

# The changing dynamics of the Wheat and Commodity Markets, Flow of Capital and Fundamentals

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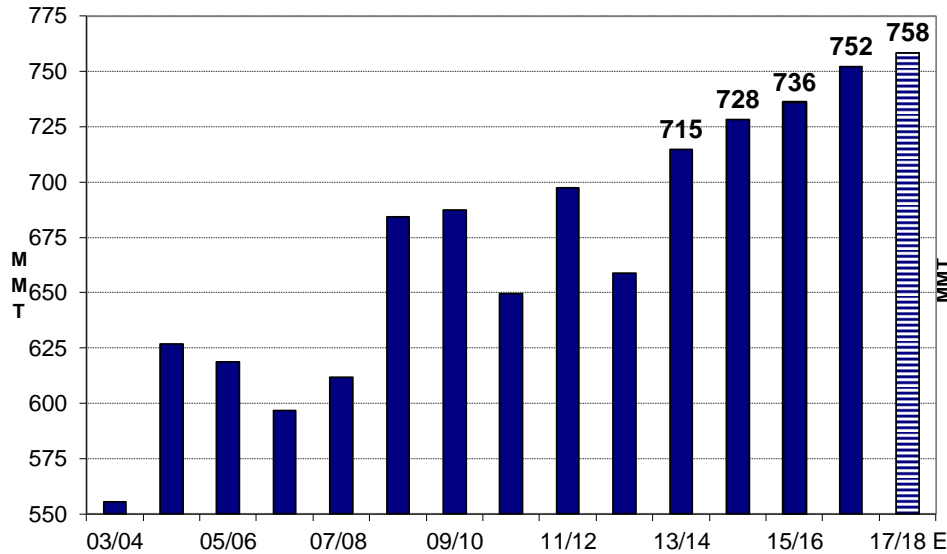
# 20/20: Markets in perspective

- Global GDP rates have been growing steadily
- 2 consecutive years of record soybean acreage in the U.S.
- Soy and corn in the U.S. have witnessed 5 consecutive years of “above trend” yields
- U.S. Ethanol and meat production continued at record levels
- Imports of Soybean from China continued at a good pace
- Trading ranges have been small combined with prices at low-end of range
- Burdensome Wheat stocks in quantity
- Big carries have been the lure for the wheat speculator

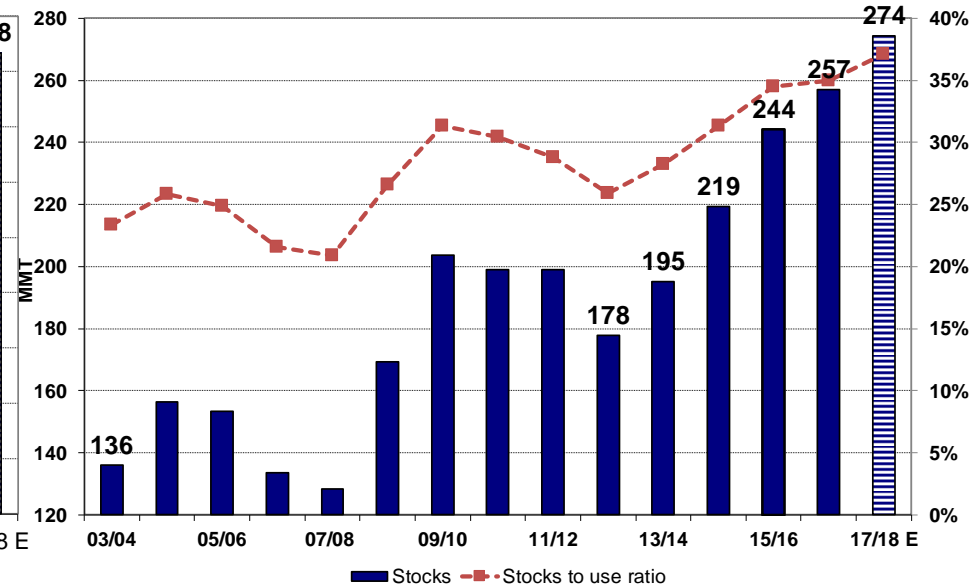
# How and Why did we get here?

- 5 years of BIG production along with slower growth in demand has added ~100 MMT of stocks

## World Wheat Production

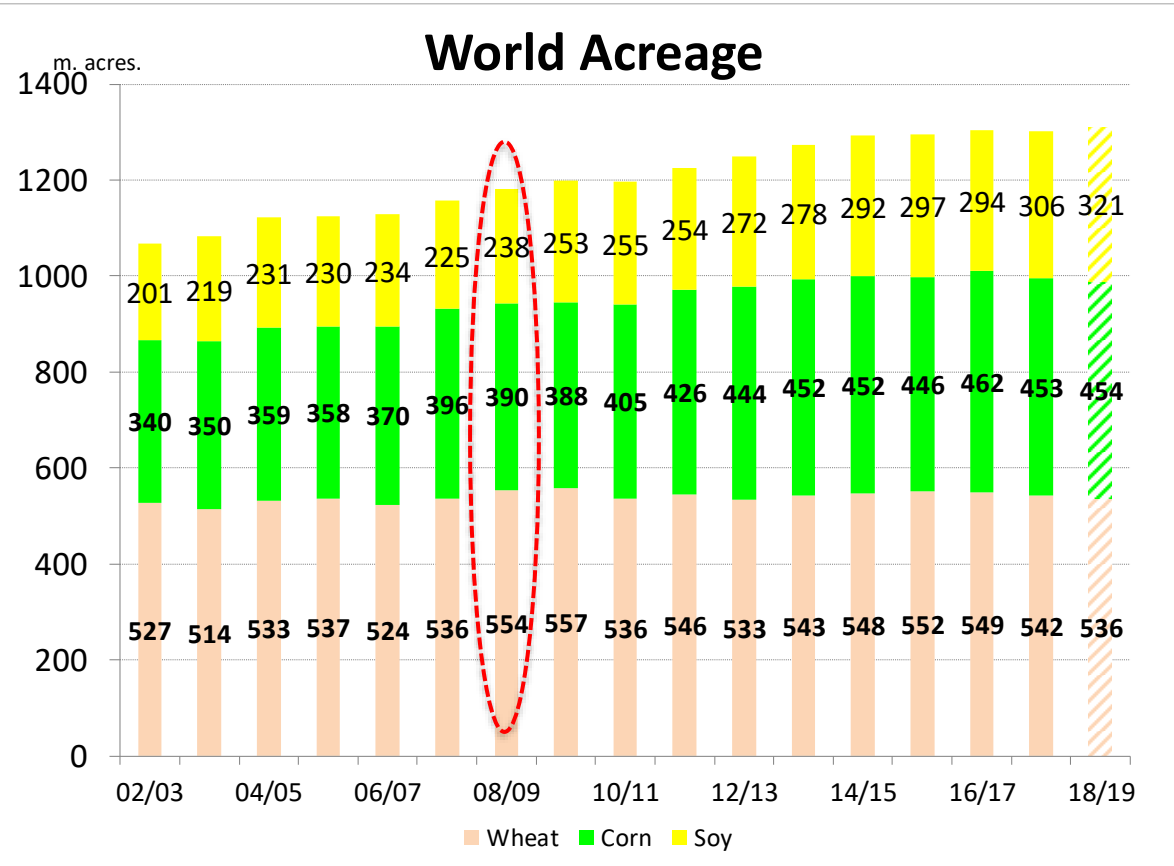


## World Wheat Ending Stocks



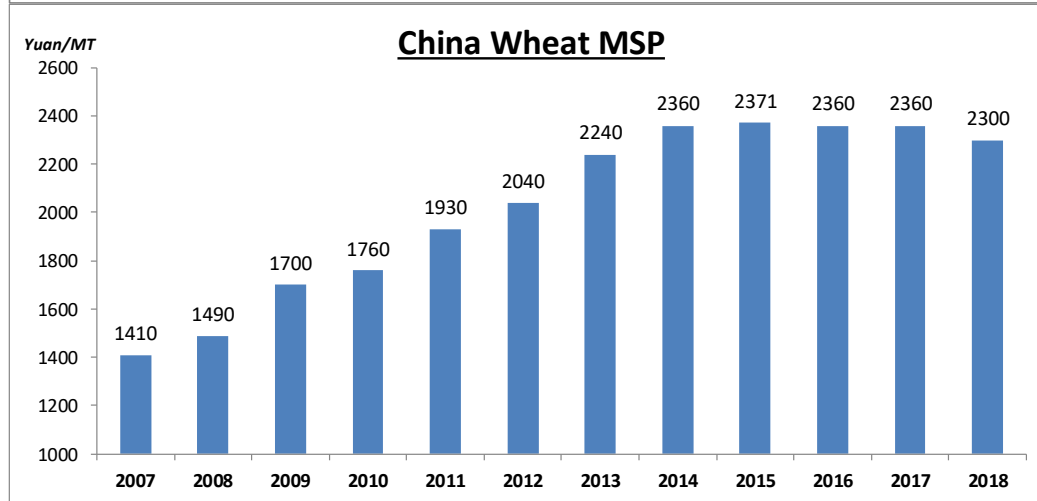
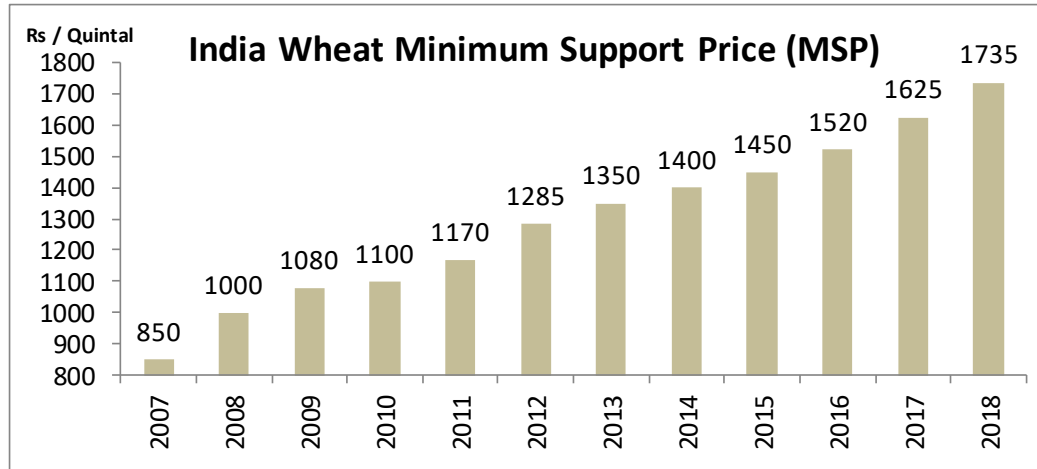
# World acreage continues to expand

- The 3, 2, & 1 Rule



Commodity	08/09	18/19	Chg
Soy	238	321	83
Corn	390	454	64
Wheat	554	536	(18)

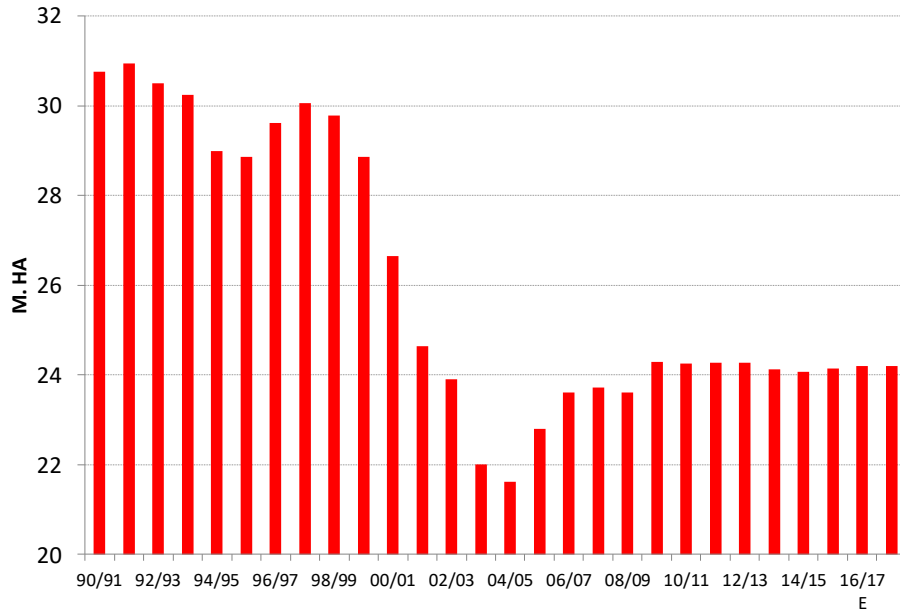
# The minimum support price for wheat continues to stay at elevated levels for farmers in India and China



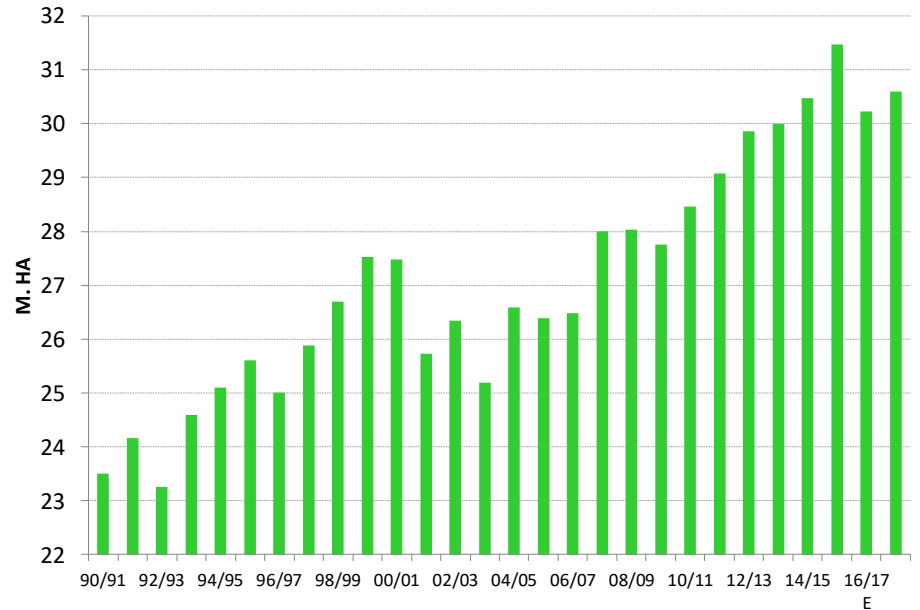
# Increasing and high support prices help maintain acreage levels

