



The Markets in Review

CHS Global Research

May 2022

Forward-Looking Statements

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What You'll Find Inside

Key Macros:
War Incites Volatility

Global Grain:
Geopolitics & Weather

Fertilizer Update:
Early Summer Reprieve

Energy View:
More Uncertainty Ahead



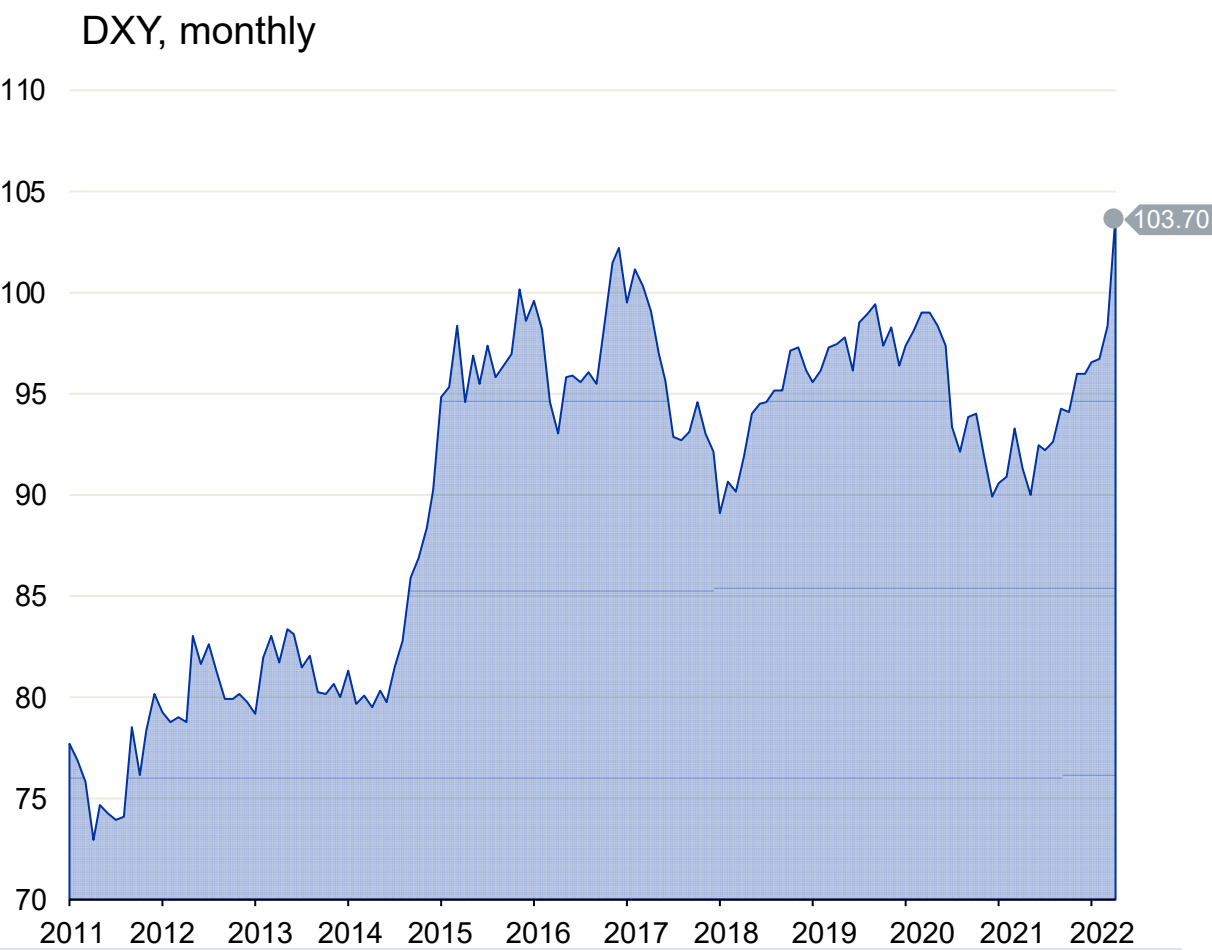
Key Macros:

War Incites Volatility



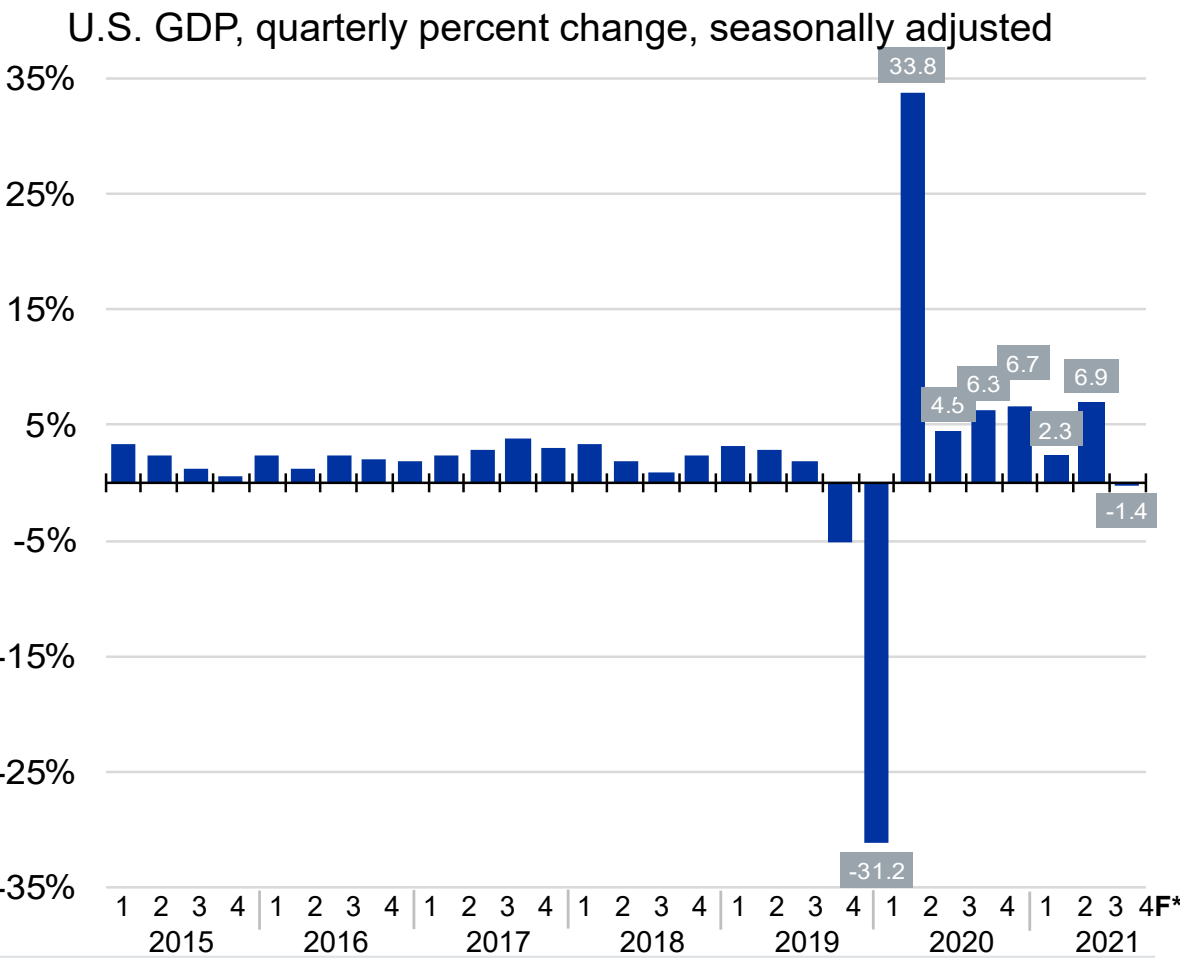
U.S. Dollar surges 5%; economy contraction catches many off guard

Russia’s invasion of Ukraine and Fed’s inflation controls are supportive to the USD, which gained against many currencies



Source: Bloomberg
End Date: 5/9/2022

U.S. GDP contracted 1.4% as exports declined due to global supply chain issues while businesses slowed the pace of inventory builds



Source: Bureau of Economic Analysis, BEA Forecast*
Q1 Release: 4-28-2022

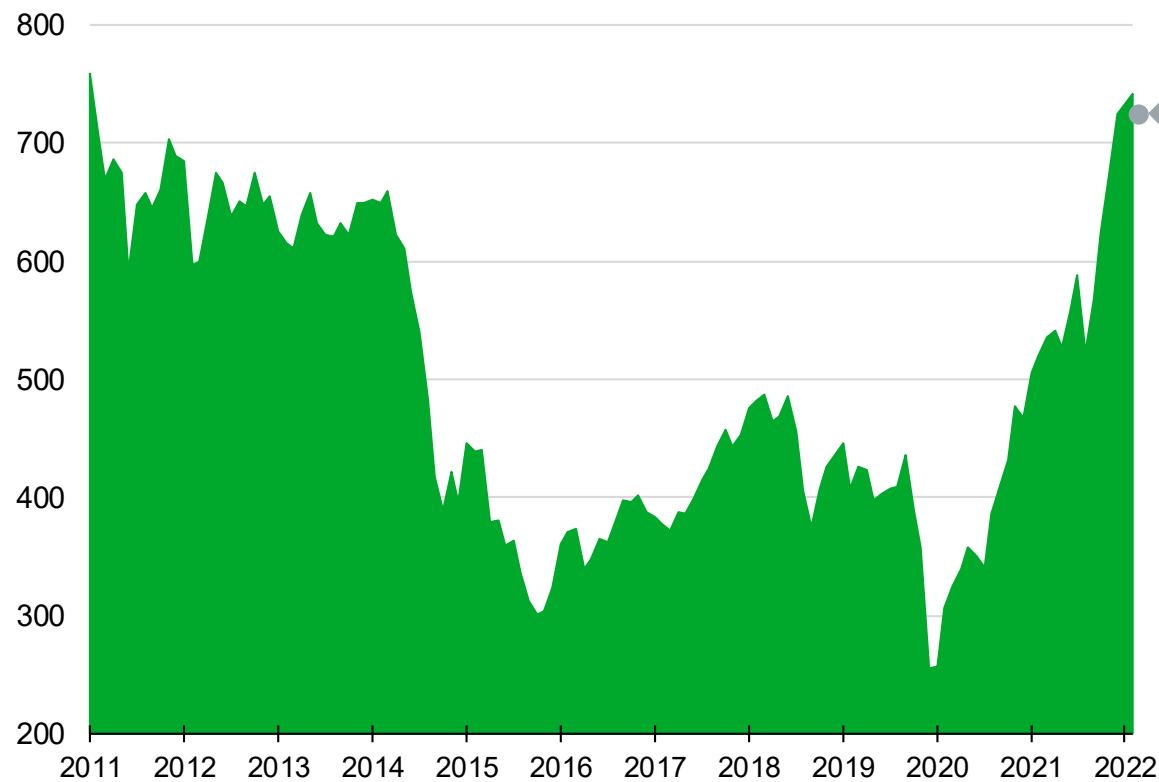


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War driving commodities higher; investors looking for an inflation hedge

Major components like wheat, oil, natural gas and gasoline are 50-90% higher vs last year

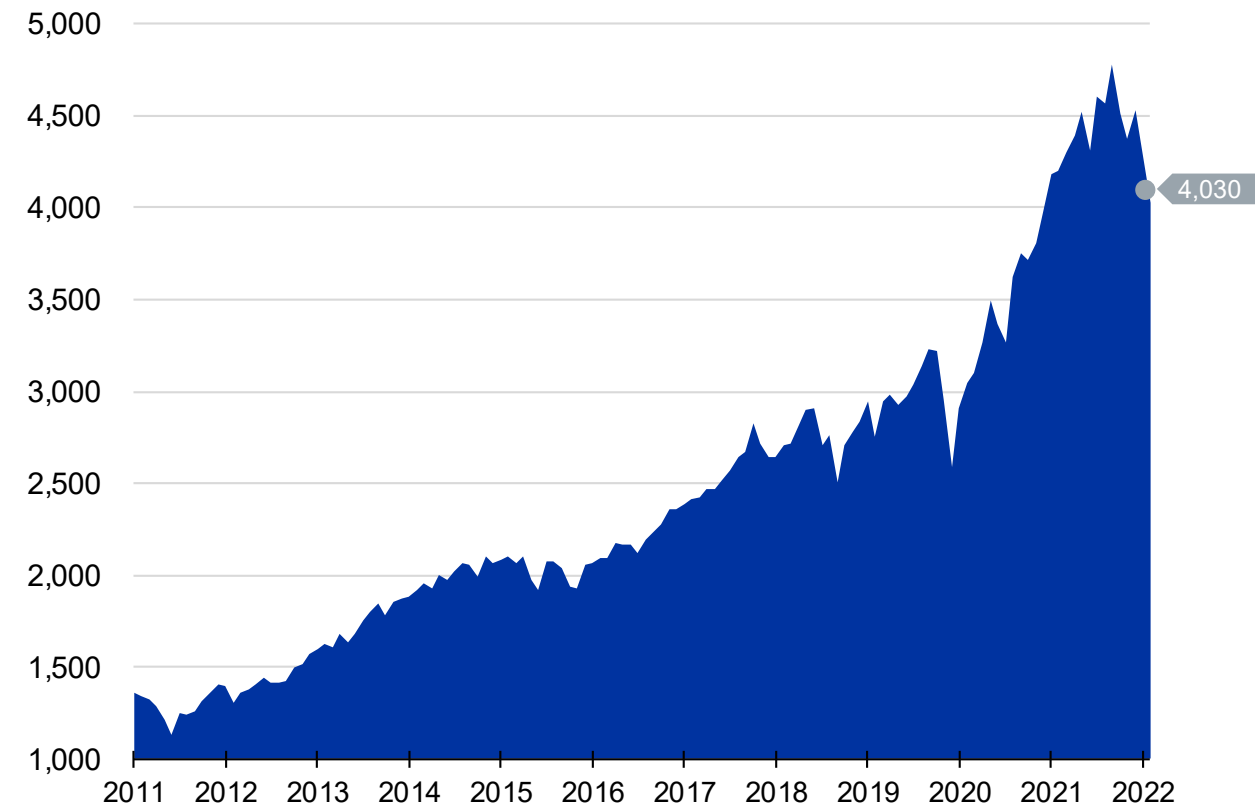
S&P GSCI, monthly



Source: S&P GSCI, Bloomberg
End Date: 5/9/2022

Fresh off record readings, equities feeling the inflation jitters from rising commodity prices

S&P 500, monthly



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Federal Reserve is in the driver's seat with monetary policy

New 40-year inflation records set in December, January, February, and March. It must level off soon, right?

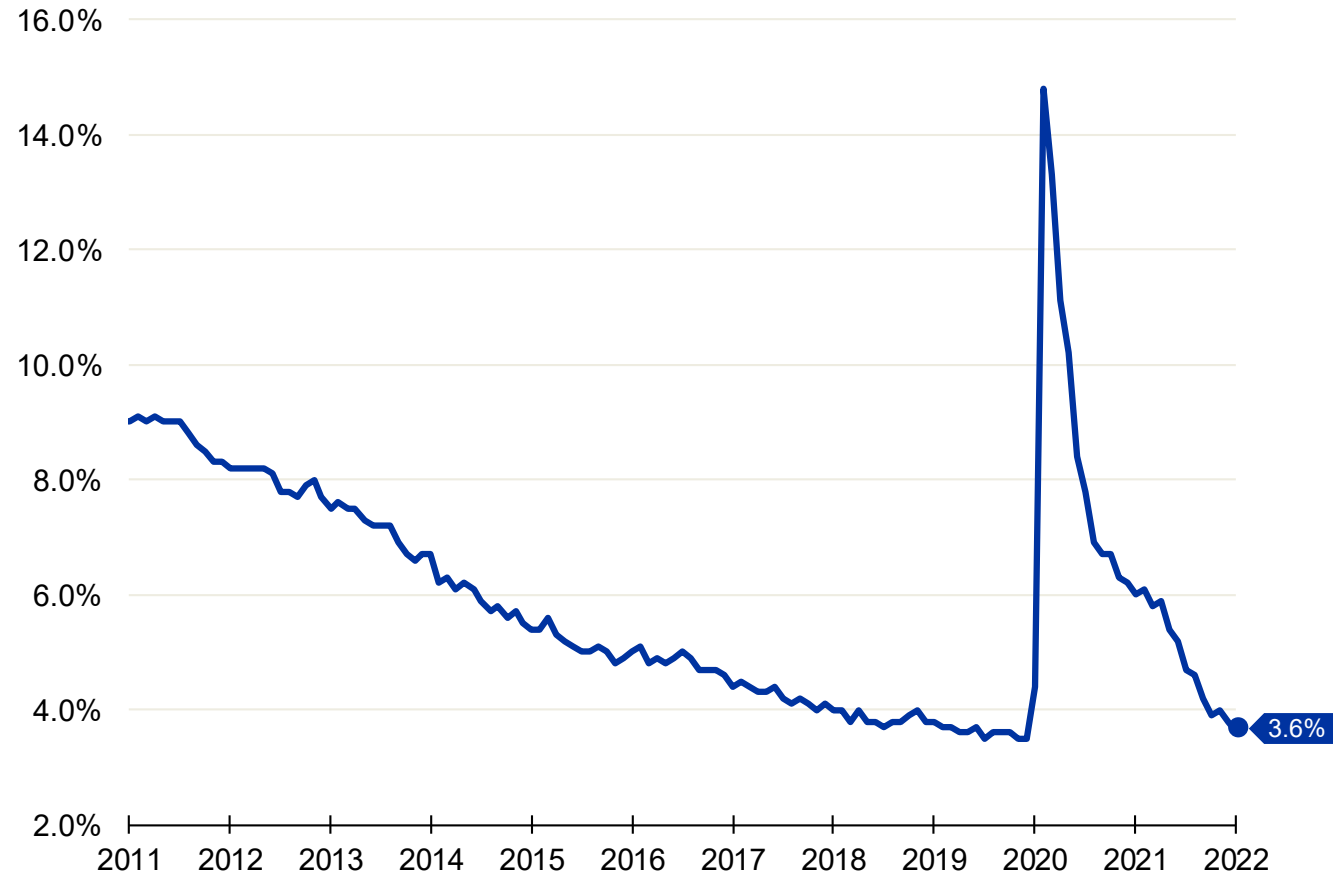
Consumer Price Index, 12-month growth



Source: Bureau of Economic Analysis, Federal Reserve Bank of Cleveland, next release 4/28/2022

We're back? Unemployment rate held steady in April at 3.6% – 5.9M unemployed people is a touch higher than pre-pandemic levels

U.S. Unemployment Rate, monthly



Source: Bureau of Labor Statistics

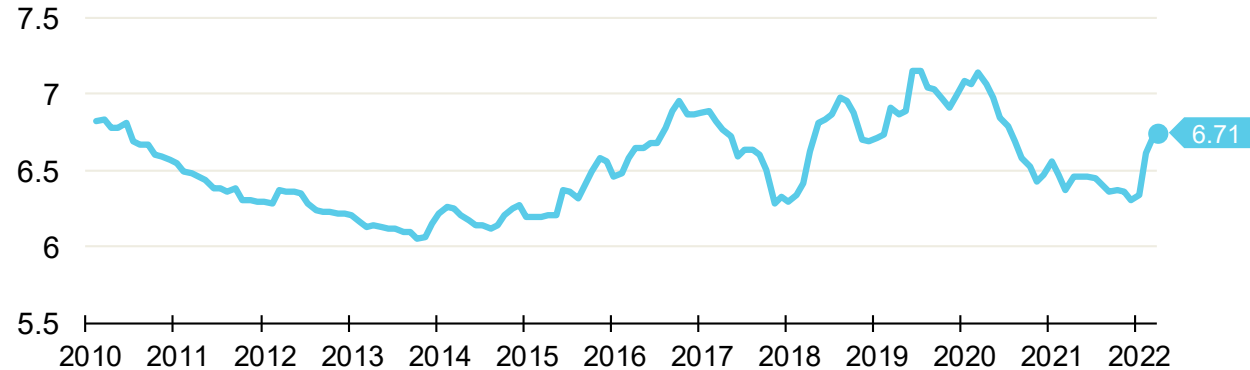


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U.S. rate hike consensus has dollar gaining on other currencies

Strict lockdowns hamper growth prospects, sending the yuan to its lowest level in months

USD vs. CNF, monthly



Real strengthened in 2022 as a result of high commodity prices and monetary policy tightening – though the central bank is expected to take the foot off the gas

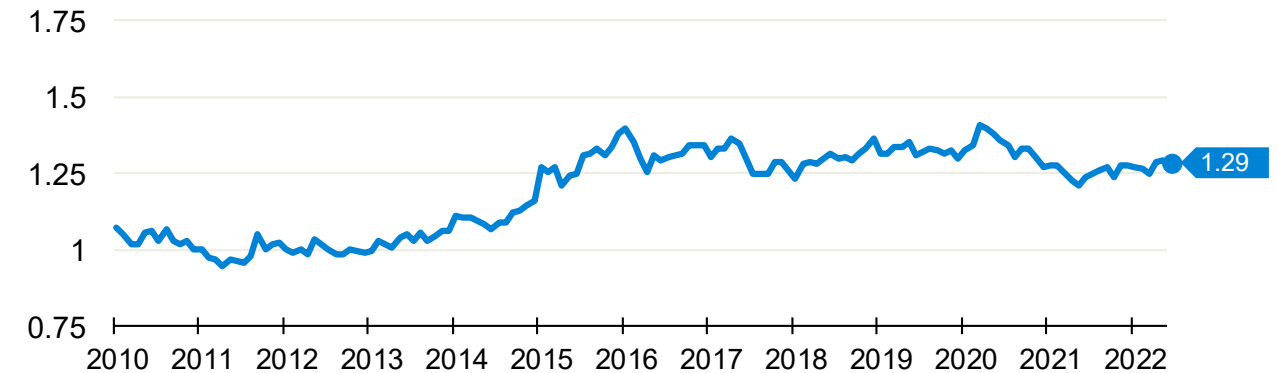
USD vs. BRL, monthly



Source: Bloomberg

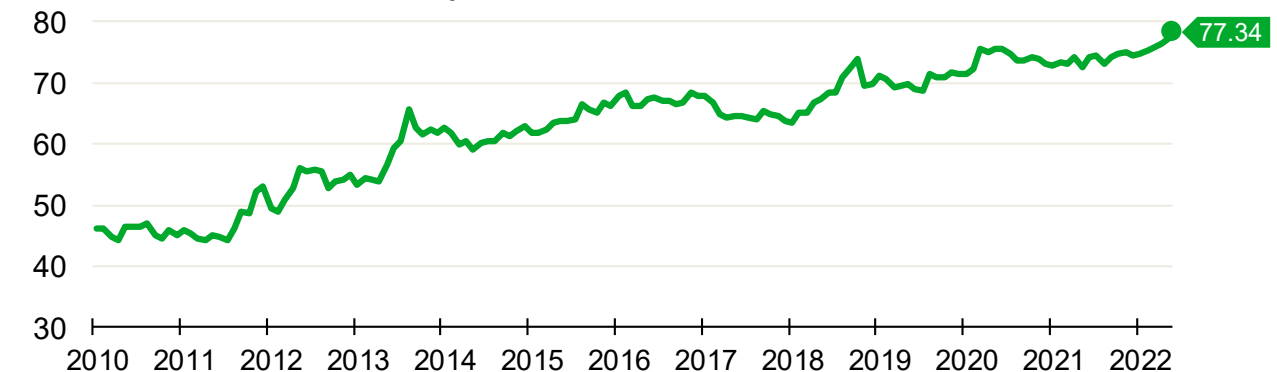
Mid-April rate hike from Bank of Canada keeping currency in check; more increases in the pipeline?

USD vs. CAD, monthly



Indian rupee at record lows, burdened by high commodity prices and the country's reliance on commodity imports

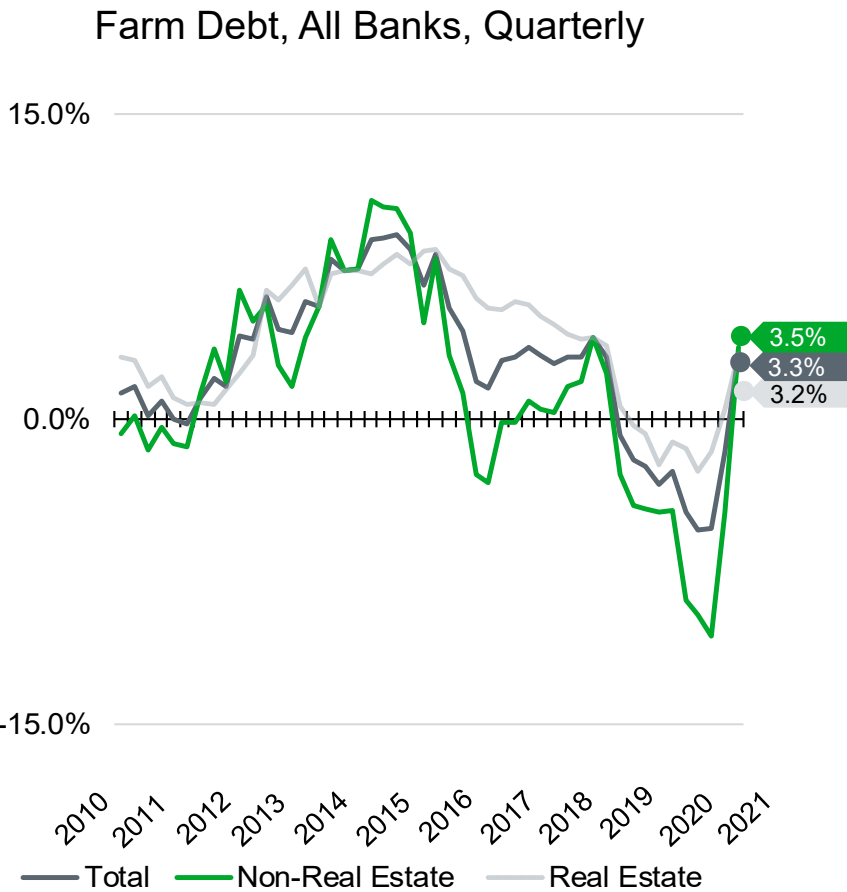
USD vs. INR, monthly



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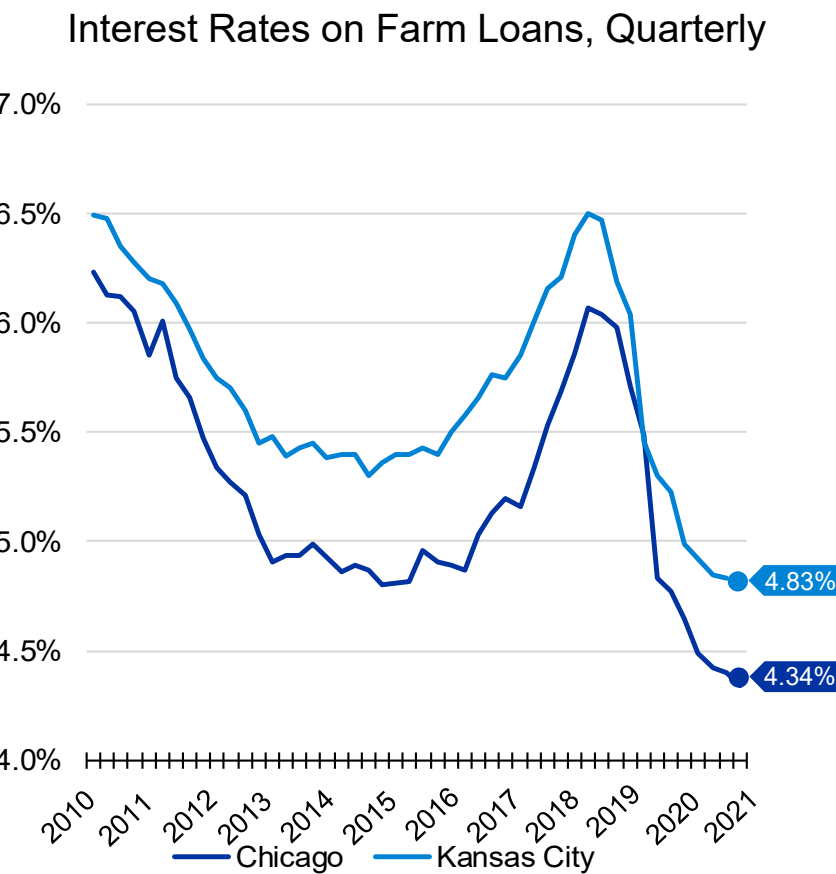
Borrowing activity bumps up as strong farmer finances collide with rising economic uncertainty and higher input costs

