

# Commodities Markets Report

By **Max Schulz**

🕒 | **Week 4** | **January 23rd**





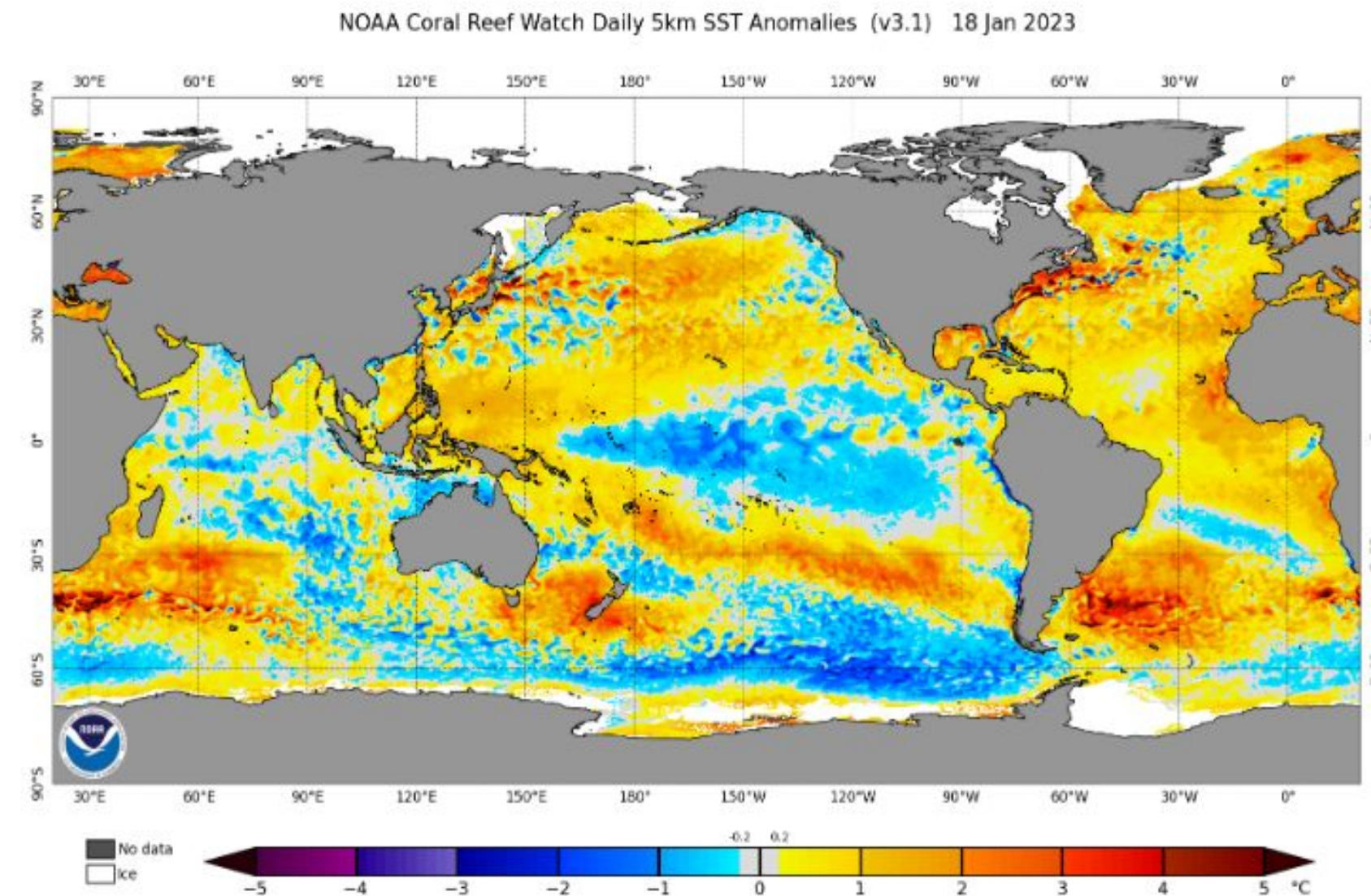
