A FOCUS ON THE PERFORMANCE OF THE MAJOR COMMODITY MARKETS AS A TOOL TO HELP US IDENTIFY OUR BUYING STRATEGIES

COMMODITY MARKET TRENDS

MACROECONOMICS

WHY DO AGRI-FOOD COMMODITY PRICES KEEP RISING?

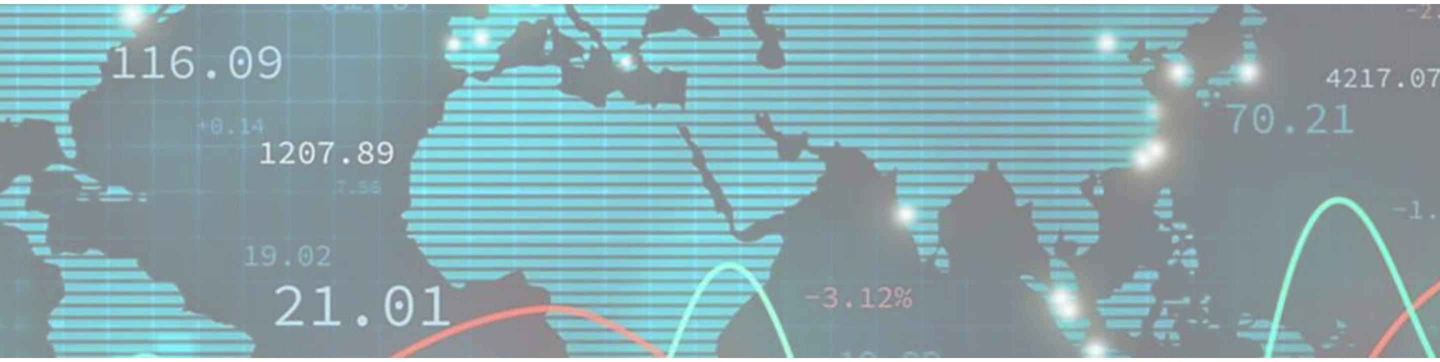
Global demand continues to collide with a supply that is still slowed down by the pandemic, adverse weather events, and rising input prices. In this unbalanced environment, global inventories are shrinking dramatically, sending commodity prices soaring.

- Global agricultural production continues to be affected by rising energy prices, increased production costs, the war in Ukraine and food inflation. In addition, recent months have seen one of the hottest summers on record, which has significantly affected summer crops such as maize, soya, potatoes and sunflowers.
- **Production costs and consumer prices remain historically high.** This is due to the high prices of the logistic supply chain, e.g. electricity, processing, packaging, transport, cooling and heating.
- **Fertiliser availability is another concern for the agricultural sector.** Fertiliser industries require gas for production, the continuation of which is highly dependent on gas price levels. A reduction in fertiliser production and use could have a significant impact on agricultural production in 2023.
- **The Russia-Ukraine conflict and its aftermath have worsened a global context of total imbalance between supply and demand.** However, the most lasting effects are being borne by the EU, which, alongside high inflation, is seeing increased market rigidity as the differences between international and European prices grow ever wider.

What are the main drivers that have led to this disconnect between international and EU markets?

- The **EU's energy dependency on Russian fossil fuels,** which led to far higher input costs compared to other production areas (since the outbreak of the war, the price of natural gas on the Amsterdam stock exchange has increased by 150%). The effect on commodity markets has been both direct (for energy-intensive raw materials, such as sugar) and indirect (for raw materials used to produce energy, such as vegetable oils and grains).
- Restrictive monetary policies and the EU economy's struggle to cope with the energy crisis have led to the **gradual depreciation of the euro, which, for the first time in two decades, is now worth less than the dollar**. The lower purchasing power of the European currency is another bullish factor on import markets such as maize, pulses, colonial goods and vegetable oils.
- **Last summer's unprecedented drought increased EU import needs** in key markets such as maize, rice, sugar and soy. Total EU grain production is expected to be 7.8% lower than last year. The sharpest decline is in maize, down 23.7% year-on-year.

