

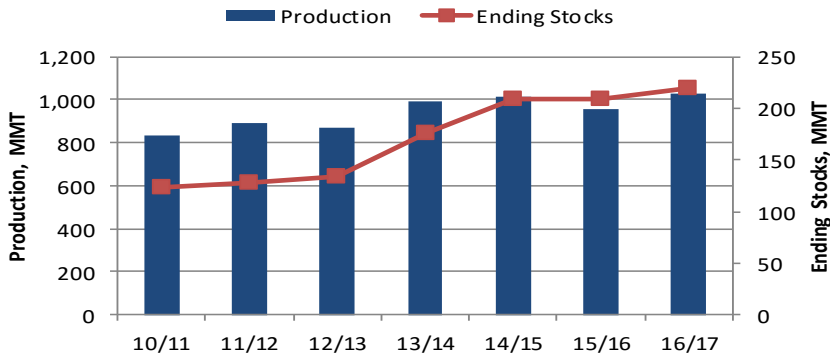


# GLOBAL RISK MANAGEMENT

## Market Outlook & Price Projections: Corn, Wheat, Soy Complex & Palm Oil October 7<sup>th</sup>, 2016

Patrick Sparks  
Global Risk Management, Inc.  
[psparks@grmcorp.com](mailto:psparks@grmcorp.com)  
651-209-9503  
[www.grmcorp.com](http://www.grmcorp.com)

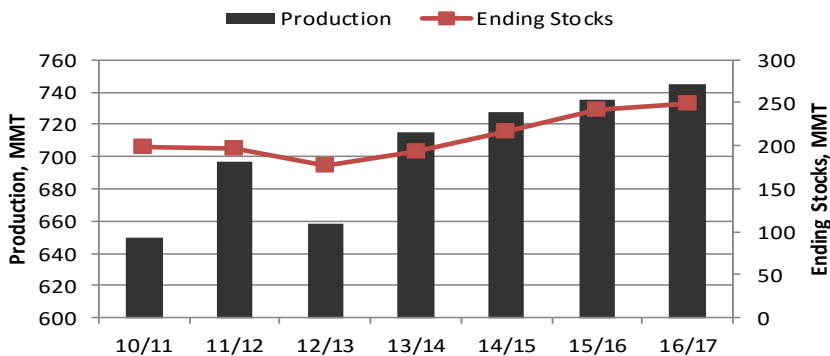
## World Corn



## World Corn:

- Record ending stocks
- Production outstripping demand this year

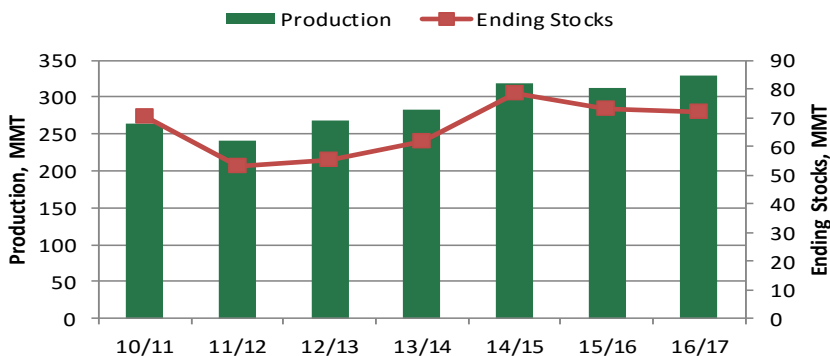
## World Wheat



## World Wheat:

- Record ending stocks
- 4 straight years of record production

## World Soybeans



## World Soybeans:

- Ending stocks to fall slightly, 2<sup>nd</sup> year in a row
- Record production 4/5 years
- Consumption growth has averaged 5% over last 5 years



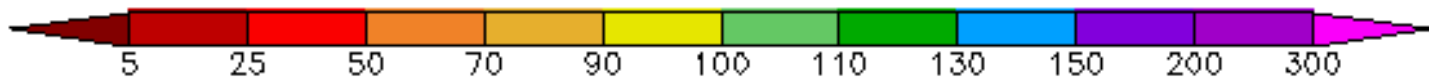
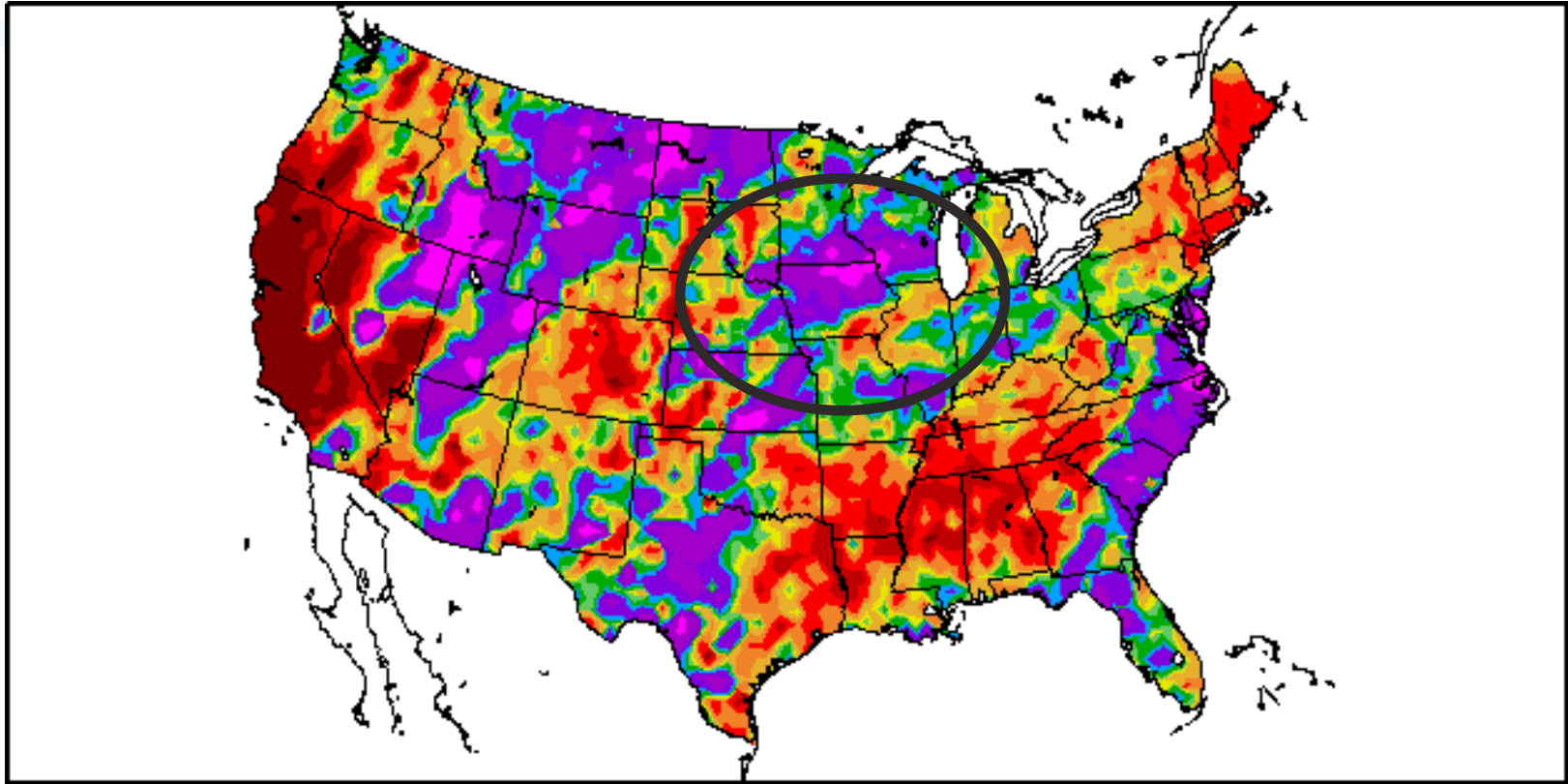


2016/17 U.S. Grain and Soy Export Sales: the cure  
for low prices is.....low prices

## Total Export Commitments vs. Last Year

- ❑ Corn: **+87%** vs. USDA forecasting **+14%**
- ❑ Wheat: **+27%** vs. USDA forecasting **+23%**
- ❑ Soybeans: **+30%** vs. USDA forecasting **+2%**

# U.S. Weather - % of Normal Precipitation (30 days): heavy rainfall over the last 30 days has slowed harvest in some areas





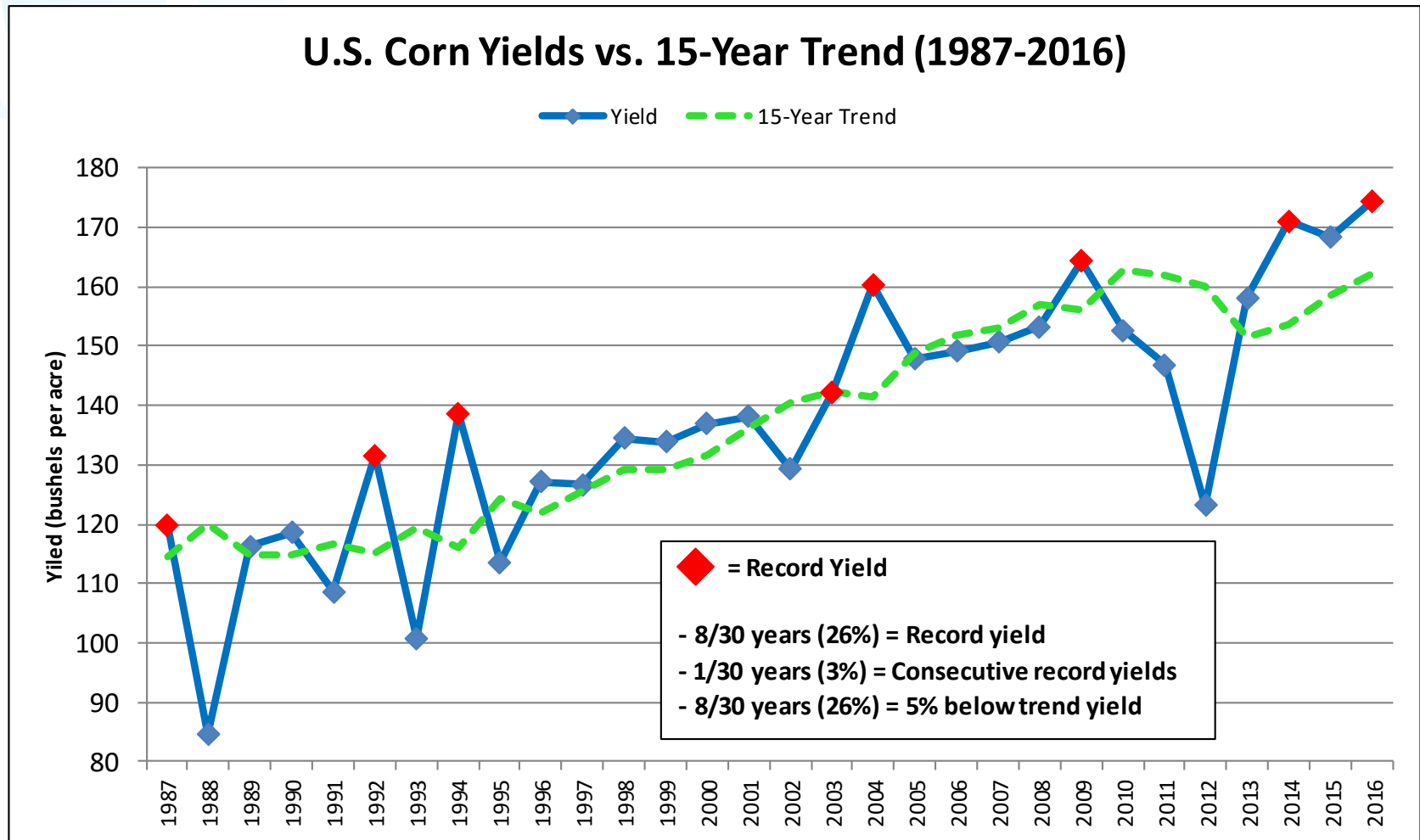
# CORN UPDATE



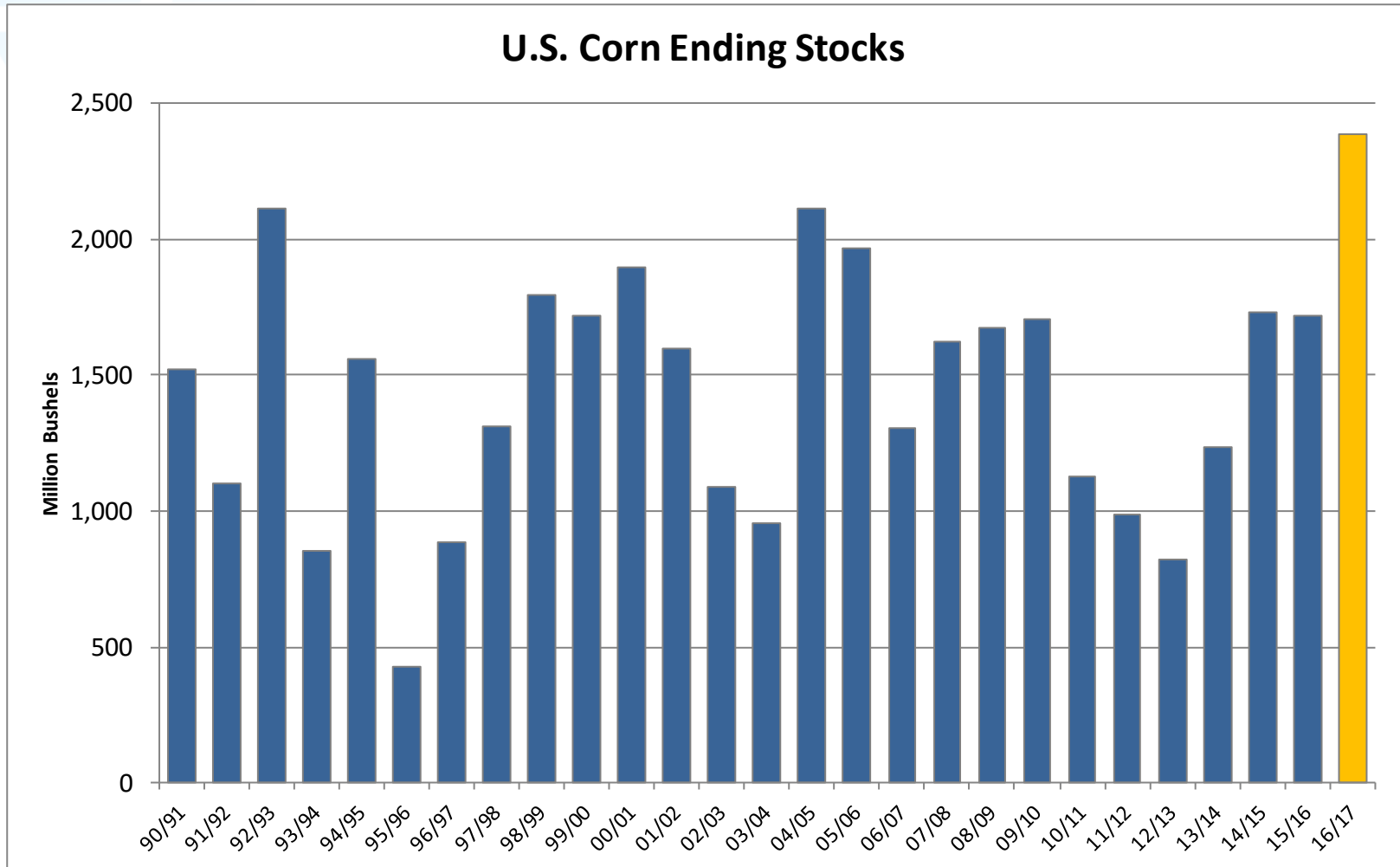
# Corn Price Situation to Date:



# U.S. Corn Yields: only twice in the last 53 years (4%) have we seen 5 straight above trend yields

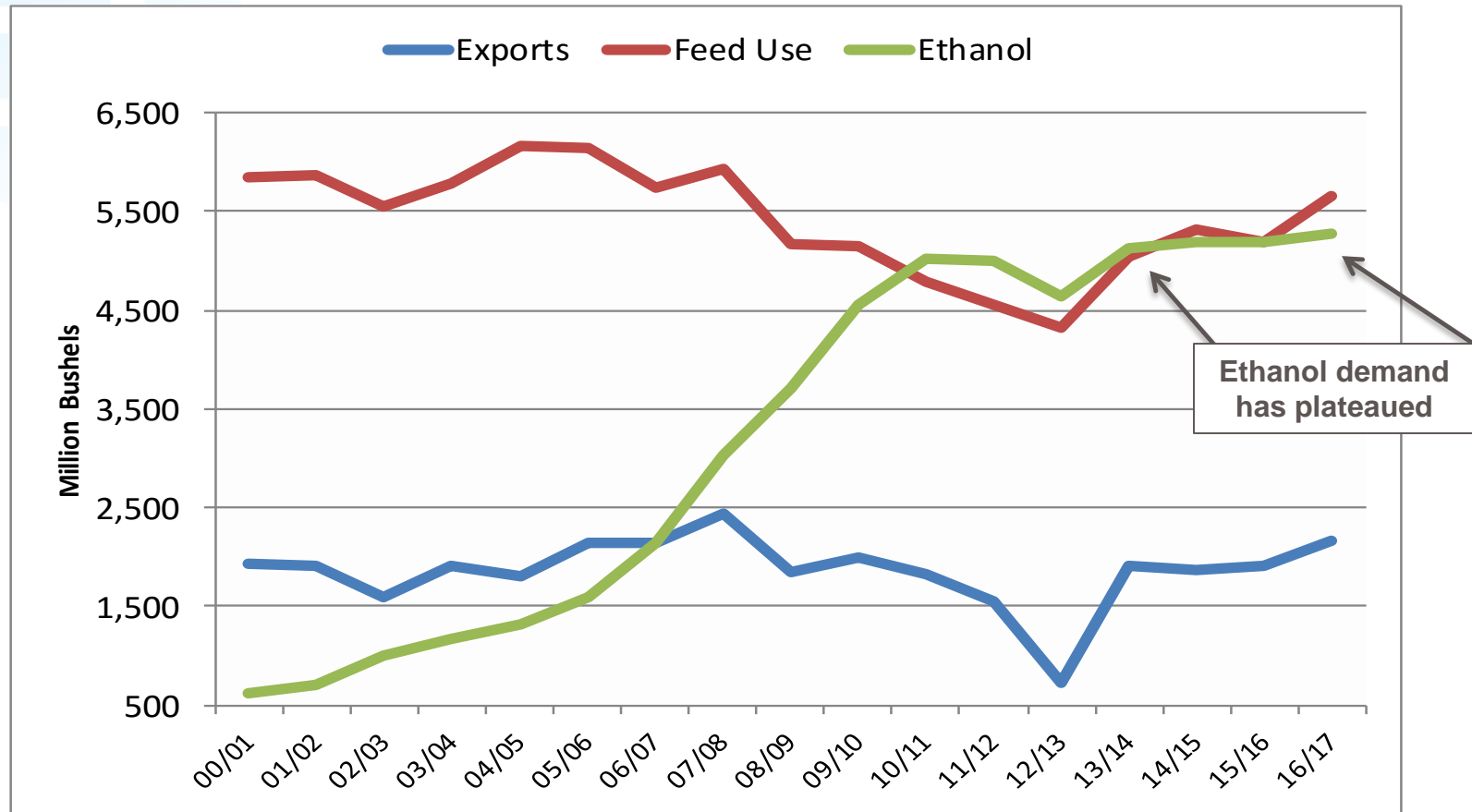


# U.S. Corn Ending Stocks: highest in 29 years



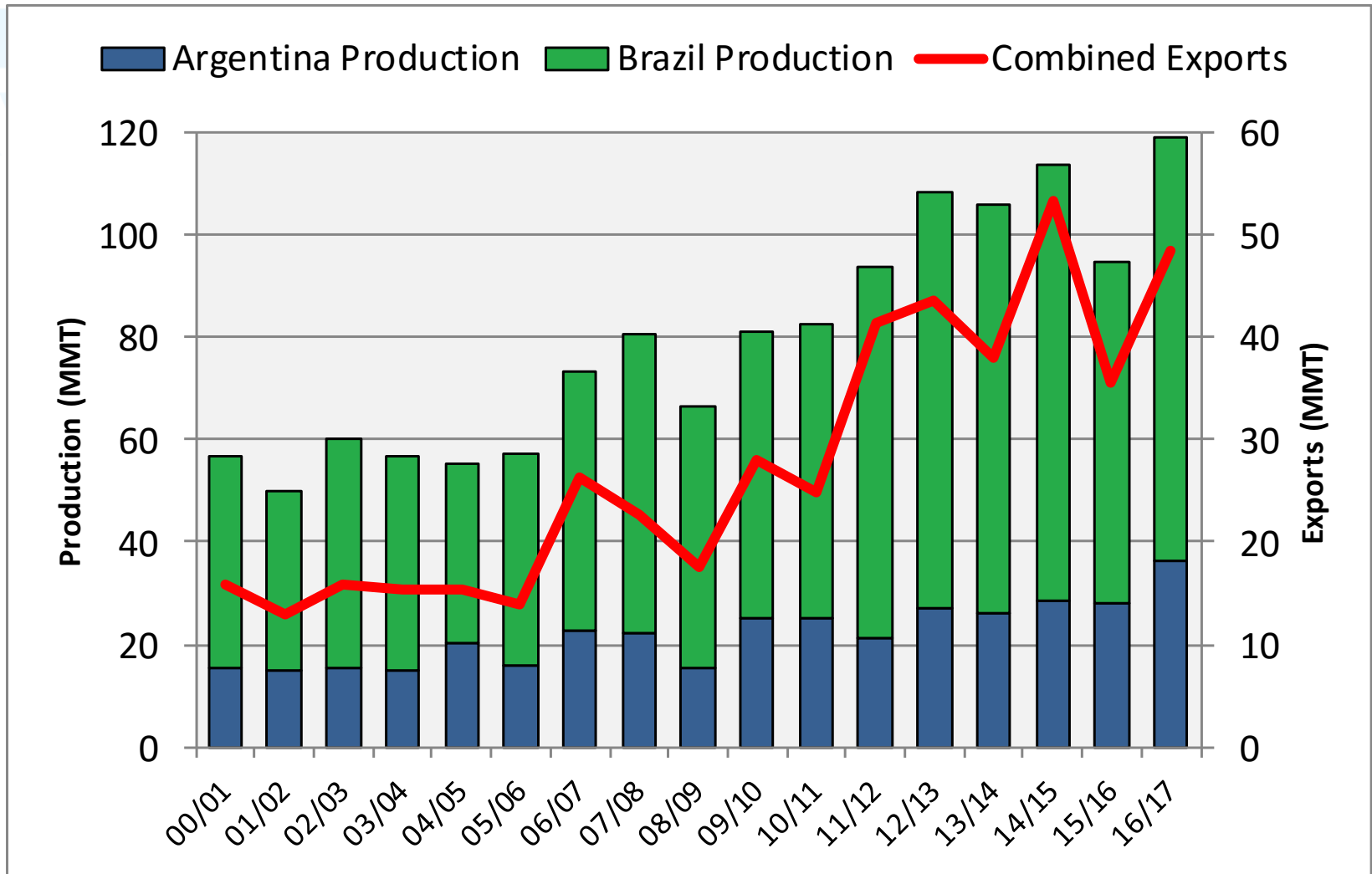


# U.S. Corn Demand Outlook:

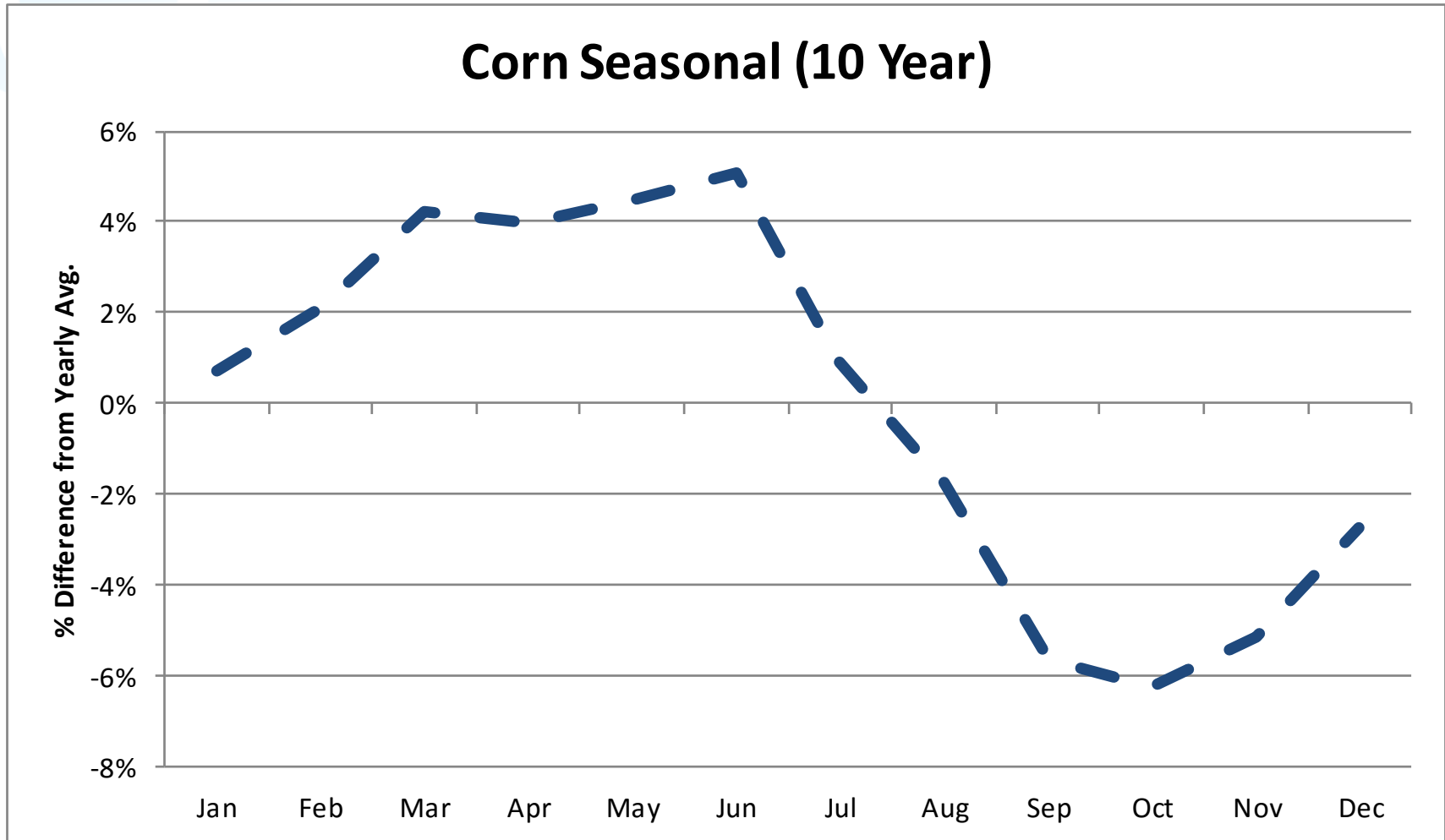


- **Exports** – picking up but strong production of other World exporters will keep competition high
- **Feed** – projected to improve but limited by animal numbers and an abundance of feed alternatives
- **Ethanol** – after avg. annual growth of 26% from '06 – '11, that rate is just 1% over the last 5 years

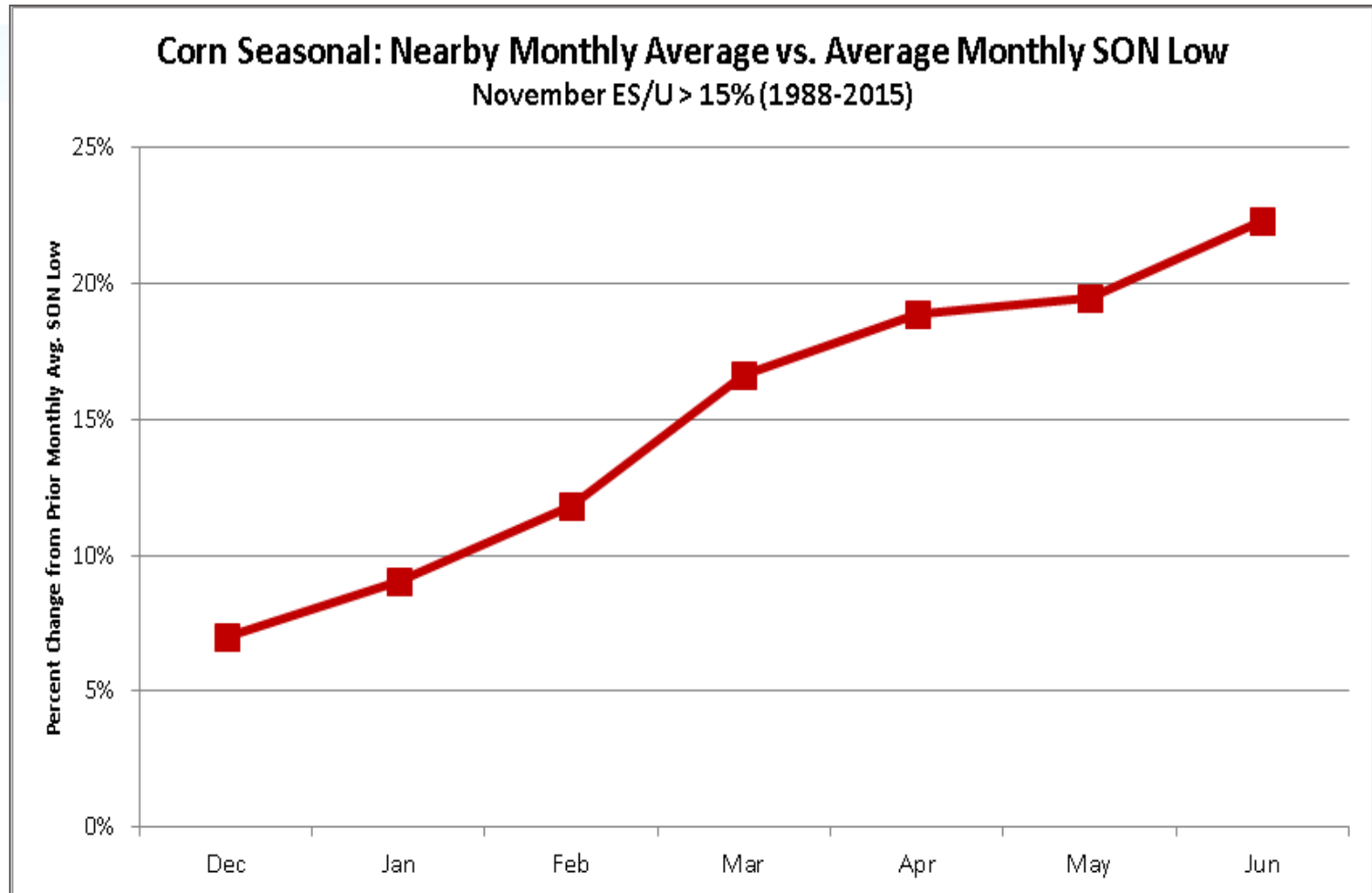
# South American Corn Supply: current corn/soybean price relationships suggest increased corn area this year



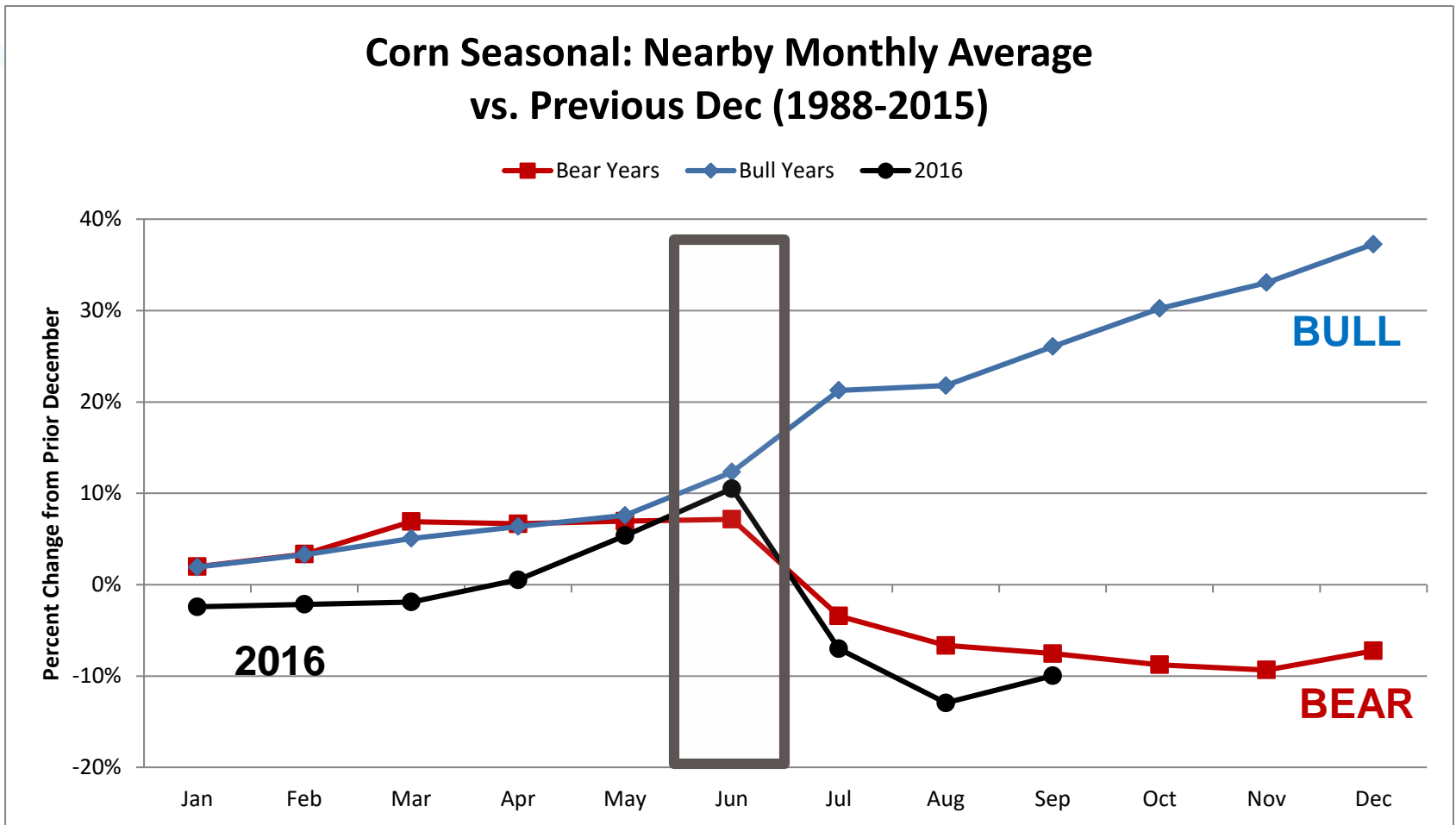
**Seasonality:** under normal conditions, corn prices are pressured into the fall as the new crop harvest makes its way to the market



