

Commodities Markets Report

By **Max Schulz**

🕒 | Week 51 | December 19th



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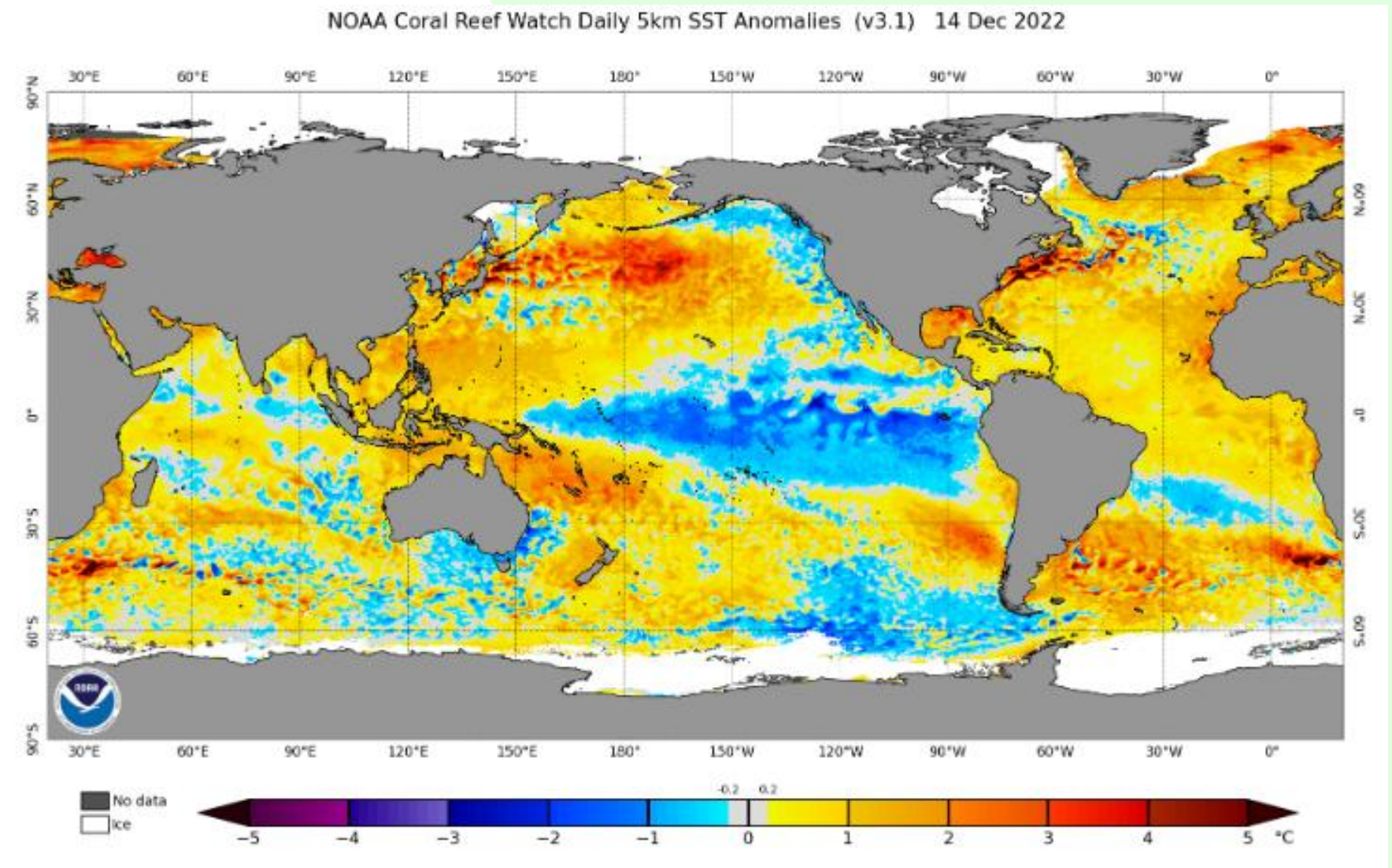
InsiderWeek team wishes you happy holidays!

