

U.S. Commodities Markets

## Russia Exiting the Grain Corridor: Implications For U.S. Agricultural Exports

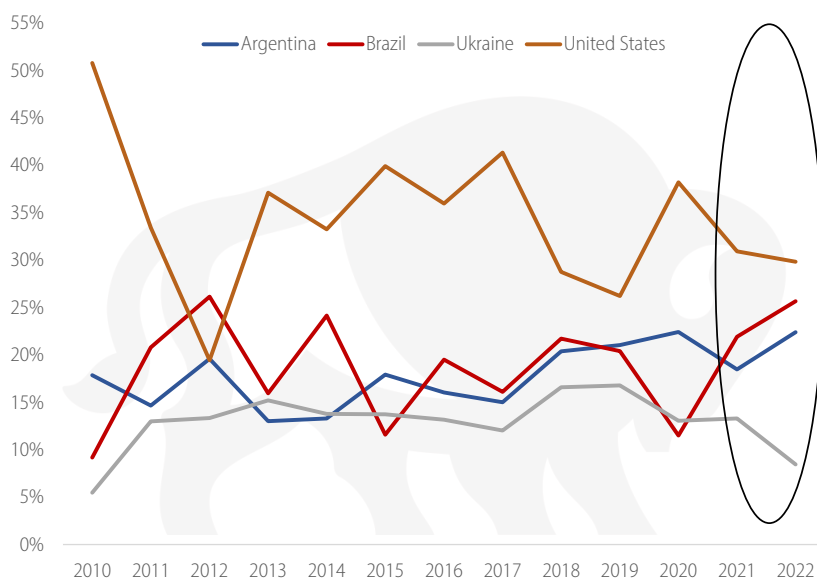
- On Sunday, Oct. 30, 2022, Russia expressed their intent to leave the Black Sea Grain Initiative, which allowed Ukraine grain exports to move through a “safe corridor” in the Black Sea and into the Bosphorus Straits without incurring any military/naval harassment, port attacks and mines on shipping lanes.
- On Tuesday, Nov. 1, 2022, the United Nations (UN) called a halt to grain ships moving through Ukraine’s crop-export corridor after Russia warned that ships weren’t safe using the route.
- On Wednesday, Nov. 3, 2022, Russia said the country would rejoin the safe corridors agreement.
- The initial deal expires on Nov. 19, 2022, and Russia’s capricious participation threatens to reduce Ukraine’s corn, wheat, and edible oils maritime exports. The lack of Ukraine’s export participation can destabilize regional prices and help reignite inflationary pressures in North Africa and the Middle East.
- If Russia curtails or amends future participation, we expect to see a positive reaction in the U.S. and EU-listed corn and wheat futures markets. Because U.S. corn and wheat are the supplies of last resort, barring an extensive supply shock we see limited export participation.
- Beyond the administrative driven agricultural volatility in Ukraine, we examine the state of U.S. corn and wheat exports, and why the current export sales pace remains a bearish input on prices.

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When Russia attacked Ukraine at the end of February 2022 Ukraine’s agricultural exports stopped. Prior to the attack Ukraine was the fourth largest corn and the fifth largest wheat exporter.

### Annual Corn Exports As Percent of World Total



Source: USDA, HilltopSecurities

Please see disclosure starting on page 5.

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## The safe corridors agreement helped Ukrainian agricultural exports recover while increasing domestic and regional stability

The Black Sea Grain Initiative deal was signed on July 22, 2022 and was brokered by Turkey and the UN. Inside the agreement, Russia would maintain safe corridors around the ports of Odessa, Chornomorsk, and Pivdennyi. These ports accounted for approximately 52% of Ukraine's maritime grain exports in 2020/21.

Russia's abstaining from attacking Ukraine ports, laying mines, and guaranteeing the safe passage of dry bulk vessels through the Black Sea was instrumental in suppressing concerns about an expanding regional food price and food supply crisis. The Black Sea Grain Initiative has created a myriad of positive domestic and regional macroeconomic reverberations. Some of these include: reducing domestic Ukraine agricultural stocks, increasing revenues, and soothing inflationary concerns in key export destinations.

