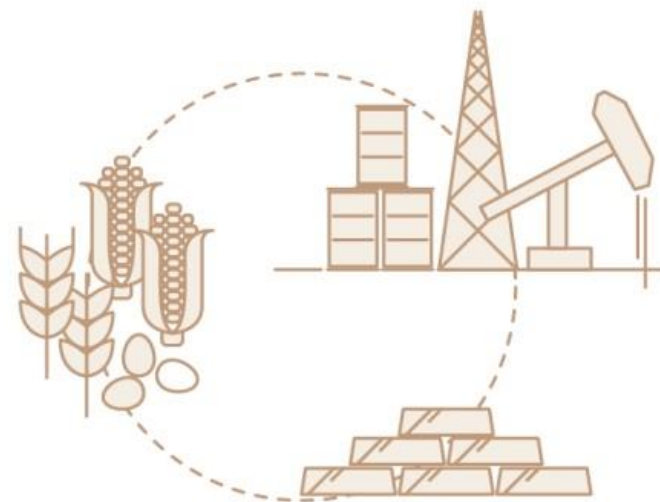


# Agriculture

More than weather

CIO Commodity Research  
UBS Chief Investment Office GWM



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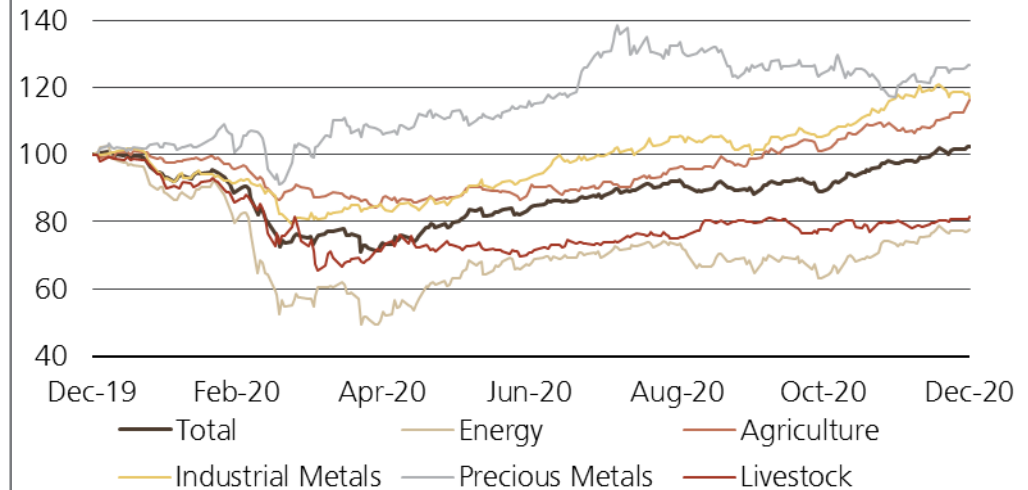
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# Agriculture: Overview

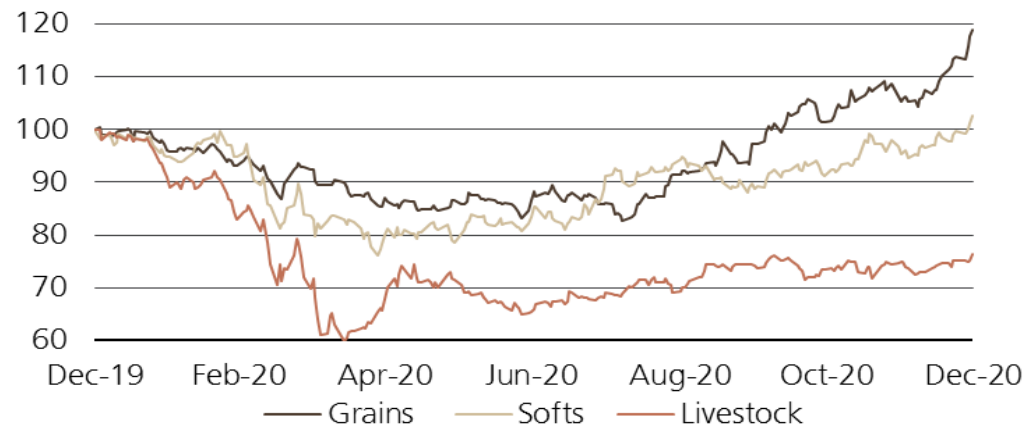
We carry forward our preference for grains, then livestock and softs.

