

U.S. Commodities Markets

April WASDE Report Shows No Material Change to Inflation Sensitive Agricultural Commodities

The USDA's April WASDE report illustrated that global and country level grains are generally in balance. Because most of the crops in the southern hemisphere are either being harvested or have been harvested, the influx of new exportable agricultural supplies is helping to offset some of the lost volumes from Russian and Ukraine. In particular, the report showed no material changes to the inflation sensitive commodities like corn, wheat, and vegetable oils.

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Wheat moving toward equilibrium

The USDA's headline data showed no immediate global challenges. Given the tight supplies in North Africa and the bumper crops in the southern hemisphere, we felt that the April WASDE is working to achieve a balance point for world wheat. The primary MoM change was Russian exports increasing and Ukraine declining by 1.0 mmt. North African drought, global sanctions that do not target Russian food exports, and Turkey not restricting maritime activity through the Dardanelles and Bosphorus straits are supporting Russian wheat exports. According to Bloomberg data, February through March Russia wheat exports were -9% YoY, but +102% YoY during March. This leads us to believe that while Ukraine ports remain closed to maritime commerce, Russian wheat is moving to select North African and Middle East import destinations.

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U.S. milling wheat exports were lowered by -25 mbu MoM. U.S. milling wheat has been uncompetitive in the global export market since February and the WAOB has been lowering U.S. demand over the same period.

The WAOB is delicately balancing the world's corn supply

Responding to Ukraine's inability to export, the government lowered exports by 4.5 mmt MoM to a four-year low of 23.0 mmt. To help offset the lost export volume, the WAOB lowered Chinese imports and domestic use by 3.0 mmt, reduced global feed demand by -.82 mmt MoM and raised Brazilian exports by +1.5 mmt MoM.

Timely upgrades to Argentine and Brazilian crops

Despite the acute dryness for much of the growing season, MoM Argentine corn production was UNCH at 53.0 mmt. We view the Argentine estimate with a certain amount of incredulity as local public and private forecasts have consistently been 2-6 mmt below the WAOB's figures since February. Improving soil moisture and crop conditions for Brazil's second corn crop, safrinha corn, helped raise production by +2 mmt MoM to 116.0 mmt.

Regionally tight vegetable oil supplies

Because edible oils—palm, rapeseed, soy and sunflower, are used in food, animal feed and biofuels—the Ukraine conflict has brought increasing scrutiny to the complex. The WAOB lowered Russian and Ukraine sunflower oil exports by -1.3 mmt MoM and lowered North African and Middle East imports by -.19 mmt MoM. Both Ukraine and Russian exports continue to decline, but the USDA's data shows North African countries recalibrating away from sunflower and into soy and rapeseed oils.

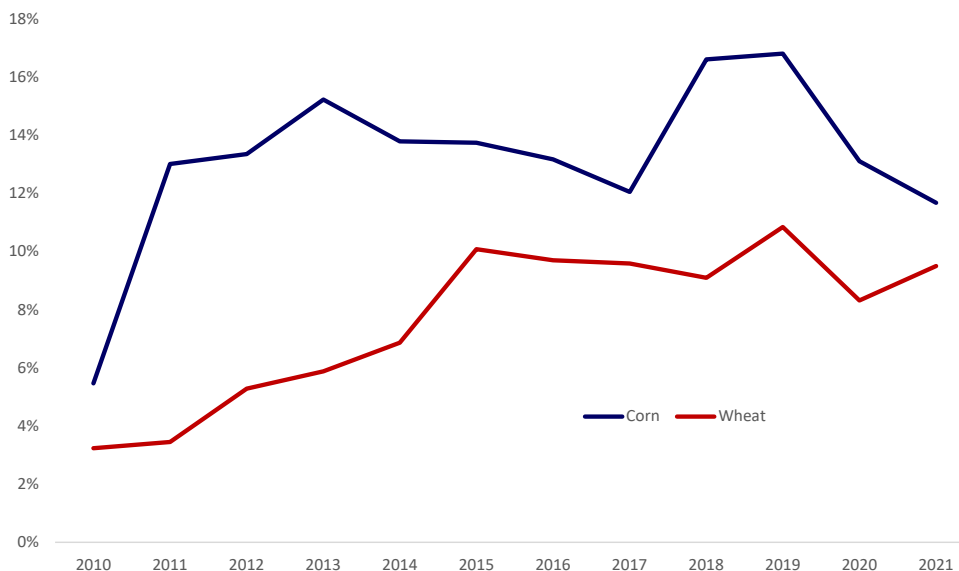
Tighter supplies could arrive this fall

We see the uncertainty of Ukraine wheat, corn and vegetable oil supplies and exports for MY 22/23 creating acute regional supply and price pressures. Because Ukraine is a material supplier of agricultural commodities to the drought-stricken counties of Algeria, Tunisia, Egypt and Morocco along with the Middle East, we believe that the WAOB's supply and demand estimates for MY 22/23 will possess greater urgency. Because the CME's agricultural futures contracts can be used to express views about global supplies and demand, we believe that the current paradigm is pricing global rather than domestic balance sheet risks.

Given these global risks ahead of the northern hemisphere's planting and growing season, we remain constructive for US grain, oilseed and oilseed derivatives futures prices.

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Ukraine Exports as Percentage of World Total



Source: USDA

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