

COMMODITY MARKET TRENDS

# MACROECONOMICS

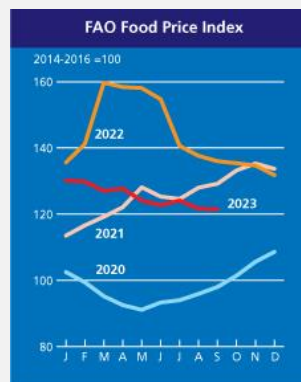
Markets have been expecting a considerable reduction in inflation due to repeated interest rate hikes. However, financial instability due to declining productivity, rising labour costs, and falling unemployment rates have prevented this forecast from being fulfilled in full.

There are other issues, which have developed over a longer and not yet concluded period of time, that continue to exert a significant influence on the **development of real inflation**:

- **Regional conflicts** (Israel-Palestine, Ukraine-Russia, China-Taiwan, Azerbaijan-Armenia) are complicating the supply of raw materials and fuel the drive towards deglobalisation, the return of barriers and protectionism and the raising of production costs. The developments in the latest escalation in conflict between Israel and the State of Palestine after decades of high tension and the extent of the war's effect on markets need to be closely monitored.
- **Ageing populations** are placing an ever-increasing burden on state budgets and affecting public finances. Reduced availability and efficiency of public health services is imposing higher costs on citizens, attacking their savings and exacerbating inequalities.
- **Climate change and pandemics** challenge established supply channels for raw materials and exacerbate the suffering of the poorest part of the world, stimulating migration flows.
- **Growing economic inequality** makes it necessary to rethink the whole concept of welfare and we face new challenging questions such as the impact that artificial intelligence will have on the labour market.

## OVERVIEW OF FOOD PRICES AND THE ENERGY SECTOR

- The FAO food price index averaged 121.5 points in September 2023, remaining almost unchanged from its August value. Declines in the price indices for vegetable oils, dairy products, and meat offset **increases** in the price indices for grains and sugar, with the latter returning to 2011 highs.
- At its current level, the index is 10.7% lower than its corresponding level a year ago and 24% below its all-time high reached in March 2022.



### NATURAL GAS



Operators begin to focus on winter deliveries in a fundamentally positive value environment. In north-western Europe, **gas demand** for power generation is decreasing due to increased consumption of renewable energy. On the **supply** side, increased Norwegian production, rising LNG shipments, and storage facilities close to full capacity have improved market sentiment.

### THERMAL COAL



In July 2023, South Africa's total coal exports amounted to 5.4 million tonnes, showing a year-on-year decrease of -0.8%. In contrast, the Australian coal industry experienced improved performance, attributed to better weather conditions. During the same period, **total thermal coal exports** increased by 57.9% when compared to July 2022.

### OIL



While some non-OPEC+ countries, led by the US, managed to partially offset the cuts imposed by the Saudi-Russian axis through increased crude oil production, there is a **growing imbalance** between oil supply and demand that could potentially result in the largest oil deficit since 2007 in the upcoming quarter. In preparation for this scenario, governments in Europe and America are gearing up to implement urgent countermeasures to mitigate the imbalance, recognizing the significant impact that crude oil prices have on inflation rates.