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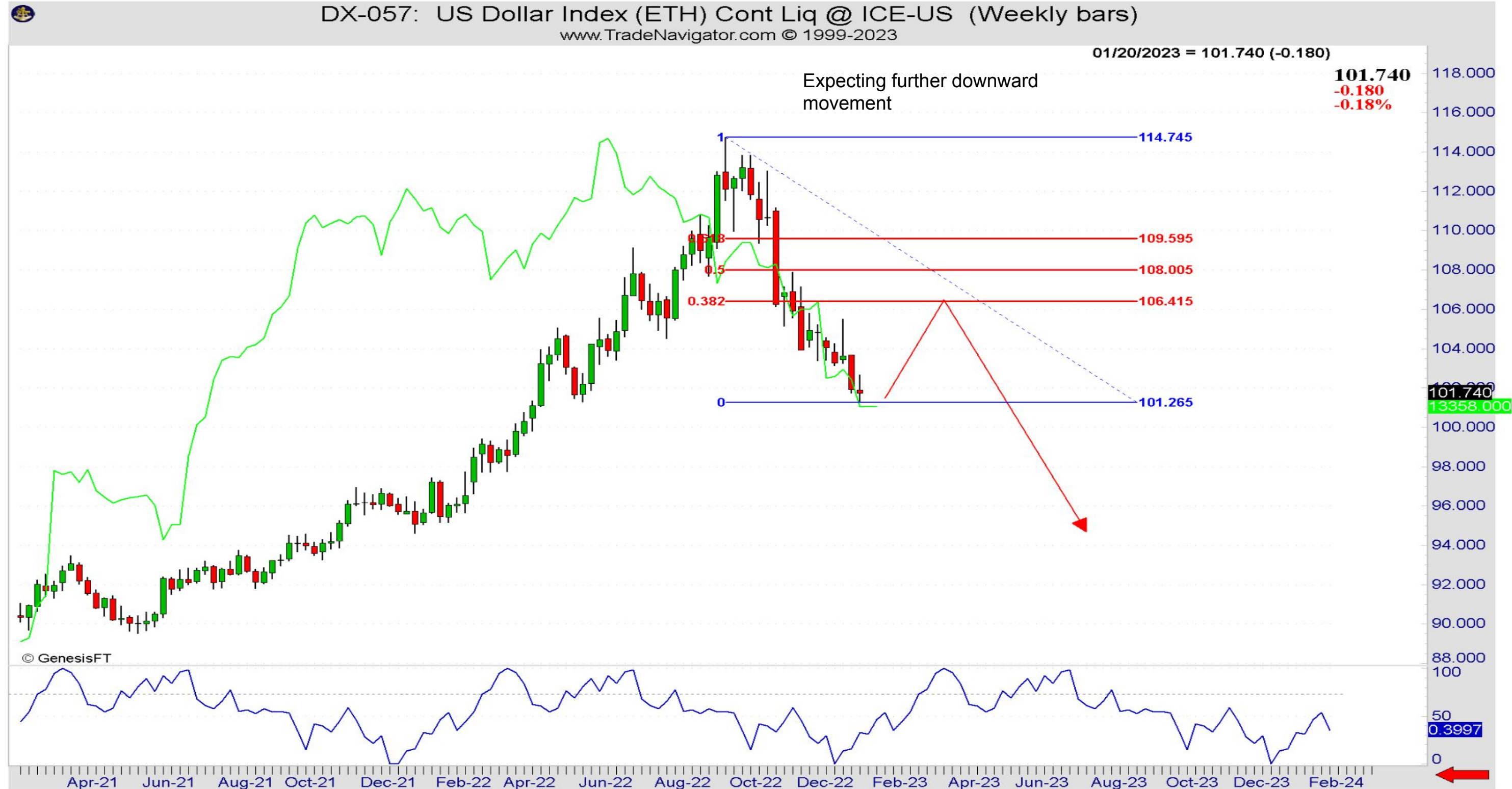
# Global weather review

