

WHAT'S DRIVING PRICE DISCOVERY IN THE AGRICULTURAL MARKETS?

HTSCommodities

A Division of HilltopSecurities.



Brought to you by HTS Commodities and Momentum Independent Network



Contact:

Scott Strand – 612.486.4624.

scott.strand@hilltopsecurities.com

Lewis Williamson – 901.507.9225

lewis.williamson@hilltopsecurities.com

Walter Kunisch, Jr. – 612.439.6111

walter.kunisch@hilltopsecurities.com

HTSCommodities

Dallas, TX

St Paul, MN

Amarillo, TX

New York, NY

Memphis, TN

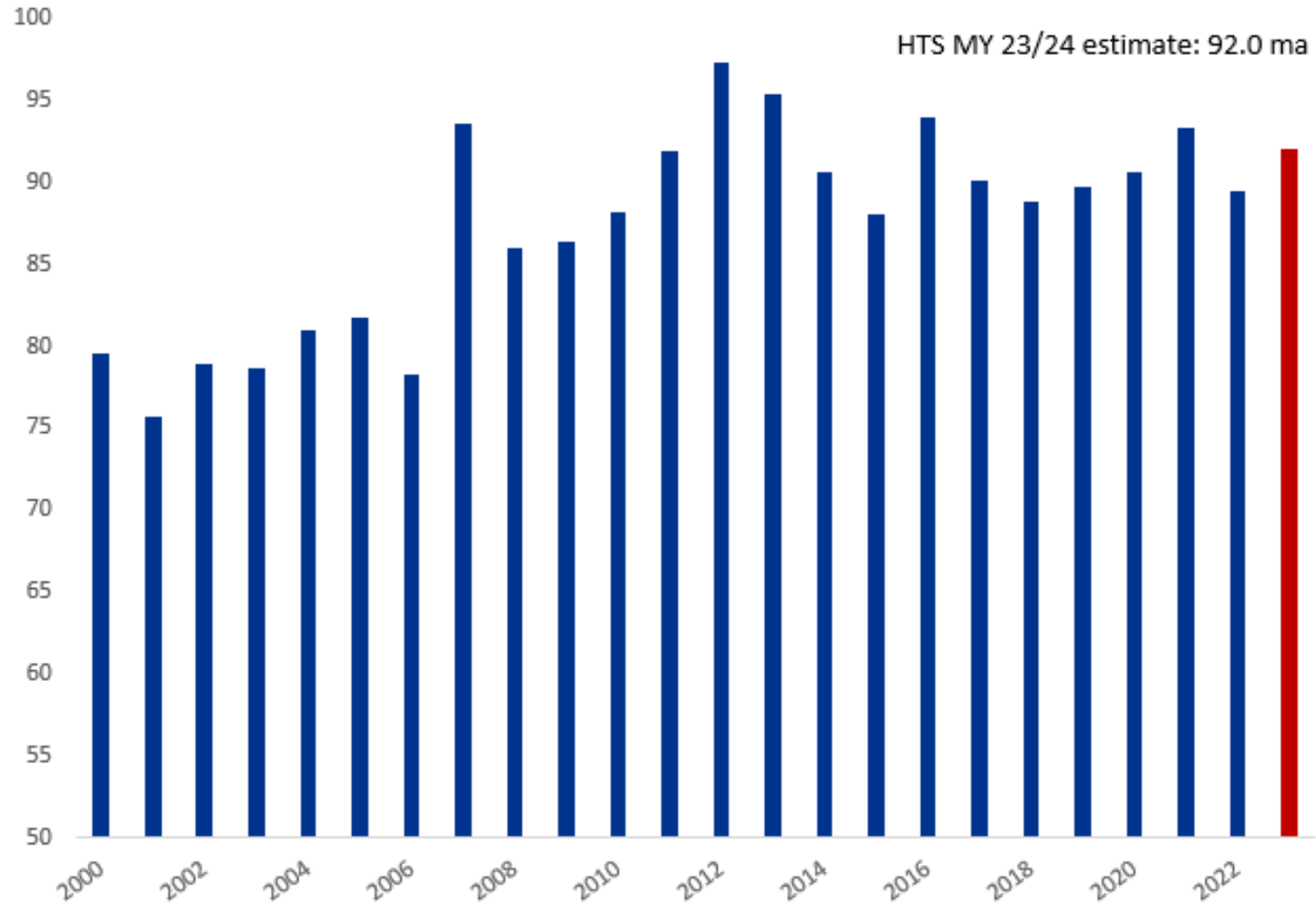
www.htscommodities.com

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 soft.
2. **Softening global production costs**. Domestic and global fertilizer, diesel, natural gas, and propane prices are declining. This can limit price appreciation and lowers the “fair value”.
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)