- **Summary:** Adverse weather conditions across the globe and food security considerations due to supply chain risks pushed agriculture prices up a solid 14–19% in 2020. Market tightness in agriculture is likely to persist in 1H21, but in the absence of poor weather, we see asymmetric return potential overall in 2H21.
- Weather concerns related to **La Niña** should linger on in 1Q21, and demand linked to food security considerations will likely persist. However, the ability of **supply to respond** to higher row crop prices over time should not be underestimated in 2021–22.
- We keep our preference for **grains**, then **livestock** and **softs**. Positive drivers are higher oil prices, greater focus on reducing GHG emissions by the new US administration (elevating biofuels demand) and China.
- **Upside:** La Niña extends into 2Q21, promoting dry conditions for Brazil and the US Midwest, which would cut into yields of second-crop corn (in Brazil) and US soybean and corn production forecasts.
- **Downside:** Less government intervention in trade flows, improving crop conditions in Brazil and better forecasts in the US—with speculator long positions still elevated.

## Total return performance: By sector

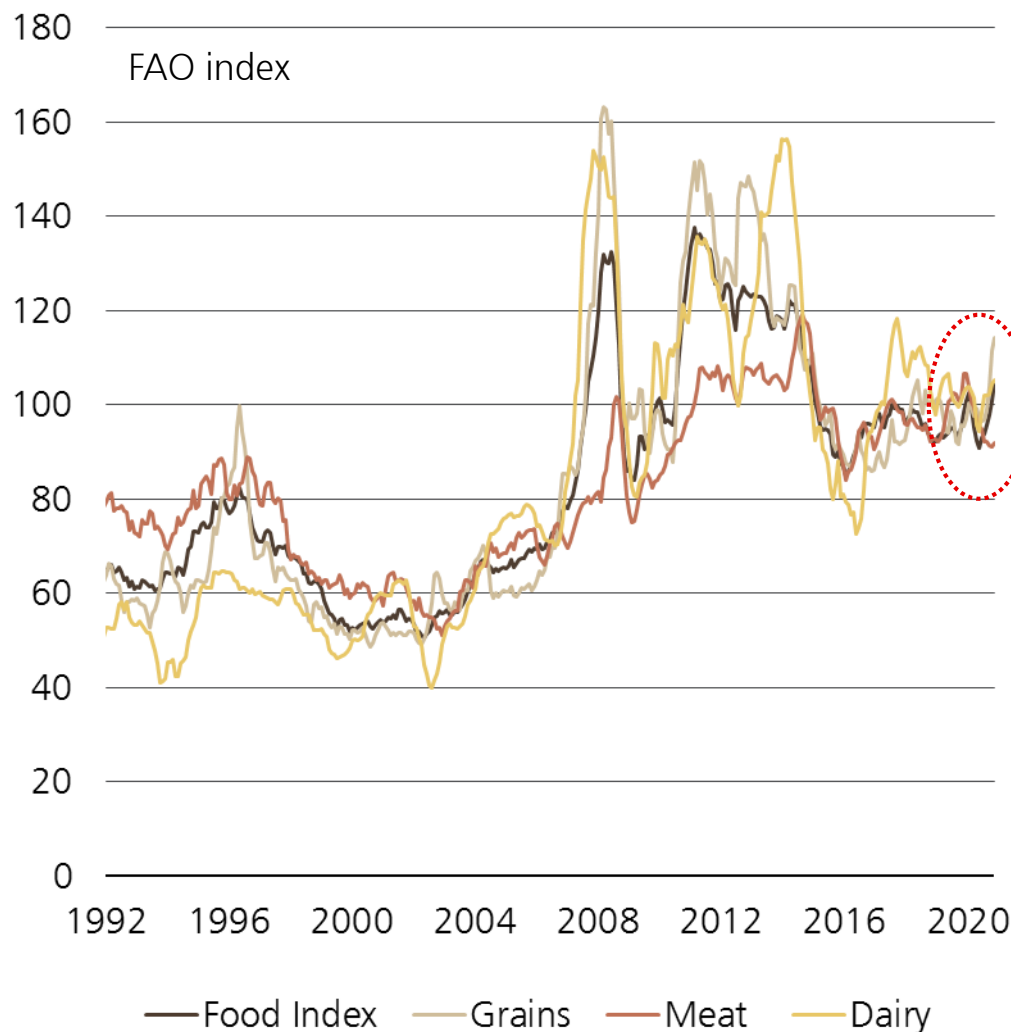


## Spot return performance: In agriculture



# Agriculture: Food prices at six-year high

The UN's FAO reported a 6.5% y/y rise in its food index to November, the largest monthly increase since July 2012.