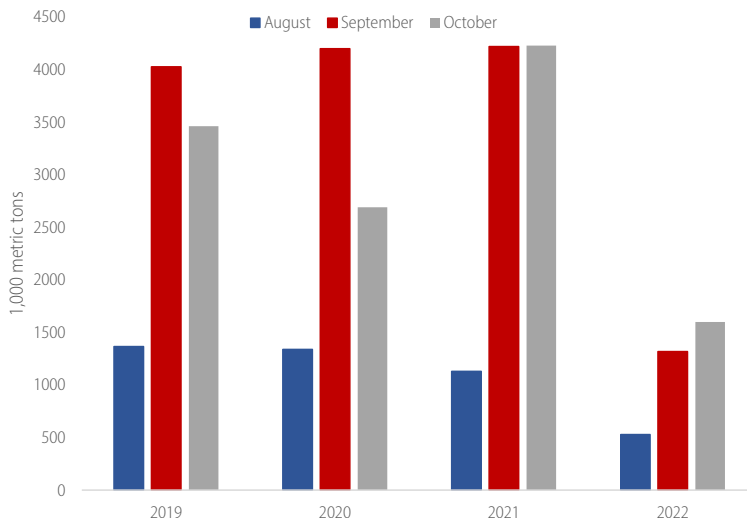
## Since the Black Sea Grain Initiative was signed, Ukraine's exports have overperformed

Ukraine's return to the agricultural export markets has helped increase both domestic and regional economic stabilization. Given the mindboggling amount of geopolitical, practical, and related administrative issues (shipping insurance premiums, labor, and domestic logistic concerns) Ukraine ports are working through, it can be inferred that Ukraine agricultural exports have overperformed. While the absolute monthly August – October corn and wheat export volumes are down 35% and 22% YoY the momentum has been increasing. This overperformance is being reflected in the USDA's monthly WASDE reports, where the size of Ukraine's export participation has been steadily rising.

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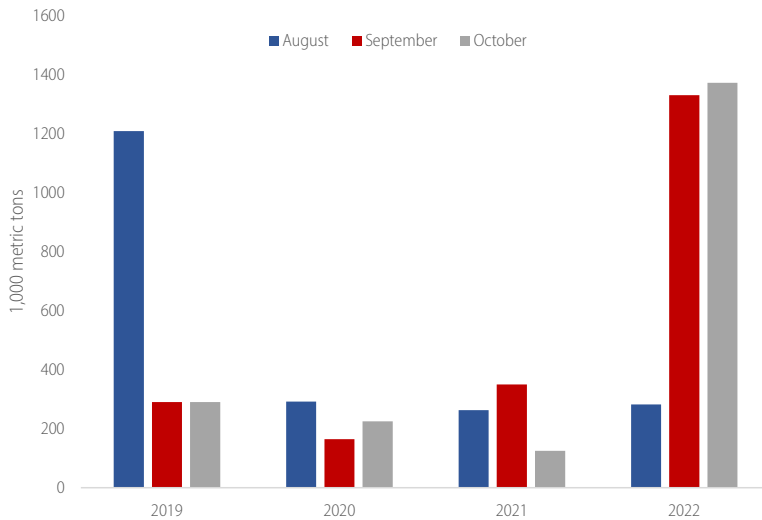
### Monthly Ukraine Corn Exports



Source: Bloomberg, HilltopSecurities

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## Monthly Ukraine Wheat Exports



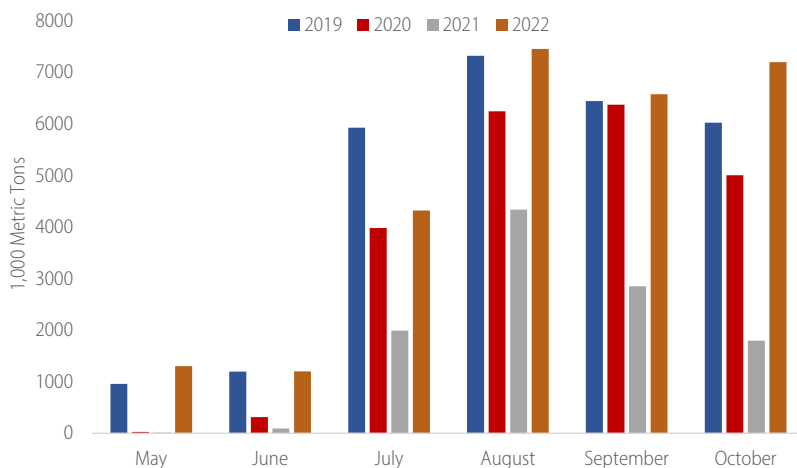
Source: Bloomberg, HilltopSecurities

## During the same time, U.S. corn and wheat exports have lagged

Despite the material slowdown in Ukraine corn and wheat exports and the export driven supply shock, the U.S. markets have not experienced any “spill over” effects. Rather, global feed and cereal grain end users have been purchasing from any other market. This is reinforced by global trade data which illustrate a lack of a competitive overlap between the U.S. and Ukraine/Russian exports. We continue to see that regional North African and Middle Eastern import demand will be assumed by the EU and Latin American countries. We believe that Argentina and Brazil corn export data articulates this point.