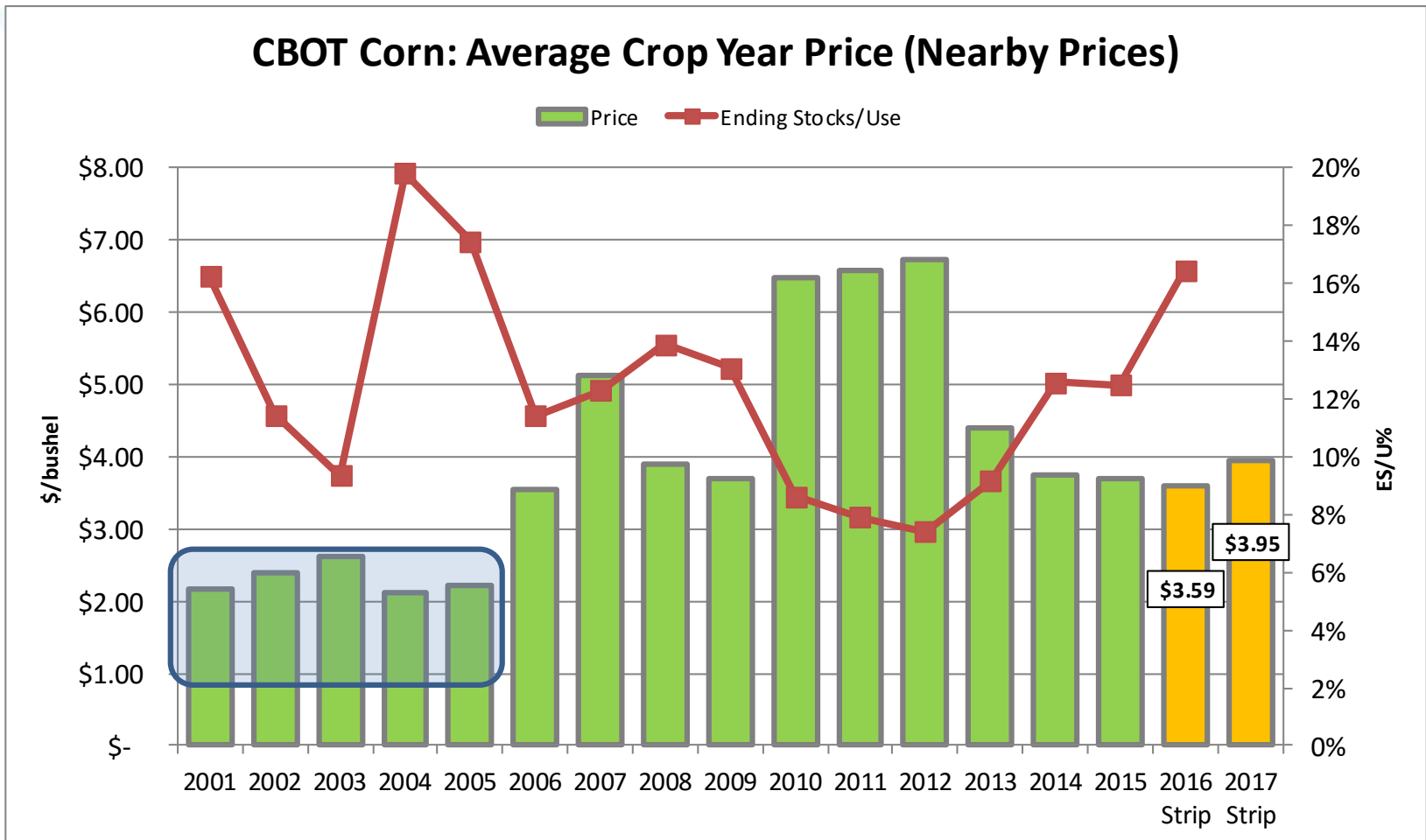
# Corn Price Seasonal: even in fundamentally bearish years, corn prices tend to rally into the first half of the next year from the harvest lows



**Corn Price Seasonal:** volatility in all years is biased to upside in Jan-June. July forward bias shifts depending on whether a “Bull” or “Bear” year.



# Forward Corn Prices: current ES/U % estimates relative to historical relationships show that corn could potentially trade lower from current levels



Note: based on Sep – Aug crop year,



GLOBAL RISK MANAGEMENT

# Corn Price Forward Outlook:

- Short term price range

- \$3.50 - \$3.00 (CZ16), current market = \$3.40

- ▲ Long term hazards (bullish scenario)

- Lower U.S. corn acres in 2017
- Seasonal price strength

- ▼ Long term opportunities (bearish scenario)

- Brazil/Argentina production/export increases
- China policy – de-stocking, export potential



# WHITE CORN UPDATE





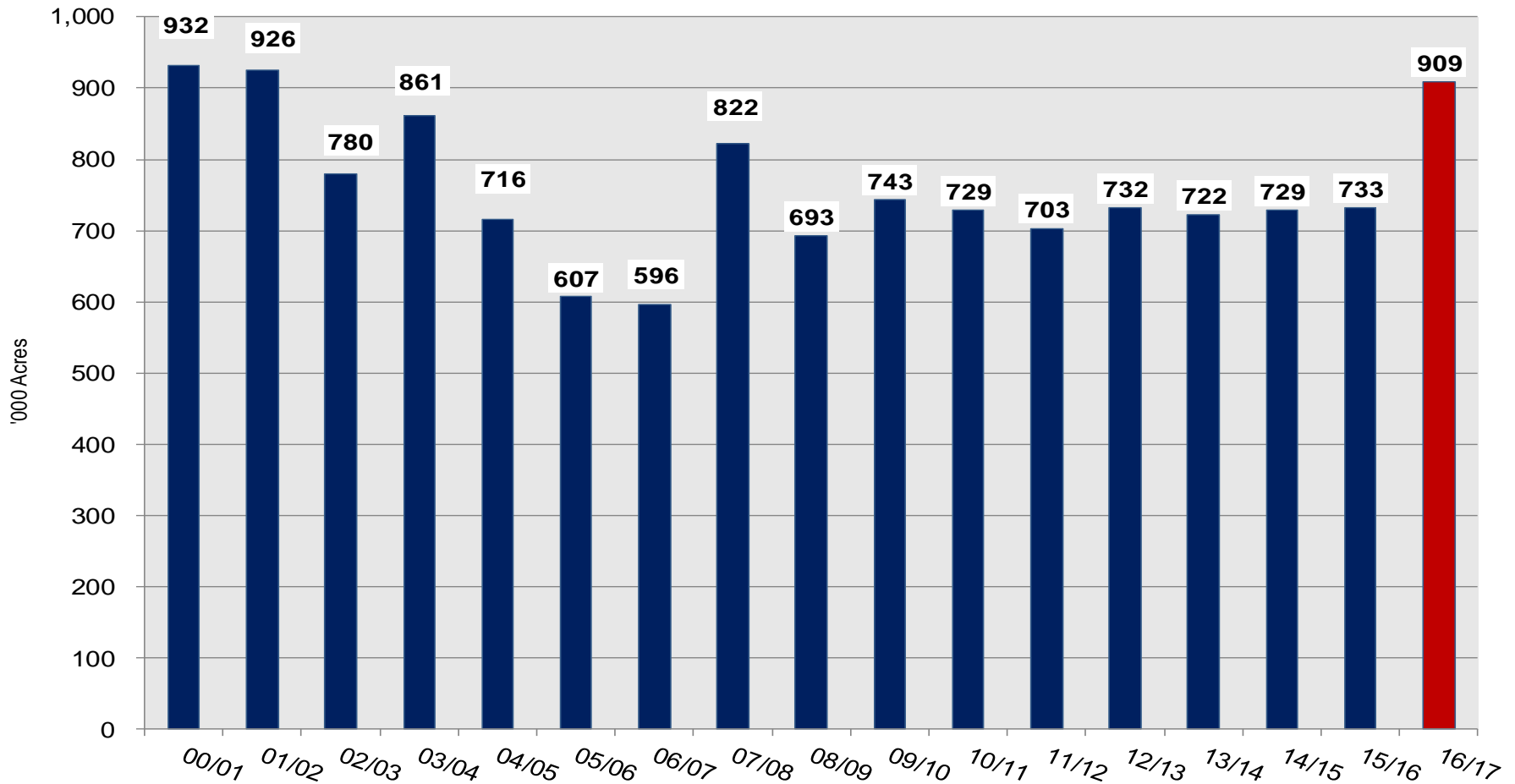


# White Corn Market Highlights:

- ❑ Huge increase in U.S. white corn acres this year
- ❑ Good growing conditions keeps U.S. yield estimates high
- ❑ Record U.S. production should replenish stocks
- ❑ Record U.S. exports are projected for the coming year
- ❑ White corn premiums weakening once we get into harvest
- ❑ Mexico production looks solid but demand stays elevated

# U.S. White Corn Planted Acres: big increase in acres this year as high premiums encouraged a 24% YOY gain in plantings

U.S. White Corn Planted Acres





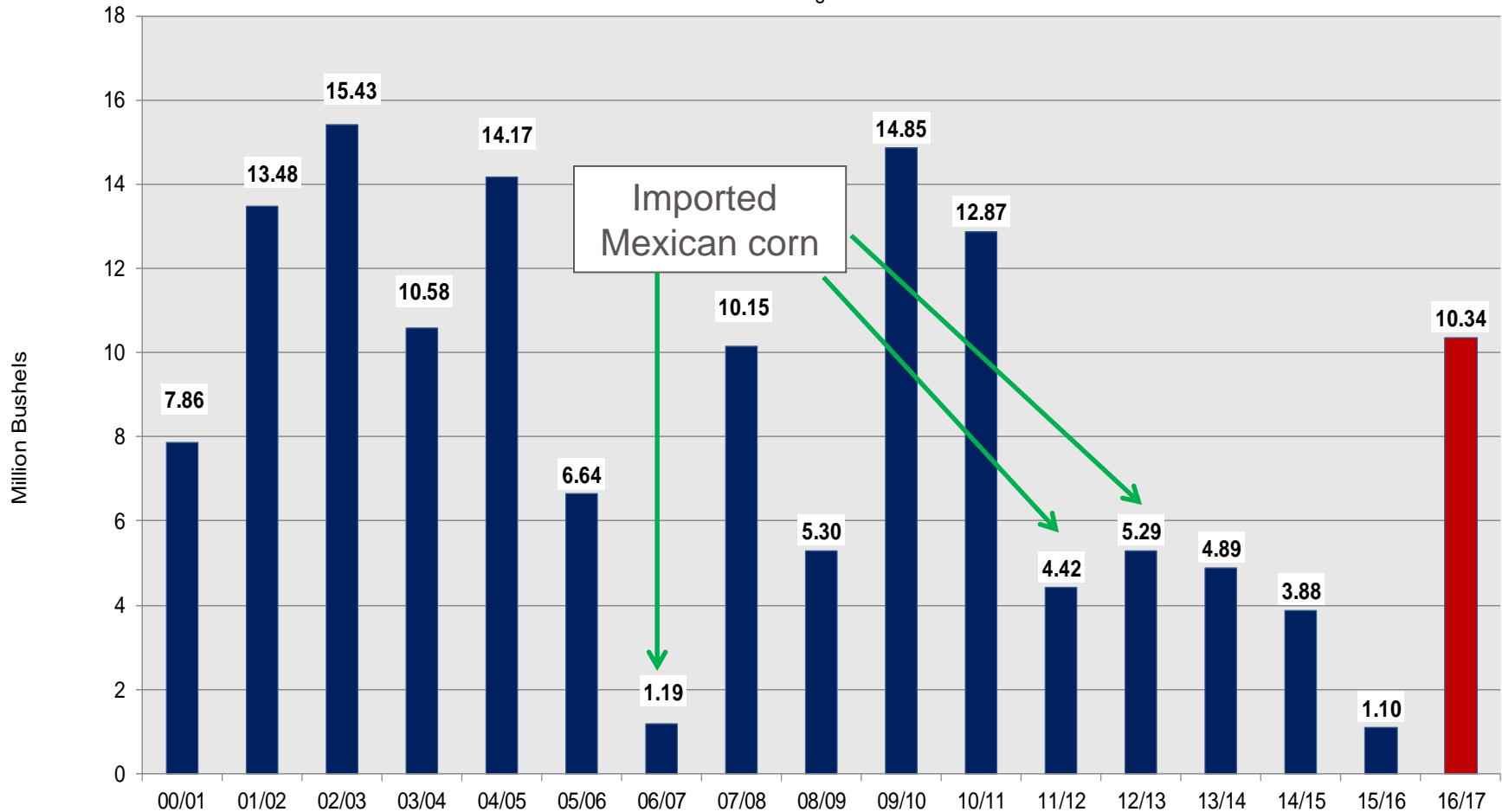
## U.S. All White Corn - Planted Acres % GMO

<b>2008</b>	<b>3%</b>
<b>2009</b>	<b>35%</b>
<b>2010</b>	<b>48%</b>
<b>2011</b>	<b>55%</b>
<b>2012</b>	<b>60%</b>
<b>2013</b>	<b>64%</b>
<b>2014</b>	<b>67%</b>
<b>2015</b>	<b>68%</b>
<b>2016</b>	<b>72%</b>

Widespread acceptance of GMO by end users, producers and importers

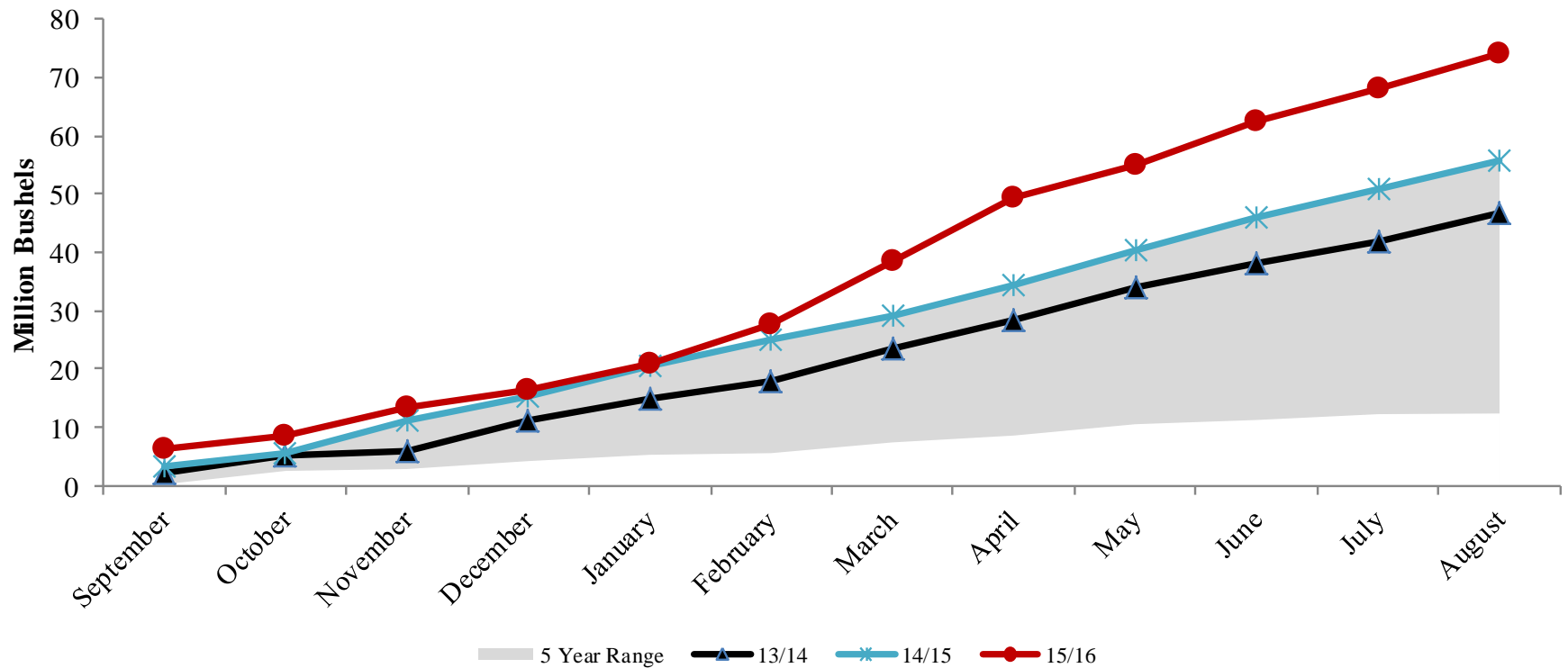
# U.S. White Corn Ending Stocks: build substantially from last years ultra tight levels. The large acreage base this year provides some cushion for yield adversity this year

