

Weekly Market Report

Monday, 2nd March 2020

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Weekly Overview

Price changes week on week

	Price	Change	Change%	30 Day Low	30 Day High
Soybeans	901.5	-8.25	-0.91%	894.00	922.25
Soybean Oil	29.04	-2.34	-7.46%	29.04	32.25
Soybean Meal	310.1	10.00	3.33%	297.9	310.1
CBOT Wheat	526.25	-25.75	-4.66%	526.25	567.25
Corn	372.5	-11.00	-2.87%	372.50	397.25
Kansas Wheat	460.25	-22.00	-4.56%	458.75	500.00
Crude Oil	44.76	-8.62	-16.15%	44.76	53.88
Dollar Index	98.081	-1.11	-1.12%	97.213	99.776

With COVID-19 spreading into larger world areas, including EU and North America, the markets were in full panic mode. Equity markets took a sharp turn lower as more COVID-19 cases were reported across the world. Commodity markets continued to be under pressure. With expectations of the global economy slowing down, energy prices were sharply lower. Crude oil price was down more than 15%. Currencies in emerging markets devalued, with Brazilian real trading close to 4.50. Lower currency in Brazil usually leads to more local farmer selling, adding pressure on prices.

Fed tried to calm the markets by stating they will be supportive, but no actual commitments were made. Fed reassurances failed to calm the markets in our view. The market is pricing in increased pace and magnitude of rate cuts as well as quantitative easing in the coming weeks/months to bolster up the market.

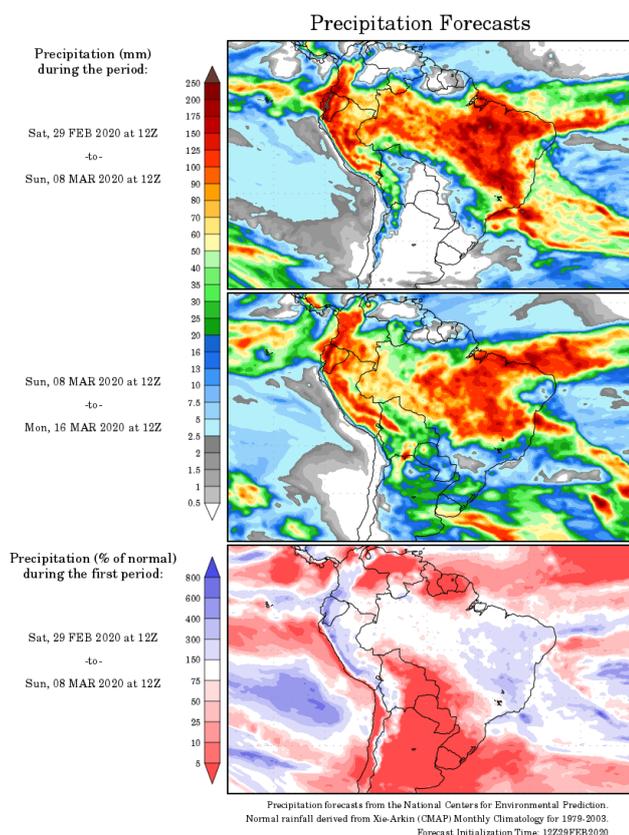
The impact on agricultural commodities during times of global recession is usually limited. The

demand profile of the world largely remains the same, however as grains and vegetable oils prices are now quite intertwined energy prices, it is quite likely we will see some impact from the biofuel sector.

Economic data coming out of China this week was bleak, as the PMI, which is an indicator of manufacturing activity plunged to new lows, close to 30. Typically a number below 50 points towards slowing down the economy. However, some newswires were indicating that backlog at the ports is starting to clear up, and one should see an uptick in economic activity.

There was no follow up news on last week's Trump tweet that he will be ready to provide additional support to the farmers till trade deals finally kick in.





GrADS/COLA

Fundamentals for grain and oilseed markets have remained largely unchanged. Regardless of the current pressure due to COVID-19, our view over the last few weeks has remained bearish, and the current situation has only added to bearishness. The grain markets need an adverse weather event in the coming months to push prices higher.

South American remains well out of any danger of any adverse impact due to weather. There are some parts of dryness in Argentina, but it is not expected to impact the yields in a meaningful way.

