

Grain market trends

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Top-down approach

1. Long-term developments

- Stock/use ratio
- Trends in major export and import regions
- Consumption trends
- Weather patterns and their impact on the market

2. Recent global market movers

- Regional weather impacts
- African swine fever
- US/China trade war
- Oil-Iran-Russian ruble

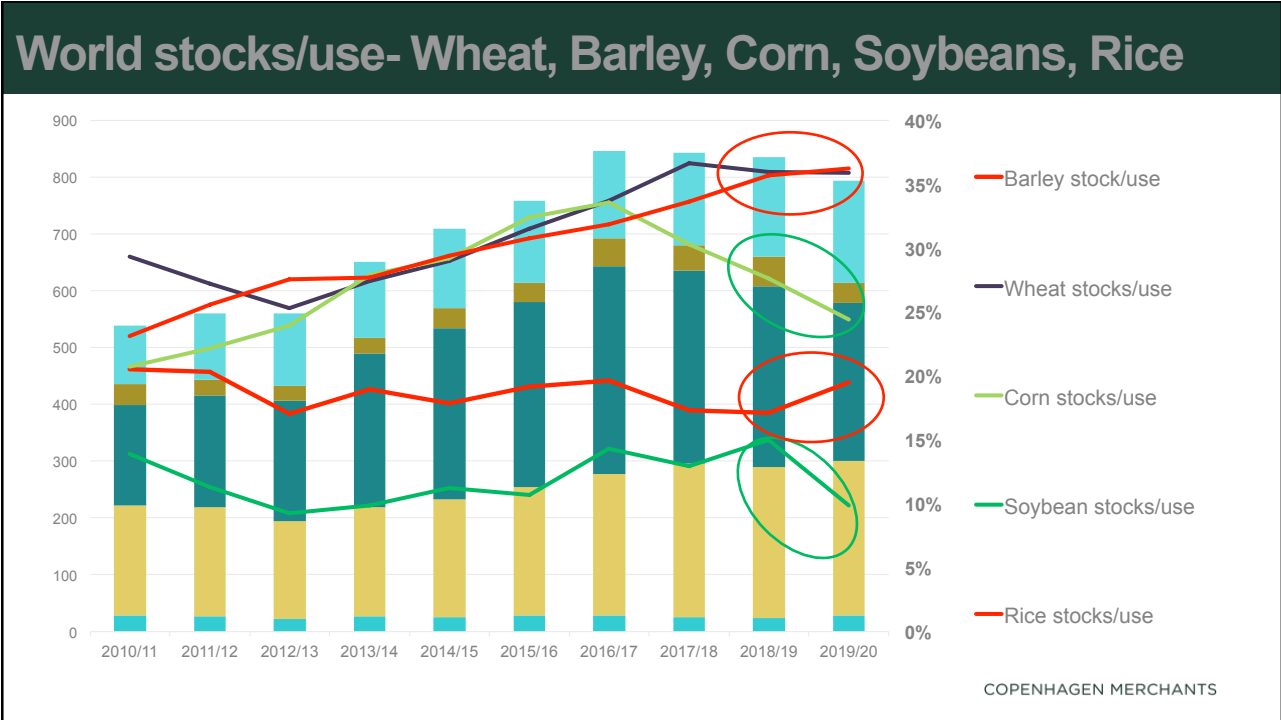
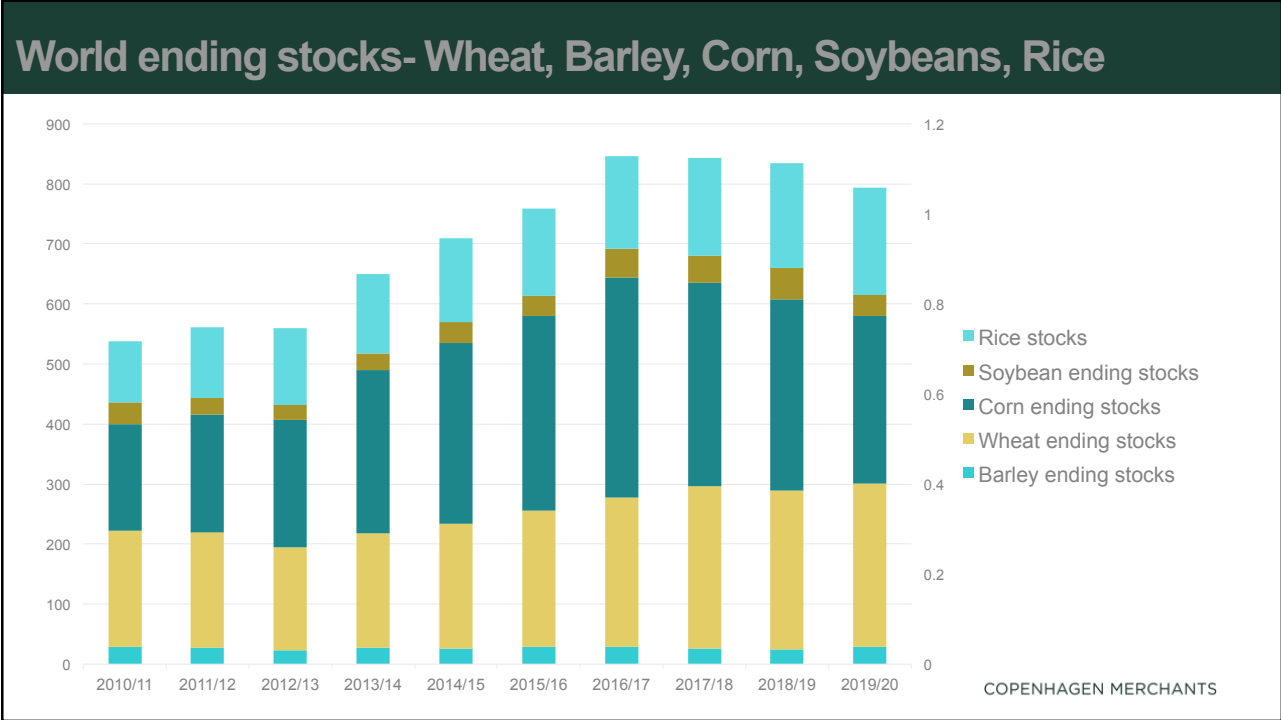
3. Baltic region overview