Higher input costs driving a year-on-year increase in loan demand

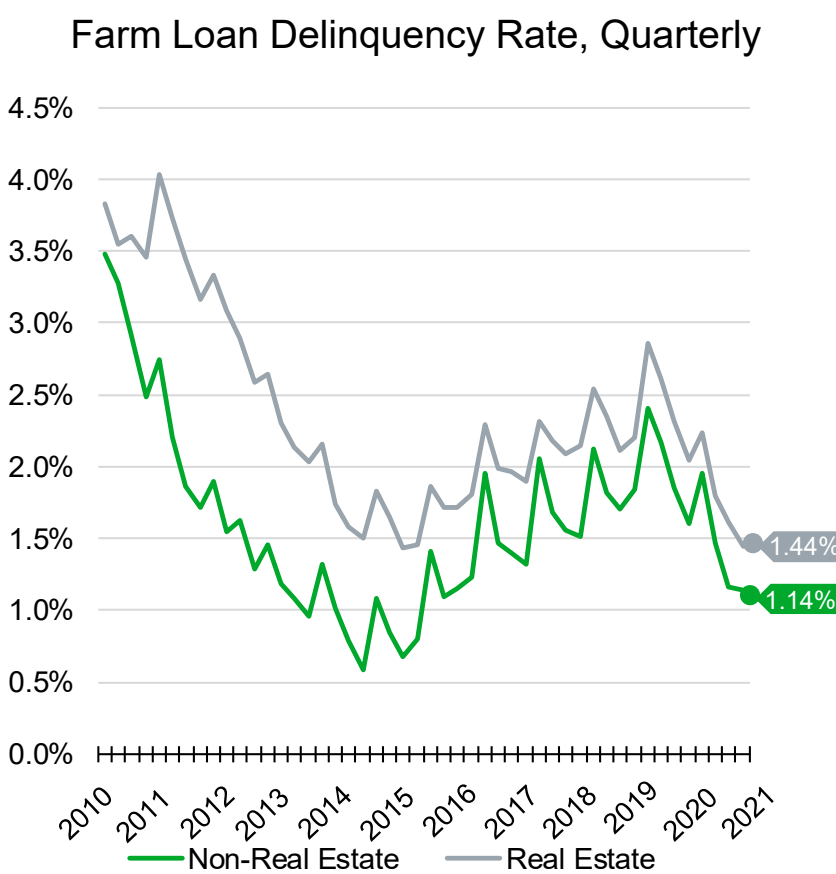


Sources: Kansas City and Chicago Federal Reserve – April/May

Ag loan interest rates hit lows in 4Q21 but will reverse course shortly



Farm loan delinquencies continue the trend toward record lows



Global Grain:

Geopolitics & Weather

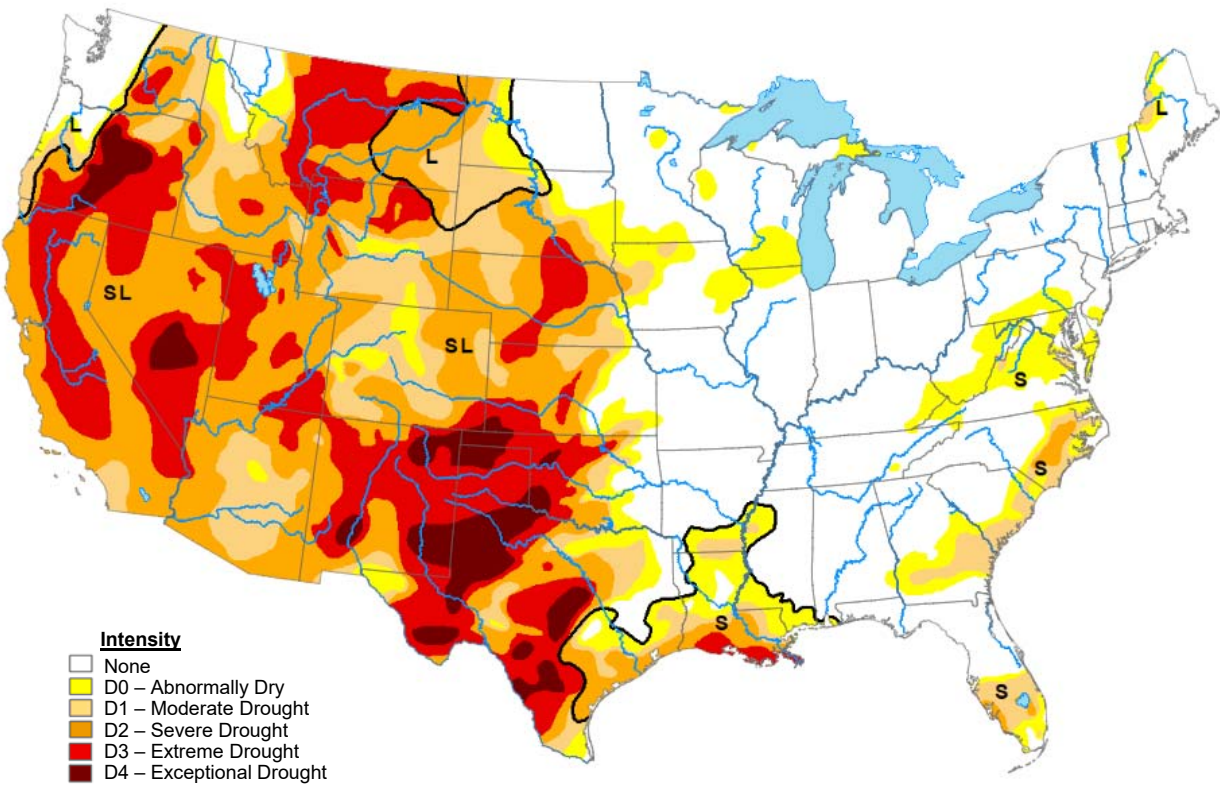


Is weather always a wildcard? Spoiler alert – yes

Drought conditions still cover the western US. The worst areas have shifted, but little relief occurred over the winter

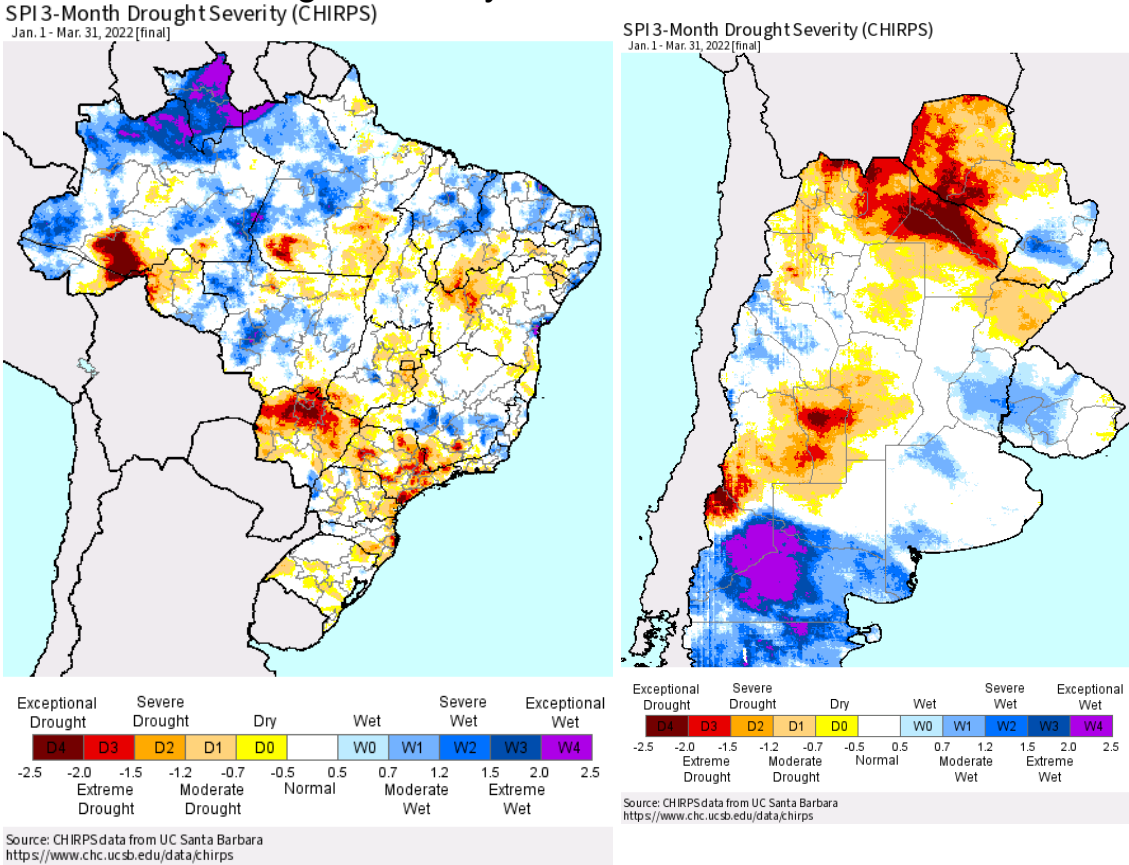
Persistent La Niña drought conditions have cut production in South America. Soybean production in Paraguay is down over 60%

U.S. Drought Monitor, April 2022



Source: National Drought Mitigation Center

South America Drought Severity, Jan - March 2022



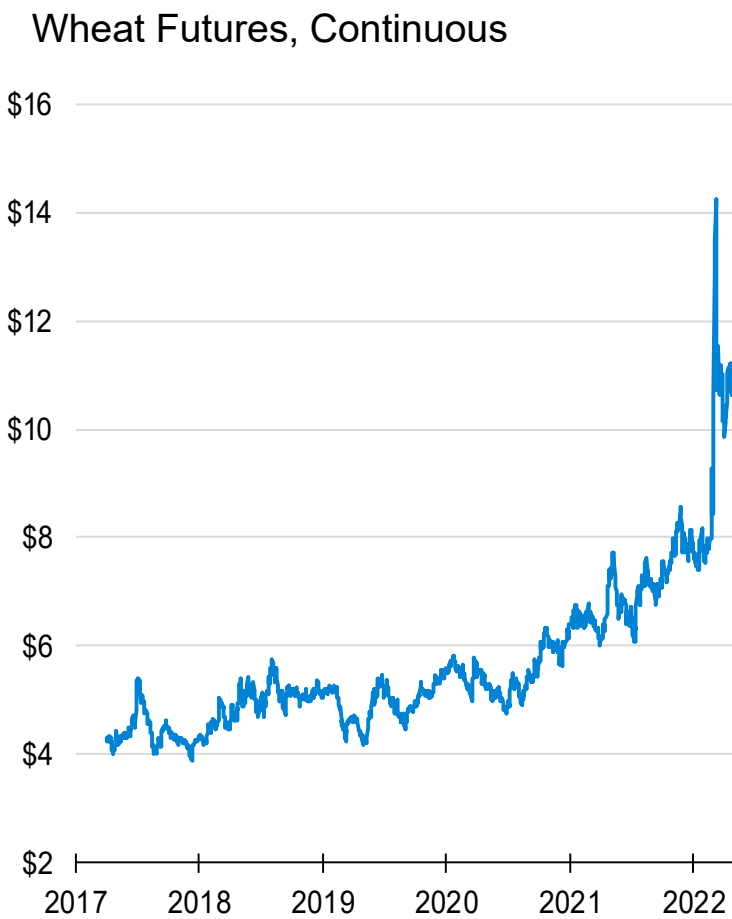
Source: National Oceanic and Atmospheric Administration



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Futures prices have been on a wild ride

The war in Ukraine has sent commodity prices rocketing higher. Massive risk premiums have been added to account for current heightened global uncertainty



Source: USDA



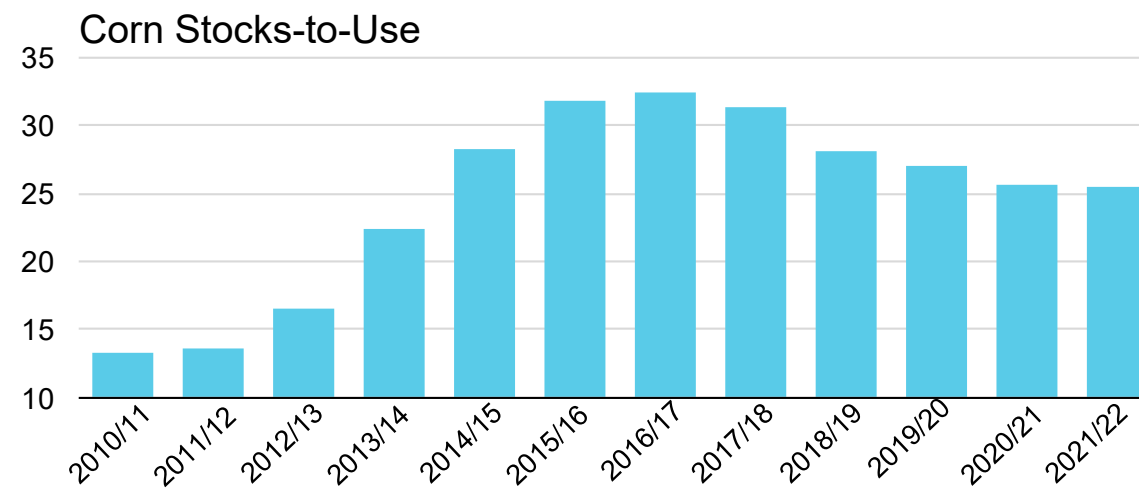
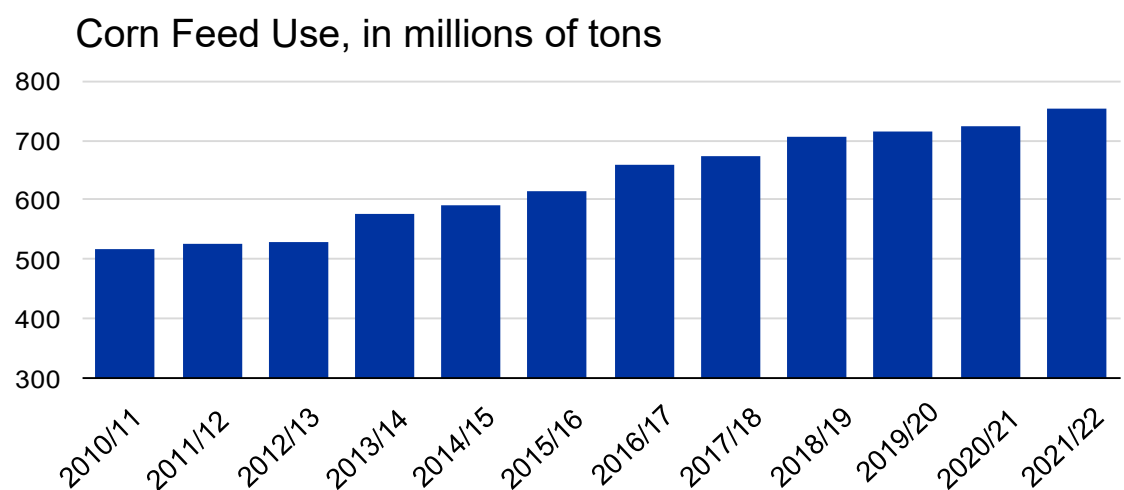
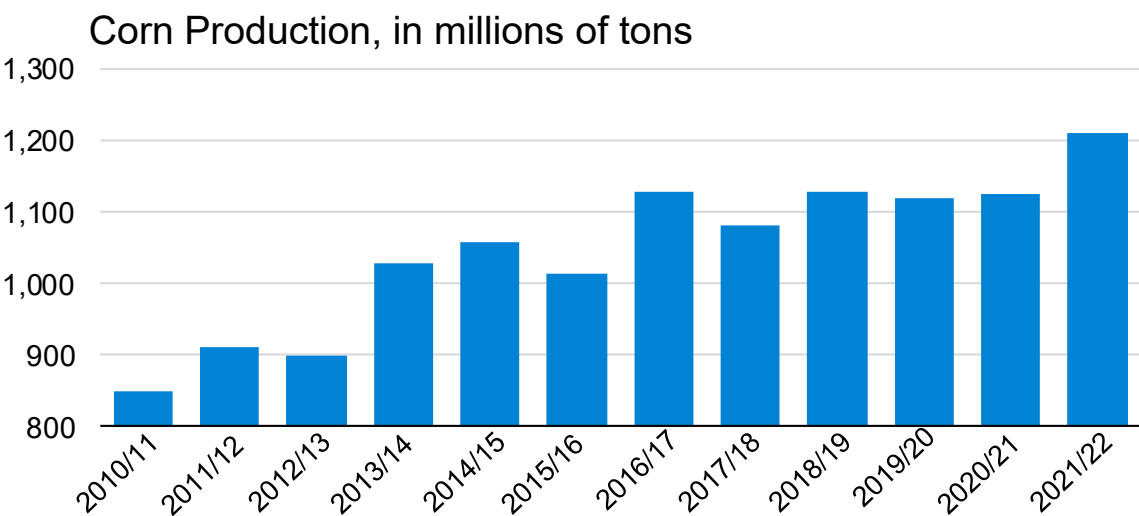
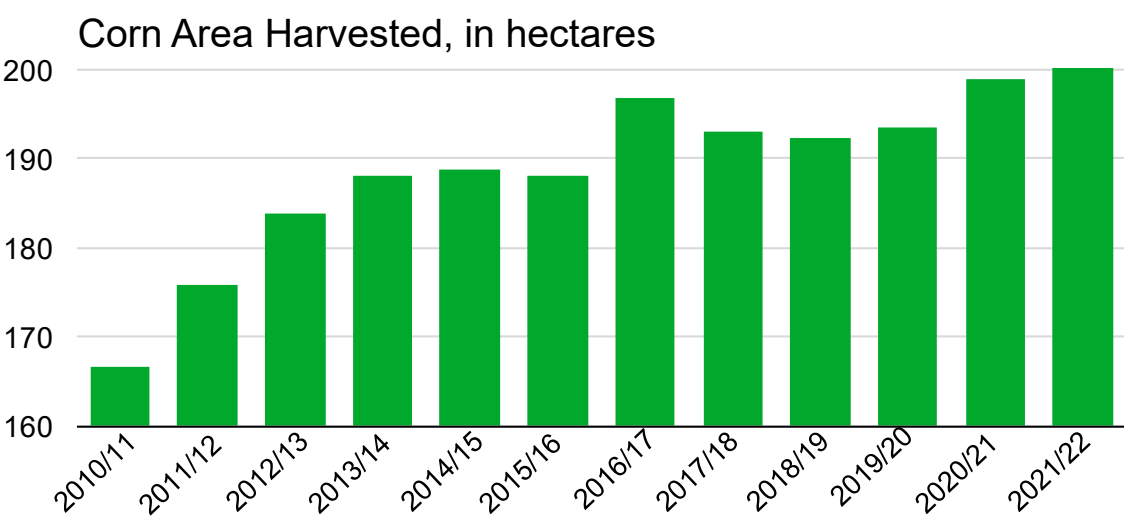
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Corn



World corn acreage and production continues its ascent

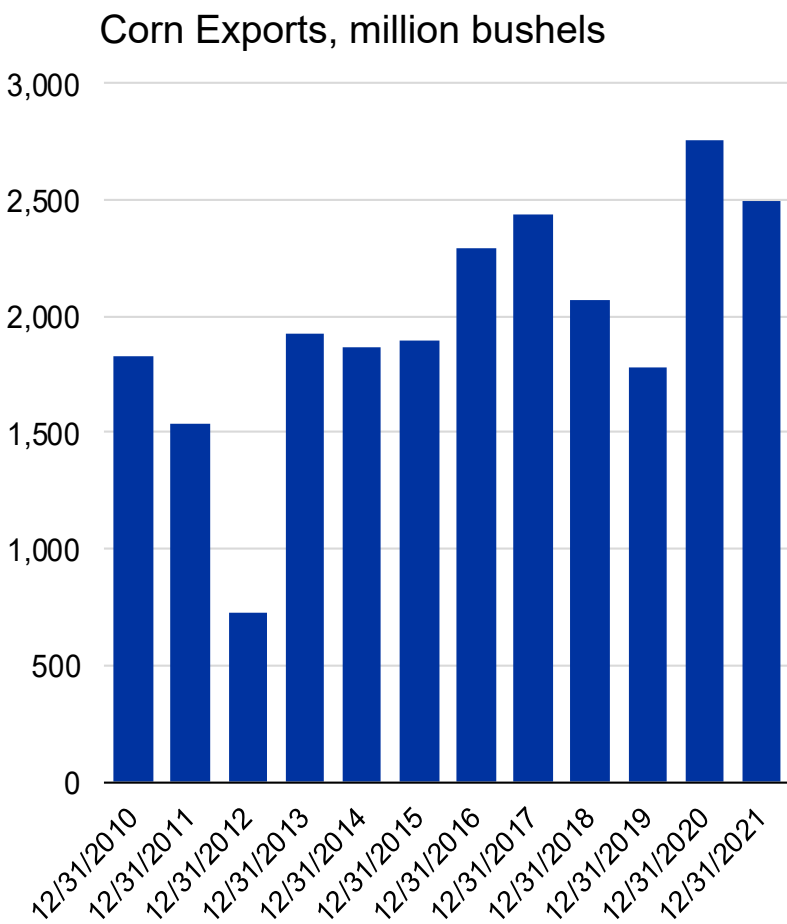
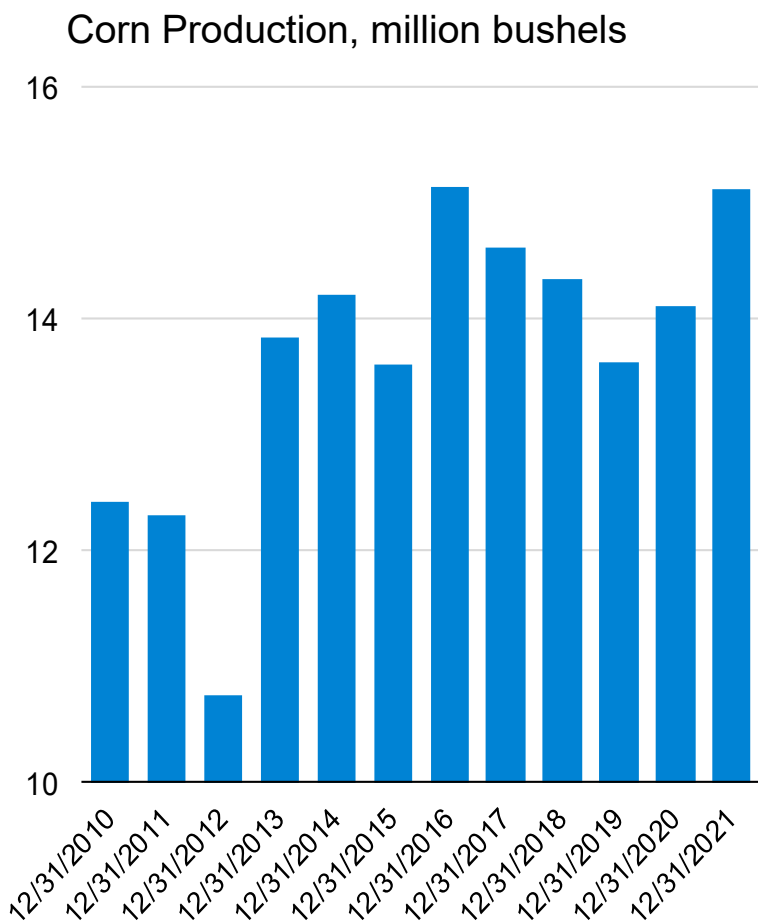
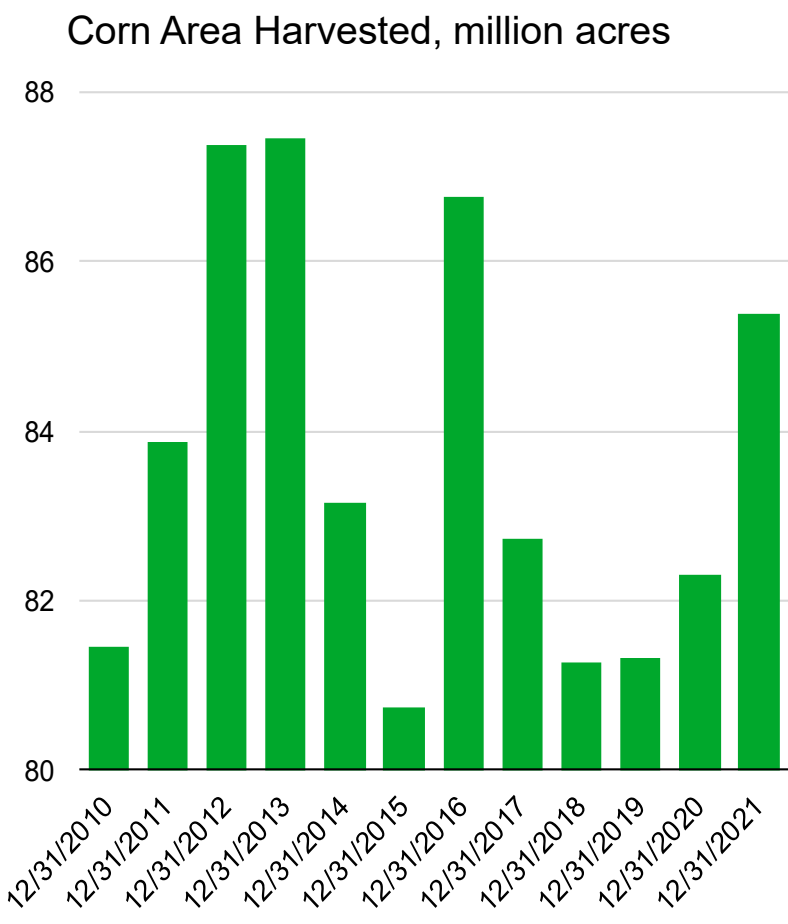
Domestic feed usage is at record levels. Corn exports and future production are uncertain with the situation in Ukraine



Source: USDA

U.S. produces second largest corn crop in the last decade

Will the U.S. need to produce more corn if Ukraine is unable to contribute to world demand? Someone has to



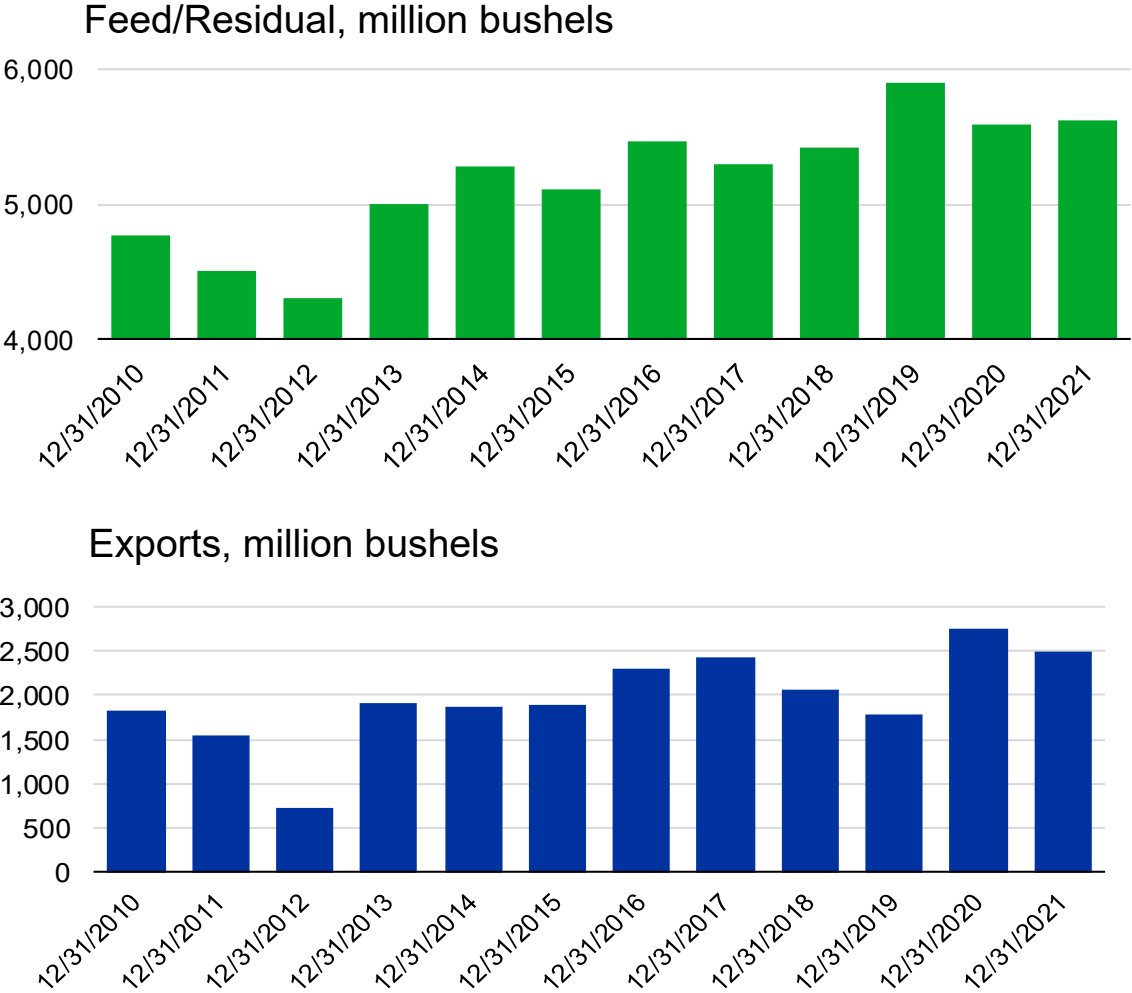
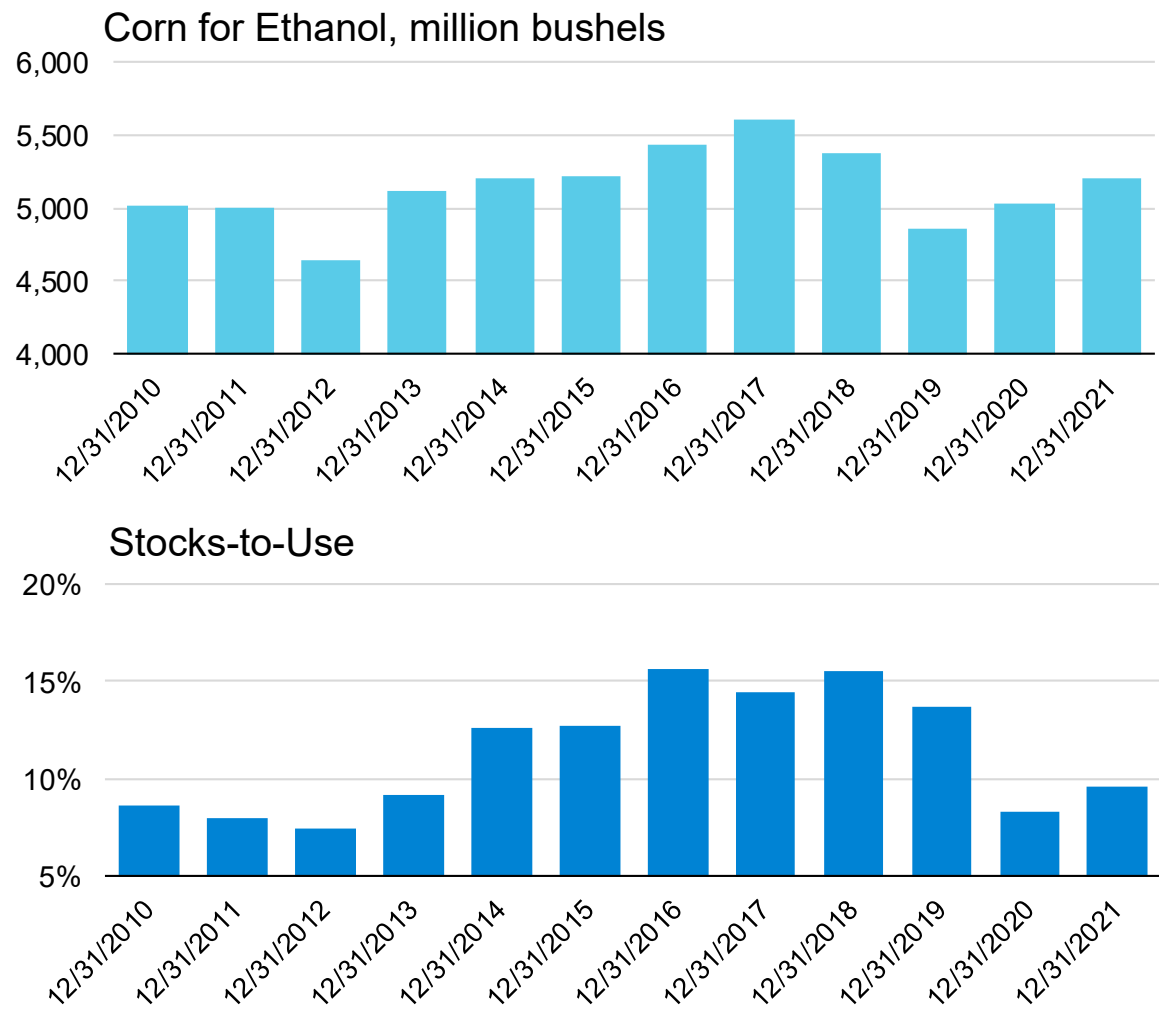
Source: USDA