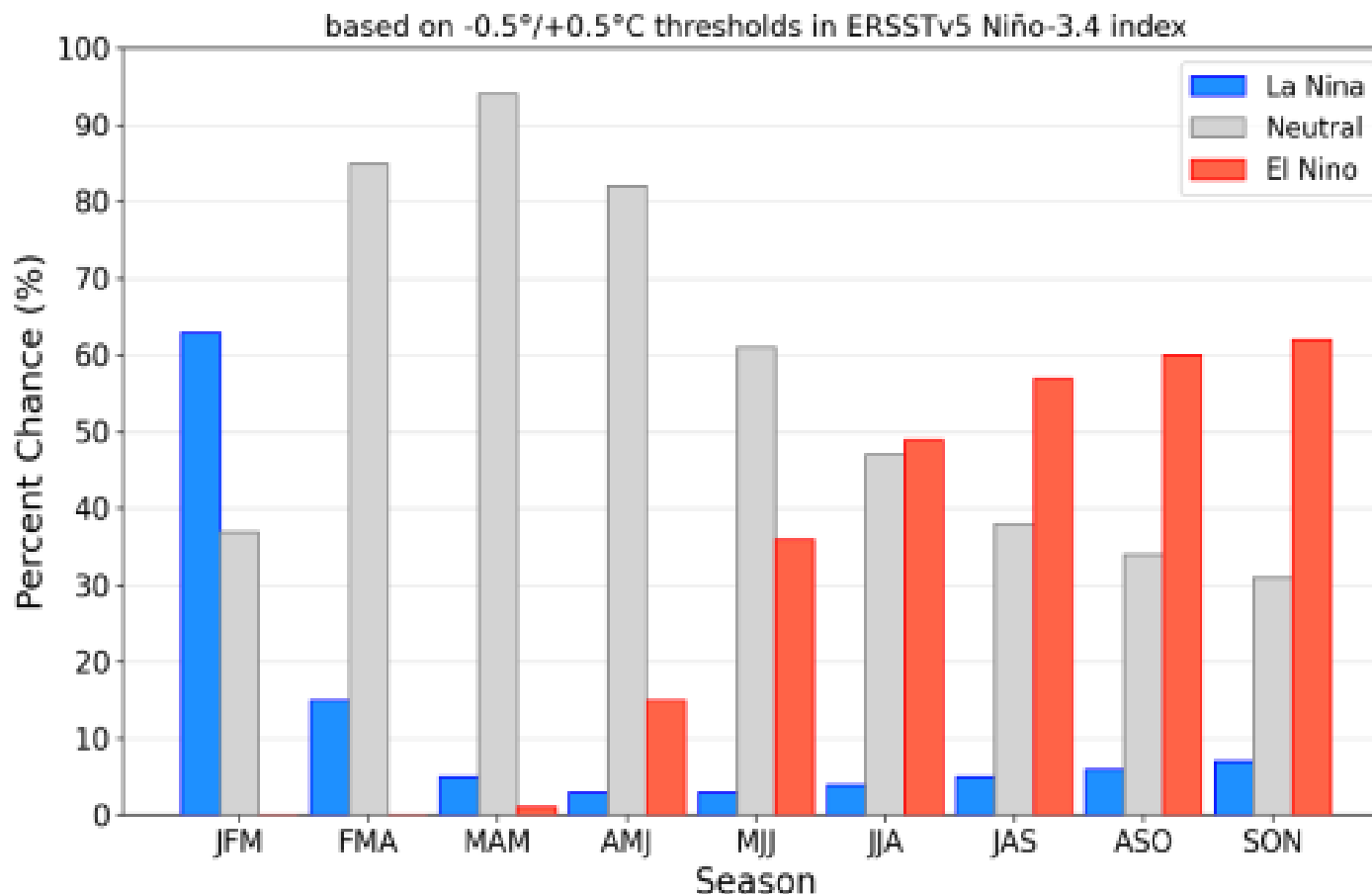


Source: USDA, Hilltop Securities

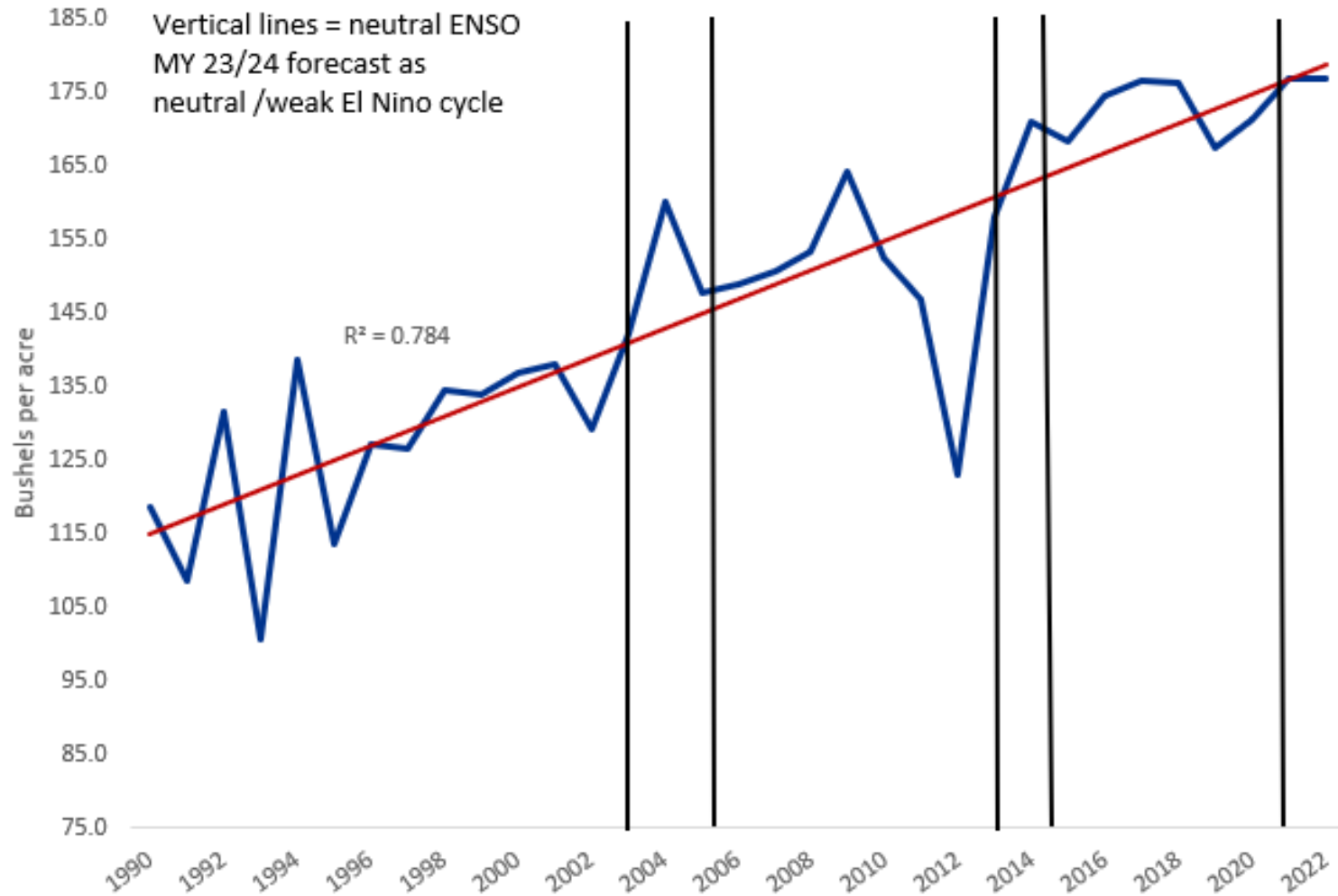
US El Nino – Southern Oscillation (ENSO) Forecast

Neutral to mild El Nino ENSO cycle = above trend US corn yields.

Official NOAA CPC ENSO Probabilities (issued Feb. 2023)



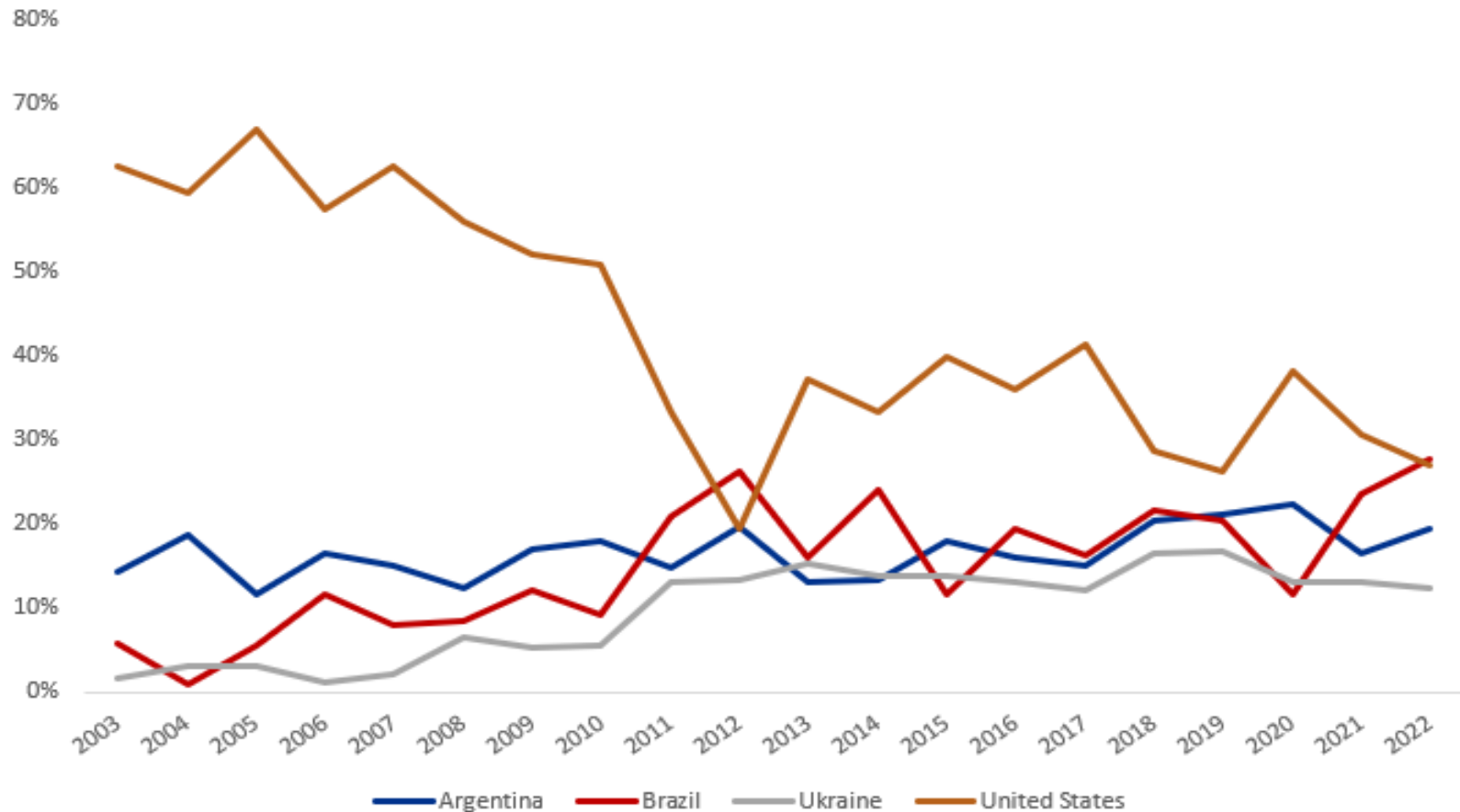
Historical Neutral ENSO Pattern And US Corn Yields



