

EQUITY RESEARCH

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Industry Update

Jacob Bout, CFA
+1 416-956-6766
Jacob.Bout@cibc.com

Rahul Malhotra, CFA
+1 416-594-7289
Rahul.Malhotra@cibc.com

Heather Rashotte
+1 416-581-2155
Heather.Rashotte@cibc.com

Global Food Crisis Concerns Increase

Sector:
Materials

Key Points

The World Bank calculates there could be another 37% jump in food prices if the crisis continues. U.S. corn (\$7.9/bu.), wheat (\$10.7/bu.) and soybean (\$16.9/bu.) are trading near their all-time highs driven by several factors creating the “perfect storm,” including: 1) continued uncertainties surrounding Ukraine’s crop exports, 2) elevated global import demand from China, 3) the rise of food protectionism, 4) potential drought-reduced supplies from the Americas, 5) high energy prices driving increased consumption of ethanol/renewable fuels, and 6) higher costs of fertilizer which may depress yields globally.

China Ramping Up Corn Purchases: This Friday, USDA announced 1.347Mt in old- and new-crop corn sales to China. There have been nearly 3.5Mt in daily corn sales to China this month.

IGC Lowers Global Corn Production Outlook: IGC forecasts global corn production would fall by 13Mt in the 2022/23 season to 1,197Mt. IGC forecasts Ukraine’s corn crop falling to 18.6Mt, down from 41.9Mt Y/Y.

Indonesia Bans Palm Oil Exports, Another Sign Of Global Food Protectionism: The ban is a positive for alternative edible oil pricing throughout the Americas. Soybean oil soared to a fresh record (\$0.80/lb). Canola futures in North America gained ~3% W/W.

A Diminished Potential Corn Harvest In Central Brazil: Dry weather just ahead of the safrinha crop’s critical growing period is raising the prospect of another diminished harvest. Cordonnier says about 30% to 40% of the crop is currently under moisture stress.

Hot, Dry 90-day Forecast For U.S. Western Growing Regions: The NWS 90-day forecast released April 21, 2022 gives elevated odds of above-normal temperatures and below-normal precipitation across Hard Red Winter (HRW) wheat production areas and much of the western Corn Belt through July.

U.S. Winter Wheat Drought Area Increases To 70%: The amount of U.S. winter wheat considered in drought conditions increased to 70%. Only 30% of U.S. winter wheat is rated in good to excellent condition, a 26-year low.

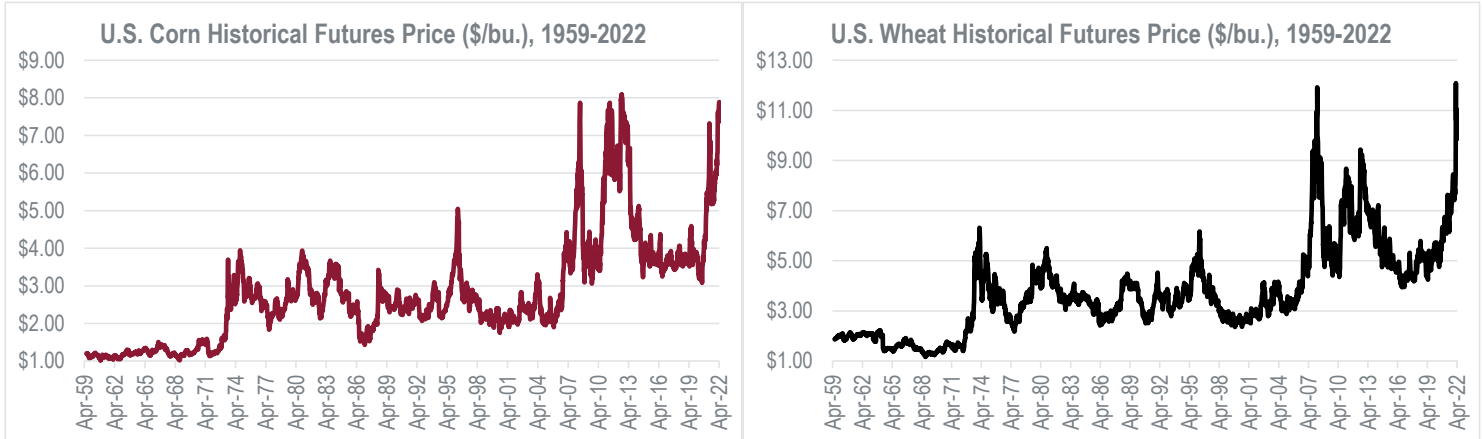
All figures in U.S. dollars unless otherwise stated.

