Dynamics in World Grain and Oilseed Markets for the Coming Year

Presented to the
Australian Grains Industry Conference

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World Economic Growth Remains Favorable

Key risk: Further escalation of trade war

<table>
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<tr>
<th>GDP Growth Rates</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<td>3.0</td>
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<td>Brazil</td>
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<td>1.1</td>
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<tr>
<td>India</td>
<td>7.1</td>
<td>6.7</td>
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Source: IMF
US Dollar Poised To Strengthen Significantly

Rising US interest rates are key driver behind strong US$ outlook
Currency Values Declining Over Past Five Months

• Currency Change (vs. US$) Since February 2018:
  - Trade-Weighted -6%
  - Euro -7%
  - Swiss Franc -7%
  - Loonie -7%
  - Yen -3%
  - Aussie$ -7%
  - Yuan -6%
  - Brazil -22%

*Rising US interest rates are key driver behind strong US$ outlook*
Global Demand Growth Led By Oilseeds
- *Corn demand includes boost from US ethanol policy*

2010-18 Annual Growth In Global Demand

2018/19: Reduced China soybean imports will slow oilseed demand
Steady Growth In Global Demand for Crude Oil (1.5% annually) – *all from developing economies*

20-Year Contributors to Growth in World Crude Oil Demand:

- China 38%
- Other Asia 26%
- US 4%
- Europe -4%
- Japan -6%
N. American Crude Oil Production – Taking Market Share Away from OPEC

US cost of production is below $50/BB – this limits price upside risk
NYMEX Crude Oil Futures Remain Well Supported, but Upside Risk is Limited
Key Influences on Markets Thus Far in 2018

- US winter wheat drought
- Argentine drought
- Smaller EU and former USSR wheat crops
- Expanding drought in Australia
- Tighter US and world supply/demand prospects
- Spec funds – buyers in Jan-March, sellers in June-July
- Great start to US corn, soybeans, spring wheat
- US prompting of a trade war
Futures Speculators Driving Path Futures Take
- from net short in Jan, net long in May, net short again in July
US Corn/Soybean/Spring Wheat Crop Conditions
- Off to Great Start

- USDA % of Crop Rated Good / V. Good:
  - Corn 72%
  - Soybeans 70%
  - ND Spring Wheat 88%
World Coarse Grain Inventories Shrinking from Excess Levels

Declining Coarse Grain Stocks Supportive to Price Outlook
US Corn Stocks Declining in 2018/19  
- Despite of above US corn trend yields

Current weakness in corn futures may be short-lived...
Corn Futures Expected to Find Lows by Sept 1
- **Could this lowest levels for several years?**

![Nearby Corn Futures Prices](image)

**Annual Average Corn Futures:**
(Cents per bushel)

- 2012: $6.92
- 2013: $5.68
- 2014: $4.16
- 2015: $3.78
- 2016: $3.60
- 2017: $3.62

- **2018F:** $3.75
- **2019F:** $3.80-4.20
World Wheat Inventories Shrinking from Excess Levels

Declining Wheat Stocks Supportive to Price Outlook
Former USSR Wheat Displacing US Wheat In World Export Markets

This trend is likely to continue in coming years
- Production among major wheat exporters set to decline for the 2nd consecutive year

- Former USSR wheat crop forecast to decline to 115-118 MMT (last USDA: 121 MMT)

- EU wheat crop forecast to decline to 139-142 MMT (last USDA: 145 MMT)

- Australia wheat crop of 22 MMT over-stated?

- Offset in part by gains in Canada and US

- Eventually, the decline in supplies should translate into strong world wheat price
  - Only recently prices have begun to rise...

August 1, 2018

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Global Exportable Supplies of Wheat Sharply Lower

World Wheat Exportable Surplus
(18/19 Forecast)

Smallest global surplus in 6 years
MATIF December Futures +22/MT Since Late June
- Reflects Declines in EU/FSU Wheat Crops

July 27: $199.75
June 28: $177.50
Lack of US Wheat Export Sales Continues, Despite Smaller Global Supplies

Export sales off 31%, smallest total in 9 years
North American Supplies of Hard Red Spring Wheat Rising to 30-Year Highs

- US Hard Red Spring Wheat crop forecast to be 50% larger than YA
- Mpls wheat futures no longer trading at a wide premium to KC wheat futures

US Ending Stocks of Hard Red Spring Wheat (18/19 Forecast)
KC Wheat Futures Already Beginning Uptrend
- Weather events could press prices over $6 during 2019

Annual Average KC Wheat Futures:
(Cents per bushel)

2012: $7.82
2013: $7.31
2014: $6.66
2015: $5.18
2016: $4.36
2017: $4.39

2018F: $5.25
2019F: $5.50-6.00
China Dominates World Oilseed Trade
- 2018/19 declining soybean imports a drag on prices

Outlook for US/China trade dispute is the key unknown
US Soybean Stocks Continue on the Rise
- *US may carry most of world SB inventory in coming year*

US Soybean Ending Stocks (MM Bushels, 2018/19F)
Soybean Futures – Upside Limited by Lost China Demand – *Major exporters will be incented to reduce area in next year*

**Annual Average Soybean Futures:**
(Cents per bushel)

- **2012:** $14.60
- **2013:** $13.88
- **2014:** $12.28
- **2015:** $9.43
- **2016:** $9.86
- **2017:** $9.79
- **2018F:** $9.36
- **2019F:** $8.80-9.80
Will Chinese Inventories Dampen Price Outlook?

World Inventories of Corn

- China: 29%
- Other: 71%

World Inventories of Wheat

- China: 32%
- Other: 68%

World Inventories of Rice

- China: 40%
- Other: 60%

World Inventories of Cotton

- China: 31%
- Other: 69%

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A typical US farmer with 1000 acres of corn/soybeans has seen his revenue opportunity decline by $88,000 since early June.
USDA Has Promised to Compensate US Farmers for Trade-related Losses

• USDA CCC has a $30 B “revolving credit line”
  • With wide discretion how to use CCC funds

• 3 Options
  • Direct payments made to farmers
  • Support for export programs (credit guarantees, financing, donation)
  • Direct purchases of grain from producers

• Best bet: some combination of the 3 options

• **NOTE:** All 435 US Congressmen and 33 (of 100) Senators are up for re-election in November 2018
A Few Thoughts Regarding Where The Current Global Trade Disputes May be Headed

Shorter-Term:
• Limited incentive to “back down” now
  • US GDP and stock market unaffected
  • No reason (thus far) for US “trade partners” to capitulate
• Escalation in tariffs very possible
  • Persistent US threats to add more tariffs
• Trade flows will change in coming year
  • Potentially shifting dramatically
  • EG: World soybean trade

Longer-Term:
• New trade alliances formed
  • Establishment of TPP ex-US
• US reliability as a reliable trade partner diminished
  • US market shares of ag exports suffer
• NAFTA remains largely in tact
  • No deadline exists to change it
• Risk of additional tariffs if US & global economies go into recession

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