- Over the last 10 years the combined acreage for China & India has increased by 3 m. hectares or nearly 8 m. acres

### China Wheat Acreage

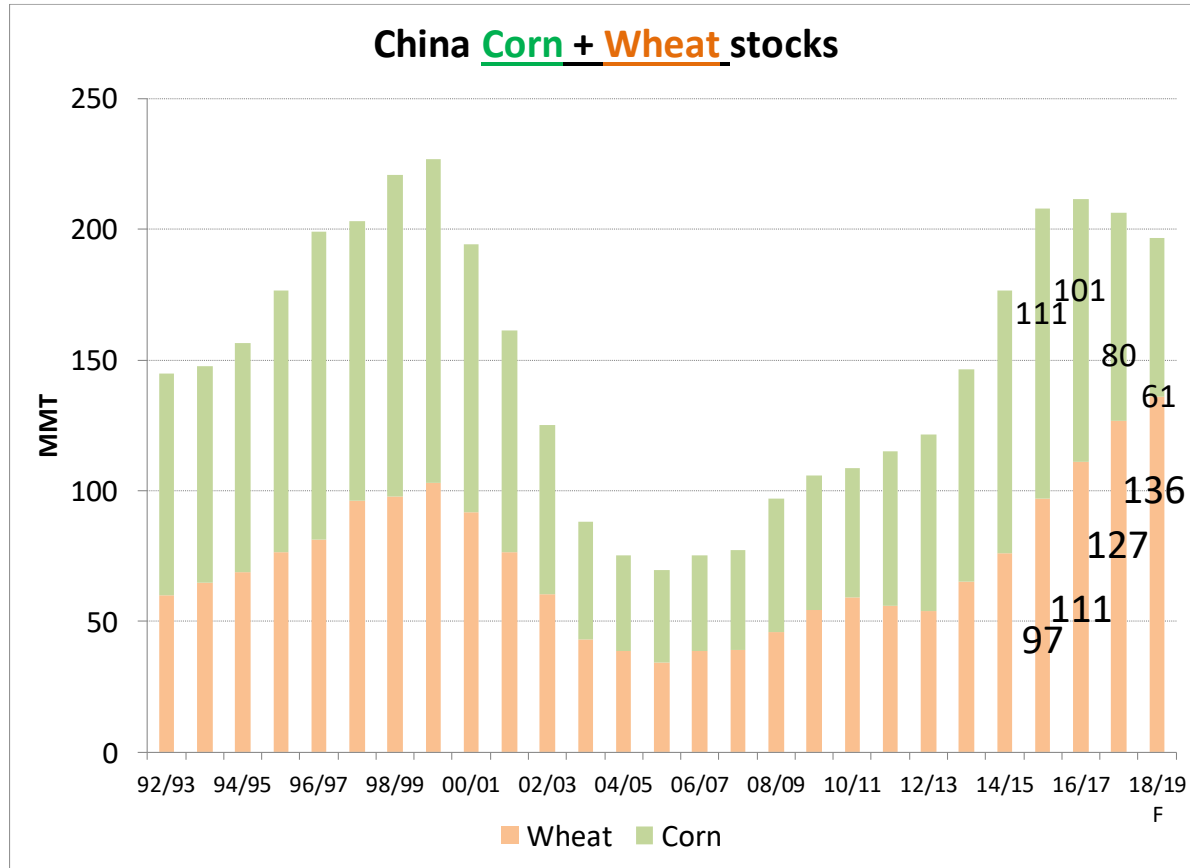


### India Wheat Acreage



# China: One policy to another

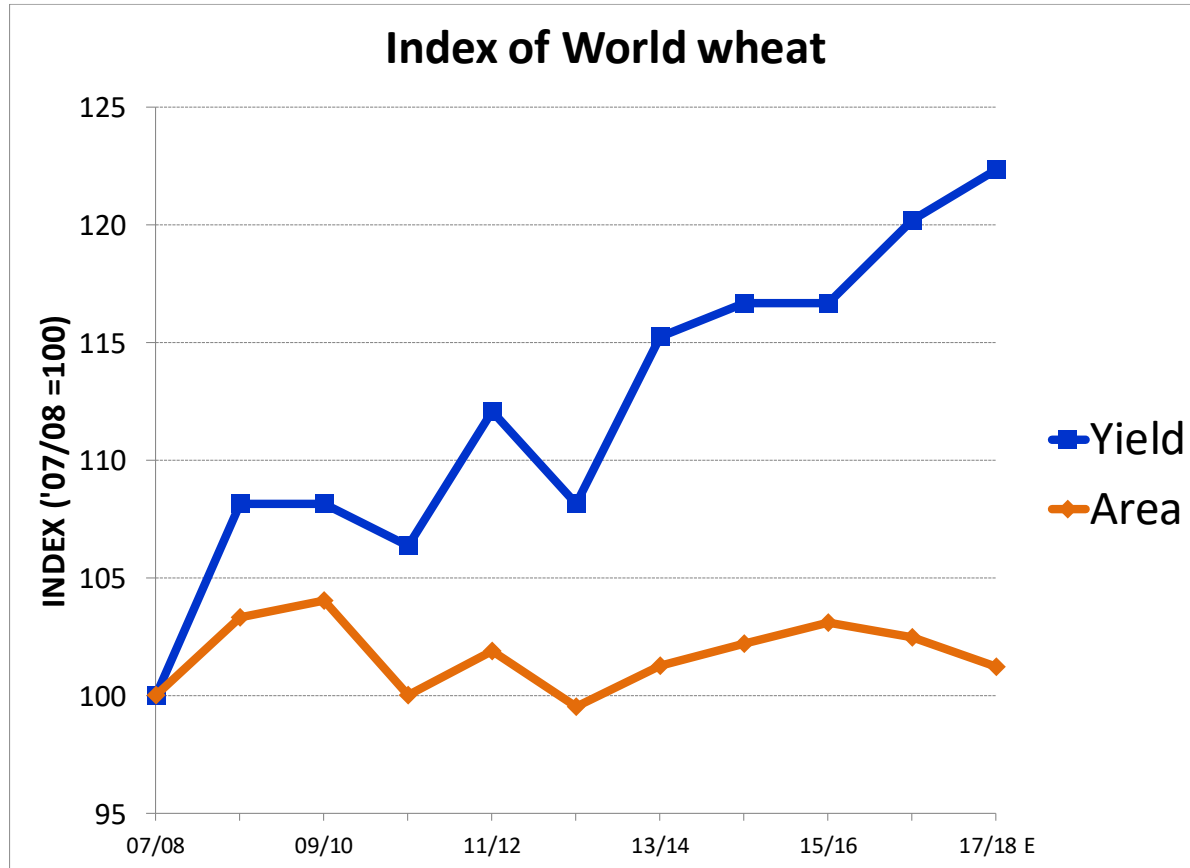
- Corn + Wheat stocks DOWN 10 MMT





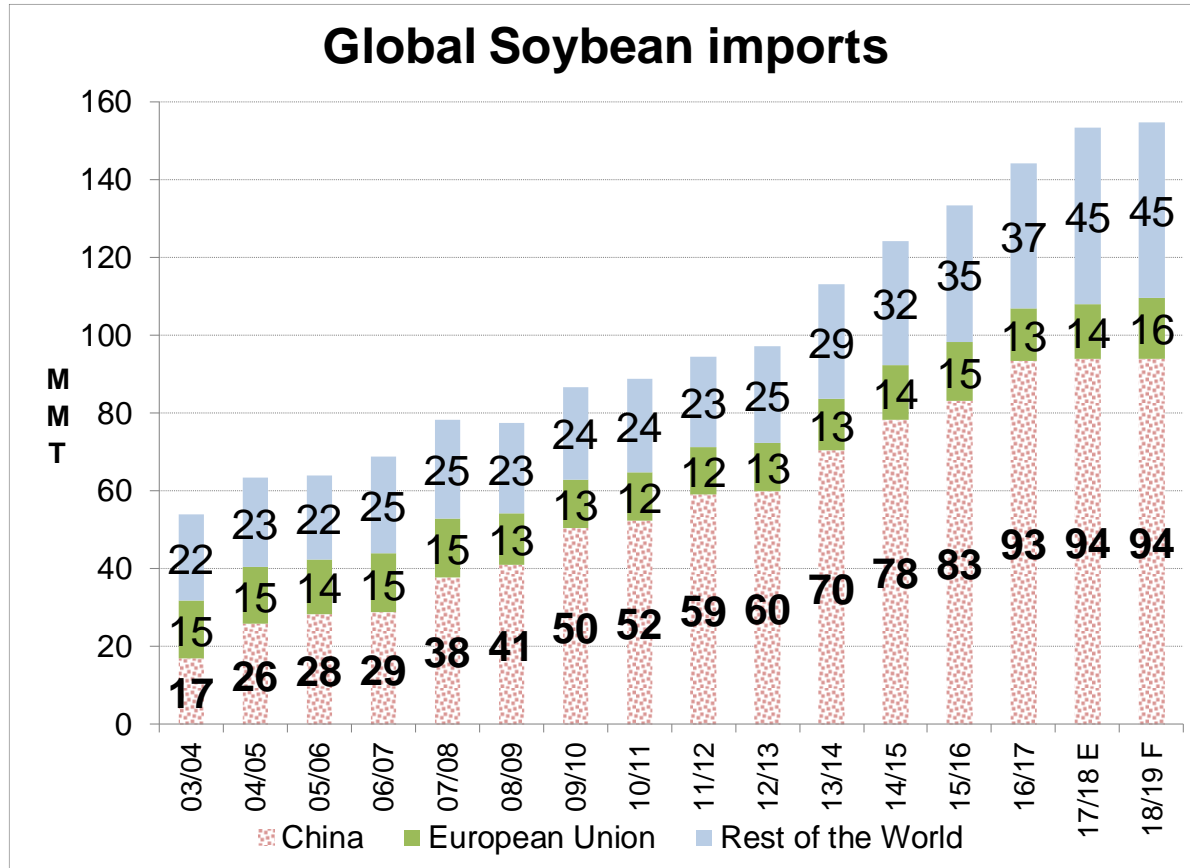
# Wheat area has been FLAT while yield has "INCREASED" 22%

- ONLY 1 out of last 10 years saw below trend yields

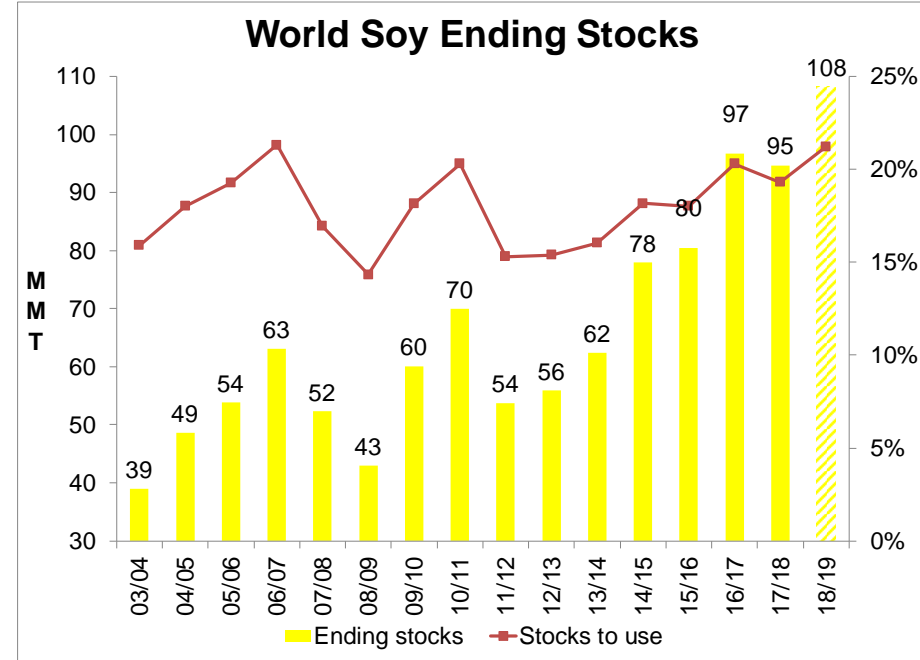
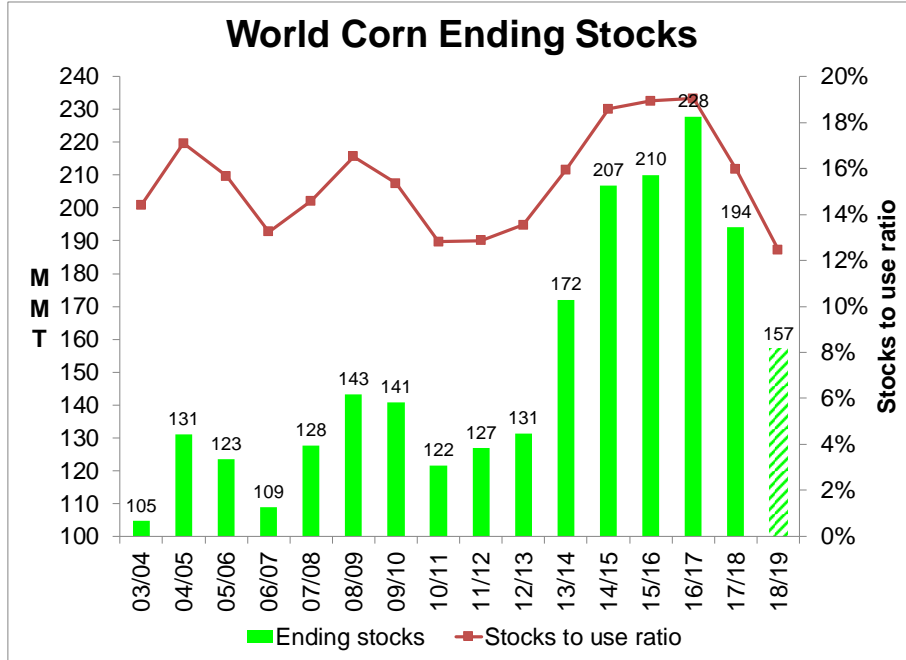