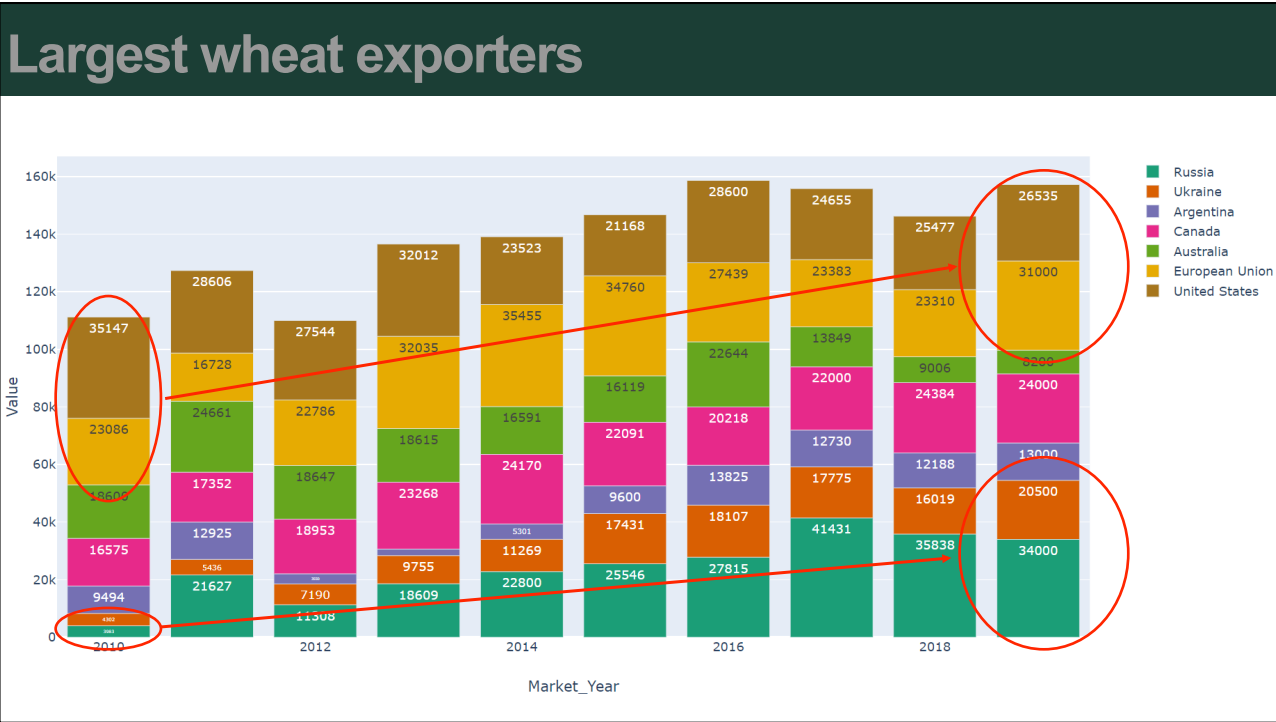
- Export surplus
- Export destinations and implications
- What moved the premiums?
- New crop outlook

