CLOUDBREAK GRAIN OUTLOOK

29th April 2022



# Wheat Markets Leap Higher On Low Liquidity

- US futures maintain broad uptrend
- Russia-Ukraine conflict continues
- Egypt wheat stocks less than expected
- Will Indian yields cut it?
- Aussie wheat basis could remain weak

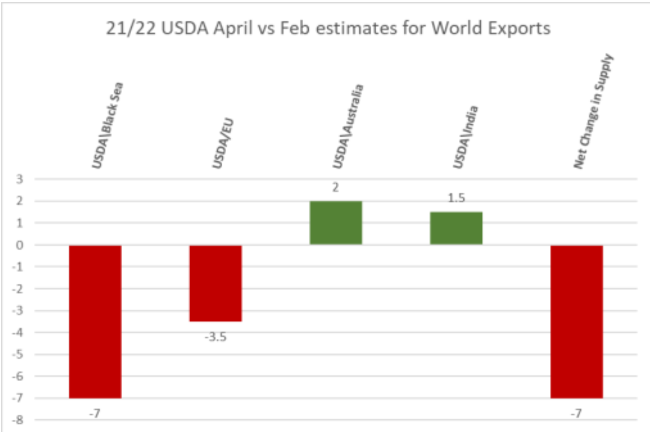
**US Futures** - US wheat futures remain in a broad upward trend, supported by near record low good-excellent winter wheat crop conditions, a bullish April WASDE and ongoing conflict in the Black-Sea. Amid rising domestic consumption in India and low export pace from the EU, the question remains: "who will be able to further increase their exports to help fill the hole left by Russia & Ukraine". Australia's ability to further increase exports is likely limited due to our maxed-out shipping capacity. India has stepped up, with exports for the 22/23 season expected to be 10MMT, although this is still questionable as it will bring their stocks-to-use to very low levels. The US has a lot of available stock on hand (stocks-to-use of 35.5%), however, US growers are currently sticky sellers amid poor winter wheat crop conditions that could amount to 15%+ yield reductions relative to trend. Canada is also seeing the effects of La Nina, as soil moisture ahead of planting is still considerably low across major spring wheat growing regions of Alberta and Saskatchewan. Stats Can does anticipate Spring wheat planted area to be up 7% YoY in Canada, however, recent snowstorms have been preventing growers from sowing their crop. Low soil moisture coupled with potentially late seeding is causing concerns over the much-needed rebound in Canadian wheat production.

Generally, at this time of year, we can start to see weakness in the market amid lower import demand as importing countries cover domestic demand from their own harvest (we normally see major exporter shipments drifts lower from April – June). This then follows into seasonal weakness caused by larger supplies in major exporting countries amid the Northern Hemisphere harvest. However, with extremely tight global stocks and a lack of supplies from the Black-Sea this season, we suspect a lot of the normal seasonal weakness will be muted. We could instead see global prices track sideways over this period, supported by drought concerns in the US leading into their harvest.

**Update on Russia-Ukraine** -The Russia-Ukraine conflict unfortunately continues and has now been over 2-months since the invasion started. Russian forces have focused their efforts on the Donbas region of Ukraine in an attempt to "liberate" the two states which are partially controlled by Russian separatist groups.

With Russian forces primarily now in the east of Ukraine, the expected Spring crop planted area across the rest of the country has increased. Previously, the Ukrainian government estimated that only 50% of last year's area could be sown, however, now this estimate has been increased to 70-80%. Whilst Ukraine ports are still closed due to infrastructure damage and sea mines, old crop wheat is making its way out of Ukraine via rail to Romania (and then via boat up the Danube River). In addition, surrounding countries are making it easier for Ukrainian farmers to get grain out of the country using their own trucks by removing the requirement for permits. Romania, Hungary, Bulgaria and Slovakia currently don't require permits for growers to freight grain out of Ukraine. However, the pace that wheat is moving out of Ukraine is still very slow relative to pre-war conditions. Amid uncertainty over export capacity and the winter wheat harvest in Ukraine, the USDA estimates that Ukrainian 22/23 season wheat exports will only reach 10MMT, down from pre-war 21/22 estimates of 24MMT.

