

WHAT'S DRIVING PRICE DISCOVERY IN THE AGRICULTURAL MARKETS?

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Sioux City, IA

HTSCommodities
A Division of HilltopSecurities.



Brought to you by HTS Commodities and Momentum Independent Network

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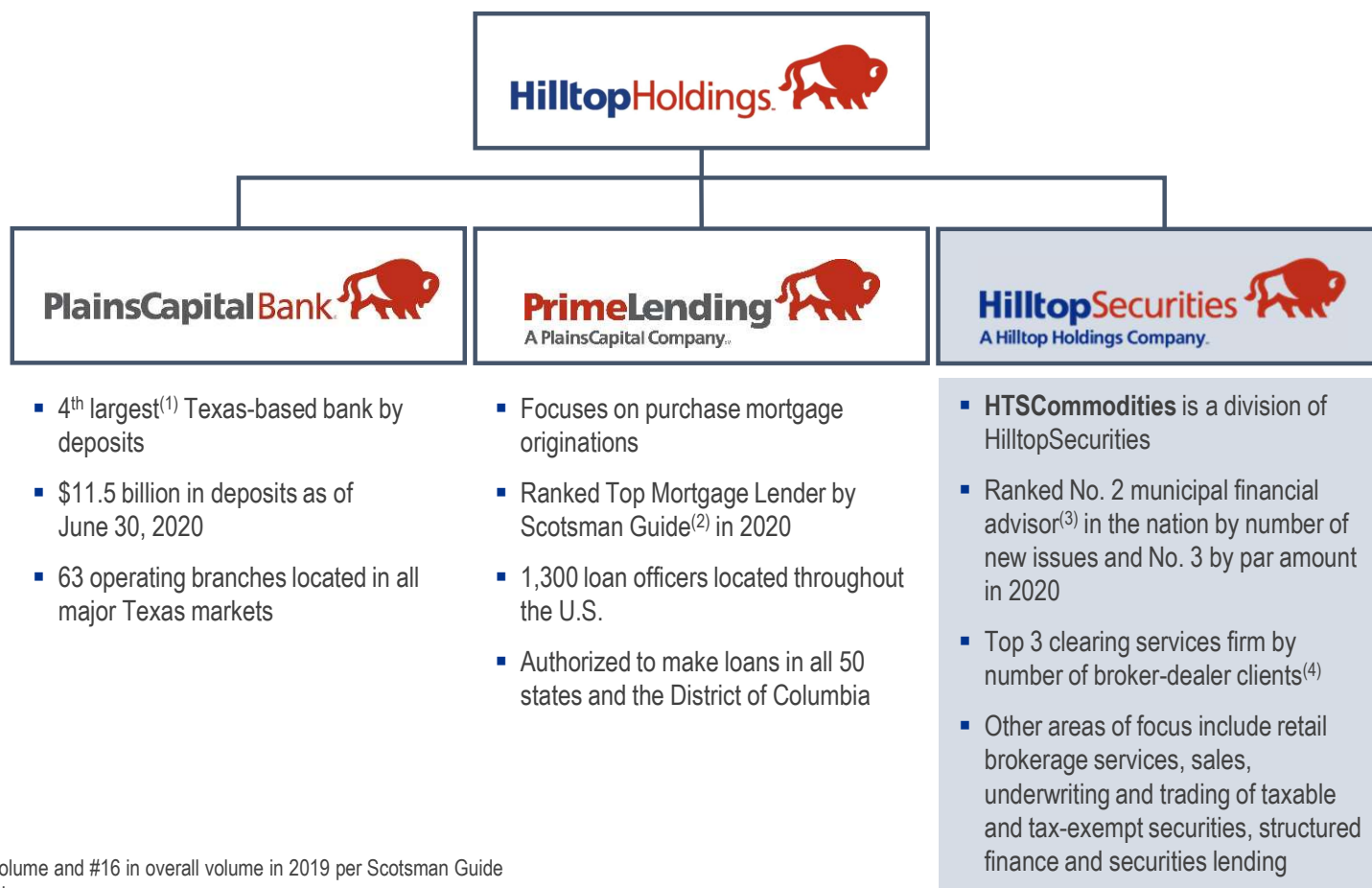


Overview of HTS Commodities

The Hilltop Family of Companies



- **Hilltop Holdings (NYSE: HTH)** is a Dallas, Texas-based diversified financial holding company with a complementary set of operating companies
- HTH has approximately \$15.7 billion in assets and approximately 4,800 employees across the nation
- HTH ranked No. 35 on Forbes' 11th annual best banks listing of the Top 100 largest publicly traded banks and thrifts
- HTH provides banking, mortgage origination, financial advisory, underwriting, and insurance through its subsidiaries:



(1) SNL Financial

(2) Ranked #7 in retail volume and #16 in overall volume in 2019 per Scotsman Guide

(3) Per Ipreo MuniAnalytics

(4) Per Investment News 2019

About HTS Commodities

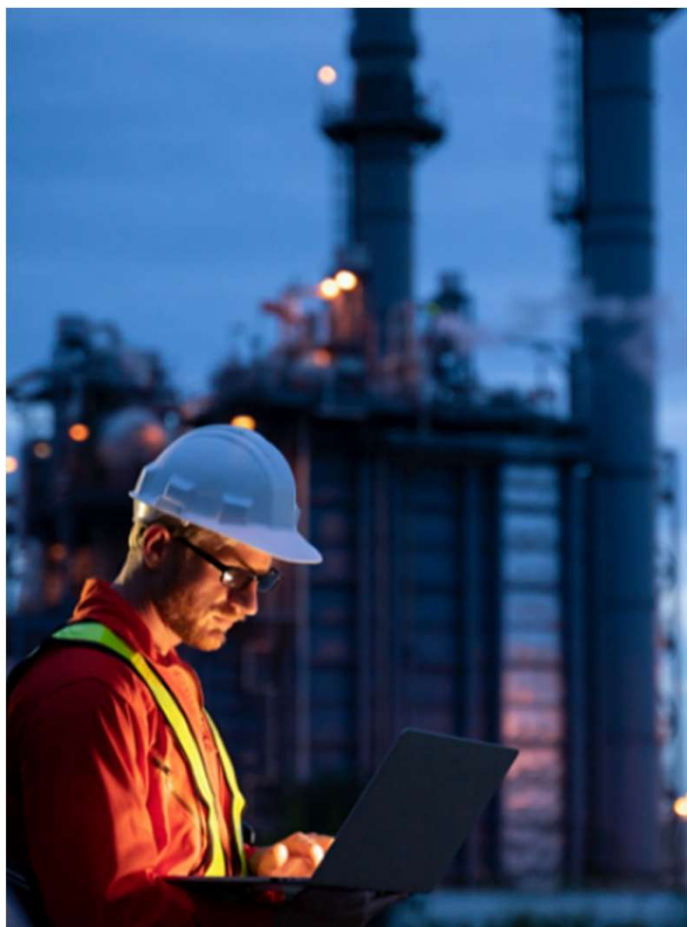


- HTS Commodities is a division of Hilltop Securities based in Dallas, Texas.
- Our office in St. Paul has a long history of helping clients throughout the corn, soybean and hog supply chain successfully navigate market volatility.
- We listen to and work with clients to create personalized risk management solutions.
- We work with a diverse group of commodity producers, processors, and end users across the United States and cover the breadth of the commodities complex. This includes: energy, livestock, grains, oilseeds, oilseed derivatives, softs, and metals.
- We provide custom risk solutions to some of the largest multinationals but pride ourselves on working with midmarket firms.
- Please contact us with any questions about this presentation and to learn more about how HTS Commodities can solve your commodity risk management needs.

HTSCommodities, a Division of HilltopSecurities



HTSCommodities bring together commodities specialists with decades-long experience, superior industry knowledge and strong local roots. The division consists of 23 professionals, spread across 6 offices in Texas (Amarillo, Plano, Dallas), Minnesota (St. Paul), Tennessee (Memphis) and New York (NYC). The team, comprised of seasoned commodities brokers, traders and investment bankers, has a wealth of expertise in risk management, trading execution and advisory. The team specializes not only in agricultural and energy commodities but also in rates and foreign exchange.



HTS Commodities trades futures, options & OTC contracts across multiple sectors:



Agriculture

Corn, soft red and hard red wheats, rough rice, feeder and live cattle, lean hogs, soybeans, soybean oil, and soybean meal



Energy

Oil and oil products, natural gas and electricity



Metals

Gold, silver, platinum, palladium, copper, and aluminum



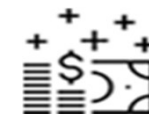
Softs

Sugar, coffee, sugar, orange juice, cocoa, cotton, and lumber



Interest Rates

Treasury bonds, treasury notes, and Eurodollar, fed funds, and SOFR



Equities

S&P 500, Dow Jones, Russell 2000 and Nasdaq-100

HTSCommodities – Execution & Advisory



Our team brings hands-on experience to developing hedging and trading strategies for investors, consumers and producers of all sizes across all commodities. We provide a full suite of services to help all clients minimize risk, maximize results, and gain a competitive advantage in their marketing. With equal understanding and access to listed and OTC markets, the team is uniquely positioned to provide clients with complete and unbiased advice.



Full-Service Commodities Consulting

We follow a customized approach in delivering consulting services to producers and consumers seeking to improve their marketing strategies, minimize their price risk exposure, and position themselves to hedge as well as capture market opportunities.

Our consulting model provides full-service marketing management, with our team building and managing hedging strategies and actively working with producers and consumers to execute from start to finish.

Hedging Advisory

HilltopSecurities has maintained a dedicated derivative advisory desk since 1990 and considers this practice to be an integral branch of the firm. As a Commodity Trading Advisor, HTSCommodities is licensed and regulated by the National Futures Association under the authority granted by the U.S. Commodity Futures Trading Commission (the “CFTC”). HTSCommodities can independently evaluate suitability and fair pricing and can certify that it has exercised independent judgment in evaluating our clients’ commodity transactions.

2023:What's Driving Price Discovery In The US Agricultural Markets

Supply & Demand In 2023. What will drive prices of US row crops?

- For most of MY 22/23, cash and futures prices of US row crops (corn, soybeans and wheat) have been influenced by domestic and global supply shocks (geopolitical and weather).
- Market year (MY) 23/24 will be different from MY 22/23. The supply shocks are dissipating, and feed grain demand is softening.
- Markets should continue to price a Ukraine risk premium, but the La Nina global weather risks are disappearing.
- *What is the role of US row crops in MY 23/24 and can the US evolve past the global supplier of last resort?*