Source: NOAA, Hilltop Securities

Corn Exports As Percent of World Total

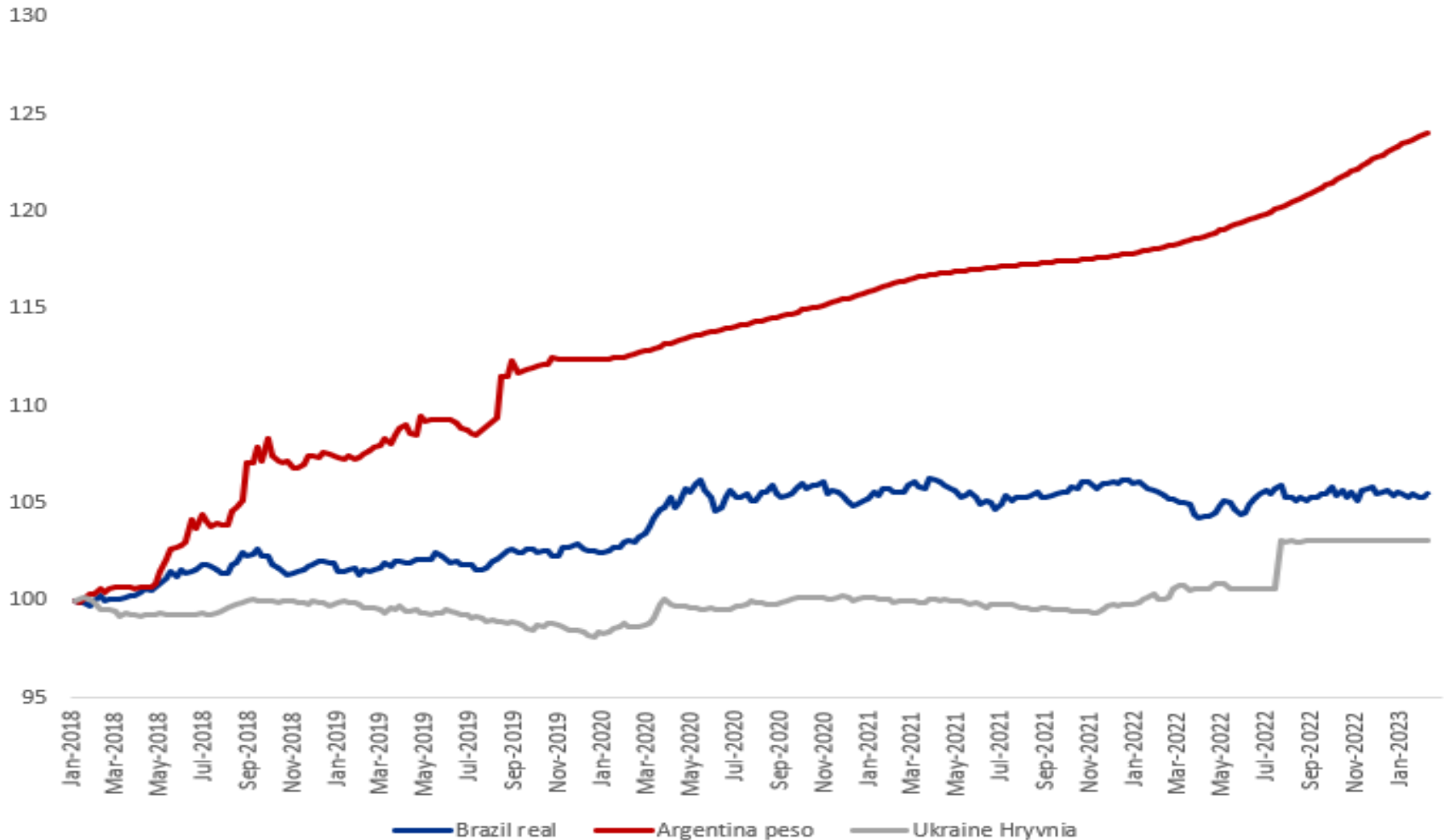
A strong US dollar and linear global production growth erodes US export competitiveness.



Source: USDA-FAS, Hilltop Securities

US Dollar Exchange Rates of Corn Exporting Countries

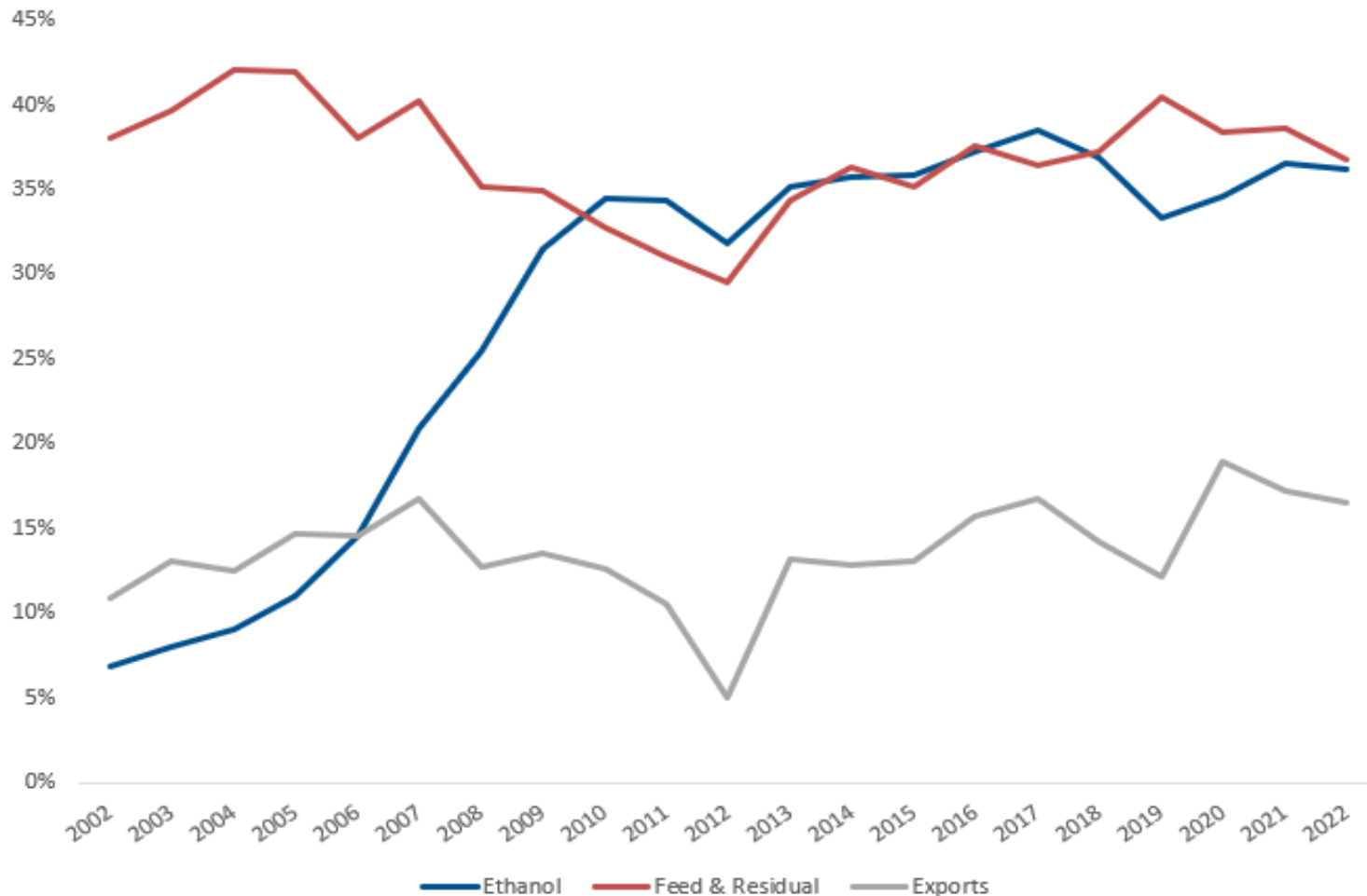
Strong US dollar helps reduce competitiveness of US corn exports.