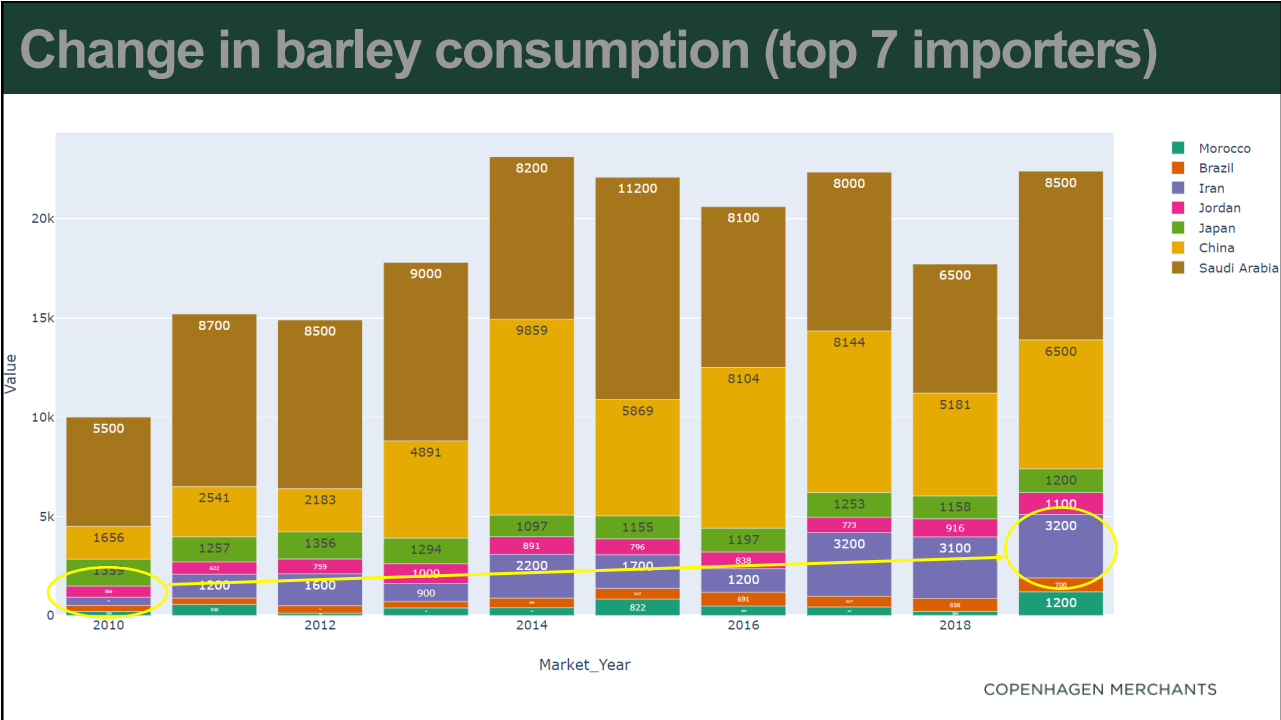
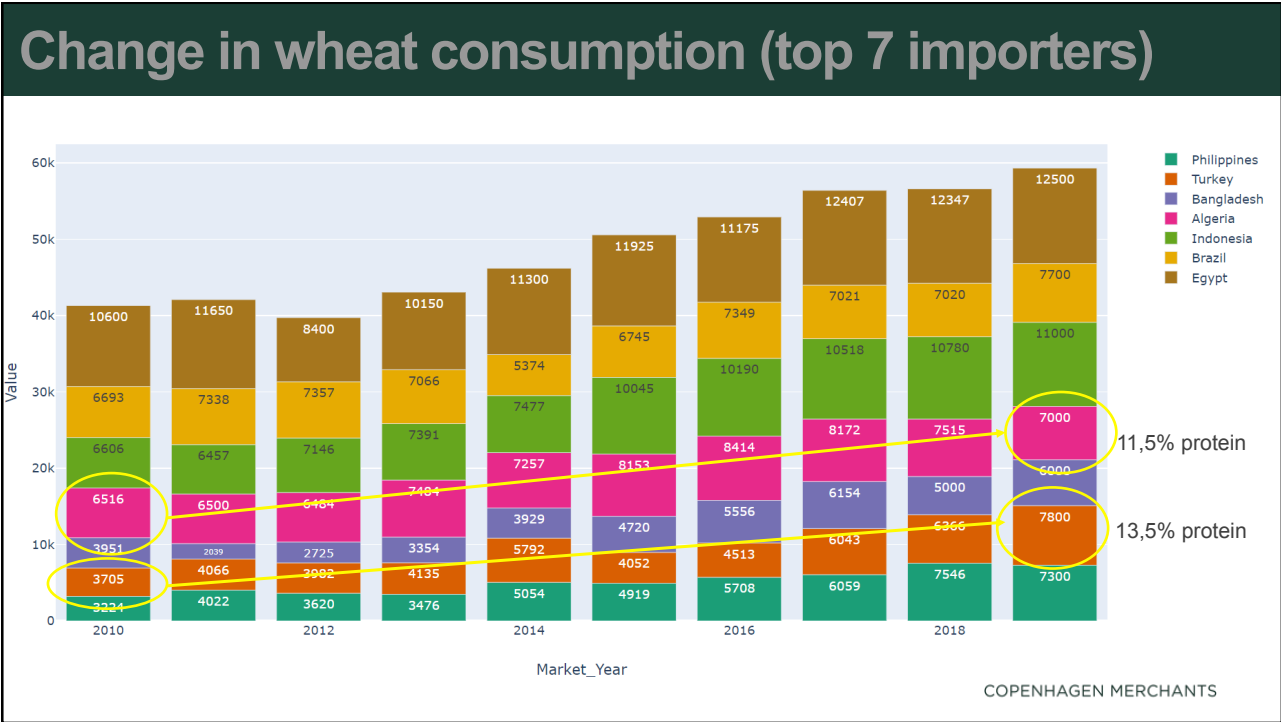
4. Putting it all together