- La Niña continues in the tropical Pacific, but has weakened from its peak in spring 2022. Though ocean temperatures have warmed in recent weeks, atmospheric indicators are largely unchanged and remain at La Niña levels. La Niña typically increases the chance of above average rainfall for northern and eastern Australia during summer.
- Long-range forecasts suggest that tropical Pacific Ocean temperatures will continue to warm and be at ENSO-neutral levels (neither La Niña nor El Niño) during February, with a change in atmospheric patterns towards neutral levels likely to follow. As accuracy is generally lower for long-range forecasts made at this time of year, ENSO outlooks that extend past autumn should be viewed with caution.
- A transition from La Niña to ENSO-neutral is anticipated during the February-April 2023 season. By Northern Hemisphere spring (March-May 2023), the chance for ENSO-neutral is 82%.
- The Indian Ocean Dipole (IOD) is neutral and has little influence on Australian climate while the monsoon trough is in the southern hemisphere (typically December to April).
- Globally there were no weather extremes.
- Brazil remains wet, Argentina and West Africa dry, EU was warm and China rainy, India continues to be dry and Australia was sunny.

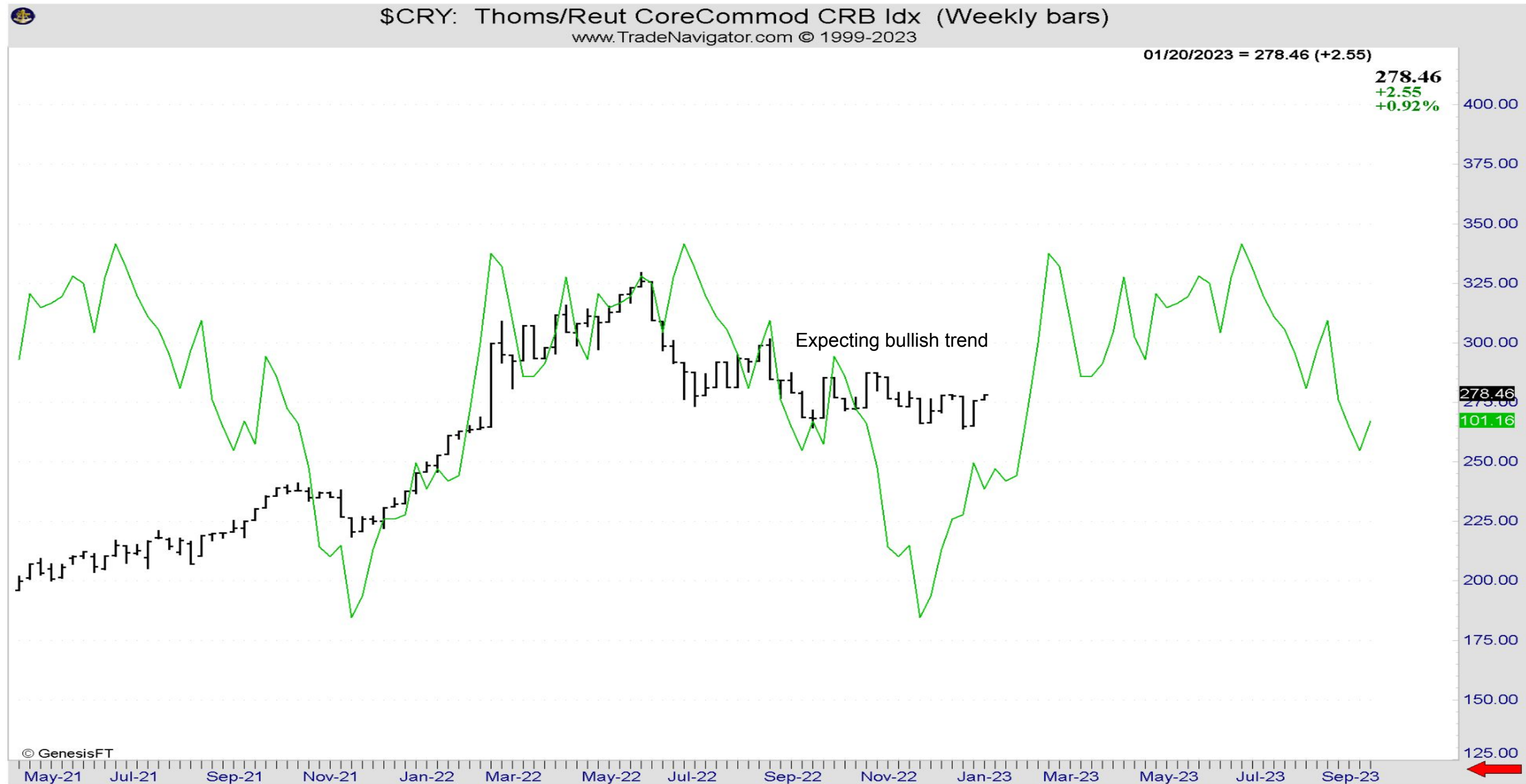




# Dollar Index



# Commodities Index



# Cocoa: Sell

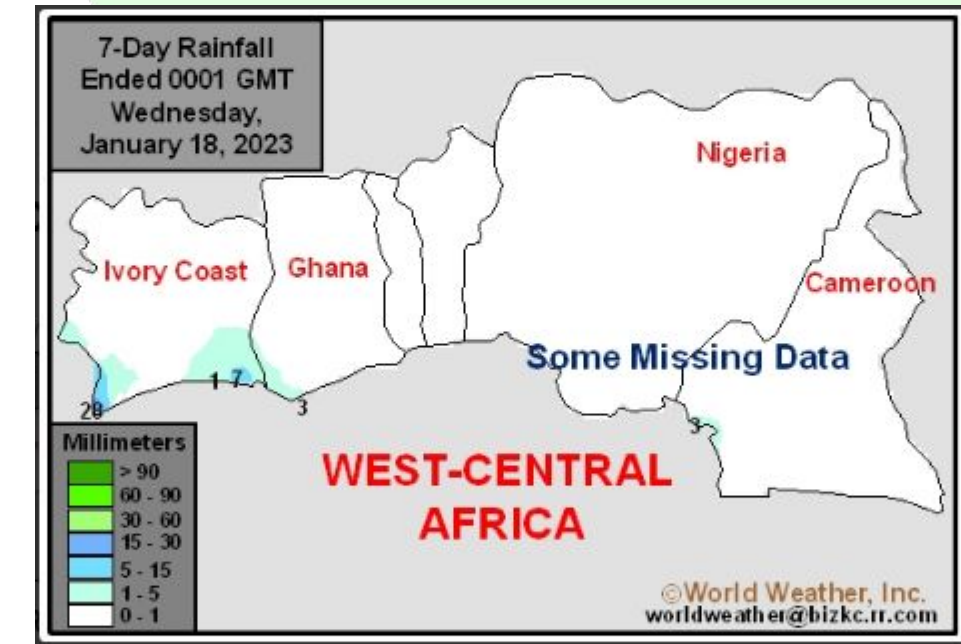
- Cocoa futures closed lower on Thursday.
- Market operates under low demand conditions.
- European Cocoa Association reported that EU Q4 cocoa grindings decreased -1.7% y/y to 359,577 MT
- Ivory Coast is dumping market with cheap cocoa supplies. Farmers sent a cumulative 1.45 MMT MT of cocoa from October 1 to January 15, increase of +11.5% y/y.
- Harmatan Passat winds are not strong enough to damage cocoa corps and wet weather is expected next week during key cocoa development period.
- Nigeria's Nov cocoa 5<sup>th</sup> Top exporter sold +130% m/m and +17% y/y to 36,819 MT in December 2022.
- **Cocoa prices find bearish support on the back of larger global supply, good weather prospects and low demand.**