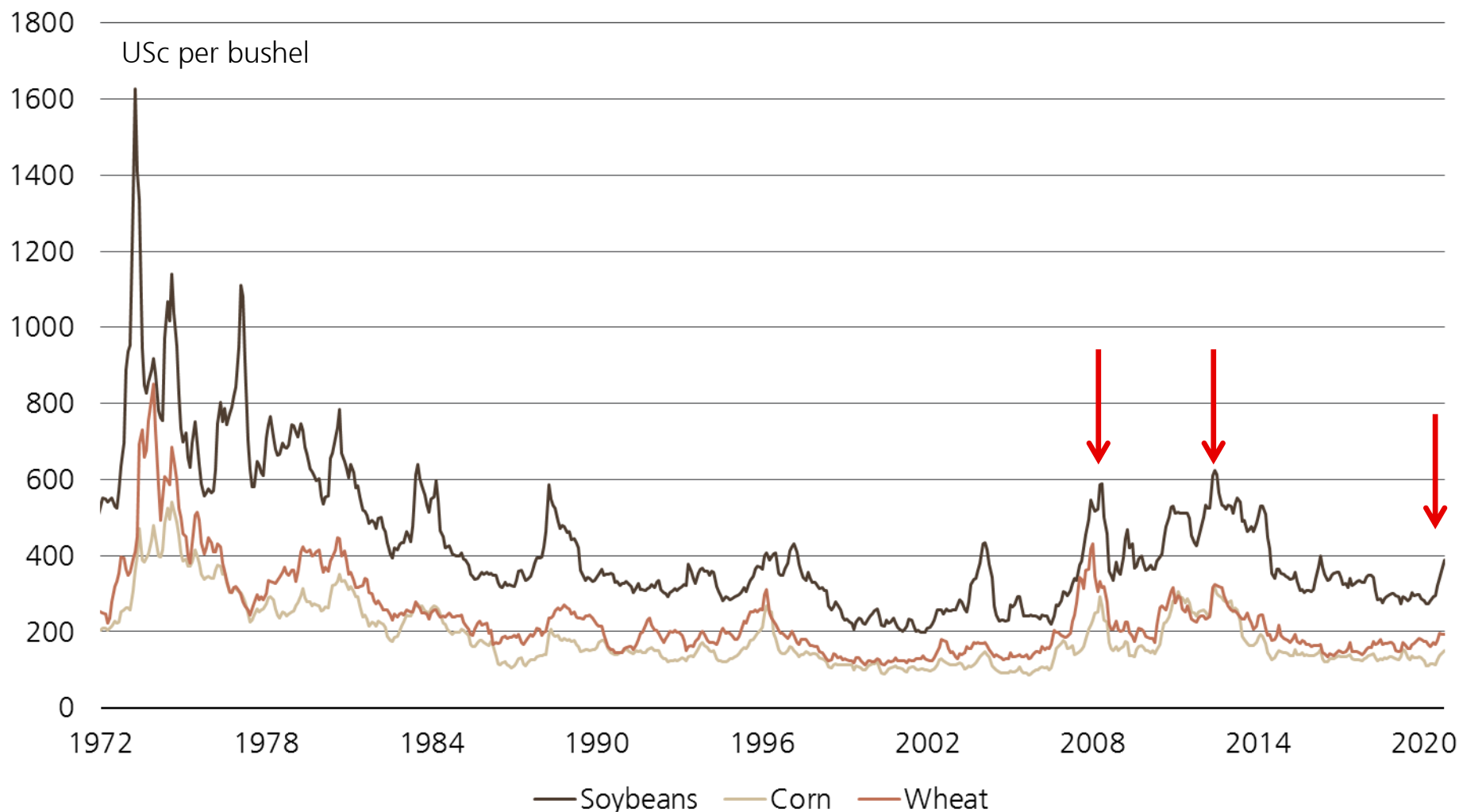


## Key points to note:

- **Grain prices are the main driver**—rising 20% y/y—due to poor harvests and pandemic-related stockpiling.
- **Nothing like what was witnessed in 2008–12**—a prolonged period of weak prices and real terms below a decade ago. La Niña remains a concern in 1H21, but risks are more asymmetric at current prices.
- **Higher grains prices already causing problems in developing countries.** Russia is already planning to limit wheat exports in 2021, while high grain prices in China and South America will eventually feed through to meat prices.
- **Bullish demand signs from China**—the recent "Clean Plate" campaign and biotech announcements are key signals.