# The growth story continues....!!!???

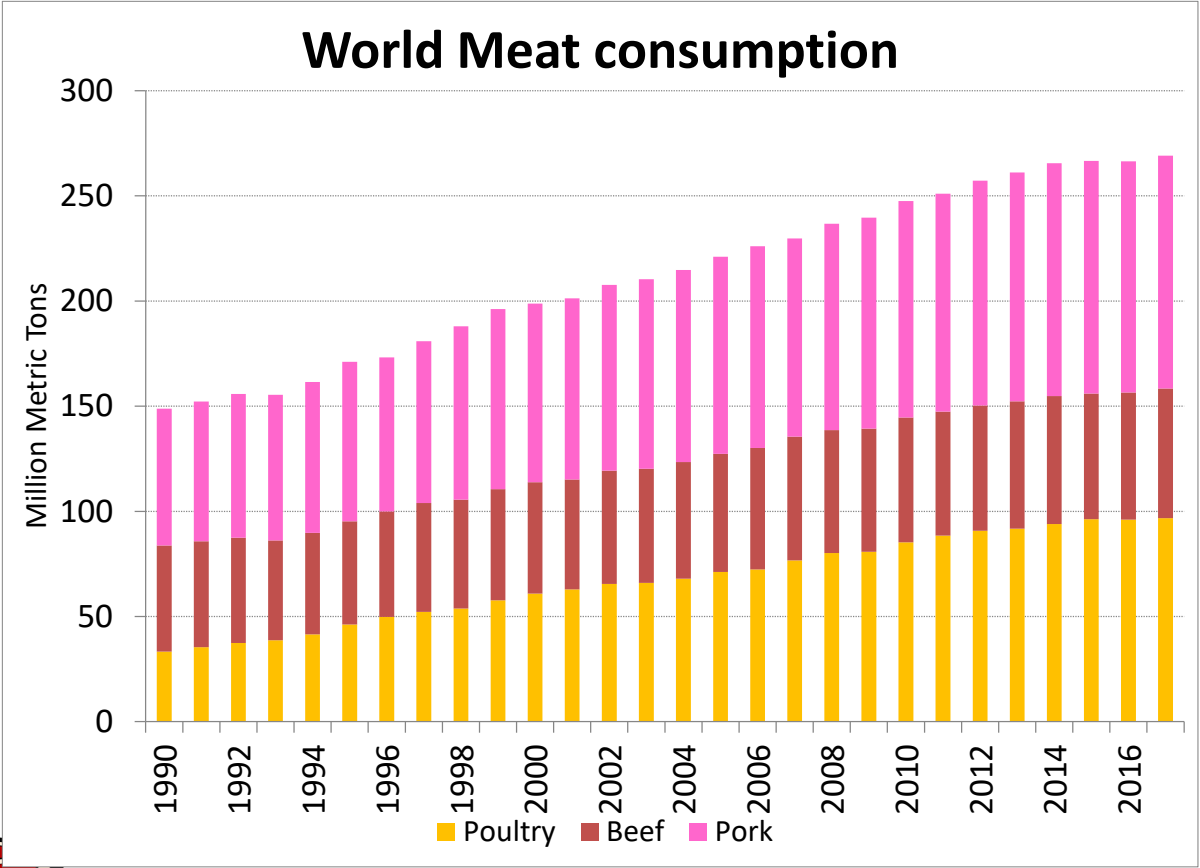
- How will the below trend change due to the recent trade spat?



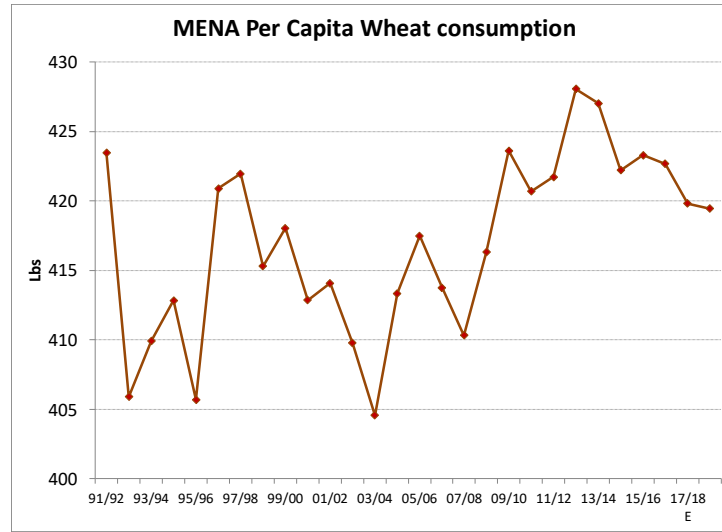
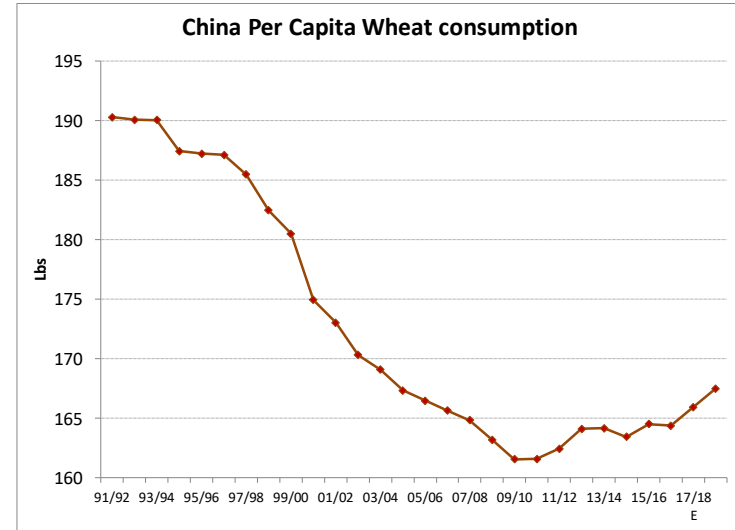
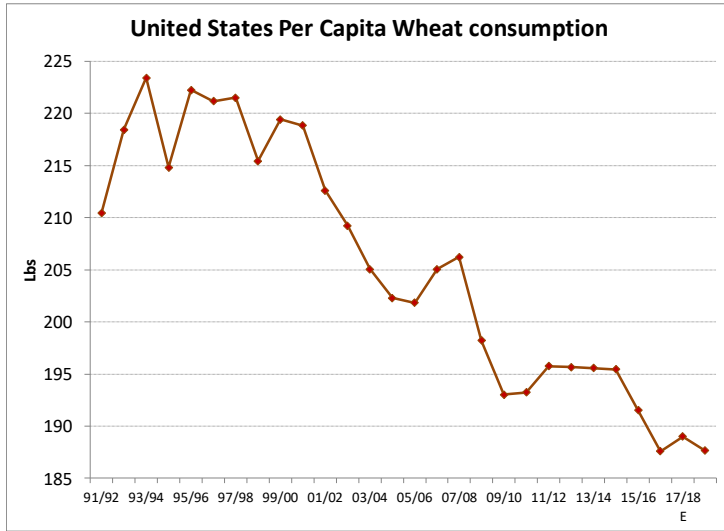
# Recent trade spat has led to higher soybeans stocks while the drawdown in corn is led by China



# World Meat consumption continues to grow led by poultry



# Per capita wheat consumption: Tale of many worlds



MENA: Middle east and North Africa

# DEMAND/POLICY/PROFITABILITY

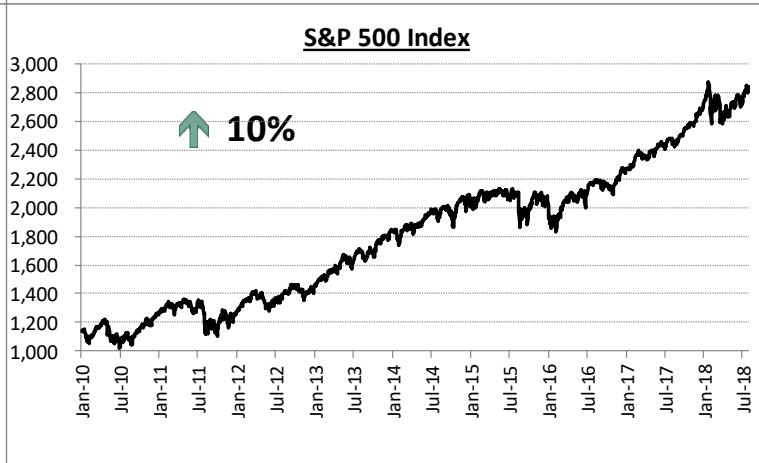
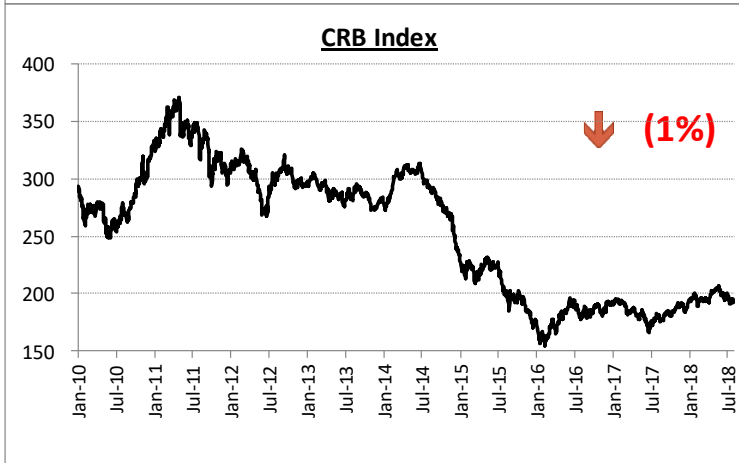
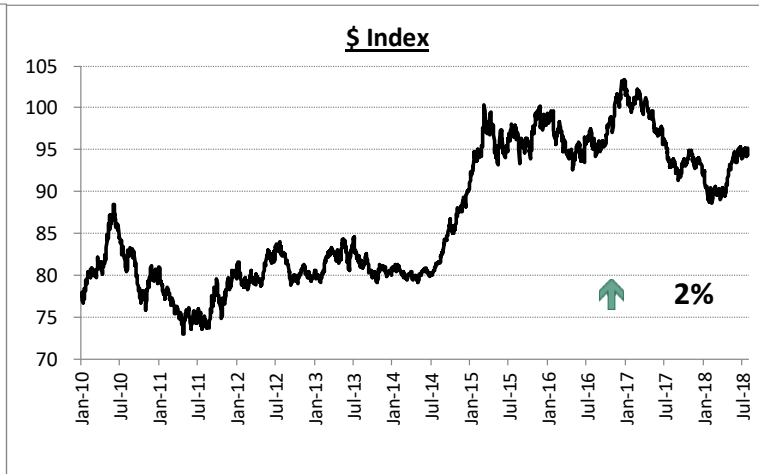
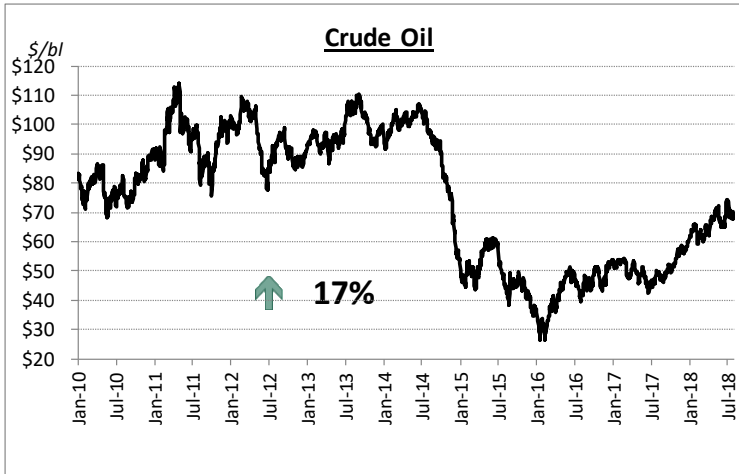
- DEMAND growth for Corn and Soybeans outpace Wheat helping SHIFT acres
  - Meat vs. bread consumption
  - Biofuels Mandate
- LOW or NO profitability for growing Wheat
- INCREASED levels of Minimum support prices provided by the 2 largest producers in the world
- REVIVAL of Russian acres and farm productivity along with subsidies (Fertilizer & Transportation)
  - Yields UP 50% in last 10 years
- ELEVATED level of US Dollar
- US still remains not only the residual supplier, but also the High quality and specialty wheat exporter

# Key issues for the year ahead

- Continued usage of record crops
- Large Speculator fund length
- Wheat harvest in Southern hemisphere
- Chinese appetite for soybeans
- U.S. share of exports
- Acreage allocation amongst crops
- Value of U.S. Dollar
- Resolution of Trade war