- Baltic & Black sea more directly tied
- Volatility is here to stay
- Importance of risk management in the face of uncertainty

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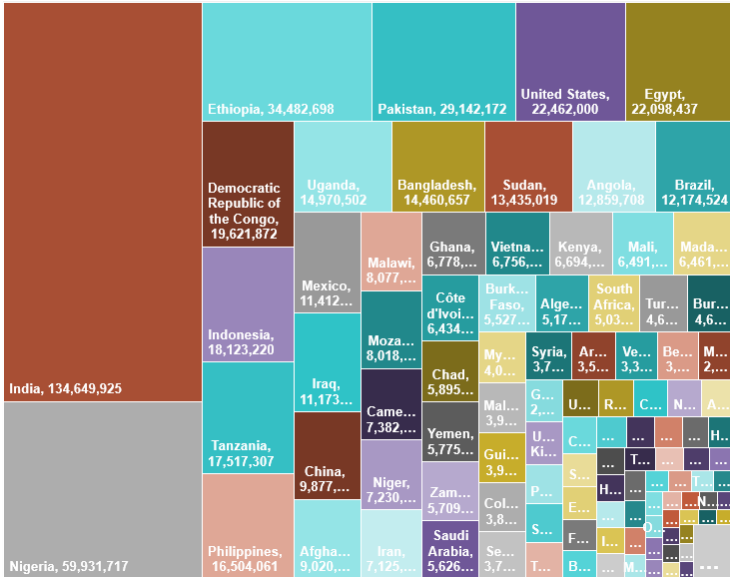






Where are the plates we will need to fill?

OECD FORECASTED POPULATION GROWTH



- World Family = 700m more cousins in 10 years!
- 50% of the new cousins will live in Africa
- The rest of them somewhere in Asia
- Currently most of their families derive income from selling us oil or natural resources
- Africa: mostly 12.5% protein wheat !

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What about climate change?



Donald J. Trump ✓
@realDonaldTrump



Following

The concept of global warming was created by and for the Chinese in order to make U.S. manufacturing non-competitive.

RETWEETS
24,831

LIKES
14,654



2:15 PM - 6 Nov 2012



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If it acts like a duck, quacks like a duck, It's probably not a chicken...

Yearly surface temperature compared to average (1850-2018)

NOAA DISCOVER/EPIC August 3, 2018

NOAA Climate.gov Data: SOTC 2018

Since 1988 every next year has been one of top 10 warmest on the record. (except 2011)

Oct 2015-Sep 2016

difference from average temperature

ARCTIC IS WARMING TWICE AS FAST AS THE GLOBAL AVERAGE

NOAA Climate.gov

Donald J. Trump @realDonaldTrump

The concept of global warming was created by and for the Chinese in order to make U.S. manufacturing non-competitive.

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Global land use for food production