Due to the factors highlighted above, European markets are expected to be more exposed to volatility, and prices in the EU are expected to be more resilient to the few short-term bearish factors, starting with demand slowdowns due to the effects of a likely recession.



GRAINS

COMMON WHEAT

Russian harvest drives soft wheat quotations down

- International financial prices for common wheat followed a moderately downward trend, under pressure from increased Russian exports and the reduced competitiveness of European wheat.
- **USA:** Winter sowing has progressed significantly and is now in line with the average pace. The forecast for the 2022/23 wheat supply is down due to a smaller harvested area and lower yields. Low production will lead to demand rationing, both domestically and for export.
- **EU:** Despite lower production, European common wheat exports are still above last year's levels, also thanks to very strong imports. Sowing is progressing at a record pace in France and the expectation is for an increased area compared to last year. However, high temperatures and a significant water deficit continue to cause concern. European prices are supported by strong demand despite lower production. Prices on the Italian market are less prone to falling due to low sales volumes by producers and low domestic product supply.
- **Russia:** Russian wheat harvest is estimated at over 100 million tonnes for the current marketing year. Russian grain exports have gained momentum and are putting pressure on international wheat prices. Russia will significantly reduce the area sown with winter grains due to heavy rains in recent weeks and historically low domestic wheat prices caused by the strengthening rouble and export duties.
- **Argentina: L**ack of rainfall due to La Niña is worsening wheat production prospects.
- **Australia:** La Niña is causing heavy rainfall, creating concerns about the quality of the next wheat harvest.
- News from the Black Sea area continues to determine short-term trends in wheat prices, particularly after Russia indefinitely suspended participation in the wheat agreement, while uncertainty about the availability of supply for international markets is growing.

DURUM WHEAT

Ending stocks expected to reach lowest levels

- **Canada**: Exports have been slow due to limited carry-over stocks since last year, but are expected to increase in the short term due to higher production.
- **USA:** Production is down due to smaller harvested areas. This figure is balanced by lower consumption and exports for the same quantity, while carry-over stocks from the last marketing year were revised upwards. On the domestic market, trade was still limited and prices were more stable.
- **World:** At the production level, the downward revisions from the US and the upward revisions from the EU Commission balance each other out. The outlook therefore remains that of a third consecutive insufficient harvest, with ending stocks expected to be at historic lows.

RICE

Italy’s farmed area falls in size

- Global production declined for the first time in six years, mainly due to lower production in India, China, Pakistan and Italy. Consumption is still expected to rise despite low stocks, but the growth trend is slowing down. International prices remain strong and at multi-year highs.
- **China (world’s largest producer):** Production is down due to drought, and consumption is down for the first time.
- **India (world's second largest producer and leading exporter):** Production is down due to insufficient rainfall leading to a decrease in sowing. Trade is also expected to decline due to increased export restrictions caused by higher taxes. A possible drop in production is expected for Basmati rice, due to a general decline and high production costs.
- **Pakistan:** Production down due to floods that have caused extensive damage to crop areas. Dwindling stocks due to rising exports and consumption.
- **Thailand:** Production and exports are up, partly due to the drop in Indian exports.
- **EU (55% production in Italy):** An unprecedented drop in production has been recorded caused by shrinking areas and lower yields due to drought. In Italy, there was a drop in sown areas for the second year in a row, especially for round and Lungo A (the most sown varietiy). Large production losses caused by the drought were estimated at 25/30% of the total.