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Demand for U.S. corn is strong

Triple play: ethanol bounces back, feed stays strong, and exports are looking good



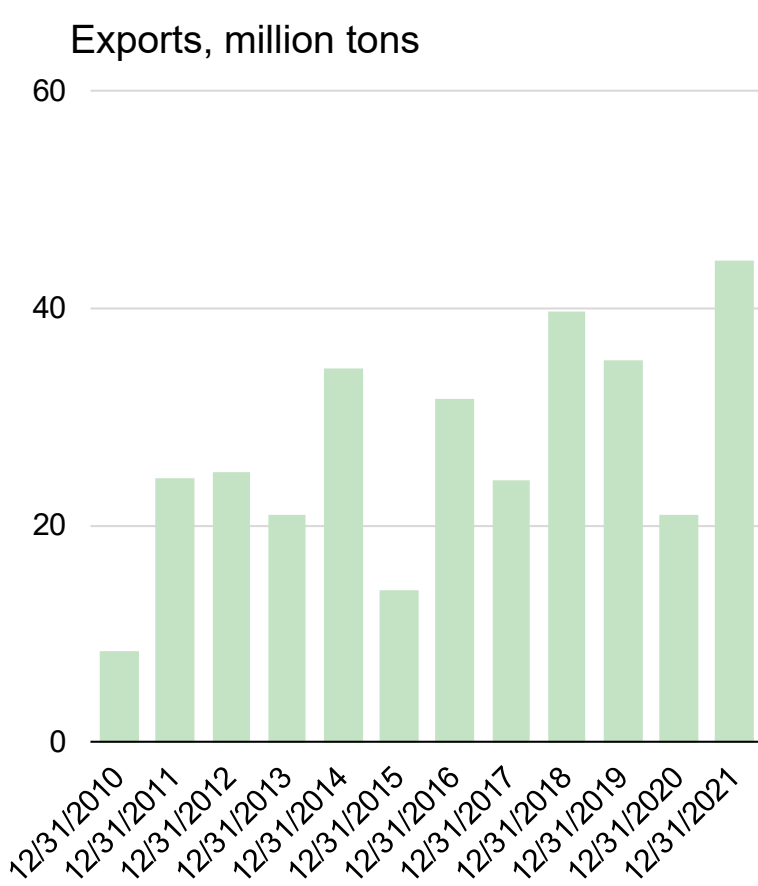
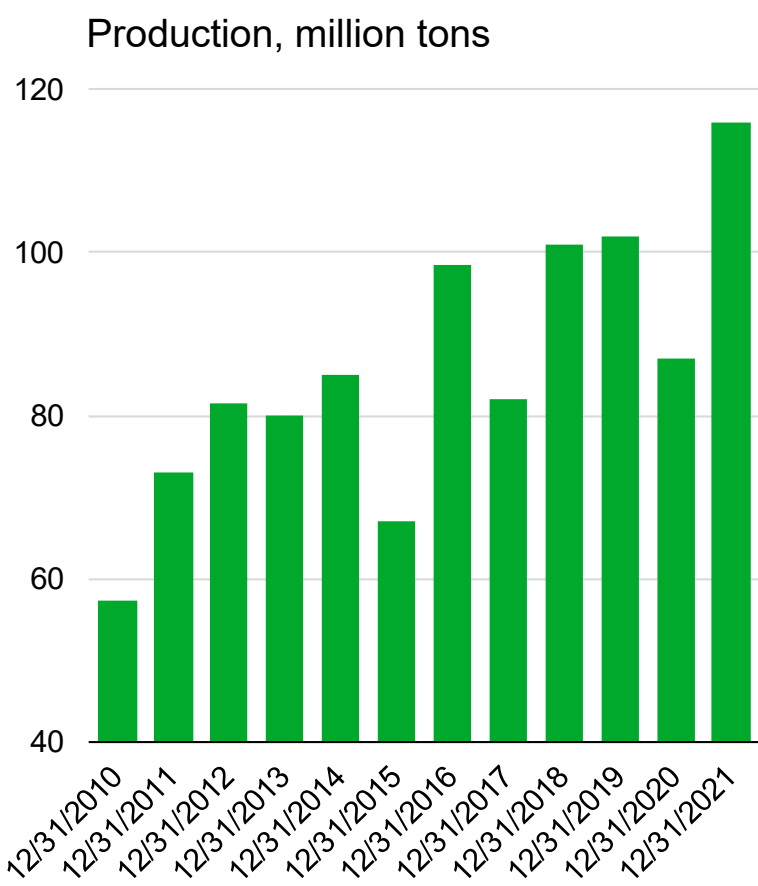
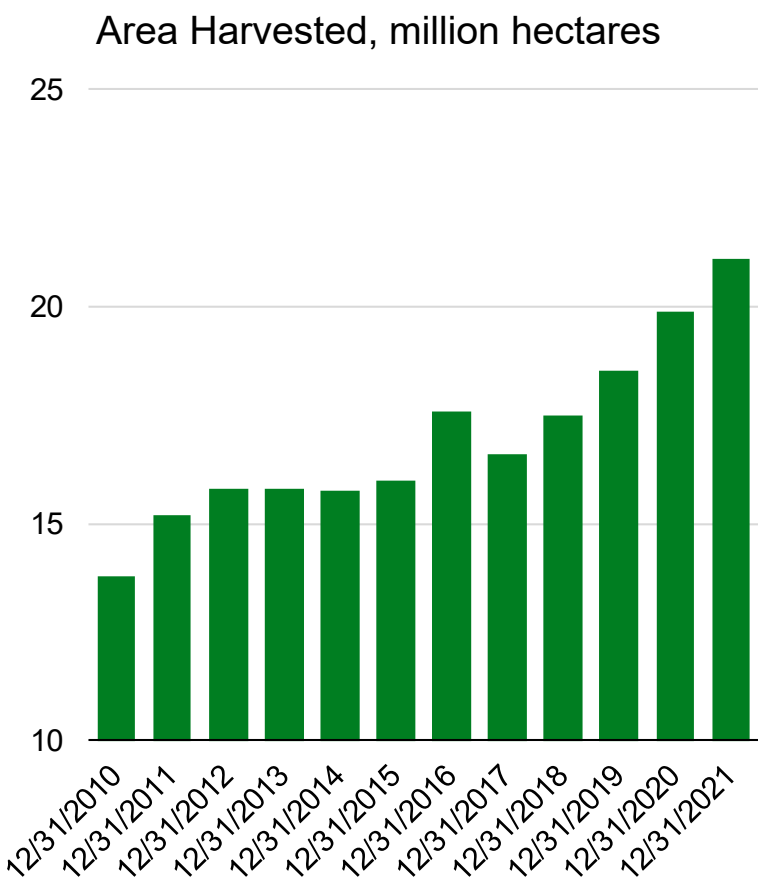
Source: USDA



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Brazilian corn acres have been on a tear

75% of Brazilian corn production is Safrinha (second crop). Planting was early with good weather, however, the rainy season ended in late March



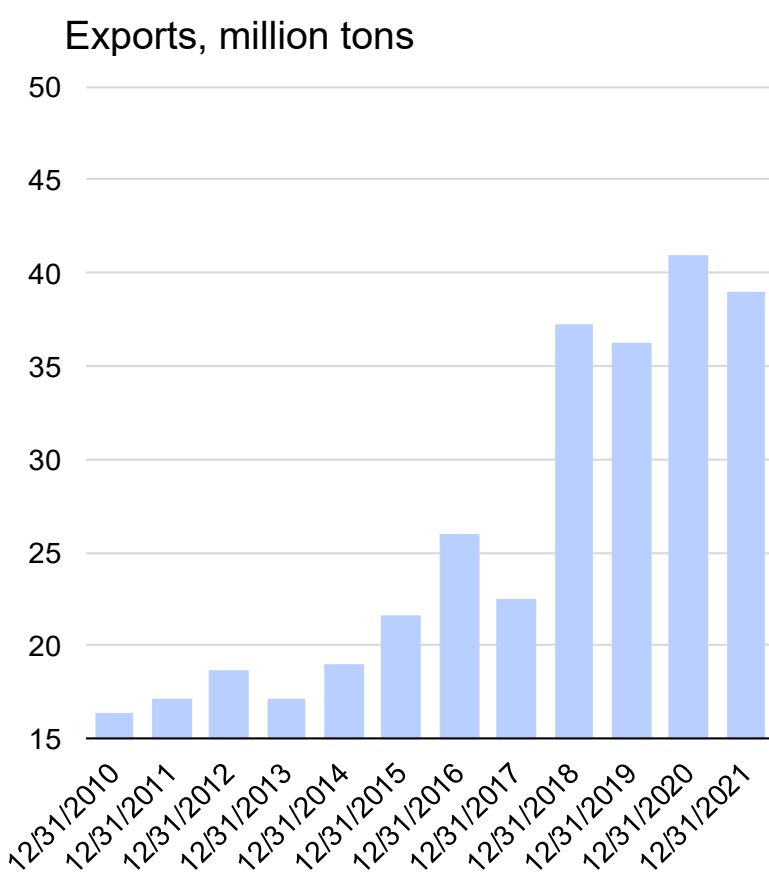
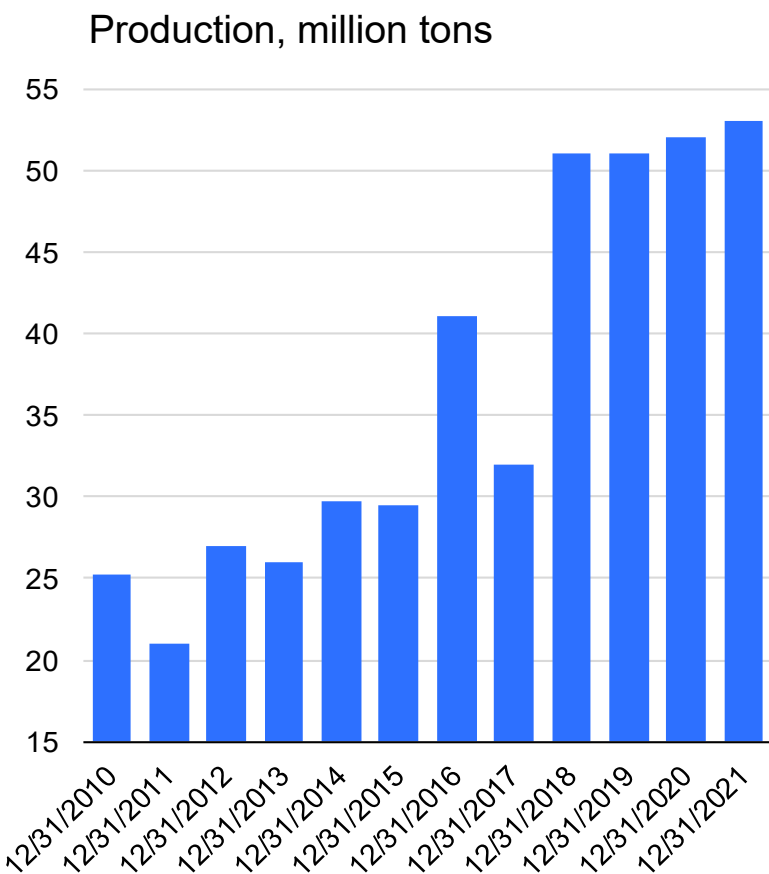
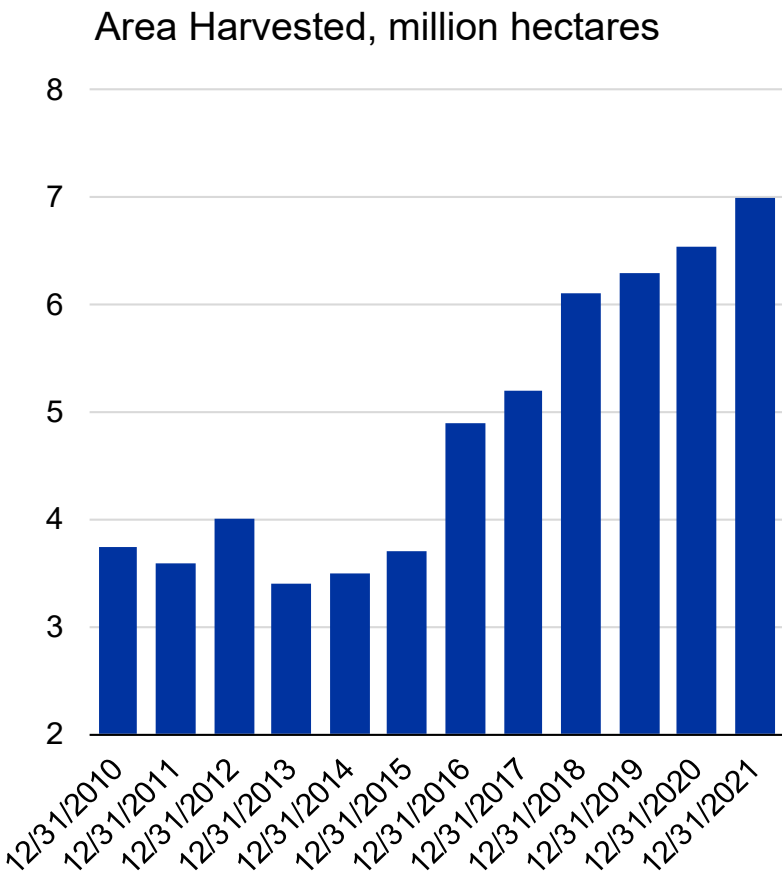
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Argentina has been busy expanding acres due to global demand

However, poor weather has trimmed production possibilities



Source: USDA

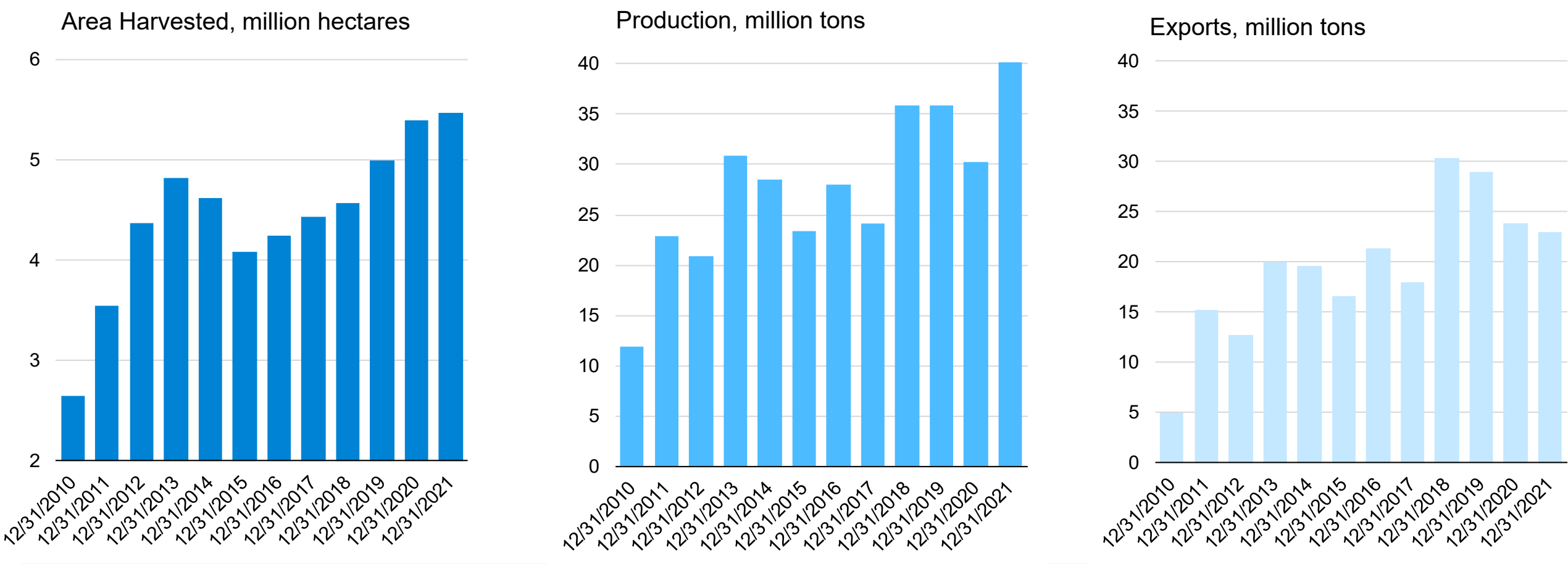


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Ukraine is the world's 4th largest corn exporter



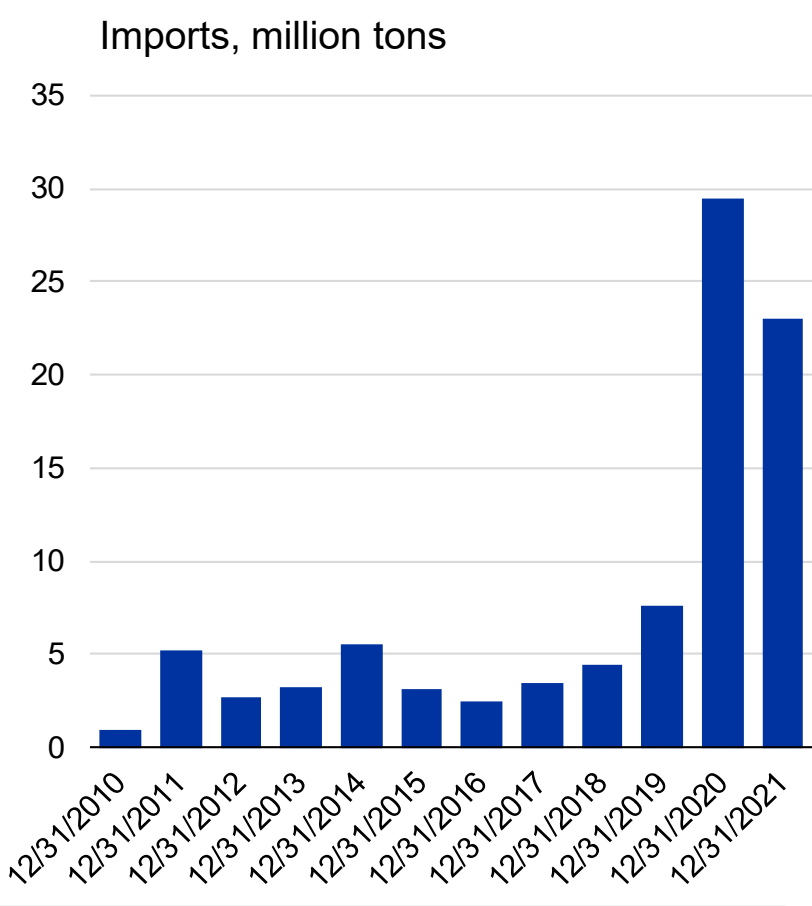
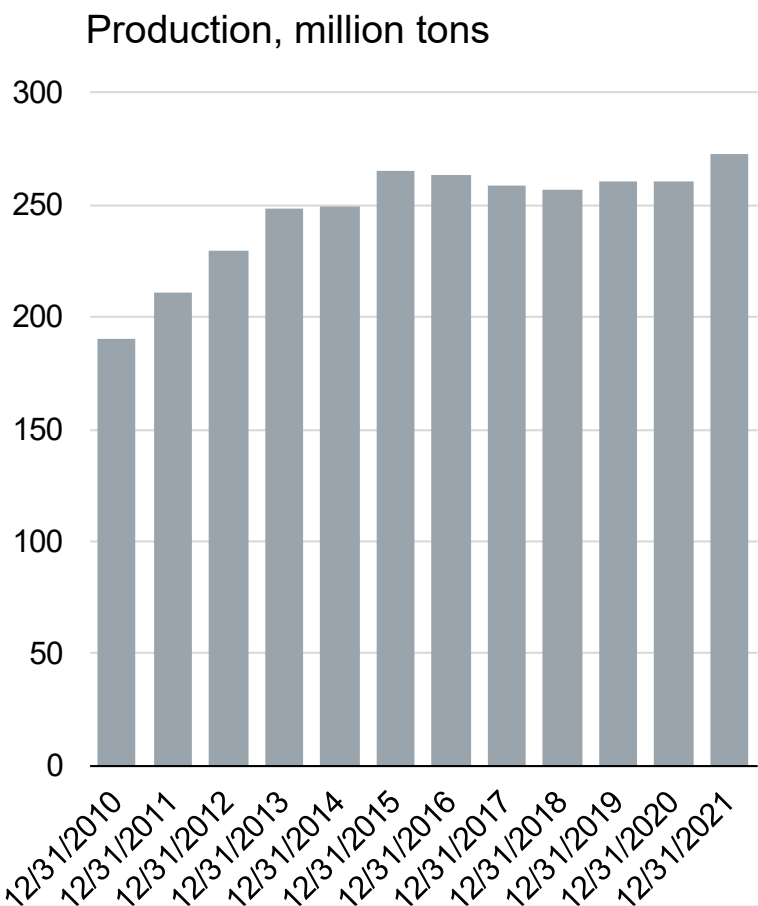
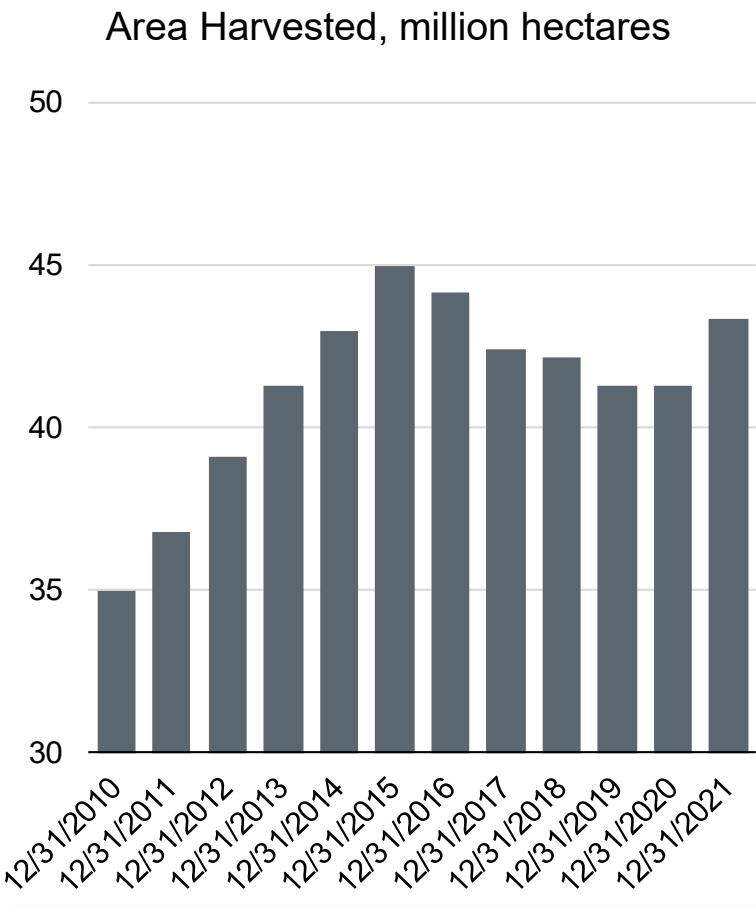
Production for the current marketing year is complete and 75% of exports have left the country – though major uncertainty hangs over the 22/23 crop



Source: USDA

Chinese imports will again be a main market mover

China’s corn imports are down as they look for alternatives, and cheaper feed options



Source: USDA



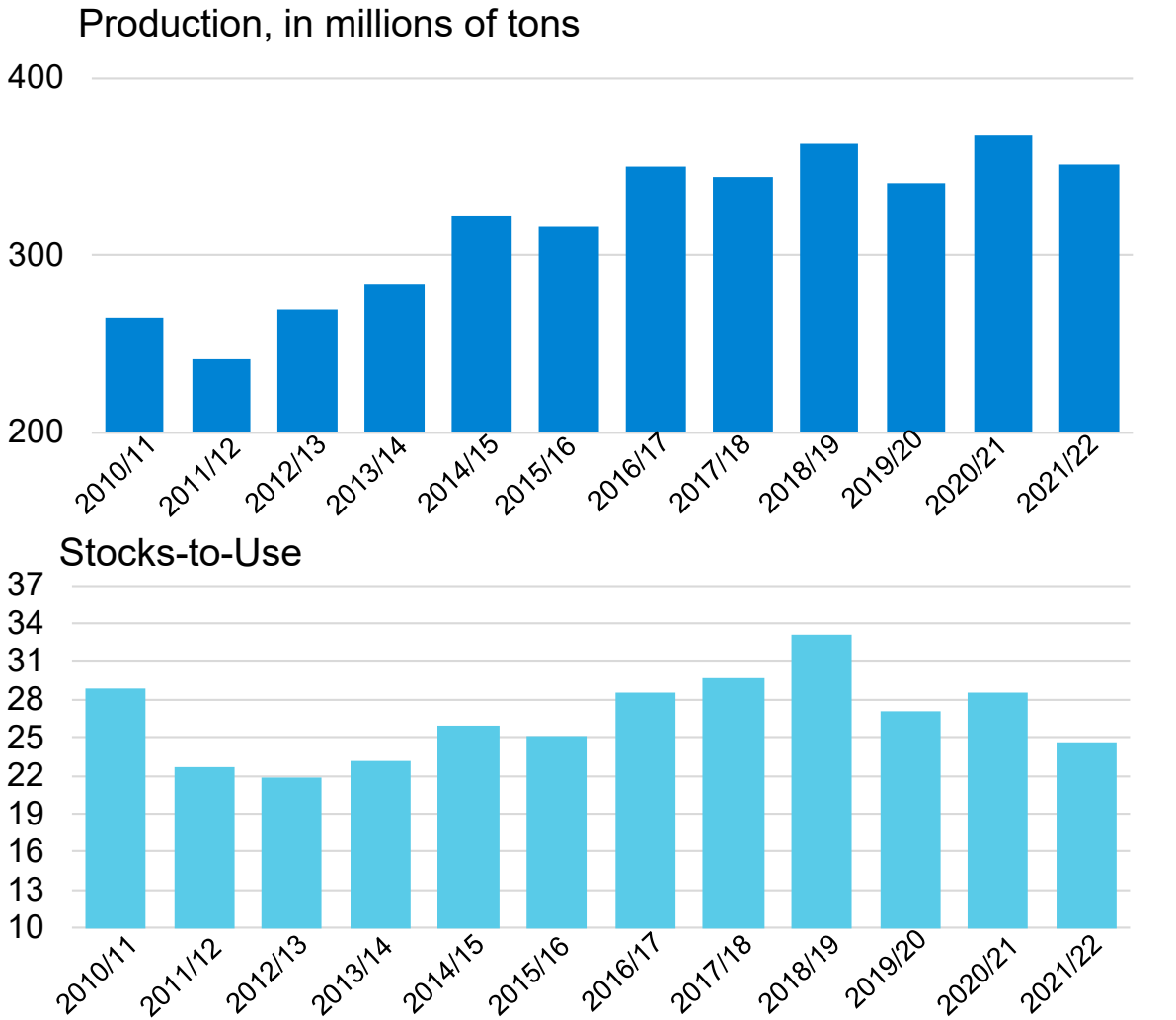
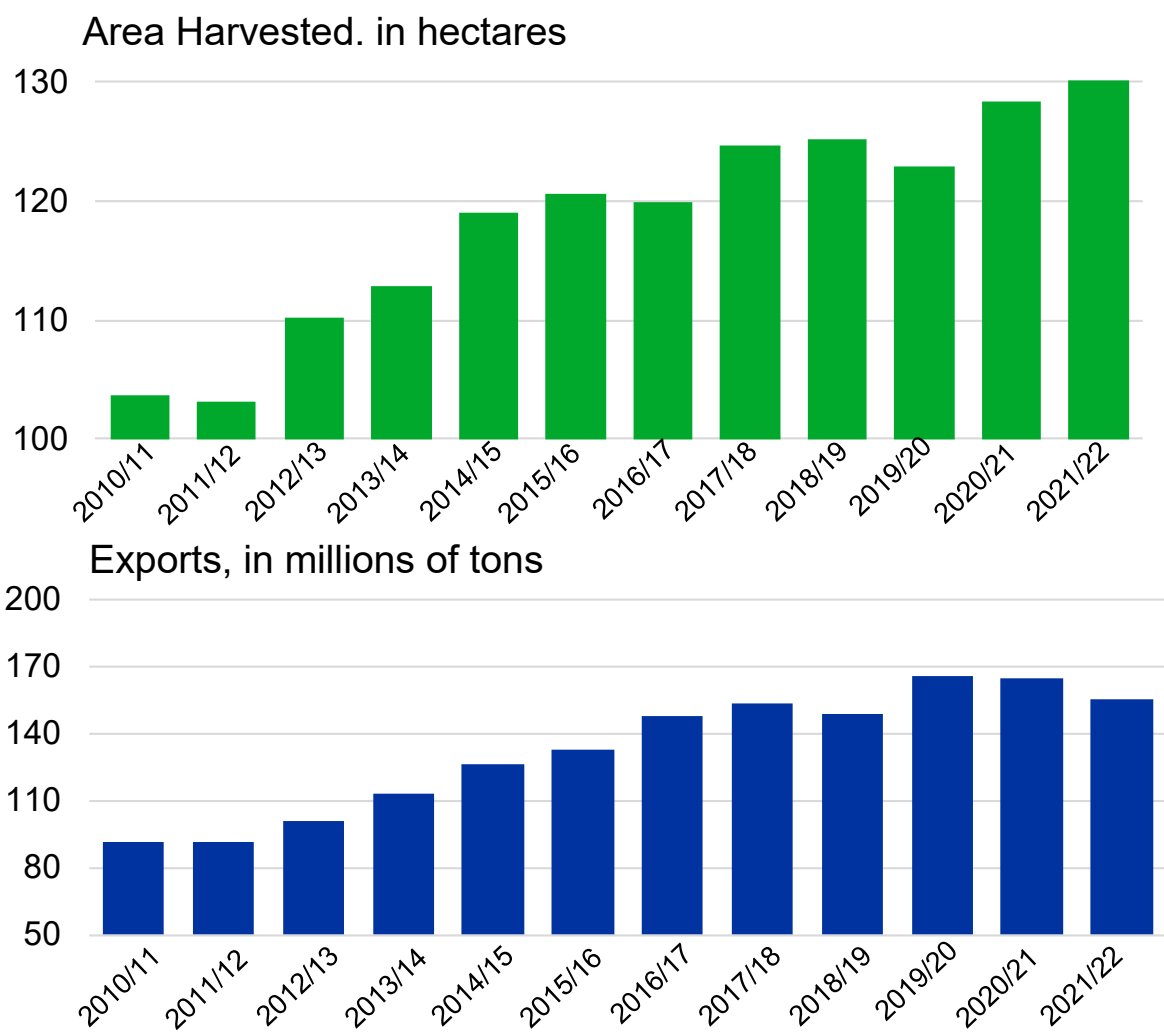
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Soybeans



