U.S. Commodities Markets

2024 Kickoff. The Six "C's" To Help Explain The Developing Commodity Narrative

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As 2024 kicks off we examine the "C's" of the global commodity complex—copper, crude oil, cereal grains, cotton, cattle, and China—through one chart. By using one chart for each "C", we strive to capture the essence and the most compelling supply, demand, and macroeconomic narrative for the year ahead.

- Throughout 2023, global commodities encountered a plethora of macro and geopolitical variables. The biggest surprise to us was how the global commodity trade selectively ignored some supply deficits by largely focusing on the demand side of the equation. As the year concluded, most of the "C" balance sheets were left with accommodating stocks.

- Topping the list of the "C" related influences in 2023 was the aggressive tightening of central bank lending rates that was designed to suppress inflationary tendencies as the world economies transitioned to a post-pandemic era. In 2024, inflation levels in G-8 countries are expected to moderate which is creating widespread speculation of multiple central banks rates cuts. **We believe that lowering the cost of capital is one variable that can enhance global industrial and consumer demand. An increasing demand structure can potentially help reduce supply overhangs in energy and grains while exacerbating already tight global base metal supplies.**

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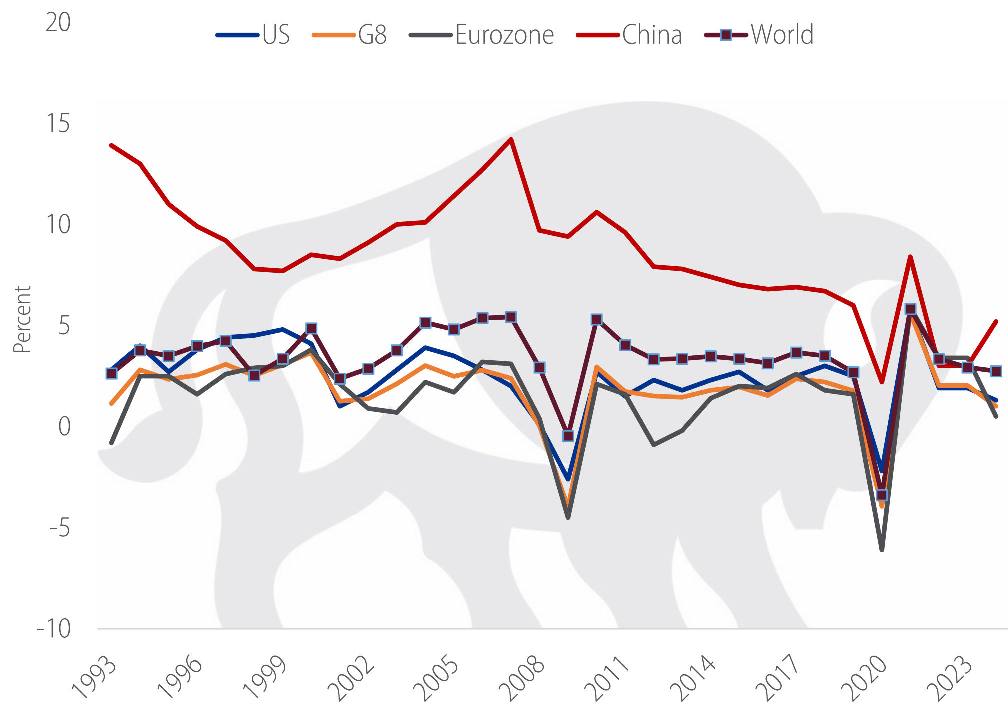
Annual GDP



Source: Bloomberg and HilltopSecurities.