2023 Should Possess Material Challenges

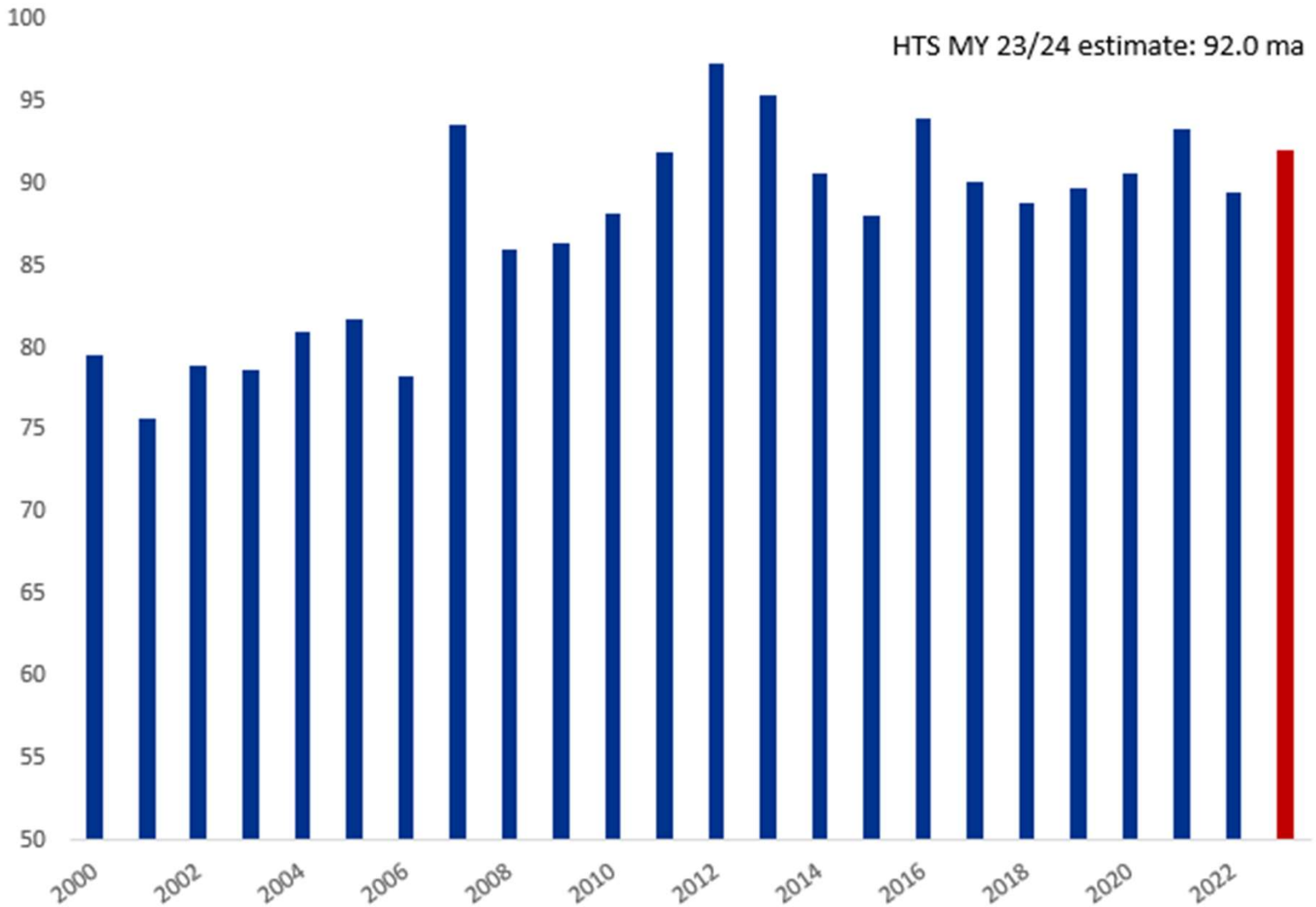
1. **Planted Acres**. Record corn producer profitability in MY 22/23 combined with ample opportunities to hedge MY 23/24 crop can lead to 91+ million planted corn acres and 88+ ma of soybeans.
2. **Production costs**. Falling fertilizer and diesel costs are lowering the fair value of new crop US corn and soybean prices.
3. **Weather**. The La Nina climate cycle is ending. A transition to an ENSO-neutral cycle during the spring and a weak El Nino cycle during the summer should occur.
4. **Yields**. Transitioning to neutral and weak El Nino cycle is supportive US MY 23/24 corn and soy yield objectives. Reversion to trend yields.
5. **Competing origins**. Record corn and soybean production/exports in Brazil.
6. **Biofuels policy**. Increases domestic demand for soybeans.
7. **Ukraine**. More unknowns than knowns about the country's MY 23/24 corn and wheat production.
8. **China**. Always a wild card for US corn exports and MY 23/24 should not differ.
9. **Global political risks**. Russia, Ukraine, and China.
10. **US dollar strength**. Strength of the US dollar in MY 22/23 reduced the competitiveness of US exports.

Corn Outlook

HTS's Top 5 Corn Outlook Points

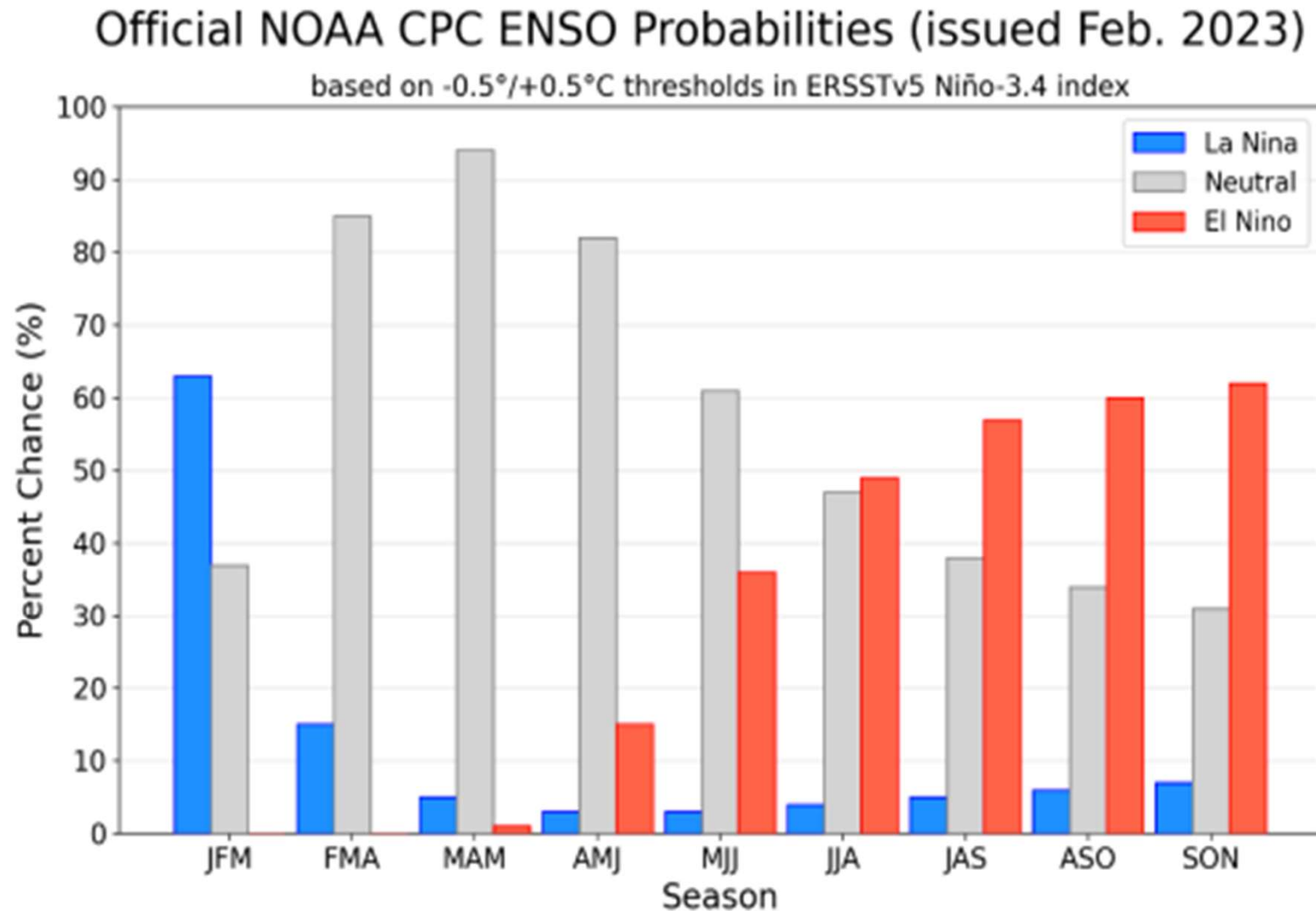
1. **US Demand**. MY 22/23 domestic corn demand has been lethargic as feed and ethanol use has been declining. Despite the Ukraine supply shock, US corn exports have struggled as end users are procuring feed inputs from other origins. Global animal units are falling, and corn exports are declining.
2. **Softening global production costs**. Domestic and global fertilizer, diesel, natural gas, and propane prices are declining. This can limit price appreciation.
3. **Brazil's domination**. Brazil is estimated to produce a record large 125.0 mmt corn crop and is forecast to be the world's largest corn exporter. Last year China bought record volumes of Brazilian corn.
4. **Global risk premiums**. Despite the Russian invasion, Ukraine corn exports are overperforming. The MY 23/24 harvest remains a large and looming question. rising political tensions between the US and China, can help favor Brazilian corn.
5. **Weather & Yields**. Forecasters are predicting a neutral/ weak El Nino weather cycle which can translate to trend/above UC corn yields.

US Planted Corn Acres (million acres)