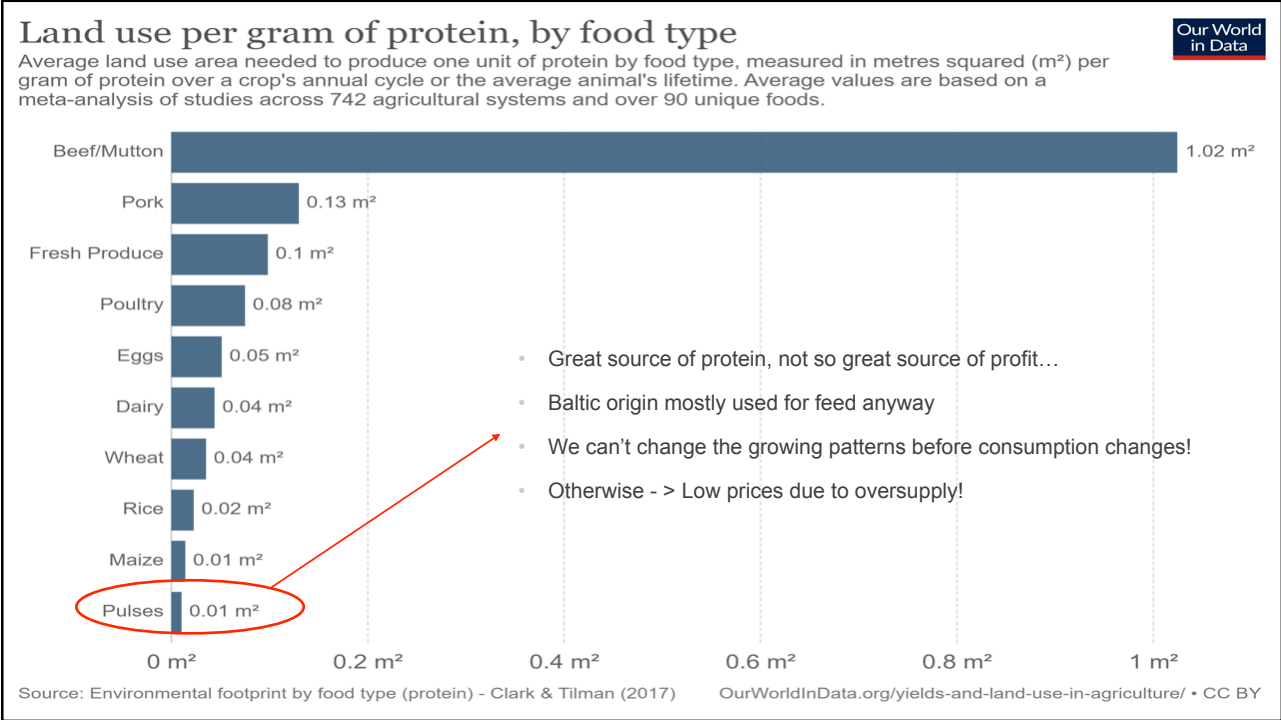
Earth's surface	29% Land 149 Million km ²		71% Ocean 361 Million km ²
Land surface	71% Habitable land 104 Million km ²		10% Glaciers 15M km ² <small>14M km² of which is the land area of Antarctica</small>
Habitable land	50% Agriculture 51 Million km ²	37% Forests 39 Million km ²	11% Shrub 12 Million km ²
Agricultural land	77% Livestock: meat and dairy 40 Million km ² <small>This includes grazing land for animals and arable land used for animal feed production.</small>	23% Crops 11 Million km ²	1% Urban and built-up land <small>This includes settlements and infrastructure</small> 1.5m km ²
Global calorie supply	18% from meat & dairy	83% from plant-based food	1% Freshwater <small>Lakes and rivers</small> 1.5m km ²
Global protein supply	37% from meat & dairy	63% from plant-based food	

- Most likely to become the political focus!
- Not likely a problem for Baltic farmers

Data source: UN Food and Agriculture Organization (FAO)

OurWorldinData.org - Research and data to make progress against the world's largest problems.

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Crop seasons headlines

America's corn belt farmers face uncertainty after rain ... and more rain

▲ Puddles in the corn fields near Sheffield, Illinois. Heavy rains have caused unprecedented delays in US corn planting this spring. Photograph: Tom Polasek/Reuters

EUROPE

Extreme Maximum Temperature (C)
July 25, 2019

CLIMATE PREDICTION CENTER, NOAA
Computer generated contours
Based on preliminary data

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Historically late planting of Corn in USA



Last crop seasons headlines

African swine fever in China more severe than previously thought: ADM CFO

Karl Plume

3 MIN READ

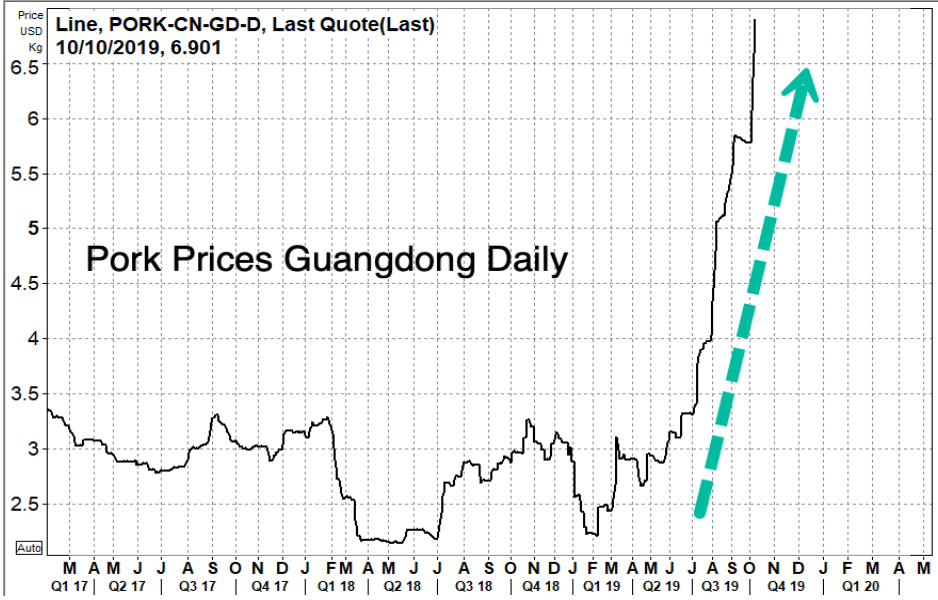


FILE PHOTO: Pork for sale is seen at a Walmart in Beijing, China September 23, 2019. Picture taken September 23, 2019. REUTERS/Tingshu Wang/File Photo