Global Food Crisis Concerns Increase

The World Bank calculates there could be another 37% jump in food prices if the crisis continues. We note that a number of factors have converged together in a “perfect storm” to send global agricultural commodity prices to near-record levels.

U.S. corn (\$7.9/bu.), wheat (\$10.7/bu.) and soybean (\$16.9/bu.) are trading near their all-time highs driven by 1) continued uncertainties surrounding Ukraine’s spring corn planting / fall wheat harvest, 2) elevated global import demand from China, 3) the rise of food protectionism by countries, 4) potential drought-reduced supplies from the Americas, 5) high energy prices driving increased consumption of ethanol/renewable fuels, and 6) higher costs of fertilizer and agricultural production inputs which may depress yields globally.

Exhibit 1: U.S. – Corn/Wheat Historical Futures Price, 1959-2022

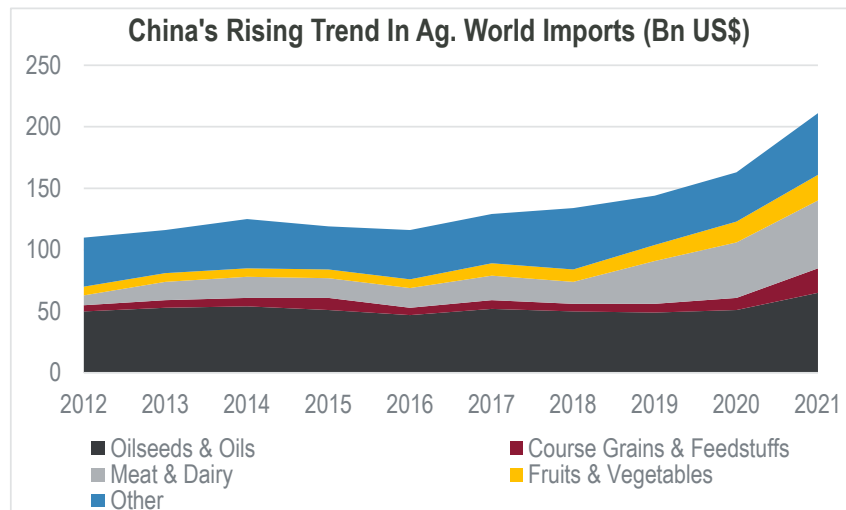


Source: FactSet and CIBC World Markets Inc.

China Ramping Up Corn Purchases

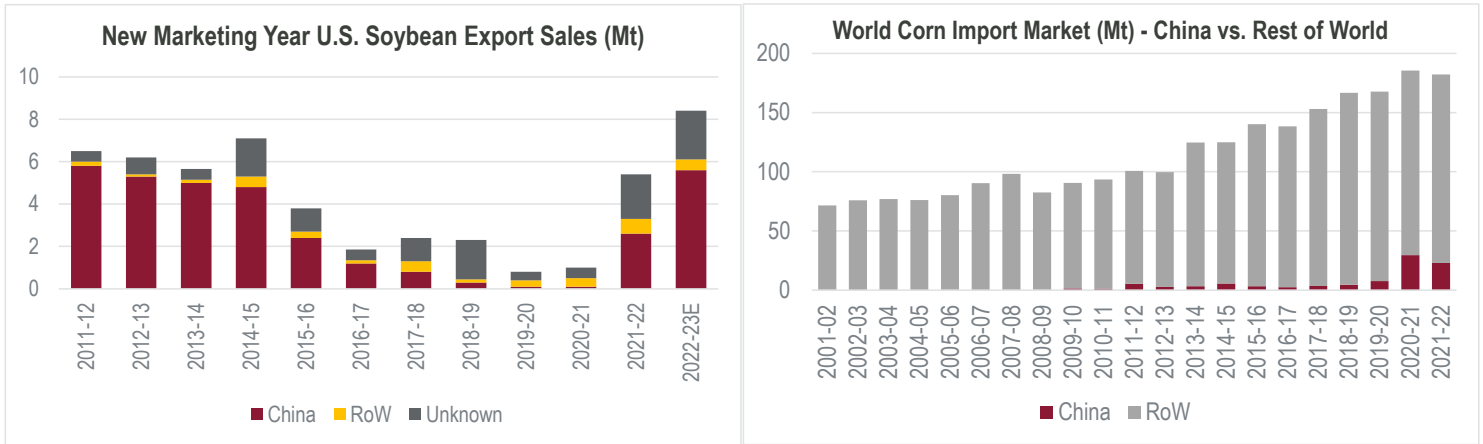
This Friday, USDA announced 1.347Mt in old- and new-crop corn sales to China. There have been nearly 3.5Mt in daily corn sales to China this month. Only 20% of China’s soybean needs for June-September (7Mt-8Mt per month) have been covered, as crush margins are poor. Buying isn’t likely to actively pick up unless margins improve. But China remains a lead buyer of U.S. beans in weekly sales data.