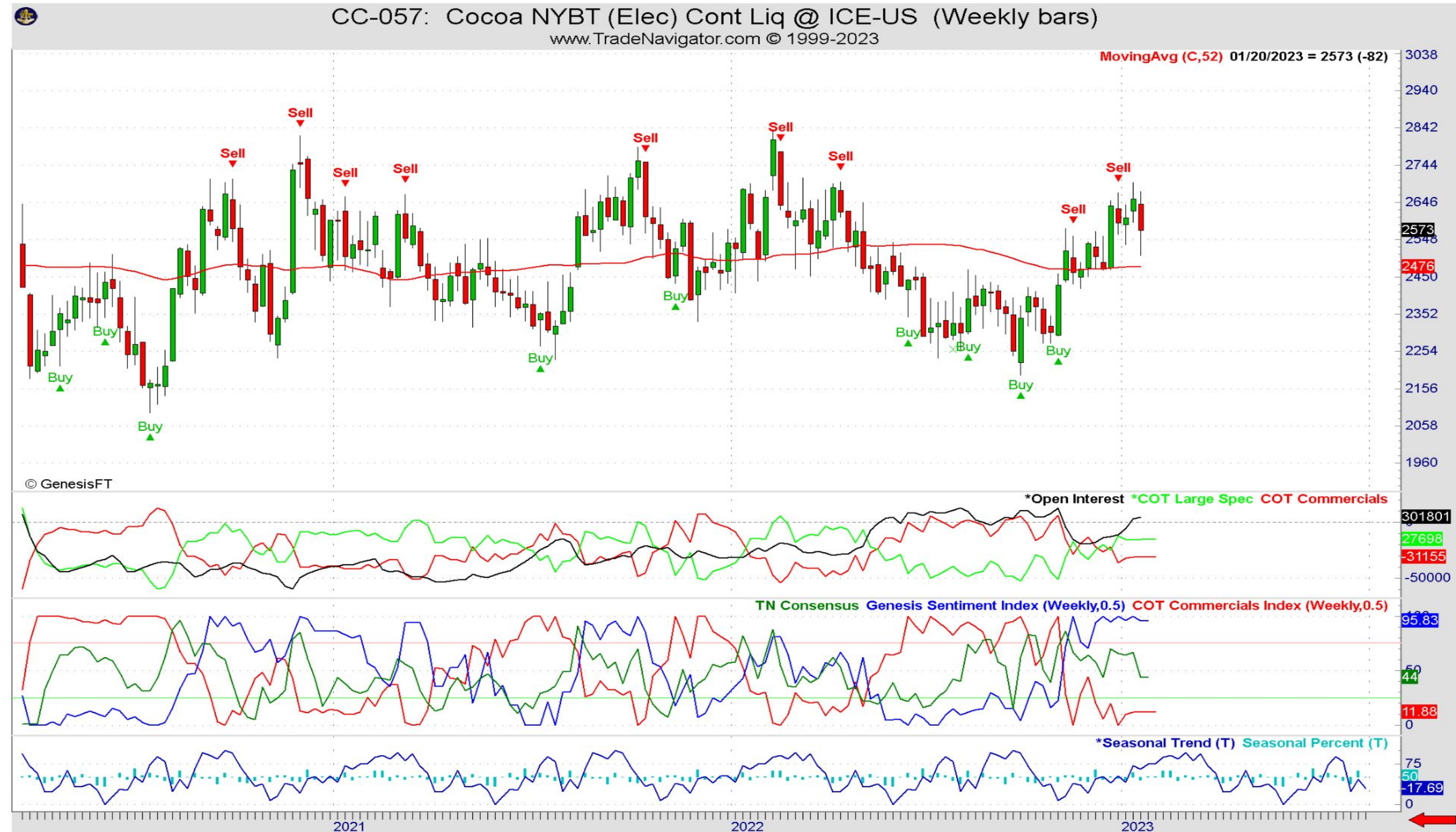


# Weather review

- West African region remains dry however next week more rains are expected therefore level of threat is moderate. More consistent rains are needed during key cocoa development period.