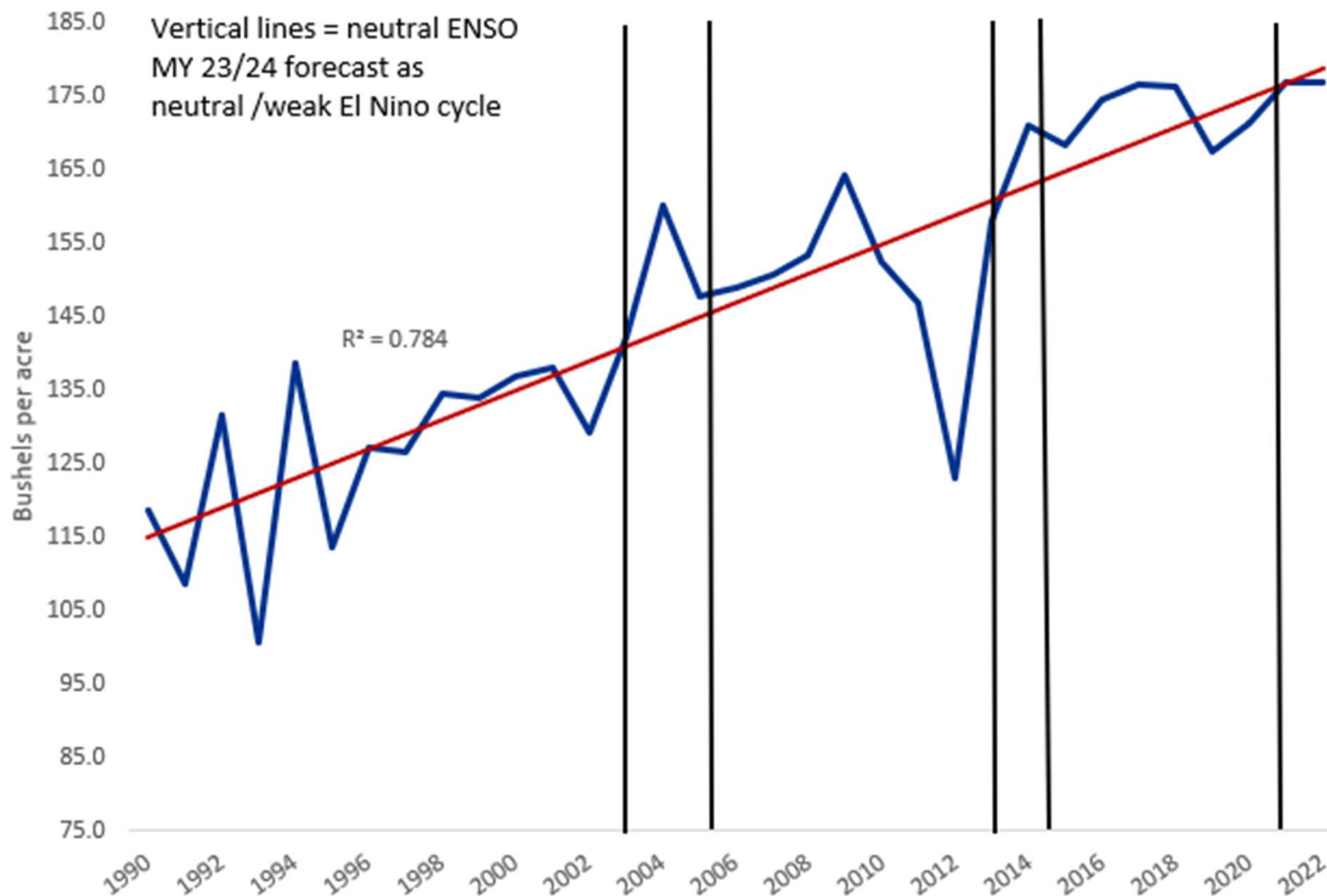


Source: USDA, Hilltop Securities

US El Nino – Southern Oscillation (ENSO) Forecast

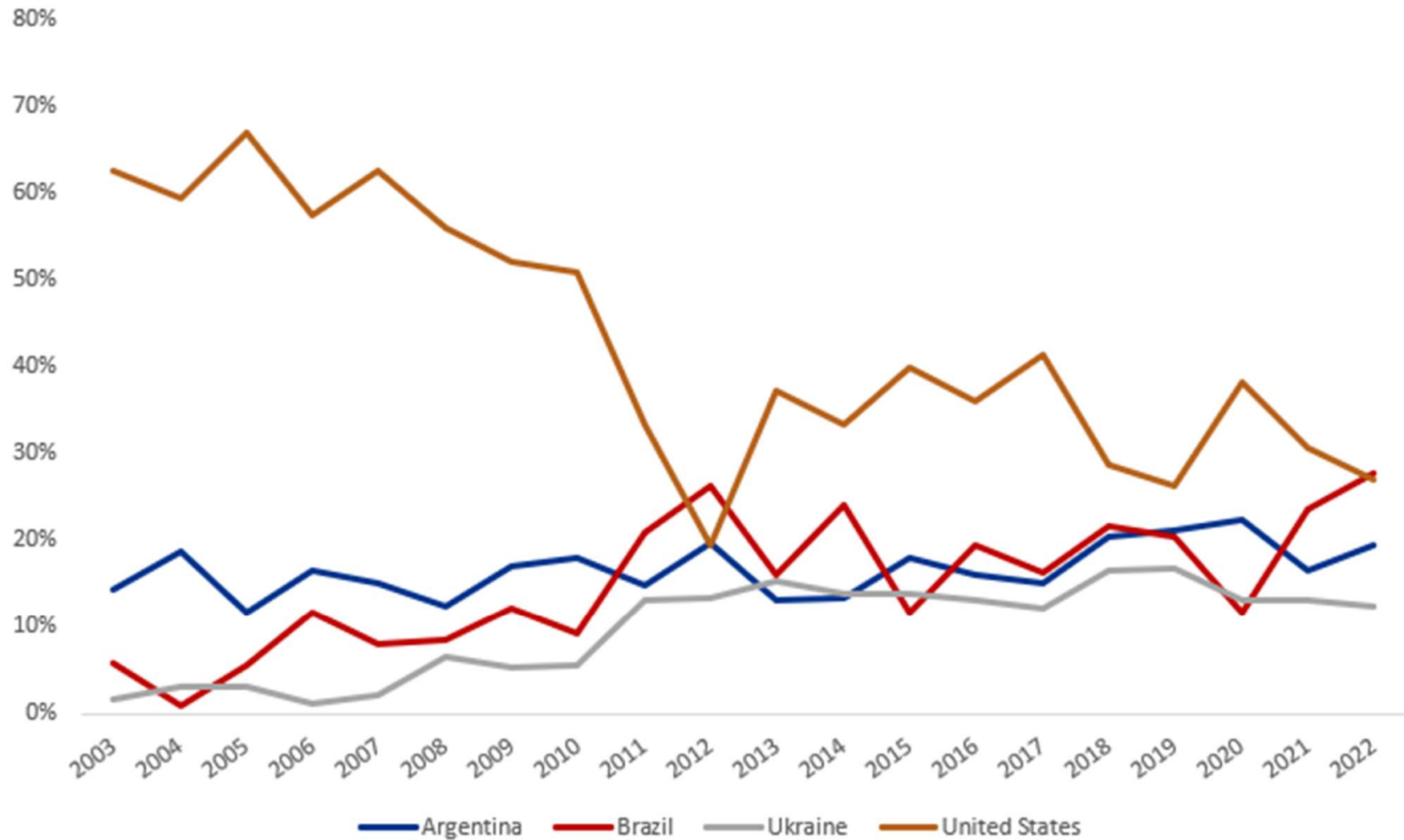


Historical Neutral ENSO Pattern And US Corn Yields



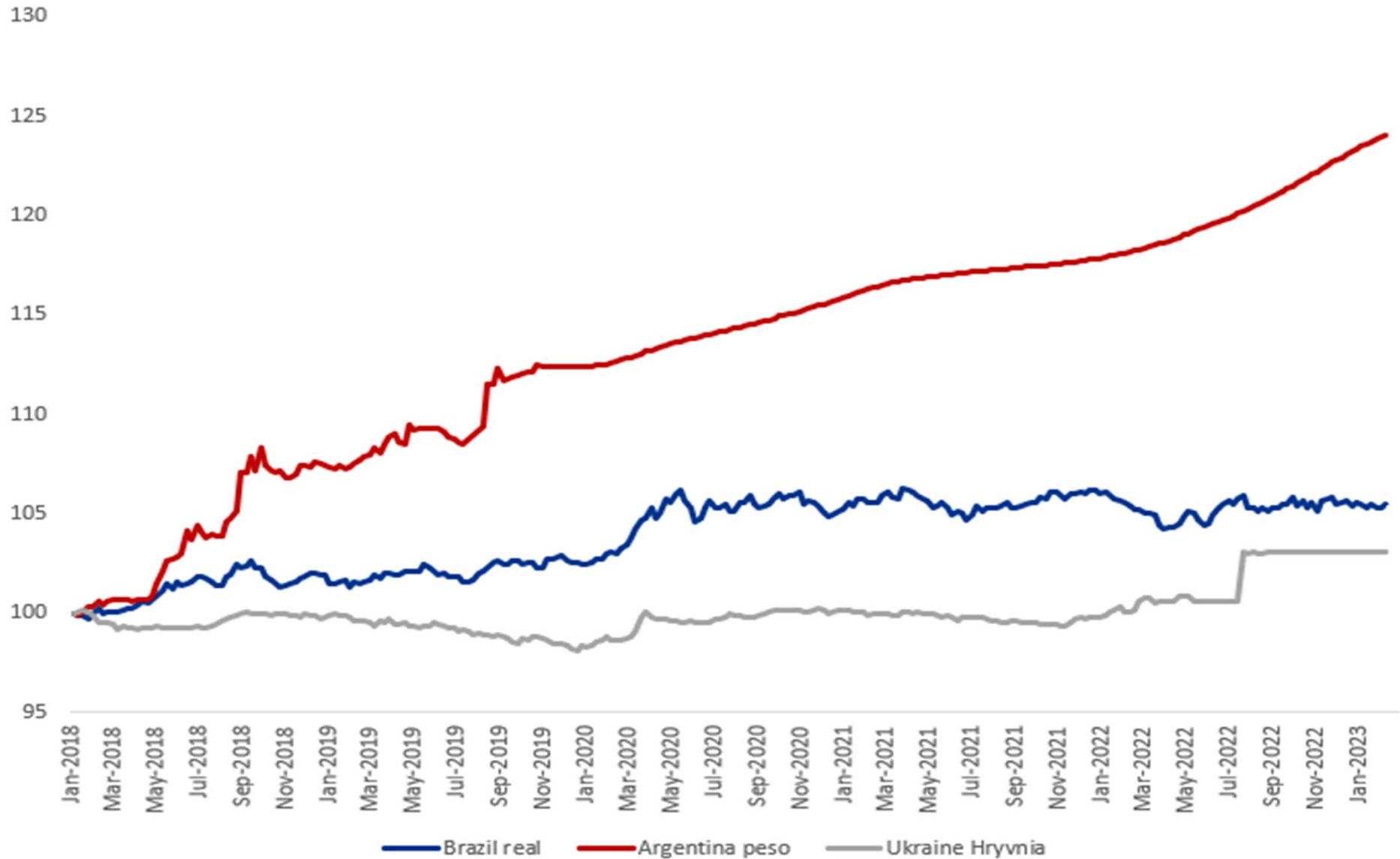
Source: NOAA, Hilltop Securities

Corn Exports As Percent of World Total



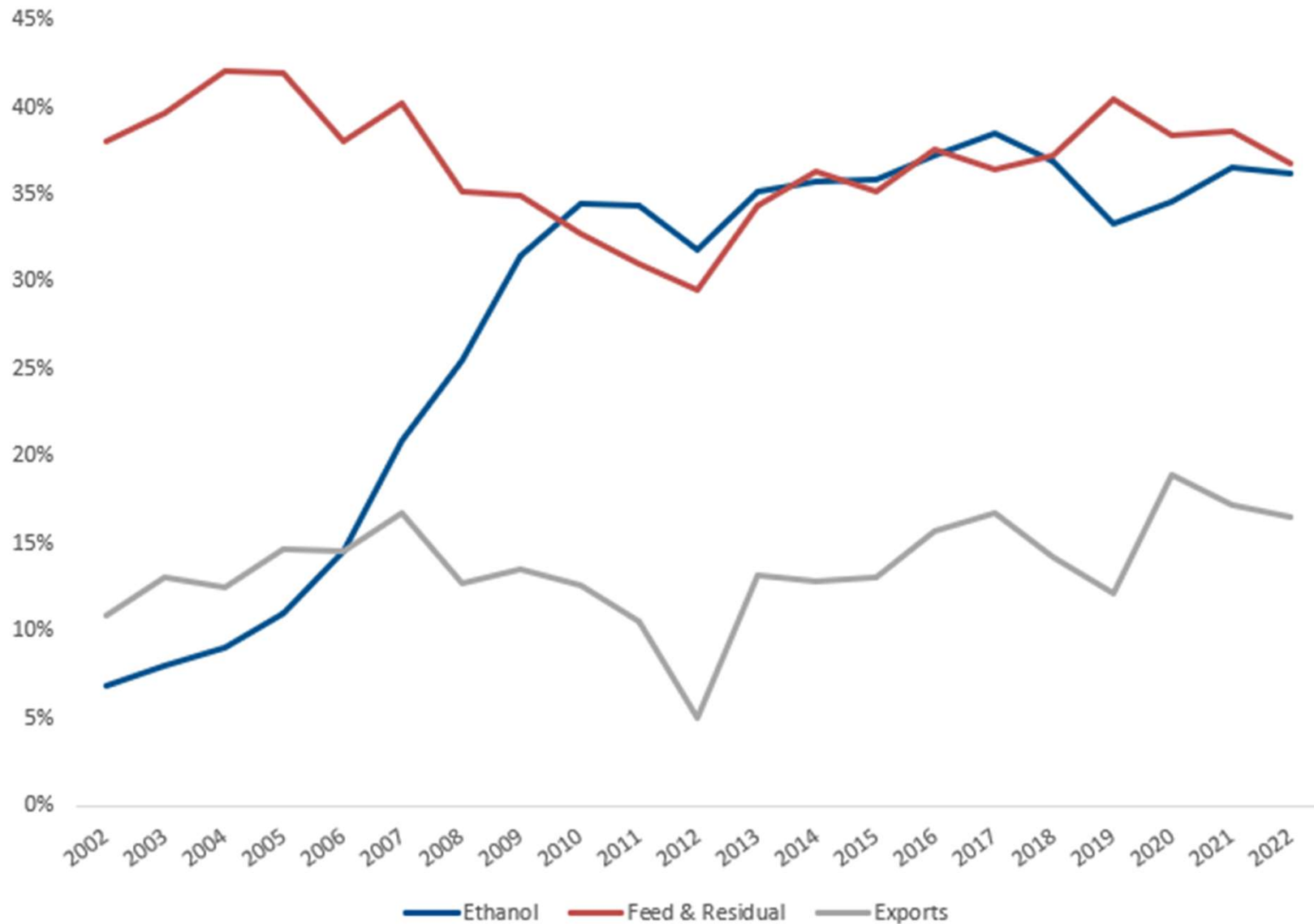
Source: USDA-FAS, Hilltop Securities

US Dollar Exchange Rates of Corn Exporting Countries

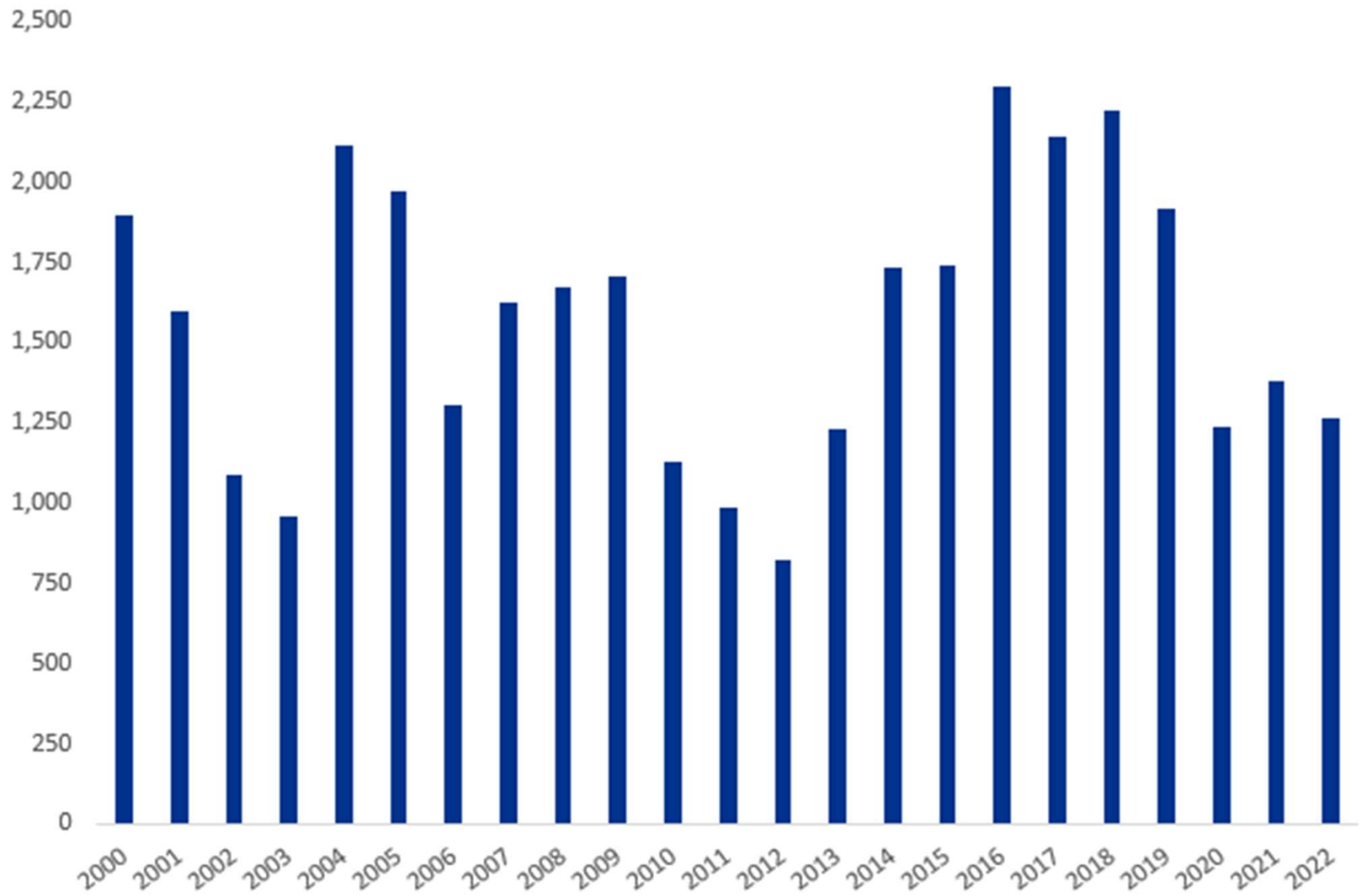


Source: Bloomberg, Hilltop Securities

US Corn Use

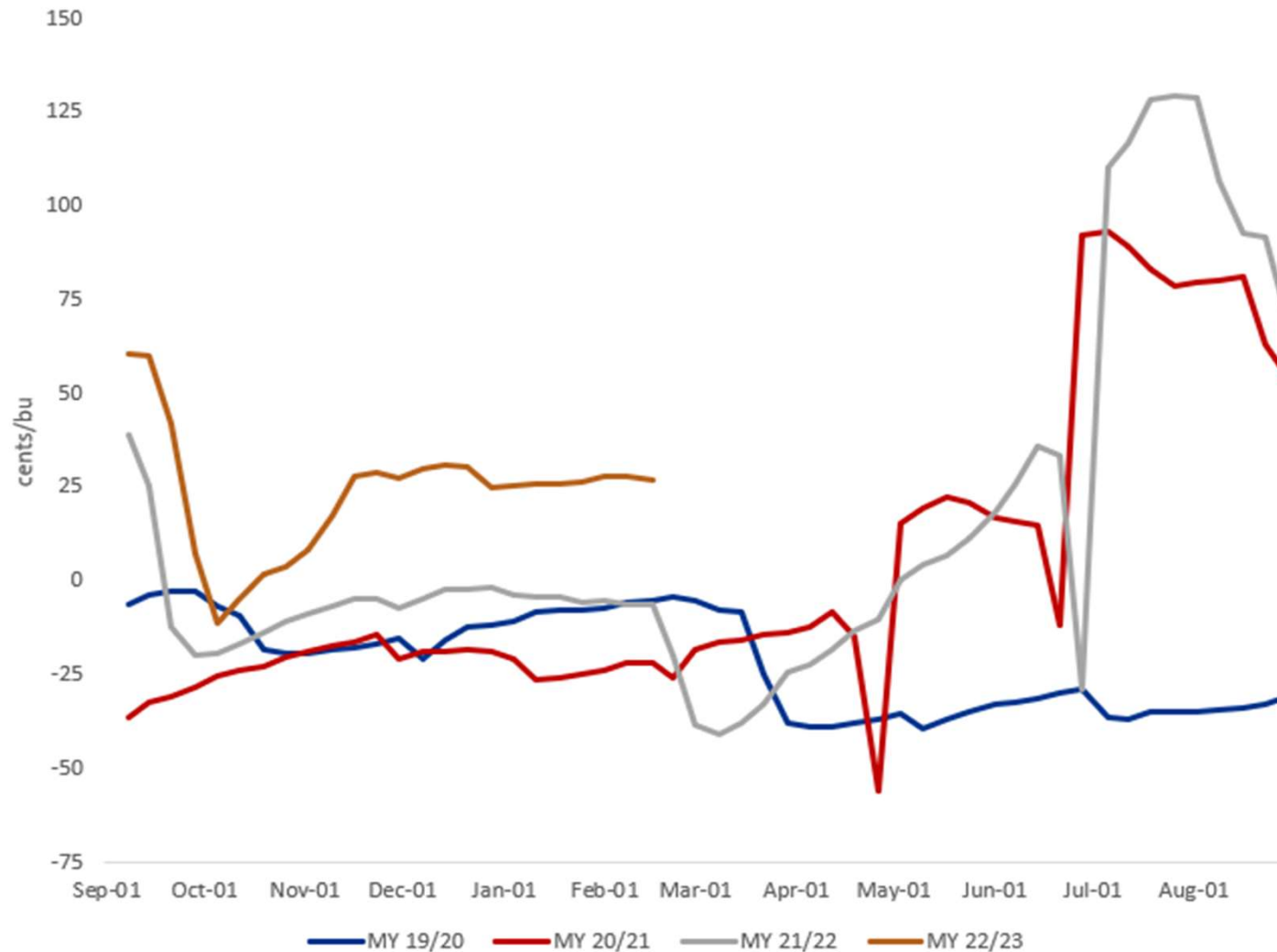


US Corn Ending Stocks (billion bushels)



Source: USDA, Hilltop Securities

Historical Region NW Iowa Spot Corn Basis



Source: Bloomberg, Hilltop Securities

Historical Seasonal December Corn Futures



Source: Bloomberg

Key Corn Takeaways