- While reduced financing costs can help stimulate raw material demand, 2024 presents structural macro headwinds. Most critical of these is the commitment by global central banks to tame inflation pressures, and the post-pandemic reversion toward steady-state growth. G-8, China, and the world economy are each expected to decelerate in 2024. Eurozone growth is forecast at 0.5%. **Stagnating economic growth, recession risks, along with lingering inflationary pressures will present nuanced regional challenges that can slow aggregate commodity demand.**

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- **China:** In early 2023 the global commodity trade was widely anticipating China to strengthen post-pandemic demand for raw materials as the country exited from its stringent lock down policy. Ultimately the demand shock for energy and metals in particular, never fully materialized as President Xi exerted enhanced political influence over the Chinese economy. What emerged throughout the year was a fragmented global trade policy, increased political tensions with the U.S., and a realignment of China's political economy that deemphasized growth by debt and focused on state led investment in the "real" economy. In 2024, Xi's "modernized Marxism" approach to economic development will continue to rotate from real estate towards strategic sate directed manufacturing sectors like electric vehicles and green energy related products. We believe that China's economic pivot will result in a tempered demand structure for raw materials.

- **Crude Oil:** In 2024 the global commitment to net-zero will continue to challenge and define the world's energy complex. Growing global and domestic crude supplies combined with the continued adoption of electric vehicles in China, EU and the U.S. should both slow oil demand and weaken OPEC+'s influence. We expect to see OPEC+ continue to actively strive for market stability through production cuts. In China, new refinery capacity will generate incremental crude oil demand. The country's flexible refined product export quotas will be key for mitigating Southeast Asian supply and inflationary concerns. As production costs decline, U.S. shale output is forecast to continue at the same record pace of 2023 which can create tailwinds for existing domestic and global supply overhangs and keep WTI and Brent prices in a tight range.

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- **Copper:** Despite the continuing Chinese real estate shock, we see emerging global supply downgrades along with loosening monetary conditions and tight regional LME stocks as key variables that should enhance copper demand and keep prices elevated.

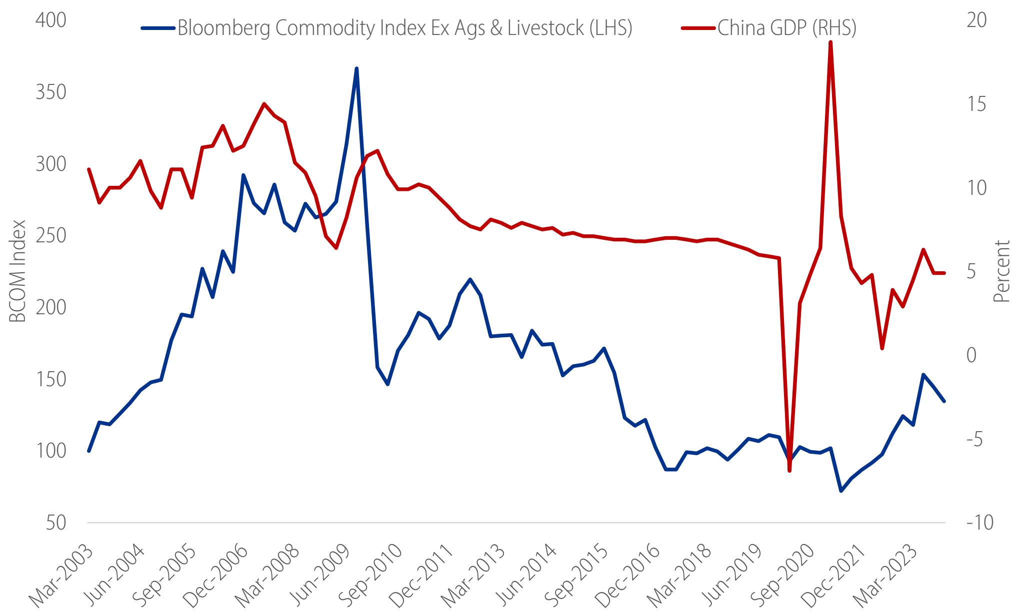
- **Cereal Grains:** In 2023 the hasty transition from La Nina to the strongest El Nino on record was a primary catalyst that contributed to production shortfalls in corn, rice, and wheat in the northern hemisphere. With the El Nino expected to weaken during the first half of 2024 we see risks of U.S. corn, rice, and wheat production declining and a decent probability of trend yields increasing. Trend yields would keep U.S. corn stocks elevated but would help reduce tight supplies of rice and wheat in the northern hemisphere.

Tightening cattle supplies combined with this encouraging domestic demand backdrop can force prices higher in 2024.