Exhibit 2: China – Rising Trend In Total Agriculture Imports, 2012-2021



Source: USDA and CIBC World Markets Inc.

Exhibit 3: Soybean – New Marketing Year U.S. Soybean Exports, 2011/12-2022/23E (left); Corn – China Imports Vs. Rest Of World, 2001/02 – 2021/22E (right)



Source: USDA and CIBC World Markets Inc.

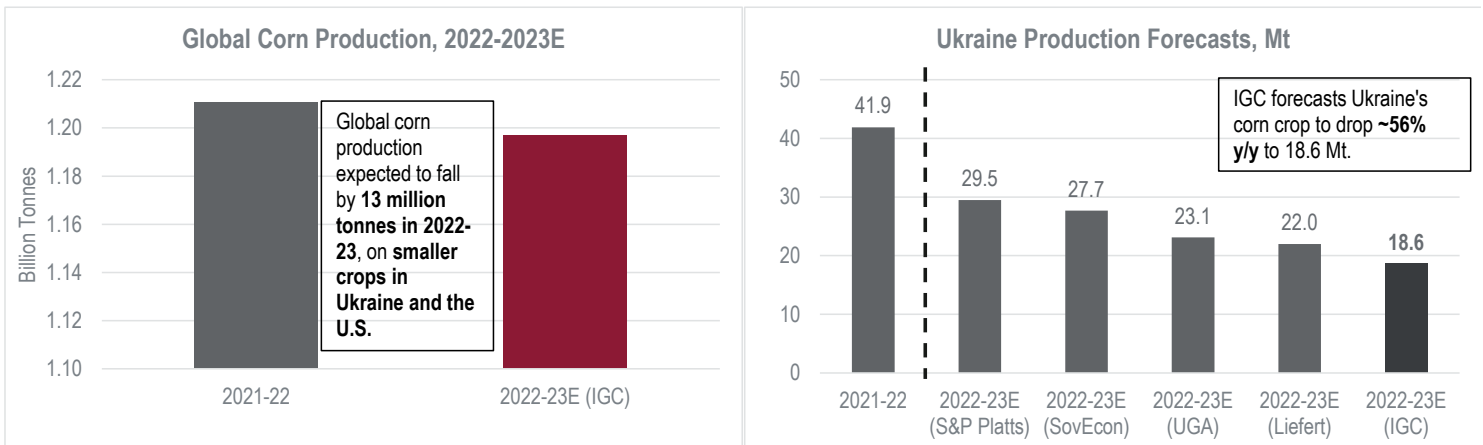
IGC Lowers Global Corn Production Outlook; Ukrainian Farmers Forecast To Plant 60%-70% Of Spring Crop On Time

In its first full assessment of the 2022/23 season, The International Grains Council (IGC) forecasts that global corn production would fall by 13Mt in the 2022/23 season to 1,197Mt, reflecting smaller crops in Ukraine and the United States. IGC forecasts Ukraine's corn crop falling to 18.6Mt, down from the prior season's 41.9Mt.

- The IGC forecasts a decline of 1Mt in global wheat production in 2022/23 to 780Mt, with a smaller crop in Ukraine (19.4Mt vs 33.0Mt Y/Y) largely offset by larger crops elsewhere, including Russia (82.5Mt vs 75.0Mt Y/Y) and Canada (31.6Mt vs 21.7Mt Y/Y).

Between 60% And 70% Of Ukraine Spring Crops To Be Sown On Time?: Ukraine's agricultural ministry indicated that Ukrainian farmers have sown 2.5 million hectares of spring crops so far in 2022, 20% of the expected area. The ministry expects that at least 60%-70% of crops will be sown on time this spring, although this figure falls to 30%-40% 'where active hostilities continue' in regions such as Luhansk, Donetsk, Zaporizhia and Kherson.

