

# Commodities Trading Report

By Max Schulz

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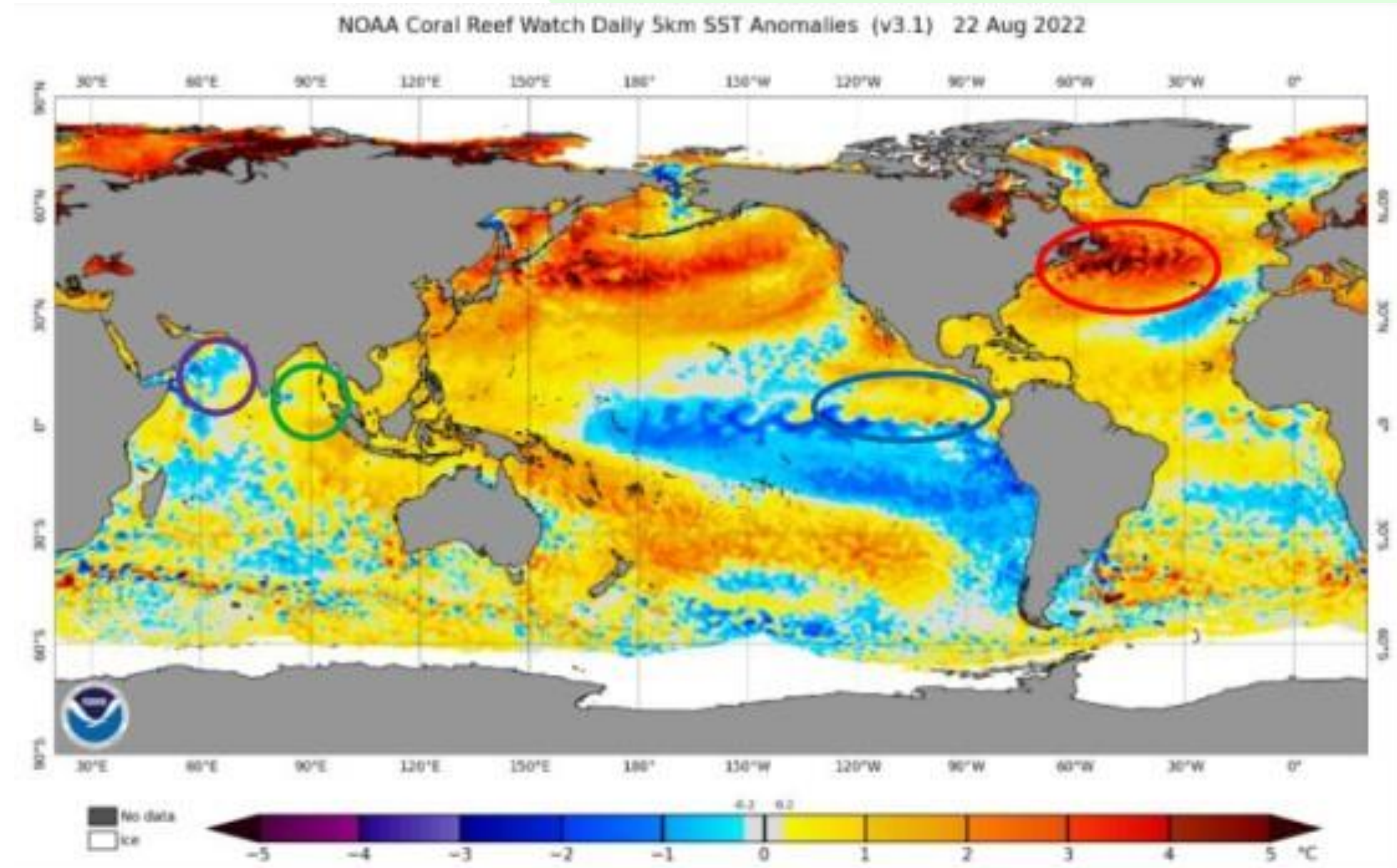
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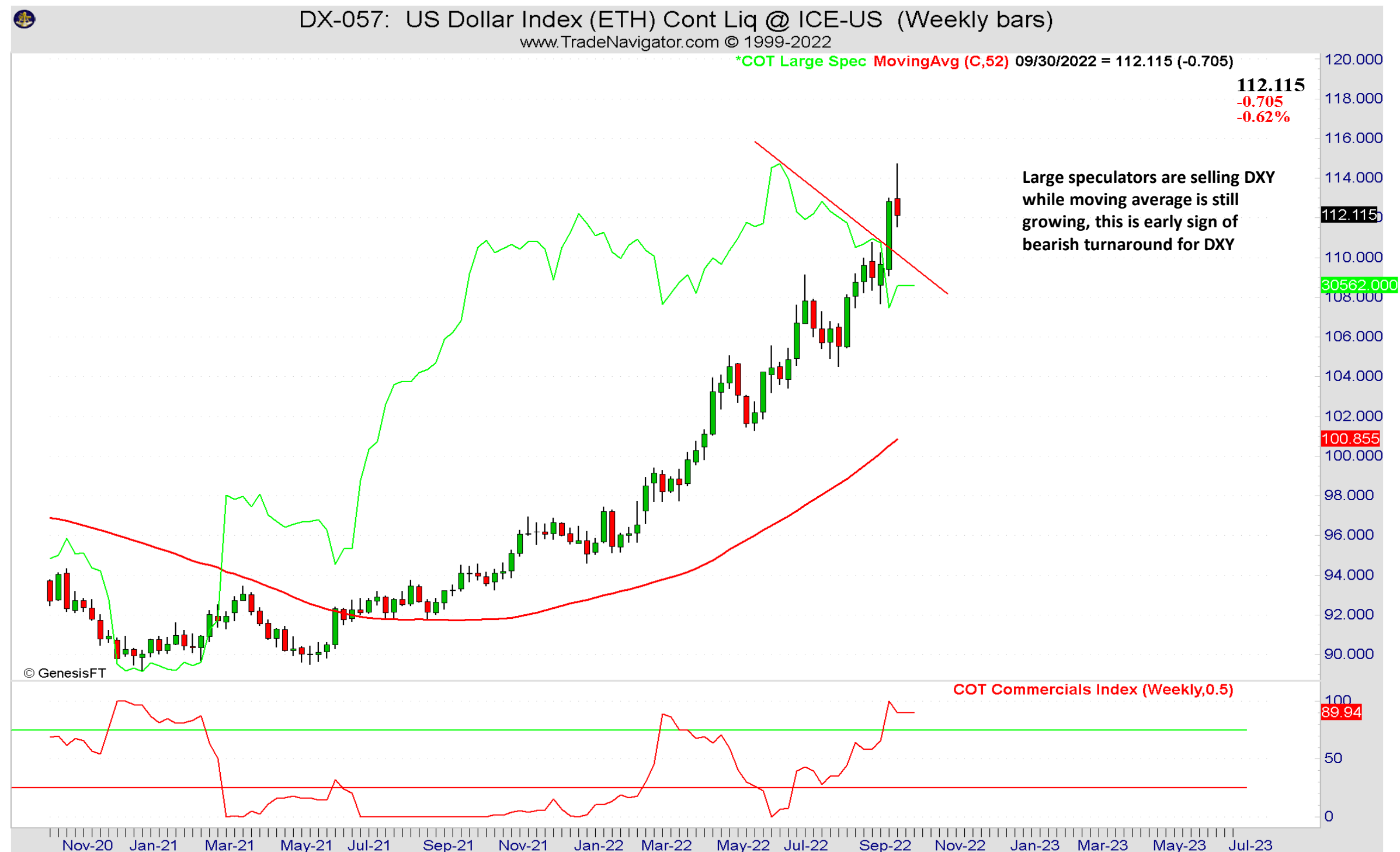