Russian export estimates for the 22/23 season are still unknown, although as they don't have the same constraints as Ukraine, exports from Russia are still expected to be reasonable (circa 30MMT). Currently, prohibitively expensive vessel insurance is the main factor that is leading to lower exports out of Russia, as this is making them less competitive of the global stage. This was evident in a recent tender from Egypt, whereby Russia was only able to win 17% of the tender (usually Russia supplies 60% of Egypt's wheat).




**Global consumption - Major importer Egypt** - Global wheat consumption is still expected to be record large for the 21/22 season, despite prices rallying to near record highs. Egypt is the world's largest importer on wheat, so when they stepped into the market recently (after months of absence) to purchase 350,000mt, it gathered some attention. Generally, Egypt secures the majority of their wheat from the Black Sea (Russia and Ukraine) due to price competitiveness. However, following the Russo-Ukrainian war, Egypt cancelled two tenders amid soaring prices and limited available offers. This recent 350kmt tender from Egypt was won by France

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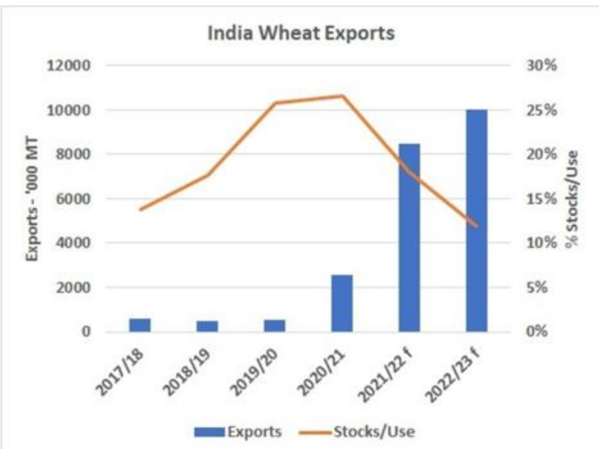
(240kmt), Bulgaria (50kmt) and surprisingly Russia (60kmt), at nearly a whopping US$150/mt more than their previous successful tender in mid-Feb. This goes to show that Egypt still needs wheat and also that tonnes will likely continue to trickle out of Russia.

Back in early March, the Egyptian finance minister said they expected to have 8-months of wheat reserves after they completed their domestic harvest in May. However, earlier this month, their government announced their reserves had shrunk down to 2.6 months' worth of domestic use. Whilst their harvest continues to replenish their reverses (with production expected to be approx. 9% higher y/y), it is still concerning that their reserves managed to reach these low levels. As such, the 350kmt tender was likely used as a safety net in case their harvest yields are lower than expected.

Shortly after the above tender closed, Egypt announced that they have added India to their list of accepted import origins. Amid short supplies globally, it makes sense for Egypt to approve Indian wheat (despite their quality concerns), as India is expected to have another record crop (the sixth bumper season in a row). However, Egypt can't put all their hope on India, as recent heat waves and rising domestic consumption may make is difficult for India to supply a significant amount of wheat. Amid rising food price inflation, Indian politicians would be bold to allow large exports of wheat whilst their voters go hungry.

**Are Indian wheat yields going to cut it?** - The Indian Commerce Minister announced that India has the capacity to export 16MMT of wheat in the 22/23 season, although this is very unlikely, as the USDA's most recent forecast is 10MMT and this alone would be a new record. Furthermore, with Indian production estimated at 110-111MMT, and expected consumption at 107MMT for the 22/23 season, with exports at 10MMT; stocks-to-use would reach nearly the lowest level in the past decade (12%). At a time when food security is extremely important and food inflation is rising, this is quite concerning, and brings about the question of whether the Indian Government will allow it.