U.S. White Corn Ending Stocks

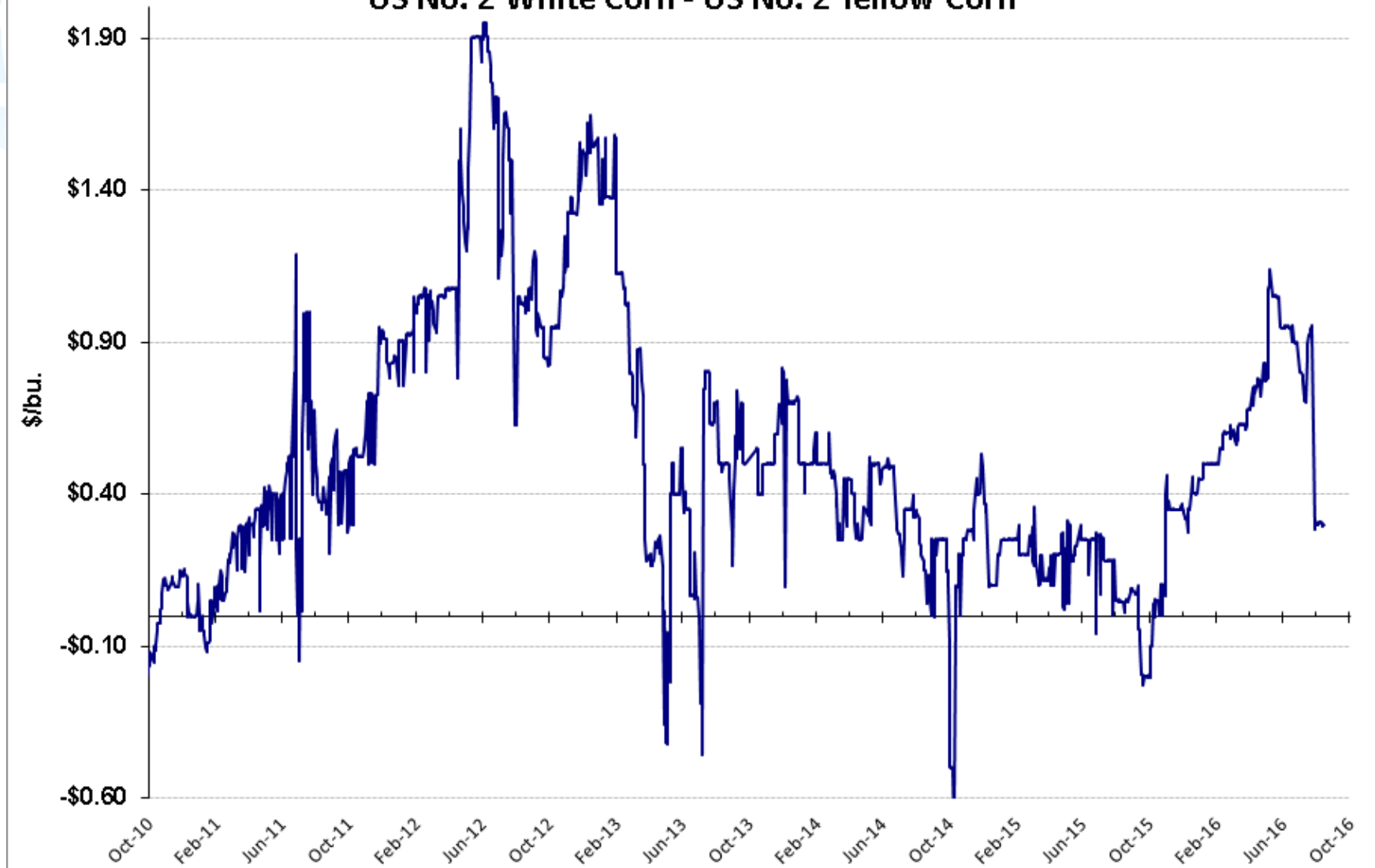


# U.S. White Corn Exports: tight World stocks of white corn increased imports from 2<sup>nd</sup> tier U.S. customers

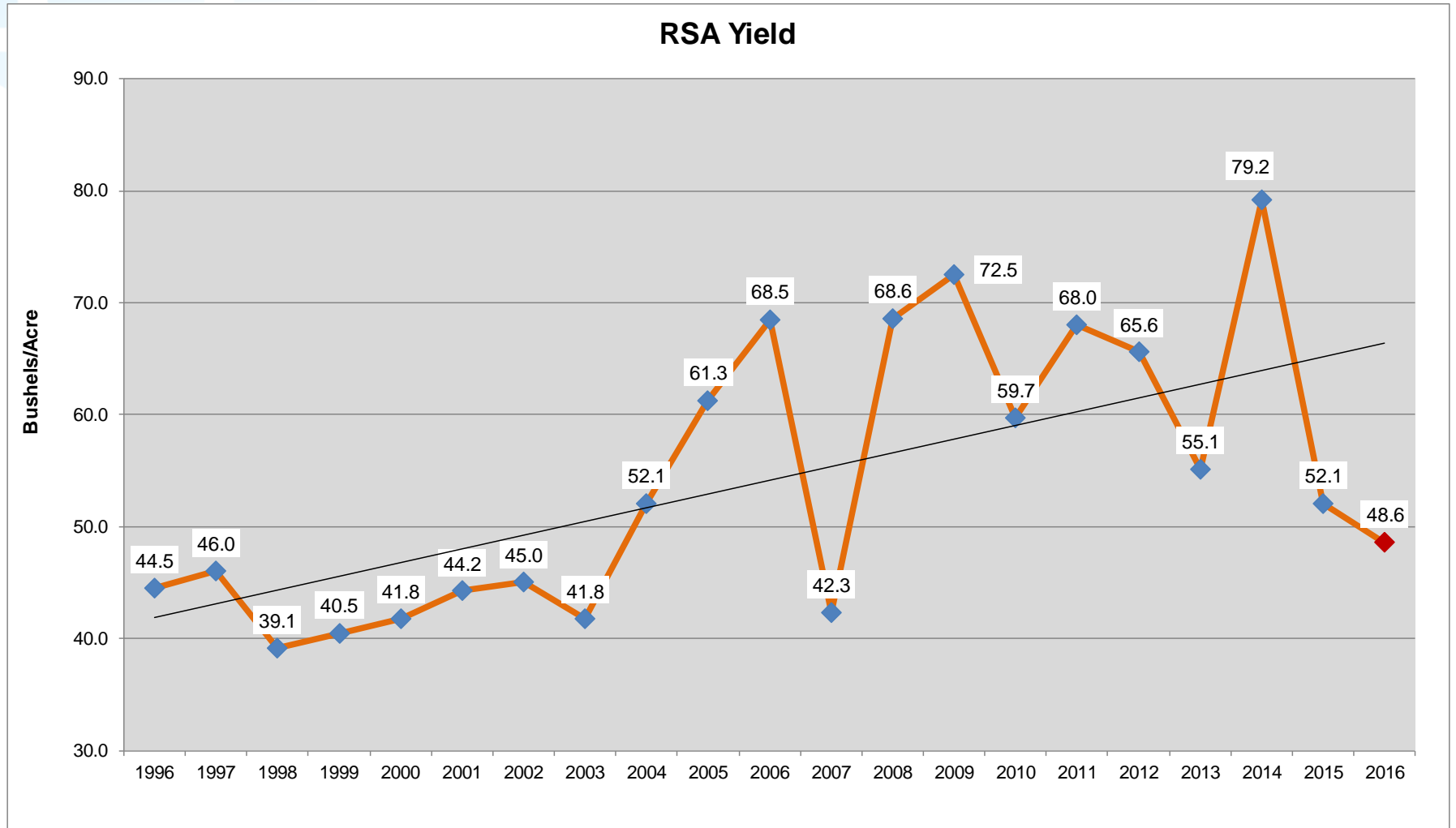
## Cumulative U.S. White Corn Exports Million Bushels



# Cash White Corn Premiums vs. CBOT Yellow Futures Lower Ohio River (Owensboro, KY - Cairo, IL) US No. 2 White Corn - US No. 2 Yellow Corn



# RSA Yield: lowest yield since 2007 and one of the worst ever relative to trend



# GRM Mission Trip to South Africa with USGC- May'16

- Purpose
- Government policy – GMO restrictions
  - Food safety vs. food crisis dilemma
- Cultural norms – “yellow corn is for animals”
  - Socioeconomic status splits
- U.S. market outlook shocks RSA government
  - “Won’t Argentina just grow WC for us”
- Trait approval process
  - DAFF expediting the process given the situation
- August update/future implications
  - Slow but promising





# 2016 - Global White Corn Summary

## **Mexico**

- Adequate rainfall allowed for normal development of the crop in most parts of Mexico
- Strong global white corn demand will keep bringing buyers to Mexico to support their needs

## **United States**

- Massive acreage increase this year, favorable growing conditions throughout the summer support a strong yield

## **South Africa**

- Record prices for both white and yellow corn early in 2016, Becomes a net importer
- Large increases in planted acres is expected for the coming year in response to the high prices

## **Overall**

- U.S. ending stocks tightened to uncomfortable levels this year but stocks look to replenish
- U.S. premiums to yellow corn are falling as we get into new crop
- With a return to normal weather, South Africa should go back to being a net exporter
- U.S. exports are projected to be a record for the coming year



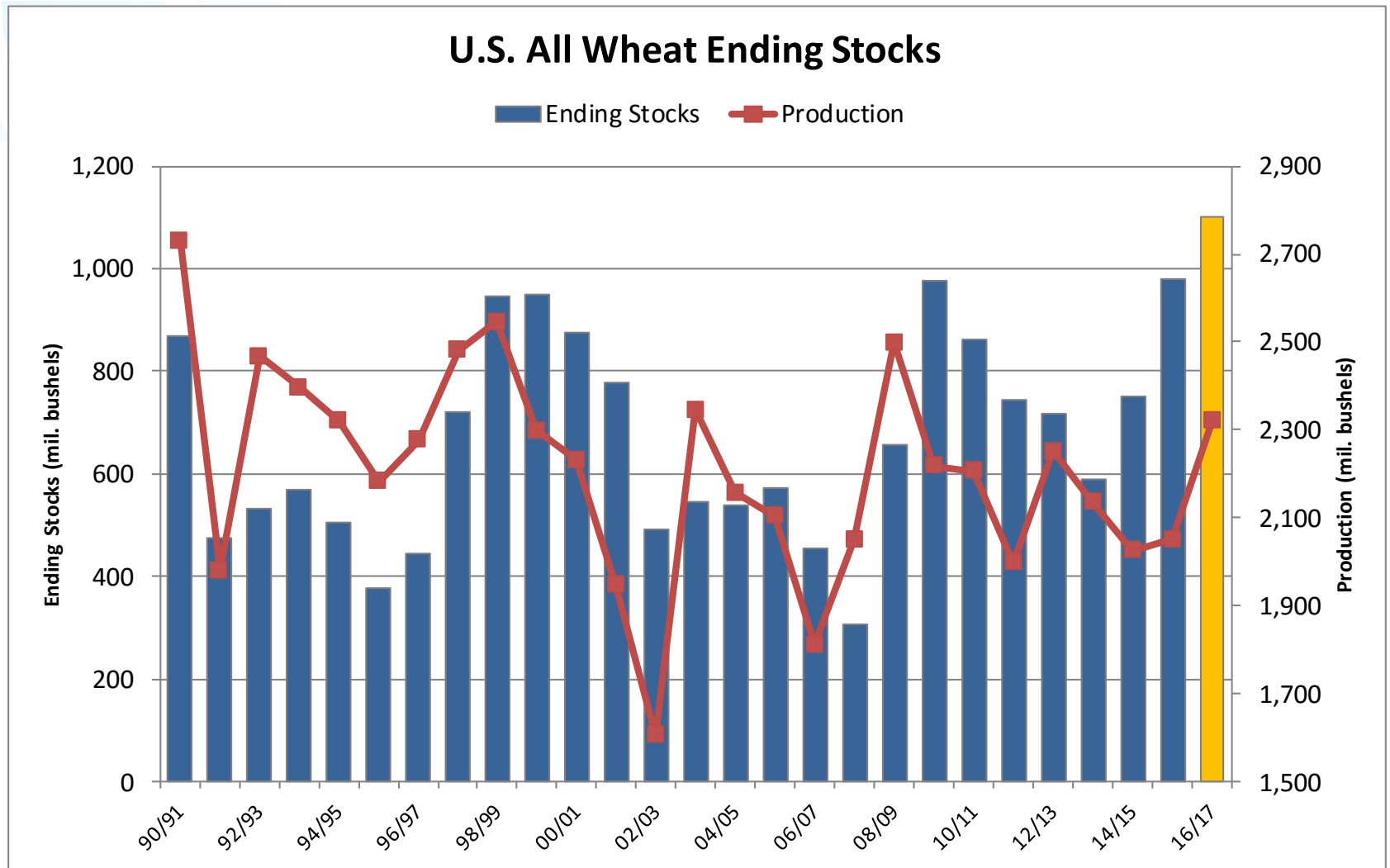
# WHEAT UPDATE



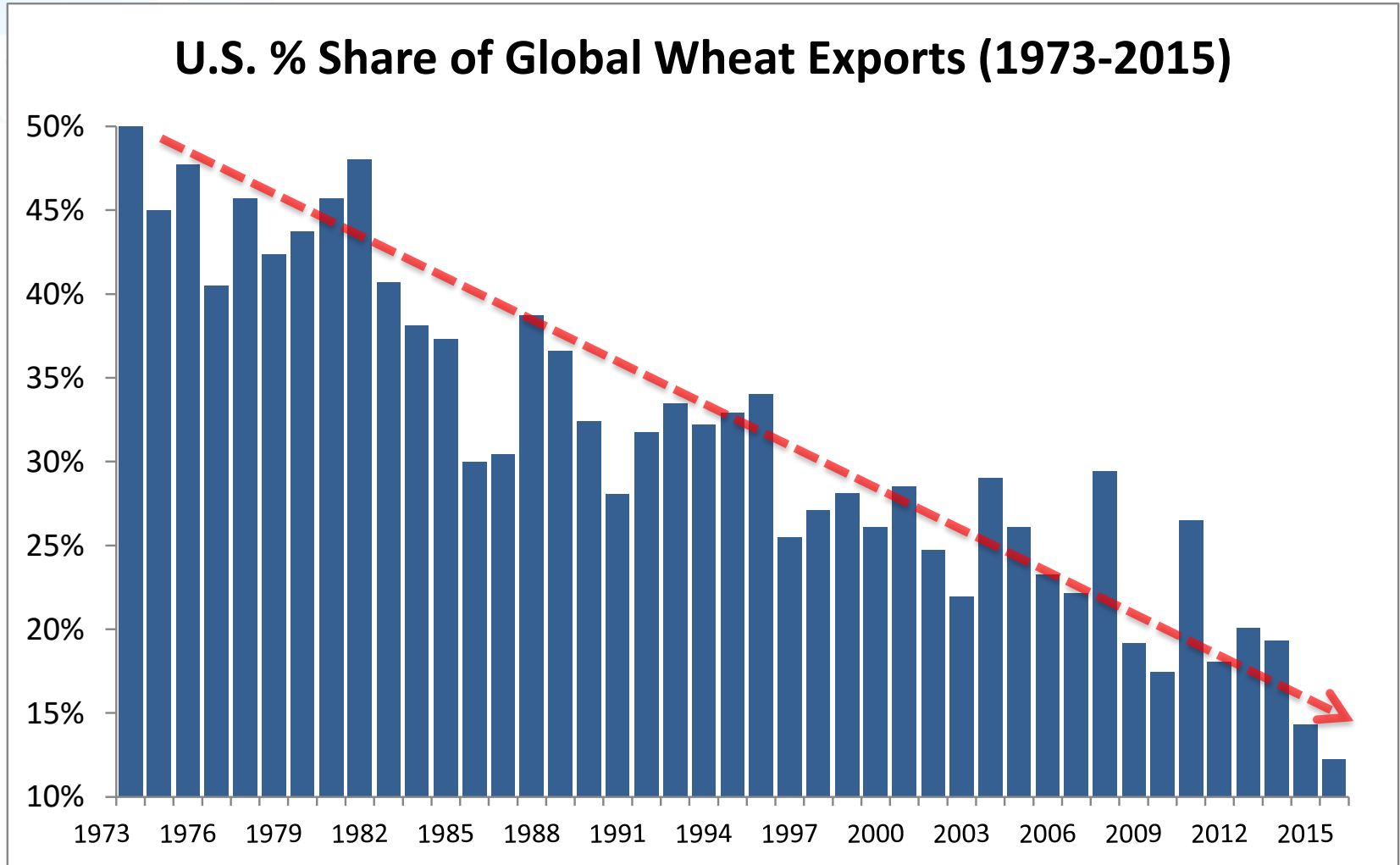
# KC Wheat Price Situation to Date:



# U.S. Wheat Supply: no shortage of wheat in the marketplace

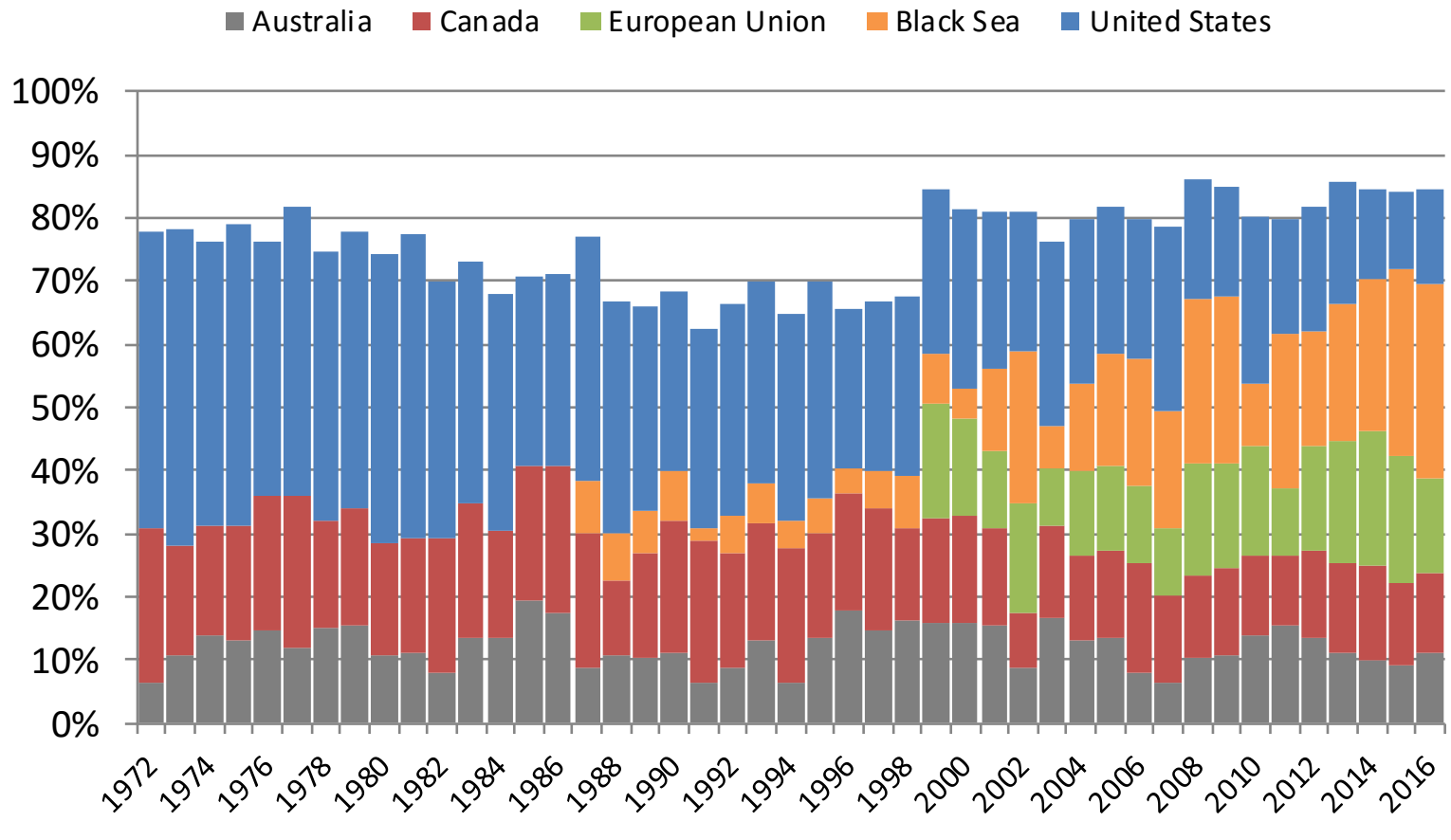


# U.S. Wheat Exports: lowest market share in modern history in the 15/16 crop year

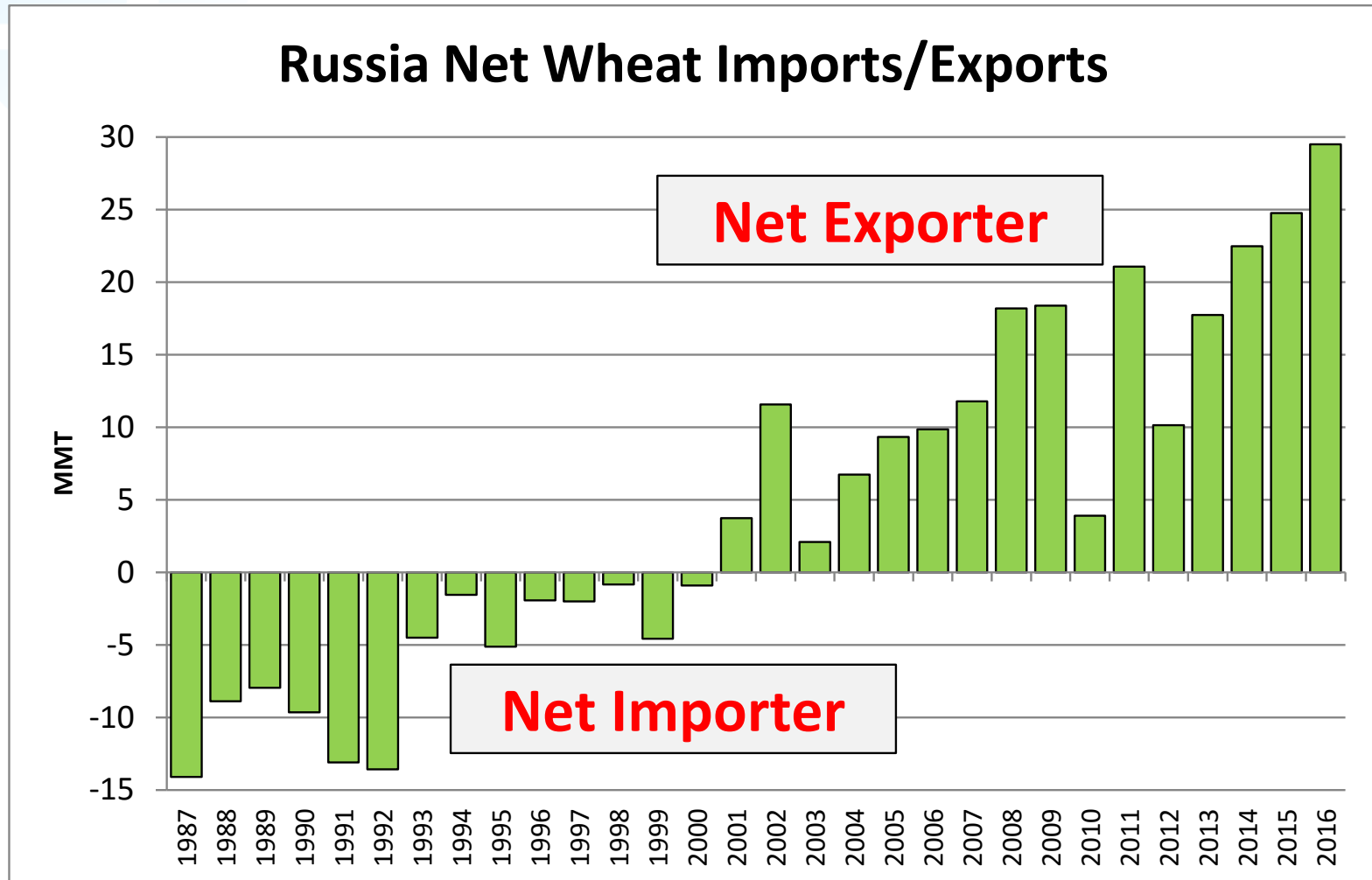


# World Wheat Exports: Russia is set to take over as the World's top exporter for the first time in history this year

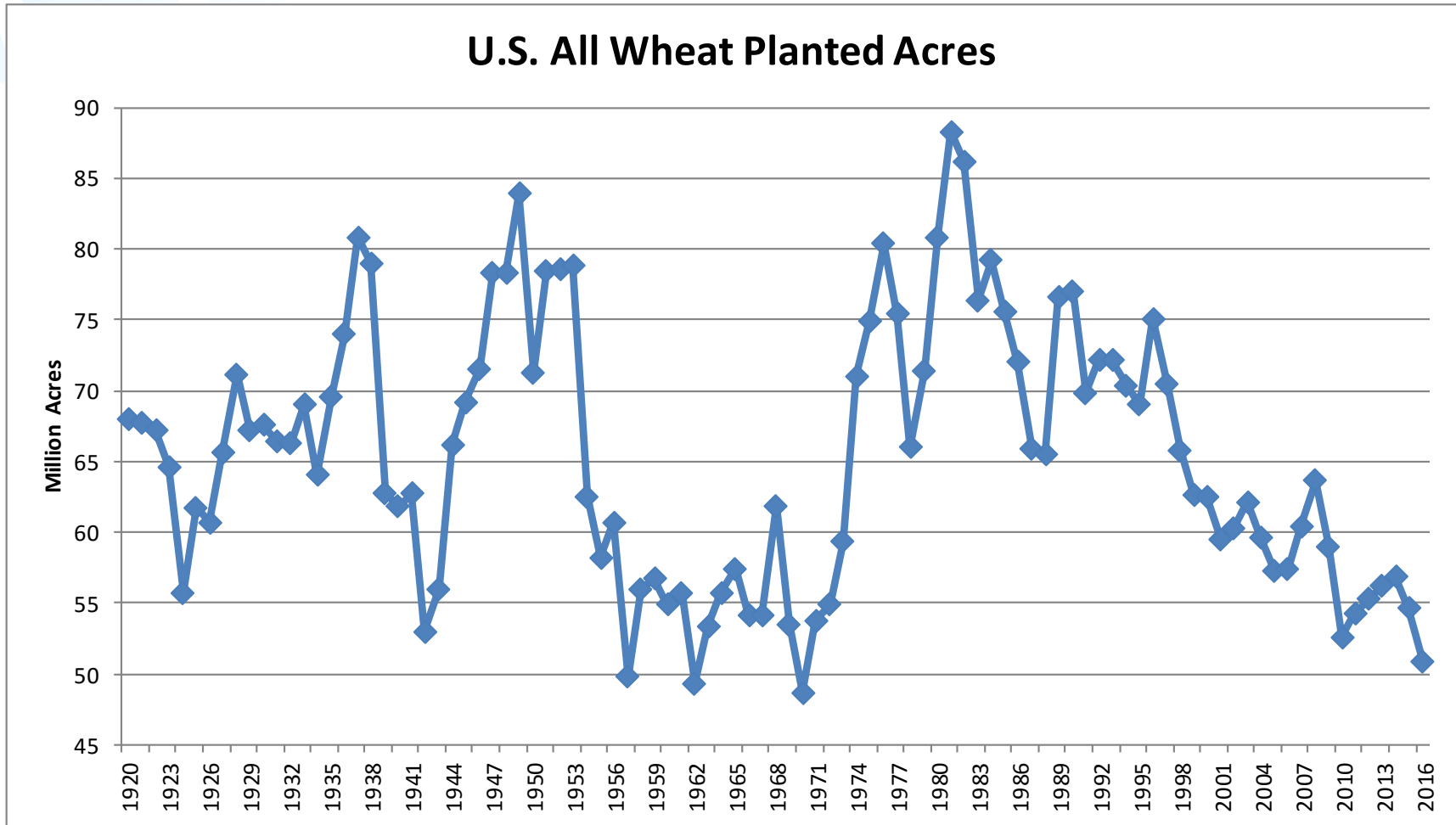
## World Share of Wheat Exports (1972 - 2016)



# Russian Wheat Exports: has gone from one of the World's largest importers of wheat to one of the largest exporters



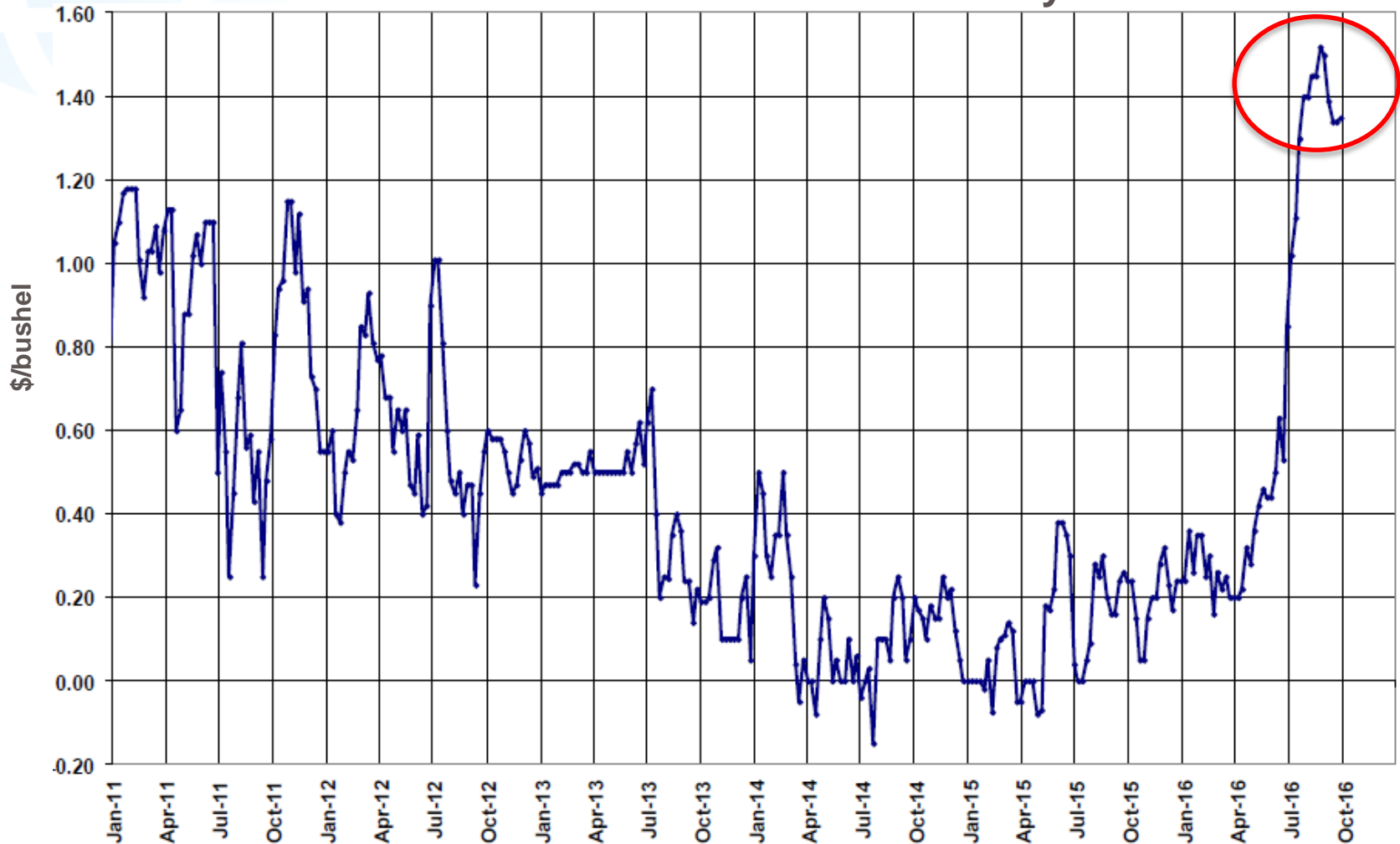
# U.S. Wheat Acreage: 2017 acres may possibly be the lowest in nearly a century!