Source: Bloomberg, Hilltop Securities

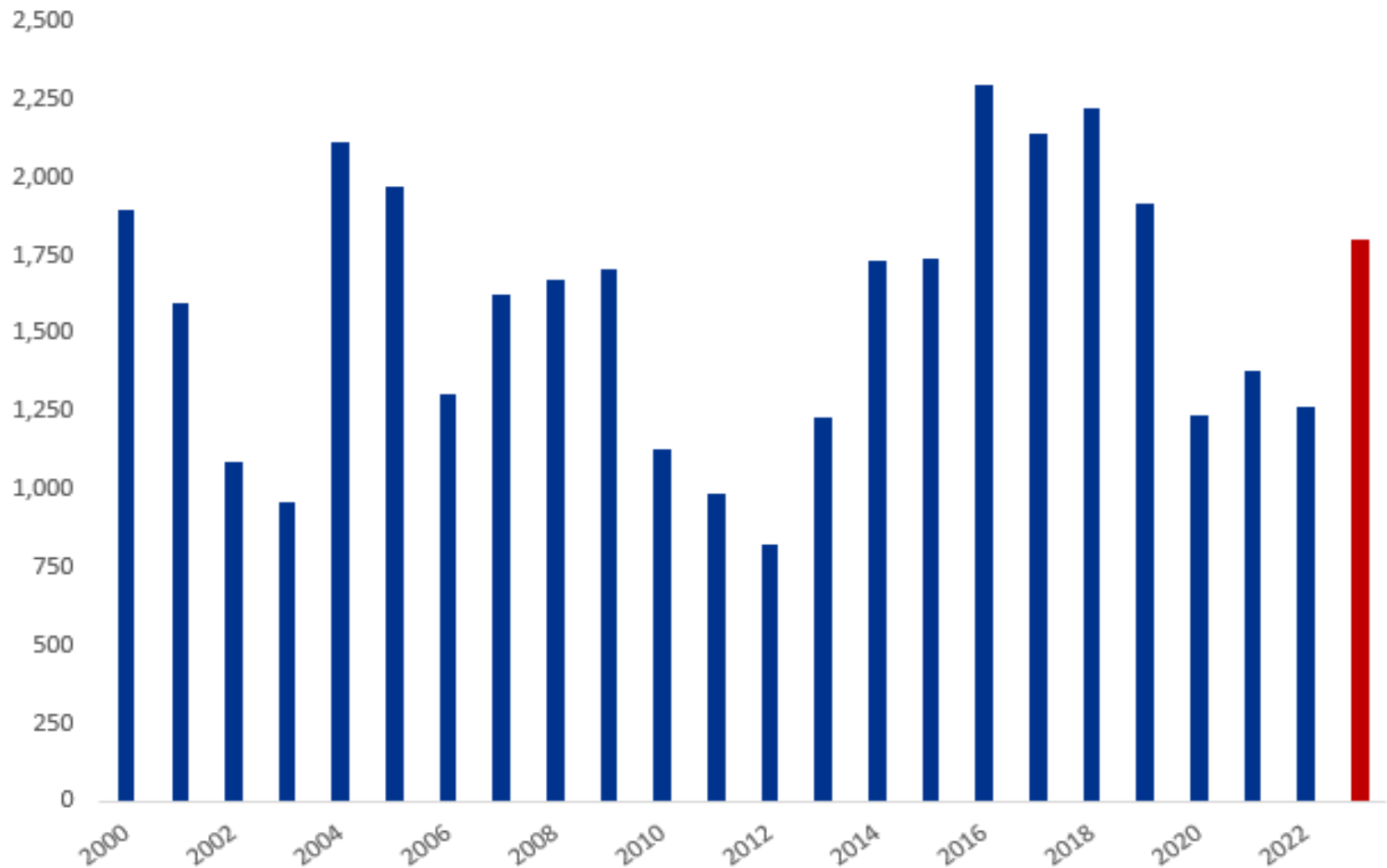
US Corn Use

US needs exports to help clear stocks and support cash and futures prices.



US Corn Ending Stocks (million bushels)

USDA's MY 23/24 estimate: 1.887 billion bushels.



Source: USDA, 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 headwinds. Falling cattle numbers, stagnating hog units constricts feed demand. Post-COVD 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: \$4.85-5.45/bu (\$.25/bu Ukraine premium) July'24 corn fair value: \$5.30-5.65/bu

We believe that the fundamental construct for MY 23/24 calls for an active and rigorous approach to hedging.