It's fairly accepted that Indian exports could reach 10MMT for the 22/23 season as India has the export capacity, although, this isn't the main problem. India's harvest is still underway and final production estimates are still relatively loose. There have been talks that the 110-111MMT production figure is exaggerated, with others estimating the crop size could be only 100-105MMT. If crop size was only 105MMT, exports would struggle to reach even 10MMT, as stocks-to-use would be at record low 7.7%.




India is counting on another record production year to accommodate record large exports, although recent heatwaves could cause some hiccups. Some farmers in Punjab and Haryana have reportedly seen 20-30% reductions in yields compared to the previous year due to heatwave induced grain crimping (these two states account for approx. 25% of India's total production). Following surveys of affected regions, the Punjab State Government has requested that the Union Ministry of Consumer Affairs accept wheat with up to 20% screenings without imposing a price cut. On a side note, a senior member at the Centre for Policy Research in India believes overall wheat yields could be lower than expected due to the lack of fertiliser throughout the growing season. However, regardless of the issue, we will likely know more as the harvest progresses into May.

A 72kmt bulk cargo of wheat has arrived in Vietnam from India, which could very well be the first recorded. Quality issues have prevented Vietnam importing bulk volumes from India in the past, although, current lofty global prices have led Vietnam to seek alternative origin. The first cargo has passed inspection, and now a second cargo destined for Vietnam has reportedly already started loading. We note, whilst Indian wheat is making its way into a naturally Australian market, Aussie wheat remains competitive, and our quality is favourable.

Indian wheat consumption is expected to remain at record high levels this year, and whilst interest in Indian wheat exports have been increasing lately, if production for the 22/23 season is lower than expected, it will likely be exports that suffer not consumption. The two-week forecast is hotter than average, which could continue to affect those regions still in the grain filling stage. Indian exports are expected to help cushion the blow from the loss of Black-Sea supplies, so any loss of Indian exports would be bullish on the market.

**Aussie basis** - Aussie wheat basis was weak even before the Russia-Ukraine war pushed futures to record levels. However, whilst global December wheat futures have been rallying over the past 2 months, gains on Aussie 22/23 forward prices have been relatively sluggish. As such, basis has weakened to record low levels. Therefore, we have to ask the question of 'are we too cheap' relative to other major exports?

It's understandable why Aussie wheat is weak against US wheat. We have just come off a bin buster record production year, whilst the US has gone from drought in their spring wheat regions last year to now drought in their winter wheat regions for the 22/23 season. Whilst drought conditions remain in the US and our crop prospects are still favourable, Aussie basis against US wheat is likely to remain weak. Please keep in mind, there is a large weather risk premium built into US futures. US exports been extremely slow, as they have ef-

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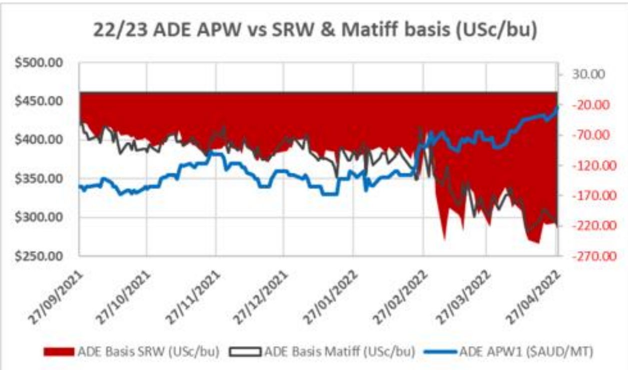
fectively priced themselves out of the market. However, if weather does turn around, we suspect there could be a large correction on price.

Canada is a very similar story to the US. After last year's horrible drought, Canadian growers are likely reluctant forward sellers amid low soil moisture and delayed seeding. This is despite an expected increase in planted area for wheat of 7% YoY.