# Cocoa Price Chart





# Wheat Sell

- Wheat futures closed few cents lower on Thursday.
- The 2022/23 global outlook is for increased supplies, exports, consumption, and stocks.
- World supplies are raised 1.3 million tons to 1,058.1 million on production increases in Ukraine and the EU.
- World consumption for 2022/23 is raised by 0.2 million tons to 789.7 million as higher feed and residual use for the United States more than offsets a decline for Ukraine.
- Projected 2022/23 global trade is increased 0.8 million tons to 211.6 million as increases for the EU and Ukraine more than offset a decline for India. EU and Ukraine exports are raised 0.5 million tons each to 36.5 and 13.0 million respectively on higher exportable supplies.
- Projected 2022/23 global ending stocks are raised 1.1 million tons to 268.4 million, with increases for the EU, Ukraine, Kazakhstan, and India more than offsetting declines in Saudi Arabia and Iran.
- Geopolitics right now is not a factor, as well as weather.
- **Wheat prices are bearish on the back of larger global supply, exports and ending stocks.**



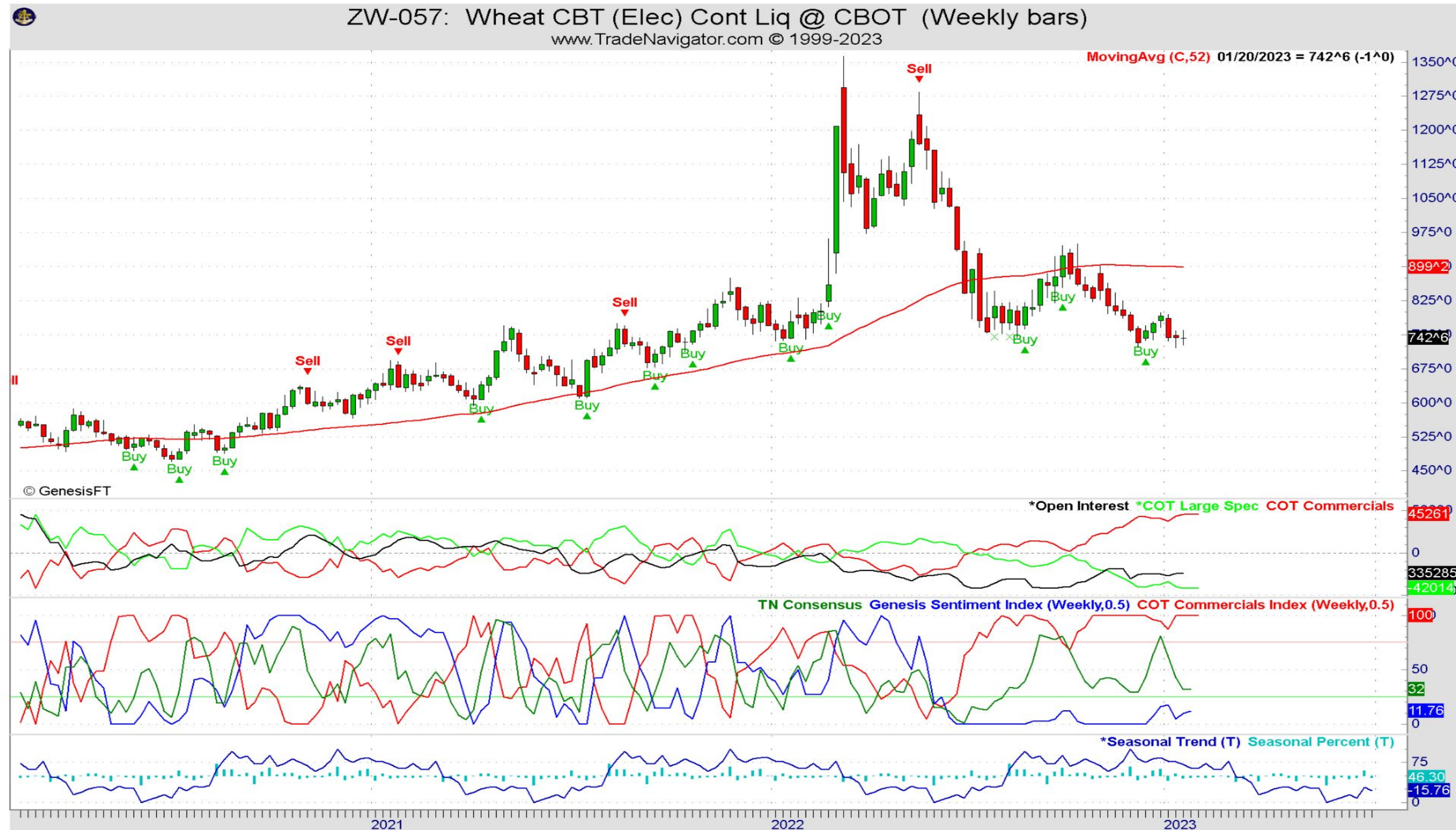
# Weather review

- In Europe very warm weather prevailed while rain expanded across much of the continent. Rain in northern Italy (50-140 mm) also eased long-term drought and improved moisture reserves for wheat
- In Australia sunny skies favored final winter crop harvests. In the wake of a very wet winter crop growing season, drier-than-normal weather overspread much of the wheat belt during December. The relative dryness was very timely and welcome, aiding the drydown and harvesting of wheat.
- In Canada generally mild December favored overwintering wheat and pastures. Monthly average temperatures ranged from 1 to 2°C above normal in Ontario's southwestern farming areas to 3°C or more above normal in southern Quebec