COMMODITY MARKET TRENDS

GRAINS

CORN

US and EU crop expectations worsen

- **International maize prices have maintained their bullish trend** since the summer, increasing by 8.9% from June to October.
- This trend continues to be driven by downward revisions in the quantity and quality of production in some key areas:
  - **US:** Production is down due to lower yields and a 10% reduction in initial stocks. Exports have also been revised downwards and are now expected to be 13% lower than last year.
  - **EU:** Production has been revised downwards, or -21% compared to 2021/22. For France, the largest maize producer in the EU, production is expected to fall by 26% this harvest. Consumption is expected to fall and imports to rise, ensuring higher stocks.
  - **Ukraine:** Production forecast is below the five-year average. The export forecast has increased. However, these expectations will have to be confirmed by a potential renewal of the export corridor agreement with Russia.
  - **South America**: Expectations of a record harvest in both Brazil and Argentina are confirmed. Brazil has received a good amount of rain in recent months and the first harvest sowings are proceeding in line with last year. Argentina, on the other hand, was hit by a severe drought during the summer, which caused a lack of soil moisture and is hampering sowing.
- Uncertainty dominates the market, as short-term price developments are driven by the geopolitical crisis. Overall, the maize market remains tight and therefore highly exposed to volatility.

POTATOES

Drought has put the potato market in crisis

- The 2022 crop year was one of the worst on record due to the exceptionally hot and dry weather in Europe. Low production due to the impact of climate change combined with high inflation is pushing up prices for the 2023 harvest, incentivising growers to consider less risky and cheaper crops. On top of this – and mainly driven by the Russia-Ukraine crisis – the potato sector is facing uncertainties regarding the availability of energy, fertiliser, logistical capacity and personnel.
- Very high summer temperatures and extremely dry weather affected all European crop, exposed to continuous drought and lack of rain. Frequent irrigation rounds were used during this time, putting a heavy burden on production costs which had already been rising in the preceeding months (consider the cost of petrol, which has doubled over the past few months) and, above all, significantly affecting yields. A 20% drop in production is now expected. In addition to the yield deficit, the harvest has been damaged by the drought, leading to small, low quality potatoes that do not meet size standards across several varieties.
- The 2023/2024 marketing year is becoming a major concern, and there is a risk of significant area reductions if growers' revenues do not increase.

SPECIAL EXTRA

VEGETABLE FATS

SUNFLOWER OIL

Sunflower oil prices rebound due to uncertainties over the Ukraine crisis and rising palm oil prices

- Sunflower oil prices on the European market have been rebounding since the end of September – up 4.5% on a monthly basis. The sunflower oil and sunflower seed market is still heavily exposed to uncertainties tied to the development of the war in Ukraine.
- The supply of sunflower oil on the European market is heavily dependent on seed and oil imports from the Black Sea basin. An increase in crushing is expected on the continent, thanks to seed imports from Ukraine and Moldova and the use of new river routes along the Danube, which have enabled European processors to offer unexpected volumes of sunflower oil on despite the disruption of the oil industry in Ukraine and the interruption of oil exports from Black Sea ports.
- Increasing sunflower seed imports from Ukraine to Eastern European countries have generated pressure on domestic prices, despite lower-than-expected harvests. Farmers are currently holding back oilseed supply due to the recent weakening of sunflower seed quotations, with traders expecting better offers in the coming months.
- By the end of the summer, the Ukrainian oil industry resumed operations and exports. Since the beginning of October, however, uncertainty has been growing over the chances of renewing the agreement between Russia and the UN. At the same time, Russian bombings on Ukrainian infrastructure have interrupted the supply of electricity in many parts of the country, jeopardising the operation of oilseed processing plants.
- In this already volatile and uncertain environment, the recent rebound in palm oil prices also pushed sunflower oil prices towards an upward trend.

PALM OIL

Rising quotations and an expected drop in production due to weather

- Since the low at the end of September, palm oil prices have risen 27% on the Malaysian stock exchange and 41% on the Rotterdam stock exchange as a result of growing global demand, an international trade at all-time highs, and falling Indonesian stocks. The latter was due to high exports and growing demand for palm oil-based biodiesel.
- Further support for palm oil prices came from the high prices of other oils. In particular, palm oil is trading at a large discount compared to soybean oil.
- Normally, palm oil production starts to decline from November onwards in Indonesia and Malaysia. This year, however, the drop in production is expected to be more pronounced due to the La Niña weather pattern, whose heavy rains have already made the harvesting and transfer of the palm fruit to processing plants difficult.
- Malaysian production and exports were high in September. The country's stock levels also rose sharply, partly due to the doubling of Malaysian imports between July and September, an indication of the transfer of Indonesian stocks to Malaysia.
- For the time being, current palm oil prices are facing resistance to rise further, but with growing demand (driven by the high premium of palm oil over soybean oil) and a more limited supply expected in the coming months due to heavy rainfall and the seasonal drop in productivity, we expect prices to remain high in 2023.
- The escalation of the war in Ukraine and the development of agreements on shipments from the Black Sea, which could stimulate a further increase in quotations for the entire vegetable oil sector, remain to be monitored.