Exhibit 4: Global – Corn Production Forecast, 2021/22 – 2022/23E (left); Ukraine – Corn Production Forecast, 2021/22 – 2022/23E (right)



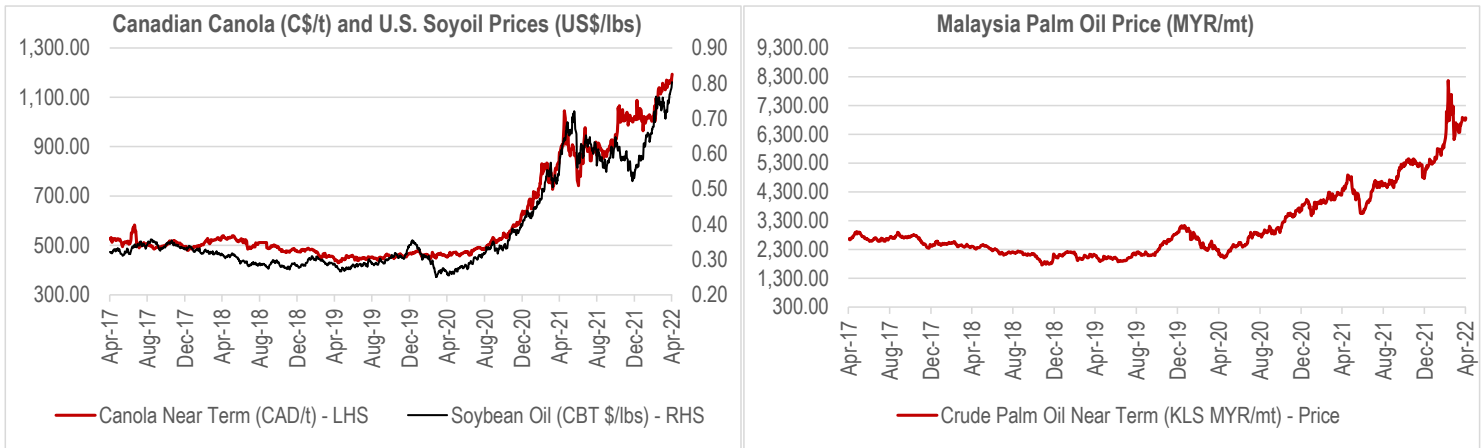
Source: USDA, IGC, S&P, SocEcon, UGA, Liefert, IGC and CIBC World Markets Inc.

Indonesia Bans Palm Oil Exports; Another Sign Of Global Food Protectionism

The world's biggest palm oil producer (accounting for ~60% of global supply), Indonesia is the latest country to embrace protectionist measures to mitigate domestic food shortages. Indonesia announced on Friday a ban on palm oil exports in a bid to stymie the soaring domestic price of cooking oil. The price of cooking oil has risen substantially as a result of Russia's invasion of Ukraine. Both Ukraine and Russia are major exporters of sunflower oil (55% of global sunflower oil output and 76% of world exports).

The ban by Indonesia is a positive for alternative edible oil pricing throughout the Americas (U.S., Canada, Brazil, North America). Soybean oil, palm's closest substitute for food and fuel, soared to a fresh record (\$0.80/lb.). Canola futures in North America gained ~3% W/W.

Exhibit 5: Canola/Soyoil - Pricing, 2017-2022 (left); Palm Oil – Pricing, 2017-2022 (right)



Source: FactSet and CIBC World Markets Inc.