Global production takes a big hit as consumption inches higher

World soybean production dropped from December to April – 25 million tons lost Argentina and Brazil



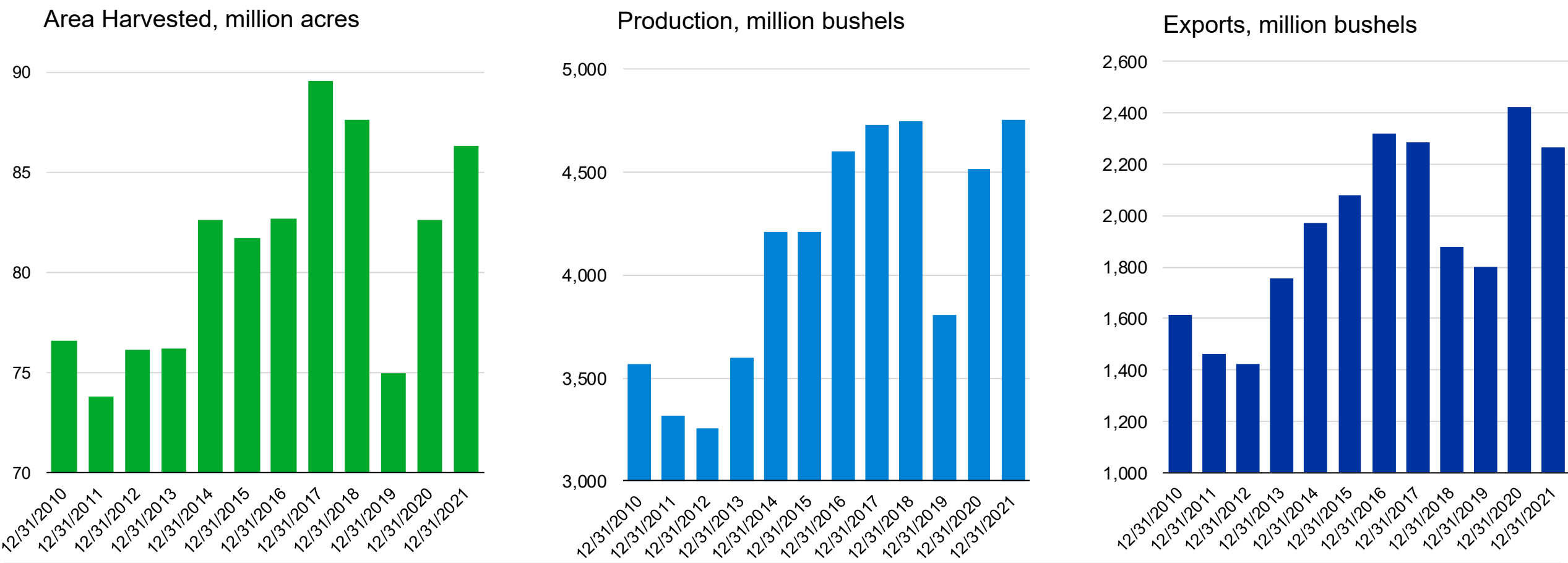
Source: USDA



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U.S. soybean acreage and production have been choppy

The picture doesn't get any clearer, as prospective plantings were a big surprise with soybean acres coming in at 91 million



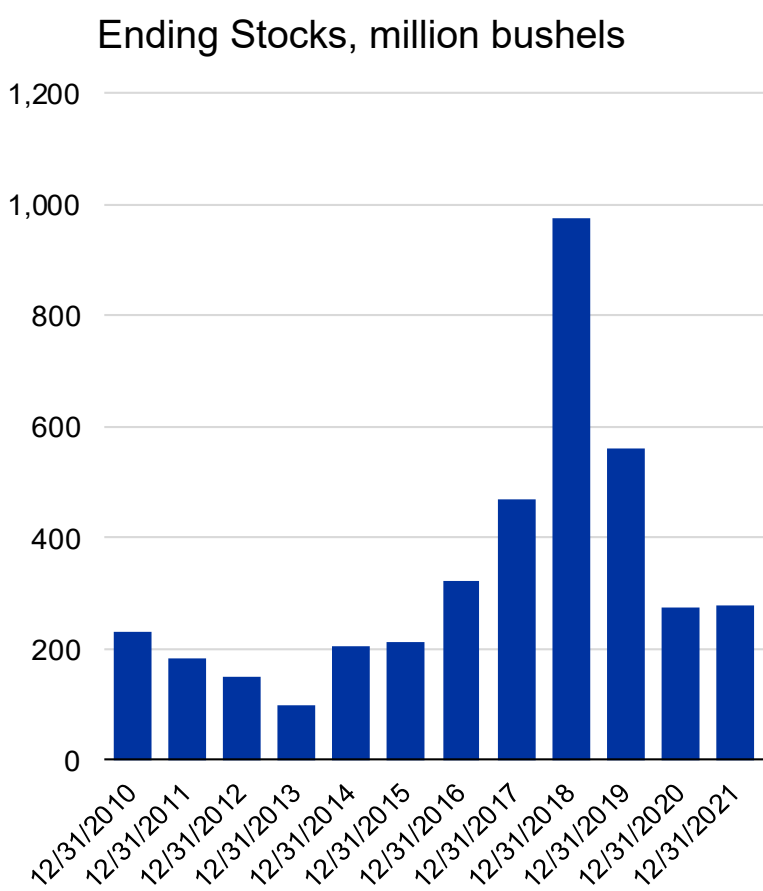
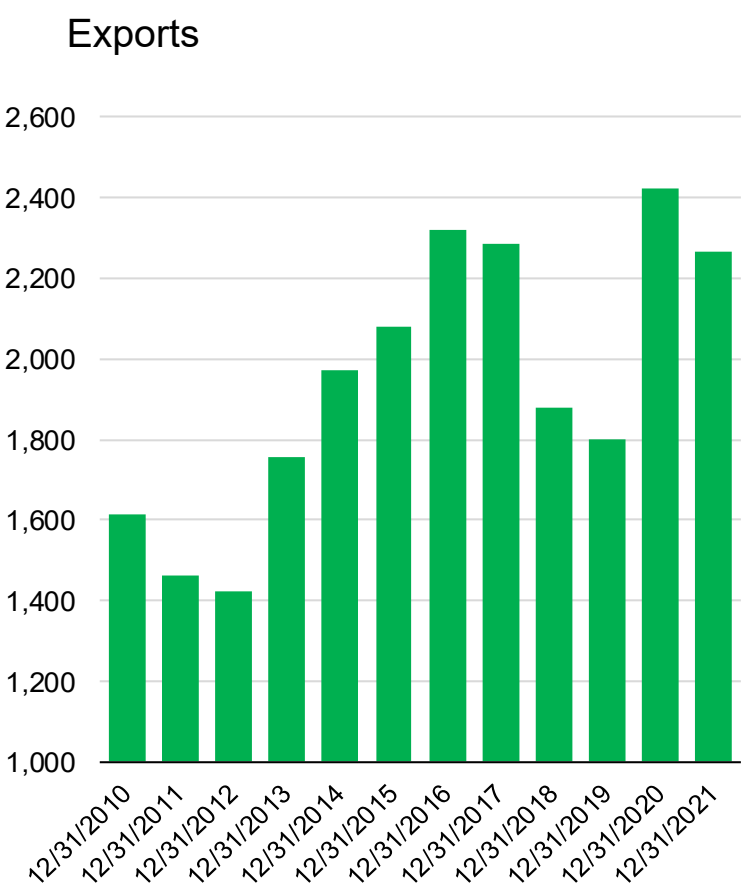
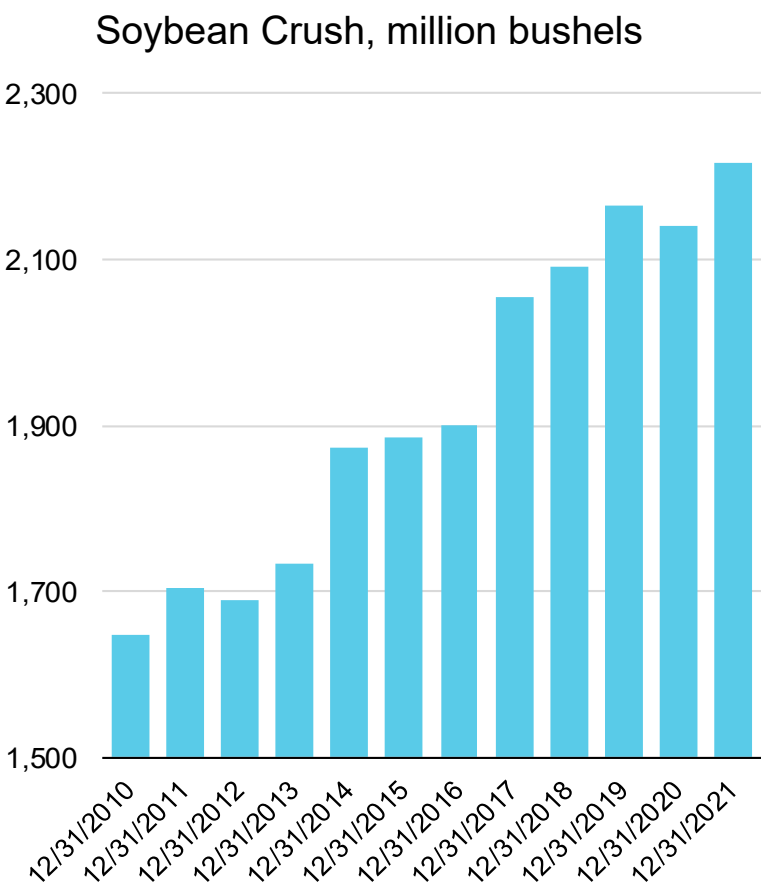
Source: USDA



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Strong crush, exports pushed U.S. stocks to pipeline minimums this year

1st quarter demand was good as additional export business came to the U.S. because of the faltering South American crops



Source: USDA

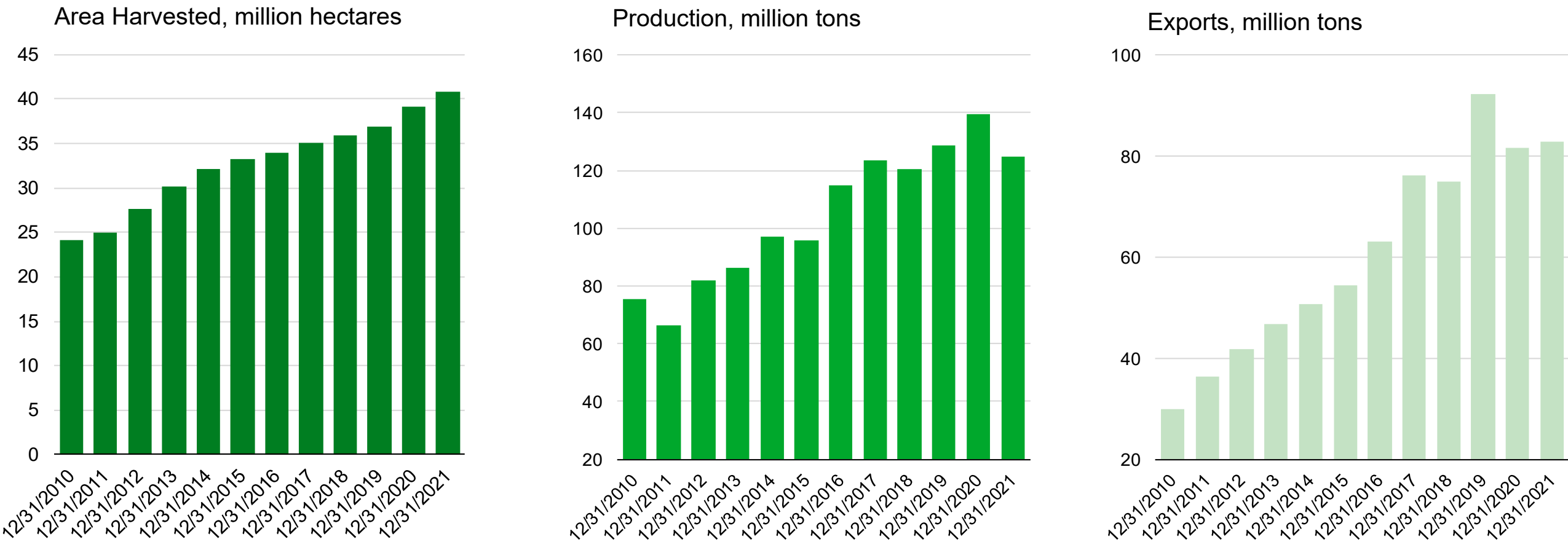


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Brazil soybean production slashed by La Nina



Production estimates were 144 million tons in December and the current estimate is 125 million tons, a 13% drop



Source: USDA

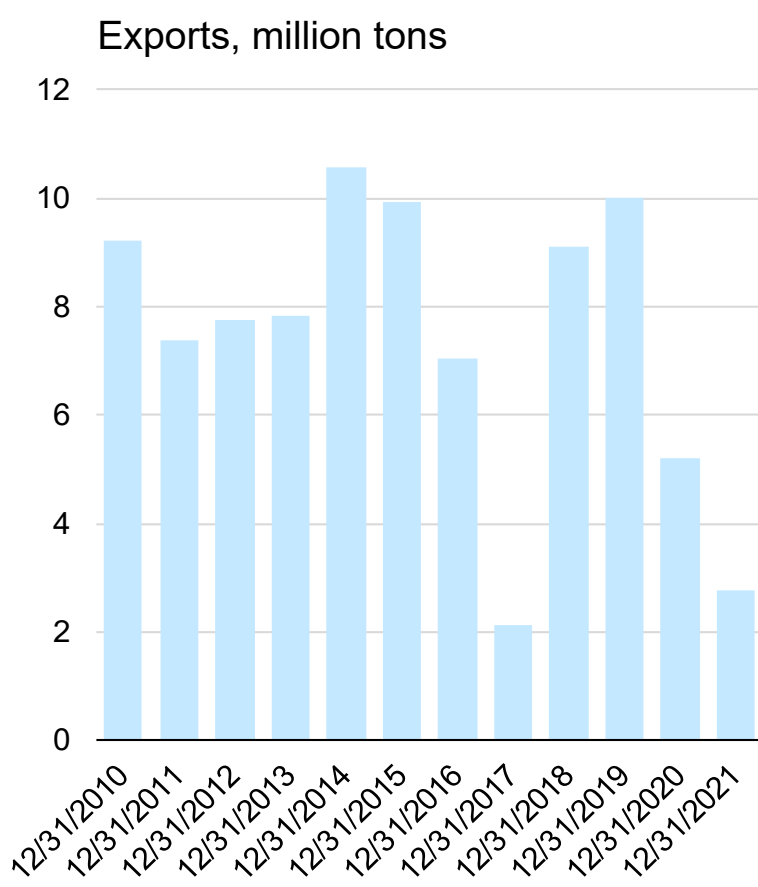
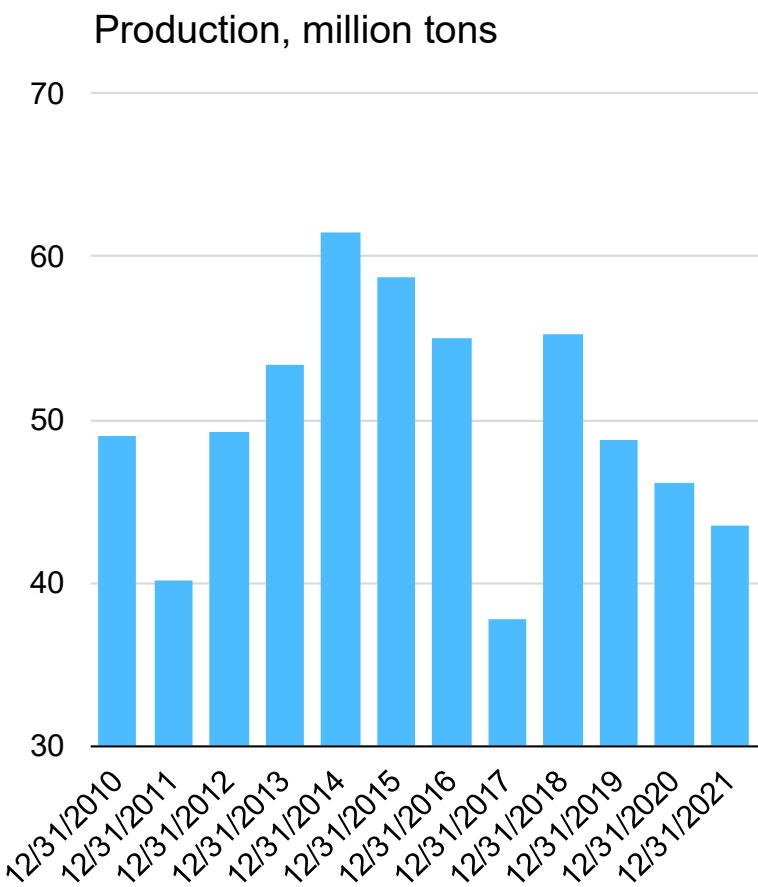
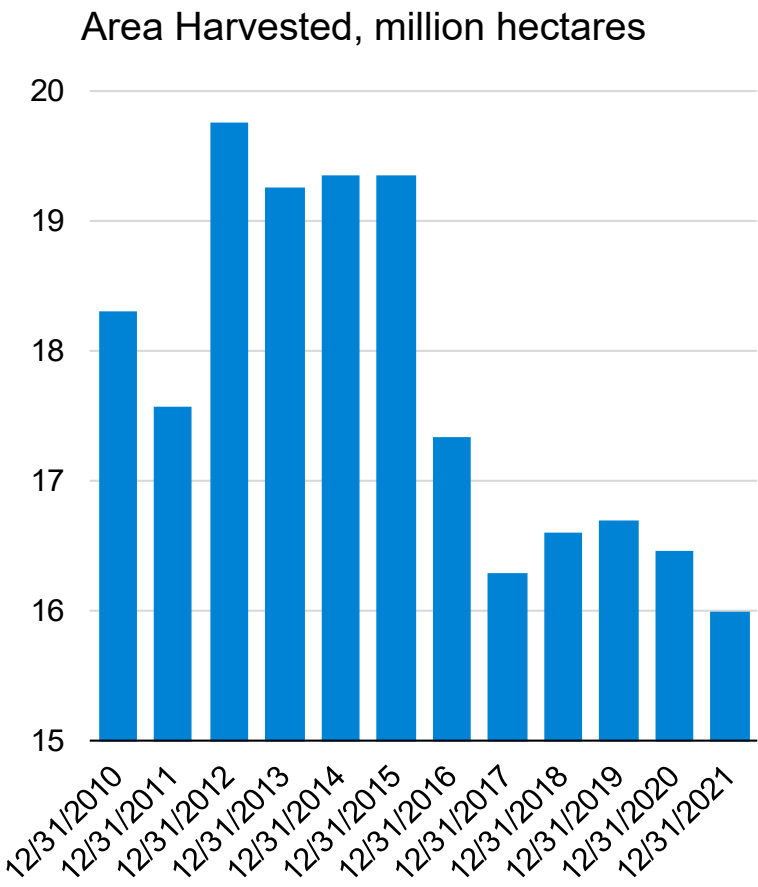


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Argentina's soy acreage stays within a narrow range



In March, the government increased export taxes on soybeans. This could alter both the production and export outlook



Source: USDA

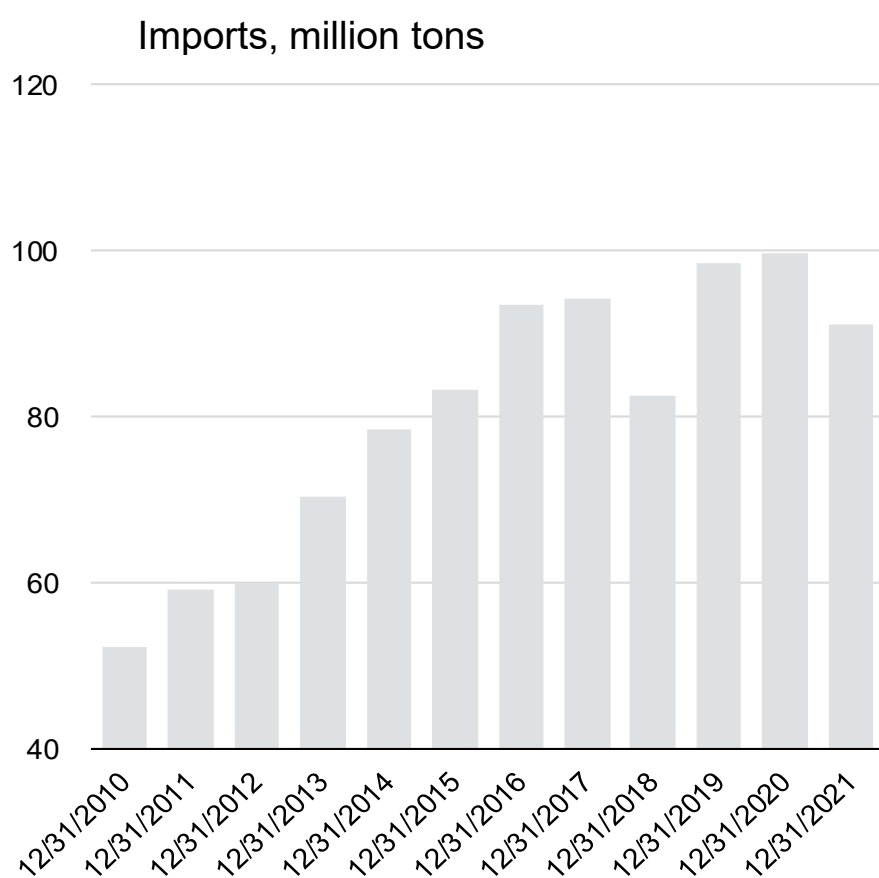
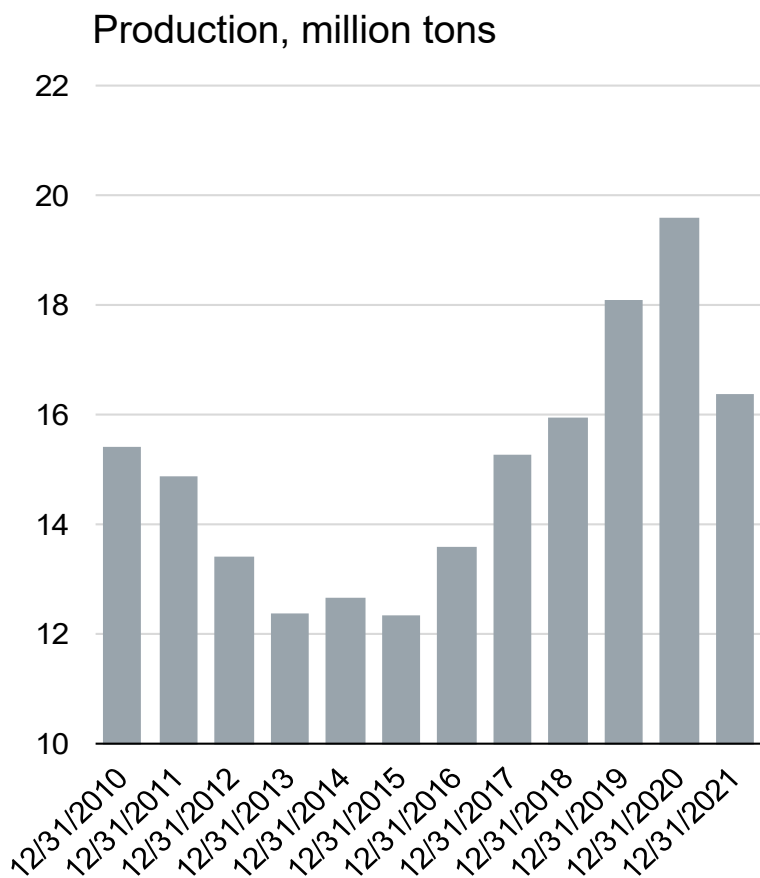
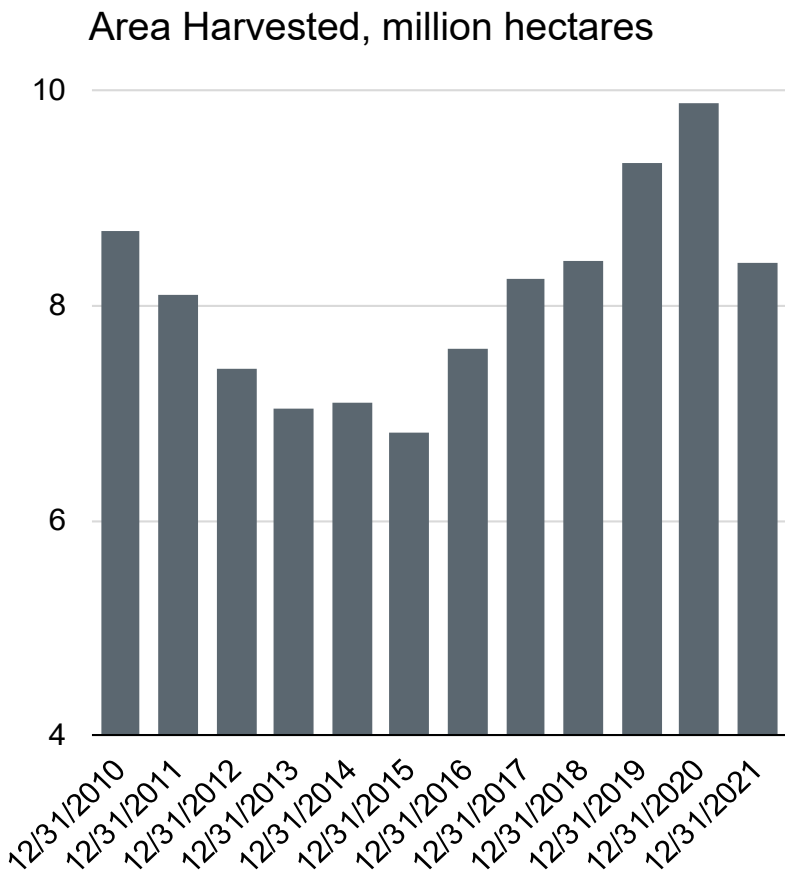


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China soybean acreage is a drop in the bucket vs. demand



Chinese imports are way down on covid related slowdowns and reductions in soybean meal usage



