

U.S. Commodities Markets

May WASDE Report Estimates Tight Supplies of Global Cereal and Feed Grains

- The USDA's May World Agricultural Supply and Demand Estimates (WASDE) report estimates tight supplies of global cereal and feed grains for marketing year (MY) 2022/23.
- We focus on the USDA's global corn and wheat supply and demand estimates which we believe are essential for formulating ideas about global trade flows, downstream pricing, and inflation expectations.
- The USDA's data confirms that a Ukraine driven global corn and regional wheat supply shock will persist.
- Inside the data, we see a material corn supply gap developing in Africa and the Middle East which should exacerbate the region's inflationary pressures.

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USDA's first global supply and demand estimate of the 2022/23 crop year

With key agricultural exporting countries in the southern hemisphere (Argentina, Australia, and Brazil) heading into the fall and winter, the focus shifts to the northern hemisphere's supplies. In this report the USDA recognizes that the "recent military invasion of Ukraine has increased the uncertainty of supply and demand conditions in the region and globally." Because Ukraine is not expected to be a viable exporter of agricultural commodities during MY 22/23, there is a greater sense of supply and demand related urgency for the key producing countries in the northern hemisphere like Canada, EU, Russia, and the U.S.

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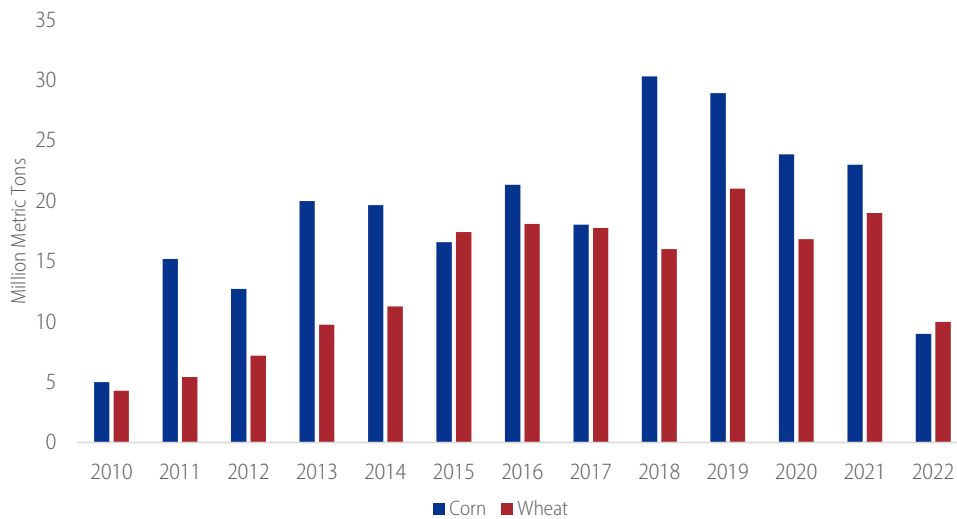
U.S. and Ukraine corn and wheat production and exports are forecast lower

While each country has distinct agricultural commodity balance sheets, both countries are key global corn exporters (U.S. is the largest exporter and Ukraine is the fourth). Both are primary wheat exporters. Because the U.S. and Ukraine are in the Northern hemisphere this makes their agricultural production and export capabilities critical for servicing global end users while the countries in the southern hemisphere are in between crop cycles.

Citing a "yield projection that is based on a weather-adjusted trend" the USDA estimates U.S. corn yields at 177.0 bushels per acre, unchanged from last year, which lowers production to 367.3 mmt, -4% YoY. U.S. wheat production is estimated at 47.0 mmt, +5% YoY. Corn exports are forecast at 60.9 mmt, -5% YoY and wheat 21.0 mmt, -4% YOY. We think that the USDA's U.S. corn export estimate is too low and believe that the Ukraine's loss can result in increased U.S. export business.