# Year to date returns

Big moves in the various asset classes over the last 3 months

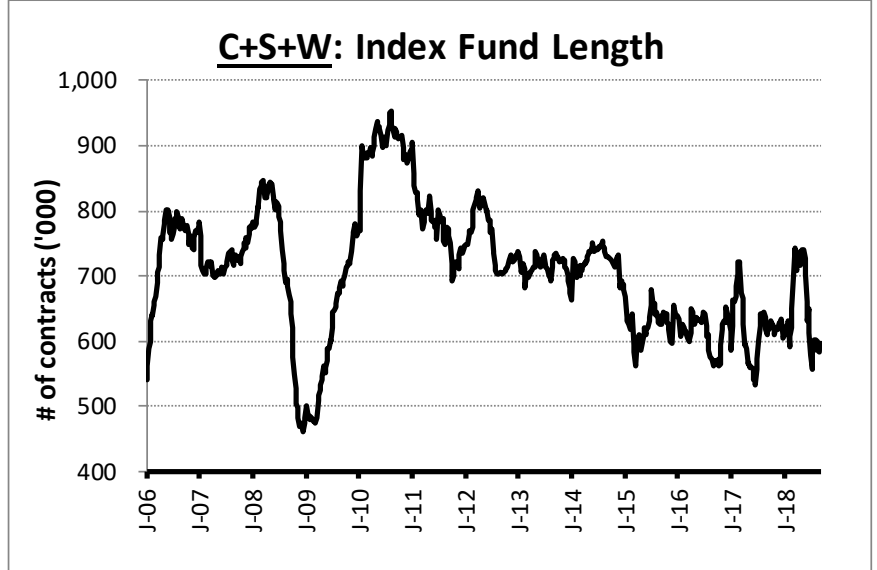
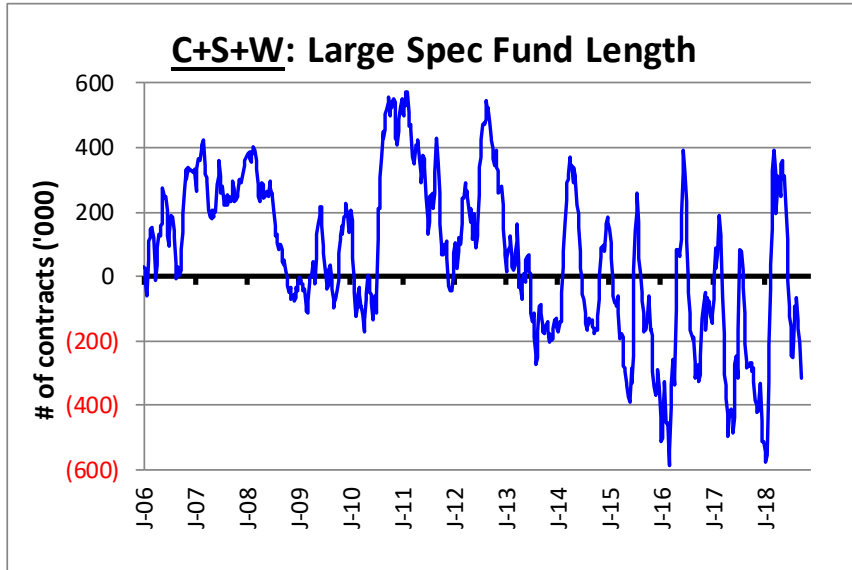




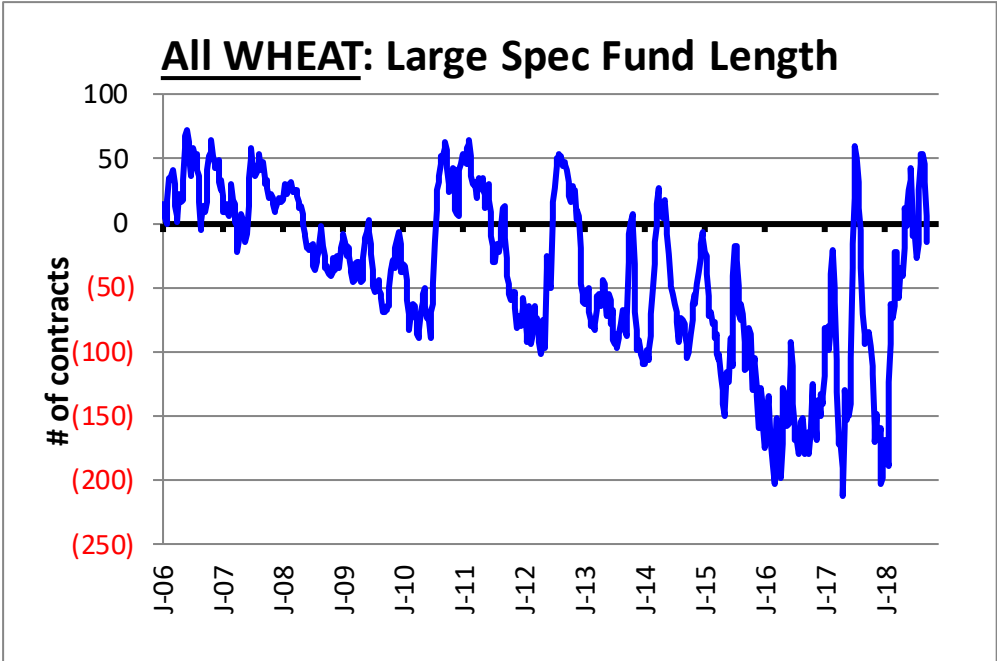
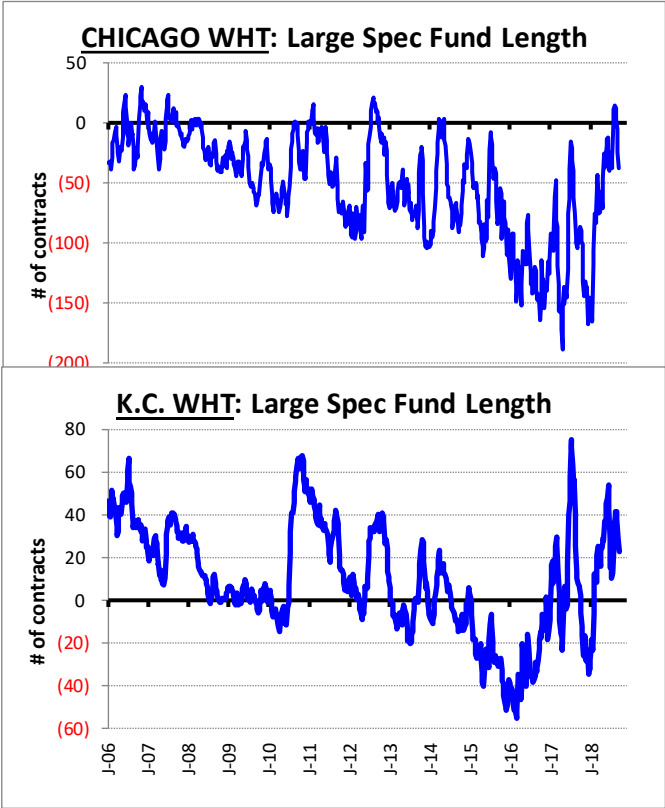
# Wheat exporter (U.S. competitor) currencies WEAKER

		YTD Returns Currency ETF
US\$ Index	DXY	1.9%
Euro	EUR	(1.9%)
Japanese Yen	JPY	0.2%
Canadian	CAD	(2.6%)
Aussie \$	AUD	(6.6%)
Russian Ruble	RUB	(13.1%)
Ukraine Hryvnia	UAH	(2.6%)
Brazilian Real	BRL	(18.8%)
Mexican Peso	MXN	4.4%
Argentine Peso	ARS	(51.3%)

# The large spec are SHORT corn, soy and wheat



# Large Speculators are short wheat led by soft wheat

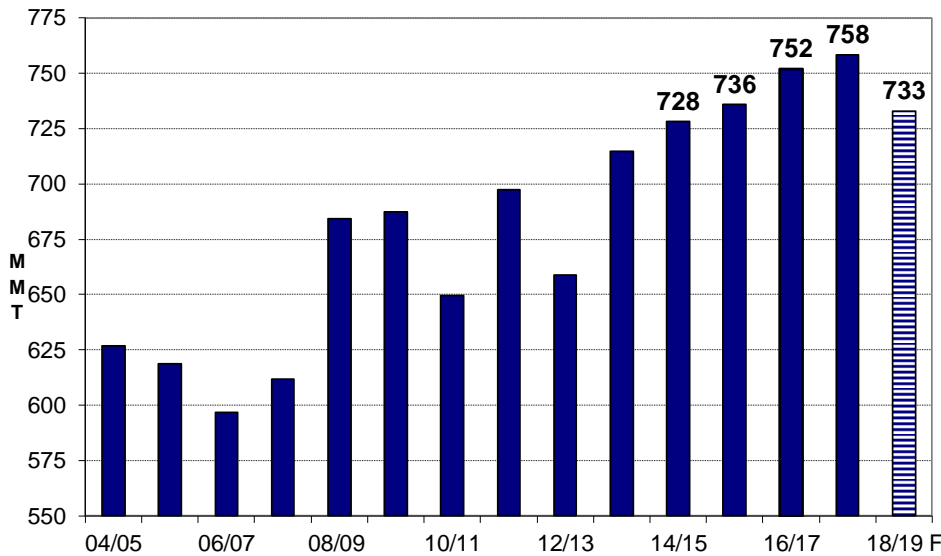




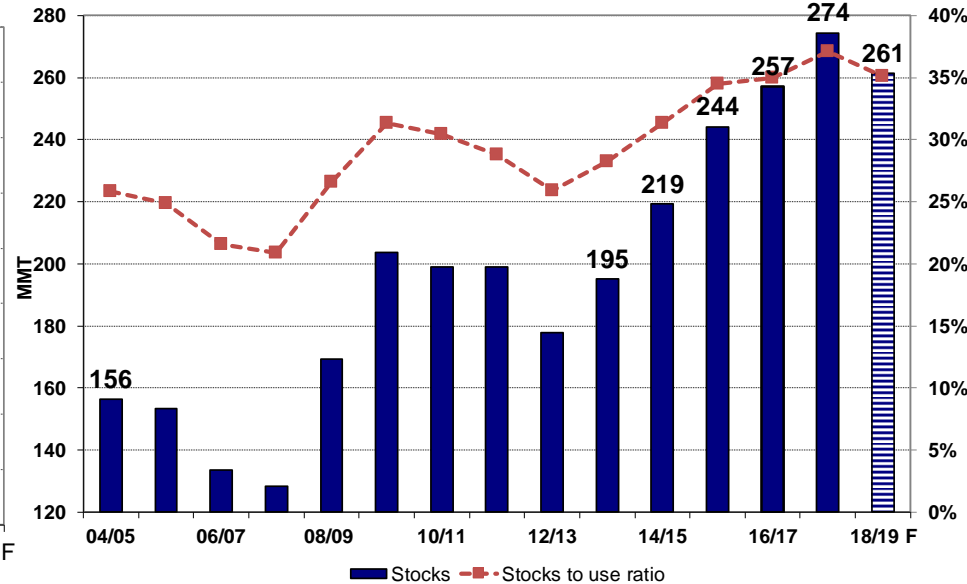
# World Wheat production and ending stocks to decline