For Europe, their crop conditions have been good amid favourable weather, with production forecasts pegging the crop at circa 140MMT (up 1.6MMT YoY). Therefore, it doesn't make immediate sense as to why Aussie wheat still has a very weak basis against EU Milling wheat. However, there are two main reasons: 1. EU wheat stocks are extremely tight, currently at 8% stocks-to-use. In the April WASDE the USDA had to decrease EU exports by 3.5MMT, as otherwise their stocks-to-use would be pushed to an unattainable 5.4%. 2. With Russia and especially Ukraine expected to be far less dominant in the market whilst the war continues, a significant amount of demand for new season wheat is likely to be shifted to the EU. As such, EU wheat prices can be used as a proxy for how the Russia-Ukraine situation is affecting the global wheat market.




Whilst these markets remain elevated amid US/Can dryness and the Russia-Ukraine conflict, it's unlikely Aussie new crop basis will strengthen significantly against US, Can and EU wheat unless our season turns dry, reducing our crop prospects. Aussie traders still have 6-months to accumulate wheat before our harvest and they will likely be unwilling to push basis up while growers continue to sell at these near decile 10 levels.

Cheap Indian wheat is making its way into our natural markets of SE Asia (i.e., Vietnam), which is keeping the pressure on Australia to stay competitive. FOB Kandla in India was last reported at $US345-350/mt, which is one of the cheapest in the world. However, Aussie wheat is still reported as being competitive and our quality is more favourable.

From a trader's perspective, another big Aussie crop could be brewing. The East coast has a healthy soil moisture profile, La Nina is likely to remain until July/August and a negative IOD is forecast. Relative to other states, SA does hold a premium for new season wheat. As SA shipping capacity relative to our production is much strong compared to WA and the East coast, SA carry out is likely to be much less. This will likely provide some support to our market domestically.

Overall, CloudBreak believes we are on the cheap side relative to the US, Can and EU. Although, with India pushing into our markets (i.e., Philippines and Vietnam) offering cheap wheat, it will make it difficult for our new crop prices to push significantly higher in the short term. However, we start looking very cheap if India can't sustain exports of 10MMT, which could be the case.

**Outlook** - The wheat market remains in a broad upward trend, supported by near record low winter wheat crop conditions in the US, ongoing conflict in the Black Sea and extremely tight global stocks. Current US crop conditions continue to deteriorate plus there are still ongoing concerns over Canadian production amid low soil moisture and snowstorms causing sowing delays. India has stepped up to help fill the hole left by Russia and Ukraine, however, India may struggle to export the expected volumes in 22/23 as they battle rising food price inflation amid record large domestic consumption. Heatwaves impacting Northern India are applying additional headwinds to the 22/23 crop.

New season Aussie wheat basis against US, Can and EU remains at extremely weak levels. Whilst our crop prospects look positive (healthy SE soil moisture, La Nina and Negative IOD), and there are concerns over the US & Can crop, combined with Indian competition; in the short-term it will be difficult for our 2223 basis to improve significantly. In the medium-term, if India can't live up to the expectation of 10MMT plus exports, Aussie wheat starts to look very cheap at current basis levels.

We note that US exports have been extremely sluggish for the 21/22 season, as they have effectively priced themselves out of the market. As such, if we see significant improvement in precip. across US winter wheat zones over the next month, we could prices give up some of the recent gains.