Next report will be issued on Jan 8th 2023

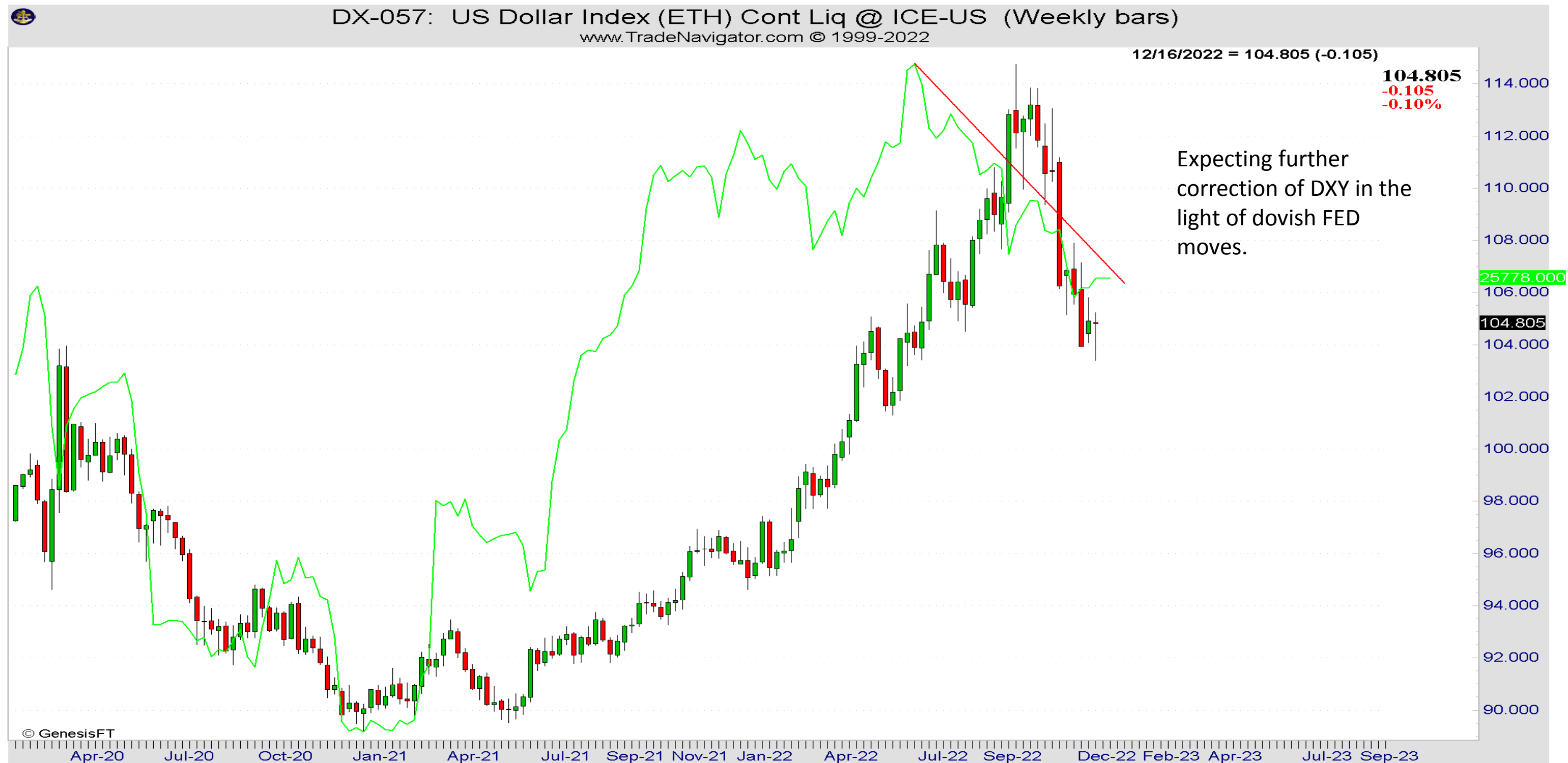


Global weather review

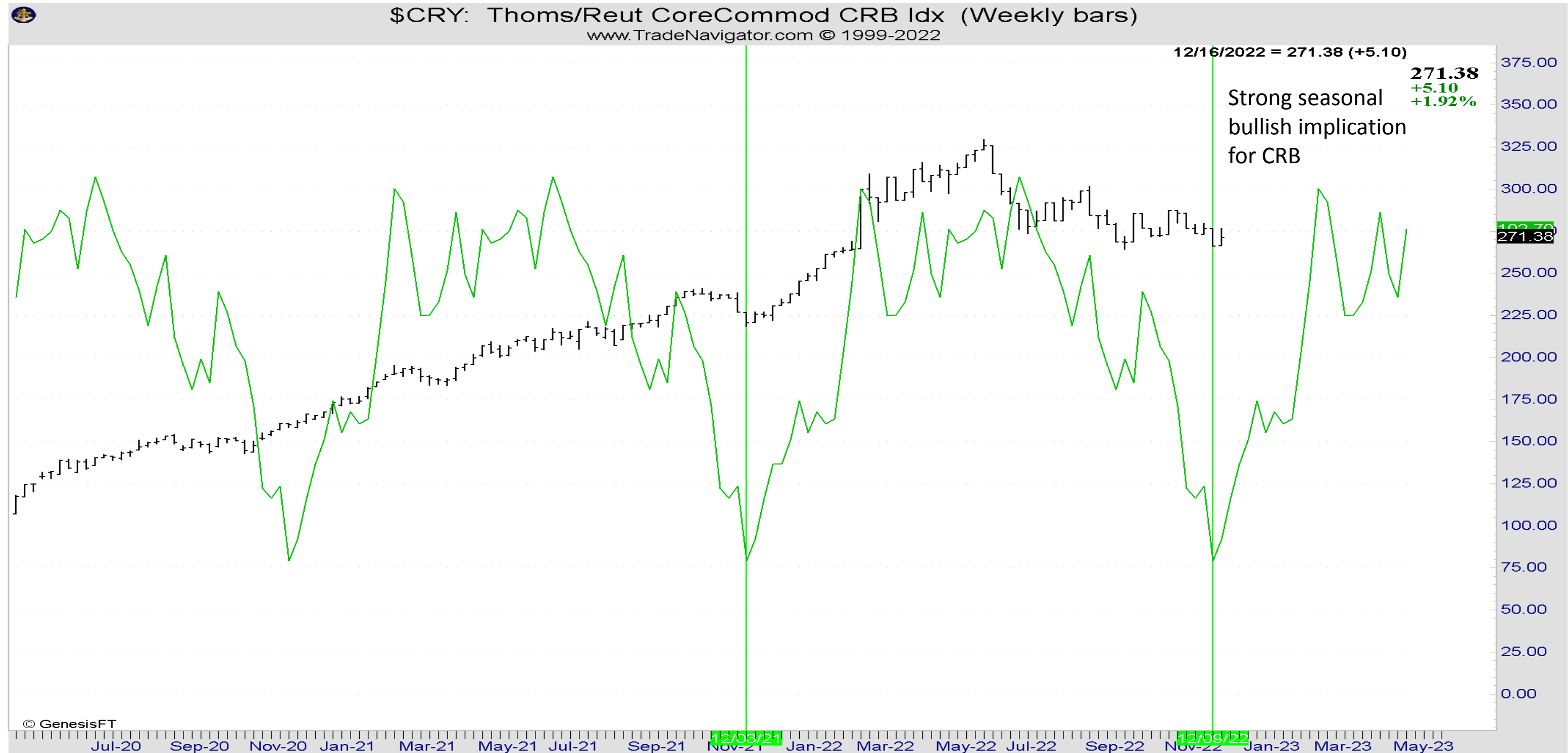
- The Indian Ocean Dipole (IOD) has returned to neutral. Weekly values of the IOD index have been in the neutral range (between -0.4°C and $+0.4^{\circ}\text{C}$) for five consecutive weeks with the most recent value being -0.16°C . This implies drying out of India and Australia.
- La Niña continues in the tropical Pacific. Atmospheric and oceanic indicators of the El Niño–Southern Oscillation (ENSO) reflect a mature La Niña. Models suggest a return to ENSO-neutral in January or February 2023.
- We are now in La Nina + Positive QBO which means early winter and early spring.
- In Europe coldest air of the season was accompanied by some snow in the north, while locally heavy to excessive rainfall continued in the south.
- In Australia mostly dry weather covered a majority of the wheat belt, aiding winter crop harvesting and sorghum sowing.
- Showers brought relief from heat and dryness to farmlands in central Argentina
- In Brazil showers intensified from prior weeks, providing much needed moisture for soybeans and first-crop corn in most major production areas.