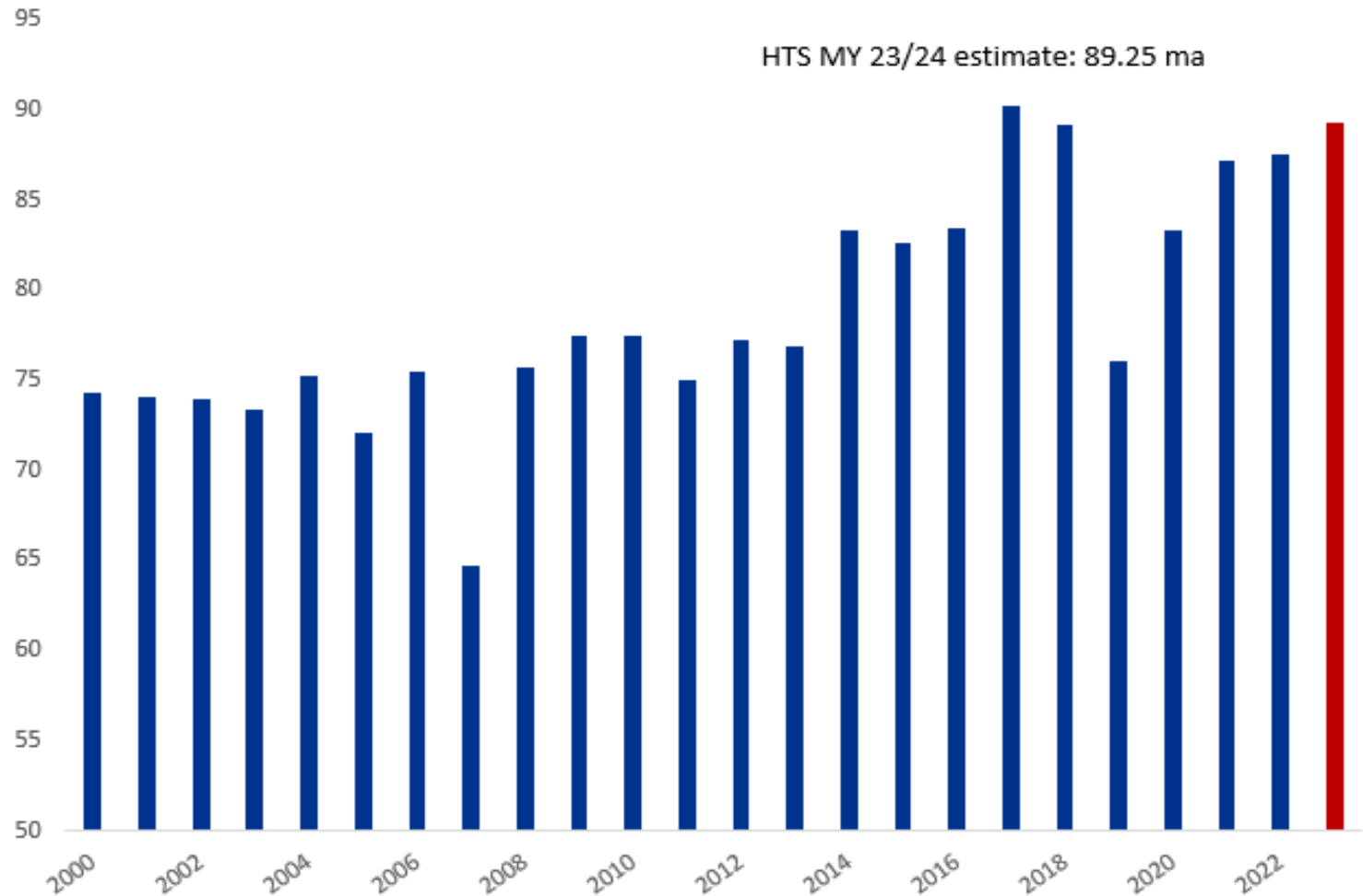
At HTS Commodities we use the prevailing fundamentals to help clients identify proper risk mitigation strategies for their business.

Soybean Outlook

HTS's Top 5 Soybean Outlook Items

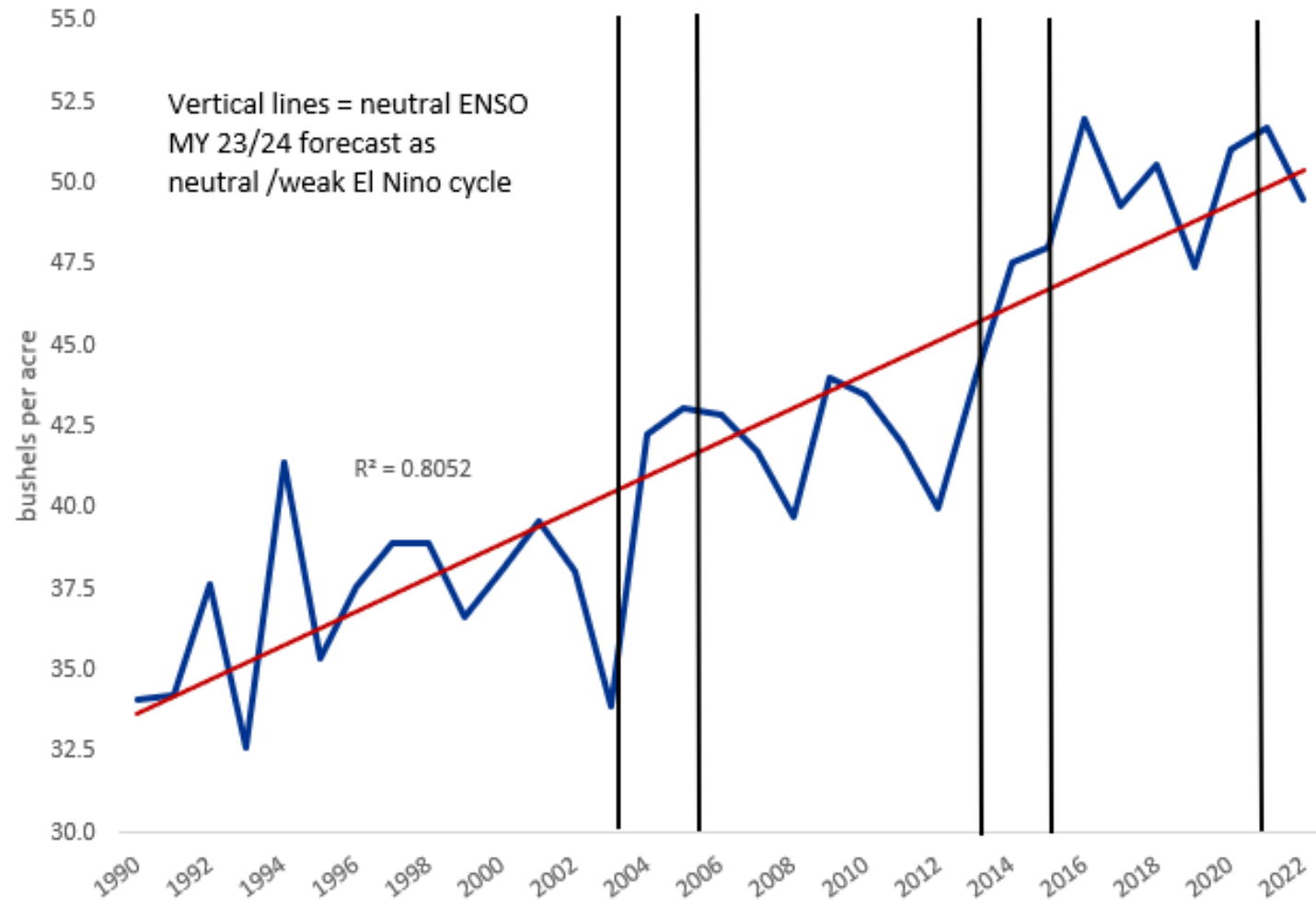
1. **US acres**. US soybean acres can experience some year-on-year expansion but should lag corn.
2. **Brazil production**. Brazil is forecast to produce a record 153.0 mmt soy crop and export a record 92.0 mmt while China is increasing soybean production. The Brazilian real is weak against the US dollar. Does this slow US exports and limit 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 Drought**. 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