- **Cotton:** Long term weather forecasts for 2024 suggest that U.S. upland - Texas - cotton could experience acute dryness which could suppress production. We see softening interest rates helping to improve textile demand, however competitively priced synthetic fibers can keep cotton prices in a range.

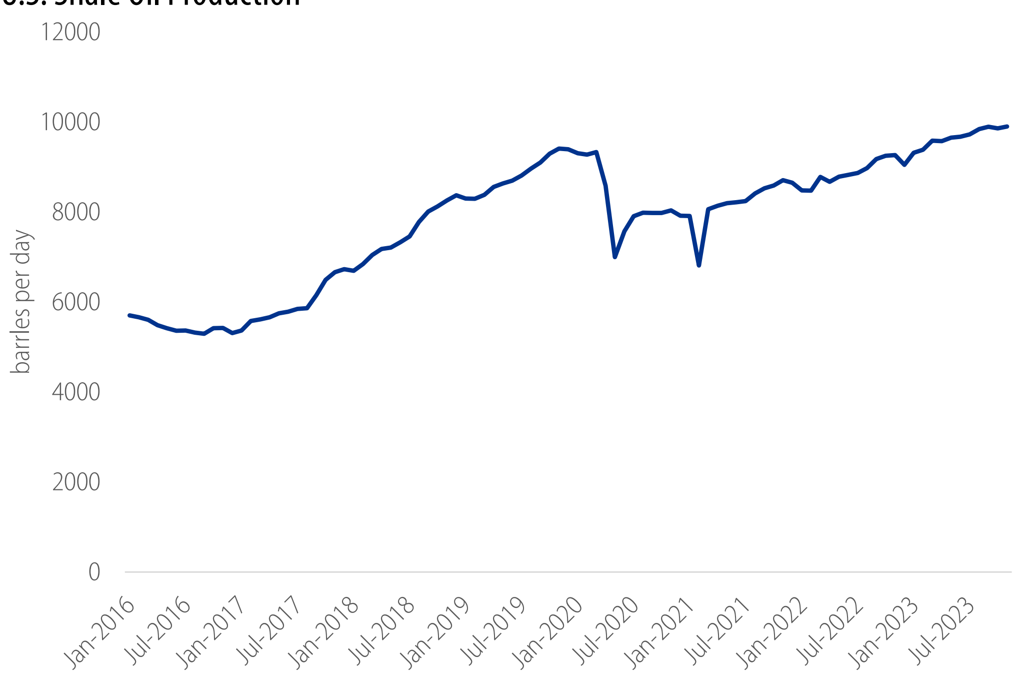
- **Cattle:** Record high U.S. cash and futures prices in 2023 and a continuing drought in the southwestern U.S. helped the cattle herd liquidation continue. Low U.S. unemployment and the growing probability of a "soft landing" should continue to support beef demand through the food service channel. Tightening cattle supplies combined with this encouraging domestic demand backdrop can force prices higher in 2024.

Quarterly Chinese GDP Growth & Commodities



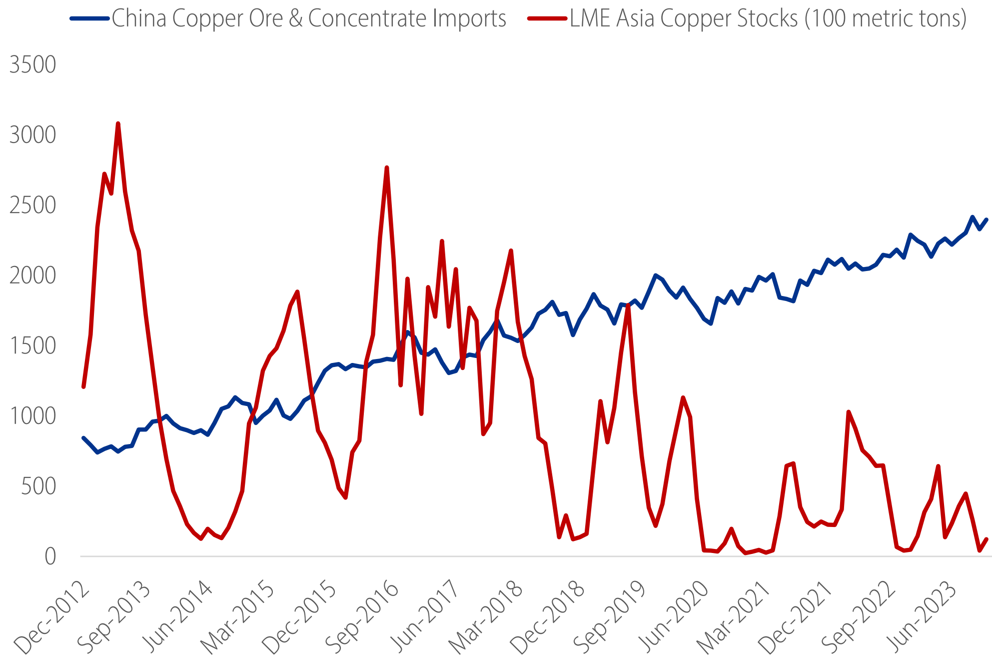
Source: Bloomberg and HilltopSecurities.