Dollar Index



Commodities Index



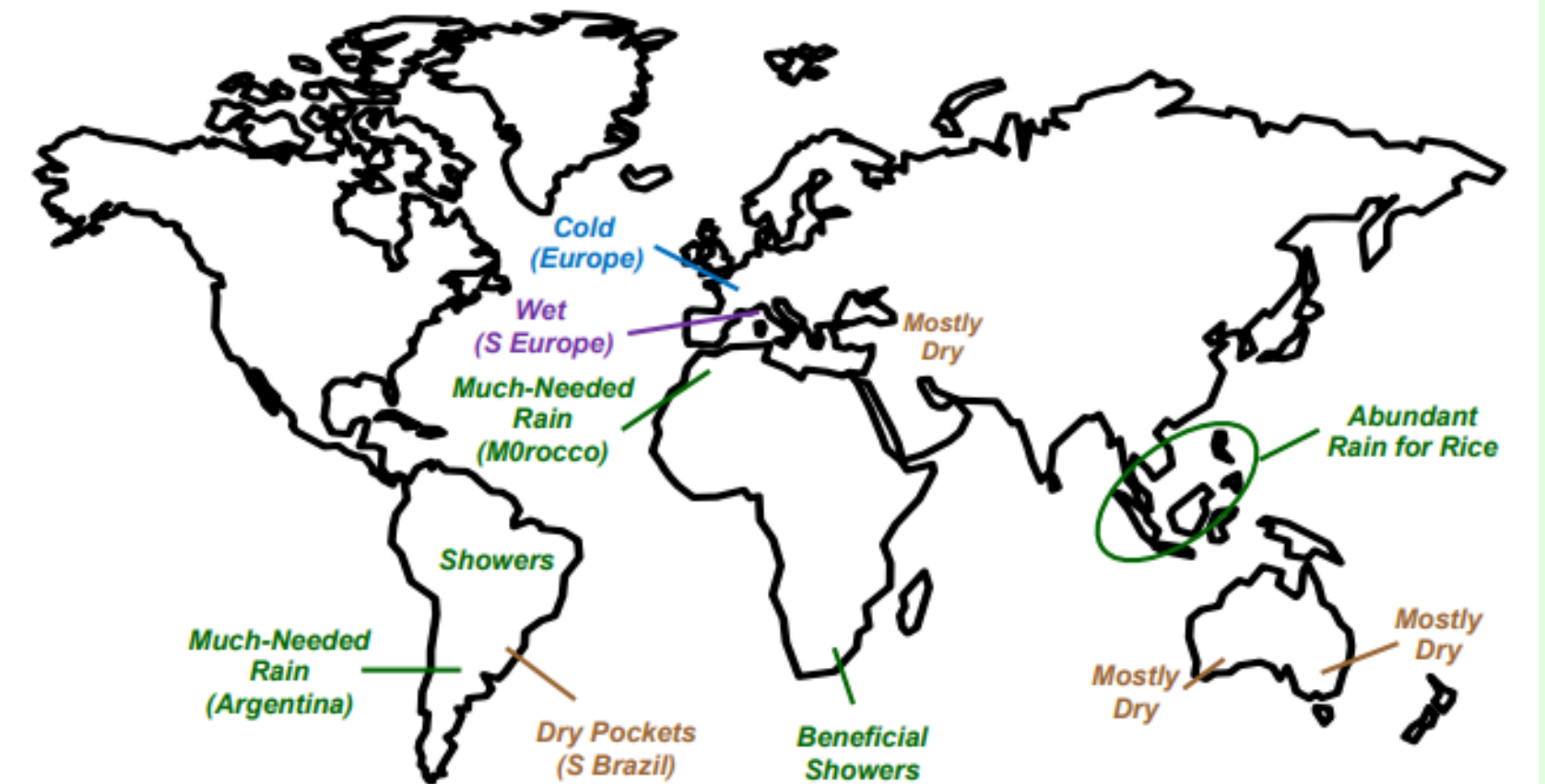
Wheat: Buy

- Wheat futures closed a little higher on Thursday.
- The global wheat outlook for 2022/23 wheat is for reduced supplies, lower consumption, increased trade, and reduced stocks.
- Supplies are lowered 2.1 million tons to 1,056.9 million on reduced production for Argentina and Canada that is only partly offset by higher Australia production.
- Argentina is lowered 3.0 million tons to 12.5 million with reductions in both area harvested and yield on continued widespread dry conditions. This would be the lowest production since 2015/16.
- Canada's production is reduced 1.2 million tons to 33.8 million, based on the latest Statistics Canada estimate and is the third largest crop on record.
- Australia's production is raised 2.1 million tons to a record 36.6 million, based on the latest Australian Bureau of Agricultural and Resource Economics (ABARES) forecast.
- Global consumption is reduced 1.6 million tons to 789.5 million, mainly on lower feed and residual use by the EU and Ukraine.
- **Wheat prices find bullish support on the back of lower global supply and lower stocks, however the growth will be limited by lower consumption**



Weather review

- In Northern Hemisphere crop harvesting season is over therefore there is no weather associated risk.
- Australia is mostly dry which is favorable for wheat crops.
- Argentina saw some relief in terms of scattered showers however more rain is needed for summer crop maturation.
- Brazil saw more than average amount of rain, more rains are to come. If it continues to rain it may become too wet for summer crop maturation.