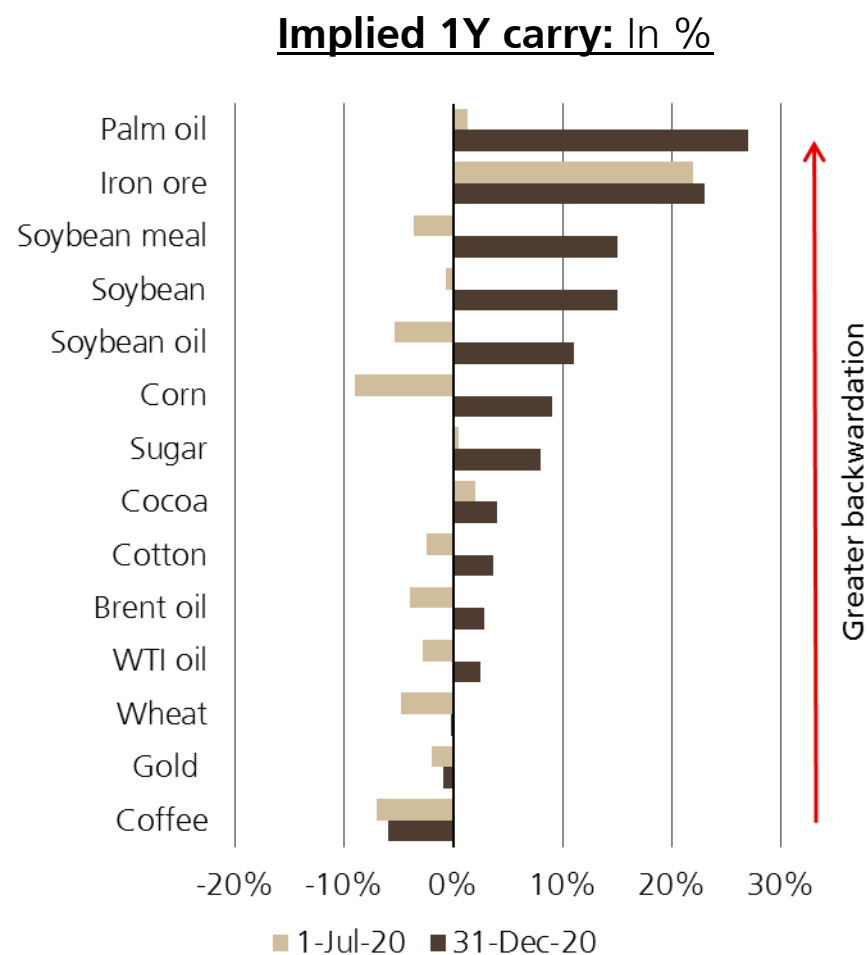
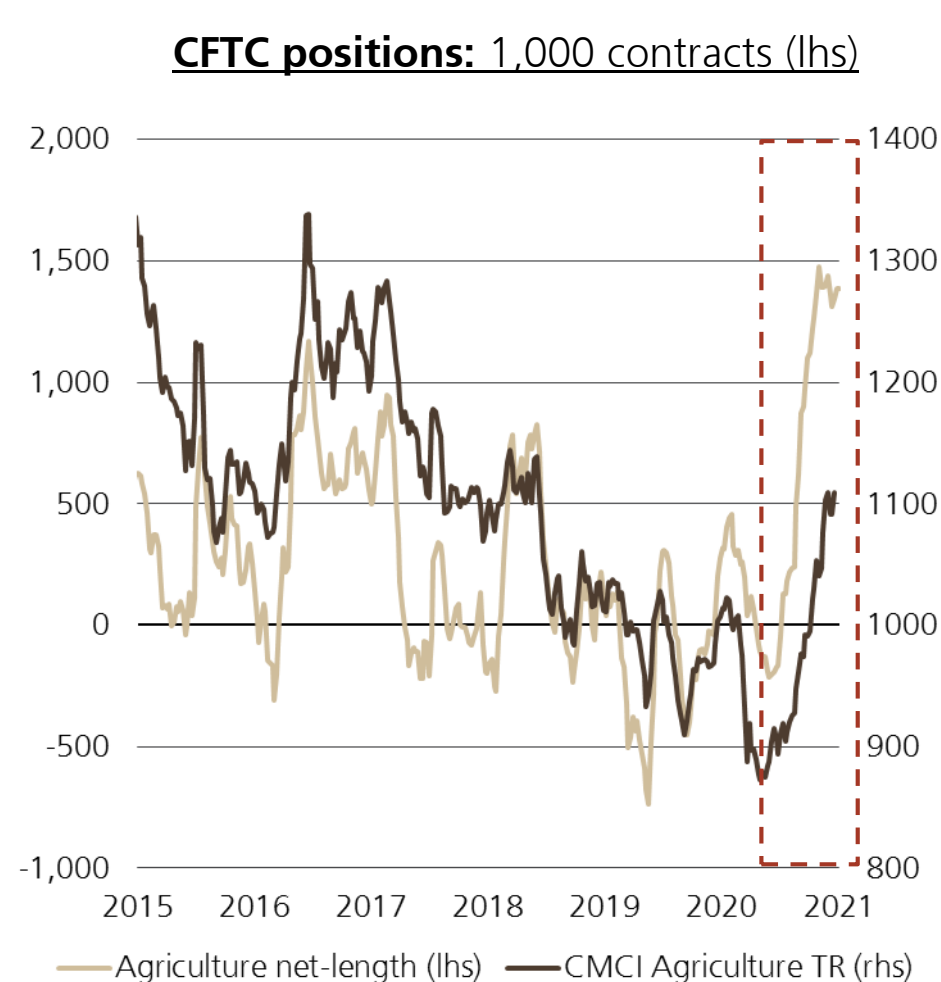
# Agriculture: Real prices remain below recent highs

Nominal grain and oilseed prices have reached levels not seen since 2013, but real prices (nominal prices minus inflation) are still well below these levels.