- MY 23/24 is shaping up to be fundamentally challenging year for US Corn.
- Domestic demand will face challenges. Falling cattle numbers, stagnating hog units constricts feed demand. Post-COVID work force uses less gasoline.
- Prices will have to fall for US corn to become competitive in the export market.
- Ukraine production can help keep a risk premium in the corn market.
- Cash markets are not futures markets. Localized demand structure can help support prices. Why take chances?
- July'23 corn fair value: \$6.15-6.55/bu. December'23 corn fair value: \$4.95-5.50/bu (\$.25/bu Ukraine premium) July'24 corn fair value: \$5.30-5.65/bu

We believe that the fundamental construct for 2023 calls for an active and rigorous approach to hedging.

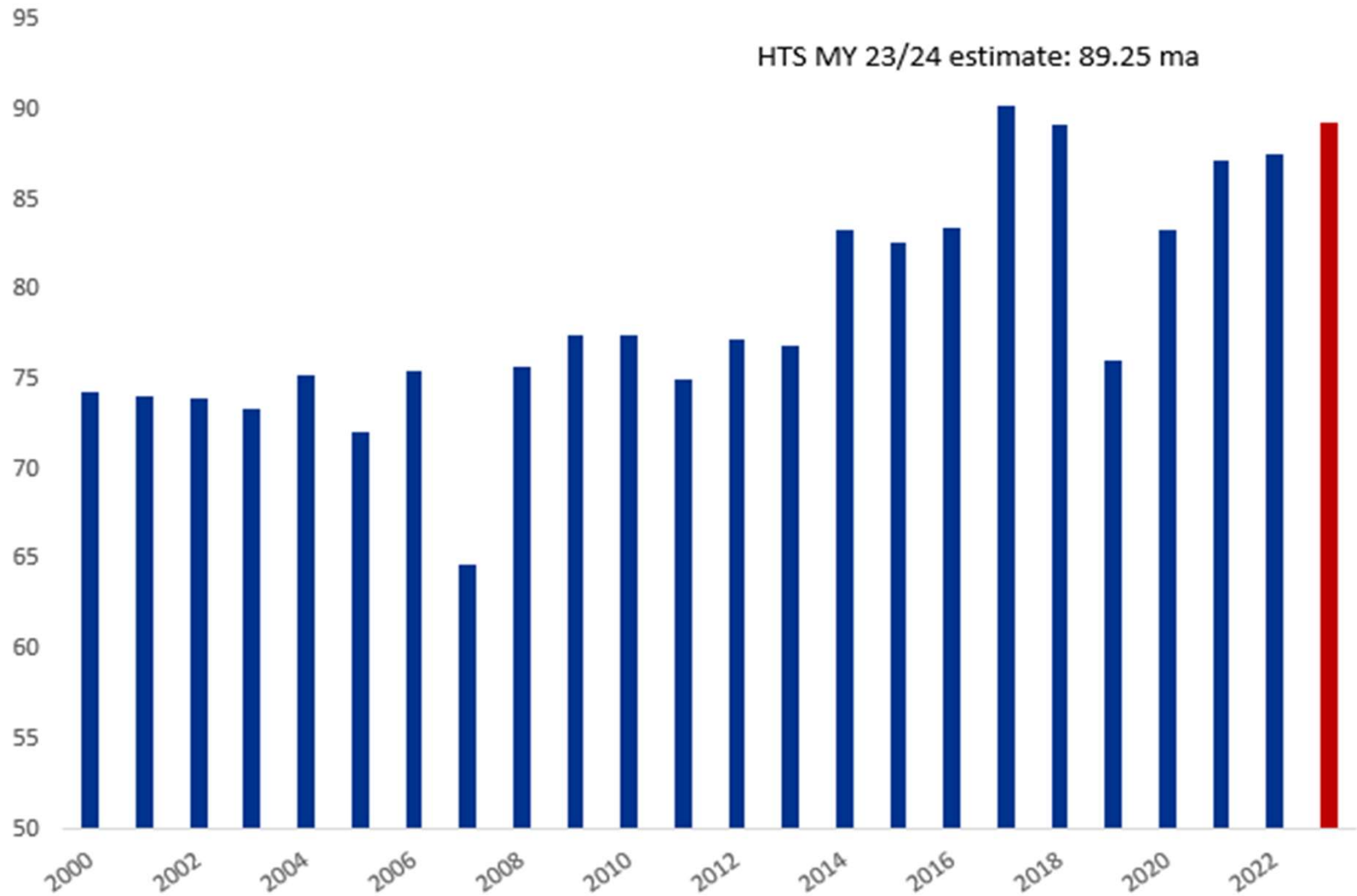
At HTS Commodities we use the prevailing fundamentals to help clients identify proper risk mitigation strategies for their business.