**Recommendations** - 21/22 - For those still holding 21/22 season wheat, basis has improved over $AUD30/mt since last week as buyers fight for remaining tonnes amid low grower liquidity. For any residual tonnes use volatility spikes to finalise sales or those more risk seeking at these elevated levels continue to monitor current trend and make sales on any consolidation or break lower

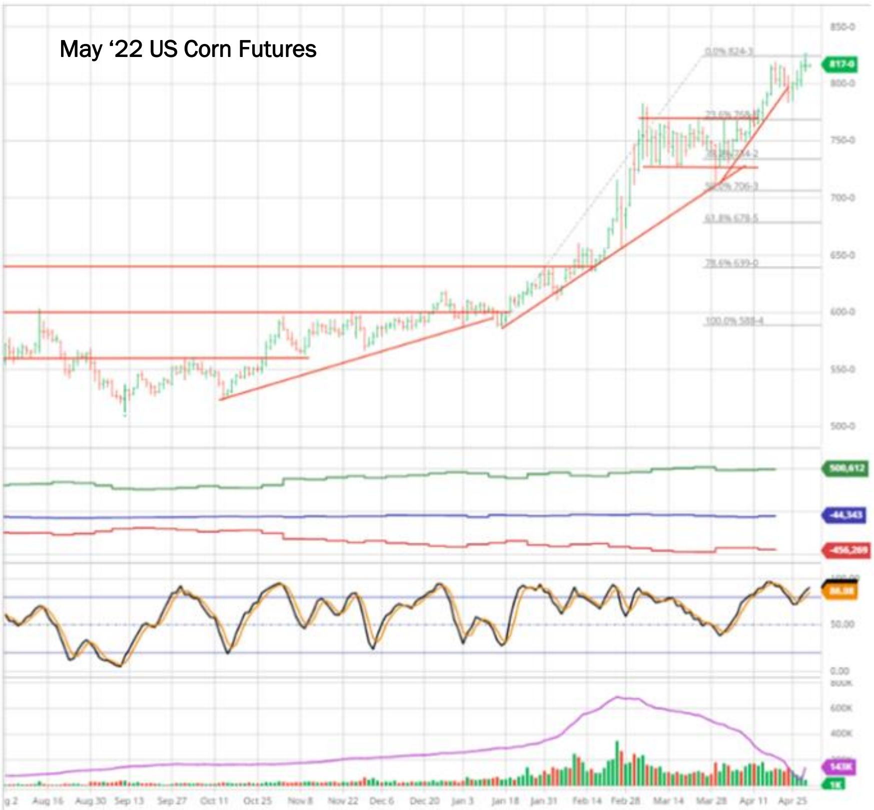
22/23 - Amid the current market environment, CloudBreak maintains its previous recommendation of making incremental sales to build a position of 25-40% for the 22/23 season. Not that it's expected, however, If peace was struck between Russia and Ukraine or rainfall improved across the US Plains, we could see a sharp correction in futures.

23/24 - Forward prices are available with some buyers at circa $360, which historically is a very high decile number (9.3). However, the basis attached is a monstrously weak negative 326USc/bu (-$AUD165/mt). It is expected that the 22/23 balance sheet will remain tight and as such the world will need ongoing strong Northern Hemisphere production to alleviate global balance sheet issues. Currently CloudBreak doesn't recommend 23/24 season sales at this stage, although will continue to monitor this trend closely.

# Australia’s Broadening Barley Market

- Ukraine’s Planting Behind Last Year’s Pace
- US Corn Breaking Resistance
- New Markets for Australian Barley
- Planting Delays in the US
- Dry Conditions Across Central Brazil