- Drought persisted in high-yielding farmlands of central Argentina.
- Widespread, locally heavy rainfall in grains areas of central and northeastern Brazil contrasted with patchy dryness farther south.
- December showers were generally confined to the seasonably wetter southern sections of China. Rainfall was all but nonexistent on the North China Plain, with amounts below 25 mm south of the Yangtze River and up to 100 mm in parts of the southeast. While rainfall was well below normal (less than 50 percent of normal) in all but some southeastern locales, colder than-normal weather (1-3°C below average) had eased wheat into dormancy, lowering moisture needs. .





# Wheat Price Chart



# Sugar: Sell

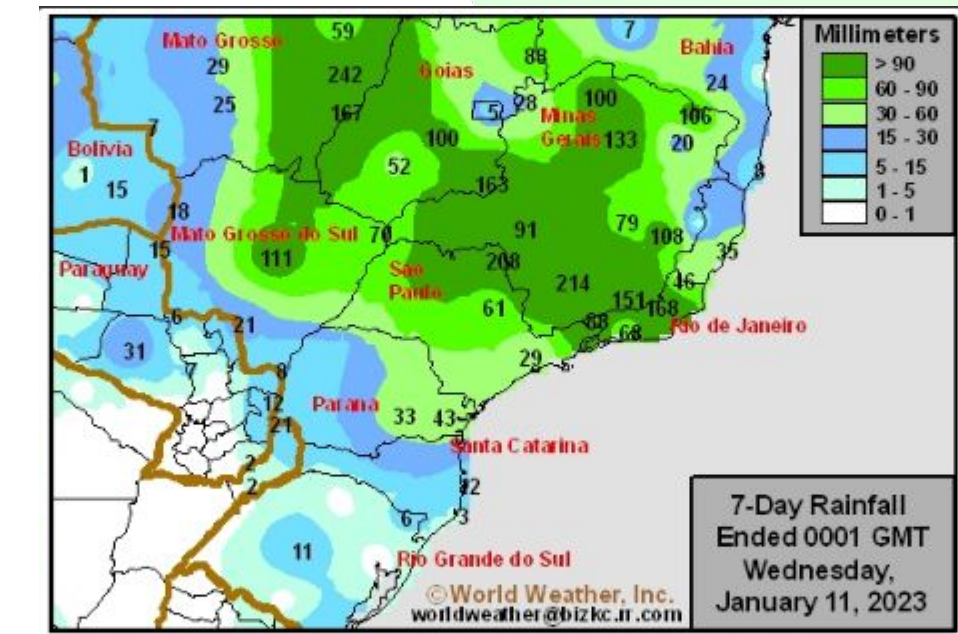
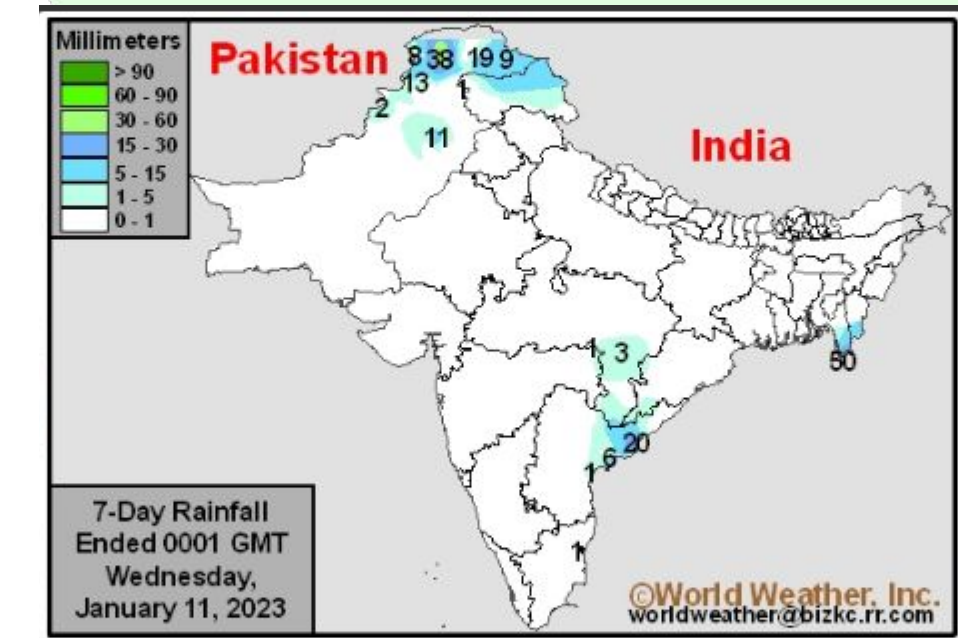
- Sugar futures closed lower on Wednesday.
- Sugar prices follow crude prices WTI fell from 6-weeks high.
- Lower crude prices encourage sugar producers to produce more sugar rather than ethanol and thus bearish for sugar prices.
- Two global largest suppliers Brazil and India boosted their sugar production creating surplus of sugar.
- Brazil remains in overproduction zone, production through December rose +4.4% y/y to 33.462 MMT.
- India is for higher production, production from Oct-Jan 15 increased +4% y/y to 15.7 MMT.
- ISMA forecasted that India's sugar production to climb +2% y/y to 36.5 MMT as Indian farmers increased planted acreage by +5.4% y/y to 5.6 mln hectares.
- World remains in surplus of sugar, global sugar production increased +5.5% y/y to a record high of 182.1 MMT and global sugar surplus is at +6.2 MMT.
- **Sugar is bearish on the back of larger India and Brazil production, global sugar surplus.**