Soybean Outlook

HTS's Top 5 Soybean Outlook Items

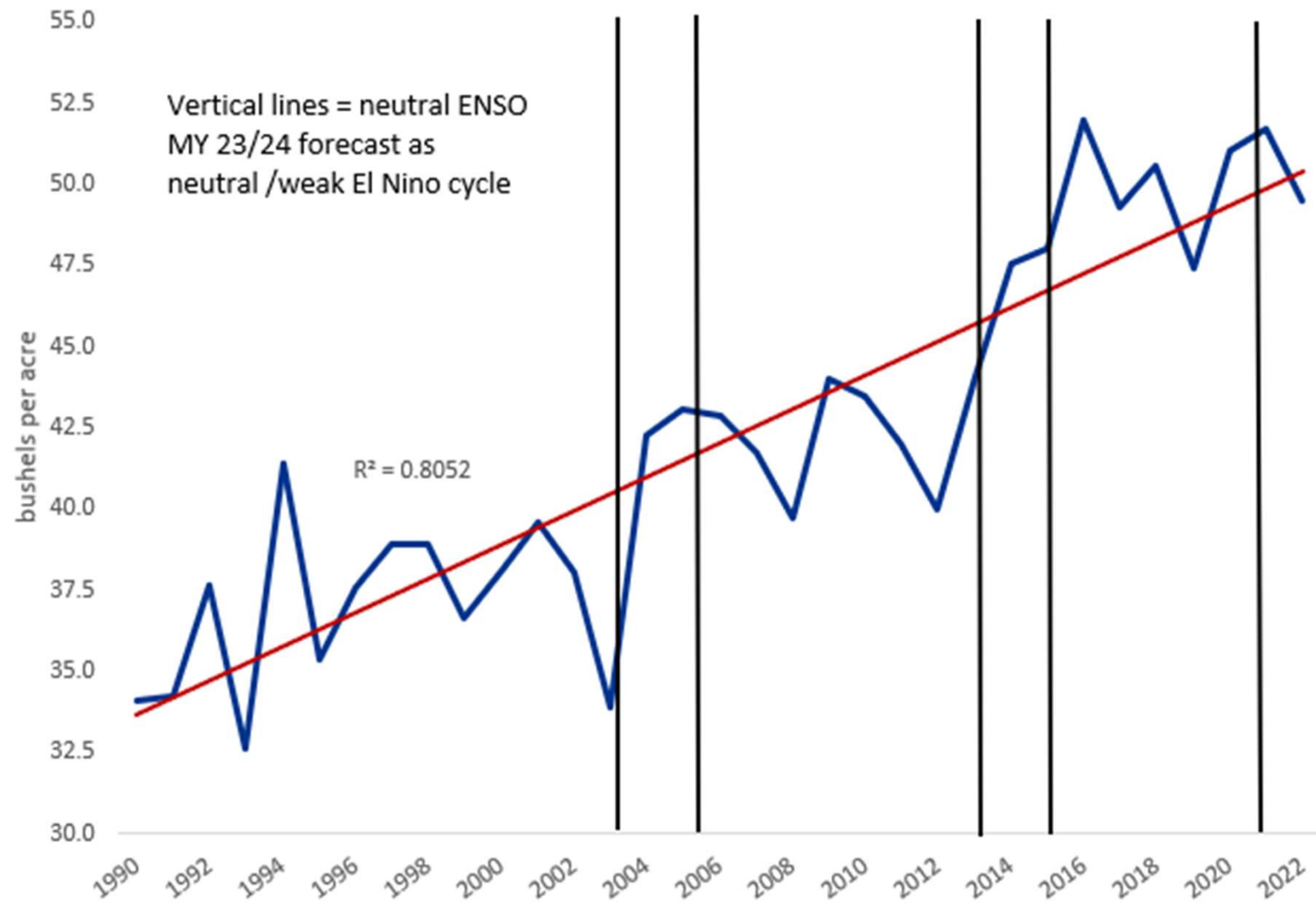
1. **US acres**. US soybean acres can experience some year-on-year expansion should lag corn.
2. **Brazil**. Brazil is forecast to produce a record 153.0 mmt soy crop and export a record 92.0 mmt while China is increasing soybean production. The Brazilian real is weak against the US dollar. Does this slow US exports and US futures prices?
3. **Renewable fuel demand**. MY 22/23 domestic soy processor demand is robust and is being driven by soybean oil and renewable fuels. US soy crush capacity and renewable fuel refineries are expanding which is positive for basis and disappearance.
4. **Argentina**. Argentina is forecast to produce the smallest soy crop since MY 17/18. Soybean meal and oil exports are forecast to decline but the US has not seen material increases in export sales.
5. **Weather and yields**. A neutral ENSO climate pattern translates to trend US yields.

US Planted Soy Acres (million acres)