Source: USDA



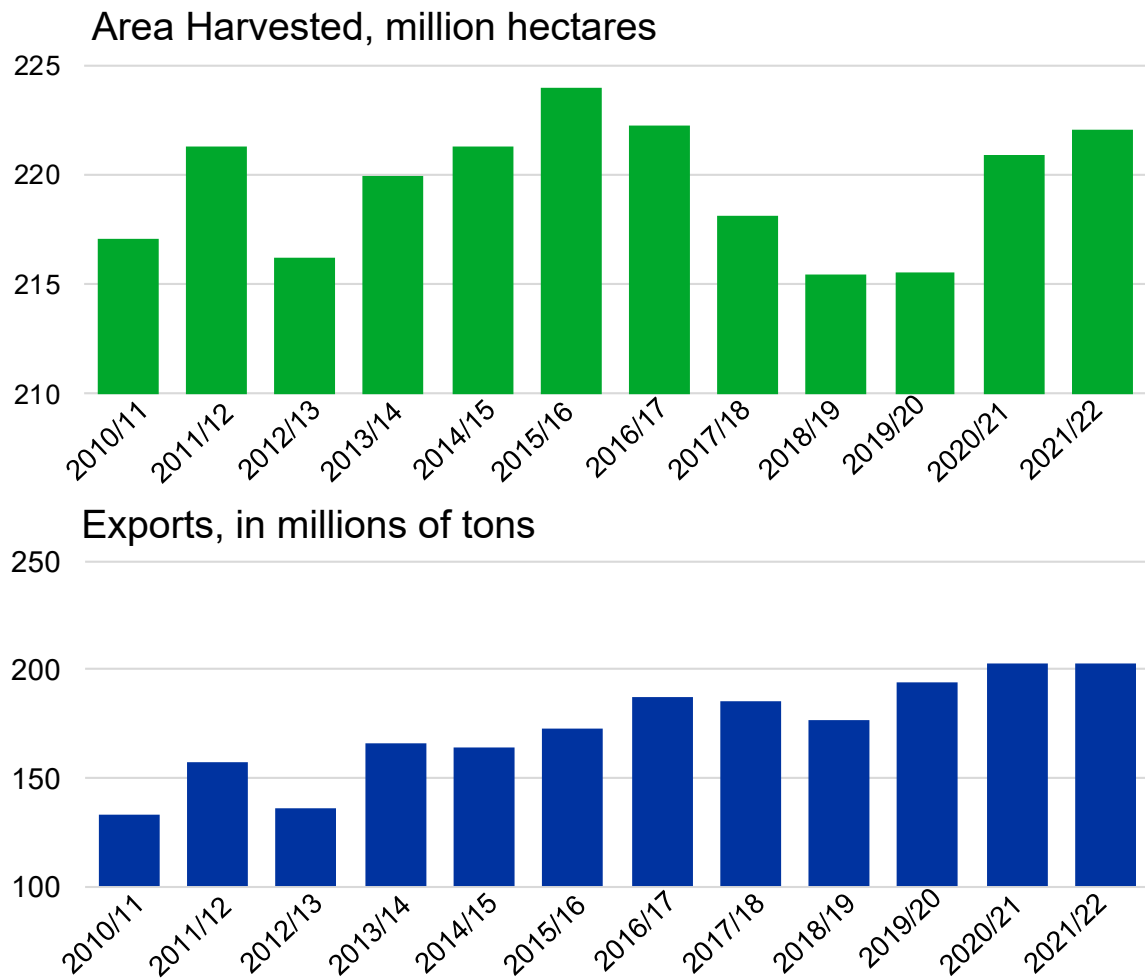
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Wheat

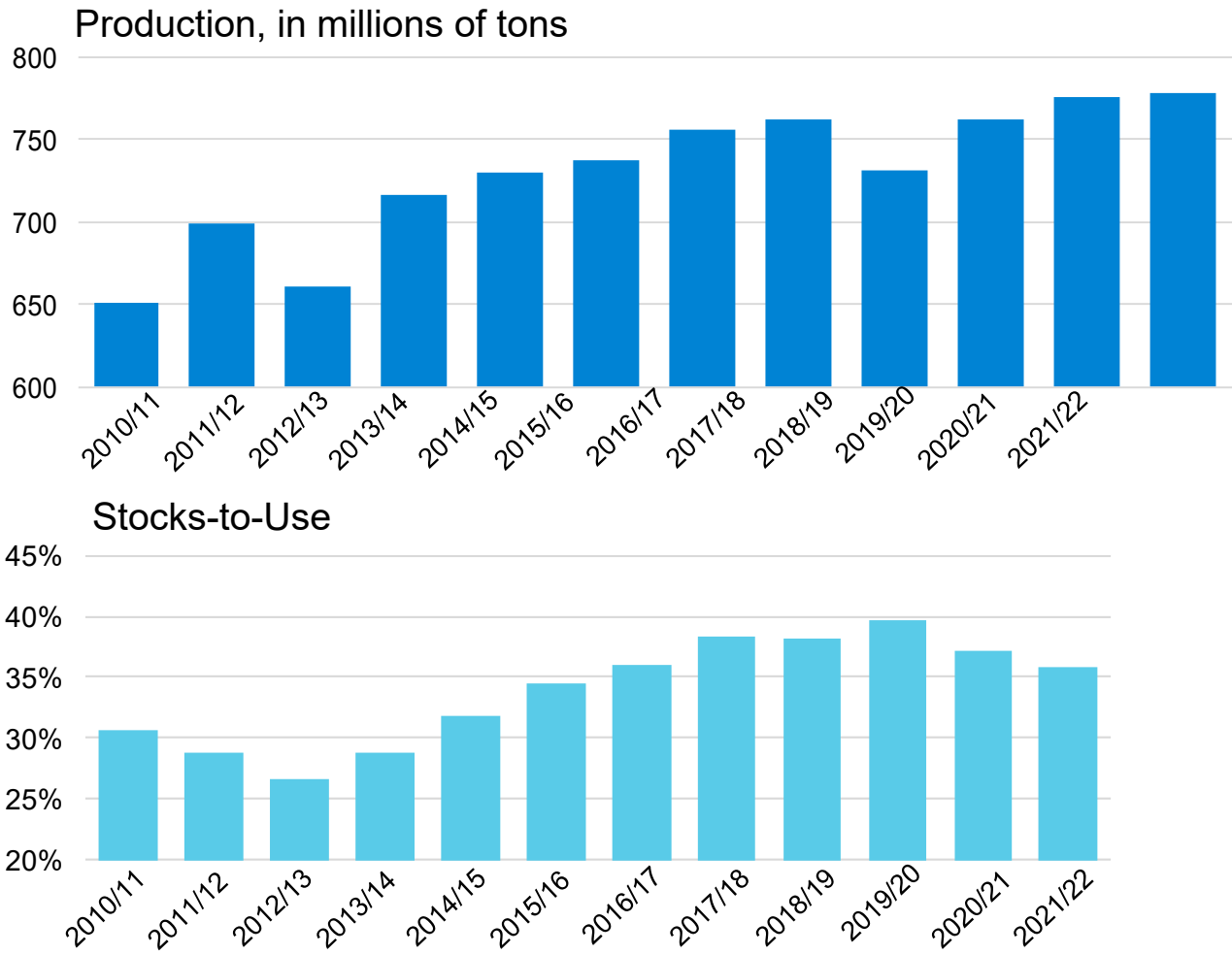


Global wheat production continues to climb despite changing acres

World wheat is finally reversing a burdensome stocks-to-use trend



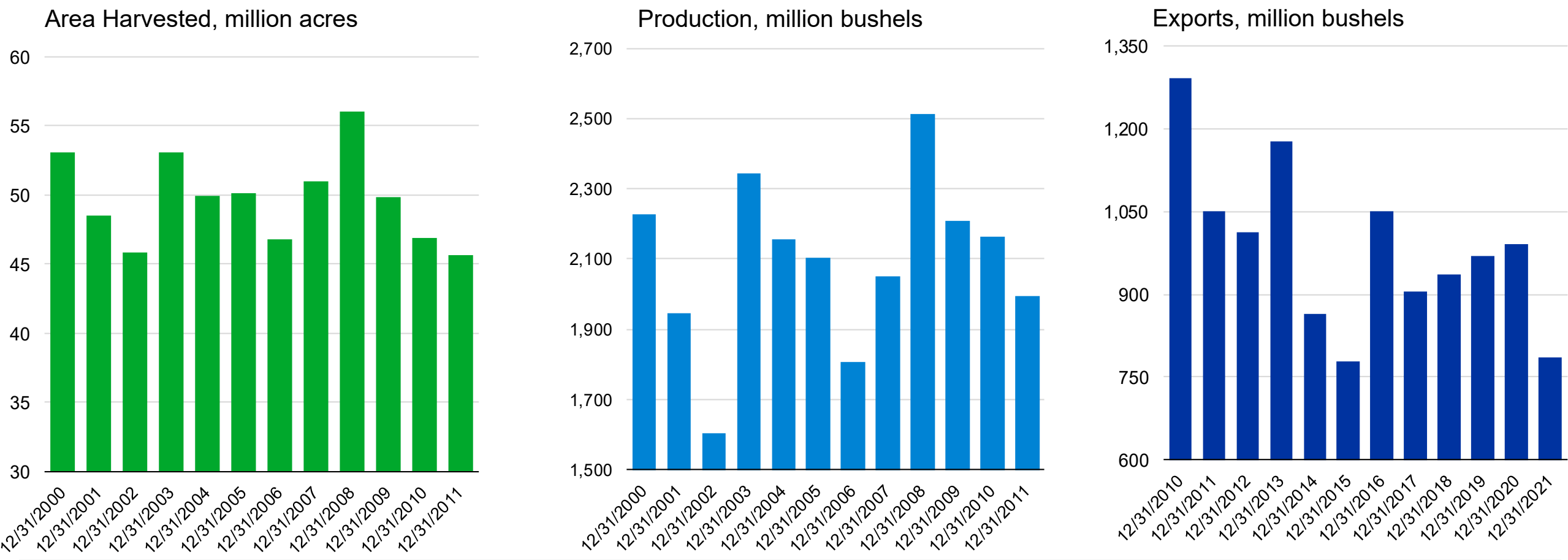
Source: USDA



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Will high prices finally reverse the trend of declining acreage?

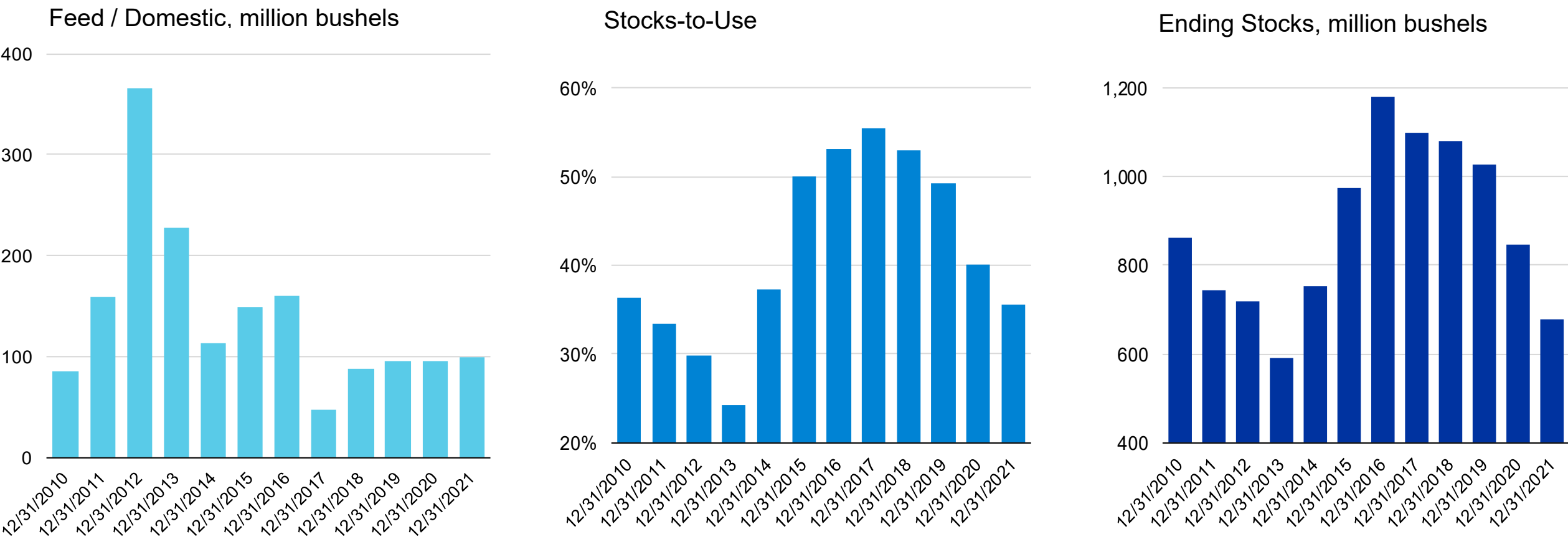
Drought conditions continue to engulf the majority of wheat acres in the U.S.



Source: USDA

Low acres, low production, and a relatively stable net use have pushed ending stocks down

U.S. wheat end stocks are at the lowest level since 2007/2008



Source: USDA

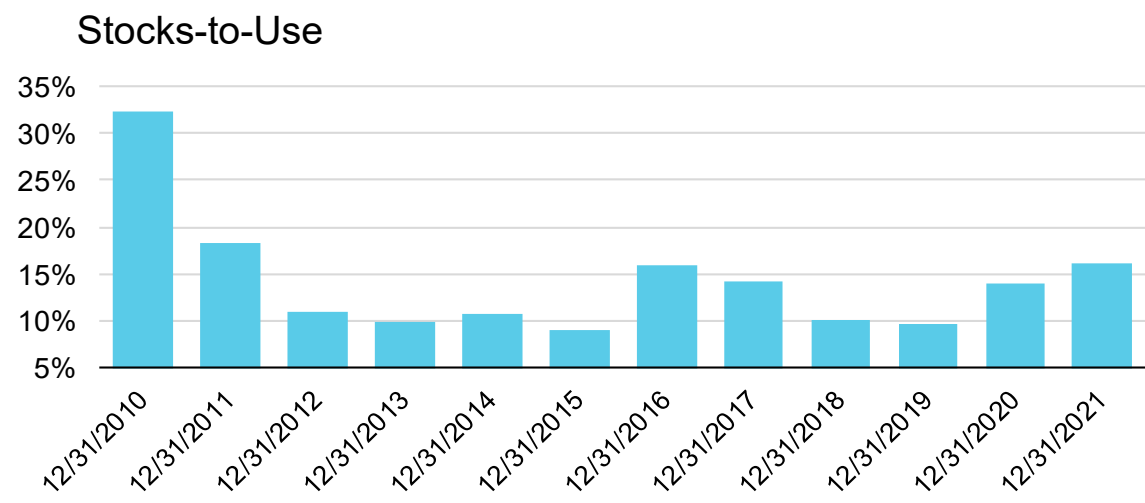
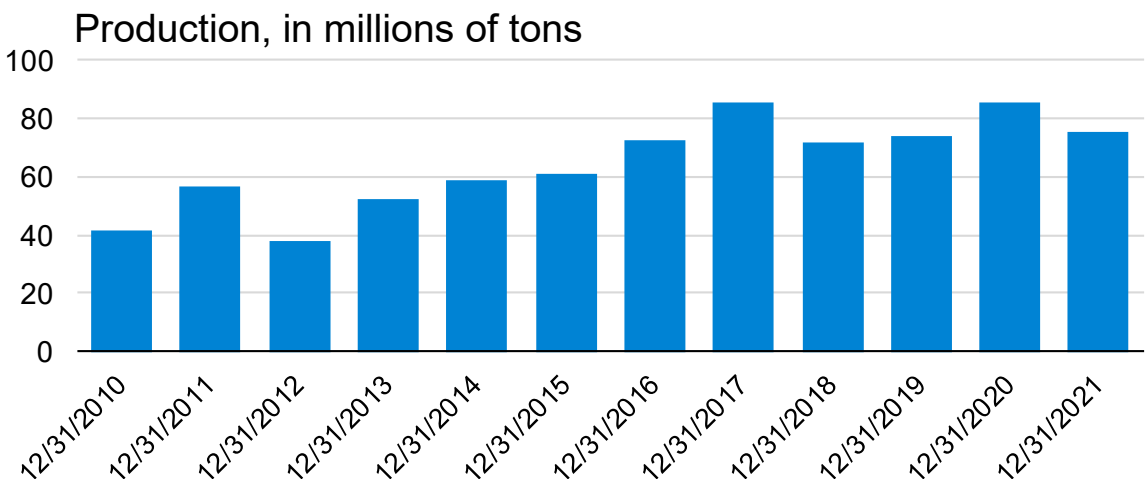
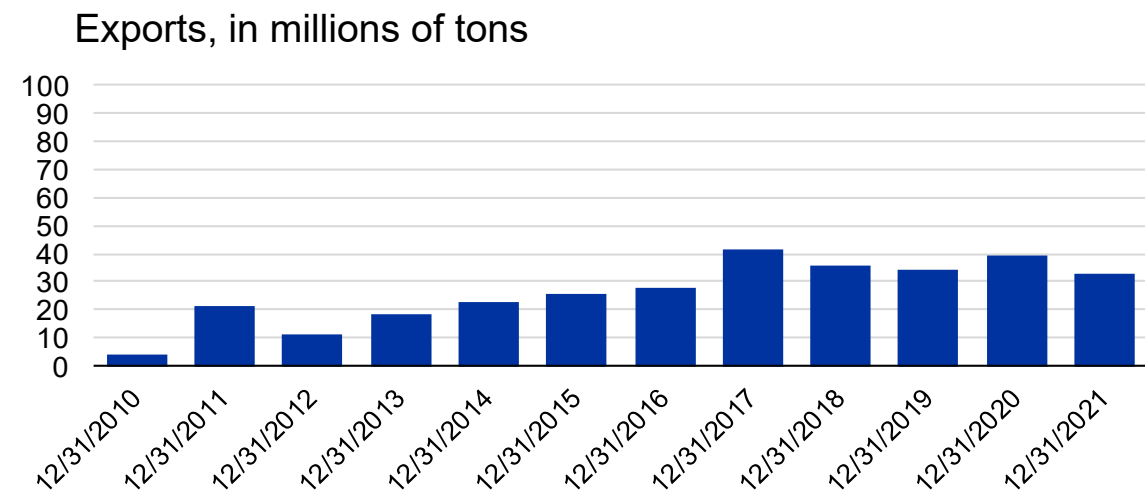
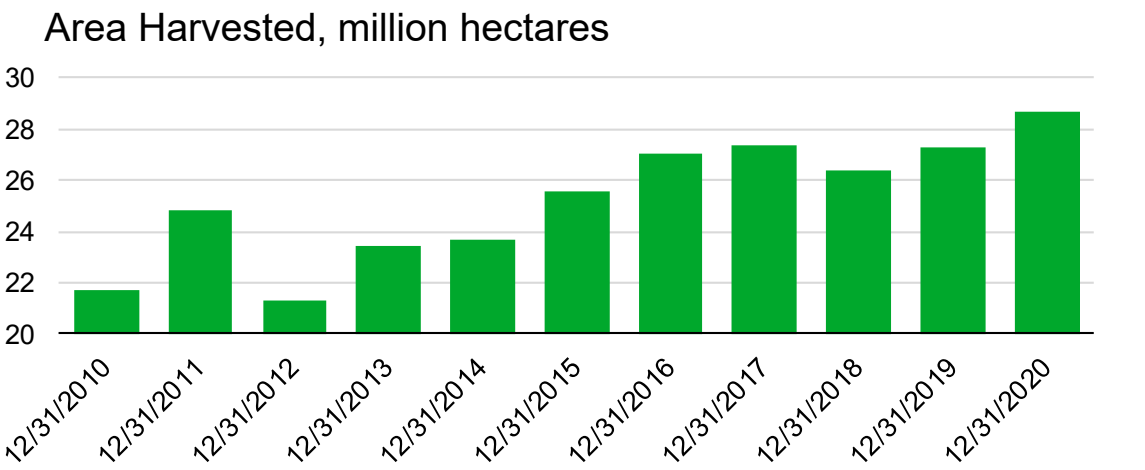


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Russian wheat crop may surprise to the upside



Production is listed at 72.5 MMT by the USDA, but private Russian firms believe the total to be well above 80 MMT.
Who will buy Russian exports?

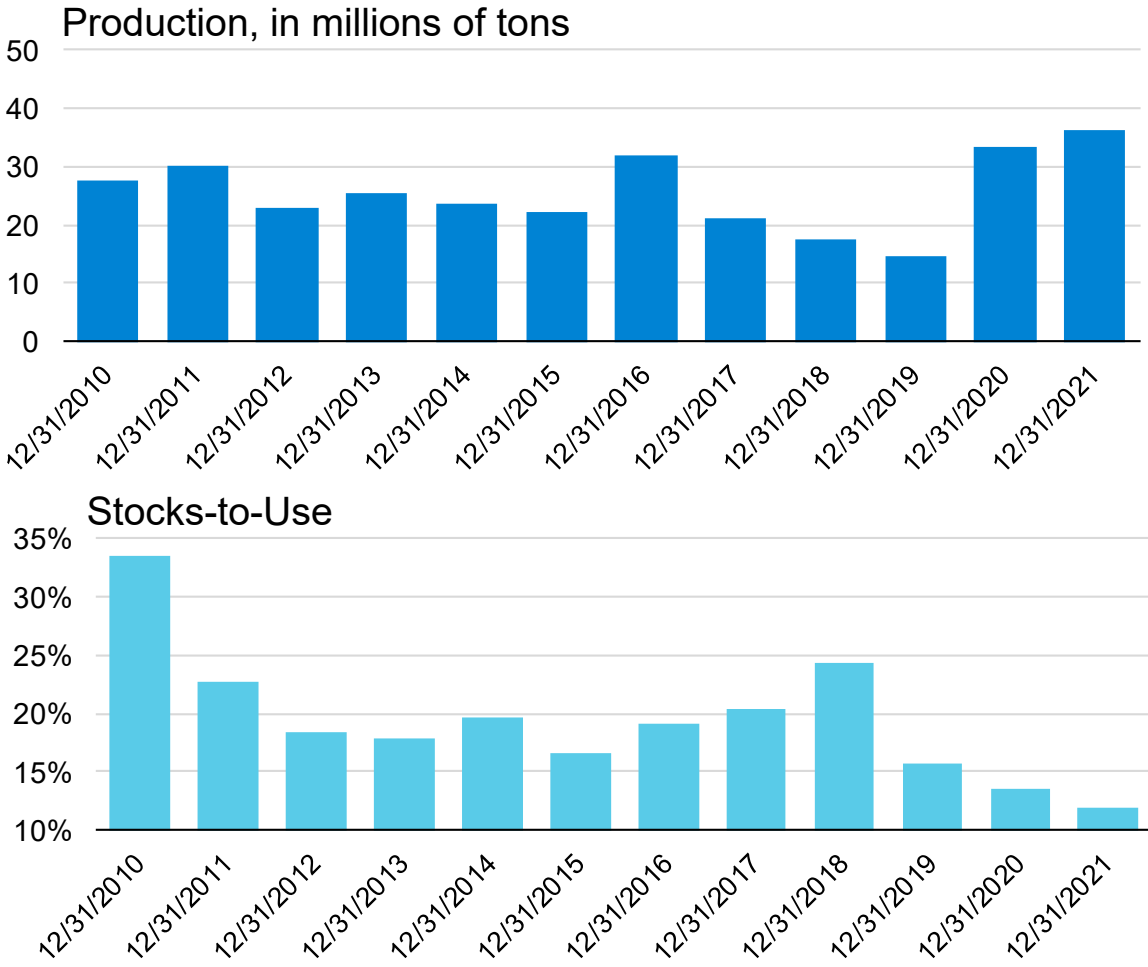
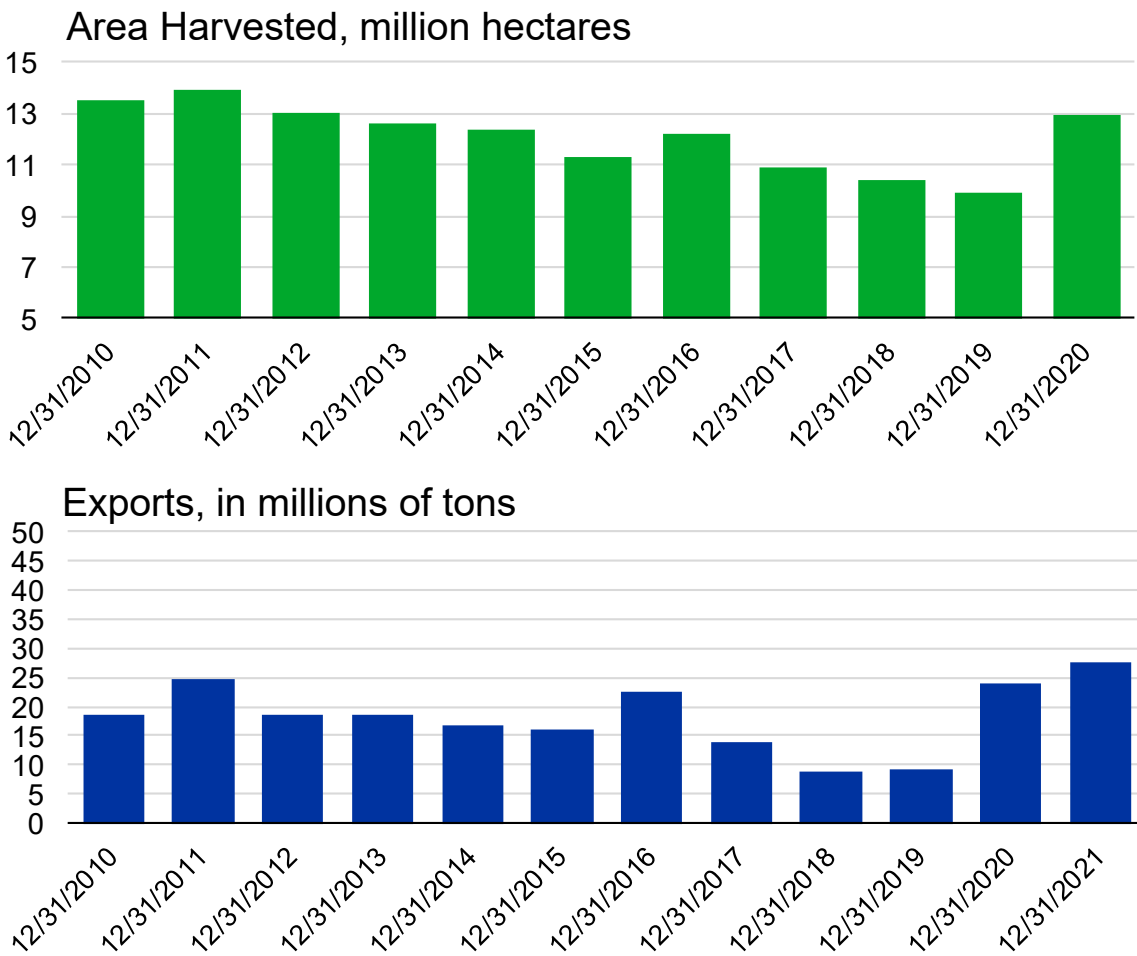


Source: USDA

Australia produced a good crop back-to-back for the first time in a decade



Quality issues still linger from last year’s harvest. Will Australia step in to fill world demand?