# Weather review

- India has good sugar harvest weather mostly dry across most of the peninsula. Some pockets or rain did not interrupt harvest season that goes on from December to March.
- Brazil was mostly wet which is beneficial for maturing sugarcane, there is no weather associated risk. By the time of harvest season in April sugarcane will receive good amount of moisture.



# Sugar Price Chart





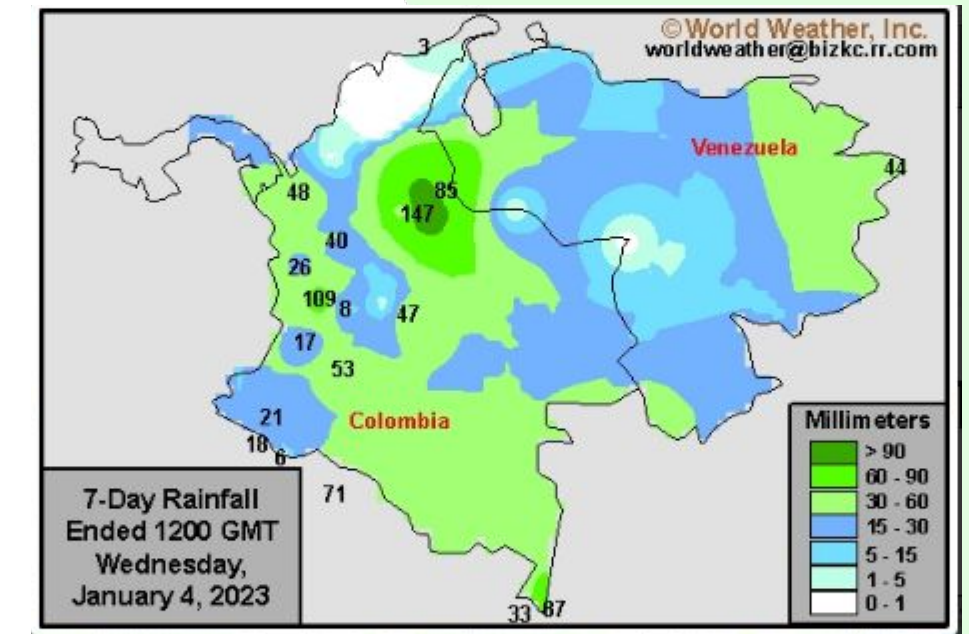
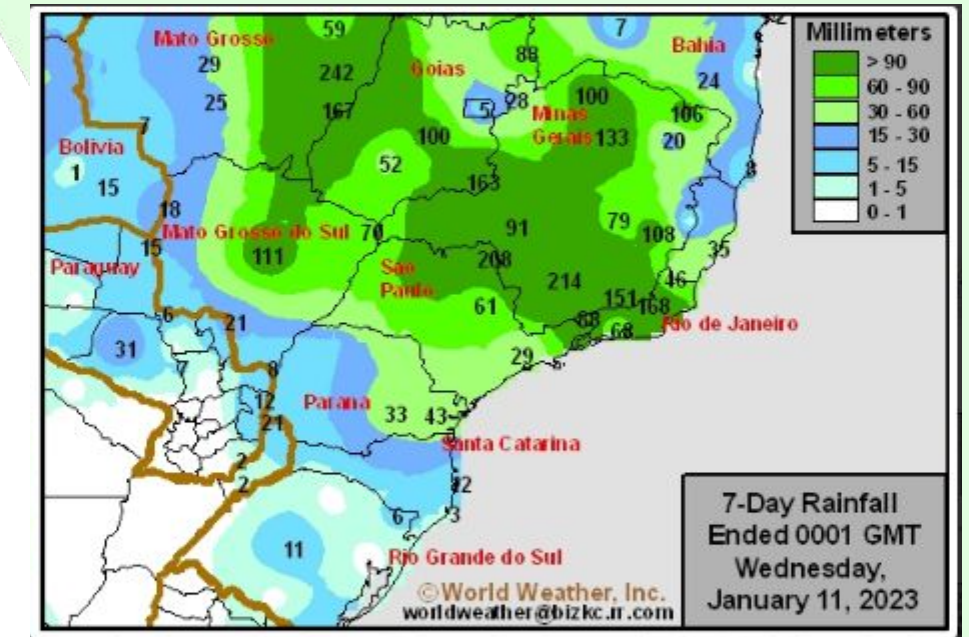
# Coffee: Sell