- Production at a 4 year low
- Ending stocks draw down after 5 years of build

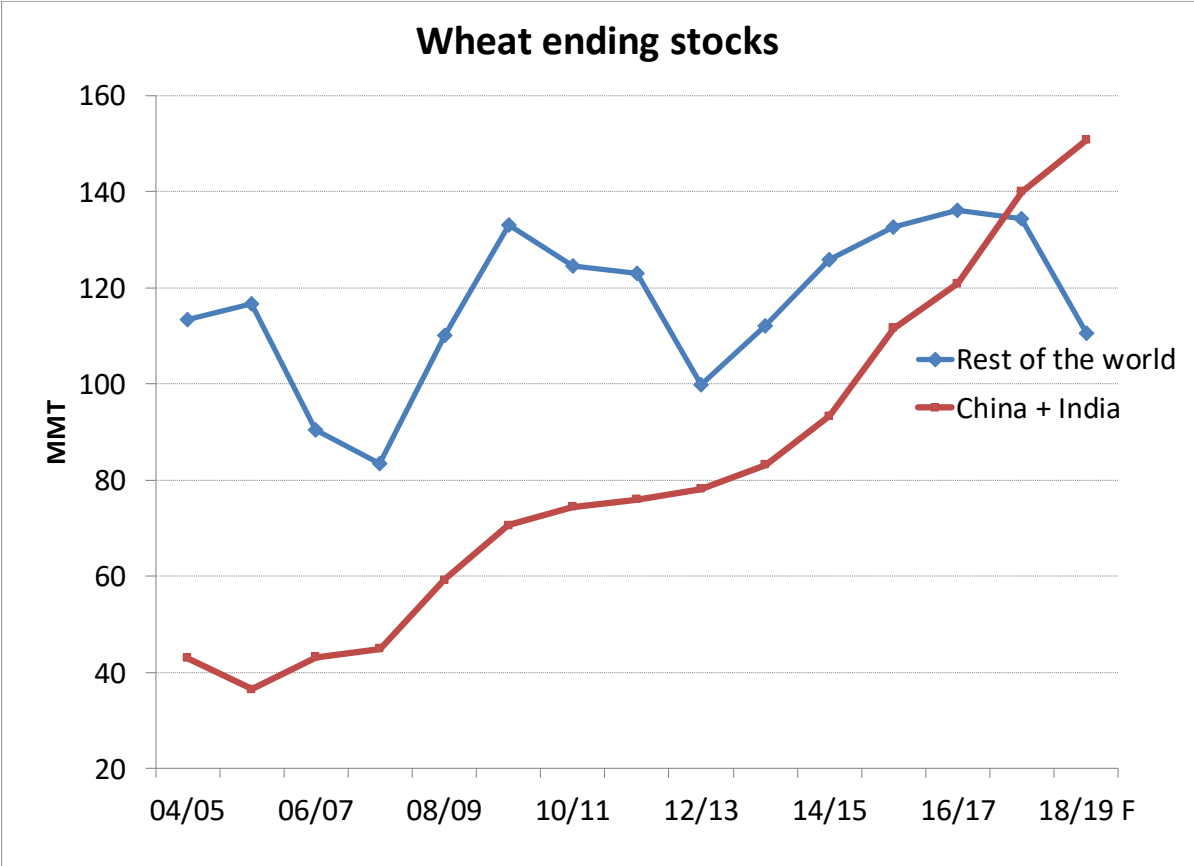
## World Wheat Production



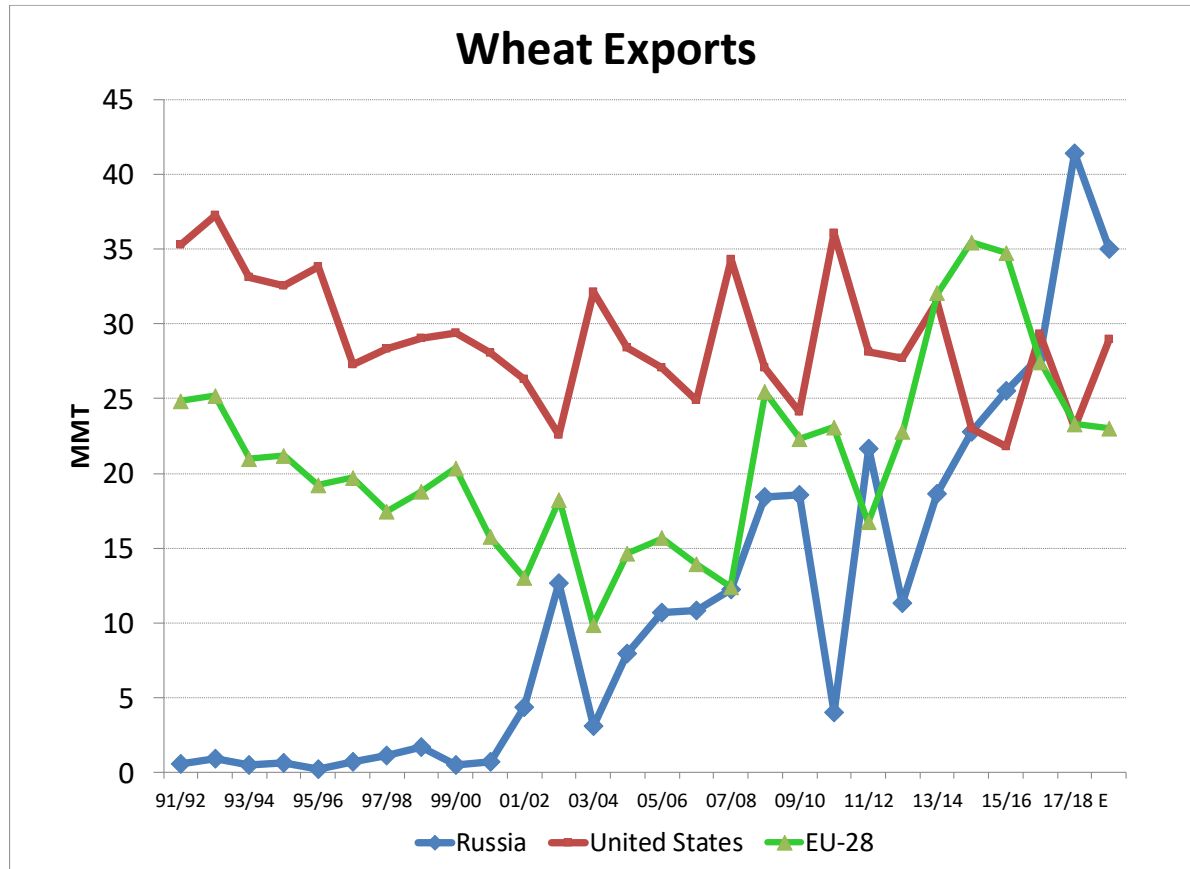
## World Wheat Ending Stocks



# China and India combined hold more wheat stocks than the rest of the world

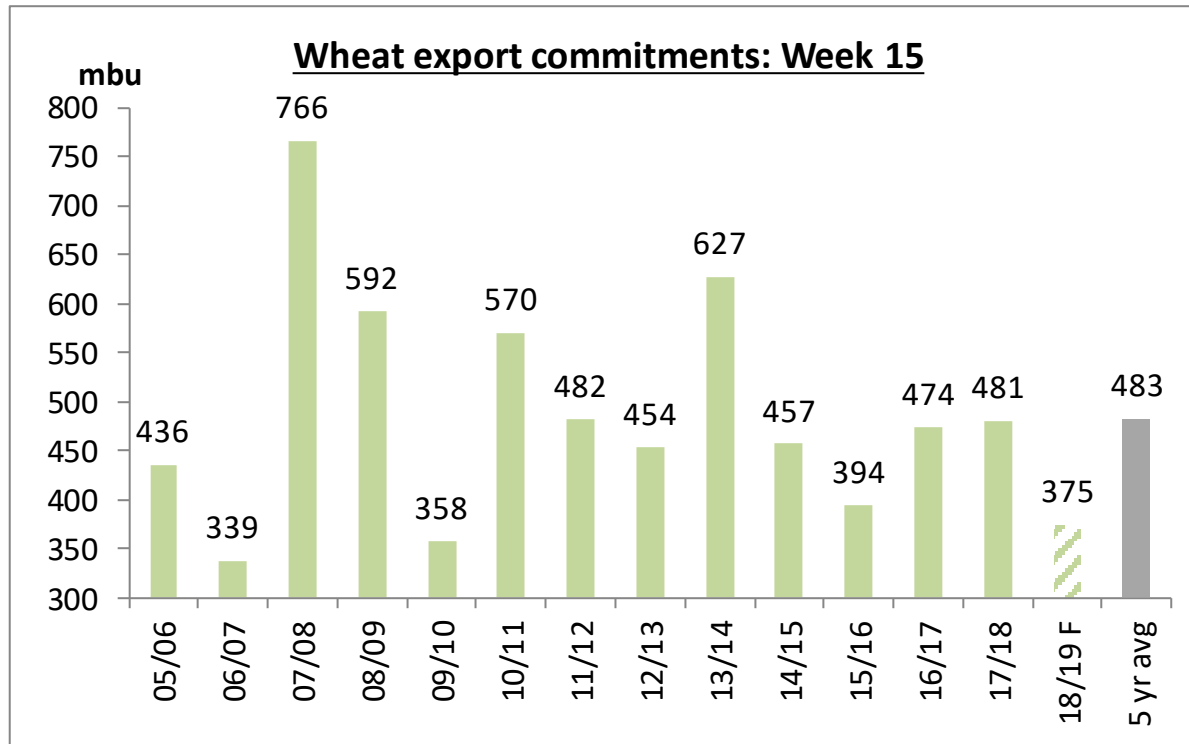


# Russia has surpassed U.S. as the #1 exporter of Wheat



# Week 15: U.S. Wheat export commitments are **LOWEST** since **2009/10** led primarily by HRW

- USDA forecast for all Wheat at 1025 mbu (900 mbu YA)  
**Implied increase of 231 mbu** in balance of year

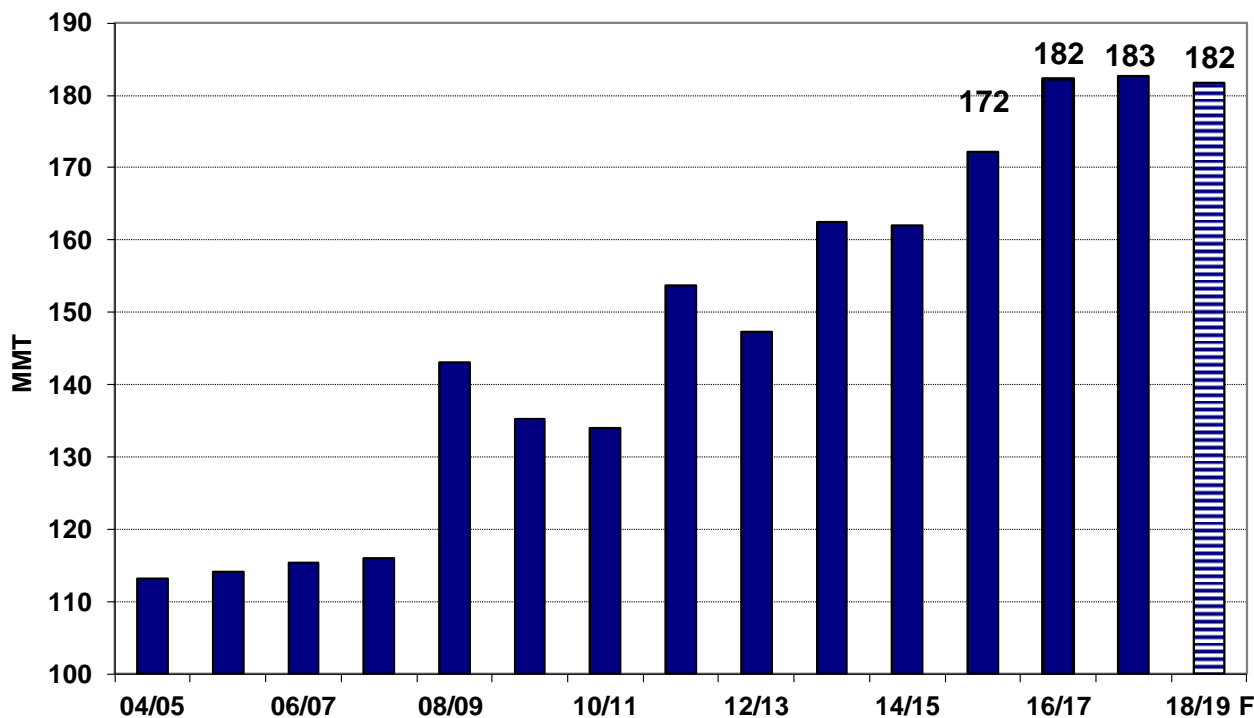




# World Wheat trade expected to be DOWN 1 MMT led by North Africa, Turkey and India, not offset by higher numbers in China and Brazil

- Trade will be curbed further led by lower Wheat feeding prospects

## World Wheat Trade

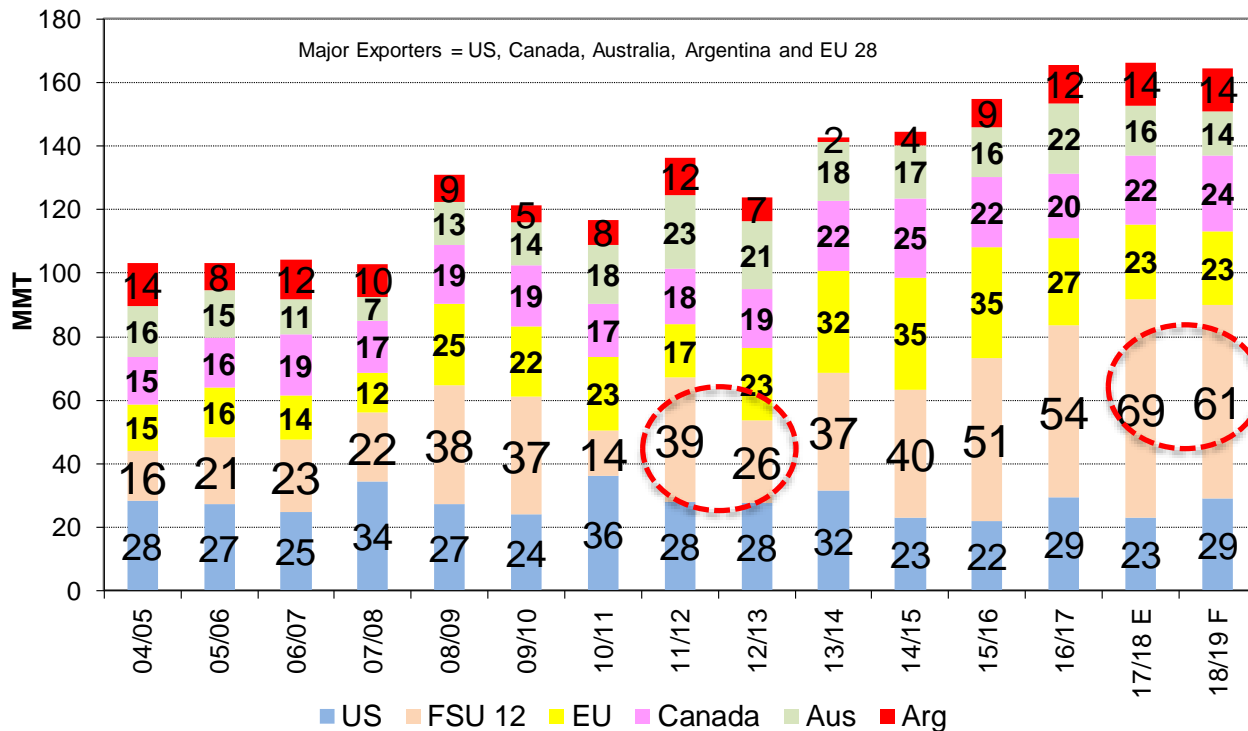


# Decline in FSU-12 wheat exports to be filled by all to include North America

- Most "other" big exporters to stay FLAT YoY or decline

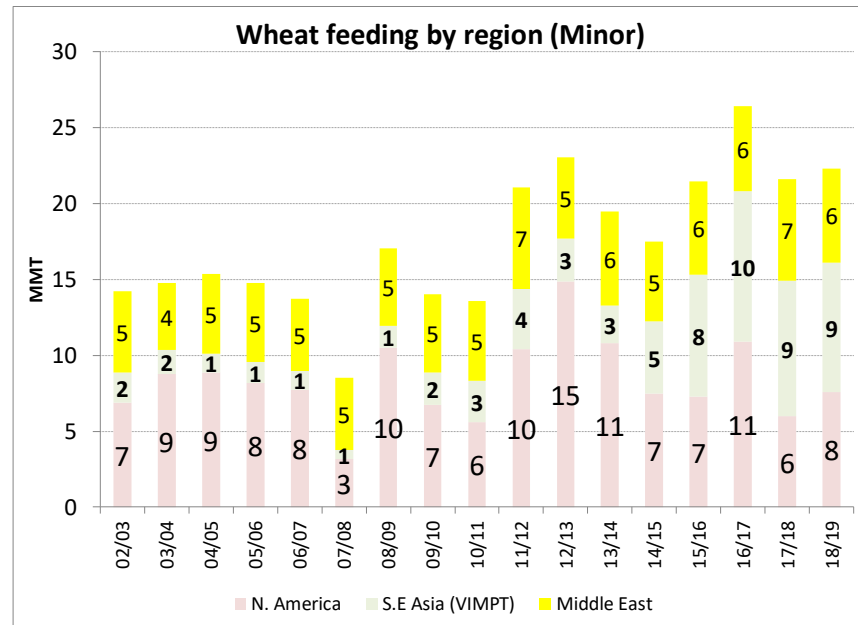
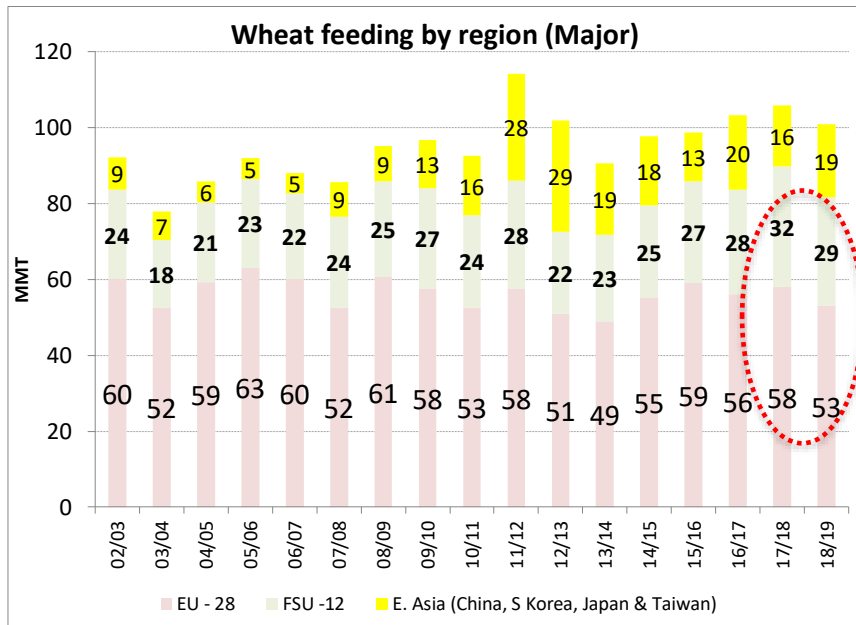
- EU-28 exports at 23 MMT seems high and Russian pace needs to be monitored