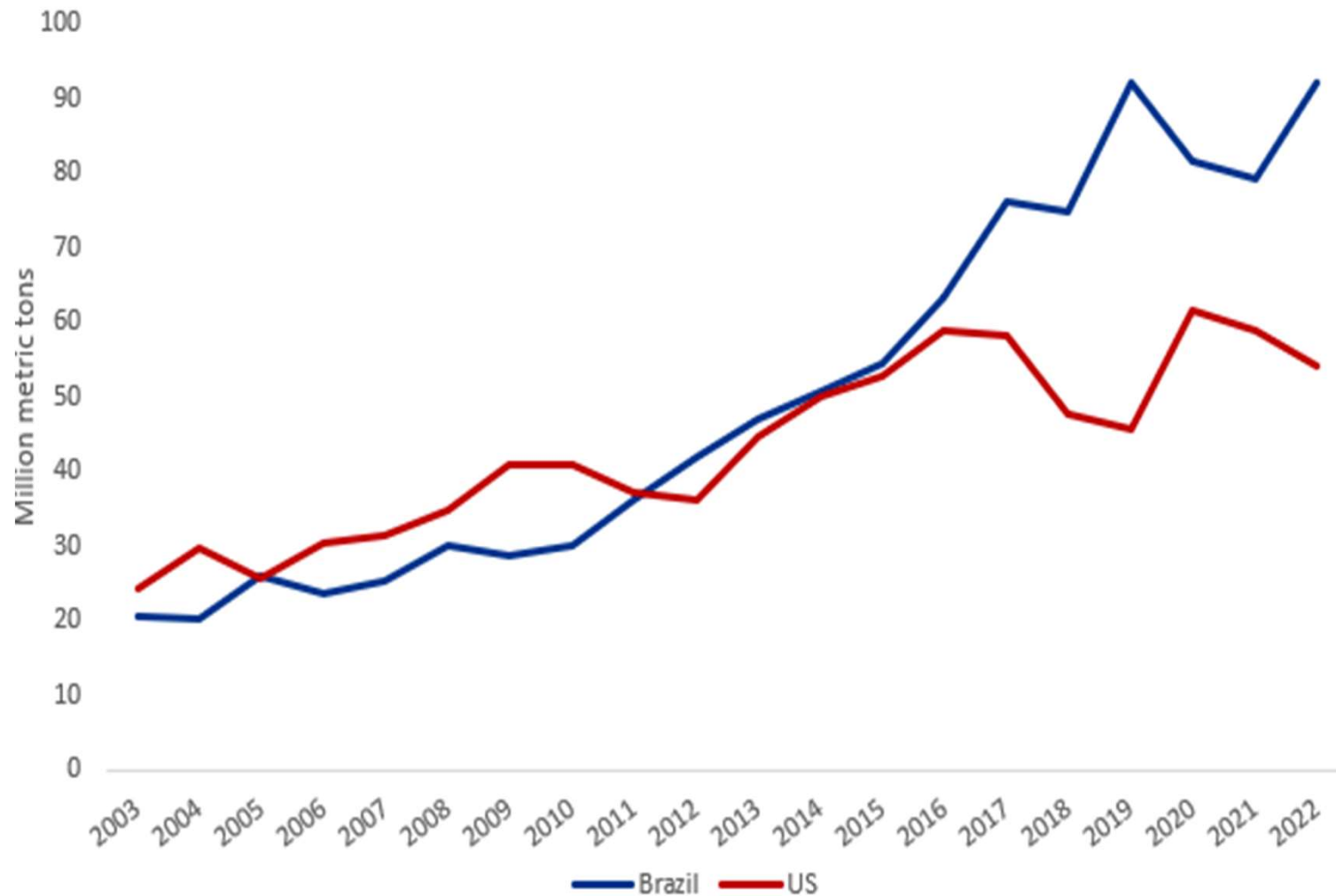
Source: USDA, Hilltop Securities

Historical ENSO Patterns And US Soybean Yields



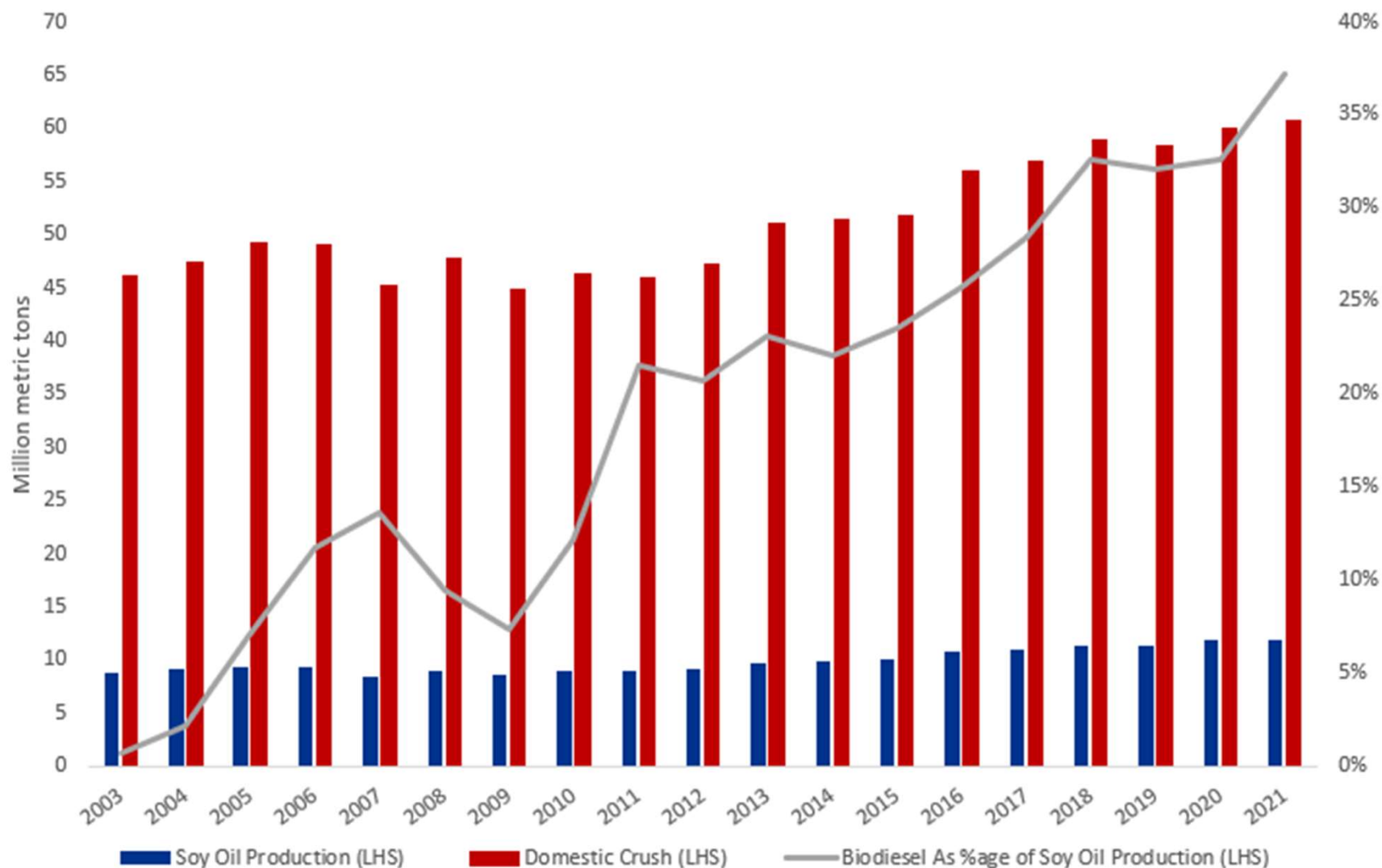
Source: NOAA, Hilltop Securities

Global Soy Exports



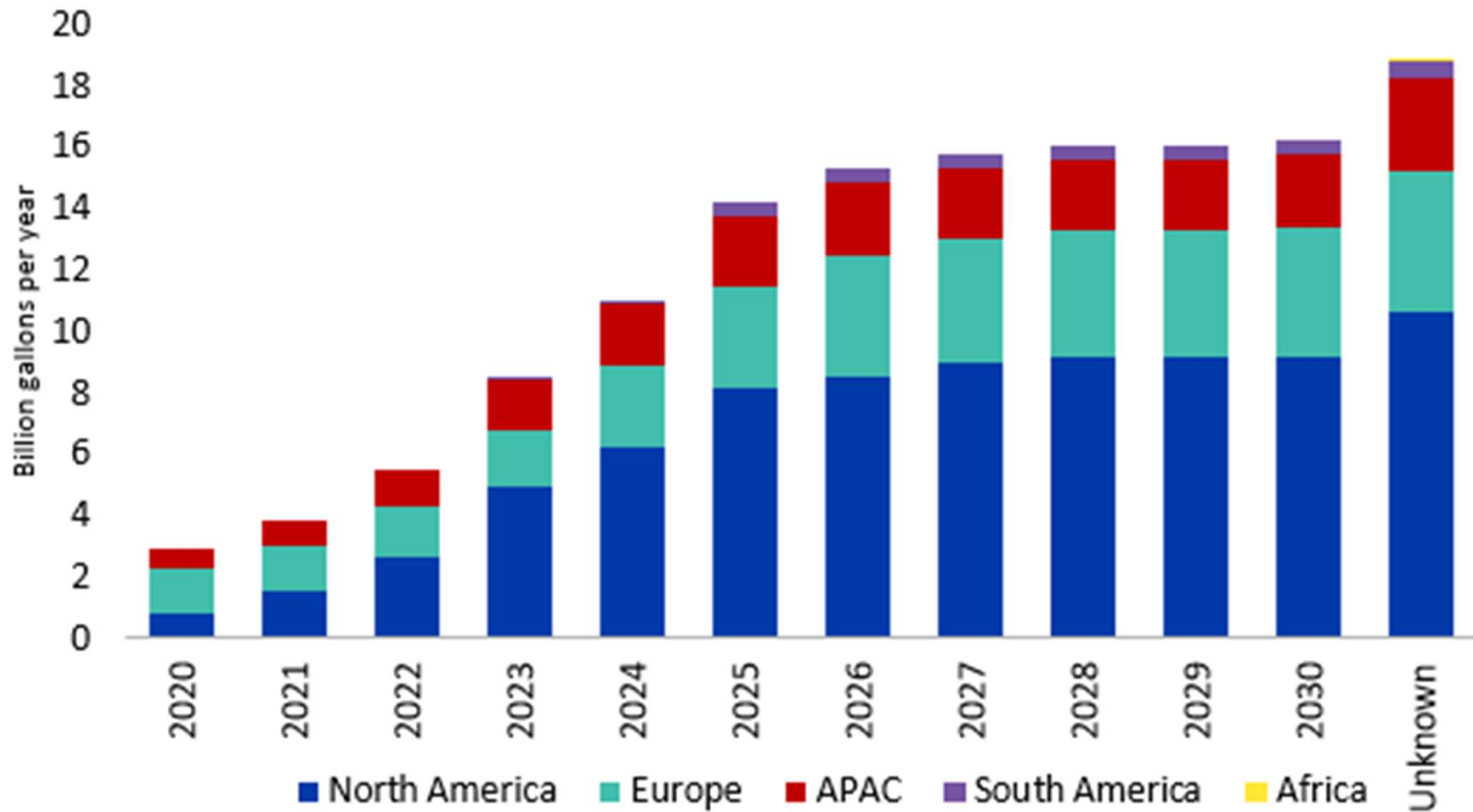
Source: USDA, Hilltop Securities

US Crushing For Soybean Oil



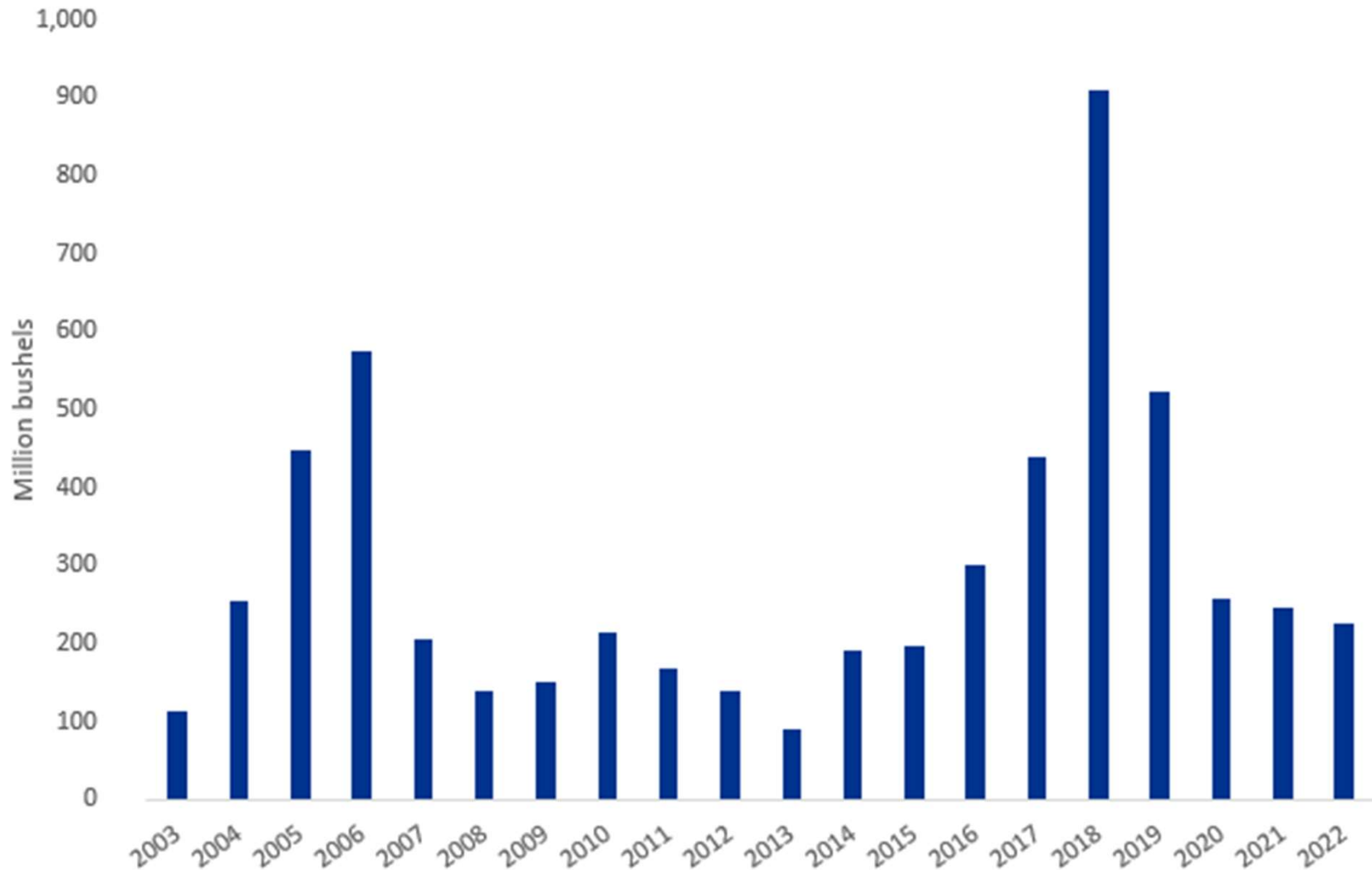
Source: USDA, Hilltop Securities

Renewable Fuel Production Capacity



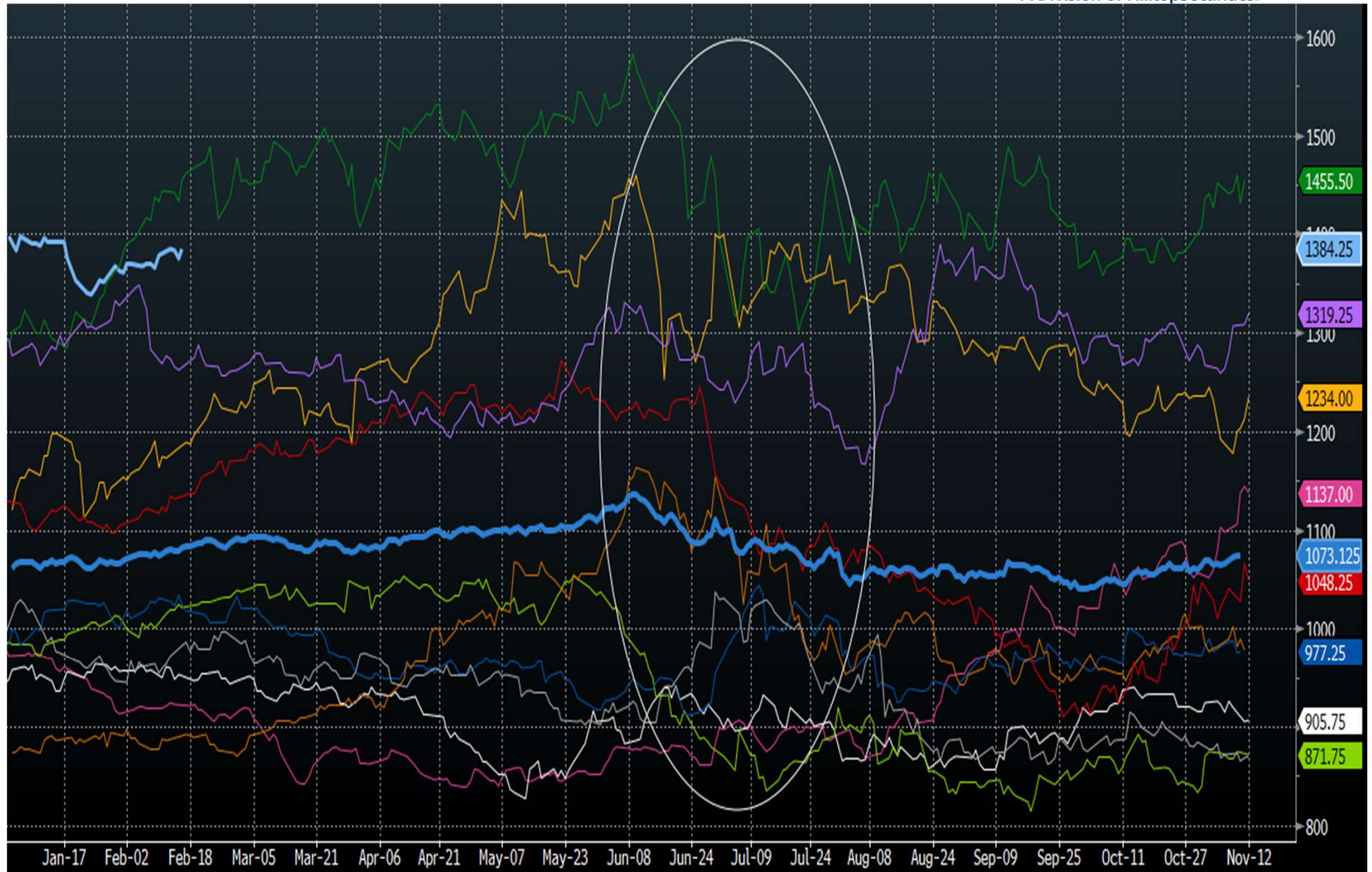
Source: Bloomberg

Historical US Soybean Ending Stocks



Source: USDA, Hilltop Securities

Historical November Soybean Futures



Key Soybean Takeaways

- MY 23/24 can be a supportive year for US soybean prices but challenges remain.
- Brazil's estimated record large soy harvest and export programs at the same time China is increasing production can present demand and price headwinds.
- Demand for soy oil and expanding crusher capacity will help keep domestic demand and basis elevated.
- The drought in Argentina can suppress meal and oil exports which can benefit the US. Declining global and domestic hog and boiler numbers can suppress meal demand can be a negative for crush margins.
- July'23 soy fair value: \$14.65-14.95/bu. November'23 soy fair value: \$13.15-13.45/bu. July'24 soy fair value: \$13.55-13.80/bu.

We believe that the fundamental construct for 2023 calls for an active and rigorous approach to hedging.

