Global grains & oilseeds outlook

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... are we in the early stages of a major and longer-term bear market for commodities?

... what if range-bound, higher lows, lower highs are the new normal?
1) Is today’s “cheap” – tomorrow’s expensive?

2) Are the trends in agricultural production & consumer demands for food actually headed in the opposite direction?

3) Does poor economic performance or lack of growth among economies of developed & developing countries cause consumer & industrial demand for goods & services to contract?
Macro world assets – 1 year relative performance

Wheat
Wheat prices – new contract lows, downtrend intact

World wheat supplies – adequate, ample with plentiful exportable surplus ex Black Sea & Europe

World supply cushion – days of use available to world buyers = 122.5 days vs 110 days

Black Sea FSU & Europe ending stocks remain adequate-ample going into 2016/17
Wheat highlights & conclusions

- Weather headlines – key fundamental in the weeks ahead
- Argentina – milling & feed wheat exports
- World milling wheat quality – a “to watch factor”
- India – “made in India” – increased demand for milling quality
- World feed demand – more competition
- From El Nino to La Nina –
- U.S. origin – highest cost of replacement for margin calculations
- Beginning stocks for 2016/17 – 20MMT higher than 2015/16 and that follows an increase 17MMT from 2014/15
Corn globalizes and follows world wheat trends – energy demand plateaus

World corn supply cushion

Range-bound trade after contract lows in early January – late February 2016

World supply cushion is flat at 78 days

World FSI demand peaks – shift to margins / profitability

World feed demand will be the focus for growth

World FSI consumption slowing / idle

World feed demand – will bear greater burden to create growth
Based on its own daily consumption rate of 592KMT/day – its supply cushion = 188 days

Remove China from world ending stocks – and the supply cushion drops from 78 days to 47 days

Corn highlights & conclusions

- Brasil *safrinha* corn production
- Ukraine yield potential – limited producer financing, costly inputs
- U.S. yield – reduced profitability – less technology?
- China corn production & strategic crop policy
- Argentina export licenses – production shift away from soy and back to wheat and corn
- Beginning stocks for 2016/17 – “only” 2.7MMT build versus a build of 31.4MMT and 42MMT the previous two marketing years
  - China holds 111.5MMT or 53.4% of these stocks
  - United States holds 46.7MMT or 22% of these stocks
  - Brasil holds 8.2MMT or 4% of these stocks
Soybean complex

Global oilseed supply cushions

Soy supply cushion looks to hit 93 days – similar to last year. This as world ending stocks are estimated at a record 80.4MMT.
Global veg oil supply cushions

Palm – the world’s largest produced veg oil, largest export trade and cheapest veg oil is the potential bullish driver for edible veg oil markets. Its supply cushion = 38.7 days (55.2 day peak in 2011)

Canola – supply cushion is on the decline with smaller crops expected in both Canada and Europe.

Soy oil – ongoing decline since 2010 to 26 days (38 days in 2010)

The world does not have a soybean supply issue.

It has a crush capacity and a potential soymeal supply issue.

Cheap energy! Most developing economies spend a very large percentage of household income on food & energy. It is likely to take 12 months of low energy, food prices before the economic impact is felt on consumer spending…. Time will tell

- 2015/16 = 215.6MMT
- 2016/17 = 222MMT
- 2017/18 = 226.7MMT
- 2018/19 = 235.6MMT
- 2019/20 = 242.7MMT
- 2020/21 = 250MMT

If global soymeal consumption increases at 3% per annum on average – suggests the world will need another 34.4MMT by 2020
World’s largest and key soymeal exporters

SUMMARY: Argentina remains the world’s largest soymeal exporter. Its crush capacity is estimated at ~60MMT. It is to account for 48% of world soymeal trade!

THUS: it is likely that little additional investment will occur in either the U.S. or Brasil crush capacity given overbuilt capacity in both Argentina and China

ERGO: will world soymeal importers have to rely on Argentina and China for soymeal production/export growth?

Game changer: India protein diets – its biotech policy

- **Eggs** – cheapest source of protein for Indian diets
- **Protein** – presently, India is not a player on the world market (imports or exports)
- **Animal welfare** – becoming a bigger issue as is pollution. Major challenge over the next 10 years
- **Consumes 54 million broilers/week** – average consumption = 2.5 kg/person (US = 30 kg/person). Neighbors such as Bangladesh are at 8-9 kg/person. Will need 110 million broilers/week by 2020
- **Poultry (broiler & layers)** – consumes 18MMT of meal – by 2024/25 - meal demand = 50MMT
- **Aquaculture** – India is #2 shrimp producer in the world behind China. Profitability is very high for shrimp with focus on exports. Massive upside potential

India’s veg oil imports have increased from 5.58MMT to 14MMT since 2000.
- **Palm** = 9.63MMT (4MMT)
- **Soy** = 3.65MMT (1.4MMT)

India accounts for 21% of world veg oil imports and is the world’s largest

India’s soymeal use – exports vs domestic

0 1,000 2,000 3,000 4,000 5,000 6,000

Exports Domestic

Soy complex highlights & conclusions:

- Soymeal / protein demand is the key: as goes soymeal – goes flat price, goes crush margins, goes profitability of the feed sector, goes consumer protein consumption

- What happens to Argentina’s soy production in the years ahead with the export licenses and export tax change for wheat and corn?

- Record world soybean ending stocks, a supply cushion 93 days (similar to last year) and very large, nearly record South American soy bean production insures adequate / ample stocks.

- The world veg oil market fueled by palm oil – South America & Argentina’s crush drive soy oil. India import margins drive demand

- However - until the world “solves” the soymeal trade grid – soybean downside price risk will not be as aggressive as what world record ending soy stocks would suggest

- India – the “to watch” factor for soybeans and soymeal – its biotech policy the “major” policy item to watch for 2016 forward

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The firm’s services touch upon every part of the increasingly-complex agricultural markets, presenting a platform through which clients are able to gain a keen understanding of the integrated global agriculture industry; and to act upon this knowledge.

- We provide:
  - Coordinated risk management (hedge structures and brokerage / clearing services)
  - Active advising services
  - Dynamic trading strategies (proprietary speculative structures)
  - “Right people” introductions
  - Commodity execution services

Since its inception in 2009, ConsiliAgra clients now range from international & domestic commercials to hedge funds and investment banks as well as a private money portfolio managers.

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