- Immediate sky-rockets meat import demand
- Neighboring region feed grain demand increased
- Caused disruption of usual supply routes
- Longer term repercussions remain! (lower feed demand)
-

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Last crop seasons headlines



Last crop seasons headlines



Economy / China Economy

Trump's US\$50 billion China farm deal 'not possible' after trade war market shift

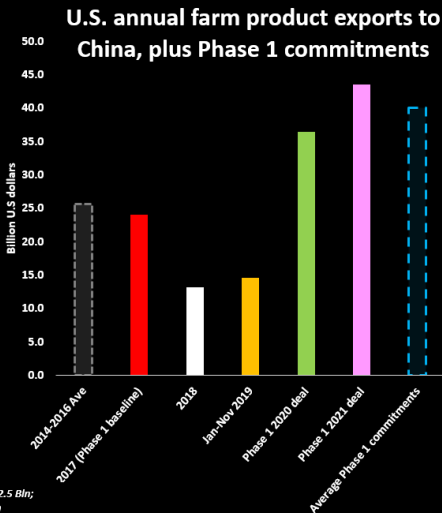
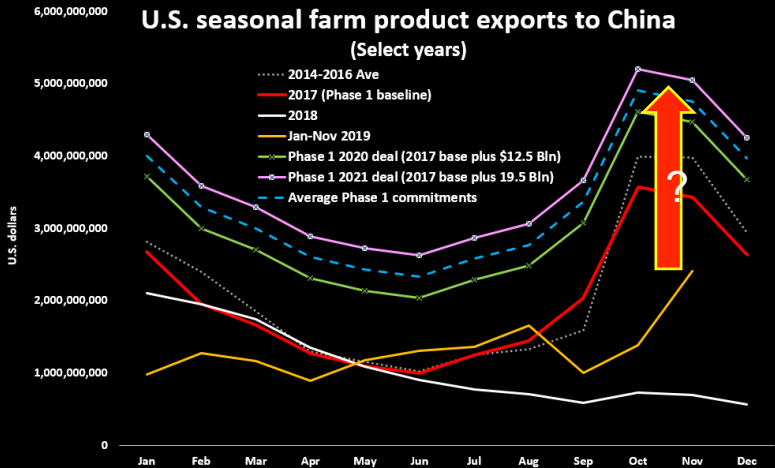
- US President has repeatedly called for China to buy US\$50 billion of American farm goods, which is more than double the US\$24 billion record in 2012
- African swine fever has killed demand for biggest US export, soybeans, while other countries have supplanted America in agricultural supply chain

Finbarr Bermingham
Published: 8:45pm, 15 Nov, 2019

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“The deal”

China's possible path to \$40 Bln in annual Phase 1 U.S. farm product purchases



Source: U.S. Dept of Agriculture, Reuters News
 Note: Farm products include all agriculture goods plus related products such as ethanol, fish and forest products
 Note: Phase 1 2020 deal: 2017 baseline plus \$12.5 Bln; Phase 1 2021 deal: 2017 baseline plus \$19.5 Bln

Last crop seasons headlines



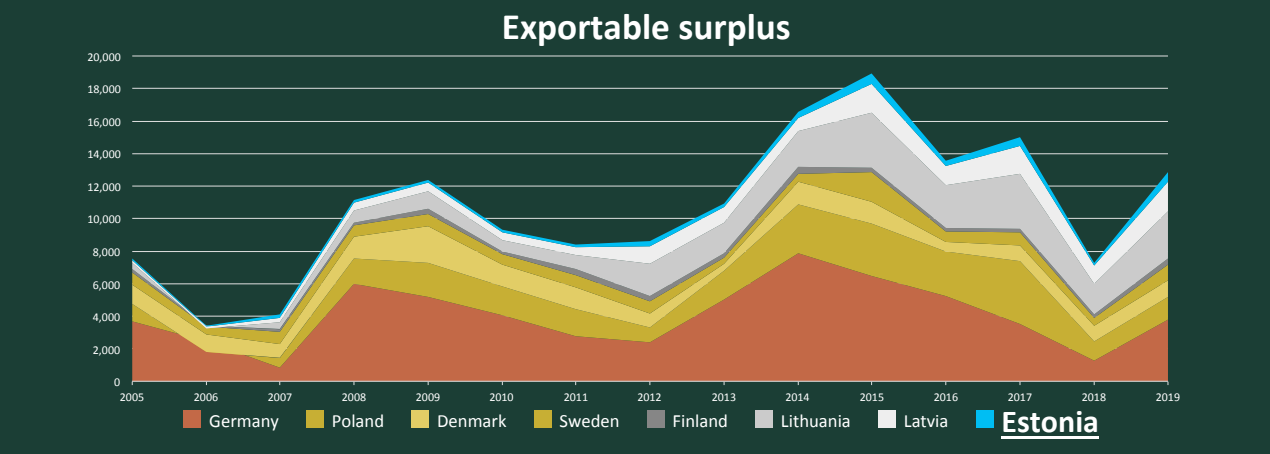
- Recent events in the middle east has sent The Oil price higher
- Although Iran produces only about 2% of the global Oil supply -
- Strait of Hormuz is used to ship about 22% of the world supply
- Also Russian Ruble was sent higher due to it's correlation with oil
- Coincidentally FOB Black sea wheat values creped higher (also from lower overall supply)