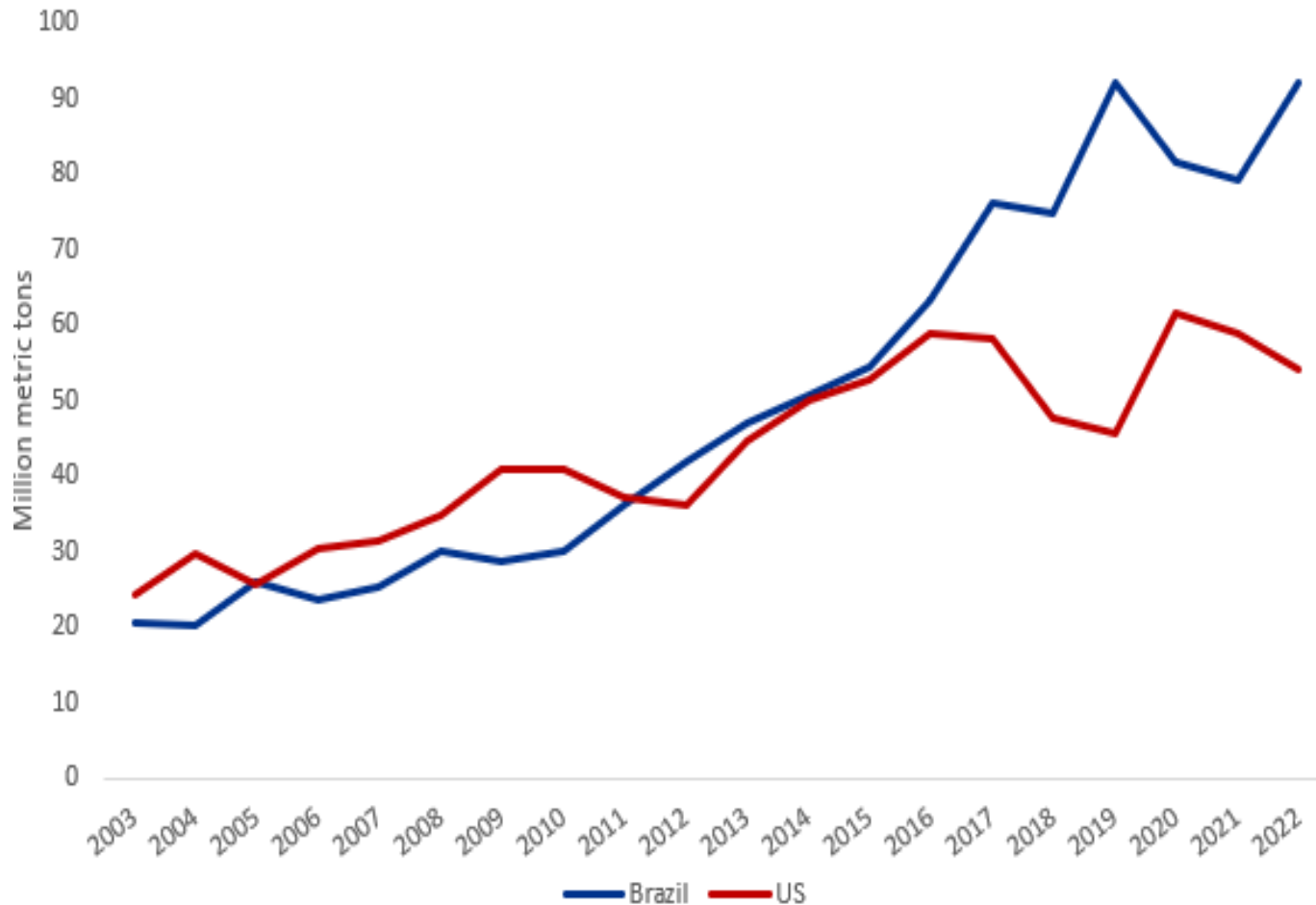
Historical ENSO Patterns And US Soybean Yields



Source: NOAA, Hilltop Securities

Global Soy Exports

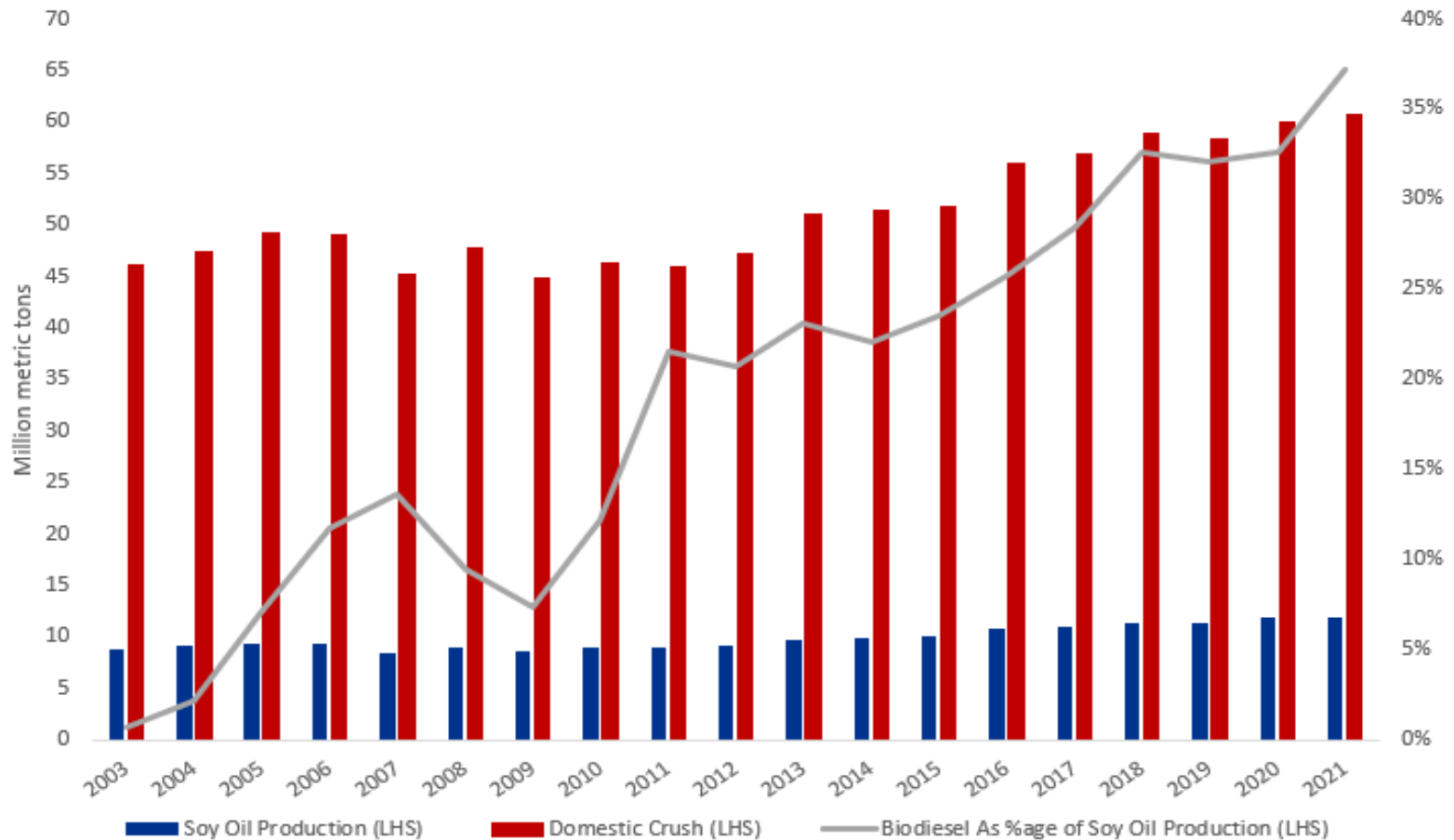
US soy producer can not count on exports to support prices.