U.S. Shale Oil Production



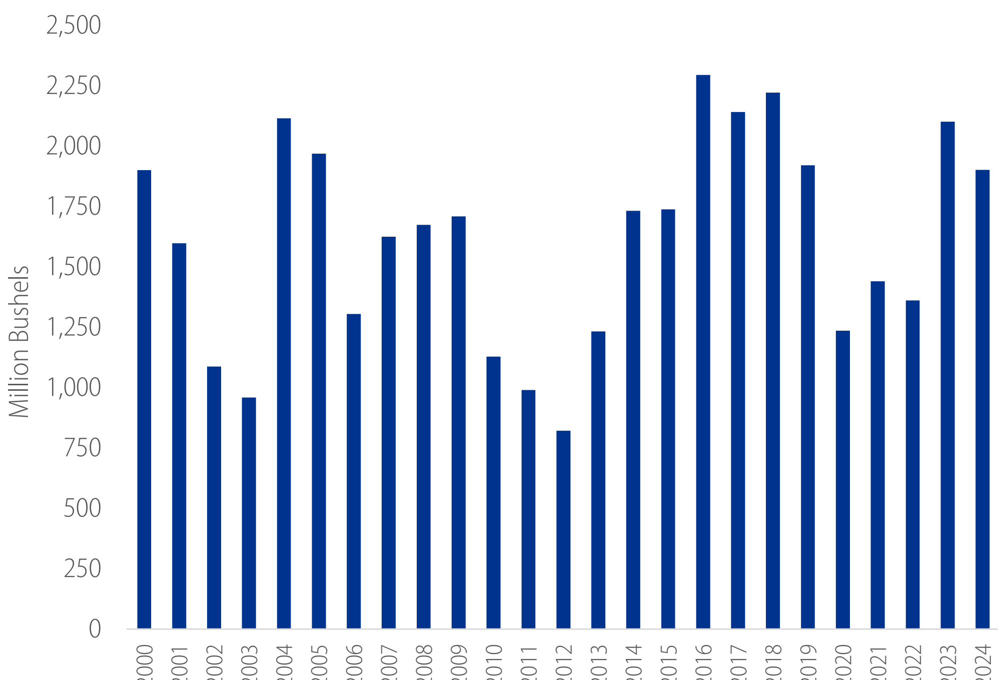
Source: HilltopSecurities.