# Global weather review

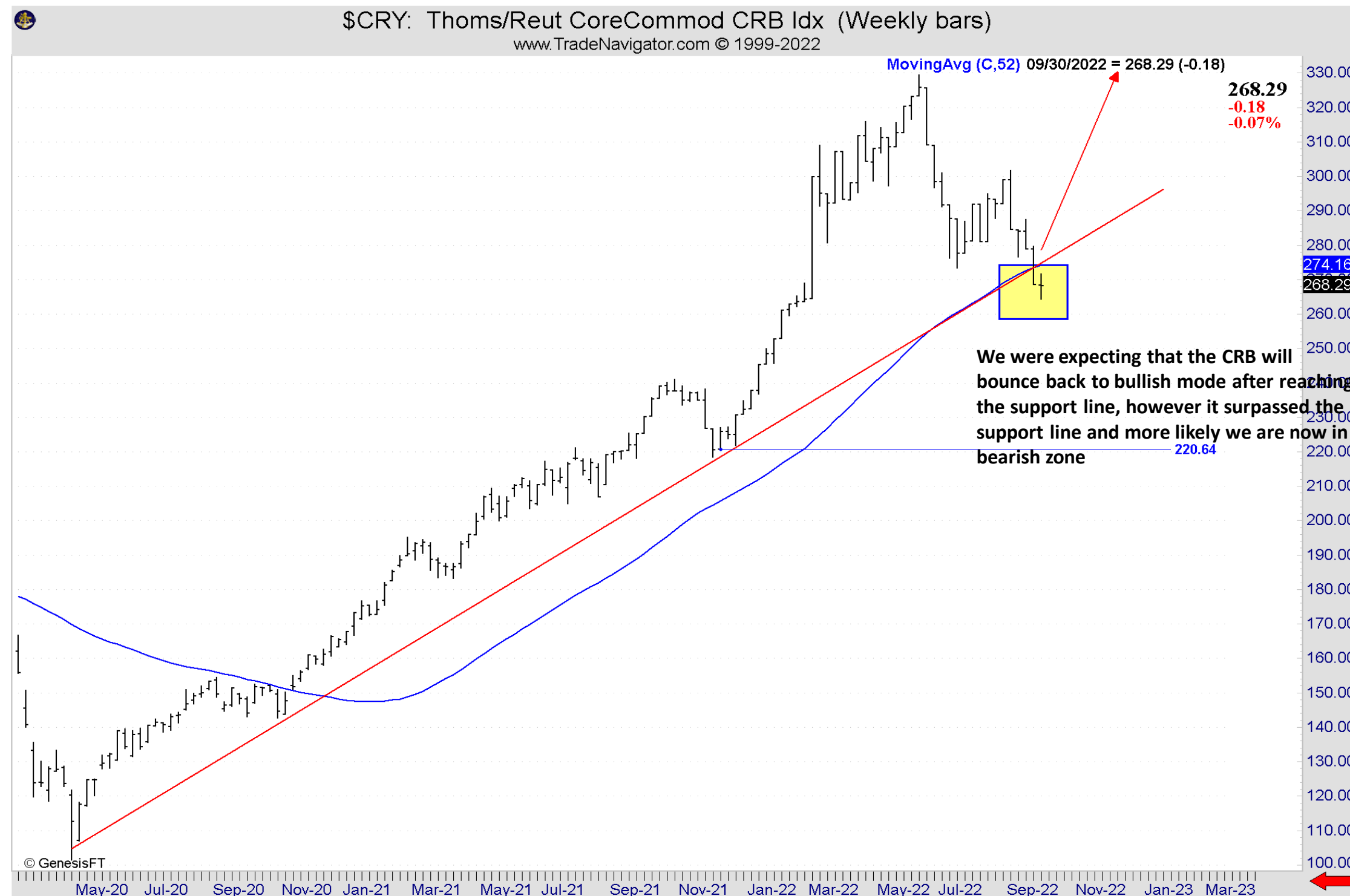
- It's the third La Nina event in a row. This is rare, but not unheard of. Triple La Ninas have also occurred in, for example, 1973–1976 and 1998–2001.
- La Nina may peak during spring, and return to neutral conditions early in 2023. Most seasonal prediction models are suggesting this La Nina event will be weaker and shorter-lived than the last two.
- In areas like Texas and Louisiana, the shift causes hurricanes. In Australia, Indonesia, and parts of Asia it brings cooler temperatures, rain, and flooding. In California, it does the opposite.
- La Niña is expected to intensify drought across the southern and central Plains, eastern Gulf Coast, and in California in the coming months.
- The negative Indian Ocean Dipole event continues (red and green circles). Negative IOD conditions are likely to continue into late spring. When a La Niña and negative IOD combine, it further increases the likelihood of above average rainfall over Australia and SE Asia.
- Hurricane Ian had hit Florida coast by arrival it transformed from storm to hurricane category 4.