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# GRAINS



## COMMON WHEAT

Russian offer weighs on international prices

- Upward revisions in **Russia's production** outlook are putting downward pressure on soft wheat prices in financial markets. Additionally, the ongoing harvest of North American maize and spring wheat is further contributing to the **weakness** in wheat prices.
- **USA:** Planting of the 2024 crop has started with approximately 46% of the growing areas experiencing drought conditions. Notably, the protein content of the 2023 SRW wheat crop is averaging below last year's levels and the five-year average.
- **CANADA:** A severe drought has led to an estimated 14% decrease in spring wheat production compared to the 2022 harvest.
- **EU:** The overall quality of French soft wheat slightly below the five-year average. There continues to be a significant influx of Ukrainian wheat products, mainly transported by land.
- **UKRAINE:** Particularly favourable weather allowed a marked recovery in yields. Exports through Danube ports reached record volumes in August (64% of total grain and oilseed exports), while the share of volumes transported across land borders increased to 32% of the total (13% for soft wheat alone).
- **RUSSIA:** Forecasts for 2023 wheat production have been adjusted upward. Despite the abundant stock supply, Russian exports are unlikely to exceed currently forecast levels due to a logistics capacity that does not support more abundant commodity flows.
- Any concrete results from the negotiations for a renewal of the Black Sea Grain Deal, together with the abundance of Russian supply on the market, are the primary potentially bearish factors on the market. Despite these factors, the limited supply of quality wheat on the European market may serve as a restraining factor on price declines.



## DURUM WHEAT

North American yields down sharply

- **EU:** The European Commission has slightly revised its production estimate downward, indicating a -5.3% deviation from the five-year average. Notably, despite confirmed quality issues with the harvest, durum wheat prices in Italy decreased when stock exchanges reopened after the summer break. This decline can be attributed to the rapid pace of imports, accounting for approximately 80% of volumes, in response to the particularly poor quality and limited quantity of the harvest. These factors are expected to maintain high **import requirements** for Europe and Italy within a global context of diminishing supply in major exporting nations and extremely limited stocks.
- **CANADA:** 2023/24 durum wheat harvest expected to be -26% compared to 2022/23. Yields are estimated to be significantly lower than expected, resulting in a downward revision of exports.
- **USA:** Harvest conditions showed improvement in North Dakota despite worsening drought conditions in 57% of the areas.
- Despite downward revisions to Canadian production, North American prices recorded declines driven by the arrival of the new crop.
- **Lower Canadian exports** were partially offset by reduced imports from North Africa and increased exports from Russia and Turkey. The availability of Russian and Turkish wheat for imports temporarily reversed the upward trend in Italian durum wheat prices. Nevertheless, these origins do not offer a long-term solution since increased exports from these countries cannot compensate in the medium to long term for the **reduced availability** of product from North America.



COMMODITY MARKET TRENDS

# GRAINS



## MAIZE

### Record production in Brazil and the USA, decreasing volumes from Ukraine

- **USA:** The upward revision of the area under cultivation (+10% vs. 22/23) more than compensated for the downward revision of yields due to drought during the summer months. In the US market, prices remained relatively stable, a contrast to the declines observed in previous months.
- **UKRAINE:** Favourable weather conditions resulted in an upward revision of production (+3.7% compared to 22/23). However, exports experienced a significant decrease of -30.4% from the prior year. This decline can be attributed to the absence of exportable commodities, even before Russia's exit from the Black Sea export agreements. Ukraine had been sustaining exports over two years with high stocks due to non-abundant production. Following the closure of grain corridors, Ukraine has sought alternative ways to market its grain. Exports of agricultural products are on the rise, driven by record volumes exported from the Danube ports (65% of August exports) and higher volumes transported by train.
- **EU:** Further downward revision for production, -11% compared to the average 2017-2021 production, and downward revision of yield prospects, mainly due to the drought in Romania. While the arrival of the new harvest has the potential to bring about further price declines, **import requirements** remain notably high. This high demand limits the potential for downward shifts in prices. Import levels have remained consistent at 24 million tonnes, representing the third-highest value in the last 30 years.
- **BRAZIL:** With the completion of the 22/23 maize harvest, production and export estimates have been revised upwards. In particular, exports are expected to reach a record-breaking 57 million tonnes, partly due to improved port logistics in the northern region of the country. This could position Brazil as the world's leading maize exporter.
- The dominant bearish factor in the maize market continues to be the arrival of record production from the USA and Brazil, despite expectations of reduced volumes from Ukraine.