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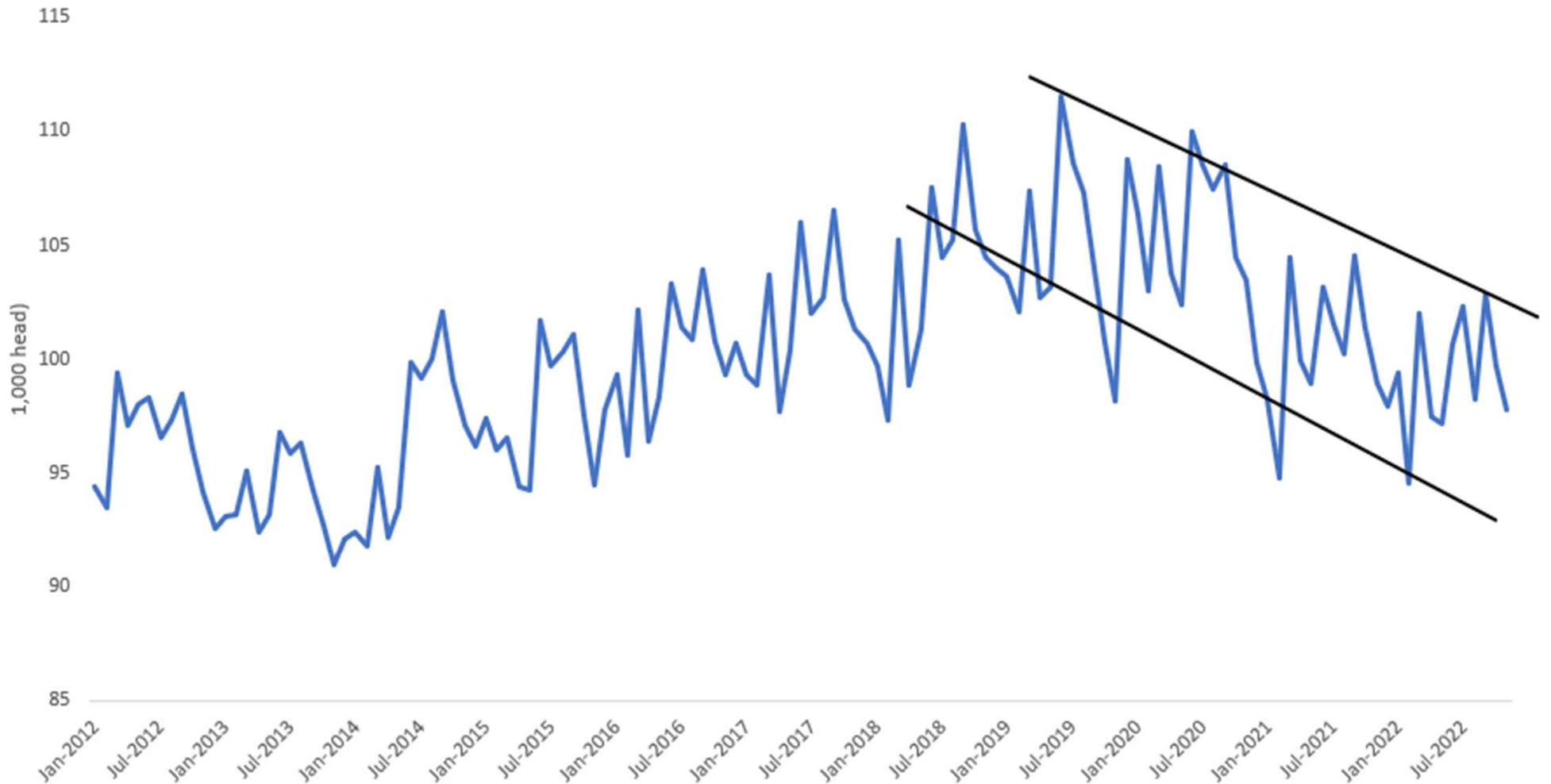
Livestock Outlook

Top Livestock Outlook Items

1. **US Hog supplies will remain tight.** Farrowing data from the USDA's December Hogs & Pigs report showed minimal expansionary tendencies.
2. **Record high soybean meal costs are eroding hog profitability and limiting expansion.**
3. **US pork export sales are a positive.** US pork exports have been strong and as the global hog herd is contracting the demand for US pork should continue to expand. Chinese export sales are encouraging and can grow as the country continues to emerge from COVID lockdowns.
4. **The lean hog futures trade has been driven by a large managed money short position.** If fundamentals change and supplies tighten, this can cause managed money to short cover and help futures markets rally.
5. **The intractable drought has led to extreme level of culling.** Breeding herd slaughter (cows+heifers) has been the largest on record.
6. **When the drought starts to recede feeder cattle prices can soar higher.**