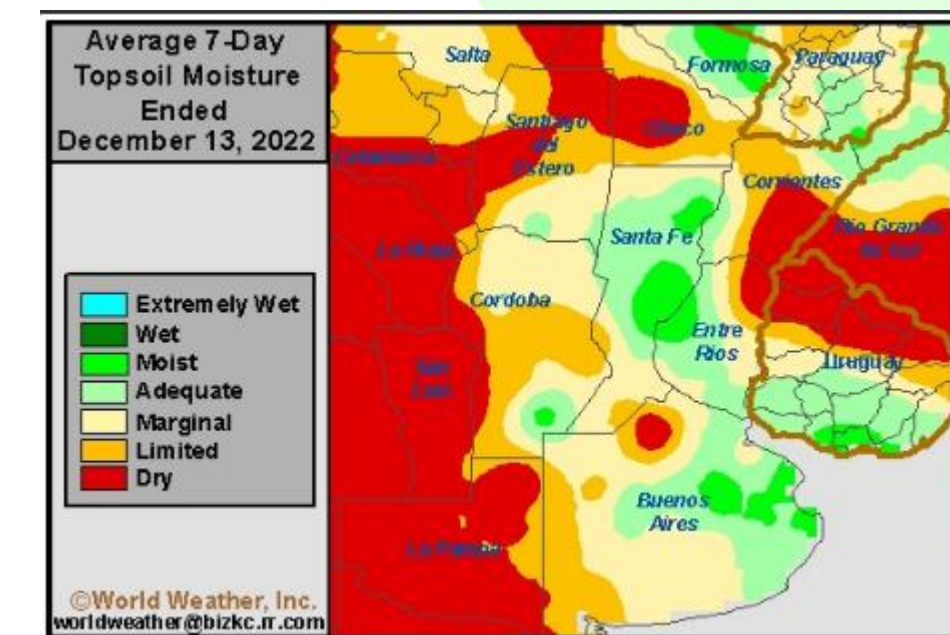
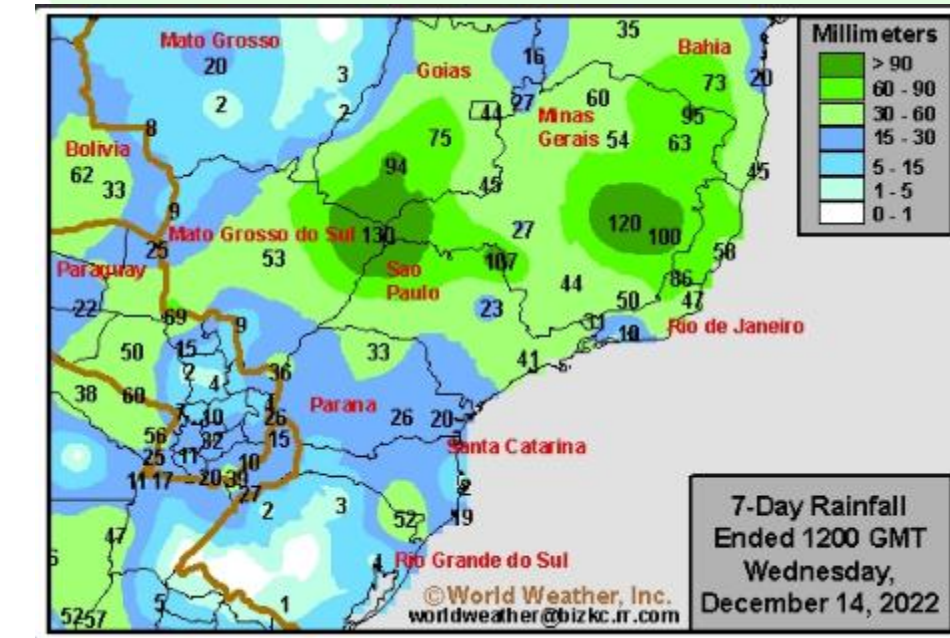
Corn: Buy

- Corn futures closed a little higher on Thursday.
- Global coarse grain production for 2022/23 is forecast down 5.9 million tons to 1,453.6 million.
- Global corn outlook is for lower production, greater trade, and smaller stocks relative to last month.
- Corn production is reduced with forecast declines for Ukraine, Russia, the EU, and Vietnam.
- Ukraine corn production is sharply lower with reductions to both area and yield as the ongoing conflict and record-setting autumn rainfall have delayed the harvest in key producing oblasts of Poltava, Sumy, and Cherkasy.
- Russia corn production is lowered as harvest delays in the country reduce area expectations.
- Global corn stocks, at 298.4 million tons, are down 2.4 million. Corn ending stocks are down, reflecting reductions for Ukraine, Paraguay, Vietnam, and Mexico.
- Ongoing drought in Argentina is posing a threat to future corn crops.
- Good weather in Brazil benefits development of corn crops in major producing areas.
- **Corn prices find bullish support on the back of lower global supply, lower ending stocks and ongoing concerns over drought in Argentina one of the largest corn producers globally.**
- **Amid bearish factors is low pace of international trade, lower feed /residual use, good weather in Brazil that promises good crops.**