## RICE

### Indian export ban supports quotations of all exporting countries

- The 2023/24 global supply outlook has been revised downwards along with tight consumption, which is expected to drive the market towards a third consecutive year of **deficit**.
- **INDIA:** India's production has been revised downward (-3% from last marketing year) due to erratic rainfall impacting the harvest and uncertainties about the next Rabi cycle resulting from the possible impact of El Niño. India's exports have also been revised downwards (-17% compared to last year). This is mainly a result of the government's **trade policies** aimed at stabilising domestic prices by banning the export of non-processed basmati rice (around 25% of India's exports). The policies include imposing a 20% export tax on parboiled rice and setting a minimum price of \$1,200/t on basmati exports. However, the lower Indian supply is struggling to be offset by the supply of other exporting countries.
- **TAILAND AND VIETNAM:** For both countries, production and exports are expected to drop by 7% and 6% in 2022/23, respectively.
- **MYANMAR:** Most promising crops. Production is expected to increase by 6%.
- The market, particularly for the **Indica** variety, is currently experiencing a significant deficit and a notably bullish situation. Price increases characterize all the main quotations in the exporting countries. In the short term, the Indian export ban remains the primary driver of this bullish trend.
- **Basmati** quotations were more stable, with some price declines in the Pakistani product in view of the expected rebound in production. The downside potential in Pakistan remains partly mitigated by the minimum export price temporarily in place in India.
- **ITALY:** Despite expectations of decreased total areas compared to 2022, improved yields are anticipated to lead to a 15% increase in production (Tondo +4%, Lungo B +7%, Lungo A+Medio +29%). After declining between May and July, prices have shown a tendency to remain relatively unchanged.

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# VEGETABLE OILS



## SUNFLOWER OIL

Sunflower oil at a discount on all vegetable oils

- The arrival of the new harvests continues to exert **downward pressure** on sunflower oil quotations, resulting in a widening discount relative to soybean and rapeseed oil. This trend has pushed sunflower oil prices even lower than those of palm oil.
- International sunflower oil prices are facing strong pressure from the supply originating from **Ukraine**, where crushing activity is on the rise due to seasonal factors. **Russia**, with its high stock levels, is also contributing to this pressure. Ukrainian sunflower oil is gaining a growing share of exports, particularly to Europe, which has led to reduced profit margins and a slowdown in seed purchases by mills.
- Competitive prices for Black Sea sunflower oil are attracting major importers such as India and China. These countries, however, remain exposed to uncertainties related to the potential effects of El Niño on domestic and Southeast Asian vegetable oil production. Consequently, international demand for the 23/24 marketing year is expected to continue to be supported by strong domestic consumption.
- The current substantial discount on palm oil, coupled with the prospects of a deterioration in palm oil supply in 2024 due to El Niño, and the uncertainties stemming from the conflict between Russia and Ukraine, are significant bullish factors expected to **boost** sunflower oil prices during the 23/24 marketing year. These factors are likely to counterbalance any potential price declines resulting from the ample supply available.



## OLIVE OIL

First drop in EU EVO oil after nine months

- In recent weeks, trade in olive oil has been limited, with buyers waiting for the arrival on the market of new early productions from Portugal and certain areas of Andalusia. At the same time, the refining industry is conserving its stocks, contributing to a stable climate. Adverse weather conditions have affected several Mediterranean countries and are expected to result in the **second lowest EU production** in the last ten years.
- **SPAIN:** A major drop in consumption during the 22/23 campaign together with exports halved between October 2022 and August 2023, could favour an accumulation of stock in the country, potentially exceeding 200Kt. However, this figure is still more than 50% lower than the average of the last four years.