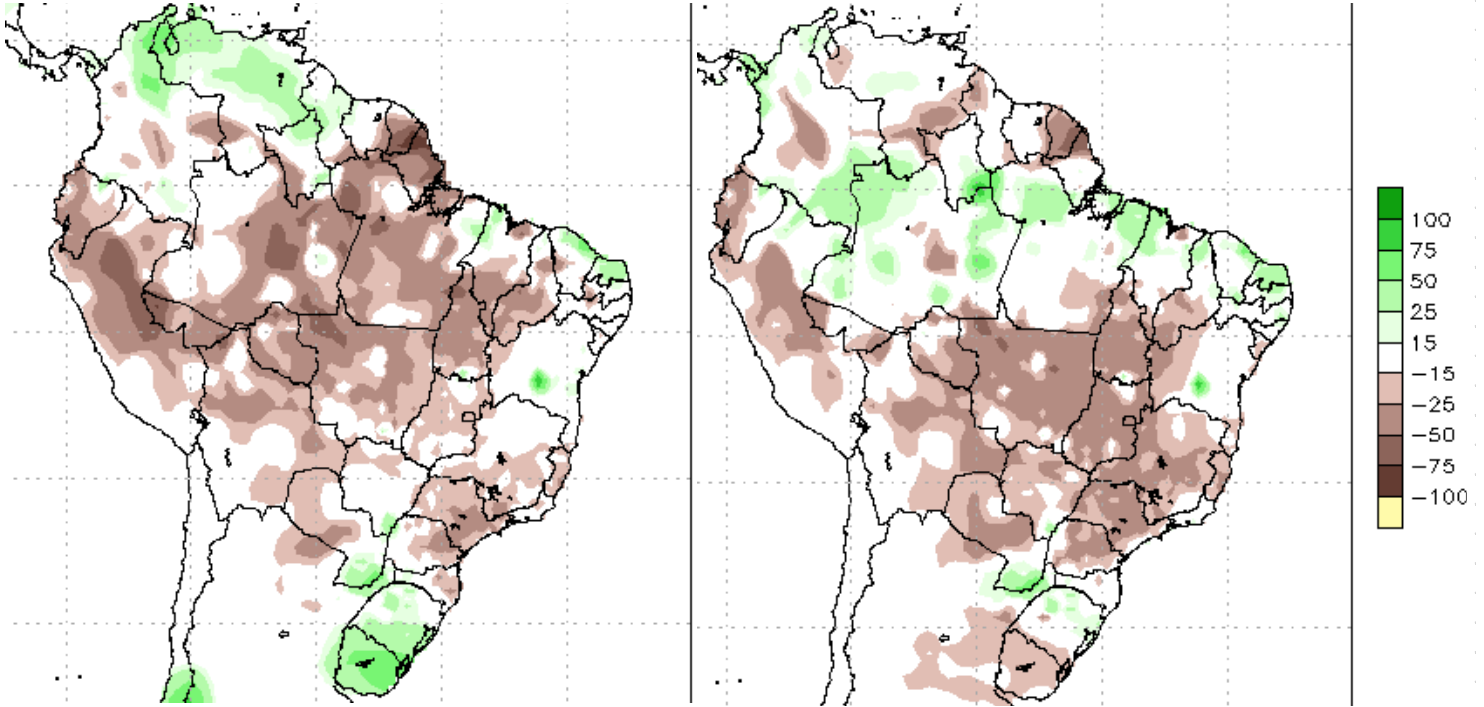
Central Brazil's Rainy Season Ends Early, Raising Prospects Of Another Diminished Corn Harvest

In Brazil, favorable early conditions for the second corn crop, or safrinha, are giving way to dry weather just ahead of the crop's critical reproduction and grain-fill growing period, raising the prospect of another diminished harvest in June and July. Cordonnier says about 30% to 40% of the safrinha corn crop is currently under some level of moisture stress and it appears the dry season is starting earlier than normal in central Brazil. The Brazilian National Weather Service (Inmet) forecasts below normal rainfall over central Brazil through May. Mato Grosso State, which produces almost half of Brazil's safrinha crop, has received below normal precipitation for the past two weeks, and limited rain is in the forecast.

Exhibit 6: Brazil – Precipitation Forecast Anomaly, April 22 – May 5, 2022

Precipitation Forecast Anomaly (April 22 - April 28)

Precipitation Forecast Anomaly (April 29 - May 5)



Source: NOAA and CIBC World Markets Inc.

Hot, Dry 90-day Forecast For U.S. Western Growing Regions

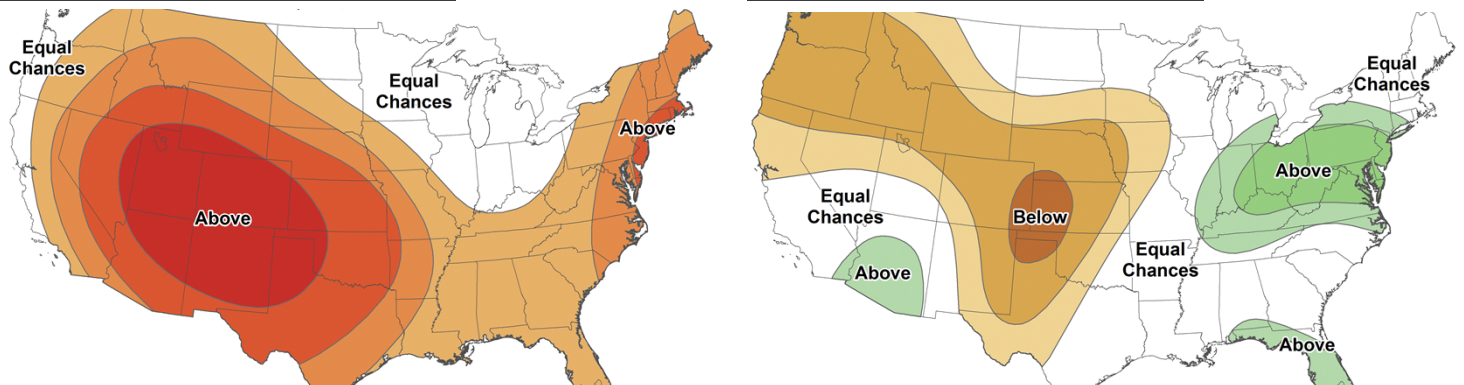
The National Weather Service 90-day forecast released April 21, 2022 gives elevated odds of above normal temperatures and below normal precipitation across HRW wheat production areas (Colorado, Texas, Oklahoma and western Kansas) through July.