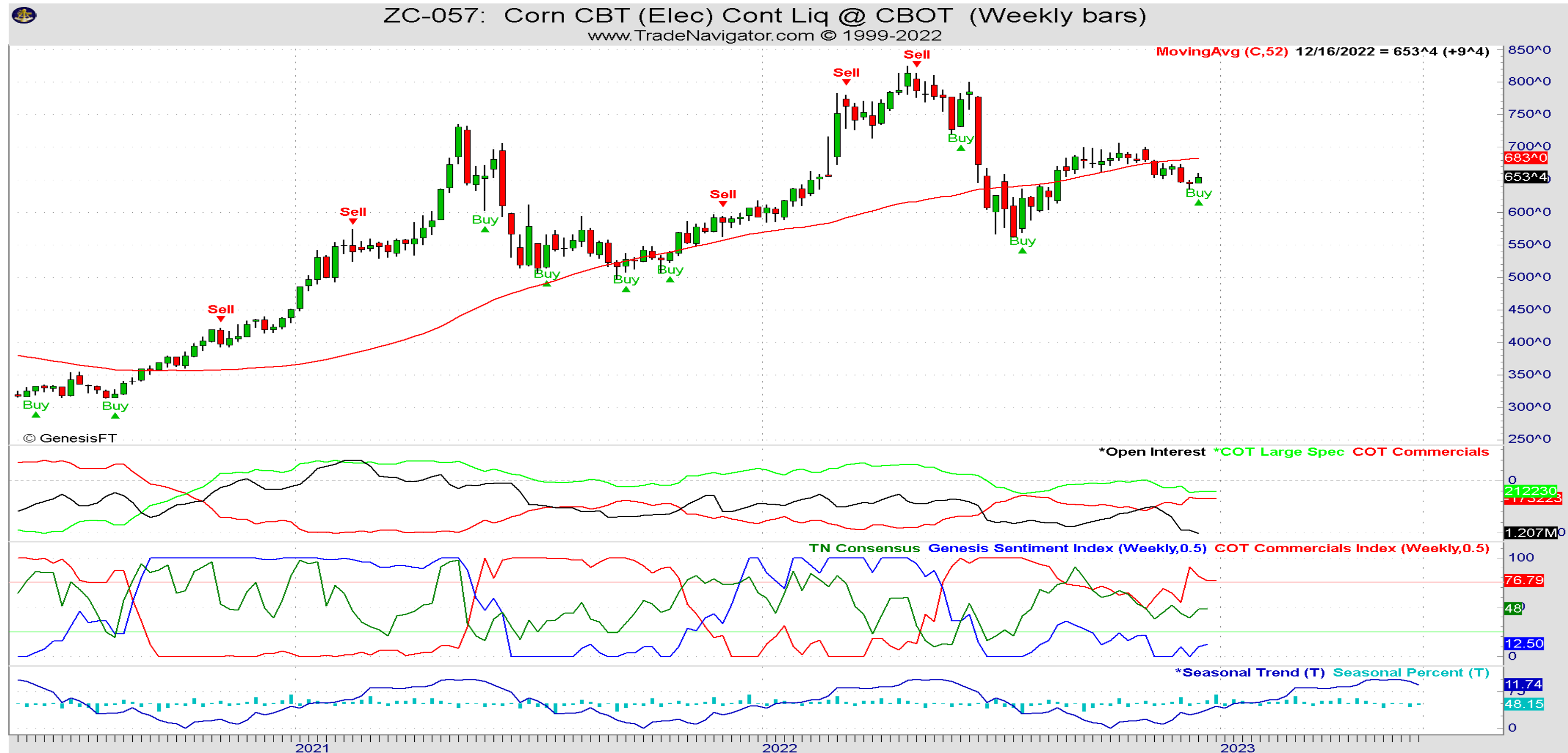


Weather review

- In the US all corn had already been collected so the weather here is not a factor.
- In China also corn harvest season is over, there is no weather associated risk.
- Showers intensified from prior weeks, providing much needed moisture for soybeans and first-crop corn in most major production areas. Rainfall totaled 10 to 50 mm – locally approaching 100 mm – from Mato Grosso southward through Paraná and eastward through Goiás and Minas Gerais. In addition to the timely moisture for crops, the early-week rain dropped temperatures down to more seasonable levels (temperatures occasionally reaching the lower and middle 30s degrees C) in most locations receiving the rain. An exception was in Brazil's southwestern farming areas (southwestern Mato Grosso to western Rio Grande do Sul, as well as Paraguay and Uruguay), where highest daytime temperatures approached 40°C. In Rio Grande do Sul and southwestern Paraná, the heat was accompanied by continued below-normal rainfall (less than 25 mm). According to the government of Paraná, 25% of first-crop corn reached reproduction as of December 5, with early-planted crops entering reproduction. In Rio Grande do Sul, corn was 88% planted as of December 8, with more than 50% of the crop having reached reproduction. Elsewhere, moderate to heavy rain (25-50 mm, locally exceeding 100 mm) benefited first-crop corn, and other summer crops and kept daytime highs at more seasonable levels (upper 20s to lower 30s).
- Late-week showers ended a brief period of heat and dryness in high-yielding farming areas of central Argentina. Rainfall totaled 10 to 50 mm from northern Buenos Aires to southern sections of Santiago del Estero and Chaco. However, mostly dry weather prevailed elsewhere, including southern sections of La Pampa and Buenos Aires and the far north (Salta and neighboring locations in Santiago del Estero, Chaco, and Formosa). While providing much-needed moisture, the rain ushered seasonably milder weather into the region; prior to the passage of the rain-generating front, daytime temperatures reached 40°C on several days as far south as Buenos Aires. The unseasonable heat hastened development of maturing winter grains and emerging summer crops, which are growing with limited moisture and can ill afford additional stress. According to the government of Argentina, corn 54% planted, lagging last year's pace.