## PALM OIL

Declines in palm oil prices

- During the month of September, several factors contributed to the drop in international palm oil quotations by approximately 5-6%. These included the competitively low prices of sunflower oil from the Black Sea, the seasonal upswing in production in South-East Asia, and a partial decline in demand amid significant accumulated stocks. Despite this, the substantial increase in oil prices is expected to prevent major declines.
- **MALAYSIA:** In August, Malaysian stocks witnessed a notable 23% growth compared to the previous month. This increase was driven by simultaneous growth in production and a reduction in exports, which further intensified the pressure on prices.
- **INDONESIA:** The international trade of palm oil is anticipated to contract, primarily due to the expected sharp drop in Indonesian exports. This decline is attributed to low stocks at the outset of the campaign, a lower-than-average increase in production, and robust growth in domestic consumption, particularly for biofuels.
- **Plummeting** palm oil prices from record highs in 2022 and pressure from new EU restrictions to combat deforestation are pushing Indonesia and Malaysia to increase their domestic consumption by expanding biodiesel programmes and developing biofuels.
- The development of **El Niño** remains the main stress factor for international prices in the wake of expectations of a deterioration in available supply.

- **ITALY:** In Apulia, where half of the national production takes place, thunderstorms, hail and violent winds severely damaged the region's olive groves.
- **GREECE:** Heavy rain and hailstorms hit olive groves just before the upcoming harvest, raising concerns about the spread of disease in some flooded areas. Due to the low fruiting levels of Greek olive trees, 2023 production is expected to halve compared to last year.
- **EXTRA-EU:** Syria is expecting a sharp drop in olive oil production for the 23/24 season due to months of heat and severe drought. Additionally, Turkey and Morocco have suspended olive oil exports to secure supplies for their domestic markets and respond to surging global prices.
- The arrival of harvests is anticipated to lead to a relaxation of quotations in the olive oil market. The extent of the decline will be influenced by a further significant drop in European consumption and exports.

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# MILK AND EGGS



## MILK AND DAIRY PRODUCTS

### Restarting demand sends the first rises

- EU prices saw initial **rebounds** between August and September, signalling a positive shift. Increases were observed in Kempton, with butter prices rising by +9%, while WMP prices increased by +1%, and SMP prices by +3%. Spot milk prices in Milan also witnessed an upward trend, with foreign skimmed milk increasing by +33%, German whole milk by +7%, and Italian whole milk by +2%. The latter was priced at a premium of about €3/100Kg over German whole milk.
- Milk production in Europe has now moved away from its spring peaks and remains hampered by declining herd numbers, which are becoming increasingly less offset by higher yields. The European Commission has confirmed its forecast of a **decline in milk production** in the EU for 2023, marking the third consecutive year without growth. In recent weeks, slowdowns have been recorded in key production areas, including Germany.
- The limited availability of milk leaves little room for increased processing and **demand** dynamics remain the primary driver of prices in the sector. Industry demand is picking up ahead of the Christmas campaign, as are purchases from Asian and Middle Eastern countries. In the first half of 2023, compared to the first half of 2022, EU exports increased by 25% for SMP, 12% for WMP, 9% for butter and 2% for cheese.



## EGGS

### Seasonal consumption growth, prices rebound

- Since the beginning of September, the CUN cage price has increased by 6%, reversing the deflationary trend that characterised the market during the summer.
- As the **seasonal upswing** in consumption takes hold, supply remains limited and the market undersupplied. The European Commission anticipates a growth of +1.2% in EU production for 2023 when compared to 2022, although this is still lower than the levels seen in 2020 and 2021. Notably, in July 2023, EU imports were 40% higher than in July 2022.
- One significant factor weighing on the market is the negative impact of **bird flu** on laying hen numbers and flocks. Bird flu remains a major uncertainty for the second half of the year, with ongoing outbreaks in the EU, particularly in France and Germany. France initiated a vaccination campaign against highly pathogenic avian influenza at the beginning of October.
- The outlook for the 2024 average price suggests a decrease of 19% compared to 2023, although prices are expected to remain well above the pre-2022 levels. Given the seasonality of production and consumption, the **bullish tensions** expected in the latter part of 2023 are likely to keep prices high even into the first quarter of 2024, before a seasonal reversal is anticipated in the second quarter.