Much of the western Corn Belt is also expected to see above normal temps and below normal precipitation (eastern Corn Belt fares better with above normal precipitation and “equal chances” for normal, above and below normal temps during the same period).

Exhibit 7: U.S. – Seasonal Temperature & Precipitation Forecast, May 2022 – July 2022

Seasonal Temperature Outlook, May-July 2022

Seasonal Precipitation Outlook, May-July 2022



Source: NOAA and CIBC World Markets Inc.

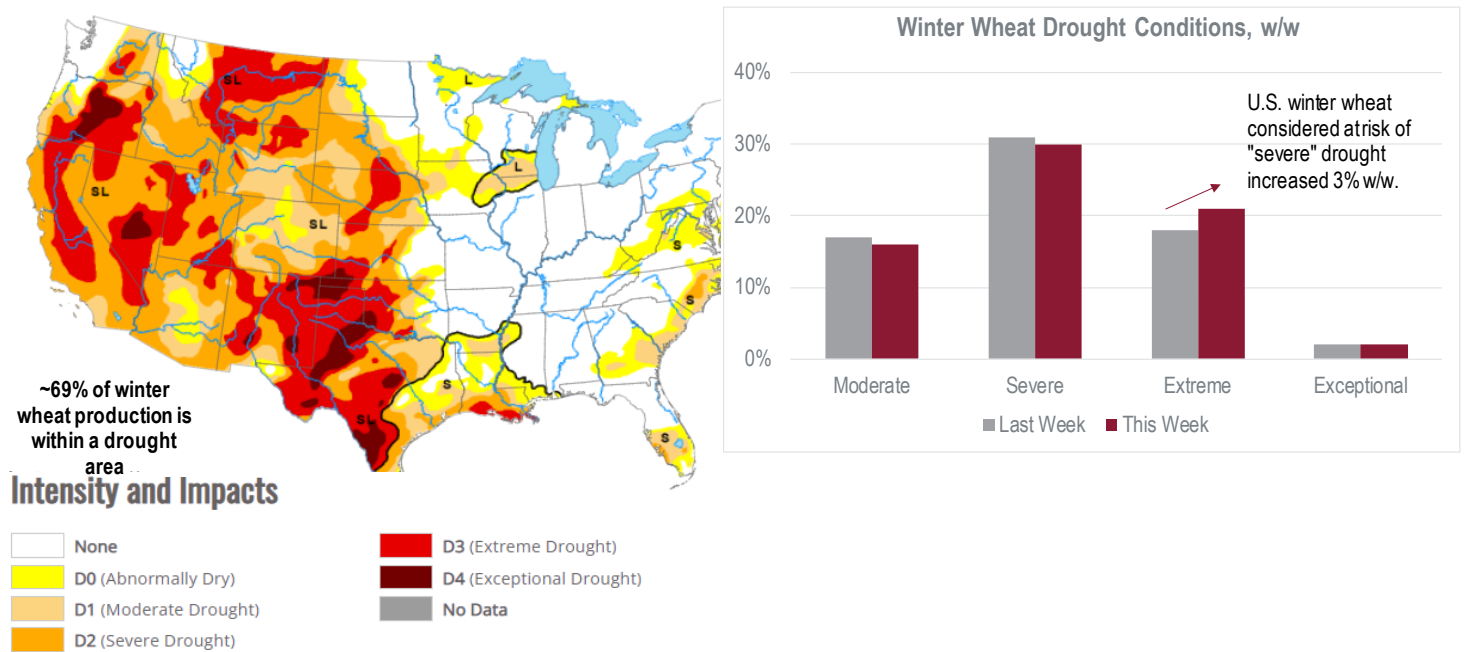
U.S. Winter Wheat Drought Area Increases To 70%

NOAA's monthly climate summary for March 2022 came out last week, reporting continued risk for expanding and intensifying drought and water resource deficits across the Western United States likely for the next few months. The amount of U.S. winter wheat considered in drought conditions increased one point to 70% for the week ended April 19, according to the U.S. Drought Monitor. USDA rated winter wheat drought as 16% "moderate," 30% "severe," 21% "extreme," and 2% "exceptional."

