What's Hot: Fundamentals favour soybean, sugar and wheat

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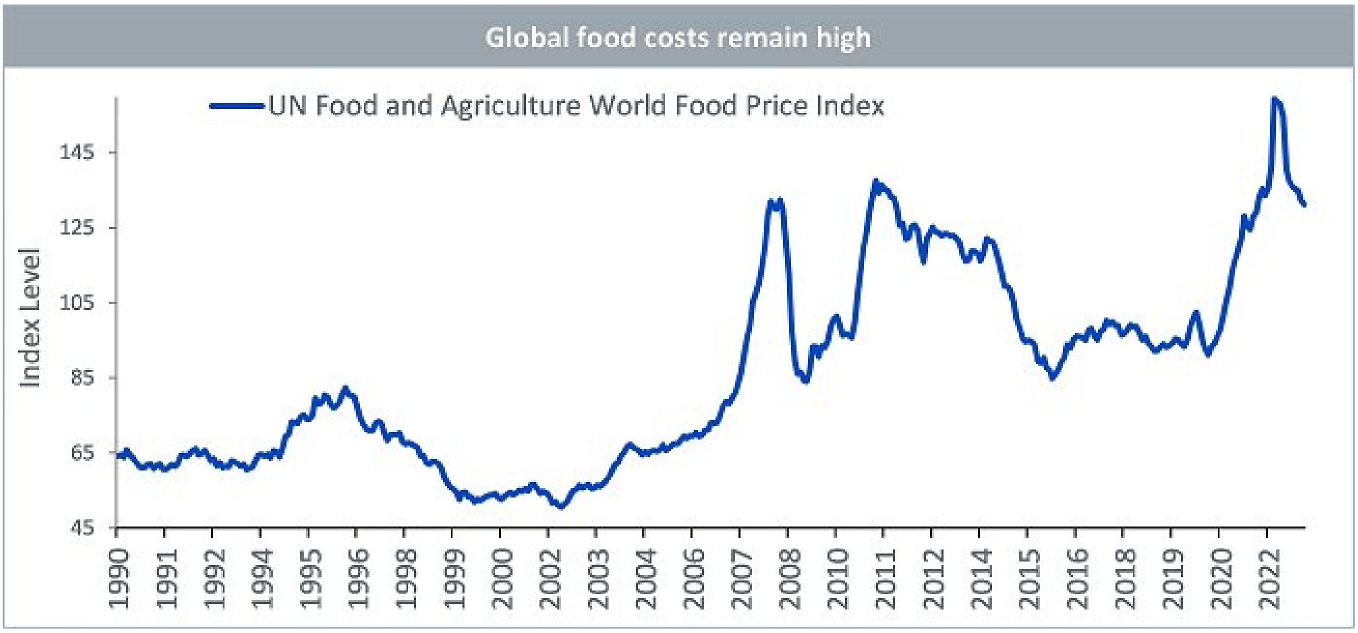
Agricultural commodities, led by grains rose sharply in 2022. The two main catalysts for the upside in price were the Russia-Ukraine war alongside other supply challenges. There has been a number of cascading events around these two catalysts involving government interventions globally as food prices soared.

Source: Bloomberg, WisdomTree from 31 December 2021 to 30 December 2022.

Historical performance is not an indication of future performance and any investments may go down in value.

However, from mid-October the renewal of the Black Sea grain initiative for six months, helped quell concerns of access to Black Sea ports. We have seen prices decline since then, but from a high level.

It's worth noting that grain exports from Ukraine under the Black Sea Grain Initiative dropped to 3.1mn tons in January compared to 3.6mn tons in December 2022 owing to a slowdown in inspections1. In 2023, the supply demand balance appears to be favouring soybeans, wheat, and sugar.



Source: Bloomberg, WisdomTree from 31 December 2021 to 30 December 2022.

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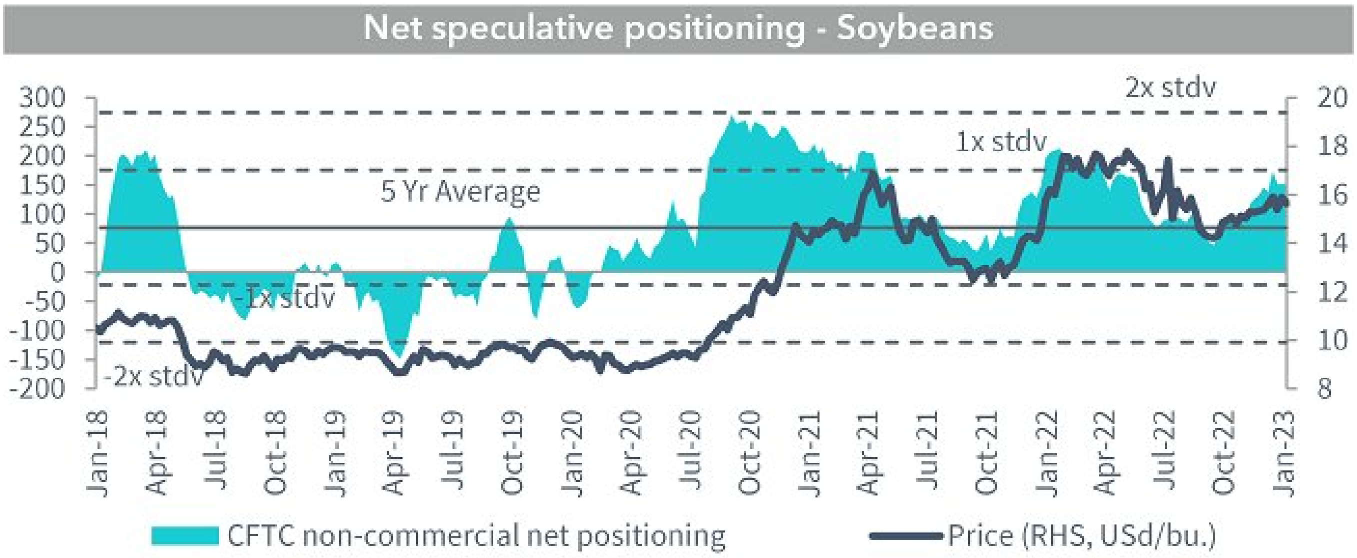
Extreme drought in Argentina lends a tailwind to soybean prices