Source: USDA

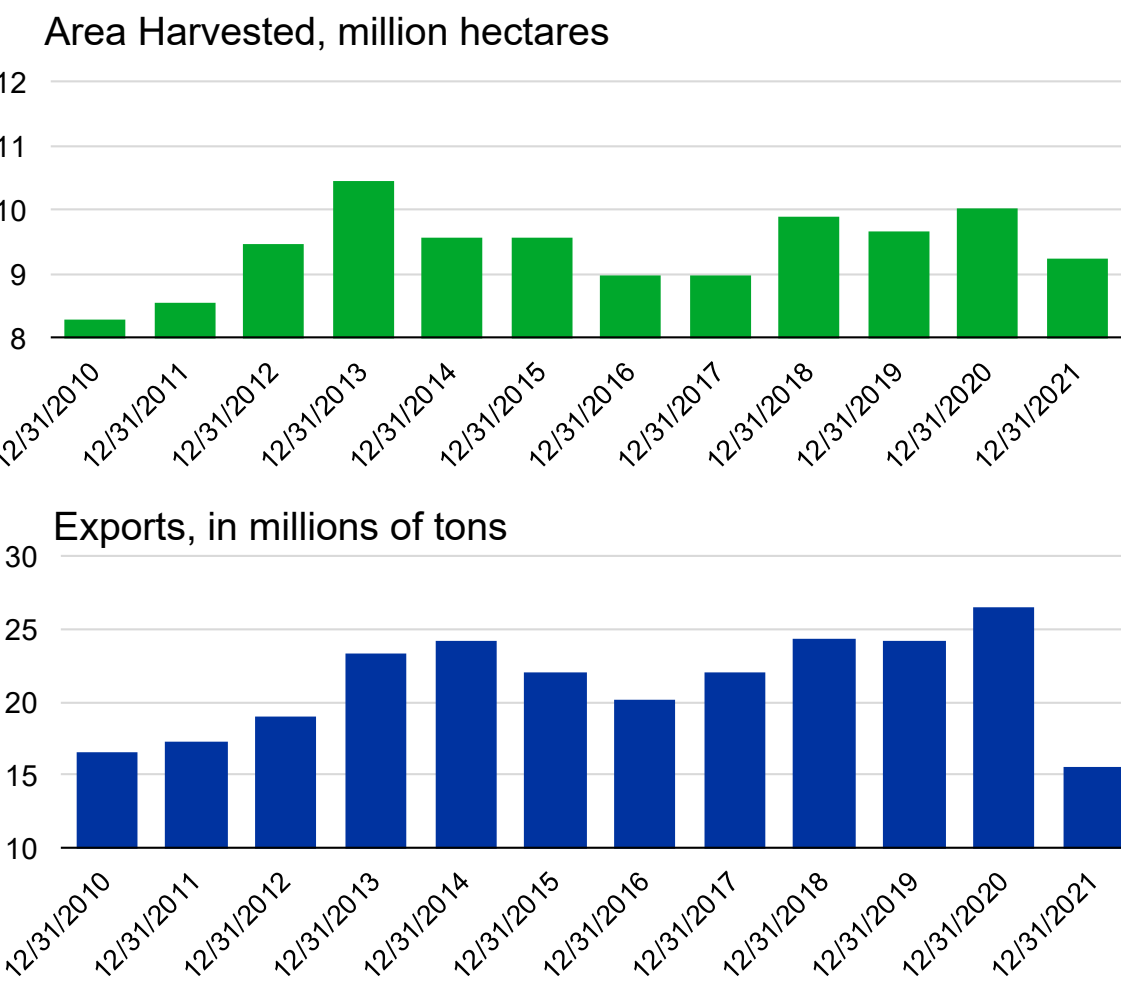


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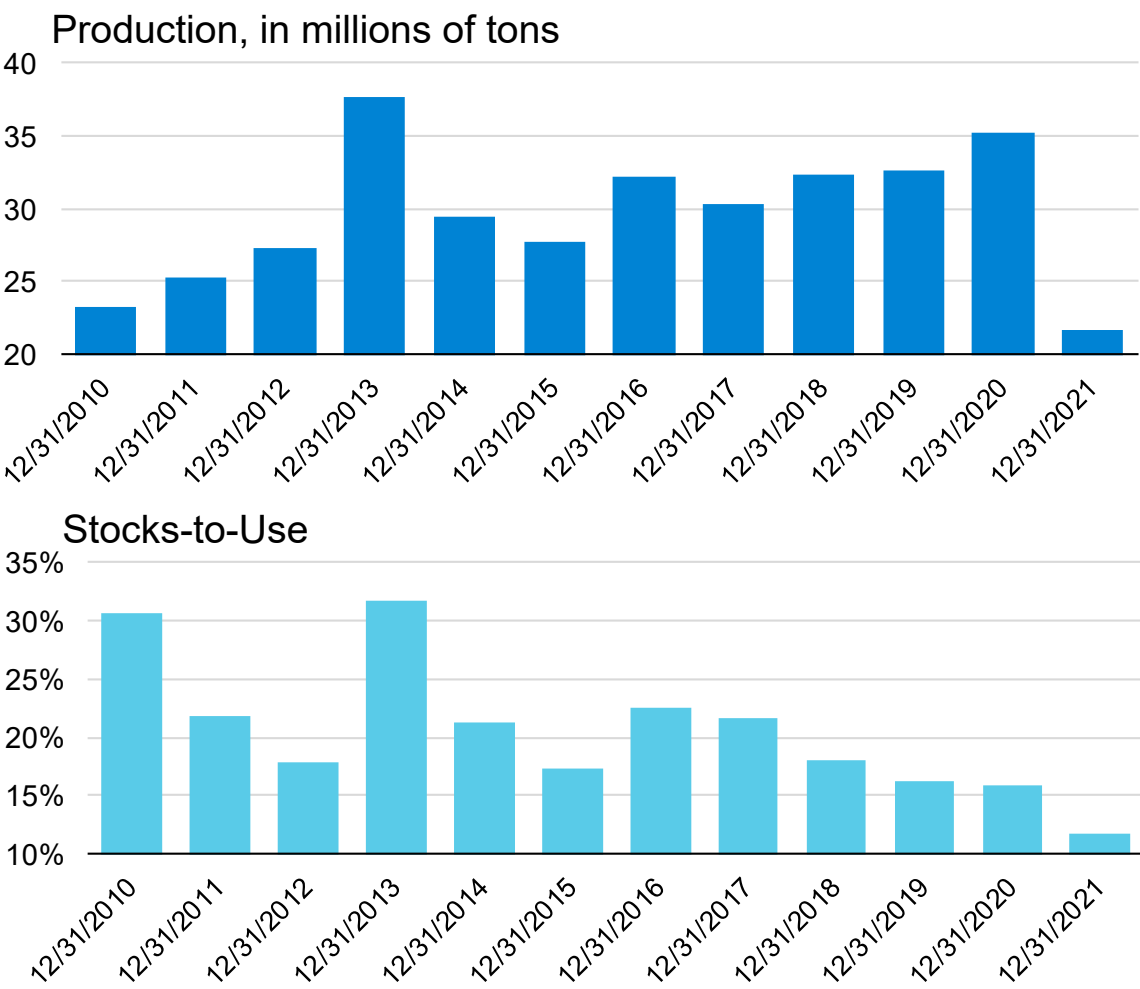
Canadian wheat production was decimated by terrible weather all season



Production at lowest level since 2007/08



Source: USDA

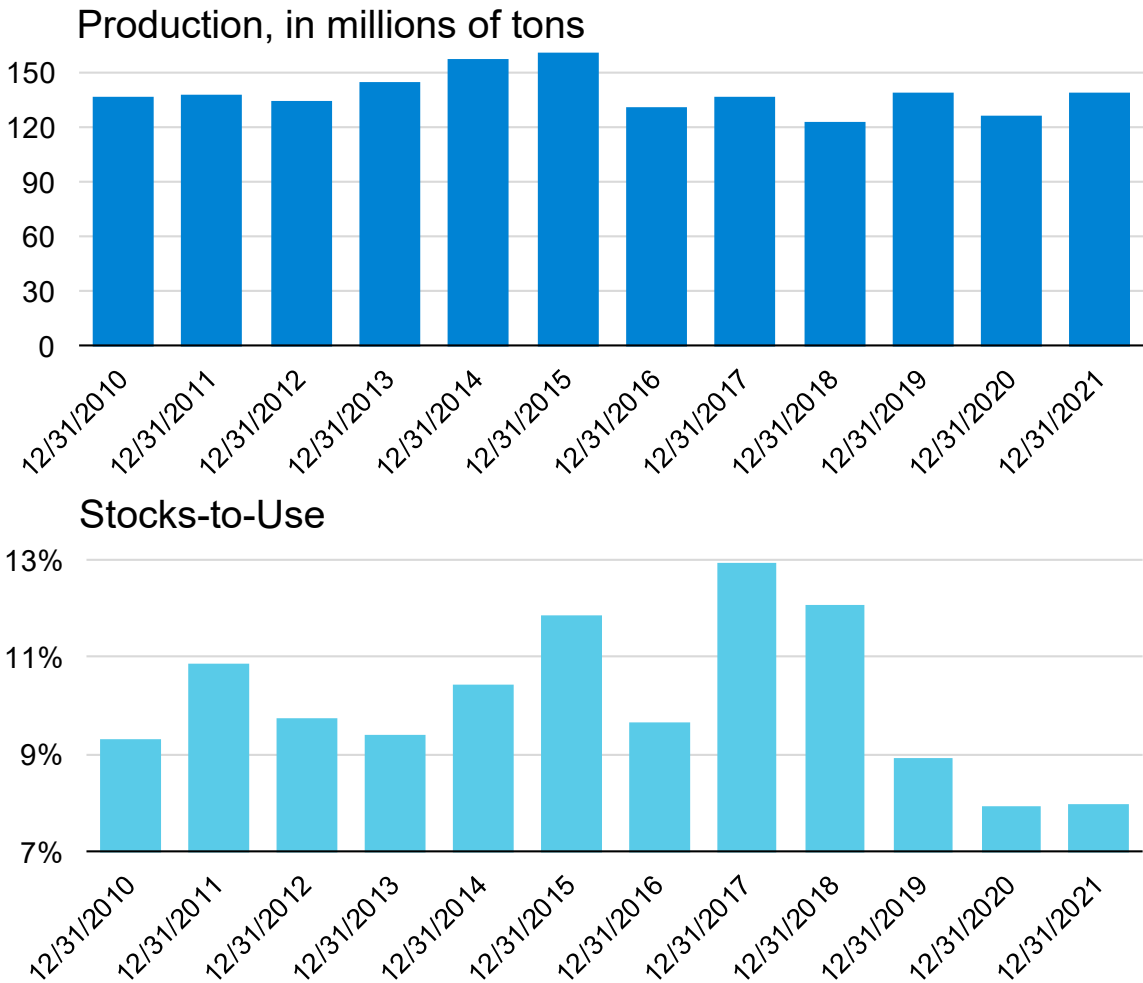
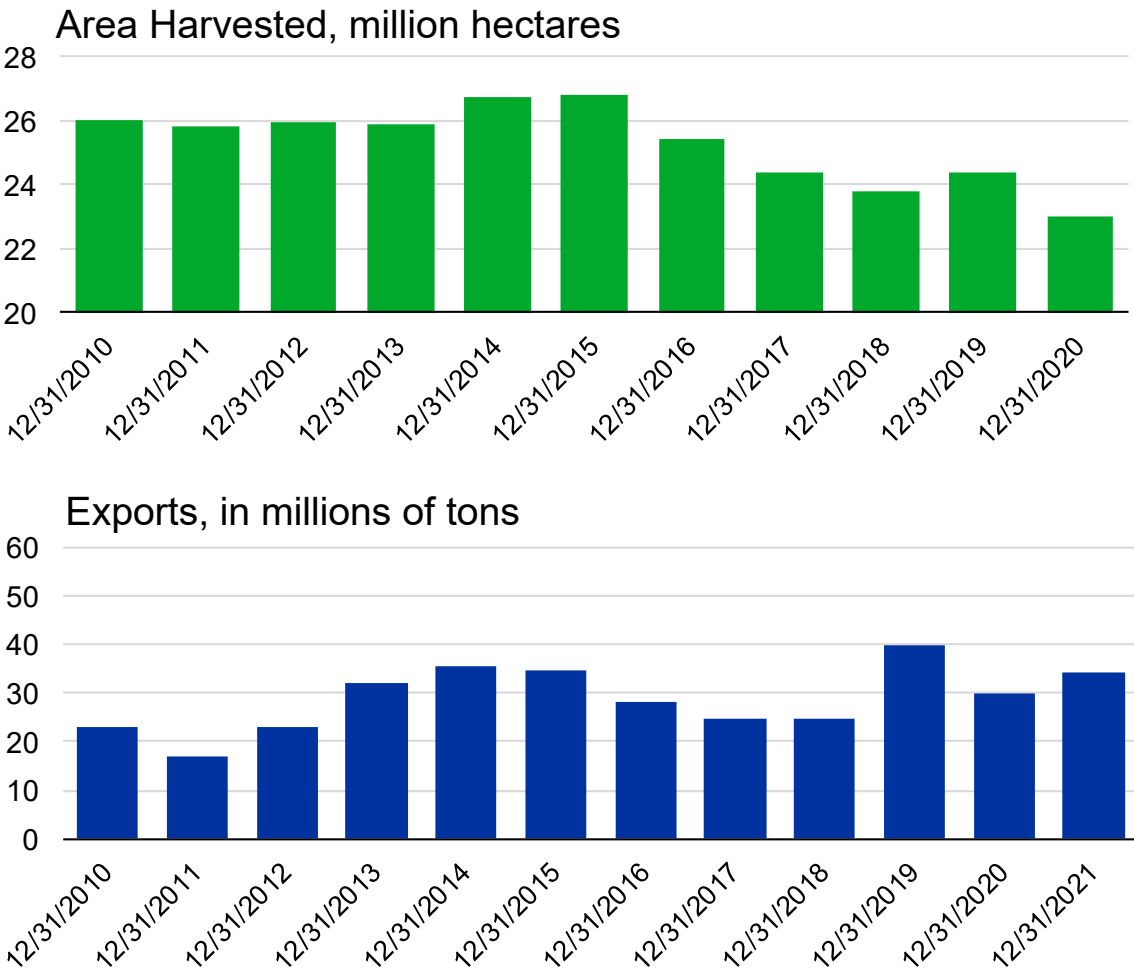


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European Union wheat production is up, though there are quality concerns



EU wheat is at extremely low stocks-to-use ratios



Source: USDA

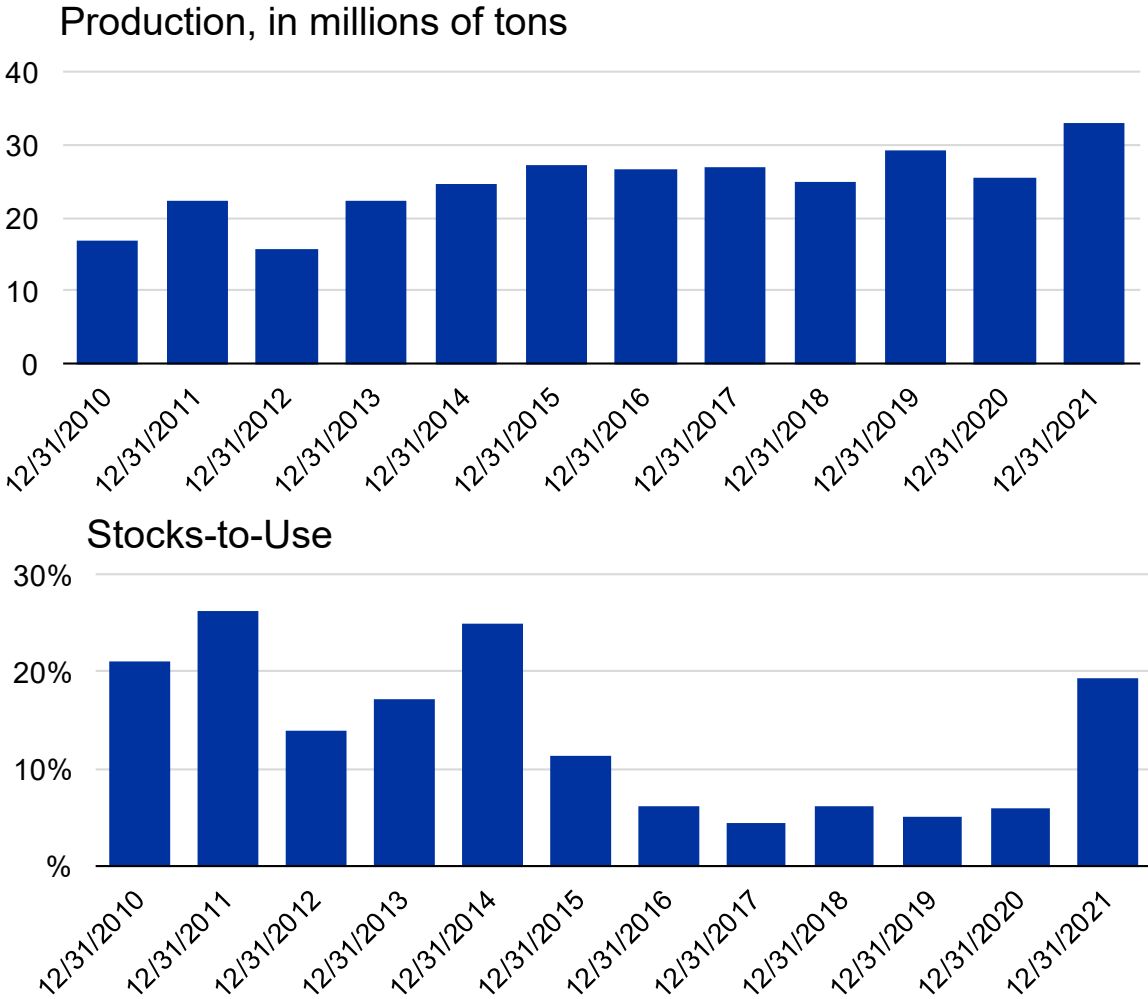
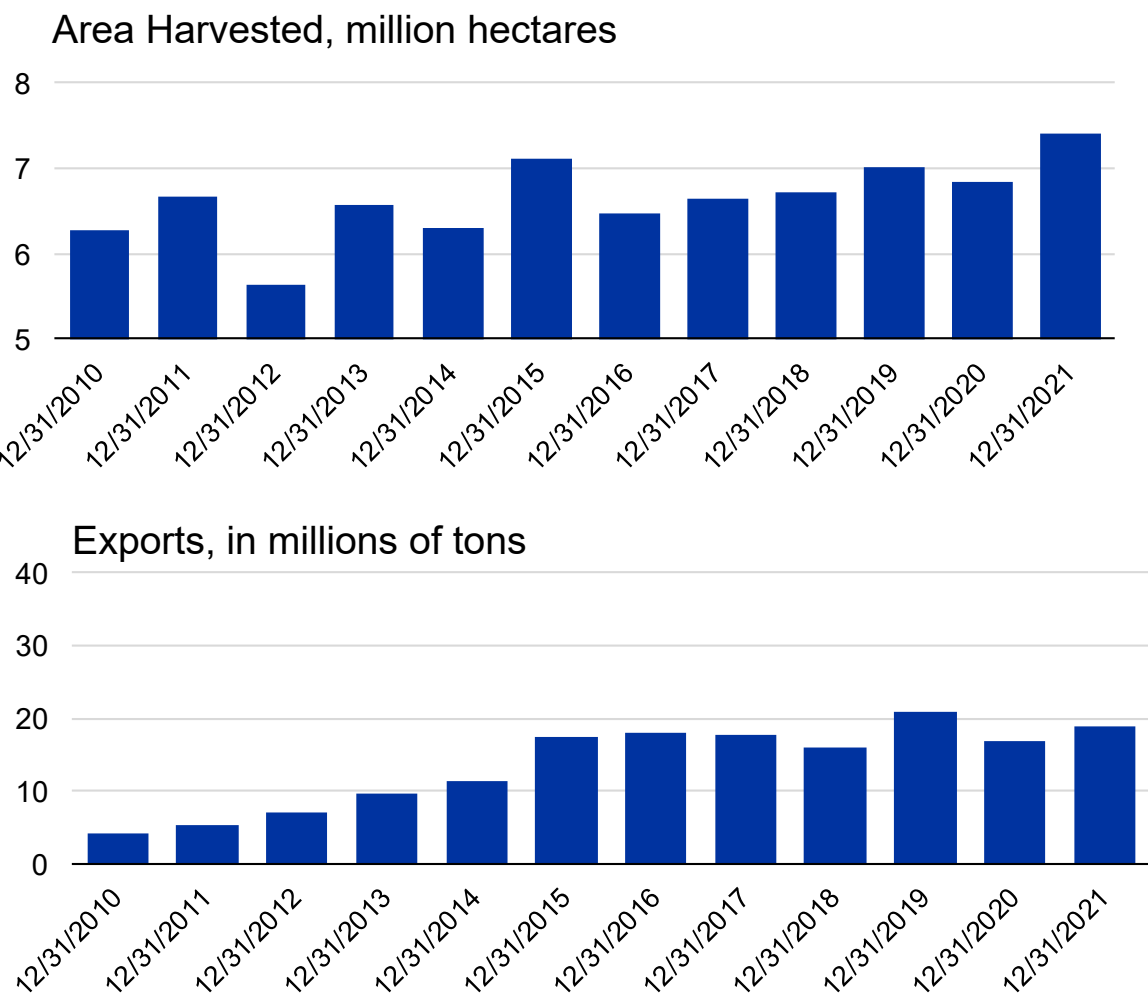


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Ukrainian production uncertain due to the Russian invasion



Production is locked in, and exports have mostly been shipped. There will be some wheat left in the country that will get used domestically



Source: USDA

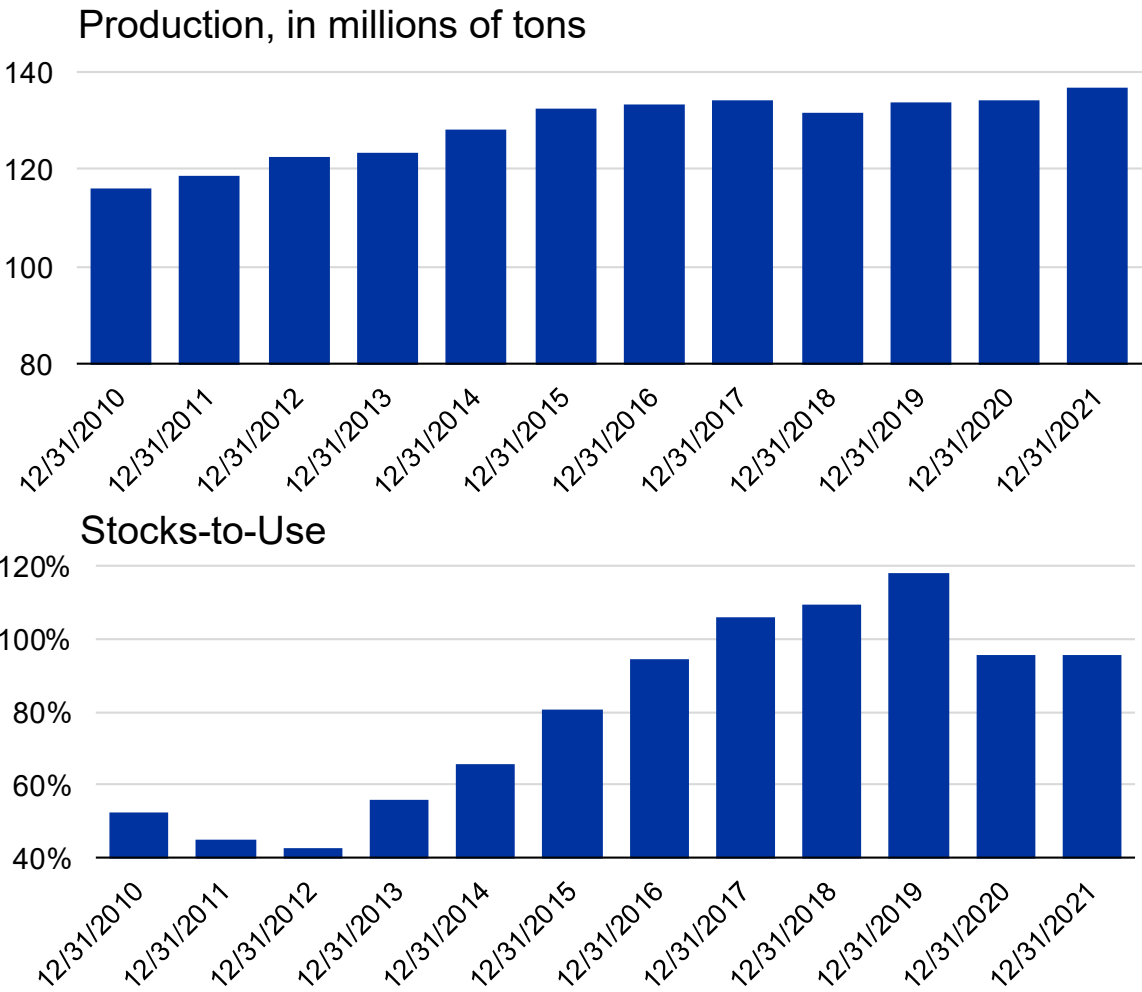
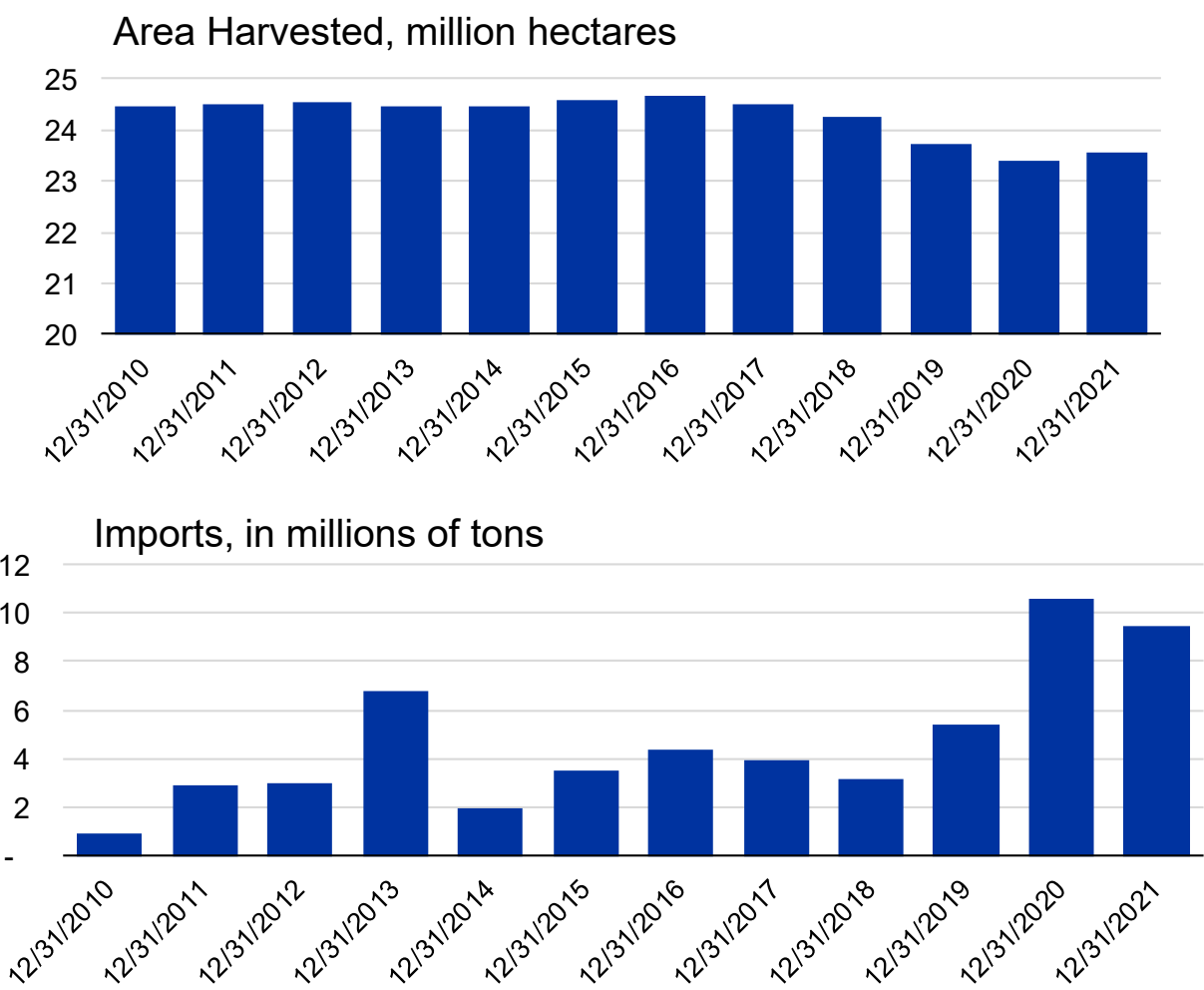


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China is importing additional wheat for feed



Imports and domestic use on the rise



Source: USDA



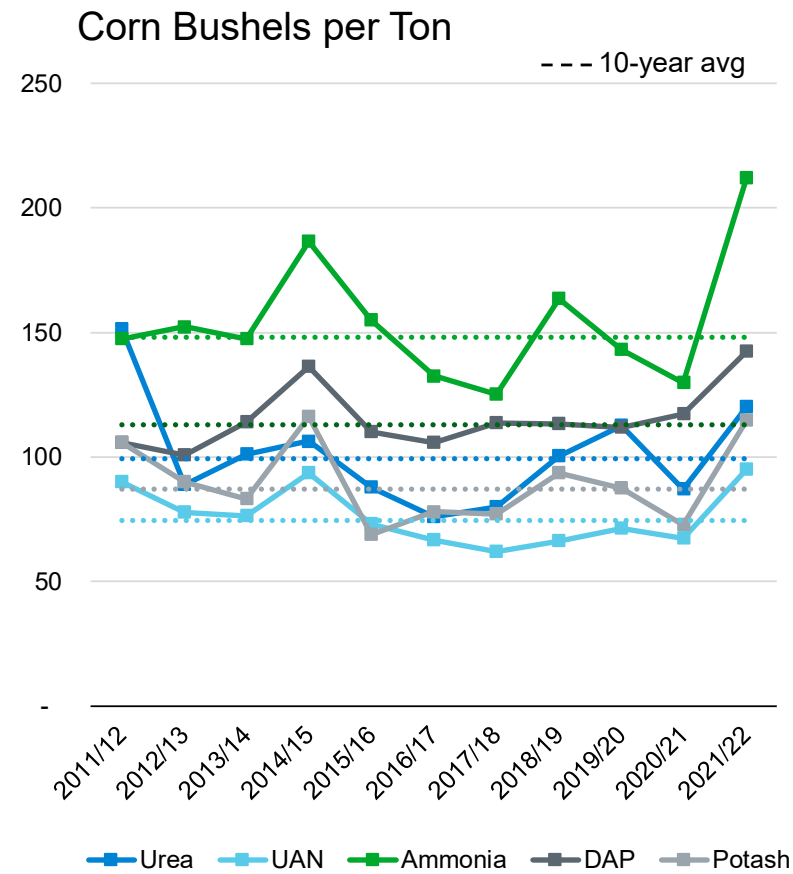
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Fertilizer Update: Early Summer Reprieve