Ukraine corn production is forecast at 19.5 mmt, -54% YoY, and wheat at 21.5 mmt -34% YoY. Corn exports are forecast at 9 mmt, -61% YoY and wheat at 10.0 mmt -47% YoY.

Annual Ukraine Corn and Wheat Exports



Source: USDA, HilltopSecurities

The USDA reduced MY 22/23 global ex-China domestic corn feed demand by 8.6 mmt, -1% YoY. With Ukraine and U.S. corn exports forecast to fall by a combined 16.5 mmt, -20% YoY, we see a material global supply loss which should support higher downstream prices.

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Data illustrates that medium-run food inflation will persist

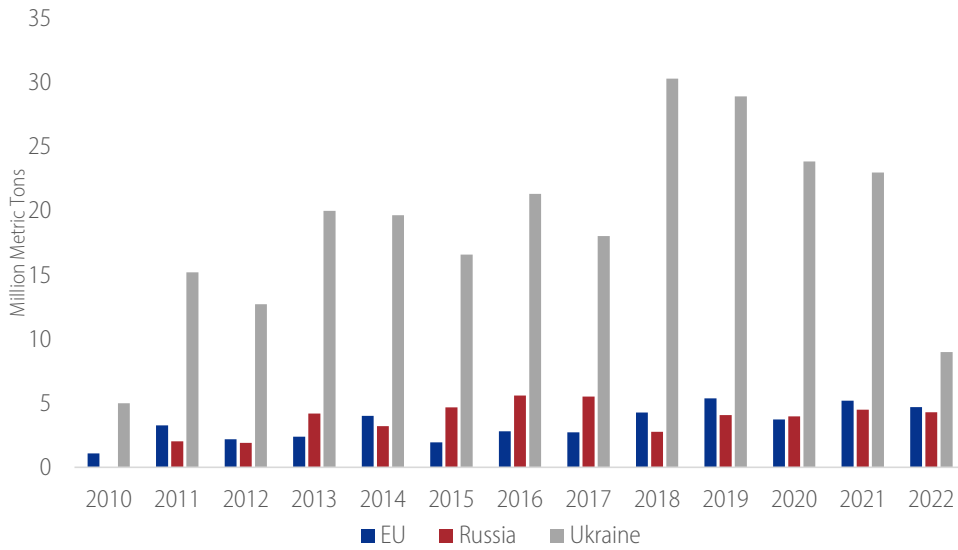
Inside of the current global inflation paradigm the May WASDE provides key supply and demand signals about the potential direction of regional food prices. Without Ukraine supplying the Middle East, North Africa, and Sub-Sahara Africa with corn and wheat we believe that mid and downstream prices are increasingly vulnerable to higher moves.

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The May WASDE estimates MY 22/23 wheat exports from Canada, EU, Ukraine, U.S. and Russia countries at 130.0 mmt +8% YoY. Because the U.S. and Canada export material volumes of wheat to Asia and inside NAFTA and since the export prices are uncompetitive with EU and Russian wheat, we discount their participation. The USDA estimates that MY 22/23 EU, Russian and Ukraine wheat exports at 85.0 mmt, +2% YoY. By contrast, the USDA's data shows regional Middle East, North Africa, and Sub-Sahara Africa wheat import demand forecast at 90.4 mmt +4% YoY. With the estimated regional wheat import supply gap at -5.4 mmt we see tight supplies pushing mid and downstream prices higher which should exacerbate local inflationary tendencies.