# Dollar Index



# Commodities Index





# Natural Gas: Buy

- Wednesday prices shook off early losses on positive carry-over from an +11% surge in European prices. European prices hiked Tuesday and Wednesday after Gazprom PJSC warned there is a risk Russia will sanction Ukraine's Naftogaz and prevent it from being able to pay transit fees, which would put at risk gas flows to Europe via Ukraine.
- This week's sabotage of the Nord Stream 1 undersea pipeline and the massive leak under the ocean means there will be no near-term chance that Russian might reopen the pipeline to begin delivering gas to Europe again. Prior to the explosions, Russian's state-owned gas company Gazprom had cut off the delivery of gas through that pipeline to Europe under the pretext of technical issues.
- Reduced U.S. production is supportive for prices after the Bureau of Safety and Environmental Enforcement said U.S. energy companies idled 5.95% or 128 mcf/day of daily gas production in the Gulf of Mexico due to the approach of Hurricane Ian.
- Outlook for mild U.S. fall temperatures that curb heating demand for natural gas weighs on prices. The Commodity Weather Group said it expects above-normal temperatures in the western and central U.S. from October 2-6, with normal temperatures expected in the East.



- Lower-48 state total gas production on Wednesday was 100.5 bcf, up +5.7% y/y. Lower-48 state total gas demand on Wednesday was 66.2 bcf/day, up +7.7% y/y. LNG net flow to U.S. LNG export terminals Wednesday was 12.1 bcf/day, up +4.2% w/w.
- An increase in U.S. electricity output is bullish for the demand from utility providers. The Edison Electric Institute reported Wednesday that total U.S. electricity output in the week ended Sep 24 rose +4.7% y/y to 79,329 GWh. Cumulative U.S. electricity output in the 52-week period ending Sep 24 rose +2.7% y/y to 4,125,781 GWh.
- Nat-gas prices have support as EU countries agreed to cut the demand from Russia by 15% over the next eight months. Also, Russia recently slashed exports to Europe to 20% of capacity, putting upward pressure on European prices.
- **Bullish factor supporting gas prices is geopolitical situation around critical gas infrastructure in Europe**