The USDA on Monday rated 30% of U.S. winter wheat in good to excellent condition (down from 32% a week earlier, and down from 53% versus last year), a 26-year low for this time of year.

Exhibit 8: U.S. – Drought Monitor, April 19, 2022 (left); U.S. – Winter Wheat Drought Condition Change (right)

U.S. Drought Monitor (April 19, 2022)



Source: Drought Monitor and CIBC World Markets Inc.

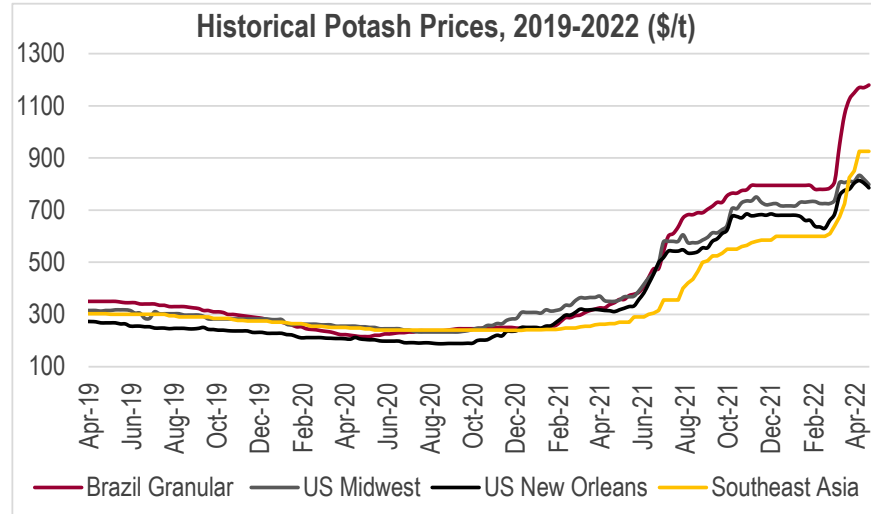
Potash Stable As Record-high Prices Deflate Global Demand

Potash markets were quiet for a second week in a row, as record-high potash prices deflate global demand. Brazil spot inched up 1% W/W to \$1,180/t, while U.S. Midwest and NOLA spot prices declined 2% each this week to \$798/st and \$785/st, respectively, and Southeast Asia prices remained flat to last week at \$925/t.

- Brazil Buyers Book More Fertilizers From Russia:** To date, shipments of fertilizers including MOP, DAP/MAP and urea continue to be loaded for Brazil at Russian ports including St. Petersburg and Murmansk. Vessels carrying a total of nearly 678kt of Russian fertilizers are expected to dock at Brazilian ports over the coming weeks, Reuters reported, citing preliminary shipping data from Agrinvest Commodities. The data show that 11 of the 24 vessels left Russian ports after 24 February – the date Russia first invaded Ukraine, but before the full set of EU sanctions were put in place. Most of the vessels are reported to be transporting potash.
- Belarusian Supply Is Absent From Global MOP Markets, Outside China.** Belarus continues cross-border rail volumes to China, reaching 50,000t in March (approximately 600kt annualized) as the impact of Western sanctions limits potash supply to key markets including the U.S.

- Brazil's Farmers Turning To Biofertilizers.** Brazil's farmers are increasingly turning to biofertilizers and biostimulants as the rising cost of traditional fertilizers continues to mount, and farmers look to tap into nutrient reserves built up in the soil. Sales of biofertilizers reached \$84MM in 2021-2022, up 36% vs. 2020-2021. Biofertilizer demand growth could reach 50% according to Croplife Brazil. Biofertilizer has already been applied on 4MM hectares of soybean fields in Brazil, and sales could double each year.