## POTATOES

### Poor tuber quality pushes up quotations

- In Western Europe, a summer characterized by alternating periods of drought and high temperatures, followed by moisture and precipitation, has created a high-pressure situation for Late Blight, causing troubles for tuber plots. The adverse weather conditions have made it difficult for farmers to apply late blight treatment in time, resulting in a substantial increase in infections over the past month, posing a threat to crop development.
- While excellent conditions at the end of July and beginning of August have led to increased yields, there is

still a notable gap and delay compared to the average of the last five years. Beyond yield concerns, the primary issues at present are persistent quality issues such as hollow hearts and late blight, along with reduced product availability.

- Due to the shortage of stocks and the late availability of new harvests due to weather conditions, all current harvests are being contracted by traders, reducing the possibility of spot purchase prices. This year, contracted tuber prices have increased by 36.3% compared to last year.

## SPECIAL EXTRA

COMMODITY MARKET TRENDS

# LEGUMES



## CHICKPEAS

### High volatility and limited global stocks

- **CANADA:** Expectations of a limited increase in production (+5%) have been confirmed for the 23/24 crop year. This period is anticipated to be marked by a significant reduction in available supply, leading to a projected deficit.
- **USA:** A 36% increase in production is expected for the 23/24 harvest compared to 2022. This surge in production reduces US dependence on Canadian imports and re-establishes the country as a net exporter during the 23/24 crop year. Nonetheless, sustained international demand curtails the accumulation of stocks, which are expected to remain at low levels.
- **AUSTRALIA:** During the summer, rainfall and soil moisture levels were below average and the climate outlook is currently unfavourable. In the wake of worsening crop development, Australian production has been revised downwards.
- **INDIA:** See the statement for lentils.
- Overall, the international market is experiencing **strong bullish volatility**, influenced by news of a more limited-than-expected production rebound in Canada and export restrictions in Turkey. This, coupled with expectations of limited global stocks, is expected to keep international prices tight throughout the 23/24 marketing year, supported by solid demand.



## PEAS

### The spread between yellows and greens widens

- **CANADA:** Expectations of a drop in production have been confirmed. However, the significant stockpiling in the country is expected to partially offset the low harvest, supporting international supply in a context of limited demand.
- **USA:** A 14% increase in production is expected for the 23/24 harvest compared to 2022, due to an increase in sown area and above-average yields, which are expected to boost export growth.
- **RUSSIA:** The country is experiencing a positive development in 2023, with a higher quality harvest than the previous year, making the Russian product more competitive on the international market.
- **UKRAINE:** The harvest is up by 43% compared to 2022, thanks to an increase in sown areas and above-average yields, leading to an increase in exports and a concurrent decrease in stocks.
- **AUSTRALIA:** Production has been revised slightly upwards, but still down 24% vs. 2022.
- **INDIA:** See the statement for lentils.



## LENTILS

### Harvests up in Australia and Turkey

- **CANADA:** Expectations of a 33% drop in production compared to 2022 have been confirmed. This is expected to result in a deficit year in 23/24, characterised by a significant reduction in available supply and rising prices.
- **USA:** A 4% increase in production is expected for the 23/24 harvest compared to 2022. However, supply remains tight and stock replenishment is highly exposed to the risks of increased demand from Canada, the main importer of US lentils.
- **AUSTRALIA:** Lentil production has been significantly revised upward. The country's ample supply for the current and next marketing year is expected to support sustained Indian demand, leading to record exports. The anticipation of a disappointing Kharif harvest in India and deteriorating supply in Canada is likely to cause a contraction in Australian stocks during the next marketing year.
- **INDIA:** A lack of rainfall has resulted in a 9% reduction in the sowing of Kharif pulses compared to last year. With reduced cultivated areas and limited yield potential, the country's legume production is expected to decrease by 15-20%. Sustained Indian demand for red lentils is driving the growth of international quotations.
- **TURKEY:** A 20% duty exemption on lentil imports and competitive foreign prices have led to the accumulation of large stocks. This has been further boosted by strong production in 22/23, ensuring ample supply for 23/24. The expected result is an increase in the flow of Turkish produce to international markets, which is likely to lead to price reductions once the current export restrictions are lifted.
- **Yellow peas** face potential bearish factors due to high Canadian stocks and good quality Russian supply after a recent price rebound.
- **Green peas:** The expected rebound in US production is unlikely to fully compensate for the disappointing Canadian green pea crop. As a result, the spread between yellow and green peas is expected to widen during the 23/24 marketing year.
- **EU:** Prices are currently buoyed by uncertainty surrounding exports from the Black Sea region. These prices are anticipated to remain tight in the medium to long term, primarily due to the prospects of a deterioration in EU cereal supply during the 23/24 marketing year.