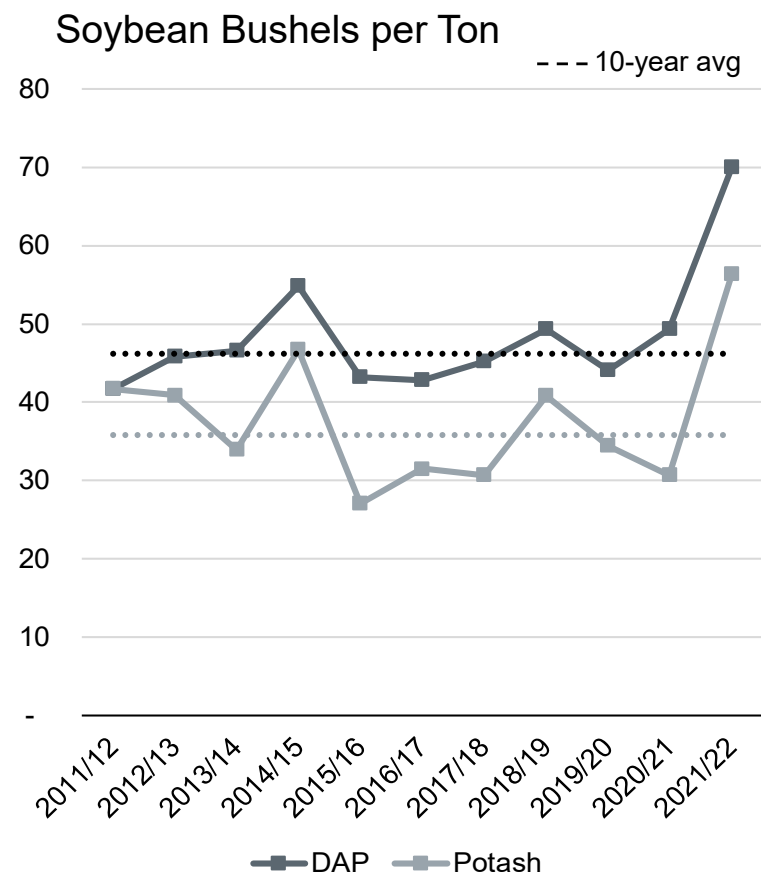


U.S. Fertilizer Affordability by Crop Versus Same Time in Prior Years

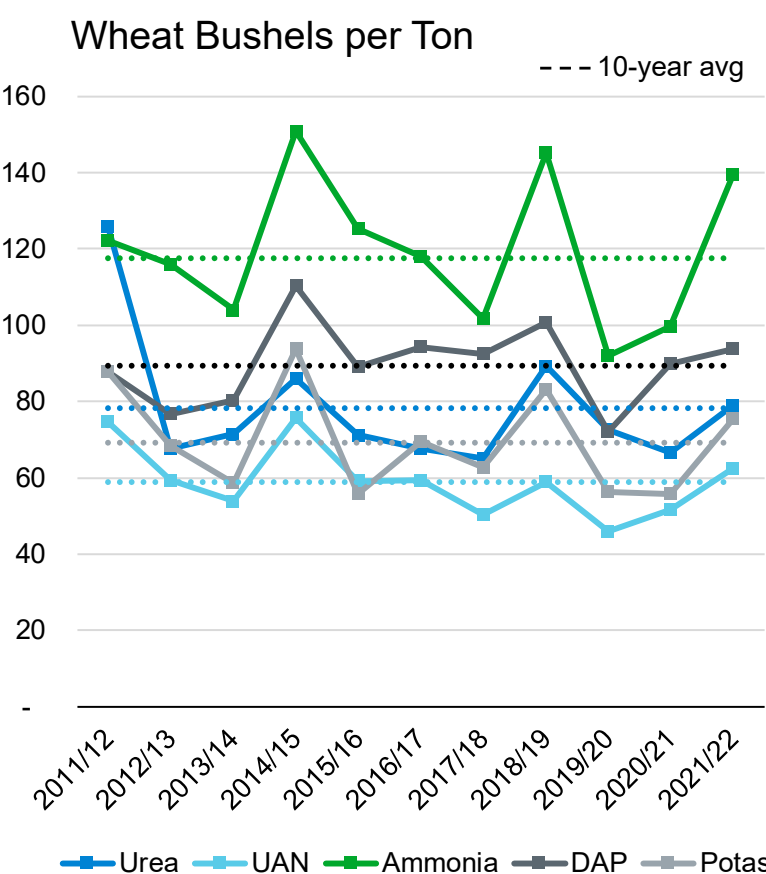
Fertilizer for corn across all products 30% less affordable compared to the 10-year avg



Fertilizer for soy across all products 54% less affordable compared to the 10-year avg



Fertilizer for wheat across all products 8% less affordable compared to the 10-year avg



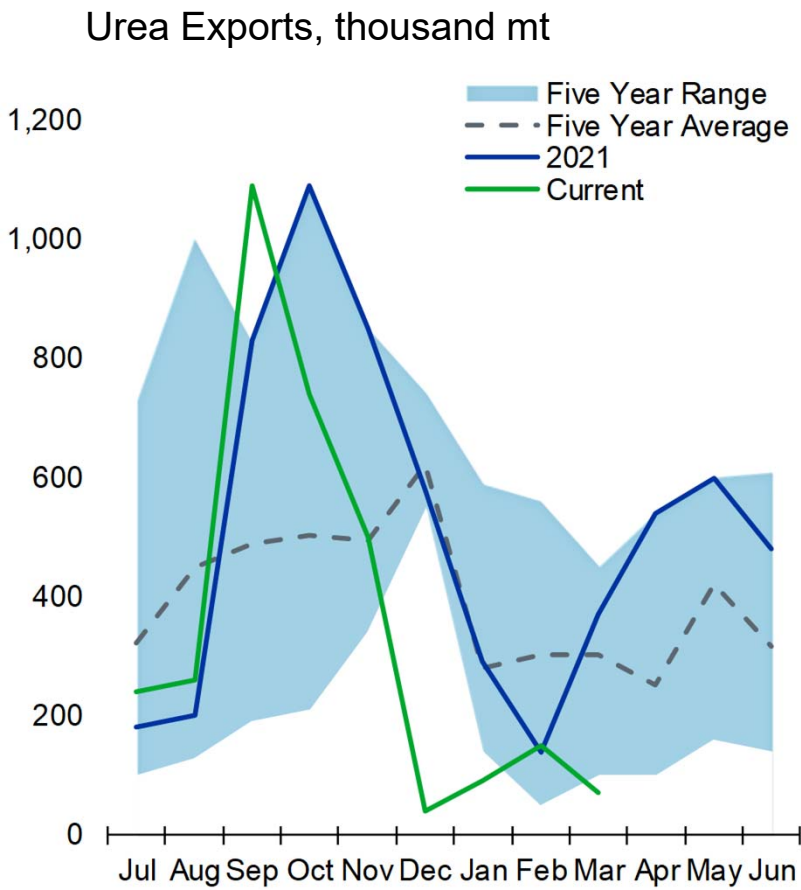
Source: Bloomberg, CHS Global Research



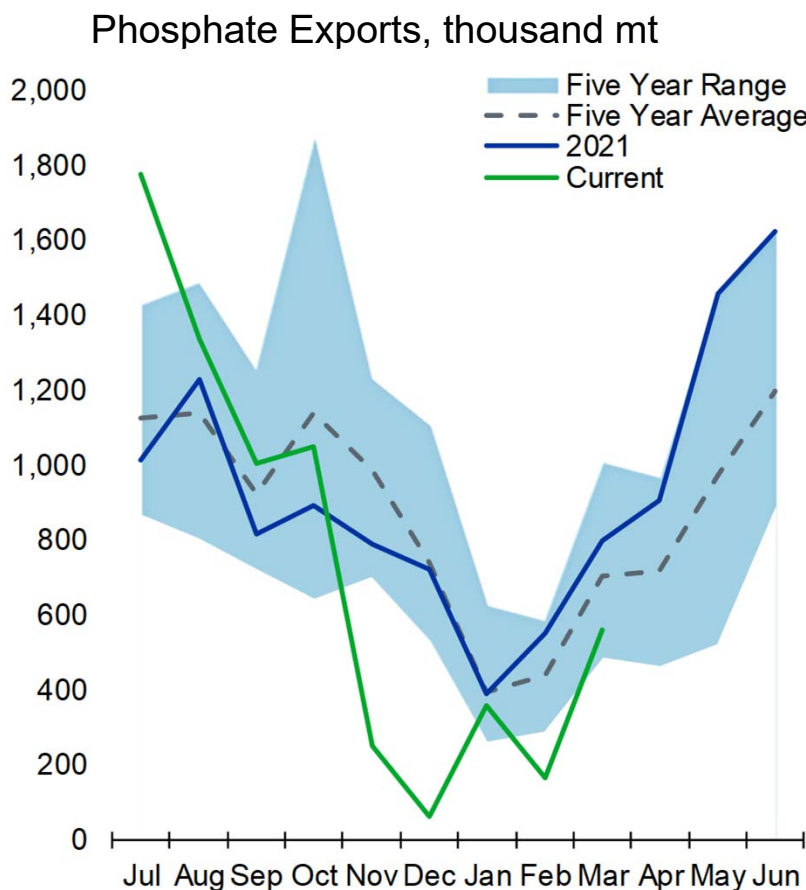
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China Entering Export Season – But Will They?

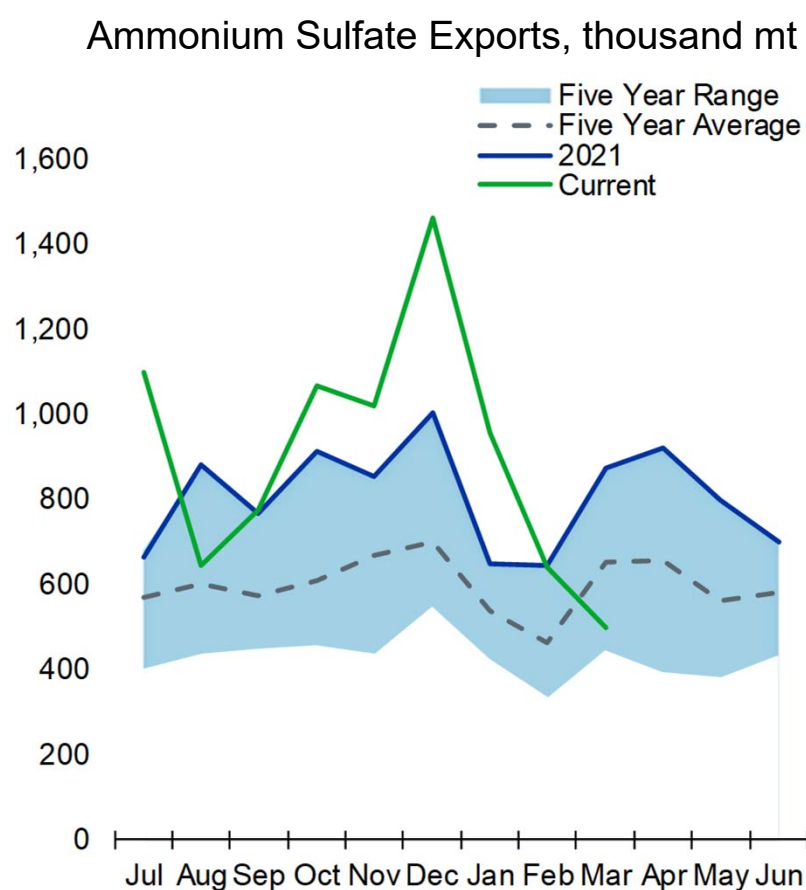
China constitutes ~10% of global urea trade



China constitutes ~30% of global DAP/MAP trade



China constitutes 60% of global AMS trade



Source: Bloomberg, CHS Global Research

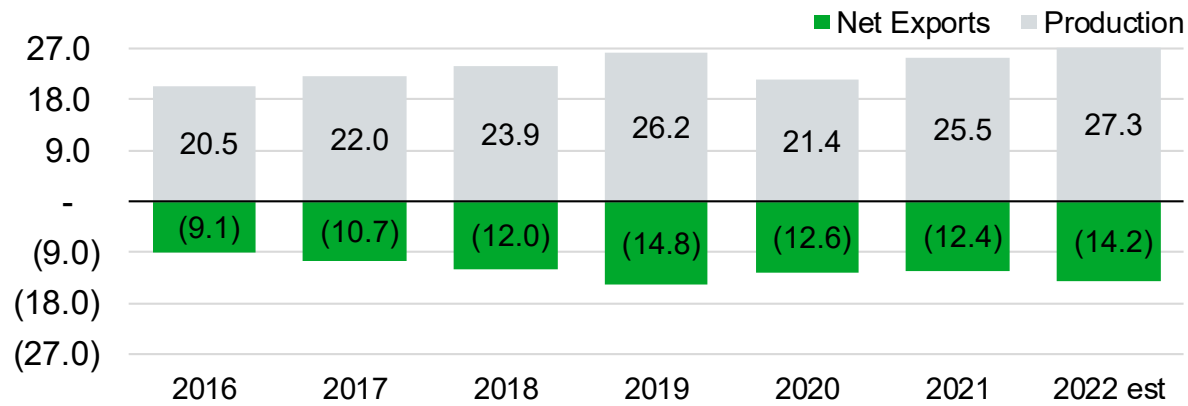


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U.S. - North American Production and Exports

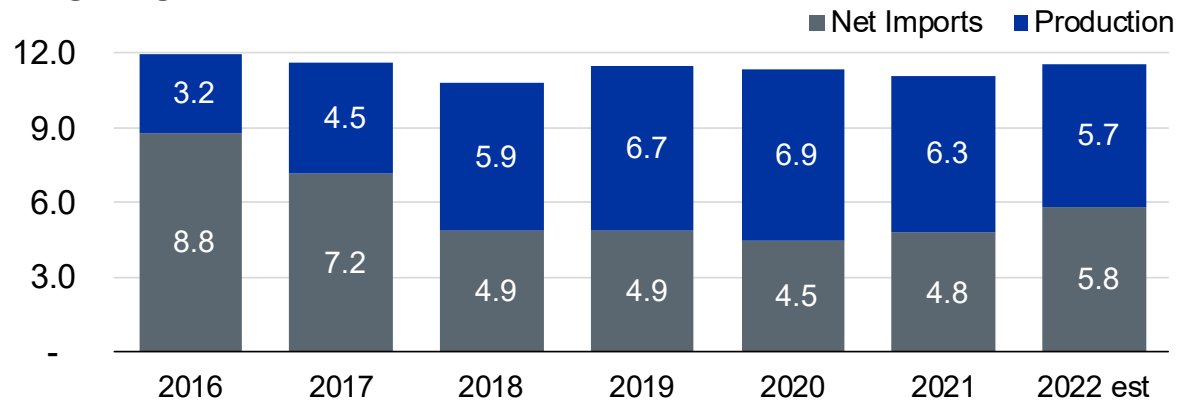
Increased potash production is expected to be met with increased exports as the world starves for product

North American Potash



Increased imports meet with falling production to leave U.S. urea supply well balanced for the year

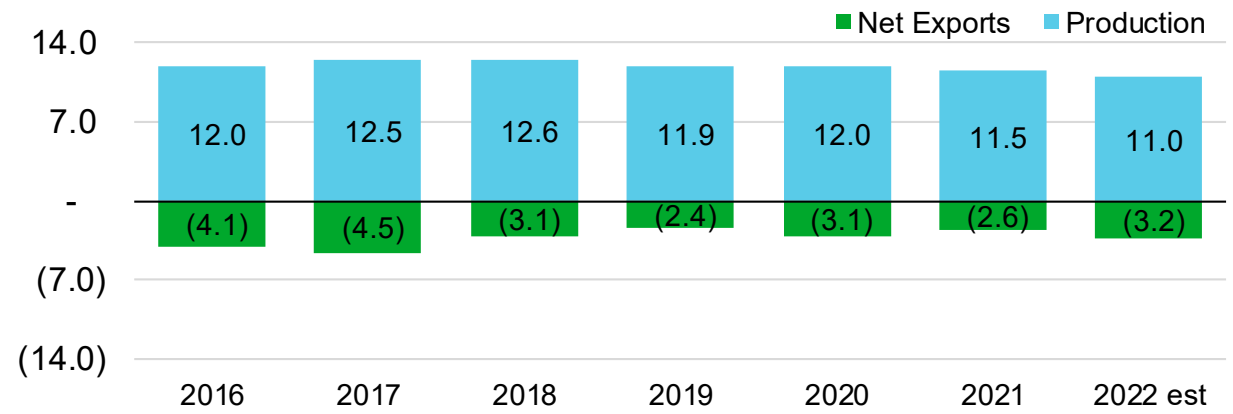
U.S. Urea



Source: TFI, USITC, CHS Global Research

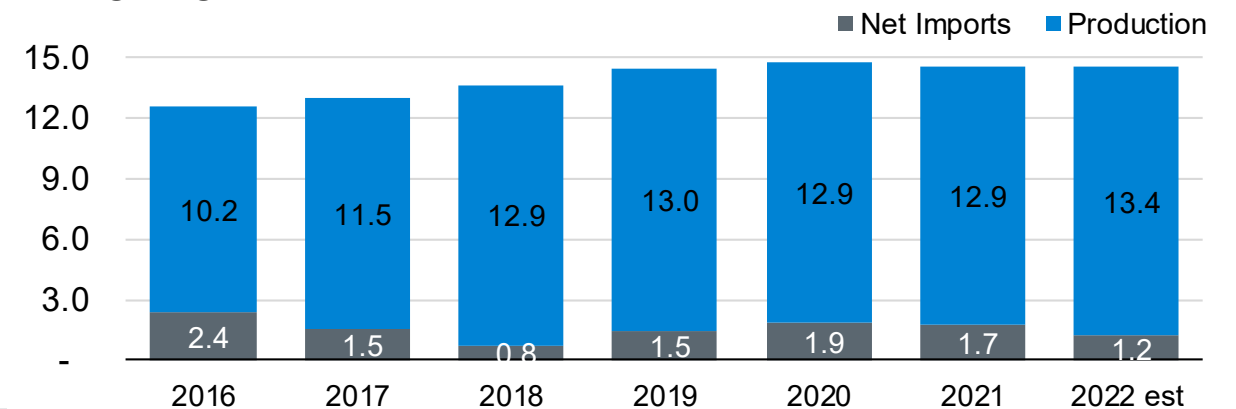
The 2022 fertilizer year is expected to leave U.S. phosphate supply at low levels last seen in 2015

U.S. Phosphates



Falling imports meet with rising production to leave U.S. UAN supply well balanced for the year

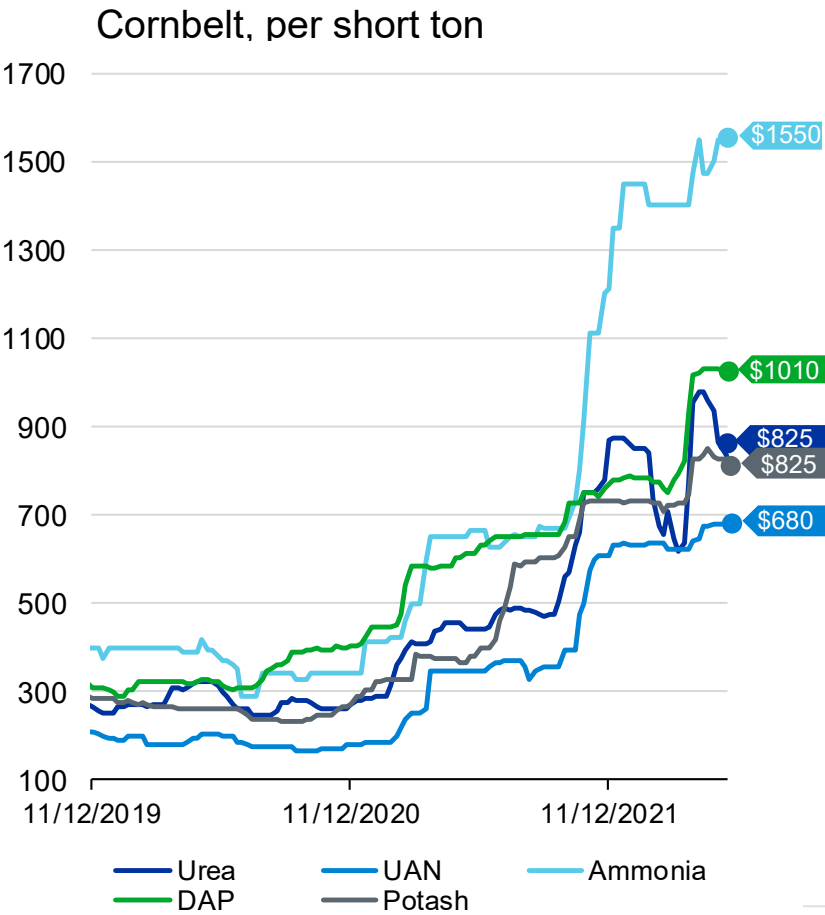
U.S. UAN



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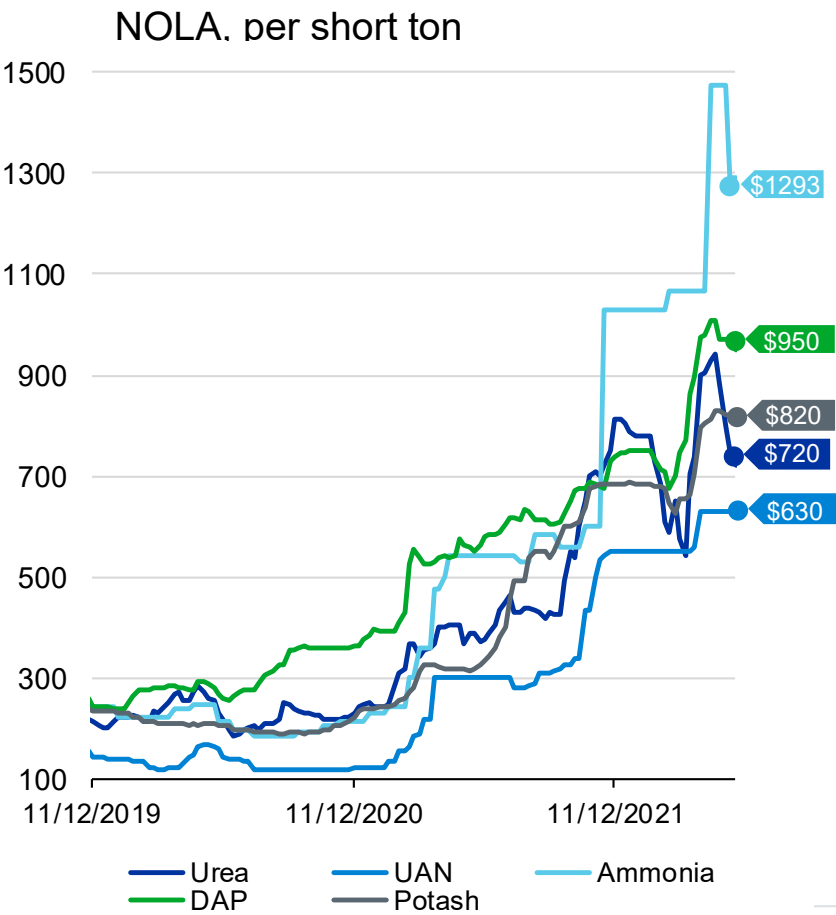
Fertilizer prices have peaked for now – and when demand returns?

On a unit of N basis, UAN premium to urea is quite high for this time of year

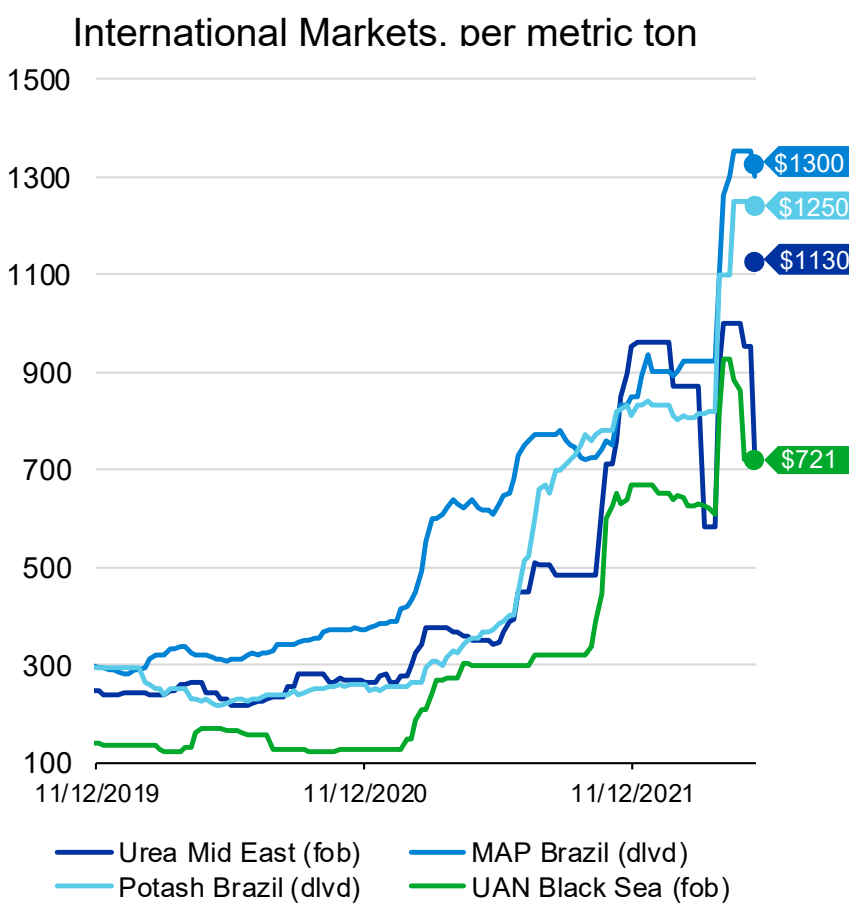


Source: Bloomberg

Nola values ease on weather driven demand destruction



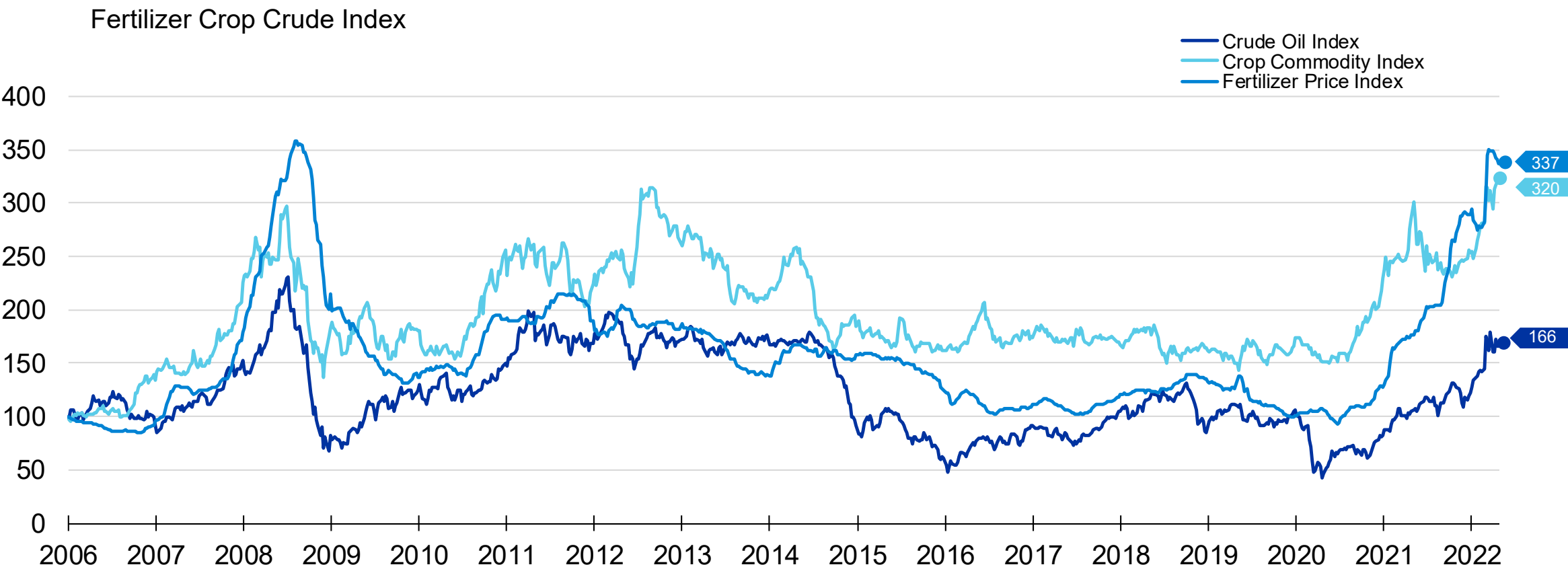
Global nitrogen prices pull back on weak demand – waiting for offers



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Crop index remains firms as fertilizer and crude take a breather

Crop index marks fourth straight weekly rise as fertilizer manages through six weeks of declines – with energy looking for a clearer direction



Source: Bloomberg, CHS Global Research



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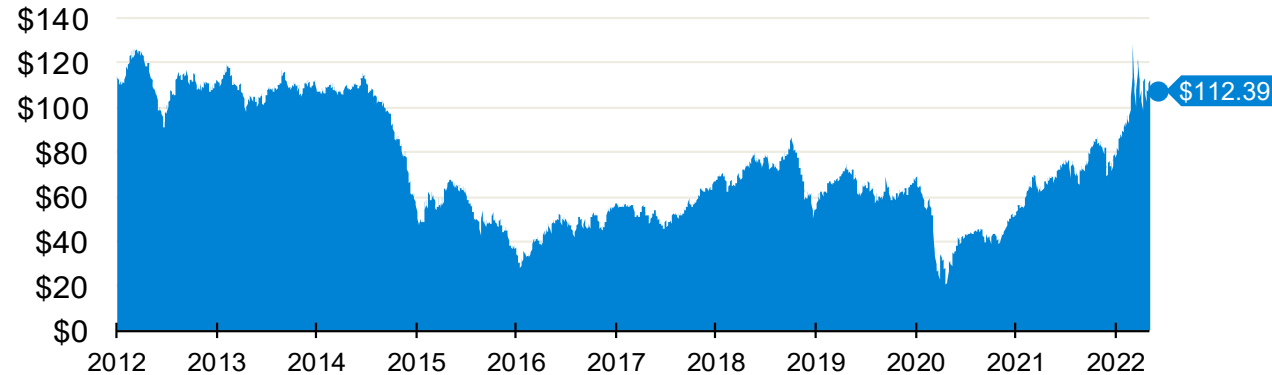
Energy View: More Uncertainty Ahead



No meaningful price relief valve in sight

Crude oil prices up sharply 33% YTD and 57% YOY; uncertain supply and conflict in Ukraine