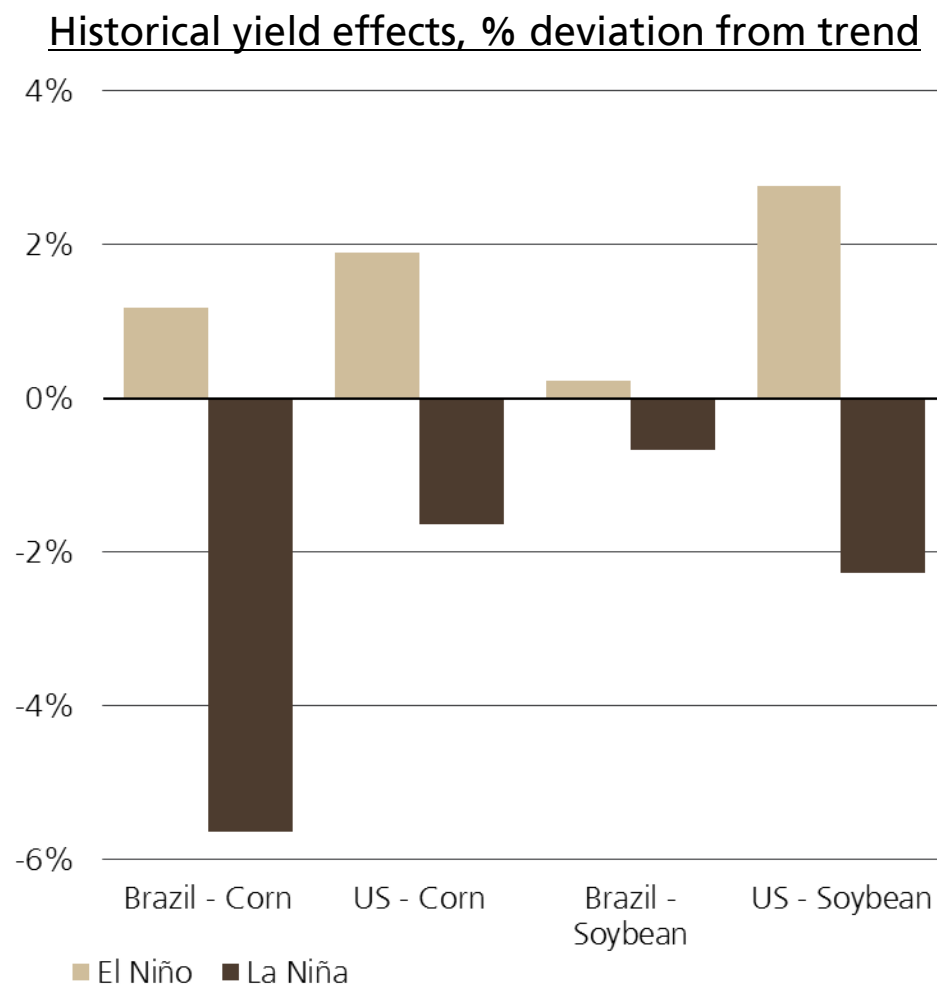
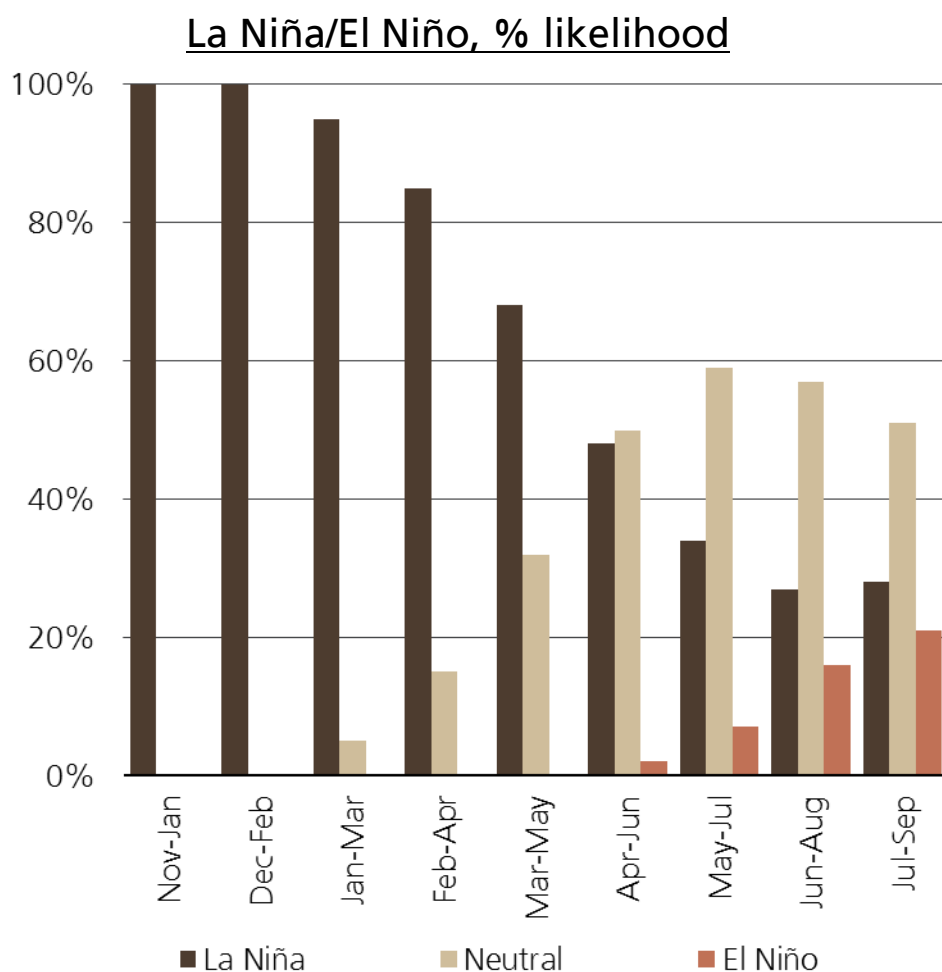
# Agriculture: Risks more asymmetric now