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Annual Corn Exports

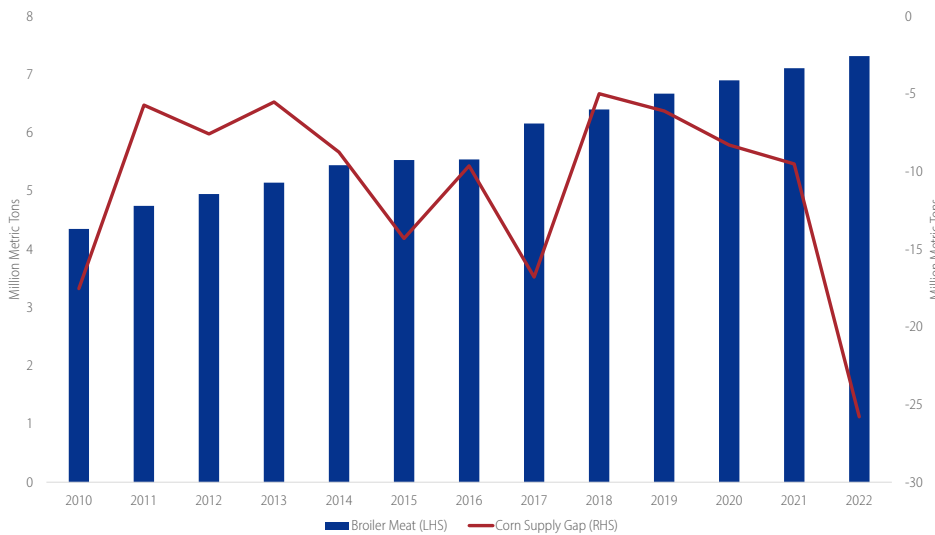


With the USDA estimating that regional Middle East and African broiler meat production will expand by 3% YoY we see the emerging corn supply deficit creating an acute and urgent challenge for managing domestic inflationary pressures.

Source: USDA, HilltopSecurities

The May WASDE estimates that MY 22/23 corn exports from the EU, Russia, Ukraine, and the U.S. at 78.9 mmt, -18% YoY. Because the U.S. corn exports are uncompetitive into the Middle East, North Africa, and Sub-Sahara Africa, we remove the U.S. EU+Russia+Ukraine corn exports are forecast at 18.0 mmt, -45% YoY (Figure 2). Corn import demand from Middle East, North African and sub-Sahara is 43.7 mmt, +4% YoY. The estimated corn supply gap, Middle East + African imports – EU+Russia+Ukraine corn exports, is -25.7 mmt, +171% YoY.

Middle East + Africa Corn Supply Gap & Annual Broiler Meat Production



With an entire growing season ahead in the northern hemisphere global supplies of corn and wheat can get tighter before loosening, which would support prices throughout the supply chain in the near term.

Source: USDA, HilltopSecurities

With the USDA estimating that regional Middle East and African broiler meat production will expand by 3% YoY we see the emerging corn supply deficit creating an acute and urgent challenge for managing domestic inflationary pressures. To

help address the 25.7 mmt supply gap, we see countries lowering phytosanitary requirements to procure corn from other origins like Argentina and Brazil, adjusting the ration to include more feed wheat, feed barley and distiller's dried grains with solubles (DDGS).

How long will the tightness last?

With an entire growing season ahead in the northern hemisphere global supplies of corn and wheat can get tighter before loosening, which would support prices throughout the supply chain in the near term. In the U.S., the USDA's data shows that supplies of high protein milling wheat will be tight for a second consecutive year which will be supportive prices. With the USDA estimating U.S. corn ending stocks at 34.5 mmt, -5% YoY, we believe that until a crop is harvested, price risks are to the upside. Because of the protracted drought in key hard red winter (HRW) wheat producing states, we see another year of tight domestic high protein milling wheat supplies which should translate to reduced export participation and high prices.

The USDA estimates MY 22/23 Argentine and Brazilian corn exports at a record 88.0 mmt which, can help mitigate some of the longer-run regional and global supply pressures. Because Australia and Argentina experienced record wheat exports in MY 21/22, the USDA's return to trend estimates for MY 22/23 can be a negative. Because the Middle East, North African and sub-Saharan regions primarily import corn and wheat from EU, Russia and Ukraine with incremental participation from Argentina, using the USDA's data, we see a scenario where regional and global corn and wheat supplies remain tight.

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