# Natural Gas Price Chart





# Orange Juice: Buy

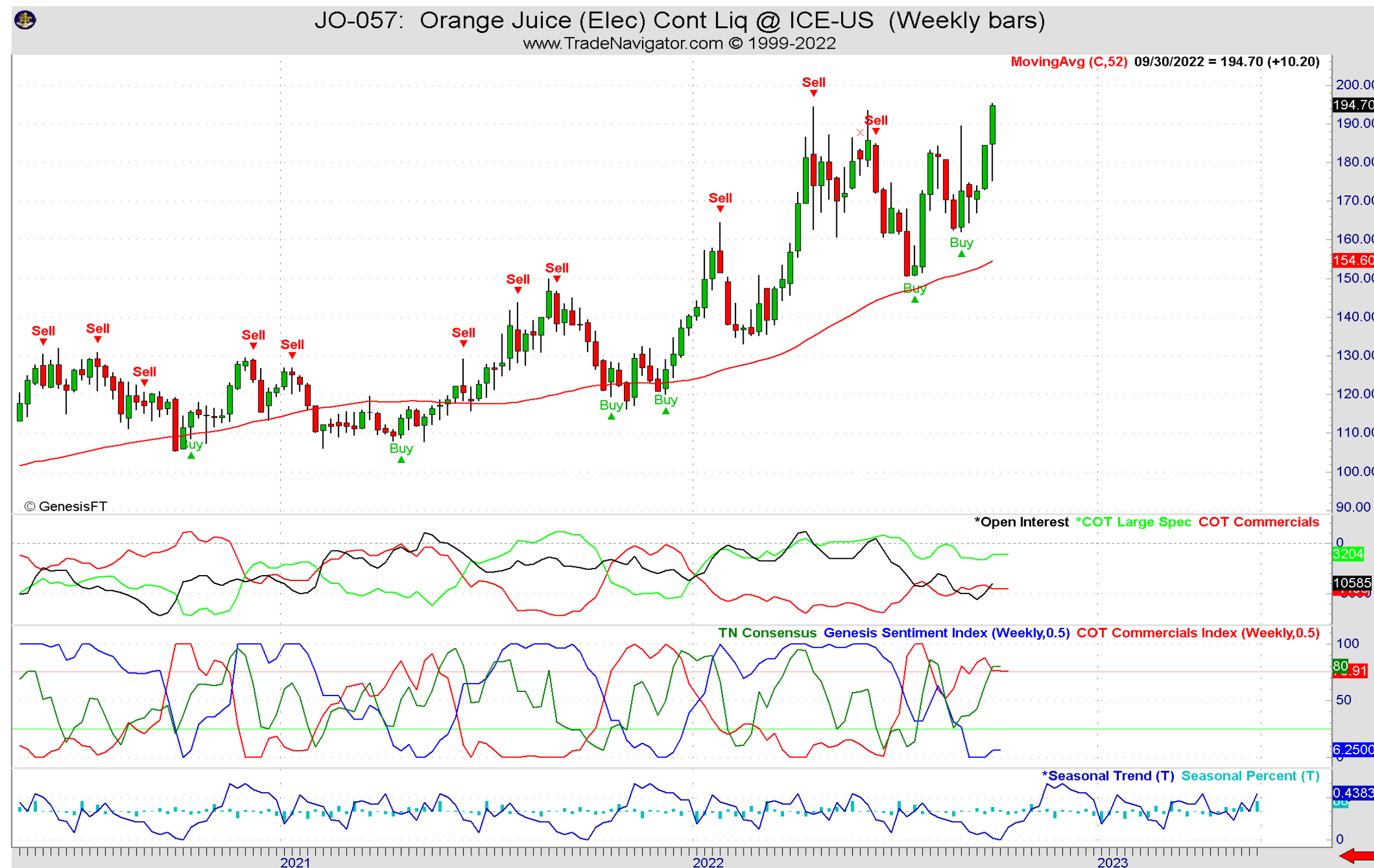
- Orange juice futures on ICE exchange traded up as much as 5.5% on Wednesday as Hurricane Ian hit the Florida coast, threatening to damage orange trees in the largest producing state.
- Forecasters say Ian would unleash wind-driven high surf and torrential rains that may cause coastal flooding of up to 12 feet (3.7 meters) in Florida
- Juice futures had already gained more than 2% ahead of the storm on Tuesday. Risks grew for the plantations as Ian's path changed slightly.
- Soft commodities analyst with J.Ganes Consulting stated “The storm shifted east and further south overnight, placing more of the oranges in harm's way”
- About 90% of the crop belt in the top US producer of orange juice are in Ian's path, including the three top-producing counties in the state, according to Donald Keeney, Maxar Technologies Inc. meteorologist.
- Orange juice prices have already gone up this year as Florida's production is expected to drop sharply due to a fungus disease.
- Florida is also the largest U.S. grower of sugarcane, but crops are located more to the west of the storm's path.
- OJ bullish price is supported on mounting concern that the harvest will take a huge hit once all the damage is revealed in coming days.



- Further devastation of the Florida crops could further increase the need for the US to import fruit at a time when supply is very tight all over. The US, which accounts for roughly 11.5% of global production, needs to bring in 65% of what it uses. Stockpiles in top producer Brazil are at the lowest since 2017.
- **Orange juice got bullish support from weather factor however keep in mind that this market is not liquid.**



