared with us and organisations such as Aretè, Ager, AND Clal for the information they regularly publish.