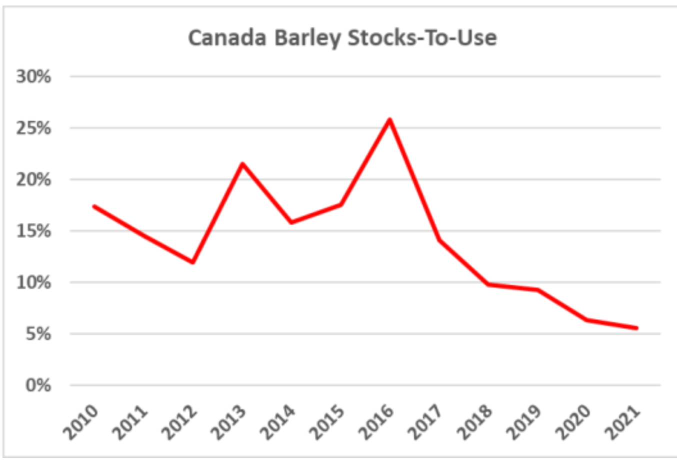
The loss of Ukrainian grain continues to impact feed markets as among the major exporters, Ukraine accounts for approximately 17% of the world’s shipments of corn and 18% of the world’s barley. With no end in sight for the Russo-Ukrainian War, world trade flows will need to continue to readjust as world stocks of feed grains reach extremely tight levels. Even if the conflict was to end in time for Ukraine’s 2022/23 harvest, the country is expecting significant cuts to planted area of spring crops and diminished yields due to shortages of fertiliser, fuel and workers. Spring planting of barley is currently at 60% of the planting area in 2021, compared to 91% at this time last year.




US corn futures have been trending higher on the back of poor Brazilian weather and strong demand for ethanol. May corn recently broke above major resistance at 770USc/bu after previously remaining rangebound and has made a 10 year high of 820USc/bu. Ethanol prices have continued to rally on the back of rising energy prices due to oil supply disruptions caused by the Russo-Ukrainian War. Furthermore, a move by the Biden administration to allow the sale of higher ethanol content fuel blends will further boost demand for corn. US corn exports over the past few months have been consistently above what is required to meet the USDA’s 2122 forecast of 63.5MMT. The US has begun planting its new season corn, however wet and cold weather has been delaying the process. Currently only 7% has been planted vs 16% last year and the 5 year average of 15%. If the weather continues to delay seeding, we could see a significant portion of the US corn crop be planted outside the ideal window. While the correlation between planting time and yields is loose, the longer the delays to seeding, the greater the portion of corn pollinating in the dryer months of late July/August.

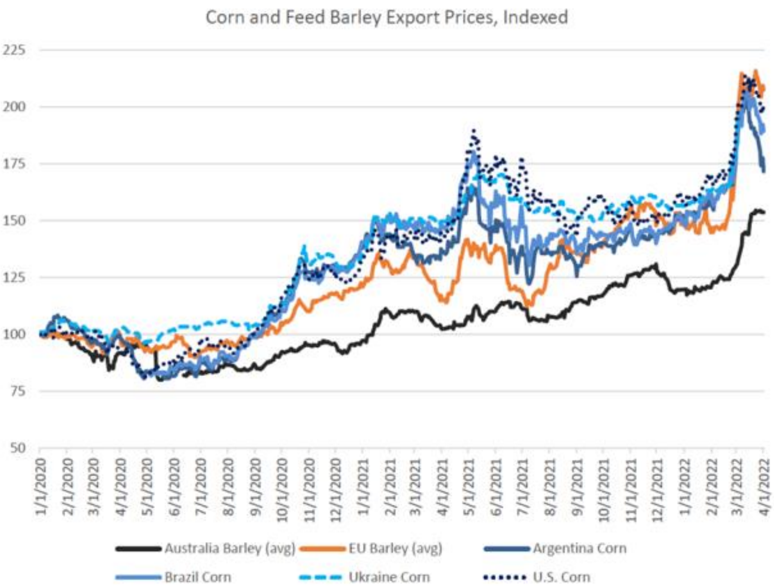
The eastern Canadian Prairies have seen some much needed drought relief in the form of major snowstorms. However, Saskatchewan and Alberta have missed out with the snow falling mostly across southern Manitoba. The storms have caused of delayed planting, and if wet and cold weather persists, we could see an increase in prevented planted area. If the snow melts in time, the eastern Prairies should start the season with far better soil moisture than last year. The latest StatsCan crop area estimates show nationwide planted area of barley dropping 9.7% to 3 million hectares.