# Orange Juice Price chart



# Wheat: Buy

- U.S. wheat futures set fresh two-month highs on Thursday, buoyed by risks of a deepening conflict in Ukraine and dry weather in crop areas of Argentina and the U.S. Plains, traders said.
- Commodity funds hold a net short position in Chicago Board of Trade wheat futures, leaving the market prone to bouts of short-covering.
- CBOT December wheat settled up 7 cents at \$9.10-3/4 per bushel after reaching \$9.22-1/2, its highest since July 11.
- Wheat futures shrugged off pressure from disappointing weekly U.S. export sales and an increased 2022/23 global wheat production forecast from the International Grains Council.
- Brokers seemed focused instead on fears of further disruptions to Black Sea grain trade that has been partially re-established by a shipping corridor from Ukraine. President Vladimir Putin on Wednesday ordered a Russian mobilisation to fight in Ukraine and hinted he was prepared to use nuclear weapons.
- Argentina's Rosario grains exchange cut its production forecasts for wheat and corn crops on Wednesday, reflecting the impact of a prolonged drought.
- Dry conditions are gripping the southern U.S. Plains, where farmers are planting the 2023 winter wheat crop. The weekly U.S. Drought Monitor report showed "extreme drought" conditions in 53% of Kansas, the top U.S. winter wheat state, up from 42% a week earlier.



- The global wheat outlook for 2022/23 remained unchanged it is for higher supplies, greater consumption, increased trade, and lower ending stocks.
- Production is increased to a record 779.6 million tons, primarily on higher production for Russia, Australia, and China.
- Projected 2022/23 world ending stocks are reduced to 267.3 million tons and remain at the lowest level in six years.
- Major exporters' stocks are seen at a 9-year low -4.4% y/y.
- US Projected 2022/23 ending stocks are lowered 29 million bushels to 610 million.
- **Wheat prices are bullish on the back of geopolitical tensions around large producer and lower ending stocks.**



