Evolution or Revolution

Key Trends in Ag Commodities

Johan Steyn – South Africa, March 2016
Agenda

1) Price evolution in past 2 years

2) Overview of current game changers

3) Impact on agriculture markets
Price Moves in Last 2 years

- Massive Crops
- South American Crop Delay
- Russian Export Tax
- Weather & Funds

Graph showing price movements of corn, wheat, and beans from Jan-14 to Dec-15.
Bearish Pressure Across Commodity Markets
Crude as a Key Game Changer
Crude and Ag Commodities:

With the lack of a fundamental story, agricultural commodities look at macro influences for price direction.
Dollar as Key Game Changer
Currency and Commodities:

Correlation between strong dollar and low commodity prices

Why this correlation?
- More expensive commodities
- US is less competitive
- Incentives for bigger crops outside the US
- Funds exiting long positions

*Goldman Sachs Commodity Index

USD (Index) vs. Commodities (GSCI* Index)
Other Currencies Devalued Heavily
Prices in local currencies remain high

**In USD**

**In Local Currency**

- **US Corn**
- **EU Wheat**
- **Russia Wheat**
- **Arg Corn**
- **Brazil Corn**
Current Game Changers
Argentina – Back in The Export Game

Argentina Corn Production & Exports

- Production
- Exports
- C/O
Brazil – Locked in a Negative Spiral?

An instable political environment has strong influence on the economic scenario.
Middle East and Africa remains a growth area where lots of swing factors reside.

Egypt continues to grow as a key destination

Egypt Imports (’000 MT)

- Corn
- Wheat
- Soybeans

Iraq and Syria imports affected by war and unrest

Iraq - Wheat
Syria - Corn
Yemen - Wheat

Iran becoming a structural importer?

Iran - Precipitations vs. Imports

(*) Yemen is 2014 compared to 2015
Will China Continue to Conduct Reforms in our Industry?

- More centralization and concentration of State Owned Enterprises in Ags (Cofco, Chinatex...)
- Continuous intervention and support to farmers
- Stringent approach on food security

- State Owned Enterprises in Ags getting more open to partnerships; greater participation of foreign capital in China
- Farming sector being further rationalized and industrialized
- Gradual opening to free world trade in Ags

Impact of the change in the Corn policy
Is the Indian subcontinent a potential new China?  

*GDP growth: 5 to 8% according to countries*

1.7 billion people in 2019  
(+105 million from 2014)

- *Meat consumption* keep increasing in Pakistan and Bangladesh
- Reforms in India are successful and *GDP growth accelerates*
- *Indian meat* demand continues to increase by 5% per annum
- *Vegoils* keep rising
Regulatory Changes Impacting Trading environment

In US Dodd Frank Regulations

In EU MIFID Regulations

Increased scrutiny around trading companies

Regulation of any Speculative activities

- More Forced Transparency
- More Offshore Black Box traders

More Or Less Volatility & Trading Opportunities?
How can we respond to upcoming technology threats and opportunities?

- Focus and prioritize
- Identify new value areas
- Deal with speed and complexity
- Define cutting edge systems
- Faster Markets

Big data
Internet of things
Precisions agriculture technologies
Increased transparency
Digital platforms and analytics
Real time information
Easier access to information and forecasts for more players
Black Box (Algorithmic) Type Funds Have an Increasing Impact Despite Hedge Funds Exiting Commodities

Fiber optic between Chicago and New York Saving... 3 milliseconds

Position of funds lowest since Fall 2011 in both number of contracts and dollar amount.
Funds as Reactive as Ever
Keeping their role as Accelerators and Amplifiers

Small weather scare with massive shorts causes big moves
So What Does This Mean for Ag Markets?
Production of Grains are growing
Stock to Use ratios across main commodities are expected to keep building

 Stocks to Use Ratio in %

- 35.00
- 30.00
- 25.00
- 20.00
- 15.00
- 10.00
- 5.00
- 0.00


Stocks to Use | Forecast
Is there a “New Normal” in Commodities?

Market Volatility - 10 year history

Oversupplied markets

Strong Dollar

Crude at 50-65 USD/MT

Returns based annualized with average rolling over month prior to expiry.