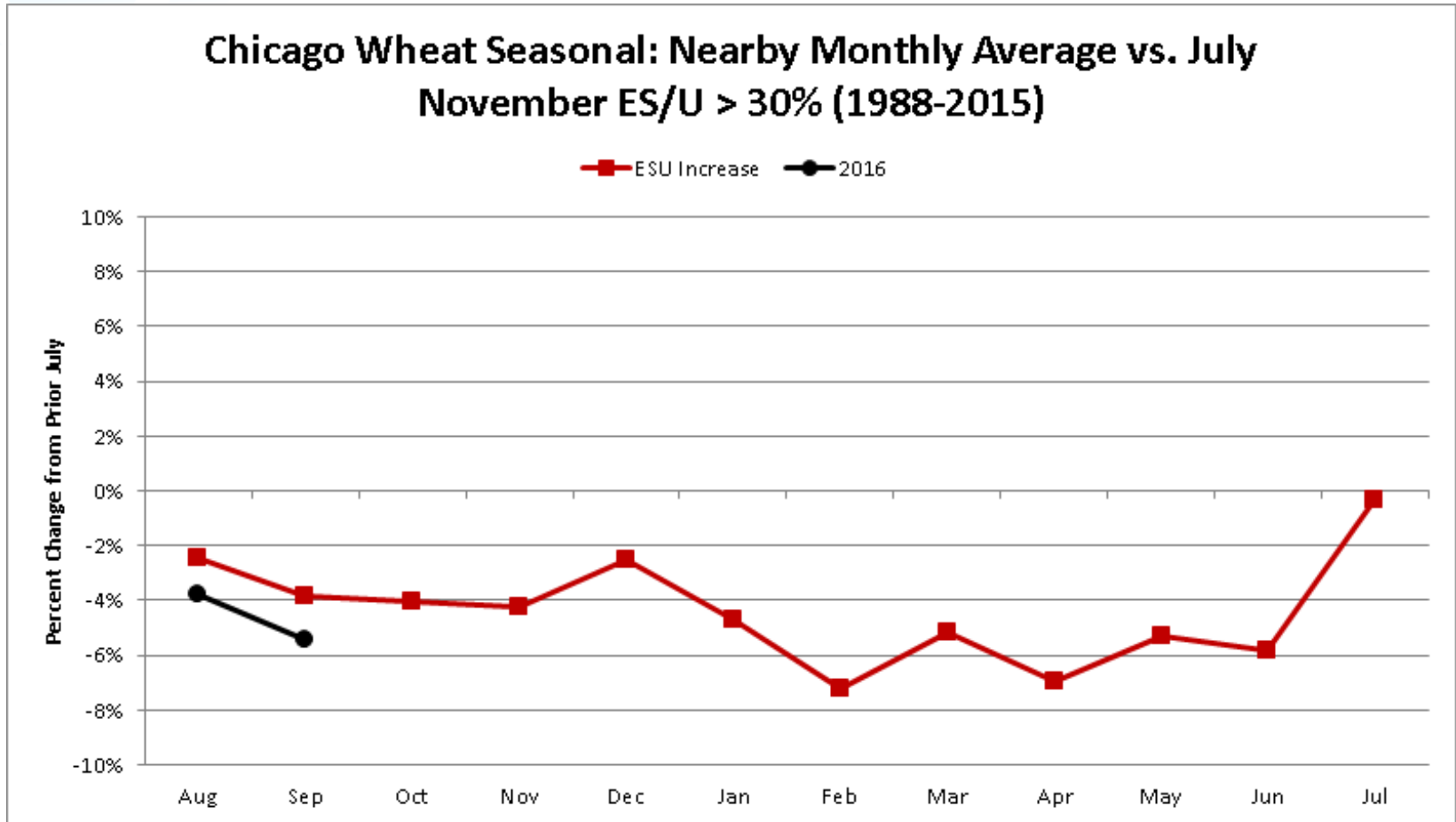


# KC Wheat Basis: plenty of low protein wheat available

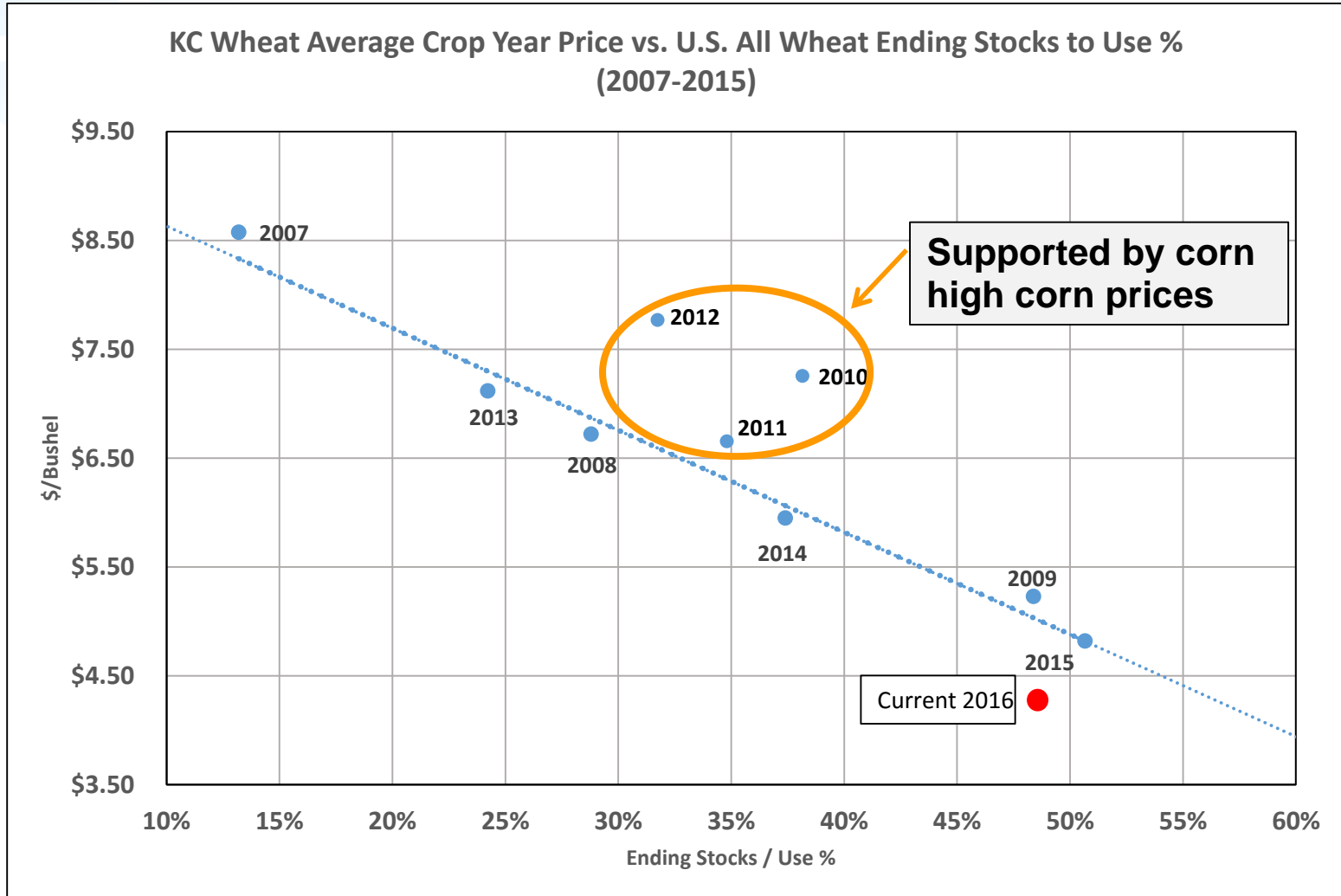
## KC HRW 13 Pro +/- HRW Ordinary



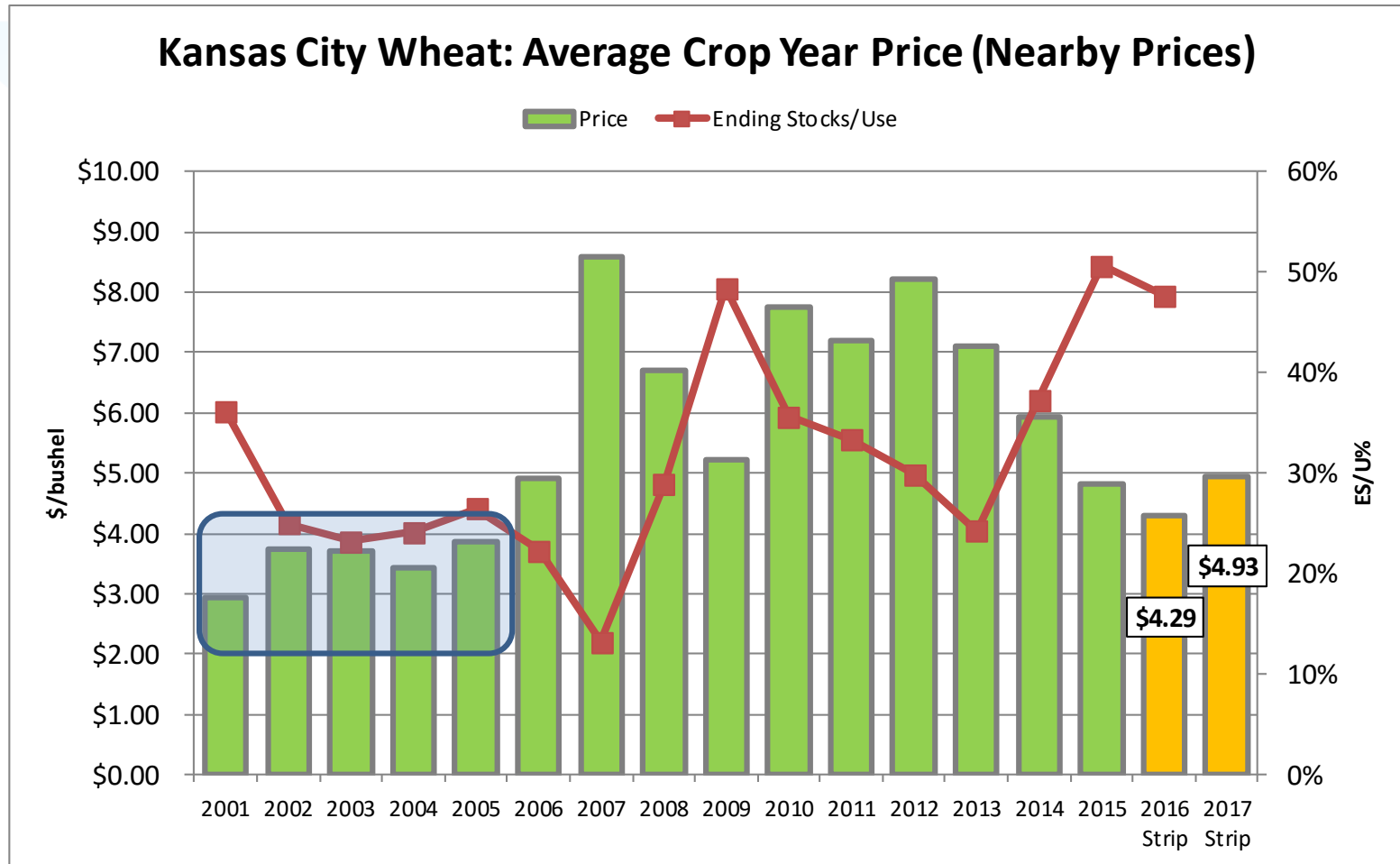
**Chicago Wheat Seasonal:** In years similar to 2016/17, when ESU is greater than 30% and increasing from the previous year, there tends to be limited rallies into the following crop year



# Wheat/Corn Price Relationships: wheat prices are strongly influenced by corn prices



# Forward Kansas City Wheat Prices: current ES/U% estimates indicate wheat prices could trade lower from current values



Note: based on Jun – May crop year, prices as of 10-5-16 close



# Wheat Price Forward Outlook:

## □ Short term price range

- \$4.25 - \$3.75 (KWZ16), current market = \$4.06

## ▲ Long term hazards (bullish scenario)

- Lower wheat acres highly likely
- Near record short speculative fund position
- Current wheat/corn ratio implies cheap wheat

## ▼ Long term opportunities (bearish scenario)

- Exports unlikely to solve wheat supply glut, need major crop problem
- Abundance of cheap feed supplies