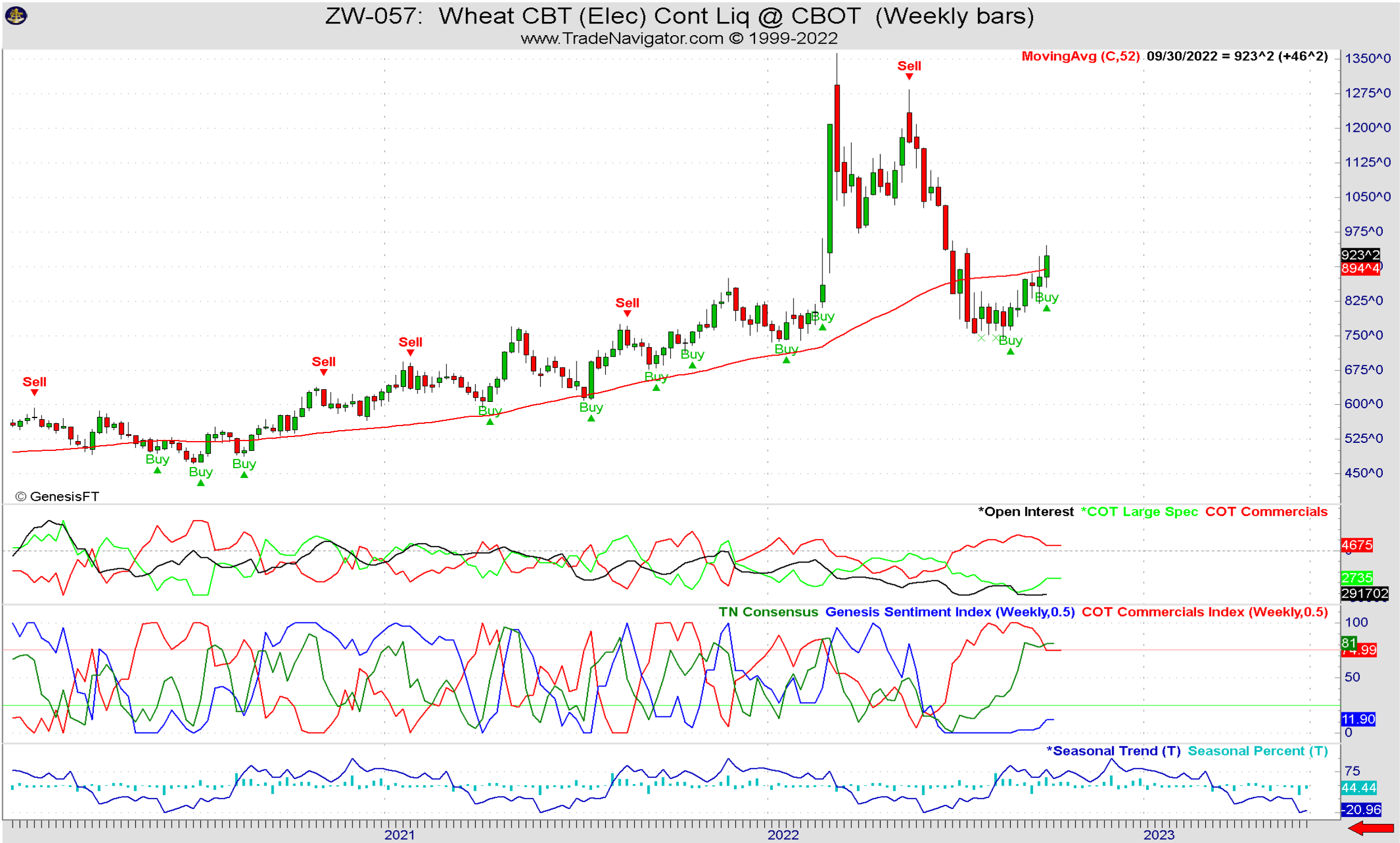


# Weather review

- Wheat crops in China are facing heat stress, including in Henan in central China, the largest wheat growing province. Climate Risk Navigator shows soil moisture for Henan's wheat areas at the lowest level in at least 12 years, while vegetative health index is at the lower end of the two-decade range. Although China is the world's largest wheat producer, the country is also a sizable importer as demand, including for animal feed, outpaces domestic supply. Wheat imports in 2021 and so far in 2022 have far outpaced historical averages. For 2022/23, China is forecast to import 9.5 million tonnes of wheat, according to the latest USDA projections.
- Dry conditions continue in the US Midwest through the weekend for most areas, though the remnants of Ian could produce some rain in the far southeastern Midwest. Some showers will move through early next week with a system and cold front combining over the region, but showers should be limited. That will be followed by another burst of cooler air, however. Overall, conditions remain mostly favorable for harvest. Dry spots in some of the winter wheat areas are unfavorable for establishment. A weak system will move into the Rockies this weekend and continue into early next week, bringing a few showers through northwestern areas. Conditions continue to be poor for winter wheat establishment and pasture regrowth, but good for corn and soybean harvest. Dry conditions are forecast for the next week in the Delta. Harvest conditions continue to be quite good. Tropical Storm Ian may make it back to hurricane strength Thursday or early Friday, then spread its heavy rainfall from eastern Georgia into the Mid-Atlantic Friday into early next week. Heavy rain could mean flooding and damage to maturing crops.
- Dryness continues in Argentina, with unfavorable conditions for developing wheat and corn planting. Scattered showers may return next week but forecasts have turned much lighter with the precipitation. The region is in desperate need of more rain and may force producers to change some of their corn acres to soybeans.
- Recent showers have done well to fill soils in the Black Sea region but have also delayed fall harvest. Periods of showers will continue across Ukraine into next week, with more limited rainfall expected in western Russia until next week. Overall conditions are mostly favorable for winter wheat planting and establishment. Showers will disrupt corn harvest, however.
- The southwest monsoon, which began its tenuous withdrawal from Northwest India last week, seems to have pulled the brakes on its departure. Incessant rains doused the Punjab-Haryana-Delhi belt over the previous 4-5 days. Unexpected wet conditions resulted in the fields being waterlogged, leading to higher moisture content in wheat.



# Wheat Price Chart



# Coffee: Buy

- Coffee prices Thursday posted moderate losses. Weakness in the Brazilian real weighed on coffee prices after the real (^USDBRL) Thursday tumbled to a 2-month low against the dollar. A weaker real encourages export selling from Brazil's coffee producers.
- Coffee prices are also under pressure on signs of abundant rain in Brazil that may promote flowering for next year's coffee crop.
- Tight arabica supplies are also bullish for prices after ICE-monitored arabica coffee inventories fell to a 23-year low of 444,699 bags.
- A supportive factor for coffee prices was from Brazil's crop agency Conab to cut its 2022 Brazil coffee production estimate to 50.4 mln bags from a May estimate of 53.4 mln bags as adverse weather curbed coffee yields. **This year was supposed to be the higher-yielding year of Brazil's biennial coffee crop, but coffee output this year was slashed by drought.**
- Cecafe Sep 12 reported that Brazil Aug coffee exports fell -2.5% y/y to 2.8 mln bags.
- A supportive factor for arabica is reduced coffee supplies from Colombia. The Colombia Coffee Growers Federation reported Sep 12 that Colombia's Aug coffee exports dropped -21% y/y to 872,000 bags. Also, Colombia's Jan-Aug coffee production is down -7% y/y at 7.3 mln bags.