Sources: IHS Conflict Monitor; Iran Foreign Ministry; US Central Command
 The Economist

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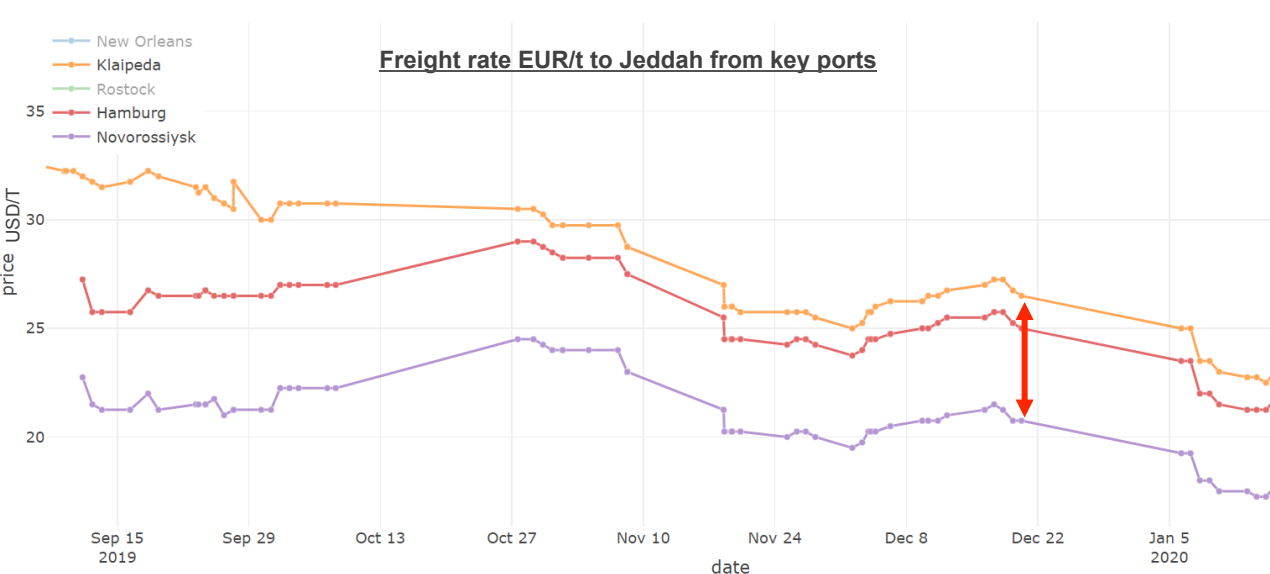
Wheat export surplus

Baltic sea countries



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Saudi: at 5 EUR/t handicap from Muuga vs Novorosiysk

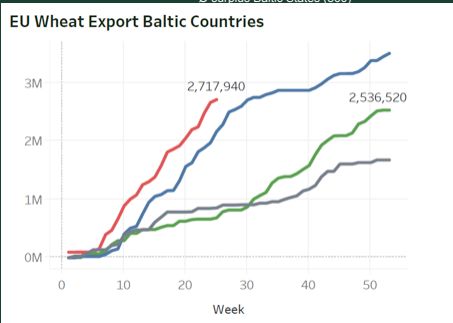
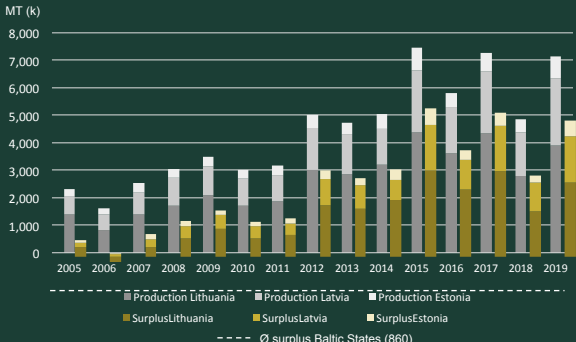


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Wheat Harvest Baltic States

- The Baltics harvested the 3rd best crop on record – 7.1 Mmt giving an exportable surplus of 4.8 Mmt
- The Baltic States have seen a strong demand for wheat due to escalating prices in the Black Sea and have answered to that demand
- Overall a very rapid export pace compared to last 3 years!