Source: USDA, Hilltop Securities

US Crushing For Soybean Oil

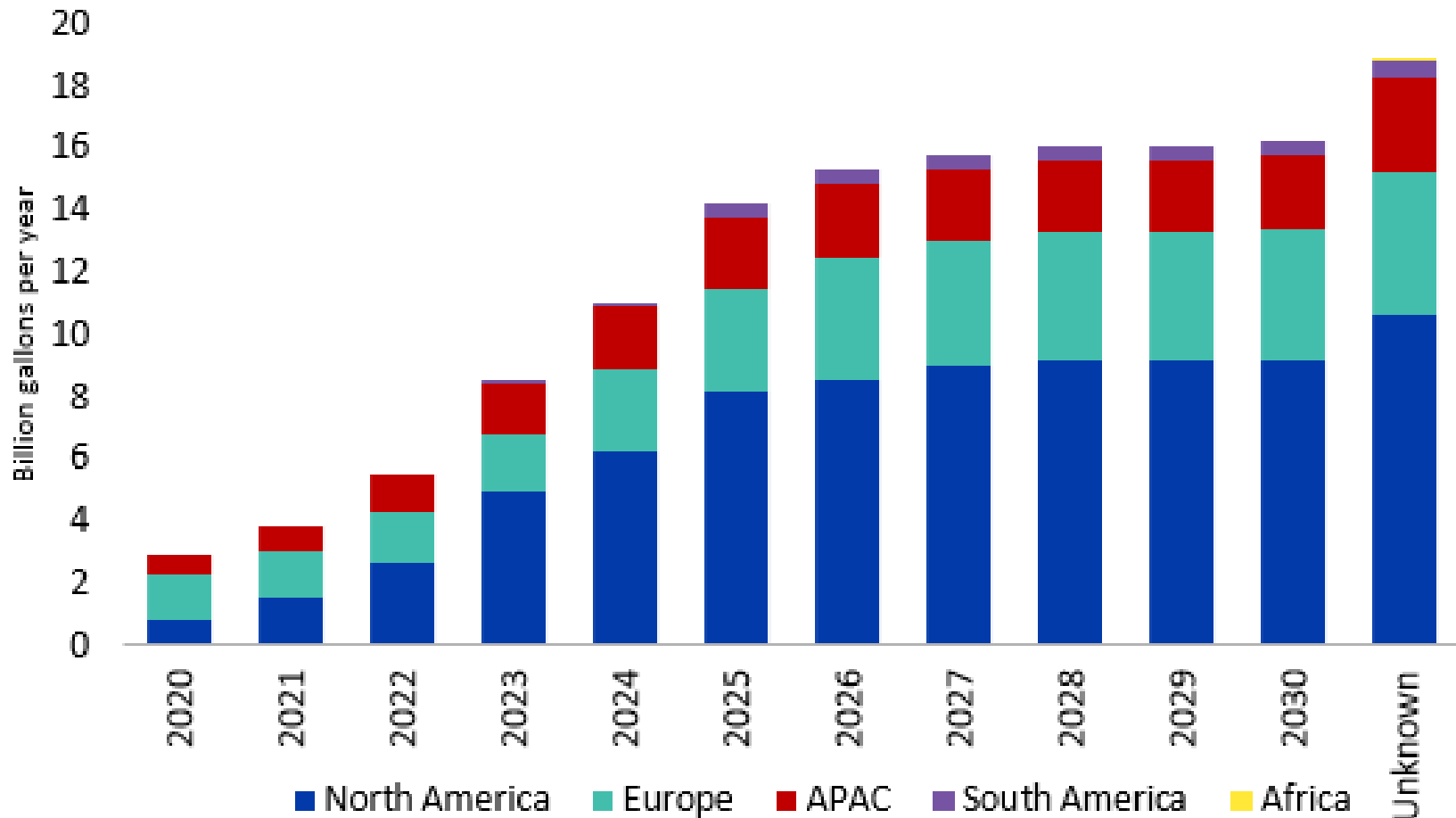
Growing US Crush capacity will help drive US soy demand.



Source: USDA, Hilltop Securities

Renewable Fuel Production Capacity

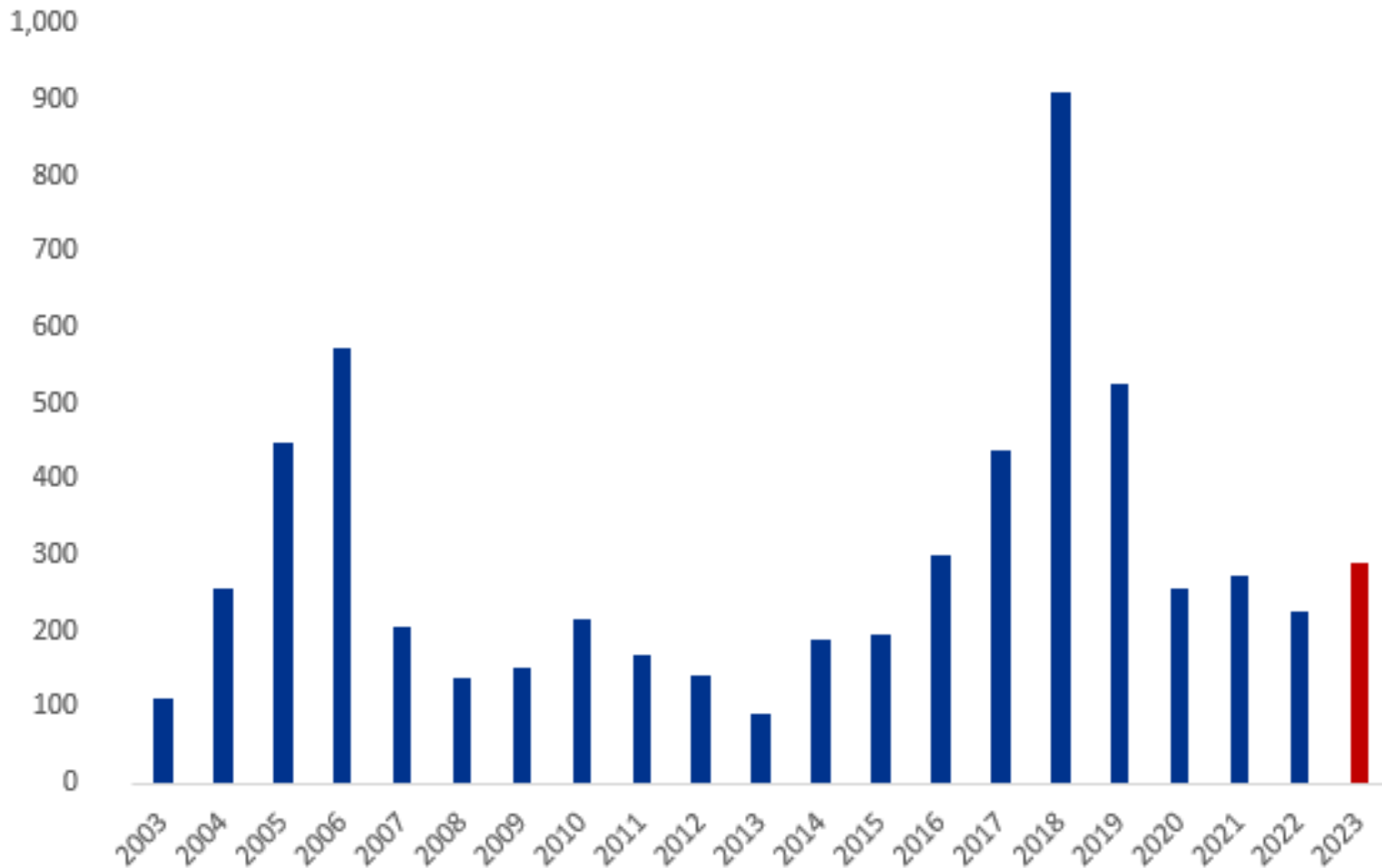
Renewable fuel: sustainable aviation fuel (SAF) biodiesel will drive soy demand.