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## Monthly Brazil Corn Exports

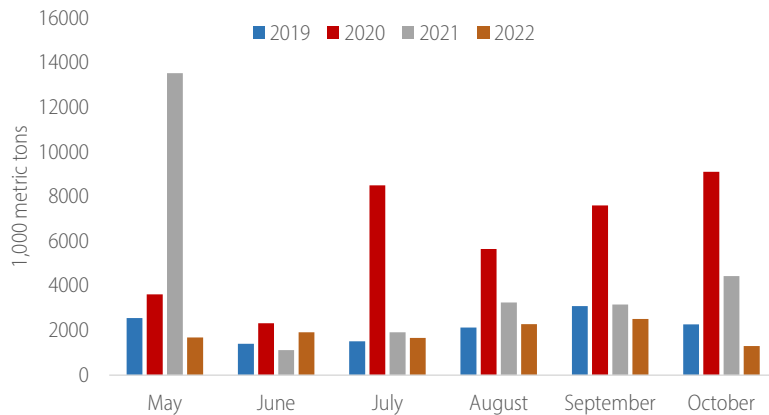


Source: Bloomberg, HilltopSecurities

Looking at both weekly export sales data and monthly WASDE export estimates illustrates that U.S. corn and wheat exports are underperforming. Whether the lethargic export sales pace is attributed to the strength of the dollar, relatively constrained ending stocks, logistical complications along the Mississippi river, threat of rail strikes, or accommodating coarse and cereal supplies in other key exporting countries, U.S. corn and wheat exports are underperforming relative to expectations.

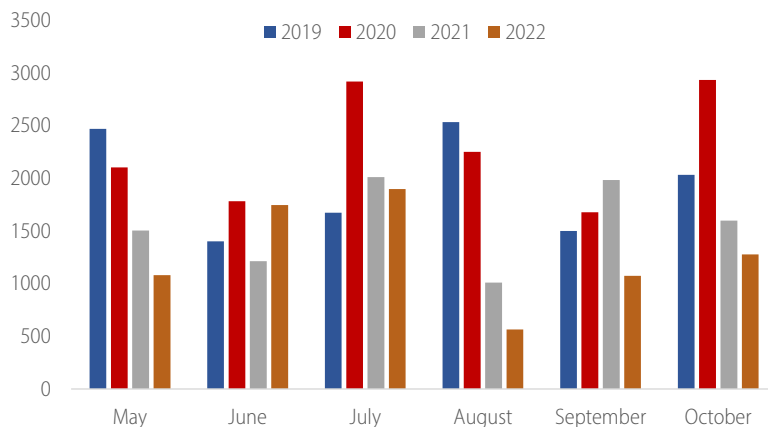
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## Monthly U.S. Corn Export Sales



Source: Bloomberg, HilltopSecurities

## Monthly U.S. Wheat Export Sales



Source: Bloomberg, HilltopSecurities

## If Russia does not recommit, we see tailwinds and upside risks for futures prices and further demand from competing origins

If Russia either decommits or reduces the current effectiveness of the current agreement, we would expect CME corn and wheats futures along with Euronext's Matif wheat futures contracts to move higher. If Russia maintains status quo, we view this as being potentially a non-event for these futures markets.

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Even if Russia decommits, we do not see this translating to material increases in U.S. export sales. If the first four to five months of the Ukraine conflict can be used to help judge the responsiveness/sensitivity of U.S. exports to reduced Ukraine export volumes,

the data shows that the U.S. agricultural commodities underperformed relative to expectations. Despite the southern hemisphere entering the intra-crop period, ending stocks are not at record lows, the dollar is experiencing extraordinary strength, we see Europe as being the primary beneficiary of any lost export demand from the Black Sea.

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