COMMODITY MARKET TRENDS

# COLONIALS



## COFFEE

### Robusta faces challenges

- **Arabica:** Prices have declined by 12% since the beginning of August due to the marketing of the good 23/24 Brazilian harvest. Exports are on the rise boosted by good Brazilian yields, a weak Brazilian Real, and the current low supply from Colombia.
- **Robusta:** Prices are struggling to fall (still at a higher average level since 2008). This is mainly because of the lower Indonesian 23/24 supply and the shortage of product from Vietnam awaiting the new 23/24 harvest.
  - **INDONESIA** expects its 23/24 production to hit the lowest levels since 11/12. As a result, with domestic demand staying steady, the export share is projected to fall by 29% compared to 22/23.
  - **VIETNAM** has faced a 5.8% drop in production in the 22/23 season, amid strong demand, leading to dwindling product availability. In August, exports were down by 25% compared to August 2022. The upcoming 23/24 harvest and a reduction in the premium compared to Arabica are expected to trigger price declines.
- There has also been a substantial decline in robusta stocks, with August showing a 65% drop compared to August 2022. In response, Brazilian exporters have reportedly started shipping substantial volumes of robusta coffee to Europe.



## SUGAR

### New international price increases

- In recent weeks, international sugar prices have seen substantial increases, with quotations rising by 10.4% for raw sugar and 5.7% for white sugar between August and September.
- **Two** primary factors are contributing to this bullish trend:
  - Production uncertainties in Asia due to the El Niño weather phenomenon and low rainfall: Thailand (expected -18% compared to 22/23) and India (expected -3.3% compared to 22/23).
  - Rising oil prices are providing a greater incentive to convert sugar into ethanol.
- **ASIA:** The worsening Asian production outlook has led to a downward revision of global output. There are also speculative elements at play, with an increase in net long positions of non-traders. In India, falling production and rising domestic prices are raising concerns about potential tighter restrictions on exports in 23/24.
- **BRAZIL:** Cumulative production since April is +19% above the five-year average.
- **EU:** The European production forecast remains at +6% compared to 22/23, primarily due to improved yields in France and Germany. The arrival of new beet production and falling energy costs are expected to bring slight reductions.
- **World production** for 23/24 will be slightly lower than expected due to the assumption of a greater impact of El Niño on Asian production. For **international prices**, the production problems observed in Asia limit the downside potential of Brazil's abundant production and the arrival of Northern Hemisphere crops.



## COCOA

### Limited offer and quotations at all-time highs

- Marked **bullish volatility** continues to animate the cocoa market. London quoted bean prices have risen 11% since the beginning of August, reaching an all-time high of almost £2,950/tonne. Butter and cocoa mass also followed the trend, with increases of 12% and 10% respectively. Powder remained stable.
- The African supply side is experiencing significant **uncertainty** due to heavy rainfall limiting the yield of the 22/23 mid crops. Additionally, there are concerns about the development and quality of the new African main crops, with an increased risk of the spread of the black-pod virus, already affecting approximately 20% of the crop in Côte d'Ivoire.
- Fears of a limited 23/24 global supply **shortfall**, with supply levels at their lowest since 15/16, have prompted both Côte d'Ivoire and Ghana to halt forward sales of fava beans due to the risk of contract defaults. Arrivals at ports were 4.3% lower than last year, leading to a 13% increase in the average price forecast compared to the 22/23 marketing year.