Repricing of weather risk and pandemic restocking were behind the rally, but speculative net-long positions and forward curve backwardation are now elevated.



# Agriculture: Worsening weather key from here

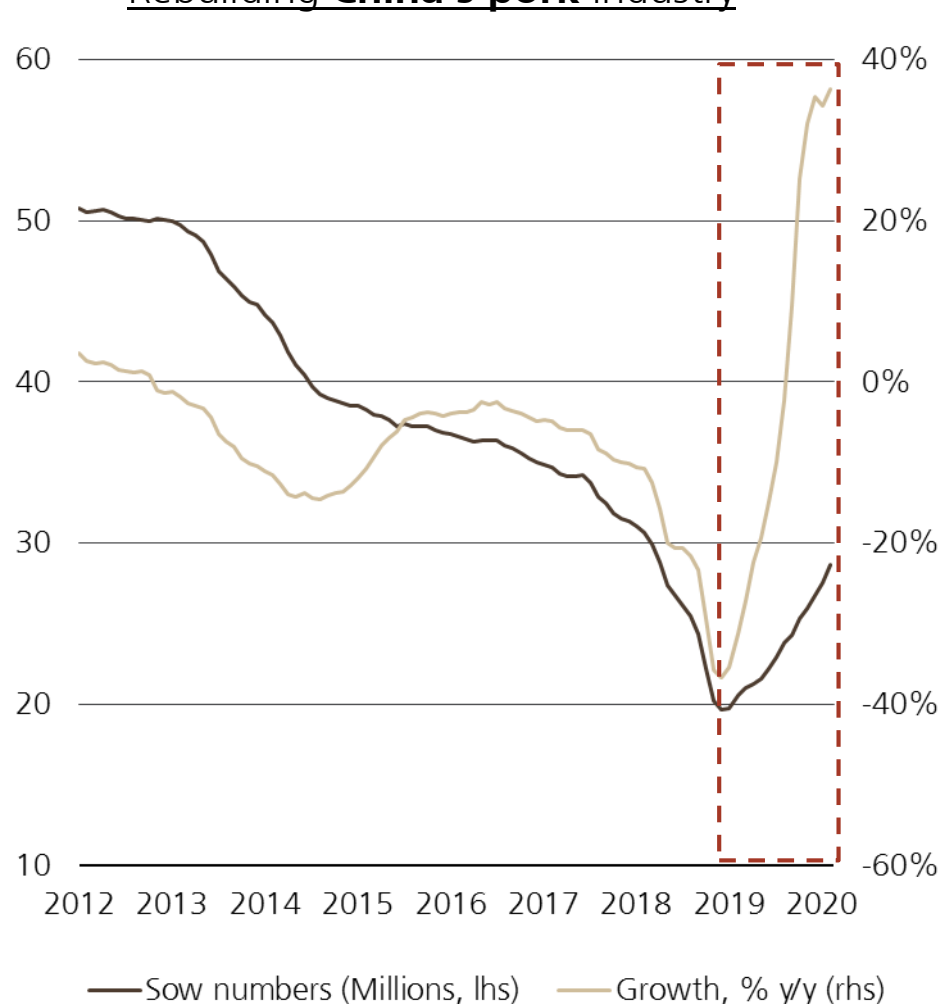
La Niña's weather impact on crop ratings in South America is crucial, as are early weather forecasts for the US Midwest region.