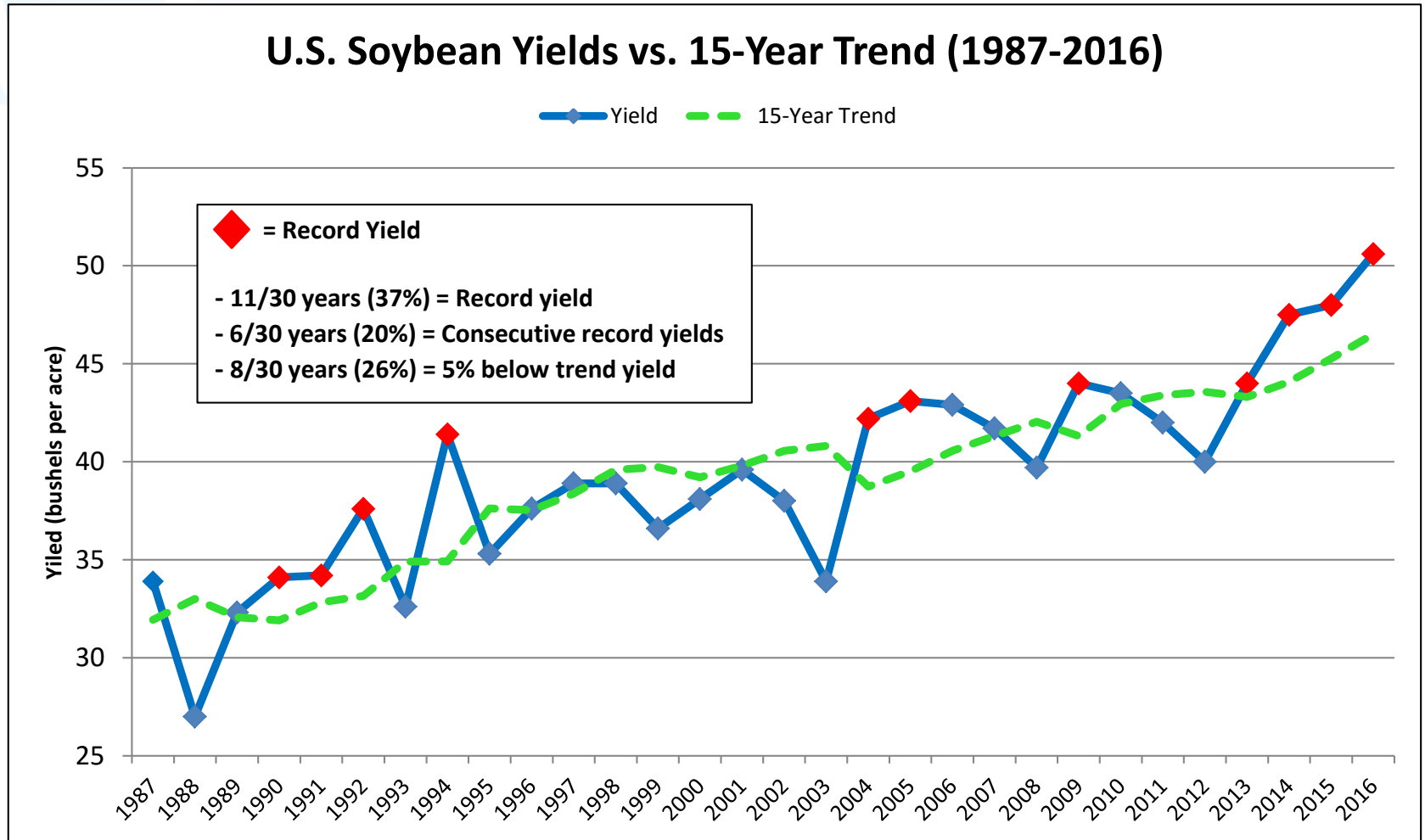
# SOY COMPLEX UPDATE



# Soybean Price Situation to Date:

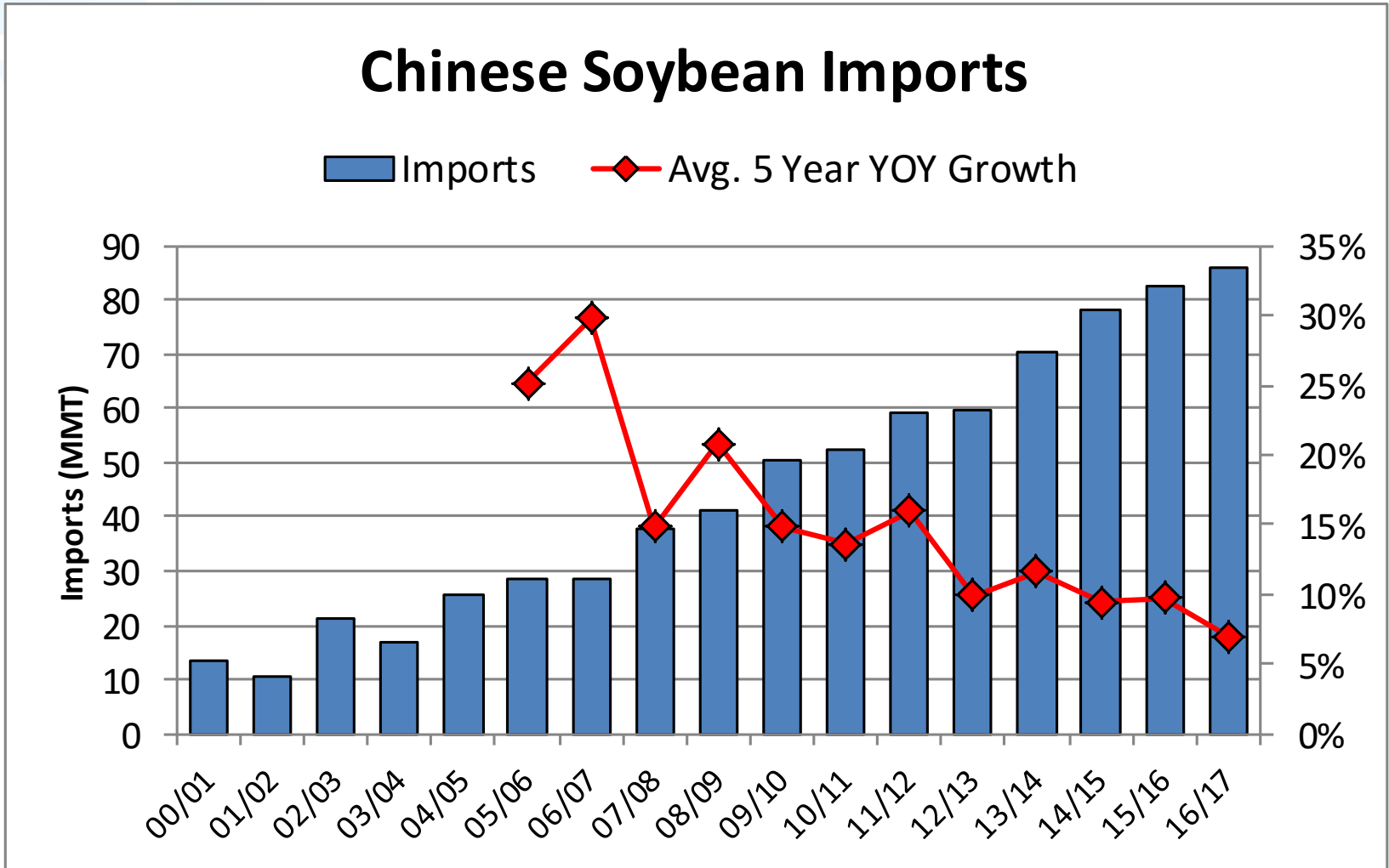


# U.S. Soybean Yields: 2016 was the 4<sup>th</sup> straight record soybean yield

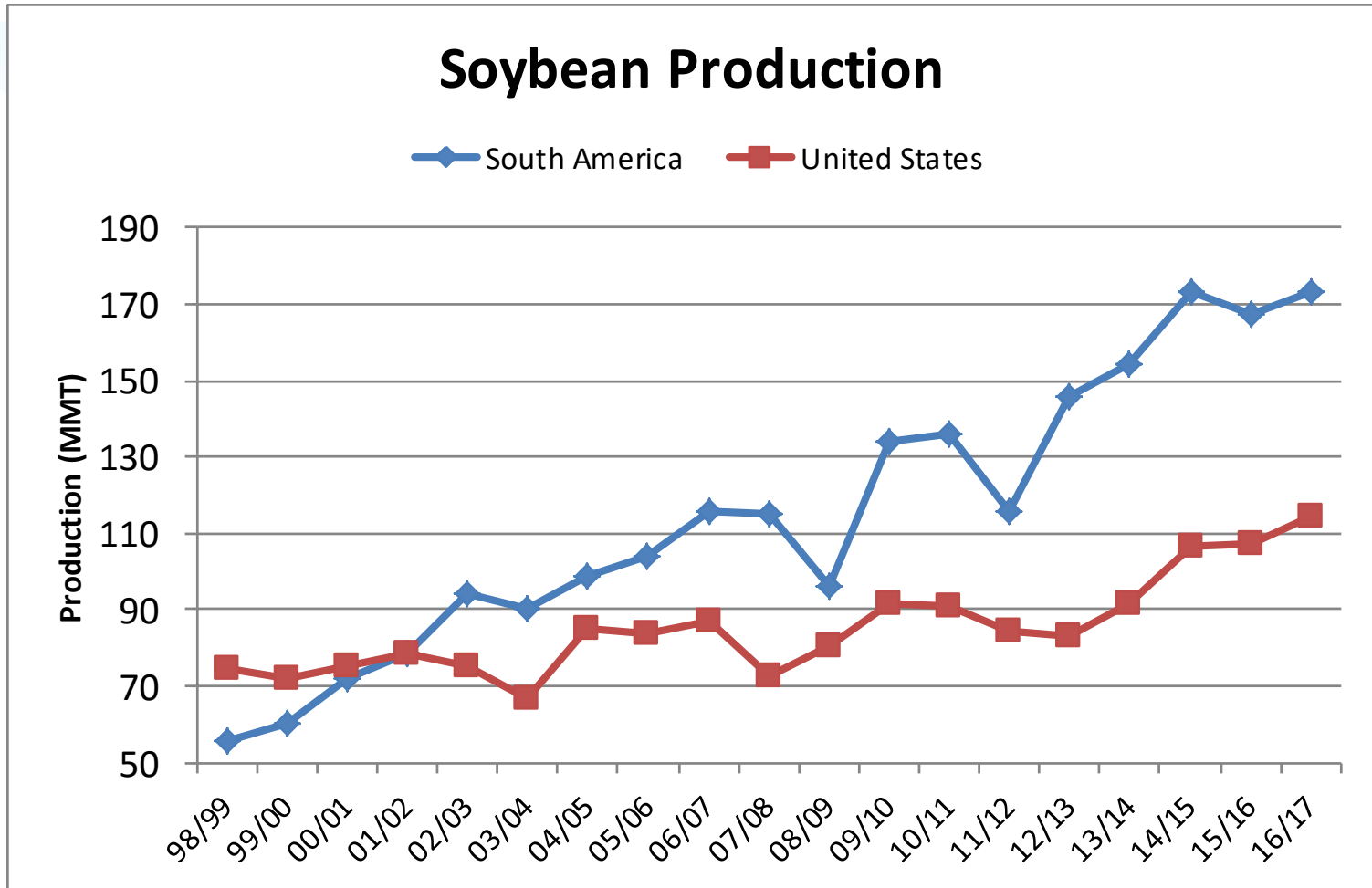




# Chinese Soy Demand: China buys over 60% of World soybean exports and consumes almost a third of World soybean production



# South American vs. U.S. Production: in 2002, South America took over the U.S. in production size



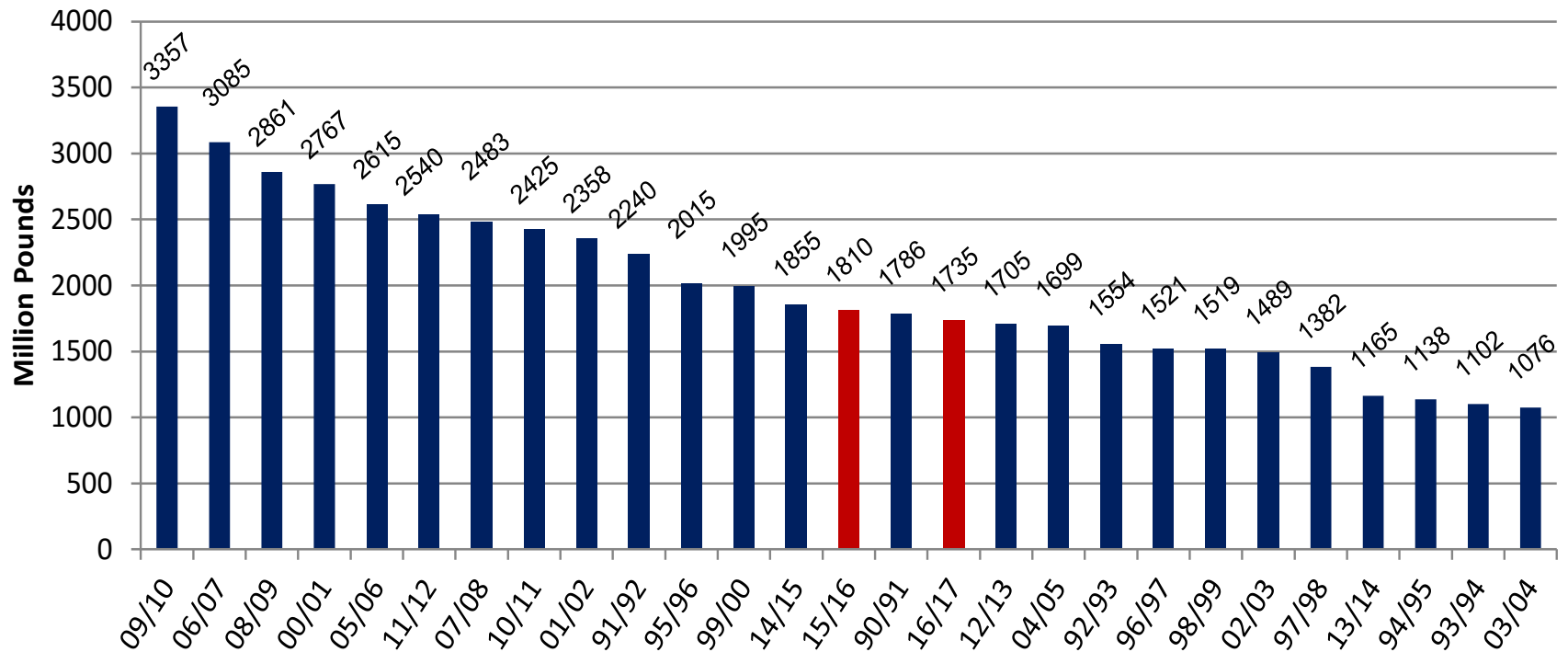
# Soybean Oil Price Situation to Date:



# U.S. Soybean Oil Ending Stocks: projected to tighten this year as record demand pulls on inventories

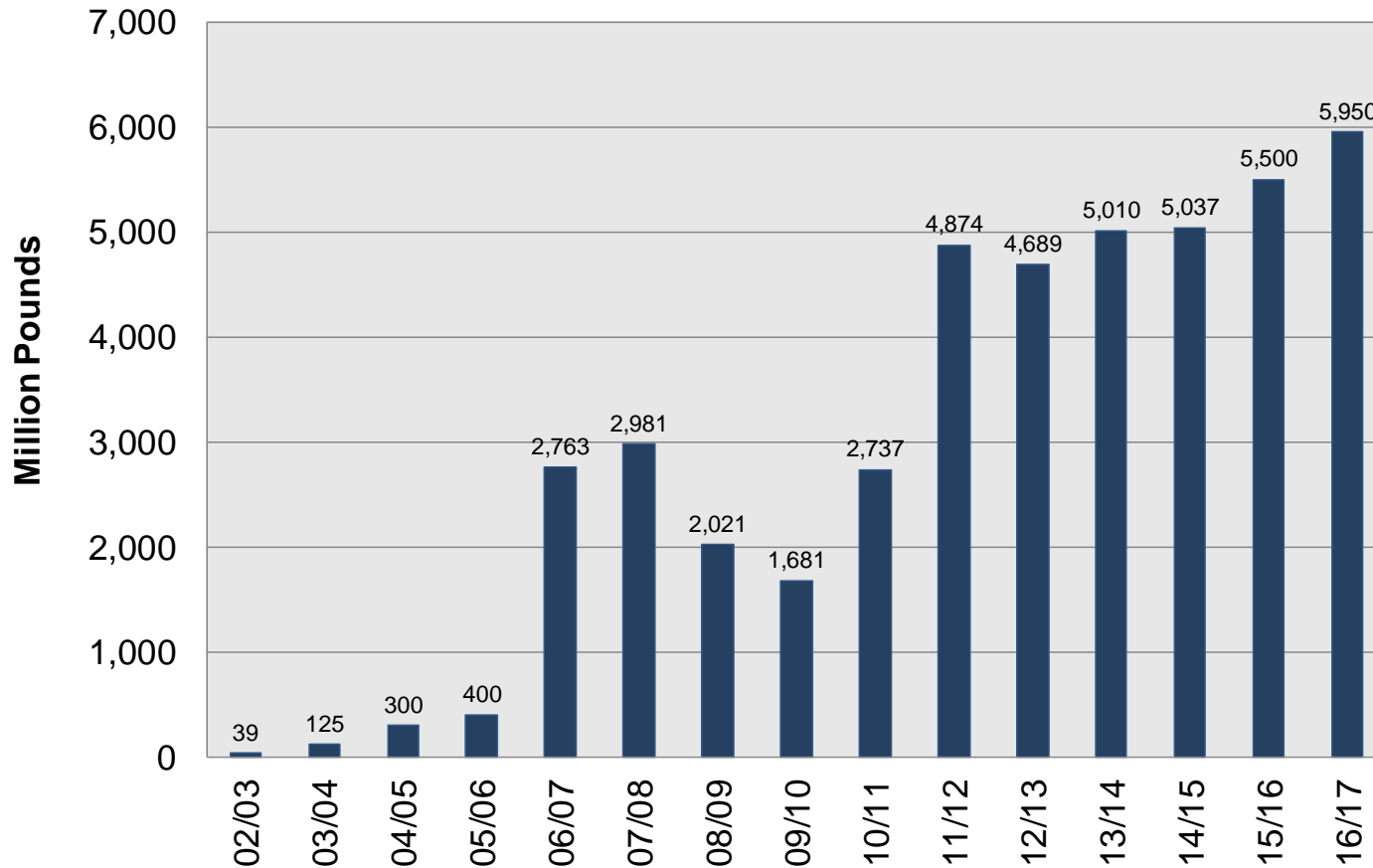
## U.S. Soybean Oil Ending Stocks

USDA WASDE Report

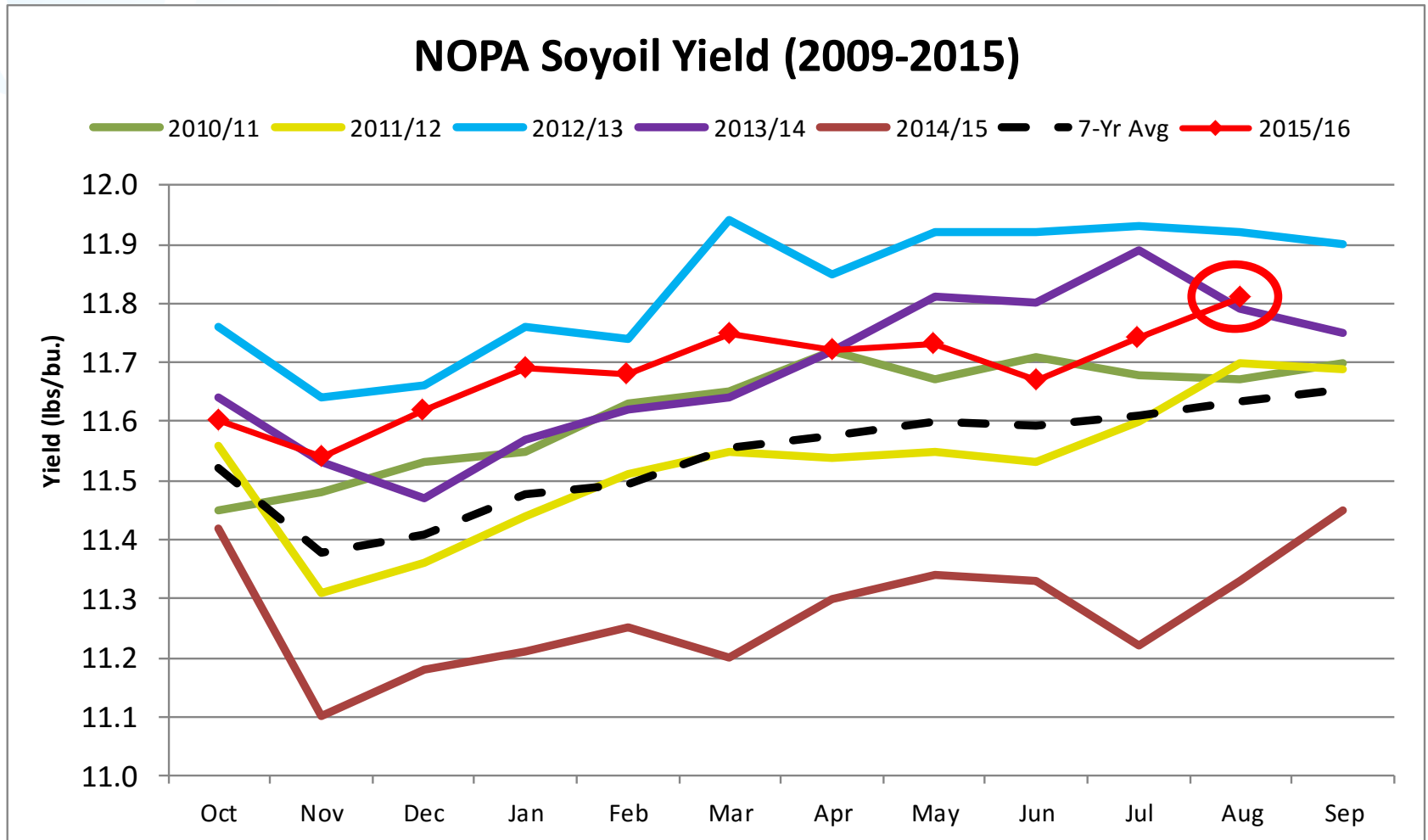


# U.S. Biodiesel Demand Growth: continues to grow due to government mandated use

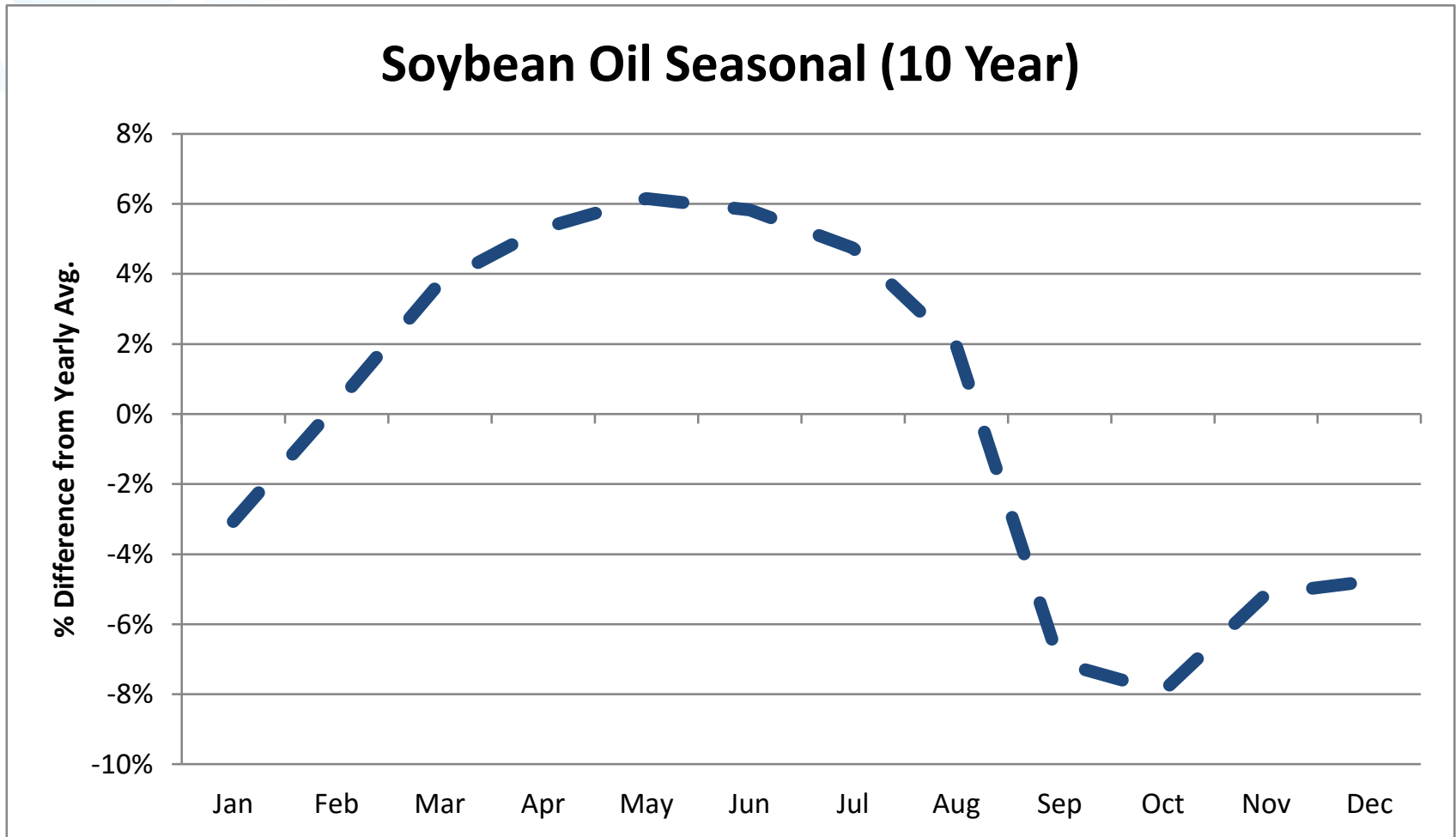
US Soybean Biodiesel Use



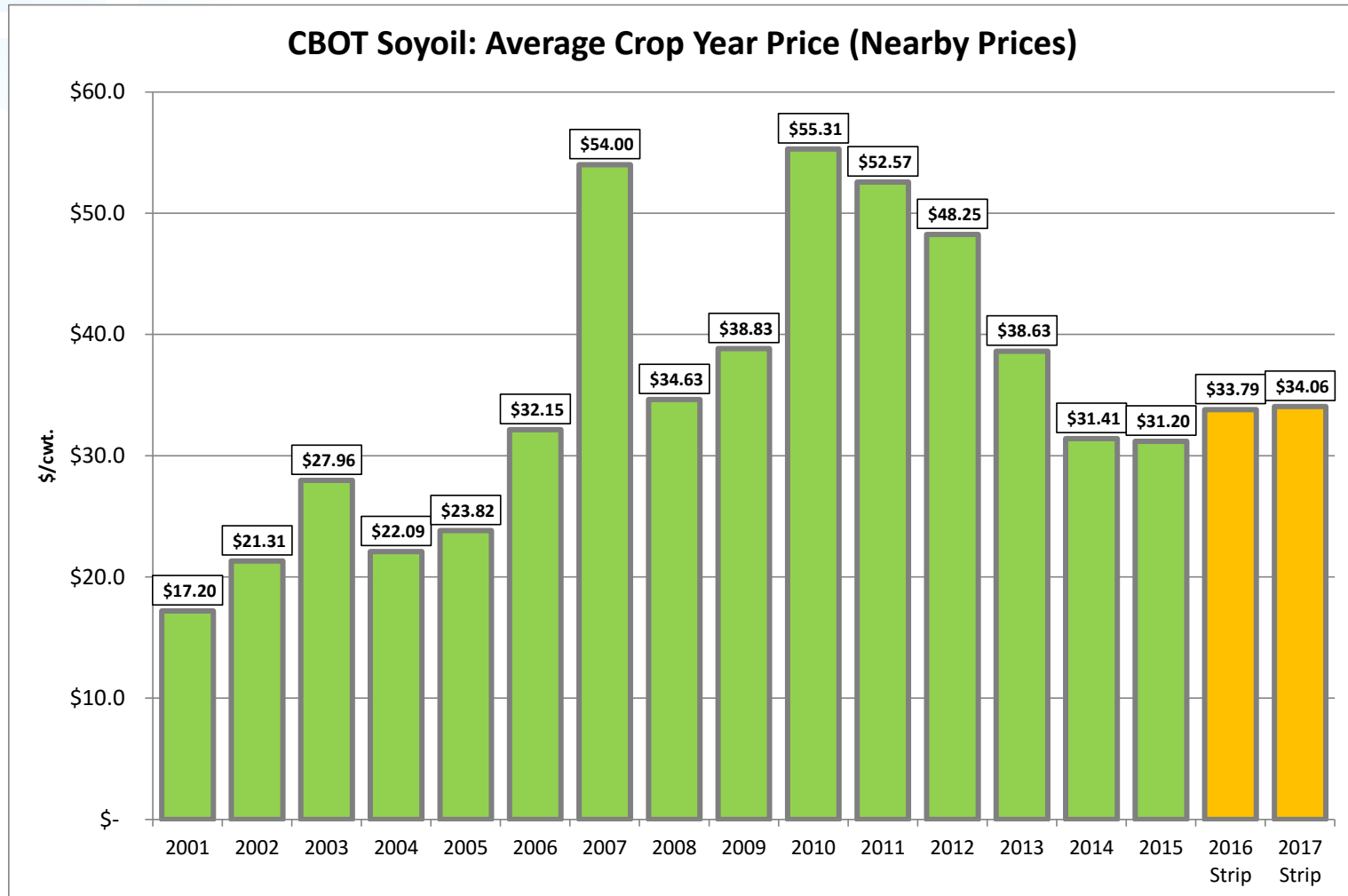
# U.S. Soybean Oil Yields: with a wet finish to this years soybean crop, oil yields are expected to take a significant step back this year



**Seasonality:** strong rallies are normally seen in the first half of the year with pressure into soybean harvest



# Forward Soybean Oil Prices: prices are at the lower end of the 10 year range



Note: based on Oct – Sep crop year,





# Soybean Oil Price Forward Outlook:

## □ Short term price range

- \$34.50 - \$31.50 (BOZ16), current price = \$33.34

## ▲ Long term hazards (bullish scenario)

- Lower soybean oil yields ahead
- Biodiesel consumption strong
- Weak soybean meal demand

## ▼ Long term opportunities (bearish scenario)

- U.S./South America soybean production increasing
- Palm oil production set to rebound from El Nino

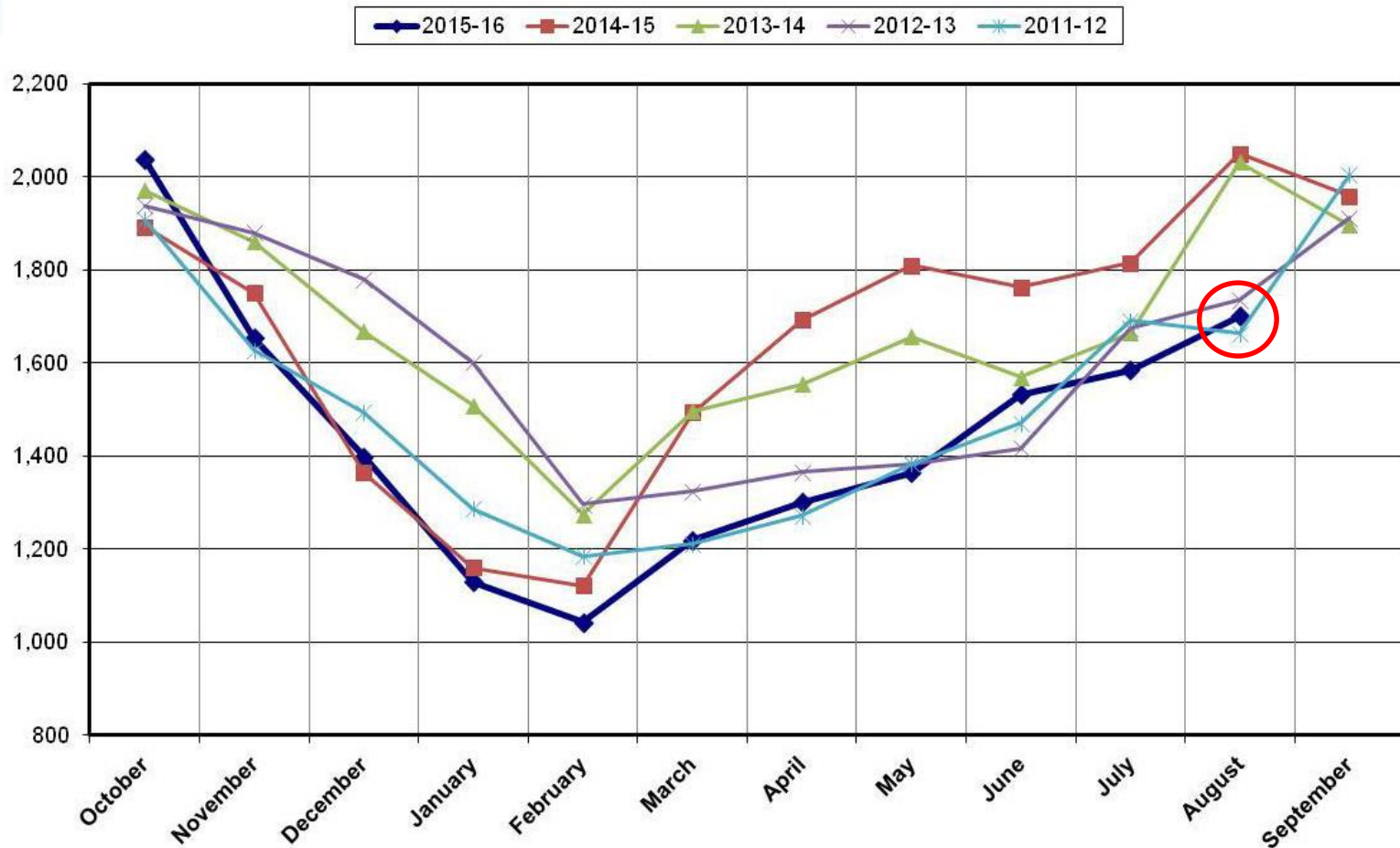


# PALM OIL UPDATE



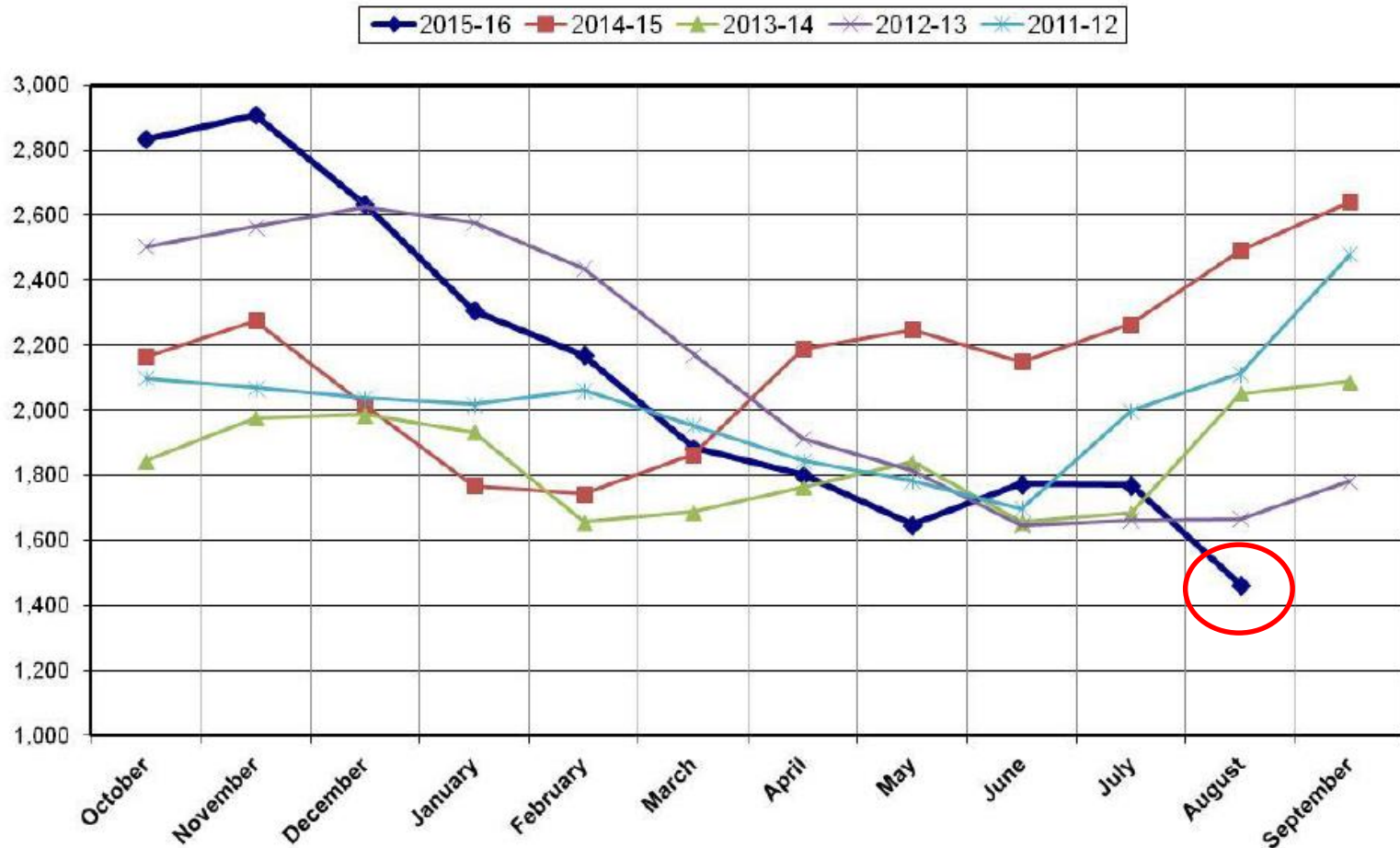
**Supply:** the weakness in production in August may signal a more significant hangover from El Nino dryness than initially anticipated as production usually peaks into Sep/Oct.

Malaysian Palm Oil Production (in thousand metric tonnes)

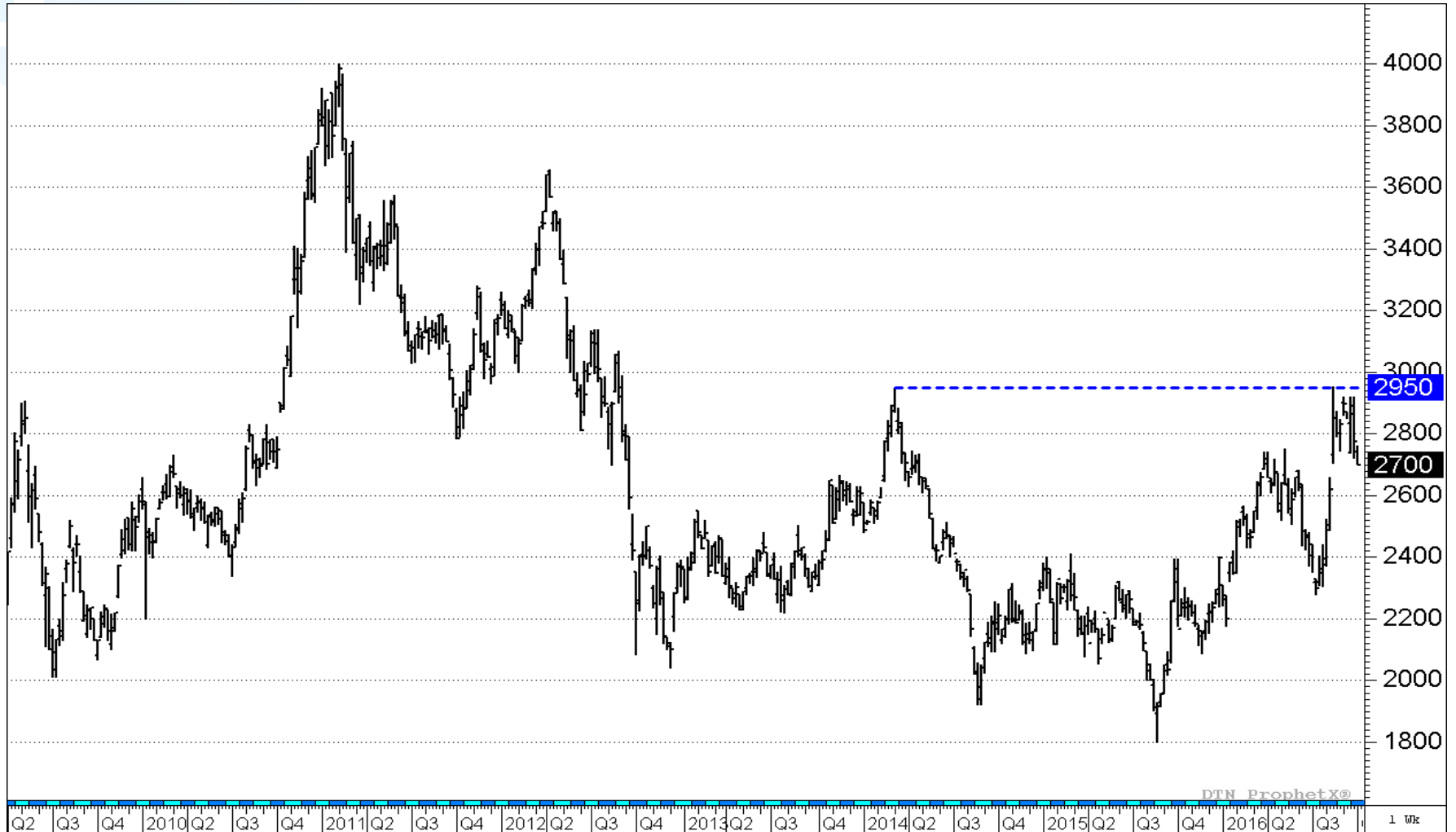


**Supply:** the resurgence in export demand and the slow seasonal growth in palm oil production has created an uncomfortably tight situation with ending stocks now at their lowest in 6 years.

Malaysian Palm Oil Ending Stocks (in thousand metric tonnes)



# Palm Oil Prices: dwindling stocks shot the market up to 4 year high but the rally has stalled out as the market is choosing to focus on stocks rebounding on weaker demand moving forward





**THANK YOU!**