Exhibit 9: Potash – Historical Spot Prices, 2019-2022

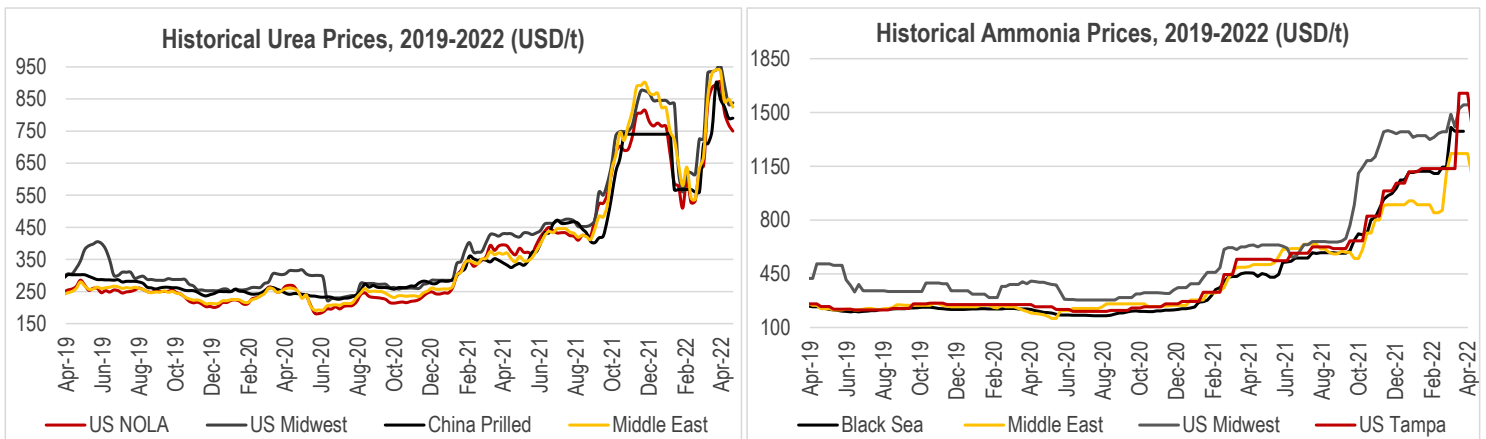


Source: CRU and CIBC World Markets Inc.

Delayed India Tender Weighs On Urea Market; Tampa May Ammonia Contract Trimmed

Global urea markets were down last week as the main tender from India was delayed further. U.S. NOLA and Middle East spot prices dipped 3% to \$750/st and \$825/t, respectively, while China spot prices were unchanged at \$790/t, and U.S. Midwest spot prices inched up \$5/st on average this week to \$838/st. Yara and Mosaic have agreed to a Tampa ammonia monthly price of \$1,425/t for May, a reduction of \$200/t from April.

Exhibit 10: Nitrogen – Historical Spot Prices, 2019-2022

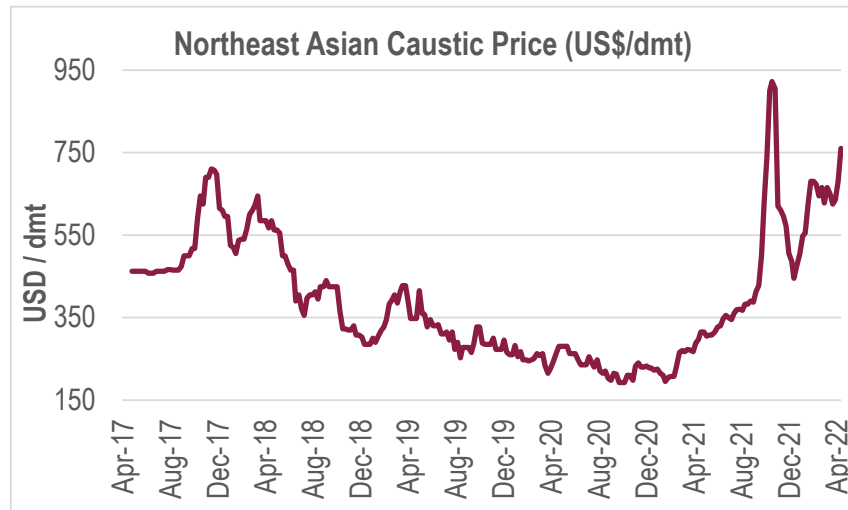


Source: CRU and CIBC World Markets Inc.

Northeast Asian Caustic Prices Surge

Northeast Asian caustic export prices (key benchmark for CHE.UN) rose sharply this week (+12% or +\$80/dmt W/W) to \$760/dmt as five fixtures of China- and South Korea-origin cargoes were reported. One of the main drivers of the sudden surge in northeast Asian prices this week were laycan delays for some April- and early-May loading cargoes, especially from China. Recent Covid lockdowns and transportation restrictions have impacted some producers, forcing them to scale down because of chlorine constraints, reducing caustic soda output. A total of around 25,000dmt of supplies were affected by the rescheduling and cancellations.

Exhibit 11: Potash – Historical Spot Prices, 2017-2022



Source: CRU and CIBC World Markets Inc.

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