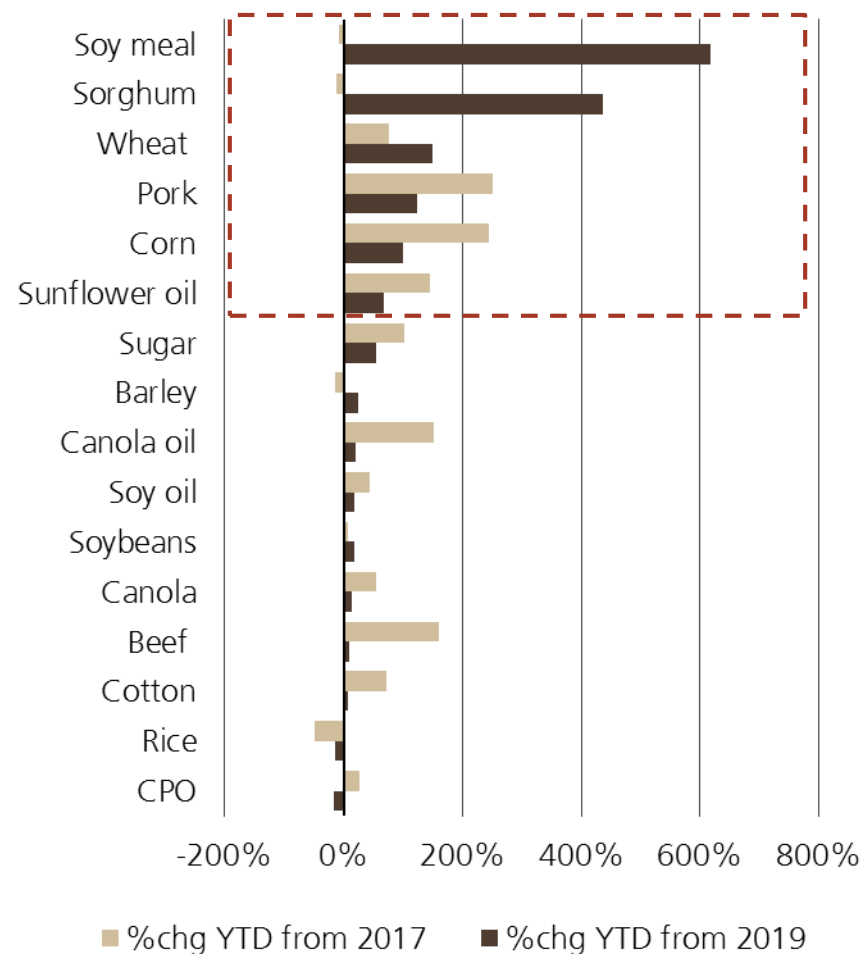
# Agriculture: Chinese demand should continue in 1H

China's imports have focused on rebuilding inventories of animal feed, as well as non-traditional grain imports of corn, wheat and pork.

Rebuilding **China's** pork industry



**China imports: % change, ytd**



## Appendix

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