MILK AND EGGS

MILK AND DAIRY PRODUCTS

Milk production also expected to decrease in 2023

- **European Commission:** Production input costs, starting with energy and feed, are still high and are expected to continue to hamper milk production. Milk production is thus expected to decline for the third year in a row.
- The weather conditions were also difficult for farmers and animals suffered from heat stress and reduced feed. To cope with this situation, farmers decided to use the reserved feed for the winter months, or reduced the number of dairy cattle. As a result, annual European milk production is expected to drop by 0.5%. Recovery margins will be more difficult to achieve in 2023 as farmers will continue to face higher production costs and low feed availability, as well as a more rationed demand due to inflation.
- The limited availability of milk will provide little breathing space for processing. As a result of a slowdown in Asian demand, whole milk powder production is expected to drop by 4% in favour of markets with more robust demand such as butter, cheese, and skimmed milk powder.
- Stock levels will therefore remain low and will continue to be a supporting element and source of volatility for quotations. Raw material quotations still show record prices.
- Meanwhile, milk deliveries are also proceeding slowly in other production and export areas, such as Australia, New Zealand and the USA, denoting the fragility of the market globally.
- In the short term, **price declines are mainly attributable to demand contraction**. The low competitiveness of the European product (despite the weakness of the euro) and stagflation in some member countries represent further slowdowns for demand, including domestic demand. The new spring production peak will give respite to supply, which will however remain limited, slowing the downward trend in quotations and keeping prices at sustained average levels.

EGGS

Prices still tight

- Egg prices increased again, recording +83% compared to the average price in October 2021.
- **Supply continues to be limited:** According to European Commission experts, total egg production for 2022 is expected drop -2.3% compared to 2021, down for the second year in a row.
- There are two main factors that continue to encourage slaughtering and pensalise flock replacement:
  - Bird flu: Outbreaks throughout the year have affected and continue to affect the whole of Europe
  - Production input costs: Feed prices have risen again, also due to the heavy drought in the European Union. Energy prices also continue to support the market.
- Between January and August 2022, exports decreased by 13.5% and imports increased by 41.7% compared to the same period in 2021, further reflecting the limited supply.

LEGUMES

LENTILS

Australia leads price recovery

- **Australia:** As a result of the recent floods, local operators estimate a possible 30% production loss, leading to an increase in prices offered to farmers. The trend has been supported by unfavourable weather and the weakness of the local currency against the US dollar. Importers are showing interest in available old crop stocks, but recent developments have increased supply retention.
- **North America:** In Canada, production and harvest quality data was very positive. Nonetheless, quotations reacted to the news from Australia, affecting red lentils as well.
- **India:** Sowing started earlier than usual and the progress of operations so far confirms expectations of area increases.

<u>The outcome of the harvest in Australia has now become a more uncertain variable which influences the short to medium-term direction of red lentil prices</u>**.** The prospect of the upcoming harvest in India in February-March could result in a drop in import demand – especially at current price levels – and lead to price stabilisation.

PEAS

Record production in Russia and size of harvest still uncertain in Canada

- **CANADA:** Production for the 22/23 marketing year is expected to be down, with a significant impact on the volumes available for export and ending stocks. Whether China will buy peas for human consumption as well as peas for feed (which account for a large portion of Canadian shipments to China) remains to be seen.
- **RUSSIA:** The significant volumes expected are likely to be used in the domestic feed market. However, the ongoing war makes it difficult to make forecasts on actual Russian pea exports, adding considerable uncertainty to the international trade outlook.
- Against the backdrop of contracted global demand, especially from China, and high supply from Canada and Russia, <u>international quotations are expected to remain on a downward trend in the short to medium term, although still close to historically high levels.</u> There is more uncertainty in Europe, where tight supply, a weak Euro, the conflict in Ukraine and volatility from the grain sector are bullish factors.