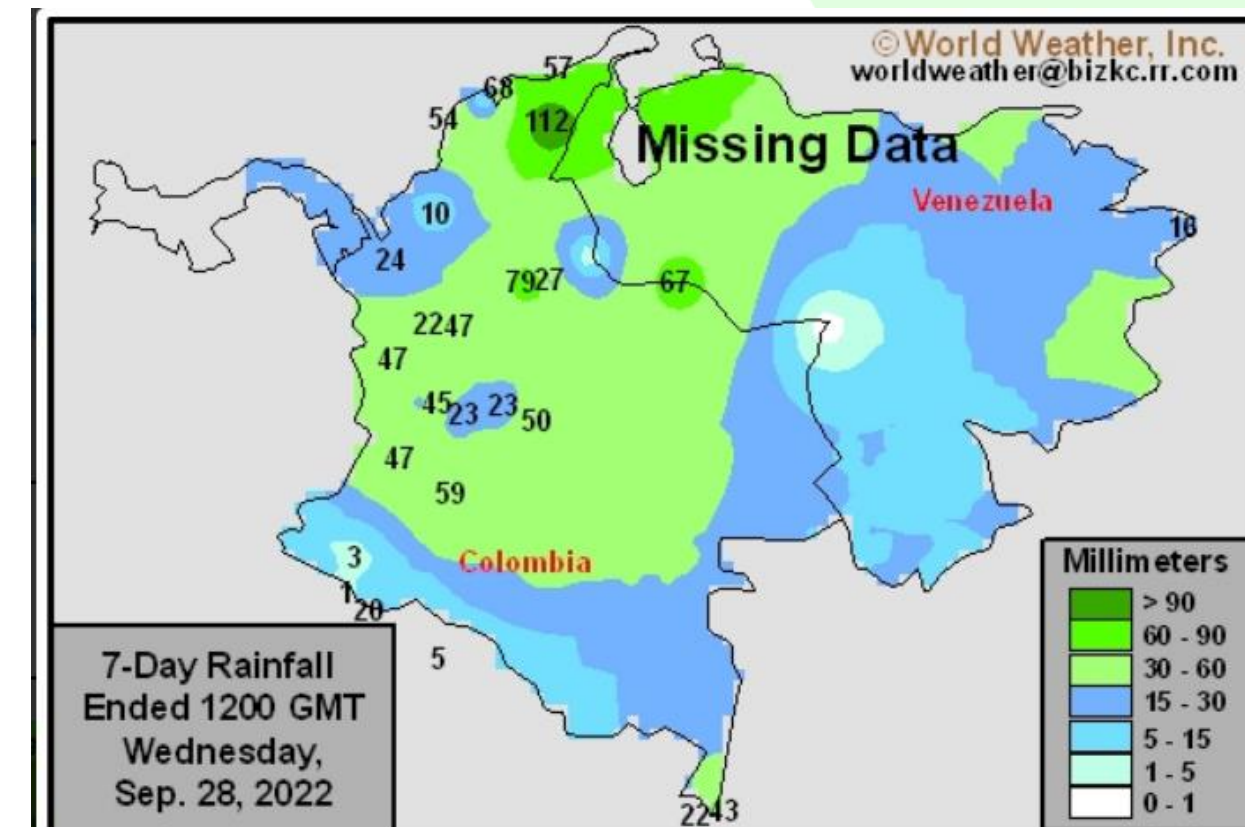
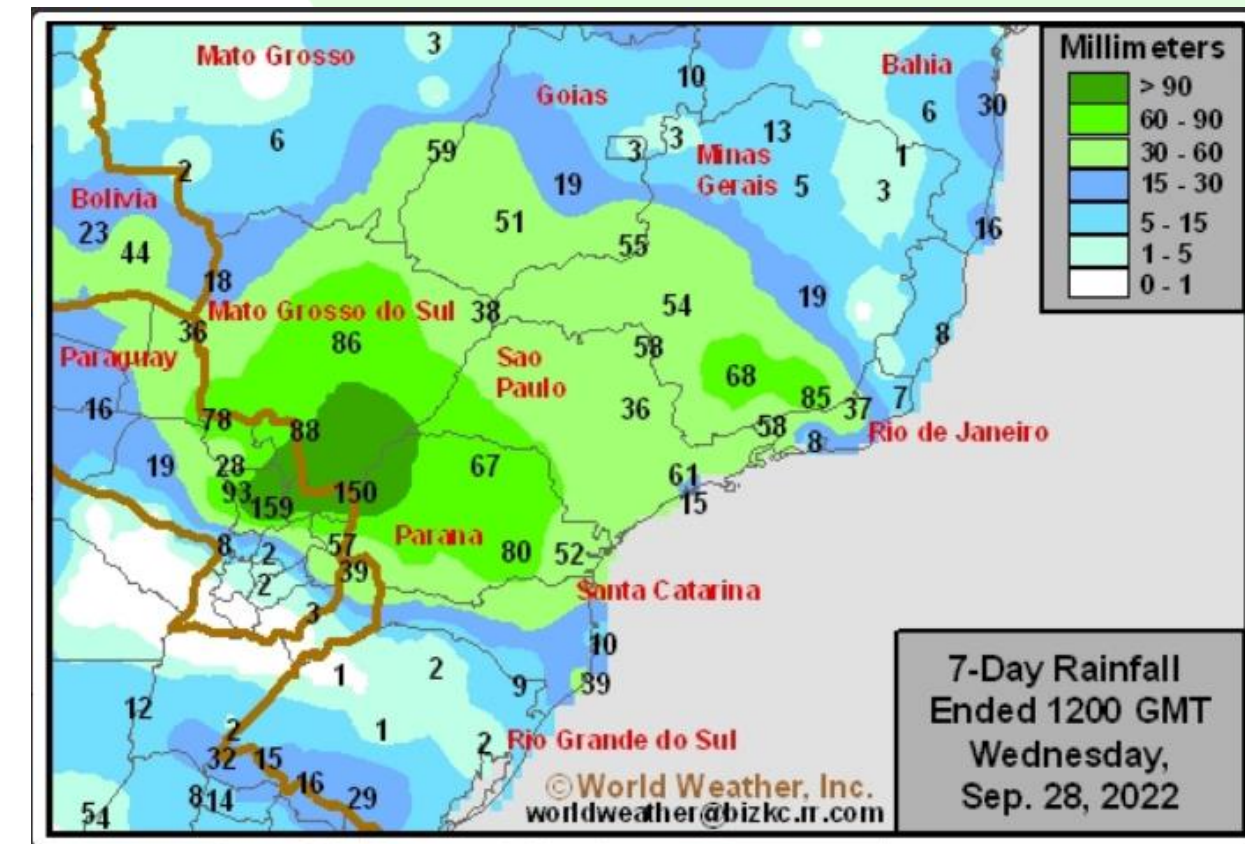
- Smaller global coffee exports are supportive of coffee prices. The International Coffee Organization (ICO) on Aug 31 reported that global coffee exports in July fell -6.6% y/y to 10.12 mln bags, and total exports from Oct-July were down -0.3% y/y to 108.8 mln bags.
- **Coffee prices have bullish support on the back of lower ending stocks and smaller exports from two major coffee producers.**