## Wheat Exports



Country	'17/18	'18/19 F	YoY
U.S	23	29	6
FSU-12	69	61	(8)
EU	23	23	-
Canada	22	24	2
Aus	16	14	(1)
Arg	14	14	-
<b>TOTAL</b>	<b>167</b>	<b>166</b>	<b>(1)</b>

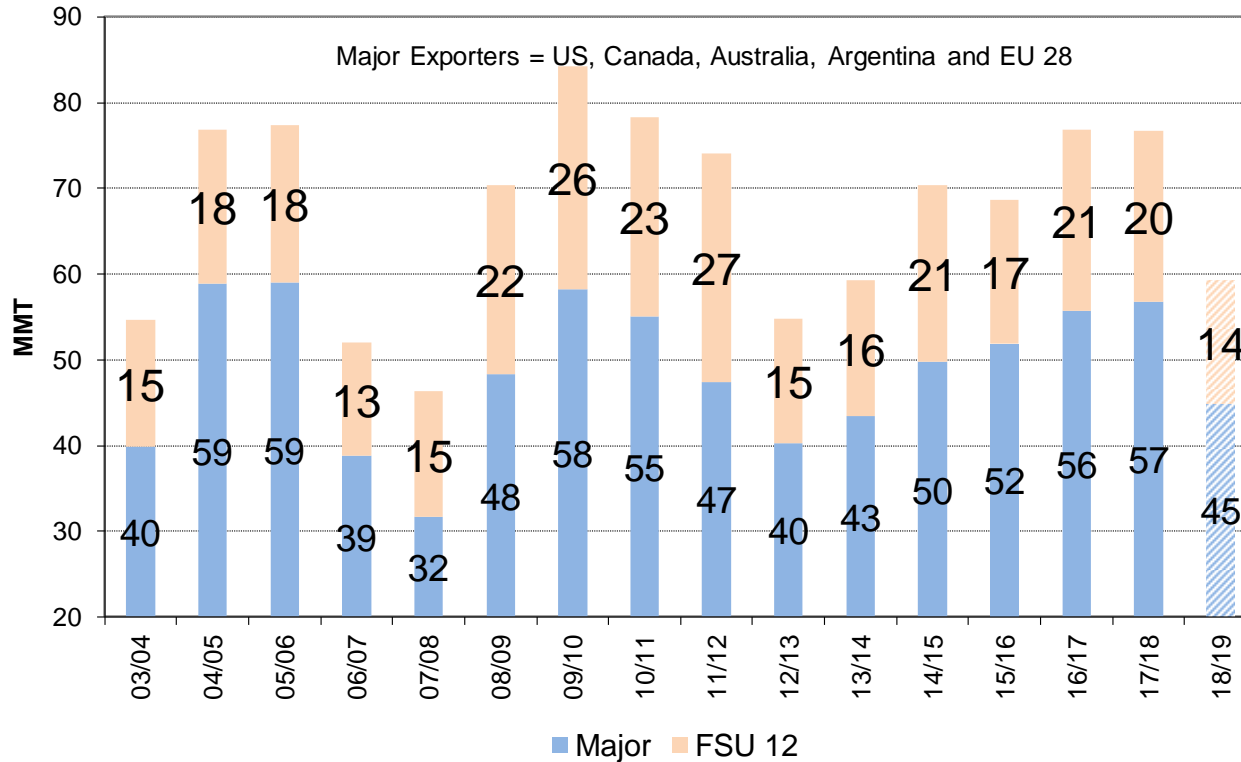
# Wheat feeding for 2018/19 is expected to be DOWN led by EU and FSU-12



# Ending stocks to be drawn **DOWN by 18 MMT** to meet exports

- This will continue to pose competition for the U.S. in the short term

## Wheat Ending Stocks



# Tax structure change on exports (23% to 0%)

- The return of acres post the Macri regime in Dec 2015

-It has become an export powerhouse as Food use has stagnated along with capped Brazil market



Argentina Wheat Supply and Demand								
Argentina Wheat Annual	13/14	14/15	15/16	16/17	17/18 E	YOY chg	18/19 F	YOY chg
Wheat (DEC - NOV) MMT					Sep est		Sep fcst	
Harv Acres (M HA.)	3.50	4.96	3.95	5.56	5.60	0.04	6.00	0.4
Yield (MT/HA)	3.00	2.81	2.86	3.31	3.21	(0.10)	3.25	0.0
Production	10.5	13.9	11.3	18.4	18.0	(0.4)	19.5	1.5
Beg. Stocks	0.3	2.5	4.8	0.8	0.2	(0.6)	0.7	0.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL SUPPLY</b>	<b>10.8</b>	<b>16.5</b>	<b>16.1</b>	<b>19.2</b>	<b>18.3</b>	-1.0	<b>20.2</b>	2.0
Food use	6.0	6.1	5.5	5.1	5.5	0.4	5.6	0.1
Feed & Residual	0.1	0.3	0.2	0.1	0.1	0.0	0.1	0.1
Exports	2.3	5.3	9.6	13.8	12.0	(1.8)	14.2	2.2
<b>TOTAL USE</b>	<b>8.3</b>	<b>11.7</b>	<b>15.3</b>	<b>19.0</b>	<b>17.6</b>	(1.4)	<b>19.9</b>	2.4
Domestic Use	6.1	6.4	5.7	5.2	5.6	0.4	5.7	0.1
Ending Stocks	2.5	4.8	0.8	0.2	0.7	0.5	0.3	(0.4)
<b>% of Use</b>	<b>30.0%</b>	<b>41.2%</b>	<b>5.3%</b>	<b>1.3%</b>	<b>4.0%</b>	2.7%	<b>1.6%</b>	(2.4%)

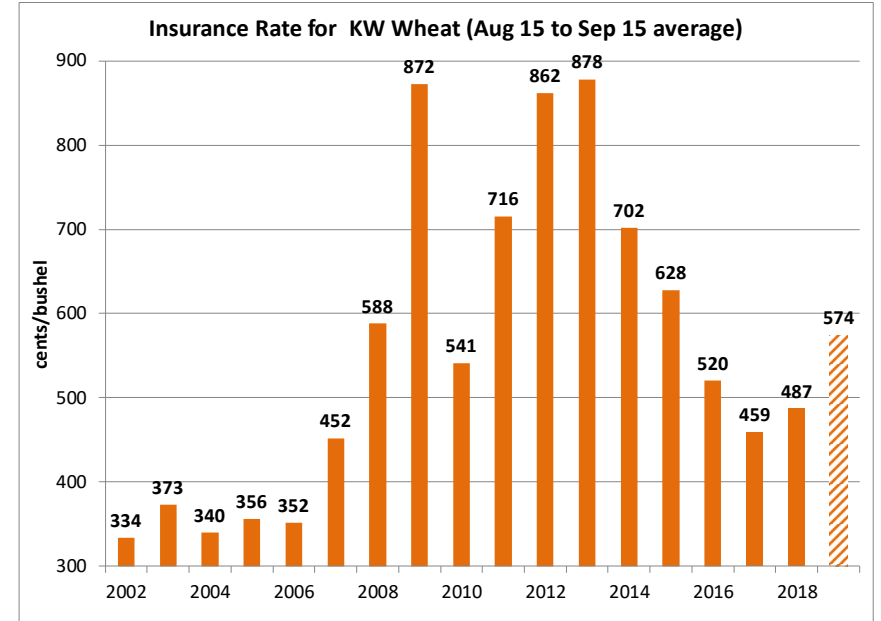
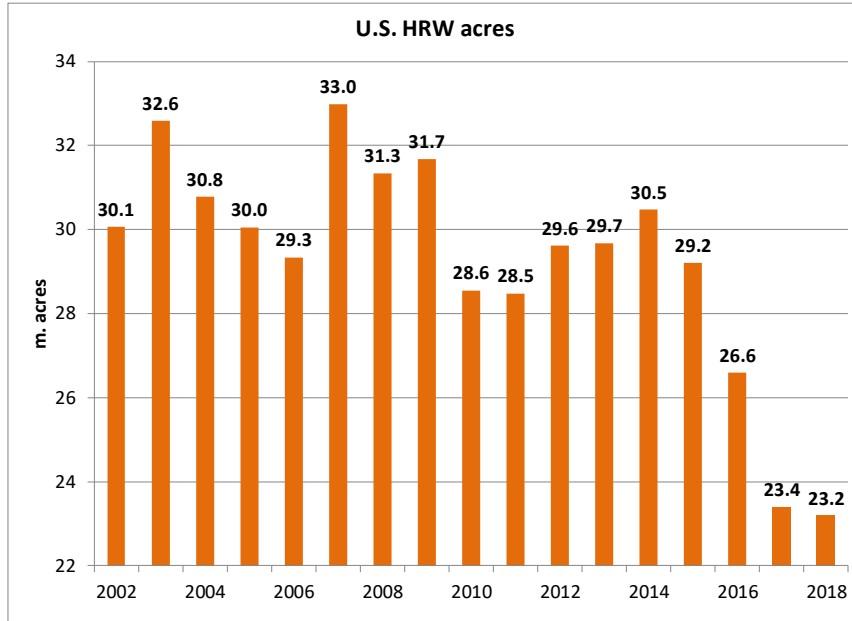
# Smaller supplies will ask for record imports

- But most of it will stem from Argentina

Brazil Wheat Supply and Demand								
Brazil Wheat Annual	13/14	14/15	15/16	16/17	17/18 E	YOY chg	18/19 F	YOY chg
Wheat (OCT - SEP) MMT					Sep est		Sep fcst	
Harv Acres (M HA.)	2.20	2.73	2.45	2.1	1.9	(0.2)	2.0	0.1
Yield (MT/HA)	2.41	2.20	2.26	3.18	2.23	-0.95	2.35	0.1
Production	5.3	6.0	5.5	6.7	4.3	(2.5)	4.7	0.4
Beg. Stocks	1.0	1.9	0.9	1.0	2.3	1.3	1.3	(1.0)
Imports	7.1	5.4	6.7	7.3	7.0	(0.3)	7.5	0.5
<b>TOTAL SUPPLY</b>	<b>13.4</b>	<b>13.3</b>	<b>13.2</b>	<b>15.1</b>	<b>13.5</b>	<b>(1.6)</b>	<b>13.5</b>	<b>(0.0)</b>
Food use	10.8	10.4	10.6	11.4	11.5	0.1	11.6	0.1
Feed & Residual	0.6	0.3	0.5	0.8	0.5	(0.3)	0.5	0.0
Exports	0.1	1.7	1.1	0.6	0.3	(0.4)	0.3	0.1
<b>TOTAL USE</b>	<b>11.5</b>	<b>12.4</b>	<b>12.2</b>	<b>12.8</b>	<b>12.3</b>	<b>(0.6)</b>	<b>12.4</b>	<b>0.2</b>
Domestic Use	11.4	10.7	11.1	12.2	12.0	(0.2)	12.1	0.1
Ending Stocks	1.9	0.9	1.0	2.3	1.3	(1.0)	1.1	(0.2)
% of Use	16.4%	7.0%	8.2%	17.6%	10.4%	(0.1)	8.6%	

# HRW Insurance for 2019/20 was set at 18% higher than YA

- Current prices point towards the highest price since 2015
- Will acres rise above 25.0 m. acres?