Corn Price Chart



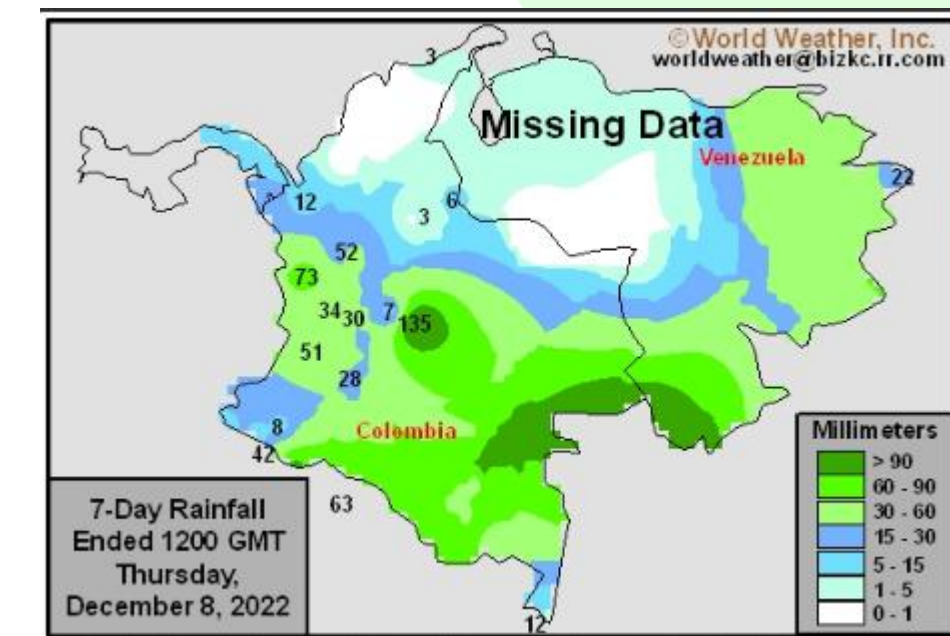
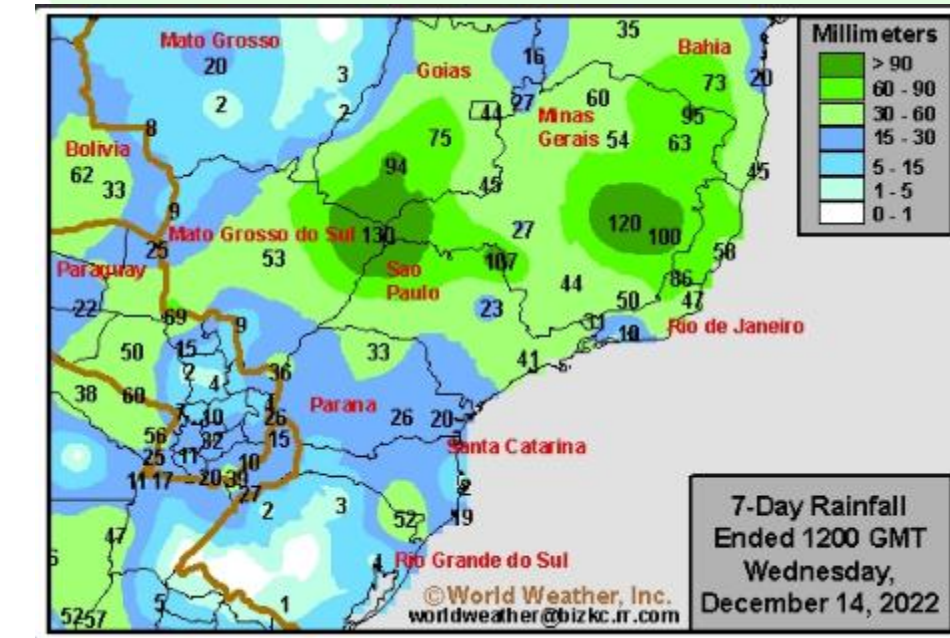
Coffee: Buy

- March Arabica coffee on Thursday closed up 2.14%, and Jan ICE Robusta coffee closed up +1.62%.
- Coffee prices Thursday rallied, with arabica climbing to a 2-week high and robusta posting a 1-1/2 month high.
- Arabica rose as forecasts for heavy rain over the next ten days in Brazil's Minas Gerais region.
- The heavy rain could flood coffee farms and curb yields in Minas Gerais, Brazil's largest arabica coffee growing region.
- Brazilian exports thus far in the month of December are 45% below what they were in November 2022 and are on track to be down 16% below what they were a year ago in December of 2021 which were already very low to begin with.
- Cecafe reported on Nov 17 that Brazil's Oct green coffee exports fell -2.9% y/y to 3.18 mln bags.
- Colombia Coffee Growers Federation reported that Colombia's Nov coffee exports fell -25% y/y to 854,000 bags. Colombia is the world's second-largest producer of Arabica beans.
- Weaker DXY helps coffee exports.
- **Coffee prices find bullish support on the back of lower global production and weather concerns from Brazil and Colombia.**