Source: Bloomberg

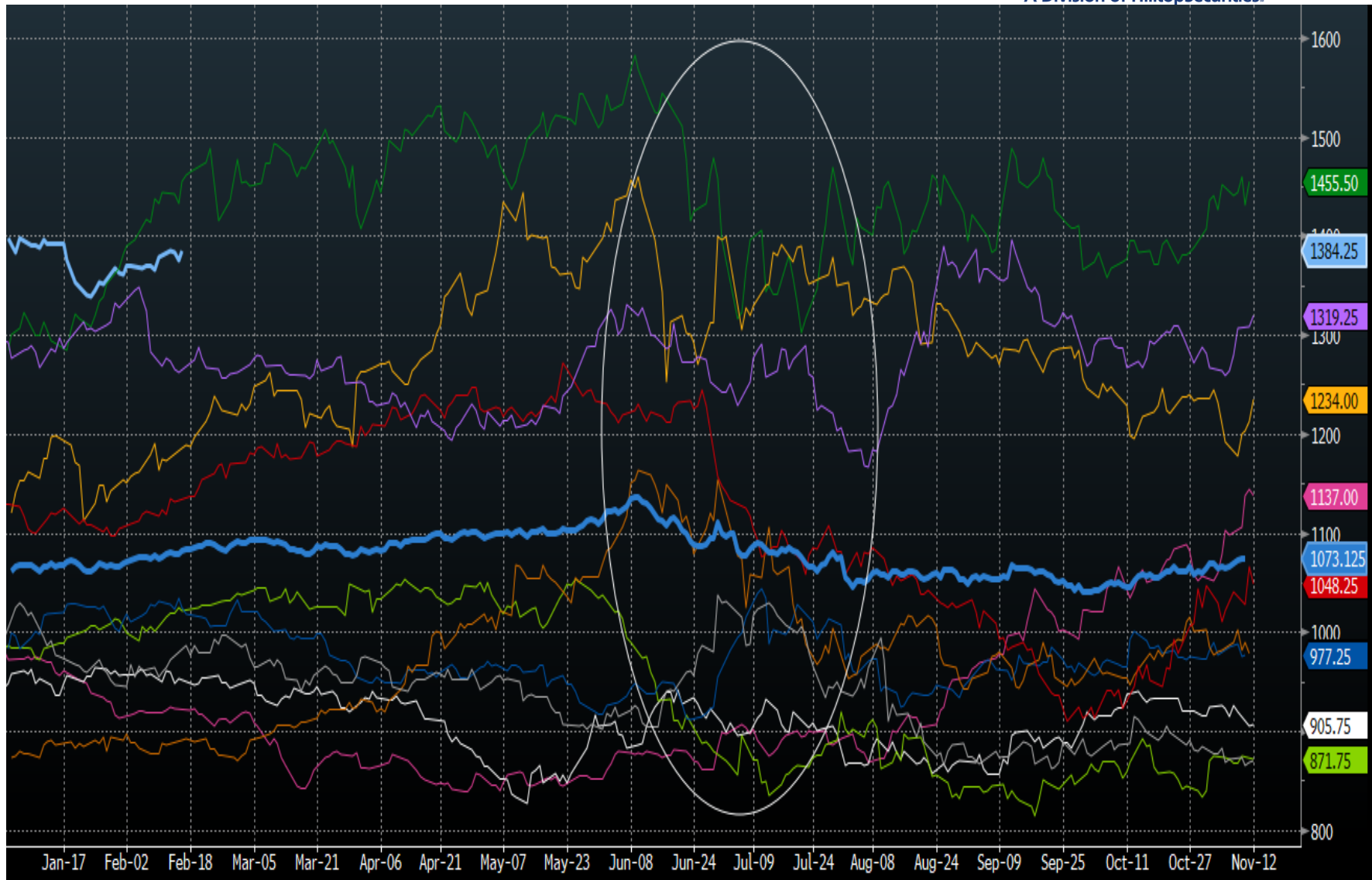
US Soybean Ending Stocks (million bushels)

USDA's MY 23/24 estimate: 290 million bushels.



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.

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

Why Choose HTS Commodities? Our Data Driven Approach

How We Can Help

**Familiarization
and overview
of hedging
objectives**

Communicate goals, objectives and vision

**Collaborative
assessment**

Identify the greatest risk exposure to price volatility

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

360-degree assessment of active markets

**Applied
machine
learning to
help analyze
and model
prices**

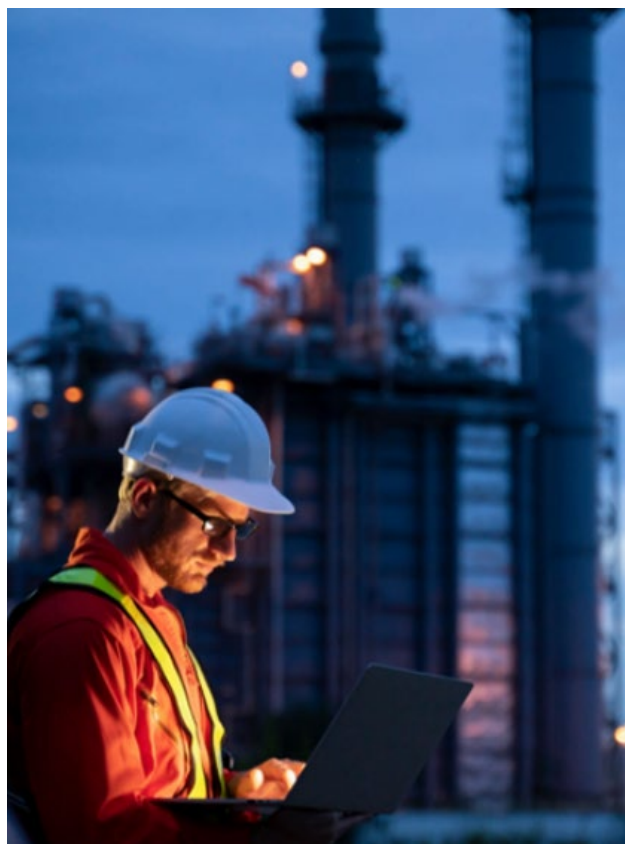
Mathematical to create price projections

**Data
Visualization**

Easy-to-understand graphics to complement the analytical process

**Strategy
delivery and
execution**

HTSCommodities brings together commodities specialists with decades-long experience, superior industry knowledge and strong local roots across 6 offices in Texas (Amarillo, Plano, Dallas), Minnesota (St. Paul), Tennessee (Memphis) and New York (NYC). The team is comprised of seasoned commodities brokers, traders and investment bankers and has a wealth of expertise in risk management, trading execution and advisory. The team specializes in agricultural and energy commodities along with 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



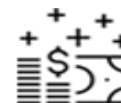
Softs

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.



Contact:

Scott Strand – 612.486.4624.

scott.strand@hilltopsecurities.com

Lewis Williamson – 901.507.9225

lewis.williamson@hilltopsecurities.com

Walter Kunisch, Jr. – 612.439.6111

walter.kunisch@hilltopsecurities.com

HTSCommodities

Dallas, TX

St Paul, MN

Amarillo, TX

New York, NY

Memphis, TN

www.htscommodities.com

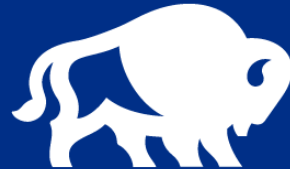
Disclosure

Trading on regulated commodity exchanges inherently involves risk of loss and is not suitable for everyone. The leverage created by trading on margin can work against you just as much as it can benefit you, and losses could exceed the entire investment as well as additional cash deposits. You may be required to immediately provide capital upon notice to maintain any or all open positions, and failure to do so in a timely manner could result in penalties, liquidating debit balances, unforeseen financial obligation and the loss of opportunity sought by participating in the commodity futures and options marketplace. Only risk capital should be considered for alternative investment or speculation. Before opening an account, you should seek advice from related associations, regulators, certified public accountants, industry professionals and other trusted advisors. Be certain that you understand the risks and can withstand the potential losses associated with SWAPS, futures, options on futures or any other derivatives or cash commodity transactions in which you intend to participate. HTSCommodities may not represent, guarantee or warrant that you will profit from any trading activity nor that realized losses will be limited whatsoever.

The presentation document was prepared by HTSCommodities. This material represents historical information only and is not an indication of future performance. Nor is it a recommendation or solicitation or any specific product. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Principals, managers and some associates are registered with the National Futures Association (NFA) and all members participate as part of an independent Introducing broker in good standing. Members operate under the governance and guidelines of the Commodity Futures Trading Commission (CFTC) and are authorized to represent multiple futures clearing merchants or FCMs for the benefit of clients' selection and or suitability.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP



HilltopSecuritiesSM

HILLTOPSECURITIES.COM