# TAKEAWAYS

## - World wheat situation in transition

- There will be short fall in World production in 2018/19 led mainly by FSU-12
- This will however not translate into a 1 for 1 export shortfall due to big carry in stocks availability
- World Wheat trade forecast seems high as feeding could be further curbed
  - Russia and Ukraine could face wheat export controls led by the government
- US anxiously awaits export business which is likely to come to fruition in Q1 2019
- Major exporter wheat ending stocks are being drawn down to very tight levels
  - This will provide for less of cushion in 2019/20
- US Producers are forecast to increase winter wheat acreage by 10%



# Takeaways

- World Wheat acreage has STAGNATED while yields have IMPROVED
  - U.S. acreage though has fallen to historic lows
  - Policy and profitability has been a big driver of supply
- DEMAND for corn and soy continue to outpace wheat
  - Global wheat stocks increasing led primarily by China
- DECLINE in the value of US Dollar will likely help exports
- U.S. remains a RESIDUAL wheat supplier to the world

# Takeaways

- World Wheat acreage has STAGNATED while yields have IMPROVED
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- DECLINE in the value of US Dollar will likely help exports
- U.S. remains a RESIDUAL wheat supplier to the world
- Large speculator carrying BIG short positions
- Wheat prices remains at the LOW-END of the range
- Returns in equities are OUTPACING that of commodities (Agriculture)
  - Carry structure is shaping market composition of various players

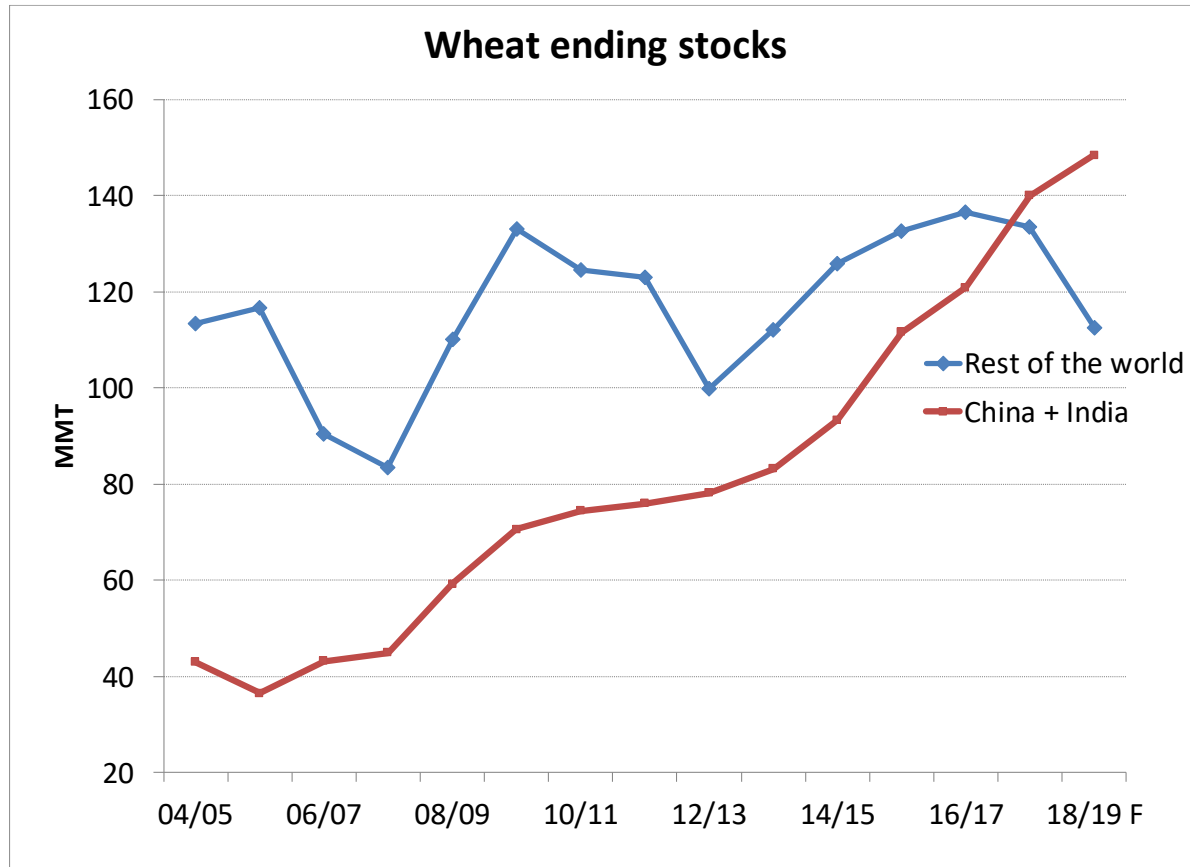
- Carries: I need July Dec for KW and W
- KC VSR: Read and 2 different rates
- Option volatility
- KC Protein
- KW vs. WZ
- WL and Informa
- In depth CFTC report
- O.I.
- Acres and yields
- World Per capita consumption and U.S.
- YTD Price change as % or flat price
- Prices in lower quartile
- Insurance Prices for Wheat

- Value of equities
- Value of Ag commodities

# Food for thought

- What will happen to the price discounts against the U.S. offers?
- How about MENA countries “BUDGET CONSTRAINTS” under stable to higher Crude oil prices affect either consumption or stocks levels??
- What is World Wheat (Russian) trend yield? Will we break the streak?
- We are 3 months from Winter Wheat harvest for new crop, how will the market react to quantity and quality??
  
- What is U.S. Winter Wheat acreage going to do this FALL?
  
- Does World wheat trade FALL led by fewer feed wheat imports?

# China and India combined hold 40 MMT more wheat stocks than the rest of the world



# Takeaway

- EU-28 wheat production is currently forecast at 149.5 MMT (151.6 MMT YA), however recent heat in France, Germany, Scandinavia and Latvia has the potential to reduce the crop by 5 to 7 MMT from YA levels
- Tight ending stocks and already reduced wheat feeding will be unable to fall much further than current estimates, so declines in production will have the biggest effect on **“net exports”**
  - Key countries that take EU wheat include:
    - Middle East: Saudi Arabia, Iran, Jordan, Yemen, Kenya
    - North Africa: Algeria, Morocco, Tunisia, Libya, and Egypt
    - Sub-Saharan Africa
- Factors to watch in this situation include:
  - A YoY increase in Black sea corn supplies will allow corn imports to remain at elevated levels
  - Russia whose exports to MENA countries & Sub-Saharan Africa increased to record levels will now be curbed due not only to a drop in YoY production, but also lower carryin stocks

# 2018/19 WORLD

- **PRODUCTION**: All Wheat production to be down 3.0%+ from record level of YA to 732

## MMT

- There is still some downside in production led by EU-28 and Russia
  - Planting progress in Southern hemisphere (Argentina and Australia) is done
    - Argentine area to increase whilst Australia yields to be below trend
  - The major areas of YoY declines are in EU-28, Russia, Ukraine and South Asia which will not be offset by increases in North America
  - U.S. production to be UP 8% in spite of lower HRW stocks
- **BEGINNING STOCKS**: Beginning Stocks are UP 17 MMT which provides cushion to YoY production decline with Supplies (Prod + Beg Stock) will be DOWN 6+ MMT
    - Most of these stock increases are in Big 5 (Ex. US)
    - Big 5 exporter + FSU-12 stocks still decline from YA

*Big 5 = Canada, EU-28, United States, Argentina and Australia*



- TRADE: World Wheat trade to increase by 3 MMT to a RECORD level
  - There is plenty of Wheat (at least in quantity) to help with a BIG world wheat trade which will have to come on the heels of strong Wheat Feeding
  - MENA imports are DOWN YoY due to a bigger crop
  - Declines by other competitors combined with higher world trade will help U.S. increase volumes and market share
- FEEDING: World Wheat feeding is forecast to decline by 3 to 5 MMT
  - We envision this decline in Wheat feeding in EU-28 and FSU-12 will aid in their wheat exports, but will come at the expense of lower stocks along with increased CORN IMPORTS
  - Likewise, a decline is also anticipated in VIMPT and So. Korea which will **increase their rates on corn imports**
  - Will China feeding be curbed as they clear corn stocks????

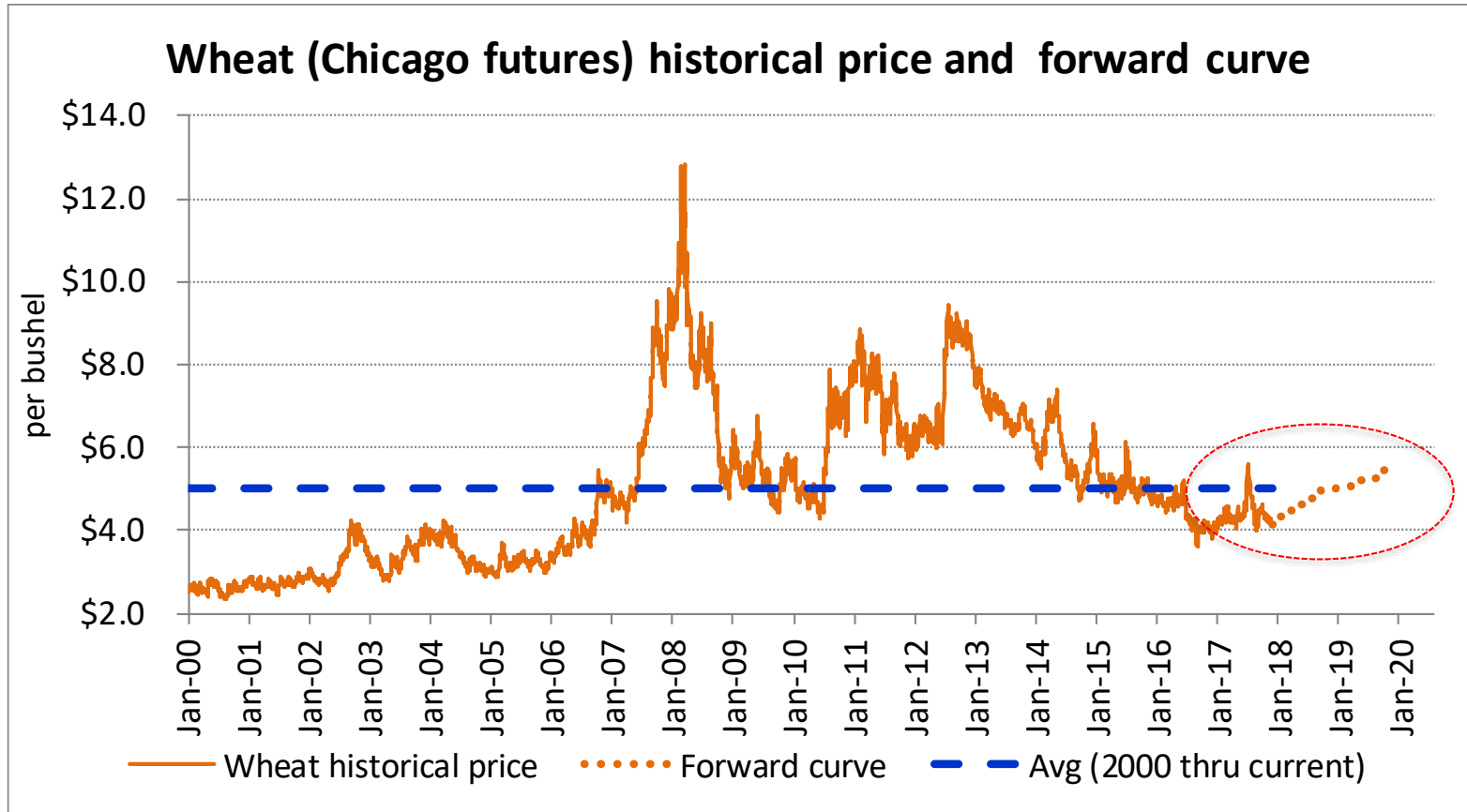
# TAKEAWAYS

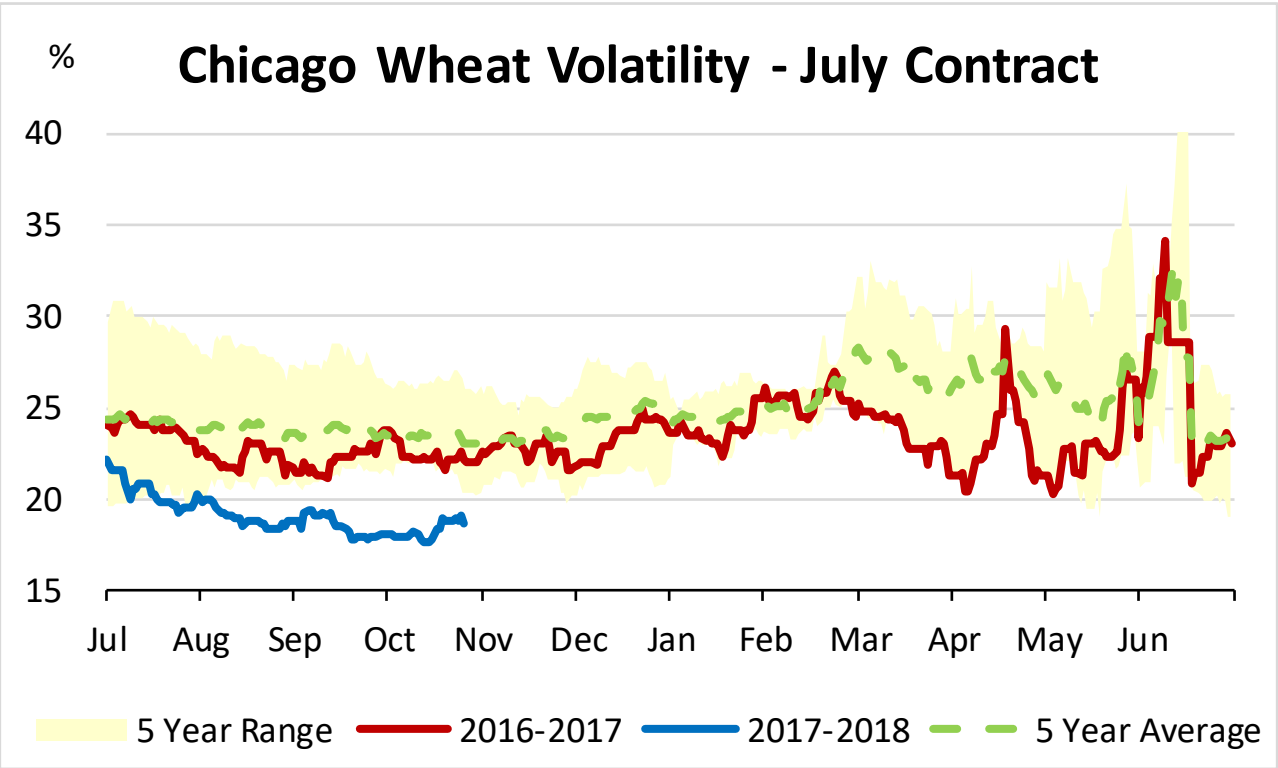
- There will be short fall in World production in 2018/19 led mainly by FSU-12
- This will however not translate into a one for one export shortfall due to the big carry in stocks availability
- U.S. wheat crop (Winter) which seems to be below TREND is uncertain and nervous about the damage from recent dryness (90+days). The Spring wheat plantings to include HRS should gain by at least 1.0 m. acres combined with return to trend and will help raise the ALL WHEAT CROP from YA levels by 3 to 4 MMT
  - U.S. Wheat exports (HRW) will struggle to find additional demand compared to YA due to improvement in North Africa production prospects along with bigger EU-28 and FSU-12 supplies
  - Competition should remain fierce for SRW wheat led by EU-28
  - HRS exports needs to monitored with Phil, China and Mexico importers in focus along with Canadian prospects
- US ending stocks for 2018/19 to be decline further as over supply is not being offset by lower demand (Exports and Feed)