Registered Copper Stocks & China Copper Imports



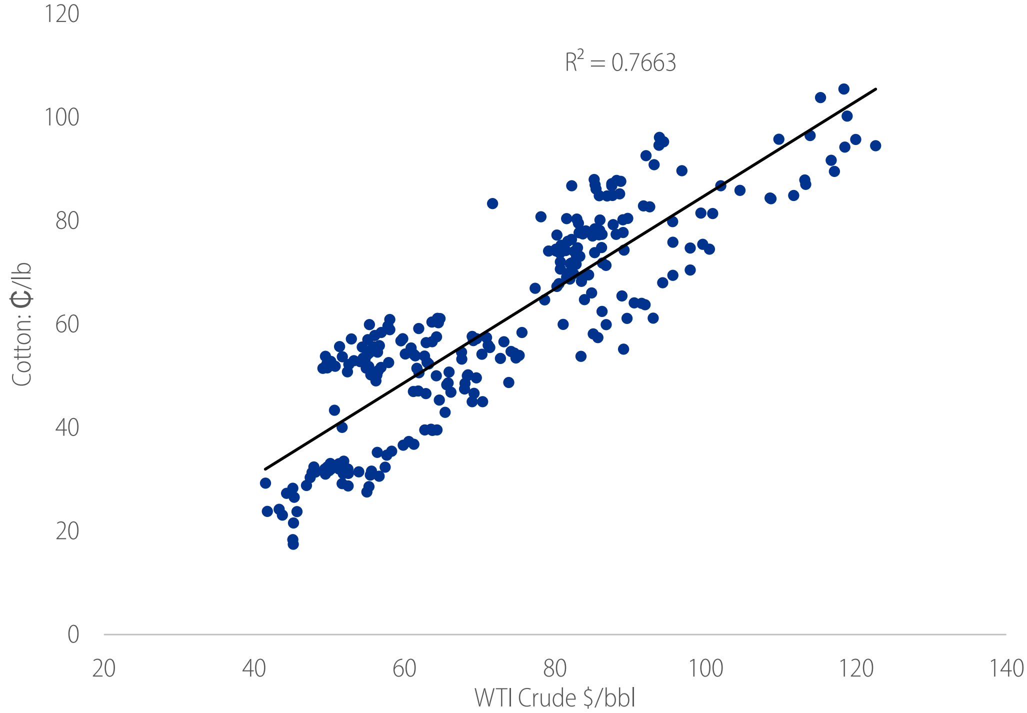
Source: Bloomberg and HilltopSecurities.

U.S. Corn Ending Stocks



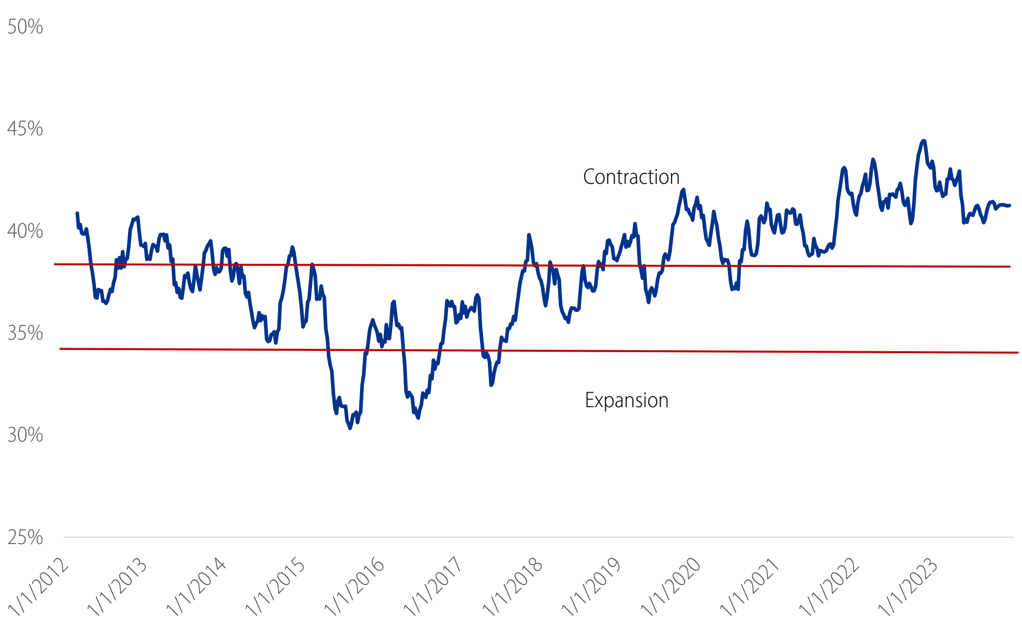
Source: USDA and HilltopSecurities.

ICE Cotton & NYMEX WTI Futures



Source: HilltopSecurities.

Breeding Herd (Beef Cow+ Heifer) Slaughter As % of Weekly Total



Source: HilltopSecurities.

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