Conversely, planted area of other feed grains such as corn and oats are expected to increase by 6.4% and 16.6% respectively. Canada is set to enter 2022 with the lowest beginning stocks of barley on record and with a cut to planted area; Canada’s stocks-to-use should remain at extremely tight levels.



# Barley—Continued

Brazilian weather has also been playing a major role in feed grain prices as the second (Safrinha) corn crop is threatened by dry conditions. Central Brazil is forecast to remain dry into early May. Due to sufficient soil moisture in late March early April, the worst case yield scenario will likely be avoided. However, if these dry and hot conditions continue, which is likely due to an ongoing La Nina, cuts to production estimates are expected. Despite this, CONAB actually raised corn production forecasts by 2MMT, to a total of 115MMT in their April update. Private analysts remain unconvinced, with estimates ranging between 106-110MMT. Argentina has harvested approximately 23.2% of its corn and Buenos Aires Grain Exchange has pegged corn production at 49MMT compared to the USDA's 53MMT. However, with GD/EX conditions of just 18% private estimates are leaning towards final production numbers of 47-49MMT.



Source: IGC; Australia and EU Barley are averages of available origins
Note: Prices indexed to 1/1/2020, except Brazil Corn (indexed to 12/17/2019, the last published price prior to 1/1/2020)

Since China's imposition of the anti-dumping and countervailing duties, Australian barley has become some of the cheapest in the world. This has resulted in our other markets in Southeast Asia and Saudi Arabia expanding as well as brand new markets seeking Australian barley. According to the latest data from the ABS, Australian exports of feed barley for February were 796kMT, up 46% from the previous month. Saudi Arabia has been relying heavily on Australian feed barley, accounting for 36% of our exports for the 2021/22 marketing year so far. But the real highlight of the February barley export data was cargoes going to Canada and Netherlands. These shipments highlight the scarcity of barley in the northern hemisphere and the competitiveness of Australian prices. While Europe has bought barley in bulk from Australia in previous years, Australia last shipped barley to Canada in 1997. When export prices are indexed, Australian barley saw the smallest price increase when compared to the other major exporters. With the inability of Ukraine to make significant exports and Australia's record barley crop, the process of diversification away from China should continue.

**Outlook** - South Australian barley prices have remained well supported and have been steadily trending higher currently sitting around $415/MT on an Outer Harbour basis for 21/22 season. The spread between wheat and barley has also been extremely tight, ranging between $5 and $20 for the past month. With rising freight costs and our competitive pricing, Australia's markets in Southeast Asia and the Middle East will remain well protected and we should continue to see new buyers seeking Australian product. New season prices have also been tracking higher, currently around $348/MT. In the coming months, weather in Brazil and the planting progress in Ukraine will be key for the development of new season prices.

CloudBreak recommends finishing up sales on old crop barley to take advantage of the historically high prices. With grower stocks dwindling, anyone still left holding should look to time sales with vessels to take advantage of possible spikes in volatility driven by shorts. For those who are more risk seeking, it could pay off to hold longer to speculate on dry conditions in South America harming the second Brazilian corn crop. However, it would not be recommended to hold past June/July as this is when seasonal weakness starts to kick in. With the conflict in Ukraine looking set to continue for the foreseeable future and with their ports blockaded; trade flows will continue to adapt to fill the grain export hole. Additionally, with dry conditions likely to impact the second Brazilian corn crop, fewer planted hectares of barley in Canada and potential planting delays in the US, new season barley prices should remain well supported. As such, CloudBreak recommends holding sales at 10% of conservative production estimates. However, for those who do wish to advance sales further, no one will blink twice with such high decile (9.8) prices. Another factor to keep in mind is the timing of suitable rainfall around seeding will partially dictate forward pricing over the next few weeks. For as long as rain stays off the radar, forward selling will be limited due to lower production confidence, subsequently supporting prices. However, if we see more substantial rains in SA, improved confidence will spur on selling. This could limit how high 2022/23 barley prices could go over the short-medium term.