Brent Crude, daily



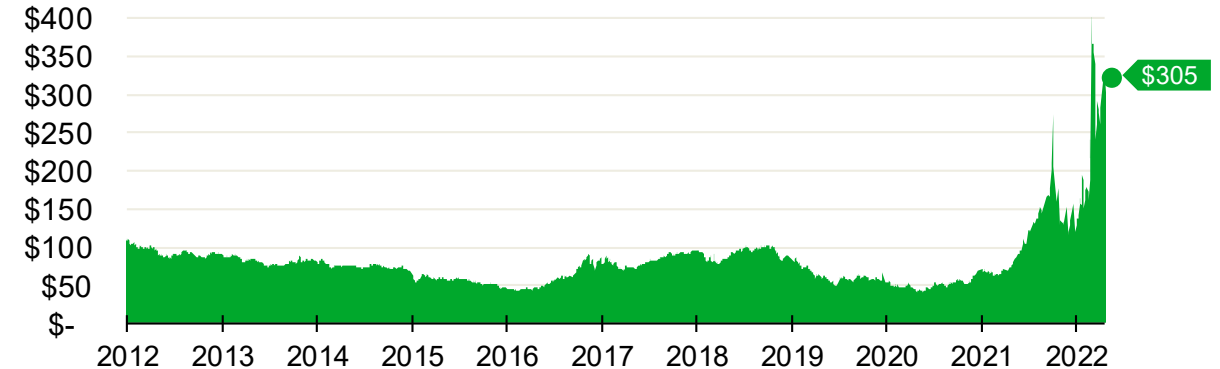
Supply and demand fundamentals pushing natural gas prices to highest multi-day average in 15 years

Henry Hub, daily



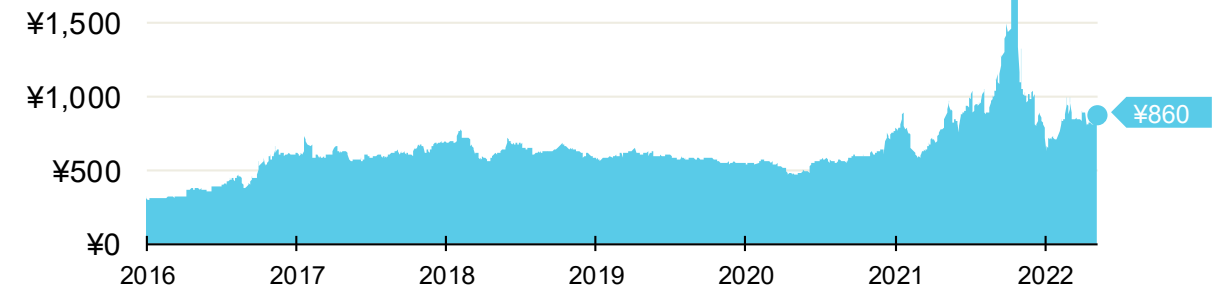
Gas to coal, or coal to gas? Both are expensive

European Coal Futures, daily



China has eliminated coal import tariffs for 11 months, beginning May 1, 2022

South China Coal Futures, daily



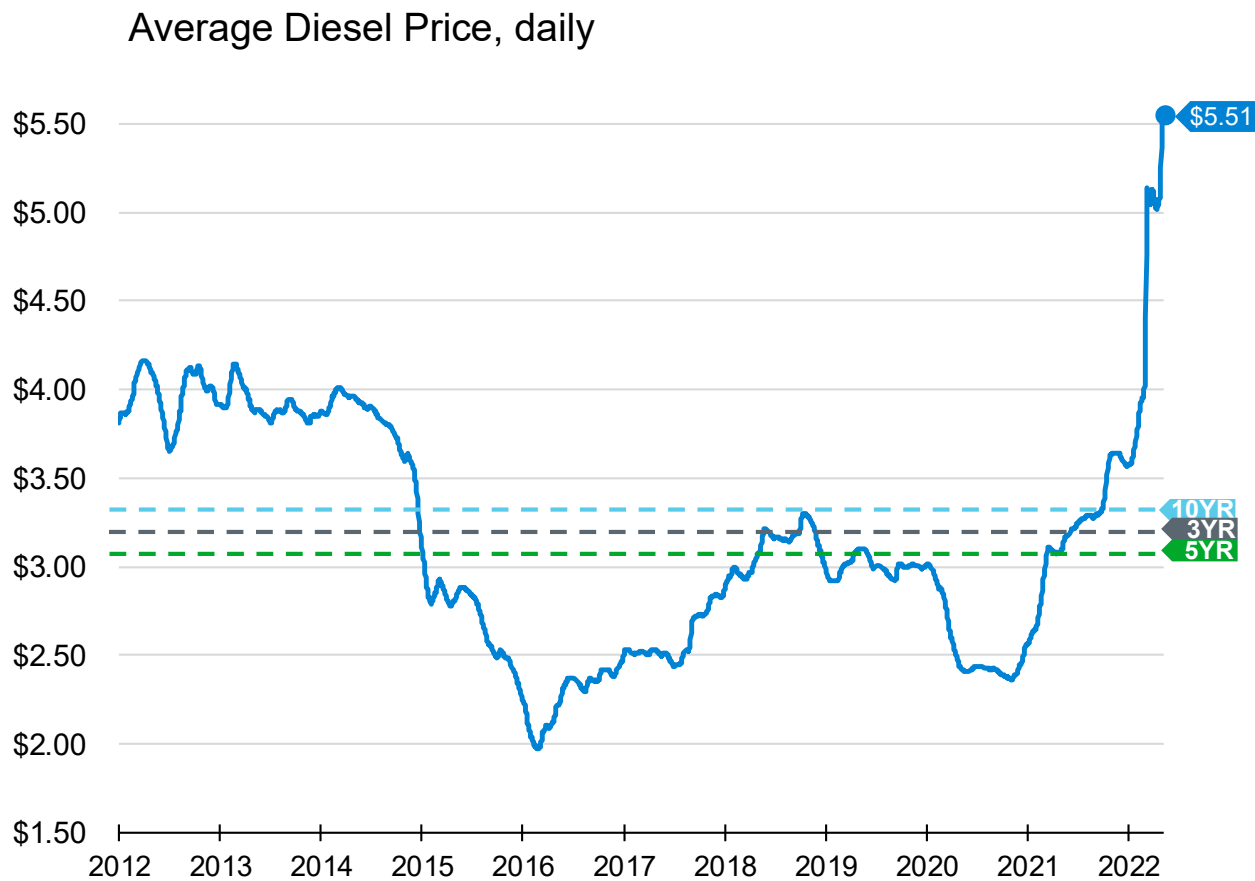
Source: Bloomberg, Reuters as of 5/9/2022



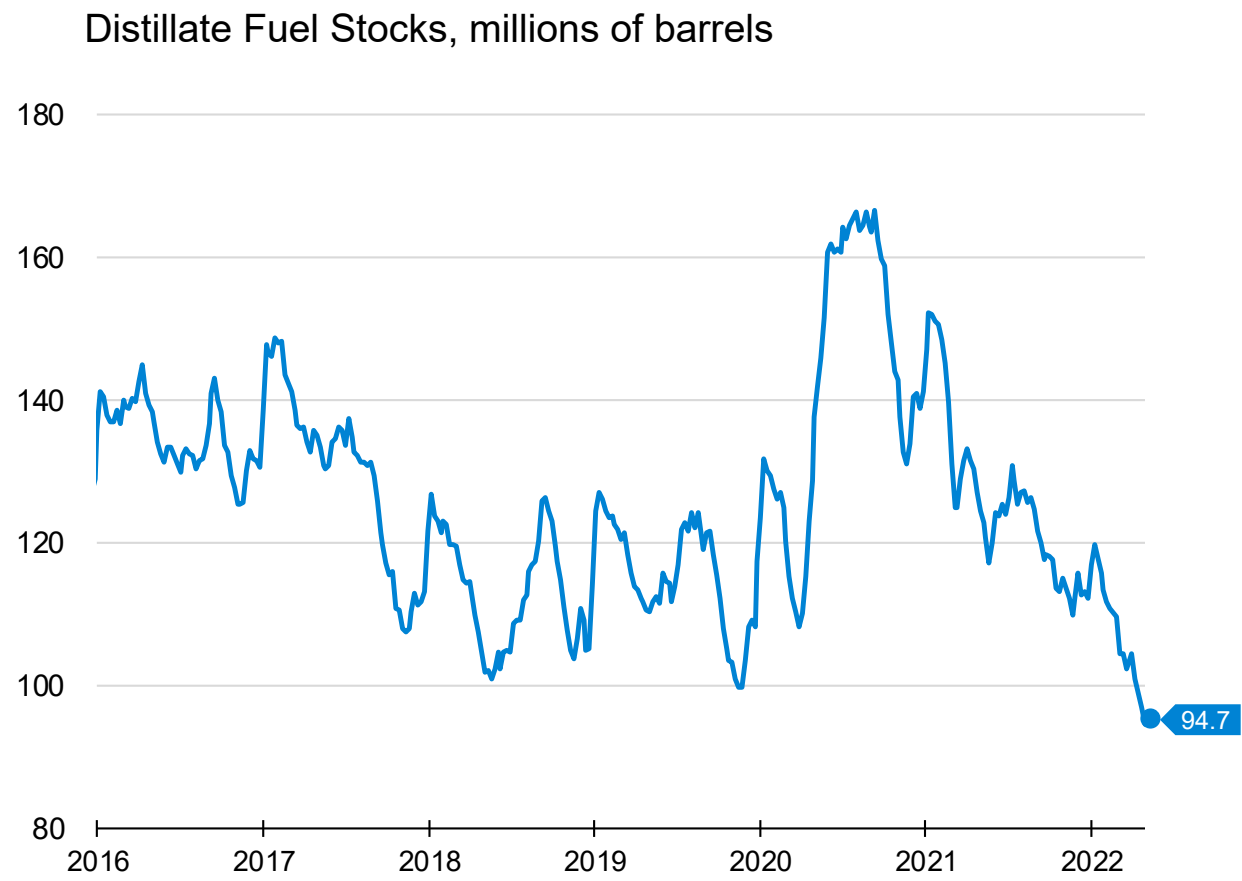
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Geopolitics, low stocks sending distillate prices through the roof

Prices touching over \$5 per gallon – a new record



Distillate fuel stocks are uncomfortably low



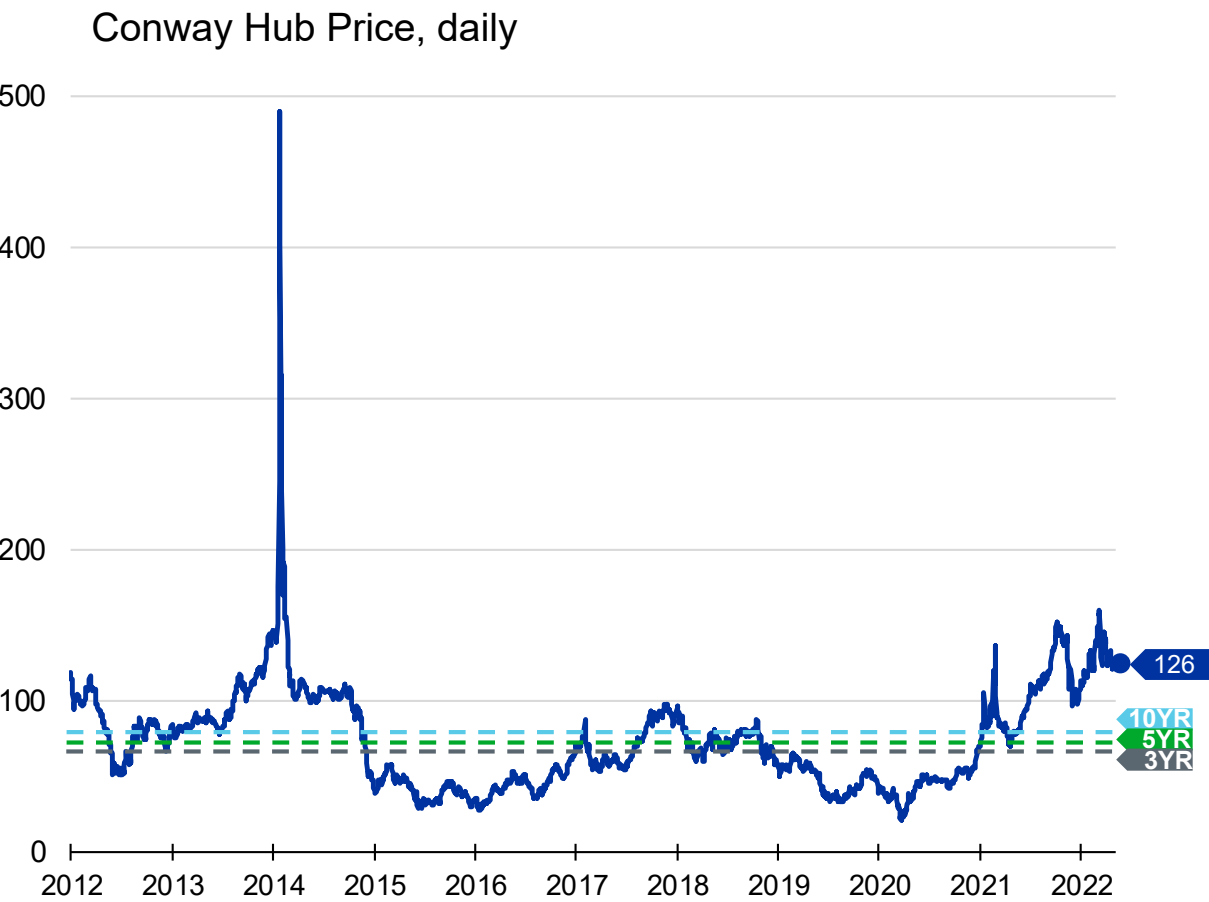
Source: Bloomberg, Department of Energy as of 5/9/2022



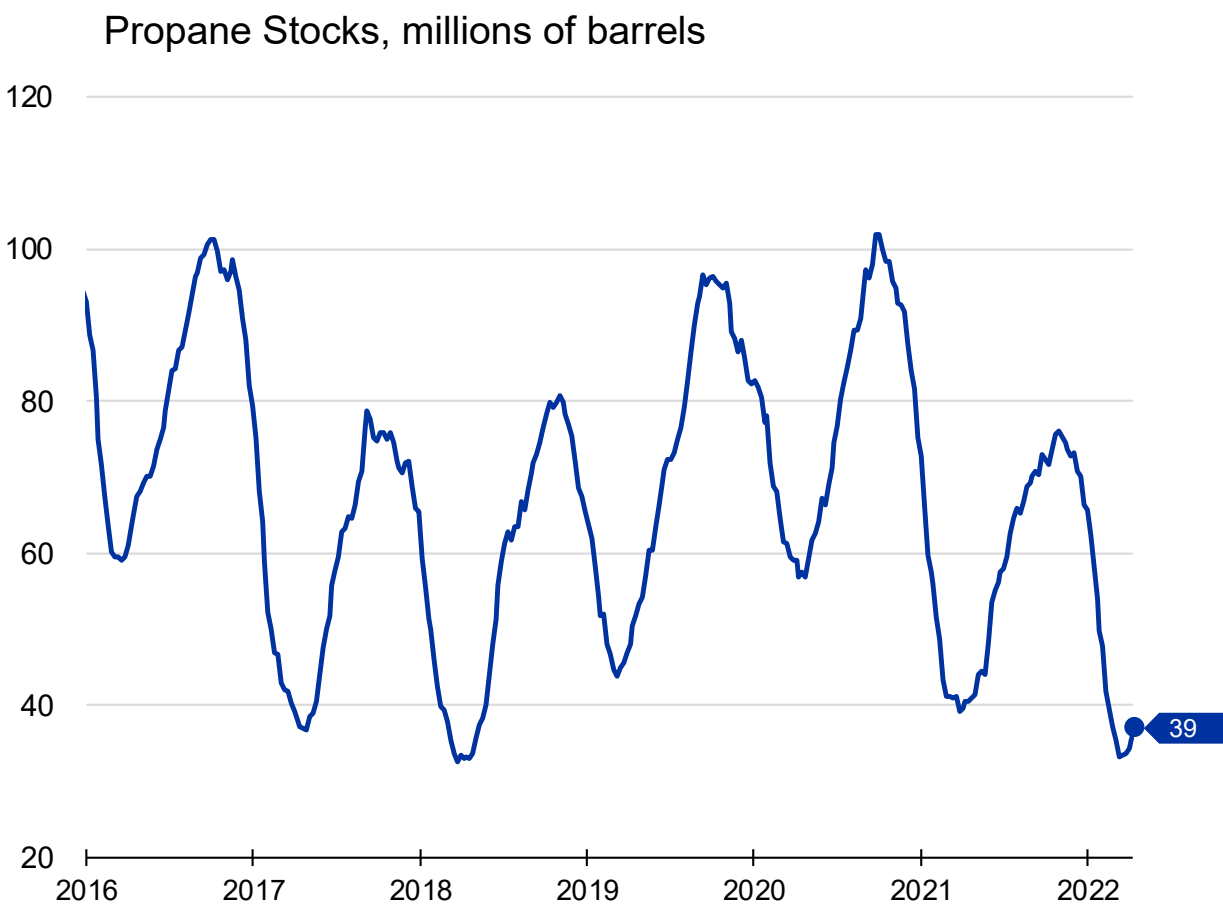
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Propane prices rising amid low stocks, global energy supply concerns

Propane prices shooting well beyond the 3-, 5-, and 10-year average



Persistently strong export demand in part keeping pressure on stocks



Source: Bloomberg, Department of Energy as of 5/9/2022

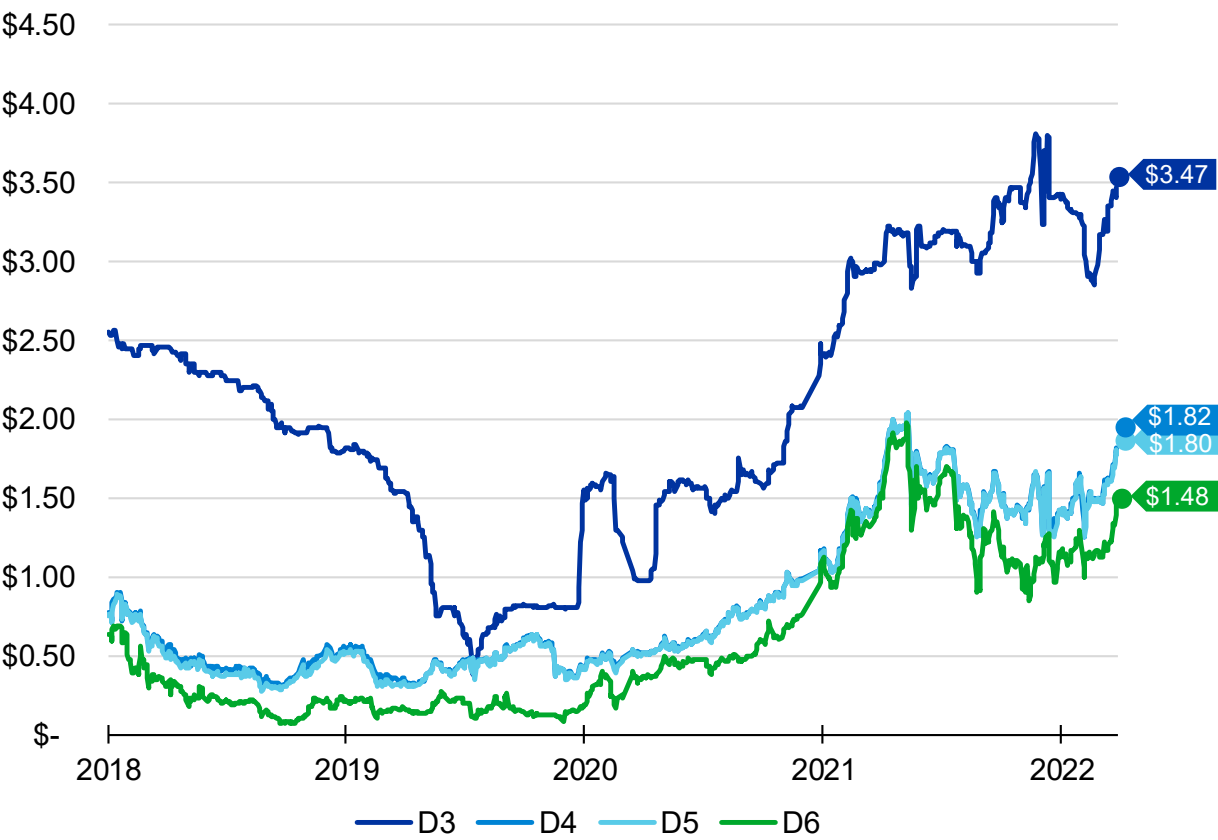


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RINs, renewables prices rise alongside global commodity demand surge

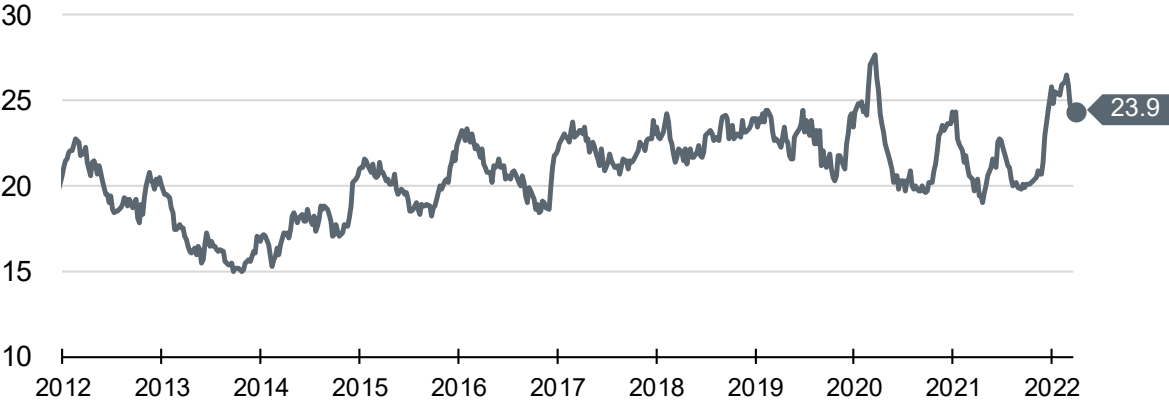
High demand for feedstocks has pushed renewable fuels prices higher, lifting RINs prices along with it

Weekly D3, D4, D5 and D6 RINs Prices



Stocks have stabilized following 6 straight weeks of production increases

Weekly Ethanol Stocks, millions of barrels



Higher corn prices and driving demand boost ethanol prices

Ethanol Price, daily



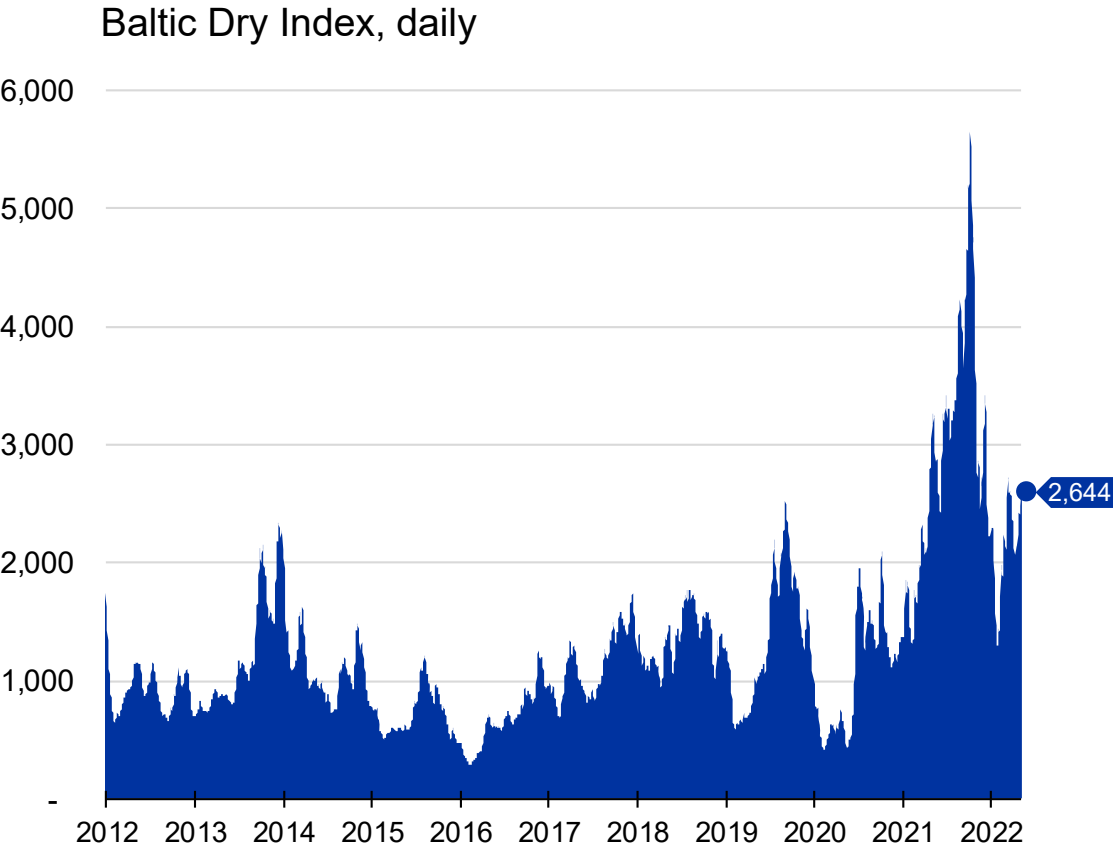
Source: Department of Energy, Environmental Protection Agency as of 5/9/2022



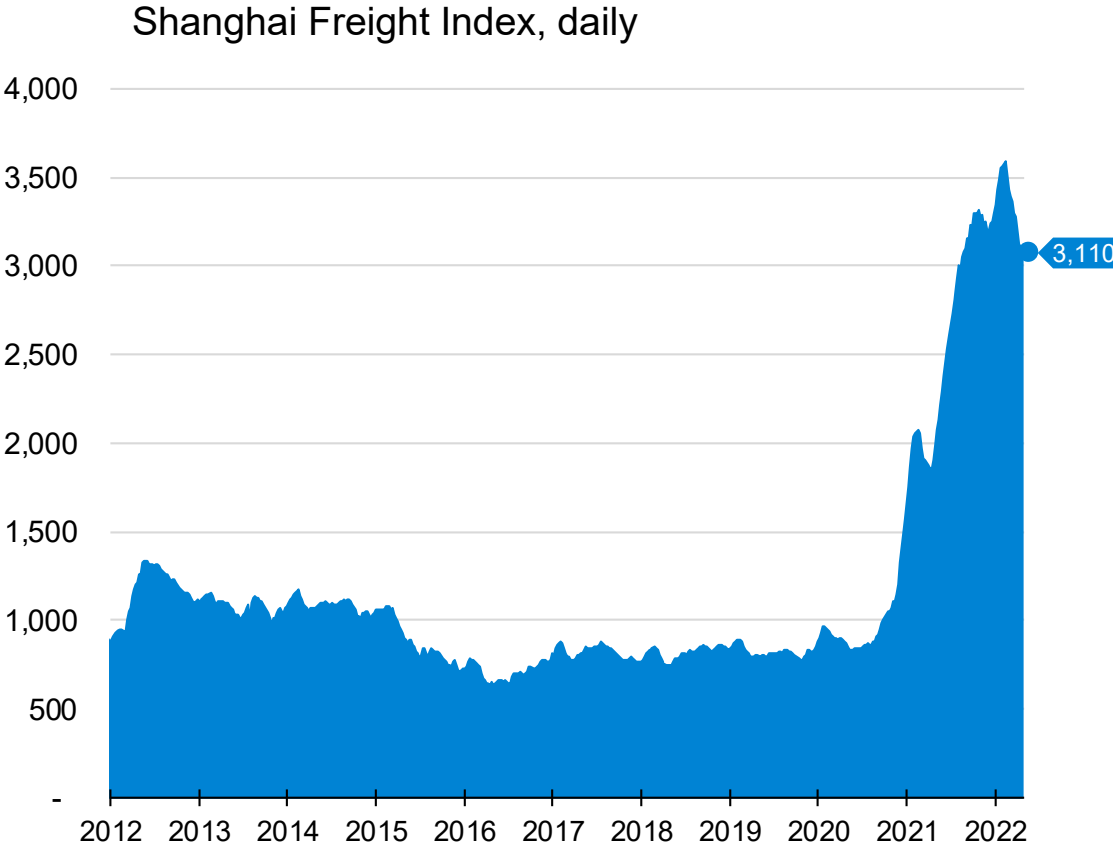
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High commodity prices, increased shipping costs, and massive port congestion causing supply chain issues – and more inflation worries

Traffic congestion, covid regulations, and historically low ship orderbook



20% of active container ships are stuck in ports as a result of lockdowns in major Chinese cities



Source: Reuters, CHS Global Grain Marketing as of 5/9/2022



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Nelson Neale

Head of CHS Global Research

Nelson Neale is president of CHS Hedging and leader of the CHS Global Research team, helping to drive insights and market intelligence across the enterprise and creating thought leadership in agriculture and agri-energy.



Joe Lardy

Research analyst, ag markets

Joe Lardy provides market intelligence and insights to help farmers and commercial businesses achieve their financial goals. He analyzes data that affects commodity markets; provides forecasts and commentary based on government-issued reports; and provides insights for making hedging decisions.



Jason DeVinny

Research analyst, macroeconomics

Jason Devinny develops macroeconomic insights on external influences that impact CHS businesses, providing thought leadership and reports on factors ranging from global currency and farm credit, to domestic policy.



Matt Welp

Research analyst, agronomy

Matt Welp handles technical chart analysis, conducts weather analysis, and provides outlooks and insights for agronomy, grain, processing and energy markets. He provides comprehensive views of current and future economic landscapes, as well as highlighting technical trading opportunities.

**Connect with the CHS Global Research team
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