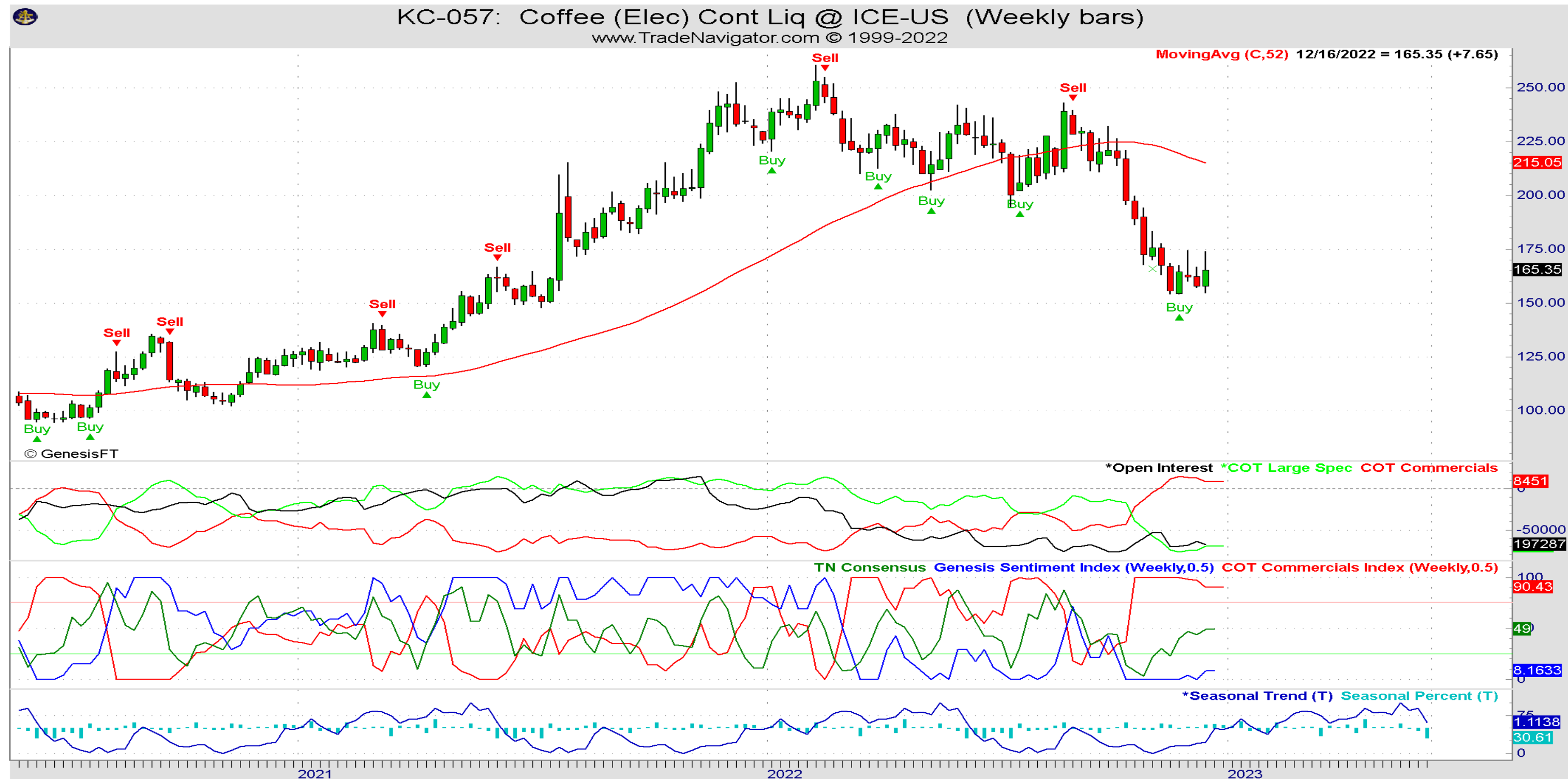


Weather review

- Showers intensified from prior weeks. Rainfall totaled 10 to 50 mm – locally approaching 100 mm – from Mato Grosso southward through Paraná and eastward through Goiás and Minas Gerais. Heavy rain over the next ten days is expected in Minas Gerais region that may hurt blooming coffee trees. Minas Gerais region received 81.1 mm of rain last week, or 124% of the historical average. Minas Gerais accounts for about 30% of Brazil's arabica crop.
- Colombia saw more than average amount of rain, heavy rain main damage maturing coffee crops.



Coffee Price Chart





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