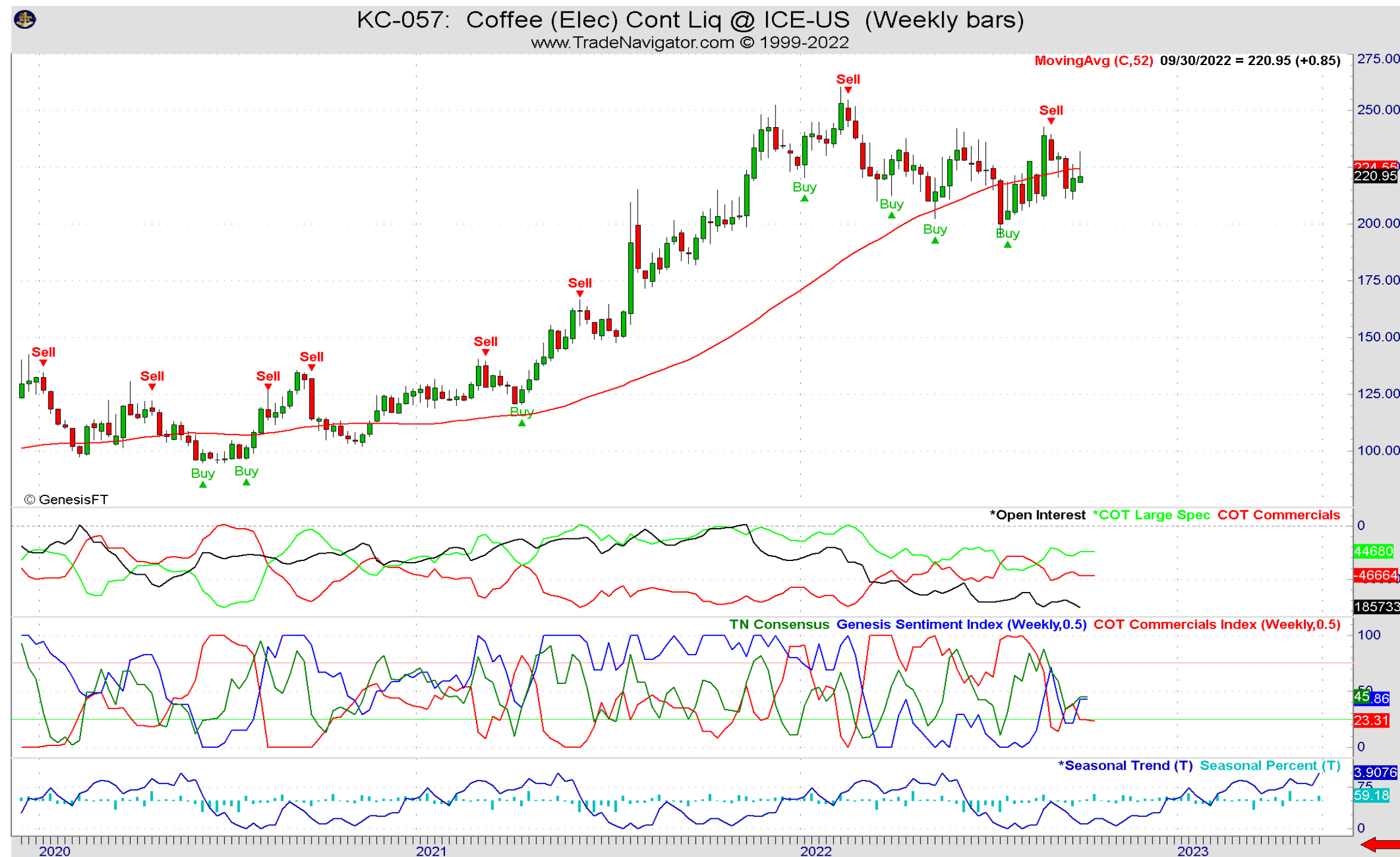


# Weather review

- Somar Meteorologia reported Monday that Minas Gerais had 28.3 mm of rain last week, or 132% of the historical average. Minas Gerais accounts for about 30% of Brazil's arabica crop. Recent showers have continued to provide good soil moisture for Brazil as planting increases. Scattered showers continue this week for most areas before drying out this weekend. The daily wet season showers in central Brazil will continue afterward, and another front is forecast to bring showers through the region mid- to late-next week.
- Colombia this week saw more than average amount of rainfall however it was beneficial for coffee crops as all summer was too dry to coffee crops maturation.



# Coffee Price Chart



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