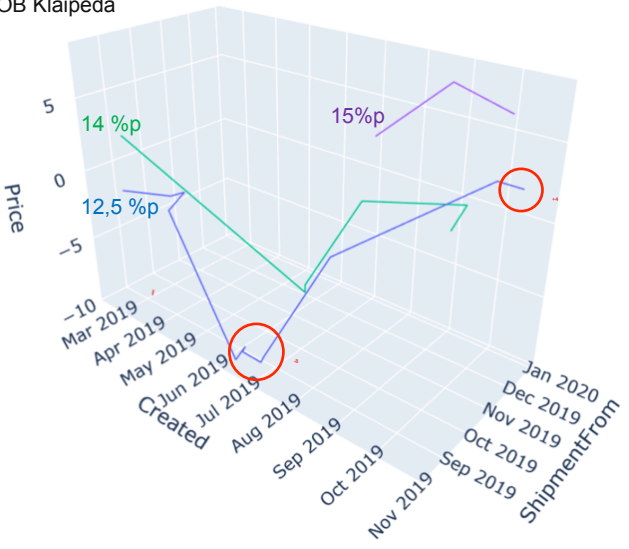
copmer.com



What moved the premiums?

- China in the market for LT wheat
- African destinations replacing Canadian hard wheat
- Smaller volume commodities shadowed by firm freight market
- Spread[14%p-12,5%p] = max 3EUR
- 12,5%p premium rose by 12 EUR

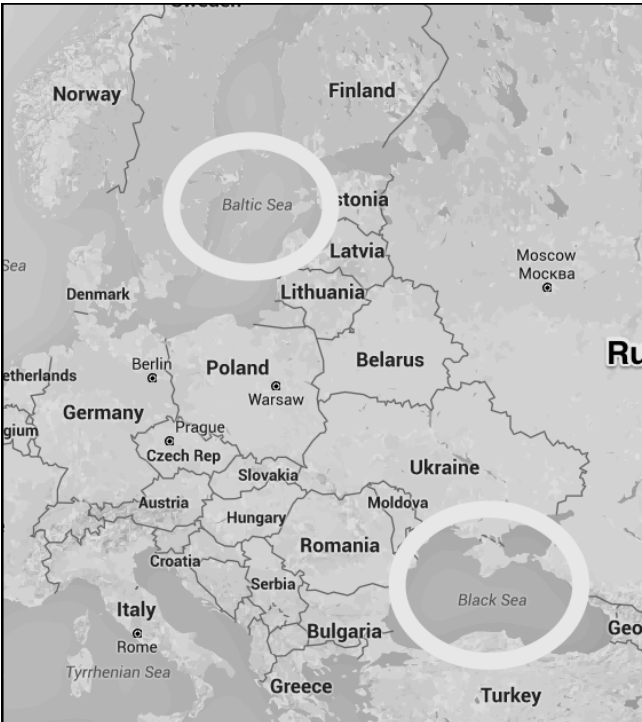
FOB Klaipeda



New crop outlook

- Generally favorable weather with high winter planting areas
- Relatively high MATIF
- S&D estimates look quite heavy
- Pulses have small but positive driver – popularity of plant-based protein!

Highest point in 6 months!



Black Sea and Baltic Sea Competition

- Saudi Arabia opening to Russian wheat has improved the correlation for 12.5% significantly
- Faced with heavy Barley surplus – Russian FOB prices have fallen and outcompete us
- Russian origin milling wheat has become generally more accepted and even further drives the correlation tighter!
- VTB – nationalization of grain industry.



Volatility is here to stay

- Warmer weather causes more divergence from “normal” growing patterns
- At the same time – more land is developed, and warmer weather will change yield patterns
- ASF reduces feed demand in one place but skyrockets it in another – the market works
- Trade-war creates short-term shocks and nice first page news, but the market returns to equilibrium dictated by the supply and demand!

Risk management is for long-term players!

- **Generally well accepted and prudent practice in the face of uncertainty: split the risk!**
 - When you buy crop inputs (Seeds, fertilizer etc.)
 - When finish seeding
 - After winter kill risk is over
 - When harvest is done
 - When it is time to clean the bins for new crop



The Baltic farmer has a luxurious low-cost way for doing it!

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Farm decision making

- Russian farmers still sell mostly at harvest: zero diversification before crop!
- In more competitive environment – EU farmers have learned to diversify over time to escape harvest pressure – even banks often require pre-crop sales!
- Statistically speaking - by limiting the selling period – on average this year they lose out on roughly 8 EUR/t

Thank you!

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