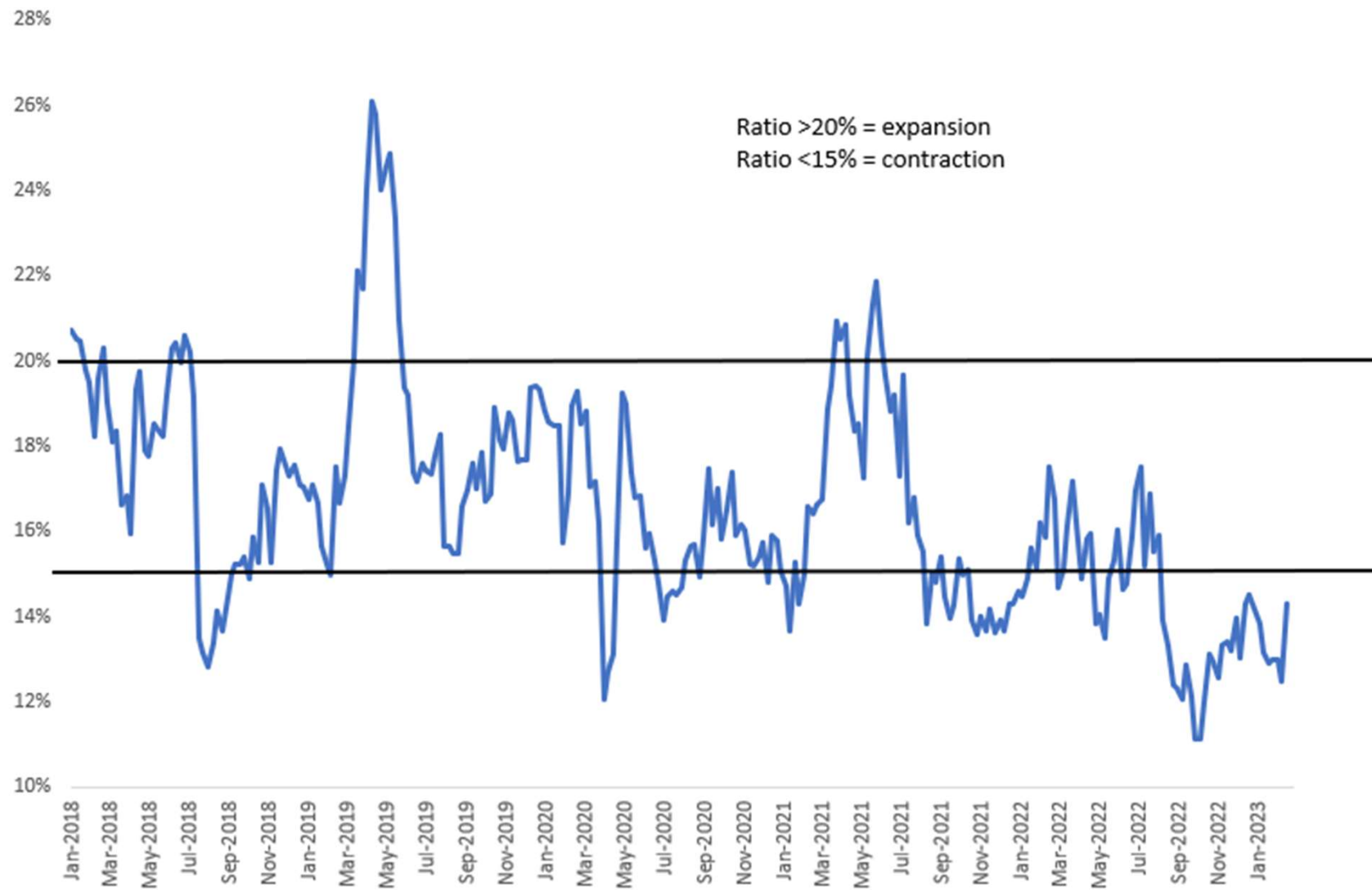
Hog Outlook

Monthly US Hog Farrowings



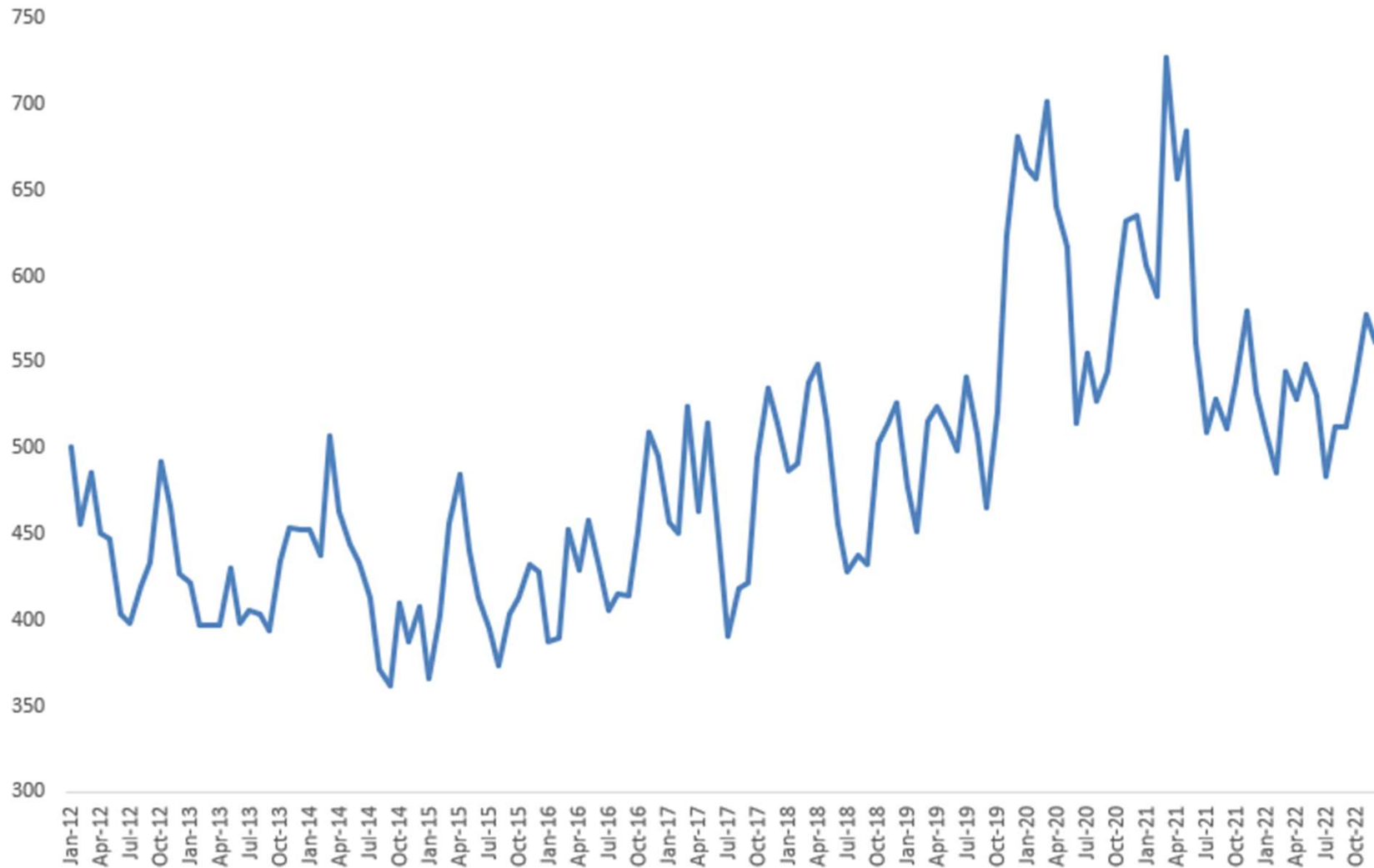
Source: USDA, Hilltop Securities

Weekly CME Hog /Corn Ratio



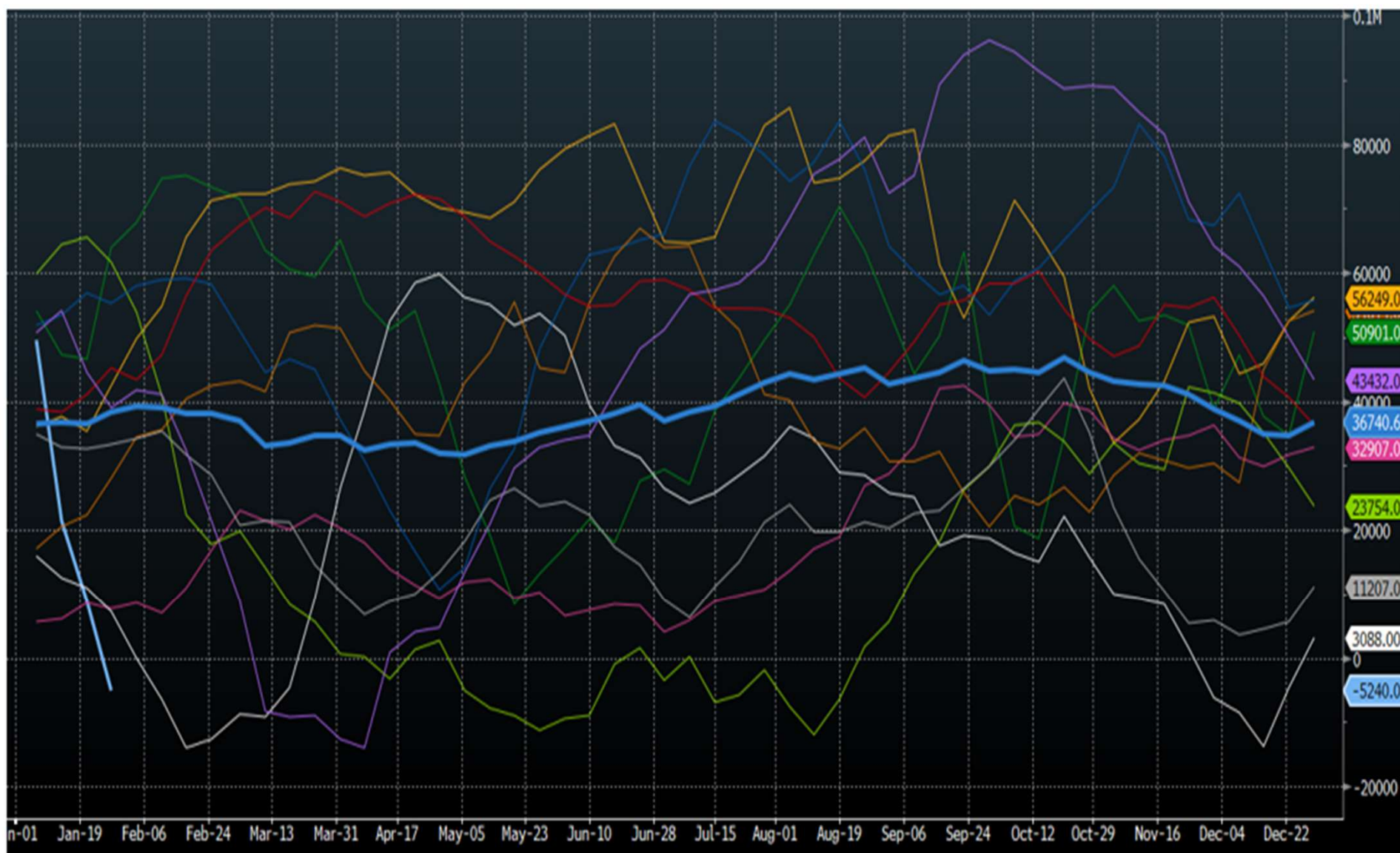
Source: Bloomberg, Hilltop Securities

Monthly US Pork Exports



Source: USDA, Hilltop Securities

Weekly Lean Hog Commitment of Traders: Funds

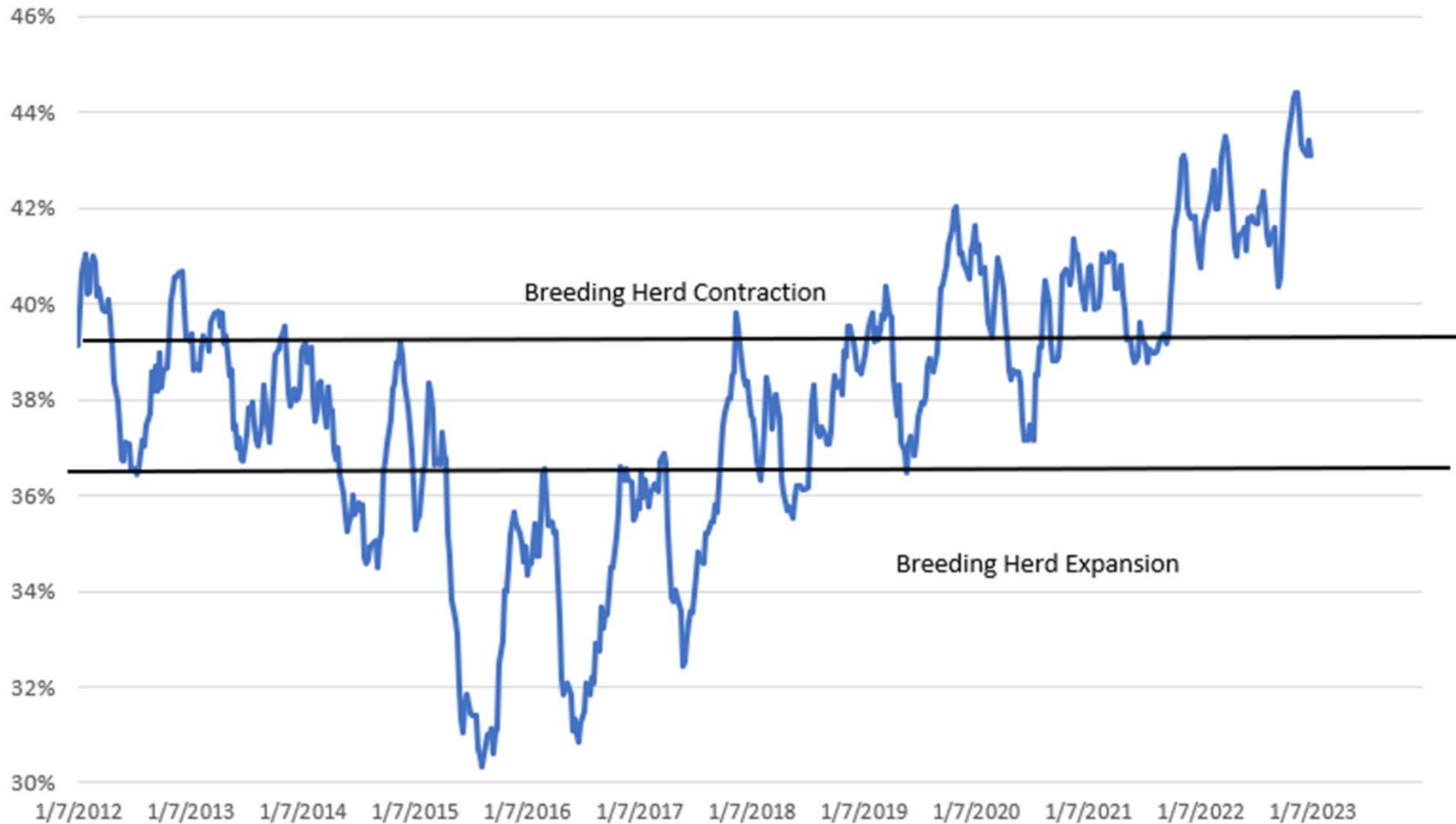


Source: Bloomberg

2023 Tailwinds For The Cow/Calf Producer

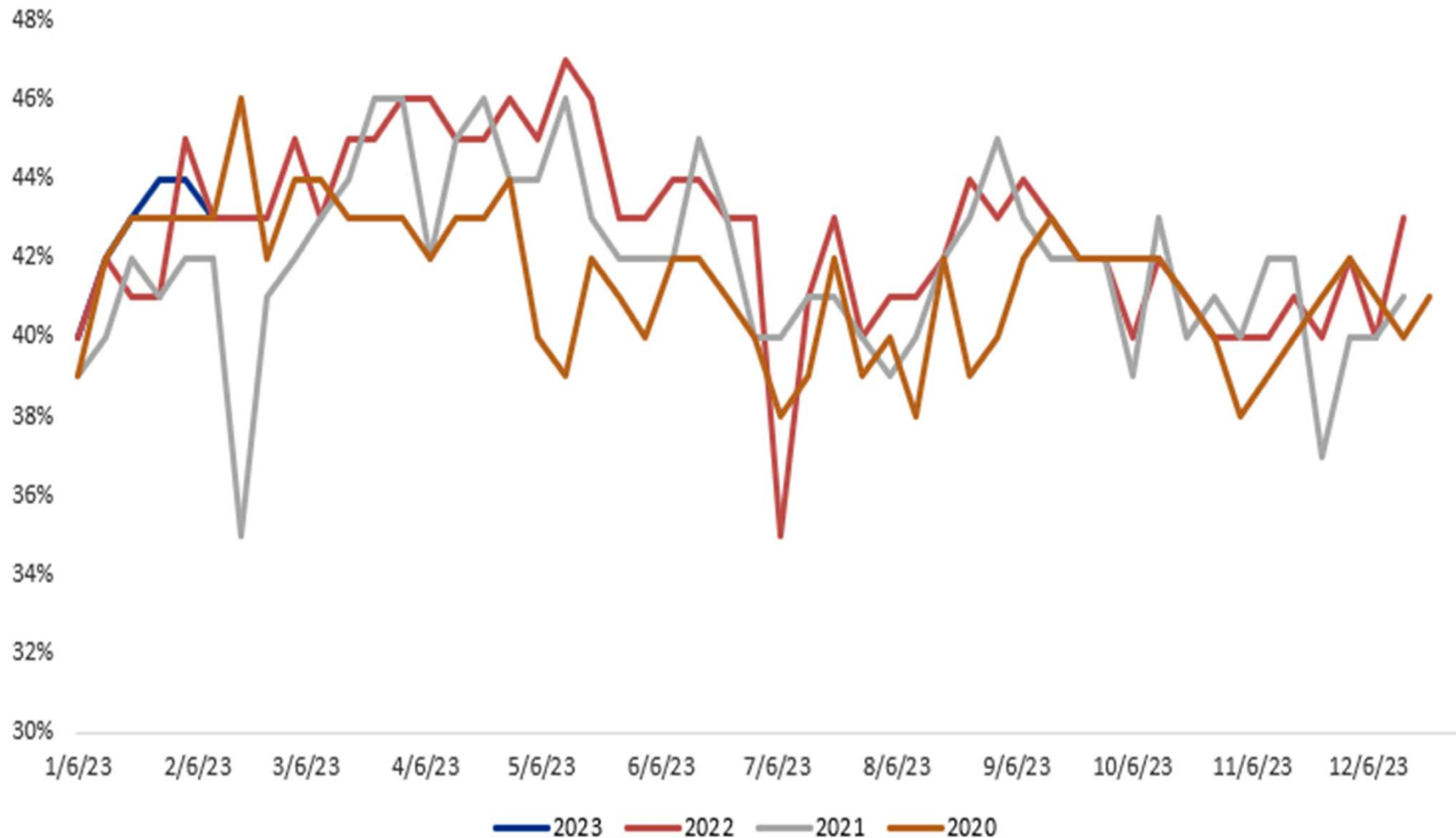
1. **The US is structurally short cattle supplies.** The single and most important variable that will support fed cattle prices in 2023 will be the structural shortage of feeder and live cattle supplies. As heifer retention hastens and beef cow slaughter slows, feeder cattle and fed cattle supplies will contract leave the market structurally short.
2. **Heifer retention is not occurring.**
3. **A white-collar recession.** Despite the ambiguous outlook of the US labor market, recent job data shows structural resiliency. Hourly wage earners are in strong demand. This reduces concerns about softening food service beef demand.
4. **A softer US dollar** can help support US beef export sales to critical markets.
5. **If corn supplies grow and prices fall,** we see a scenario where feeder cattle values can keep rising.

Weekly Beef Cow + Heifer As Percent of Slaughter



Source: USDA, Hilltop Securities

Heifers As Percent of Weekly Feedlot Purchases



Source: USDA, Hilltop Securities

How We Can Help

**Familiarization
and overview of
hedging
objectives**

Opportunity to communicate goals, objectives,
vision

**Collaborative
assessment**

Identify the commodities with the greatest risk
exposure to price volatility

**Qualitative and
quantitative
assessment of
key exposure
points**

360-degree assessment and price objectives of
the desired markets

**Data driven
applied machine
learning to help
analyze and
model prices**

Market relevant mathematical techniques w/ core
fundamental experiences to create price projections

**Data
Visualization**

Easy-to-understand yet leading graphics to
complement the analytical process

**Strategy delivery
and execution**

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