CHICKPEAS

Different outlooks for Desi and Kabuli

- **Australia:** The heavy rains that affected much of the continent have caused little damage in terms of production in chickpea-growing areas compared to other crops. Initial estimates indicate almost twice the average yield, while quality is already showing a low percentage of the best grades. The first shipments of the new crop are expected to start in December.
- **India:** The market confirms expectations of area declines between 5 and 7%.
- **Canada:** Very positive data on <u>quality.</u>
- During the past week, international markets remained essentially stable with still limited trading.
- **Desi:** The market continues to reflect weak demand from India (with imports in the first eight months of 2022 down 73% year-on-year) as well as from Pakistan and Bangladesh. At the same time, Australian exports contracted by 36% despite exporters buying stock in recent weeks to fulfil new contracts.
- **Kabuli:** The market remains tight in light of the harvest prospects in Argentina and the weakness of some currencies against the US dollar, which support the prices paid to producers.

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COMMODITY MARKET TRENDS

COFFEE

Prices still strong despite recent improvements in Arabica supply

- **Coffee prices continue to remain high despite a slight decline in quoted market price.** The main bearish drivers are the improved outlook of the next Brazilian harvest (the leading producer and exporter of arabica) together with the pressure of the last harvest, which is stimulating exports thanks to the strong dollar and a slight improvement in logistics.
- The improvement in Arabica supply has caused a decline in the robusta, which, however, is showing more rigidity due to the prospect of a lower Vietnamese supply, as the weather is still not favourable at harvest time.
- Several elements represent bullish and short-term volatility risks:
  - Certified stocks remain at extremely low levels
  - In Colombia, the second largest producer of Arabica, the 2021/22 marketing year ended with a drop in production and exports
  - Unfavourable weather, especially in Colombia and Vietnam.

COCOA

Raw material price increases are passed on to butter and cocoa mass

- Financial quotations for the London cocoa bean have risen by around 20% since mid-July, hitting their highest levels since May 2020 in early October. Among the bullish factors, in addition to the weakening of the pound, the slowdown in supply also stands out.
- **Côte d'Ivoire**: Concerns about the main 22/23 crop, which has been revised downwards due to low rainfall in recent months and fertiliser shortages. Arrivals at ports are more than 40% lower than the same period last year.
- **Ghana:** Increased production is expected, with still much uncertainty about the next stages of the harvest.
- Raw material price rises also generated tightness to the butter and bulk markets, respectively +20% and +15% from June to October. Powder was more stable, positively affected by the good level of grinding.
- Consumption is proving to be quite resilient despite the prospects of a global and especially European economic slowdown.

SUGAR

EU: production revised downwards. Brazilian processing slowdown

- Brazil**:** Brazilian sugar production slowed down again, mainly due to unfavourable weather conditions that led to a lower sugarcane harvest. However, forecasts favour a recovery in production due to fuel price containment policies that reduce the incentive to produce ethanol. Increased Brazilian production will be the main driver of an increase in global supply, with the market returning to surplus after three deficit years. Stocks – which are still very limited – are beginning to enter a rebuilding phase.
- **India:** The processing campaign in the south of the country has started . Production forecasts for the 2022/23 marketing year were revised upwards and consequently exports were also revised upwards due to good prices and lower Brazilian supply.
- **EU:** As a result of the drought damage to beet (which was already undergoing a drop in area), production has been revised down: -7% compared to last year. The drop in consumption, -1.5%, is not enough to compensate for the shortfall in supply with projected falling stocks and an increase in net import requirements.
- EU prices, already at the mercy of the energy crisis and the weakening euro, and therefore continue to rise towards new records, with the EU market completely out of step with the international market.
- In the short term, low stocks in the EU slow down the downward effect of stagflation in some member states such as Germany and Italy.

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 entities su Areté, Ager, Clal for the information they regularly publish.

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FOOD OF THE WORLD