Managed money funds added to the shorts in corn and soybeans. Funds also reduced longs on their wheat positions.

COT Report Managed Money Positions as of 25 February 2020

	Position	Change	Max Long	Max Short	Average
Corn	(96)	(34)	429	(322)	85
Soybean Meal	(77)	(5)	134	(77)	27
Soybean Oil	23	(17)	127	(110)	14
Soybeans	(75)	15	254	(169)	62
Wheat	42	(23)	67	(162)	(45)

Grains

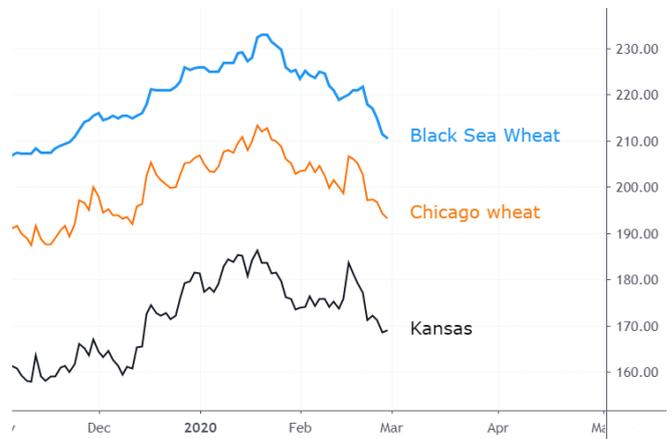
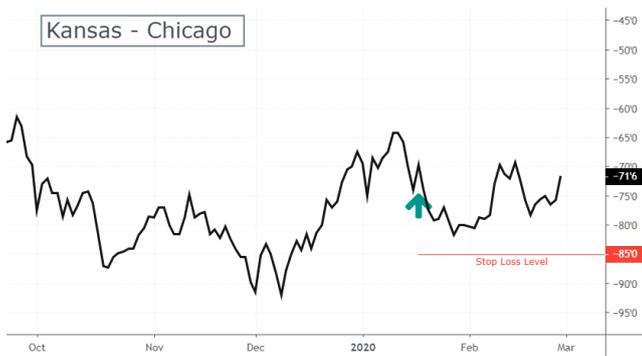
Wheat prices were down close to 5% over the week. The price move in US wheat was in line with the global decline in wheat prices. Seasonally, wheat prices tend to decline for the next couple of months, usually in the years when there is no adverse weather event, and this year has not been any different.

Due to a sharp move accelerated by a decline in global commodity prices, wheat prices may have moved too much in a short span. We may get sideways price action for this week as long the world markets are stable. If there is again a sharp increase in reported cases, then we may see a continued decline.



away from our suggested stop-loss levels, as shown on the chart, but exit if the spread closes below the stop-loss levels.

Wheat needs an adverse spring weather event to justify the implied vol that it currently trades. Current long-range forecasts do not suggest anything that we would witness such an event.



Meanwhile, we continue to hold on to long Kansas and short CBOT position. We are still

Given the expectations of large planting acreage expected for new crops, corn fundamentals remain firmly bearish. However, the decline in prices in the last week can impact the acreage number estimates.

Argentine crop ratings are still good levels, given the current dryness.

Outside of the impact of COVID-19 on global prices, Corn prices should struggle to rally with the expectation of new crop carry to build up to over 2.6 billion. Current long-range forecasts and good soil moisture suggest low chances of a weather event. We could see corn prices trading below 3.50 at some point if benign forecasts persist.

Oilseed complex

Soybean price was lower, but largely rangebound this week. The current implied volatility on beans is less than 15%. i.e., it is not pricing in any possibility of a weather event in the coming months. We continue to hold out the view that flat price move will be at the mercy of potential china demand, implied vol could get support from weather scares in the growing season. In our view, there is a limited downside to beans. When compared to last year, when the crop carryout estimates started with a number well above 600 million bu and full-blown trade war, the low on Nov futures was close to \$8. This year we are starting with 340 mbu estimates with the potential restart of trade flows to China, i.e., price floor would be at a much higher level than \$8.

Brazil is set to have a massive crop this year, which means China likely will continue to buy from South American till the US harvest.



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