# Food for thought

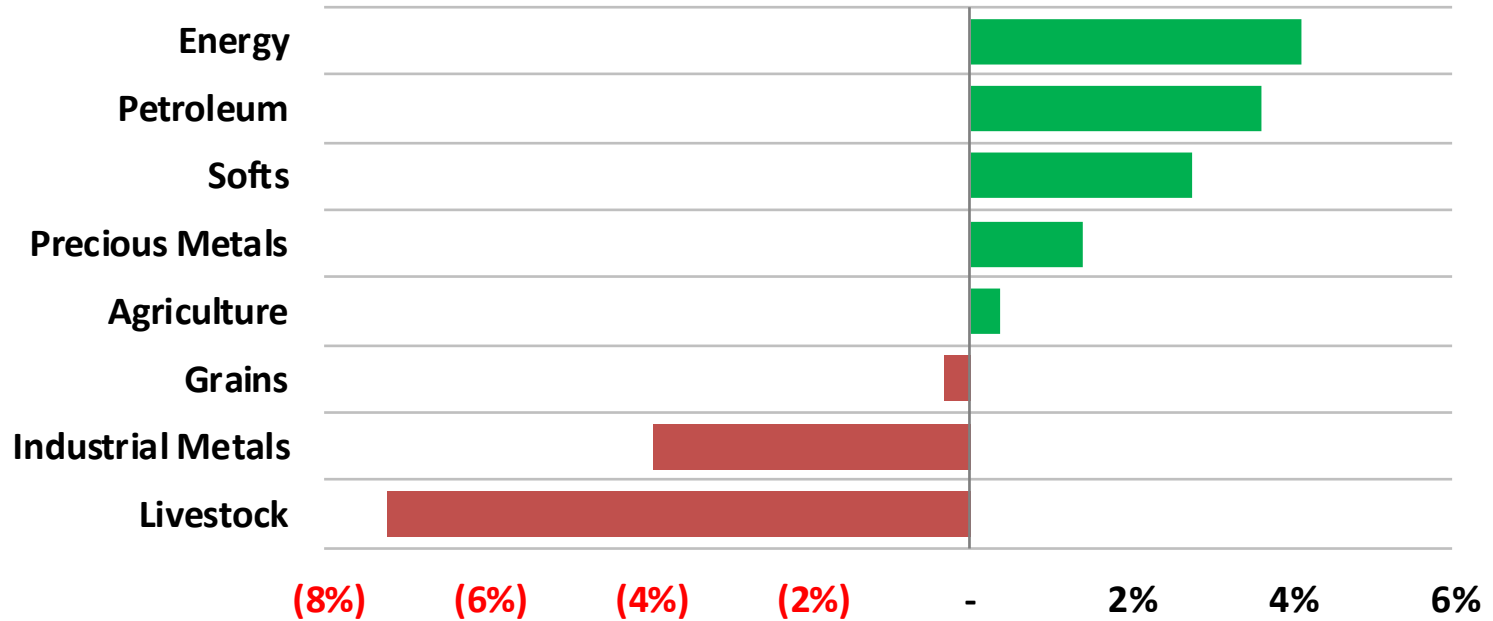
- What will happen to the price discounts against the U.S. offers?
- How about MENA countries “BUDGET CONSTRAINTS” under stable to higher Crude oil prices affect either consumption or stocks levels??
- What is World Wheat (Russian) trend yield? Will we break the streak?
- We are 3 months from Winter Wheat harvest for new crop, how will the market react to quantity and quality??
- What is U.S. Winter Wheat acreage going to do this FALL?
- Does World wheat trade FALL led by fewer feed wheat imports?

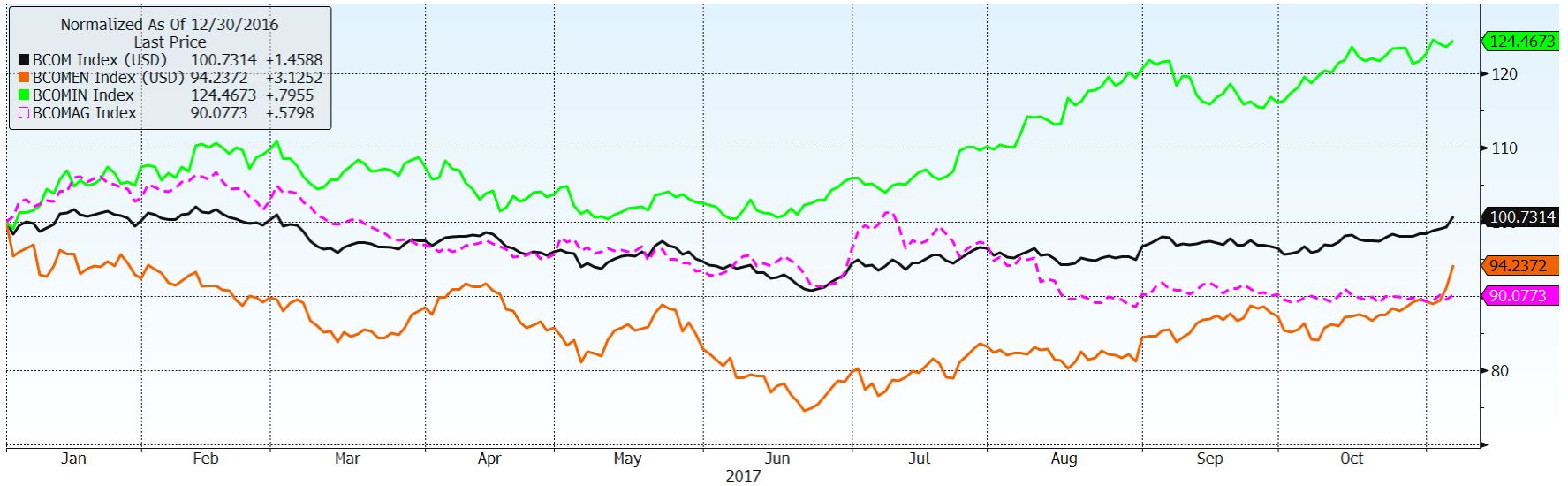
# Wheat price is currently trading below the average, but the forward curve is above the average





## BCOM Sub-Sector Nov. 2017 MTD Change



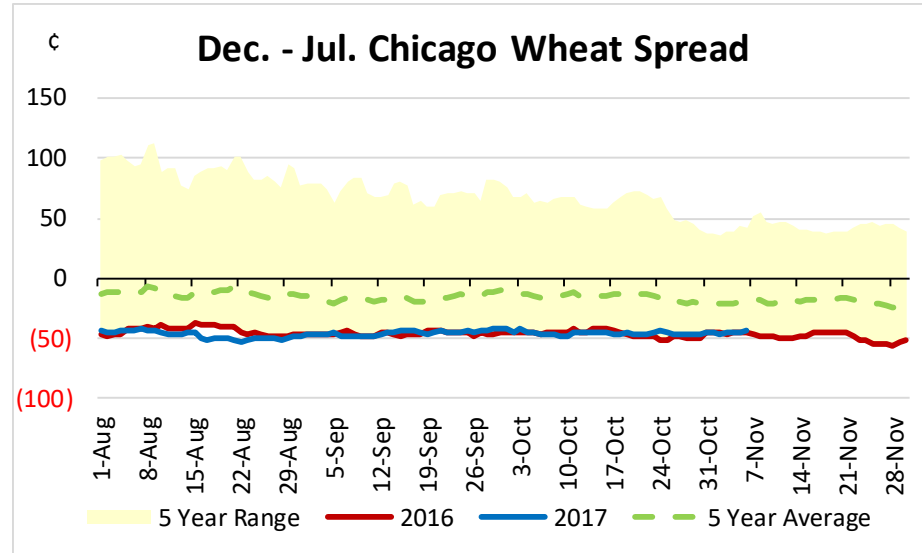
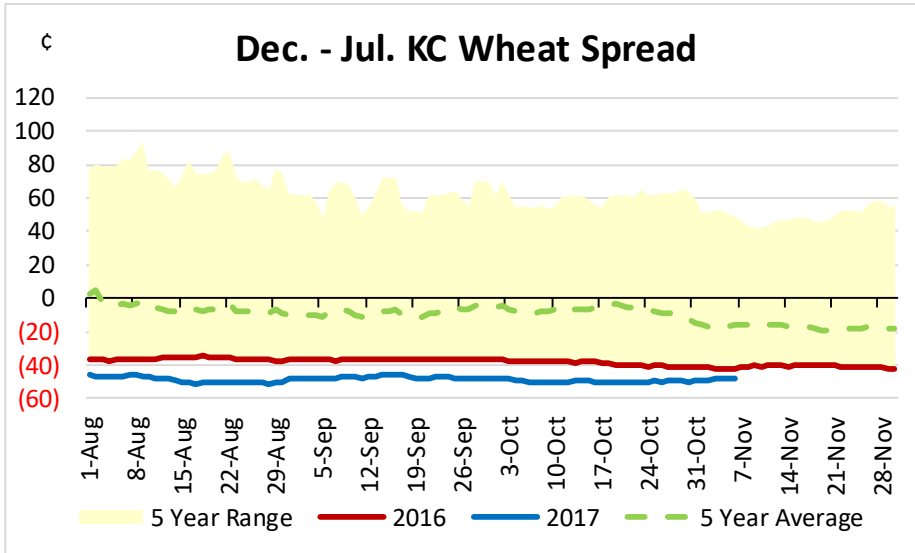


BCOM Index (Bloomberg Commodity Index) Various Bloomberg indic Daily 30DEC2016-

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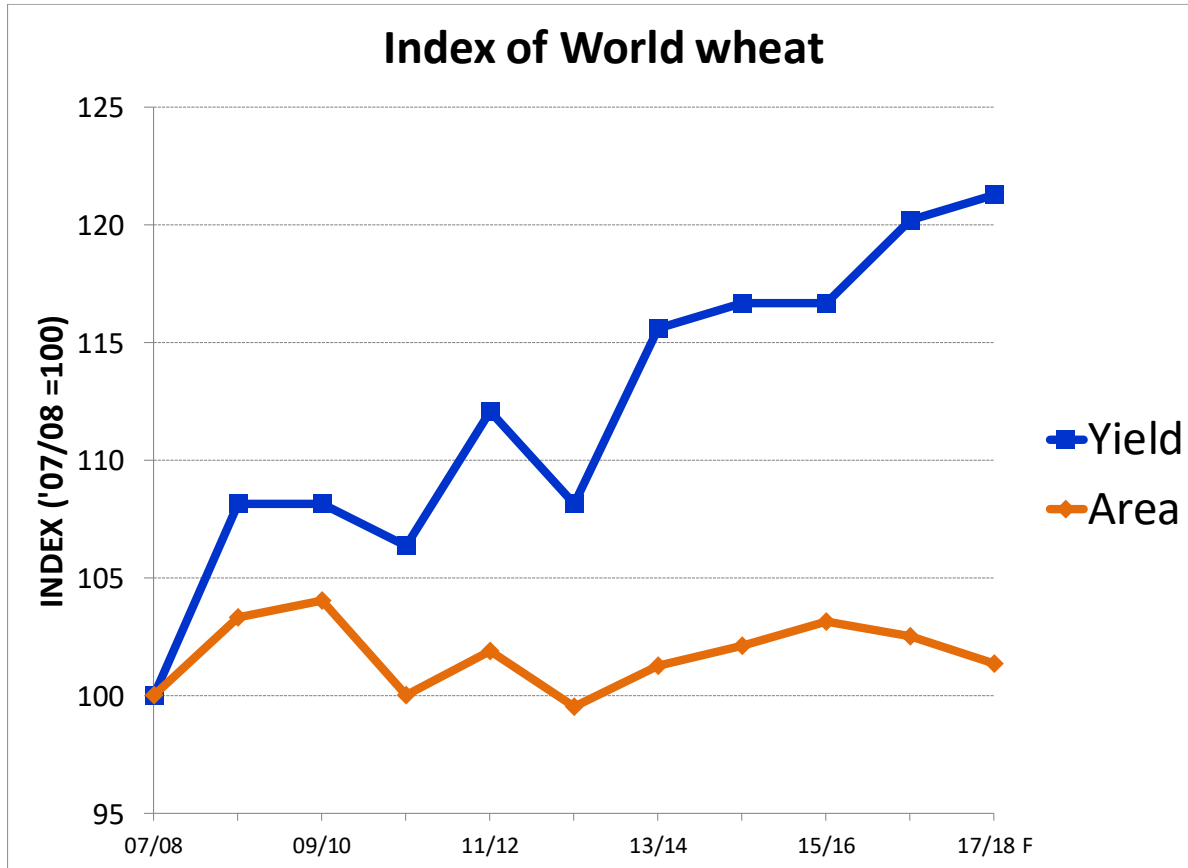
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# Big carries in the futures market





# Wheat area has been flat while yield has increased 20%



## 20/20: Wheat market in Perspective

- U.S. Wheat acreage continues to DECLINE
- U.S. wheat ending stocks FELL by 15% from record levels
- World crops were once again “ABOVE trend”
- SUPPLY > Demand → For the 5<sup>th</sup> consecutive year
- Increased carries are the LURE for large speculator
- Low protein for a 2<sup>nd</sup> in a row particularly in the U.S.

# TODAY

- HRW acreage was FLAT from YA, but led to a smaller crop
- HRW protein was marginally above average
- Funds are long HRW
- HRS: Increased area and above trend yields lead to BIG crop
  - Canada forecast to have a bigger crop YoY
- Big exporters EU-28 and FSU-12 production prospects declining
- US export commitments are the lowest since 2009/10
- Record large area in Argentina
- World trade growth being led by Ex. MENA

# Agenda

- World and U.S. Acreage
- Demand growth
  - Ethanol, China and meat
  - Wheat flour consumption
- Other “G2” (India and China)
  - Minimum support price and Supply & Demand trends
- YTD returns of various asset classes
- Market composition
  - Open Interest
  - Large speculator and Index funds
- Trade Policy