- Coffee futures closed higher on Wednesday following strength in USD.
- Global inventory level remains very high as well as the weather is very favorable for future coffee crops.
- Coffee production is supported by better supply prospects from top producer Brazil. The positive outlook for Brazil's arabica crop after recent rains continues to weigh on prices.
- ICE arabica coffee inventories posted a 6 month high of 858,661 bags this Wednesday.
- U.S. Dec green coffee inventories increased +9.3% y/y to 6.38 mln bags.
- Brazil coffee production increased +6.7% y/y to 50.9 mln bags in 2022.
- Coffee importer Wolthers Douque projected that Brazil's 2023 coffee crop to increase by +16% y/y to 65 mln bags due to improved weather conditions.
- **Coffee is bearish on the back of larger Brazil crop and improving Brazil coffee weather, higher inventory levels both in US and Europe.**



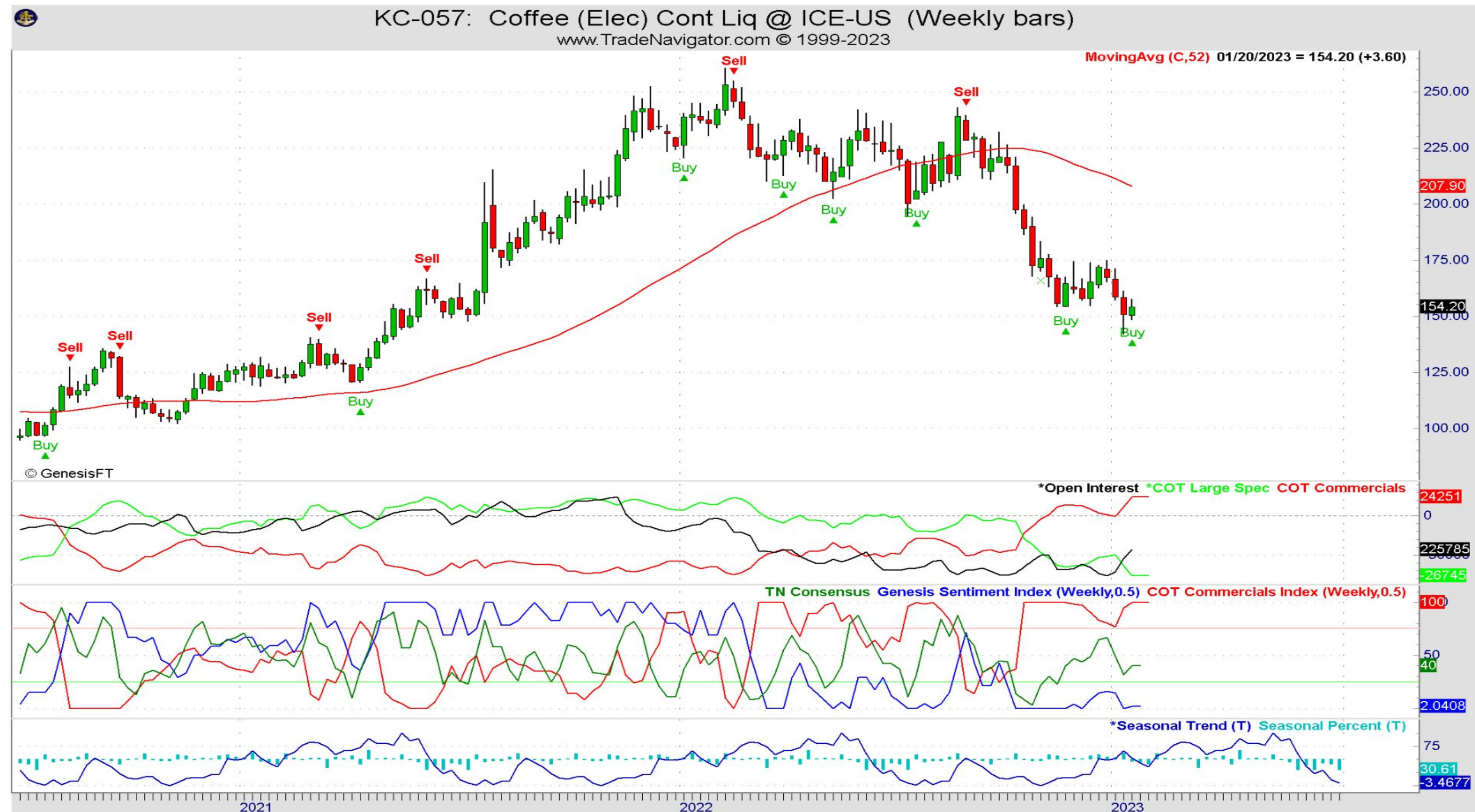
# Weather review

- Minas Gerais in Brazil received 249.9 mm of rain last week, or 351% of the historical average. Weather remains favorable for coffee crop development.
- Colombia saw more than average amount of rain beneficial for maturing coffee crops.





# Coffee Price Chart





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