In the case of soybean, a gloomier supply outlook has been a key tailwind for prices in 2023. Argentina, the world's third largest soybean producer, is expected to see a weaker crop at 35.5mn tons owing to persistent drought and high temperatures. The Foreign Agricultural Service of the US Department of Agriculture (USDA) estimates the crop at just 36mn tons after the USDA previously predicted a crop of 45.5mn tons.

However, both estimates are still well above the assessments of local experts. The Rosario Grain Exchange, which asserts the drought is the worst in 60 years, lowered its soybean forecast to 34.5mn tons. Thus, future downward revisions by USDA are quite likely which should help soybeans continue to find support.

Net speculative positioning in soybean futures has increased 124% since the start of October underscoring the positive sentiment owing to the tighter supply outlook.



Source: Commodity Futures Trading Commission (CFTC), WisdomTree as of 31 January 2023.

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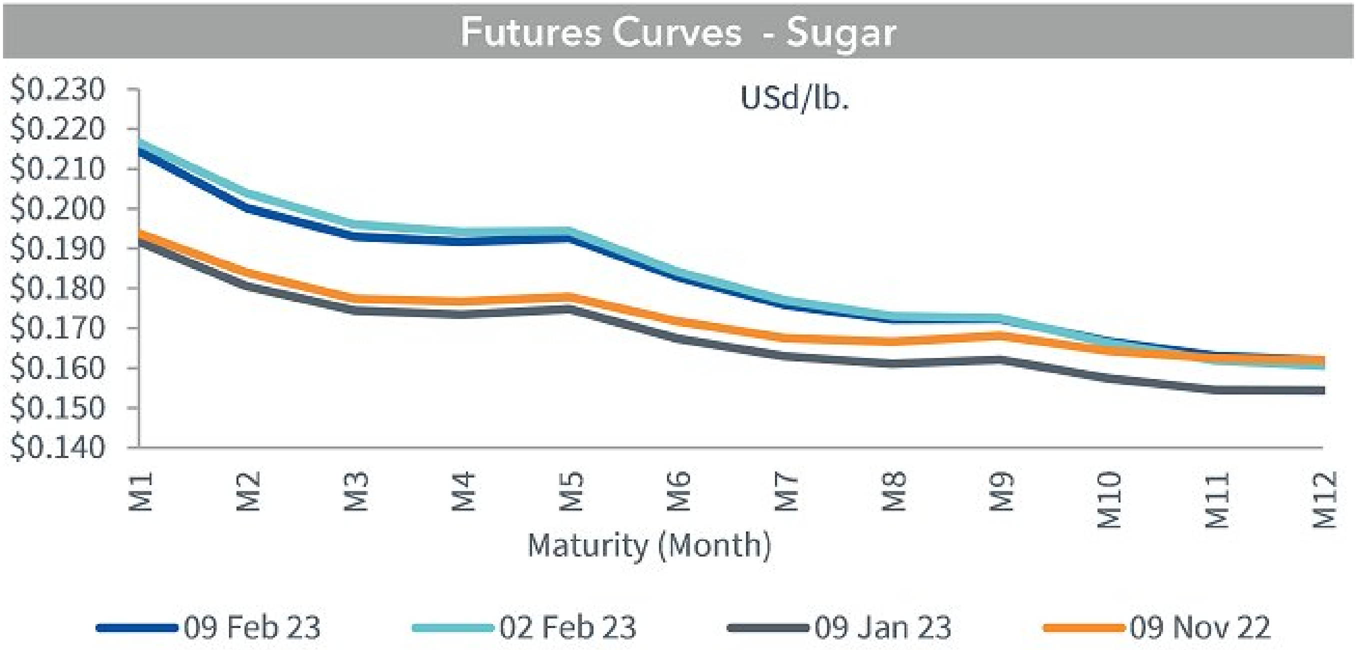
Tighter supply on the global sugar market

Sugar prices are trading at a six year high. Investors remain concerned over the prospects of the sugar crop in India, the world's second largest sugar exporter. Sugar cane processing in Maharashtra, the most important growing State, could end 45 to 60 days earlier than last year owing to heavy rainfall that has reduced the availability of sugar cane.

In 2022, sugar production reached a record 13.7mn tons, which allowed India to export a record high 11.2mn tons of sugar.2 The Indian Sugar mills Association (ISMA) revised its estimate for domestic sugar production lower from 36.5mn tons to 34mn tons for the 2022/23 season2. This is raising concerns that the Indian government will not approve any further sugar exports for the current marketing year owing to the recent reports of weak production.

This does suggest a tighter global sugar market particularly as we are in the midst of Brazil's (the world's largest sugar producer) sugarcane off-season. Although Brazil produces sugar all year round, during this period (December to March) few mills continue to crush. Supply from Thailand, the world's third largest sugar producer is unlikely to fill the gap left behind by the smaller Indian harvest particularly during Brazil's off-crop.

The front end of the sugar futures curve has been in backwardation over the past 3 months and currently provides a roll yield of 7.2% highlighting the tightness in the sugar market.



Source: Bloomberg, WisdomTree as of 9 February 2023.

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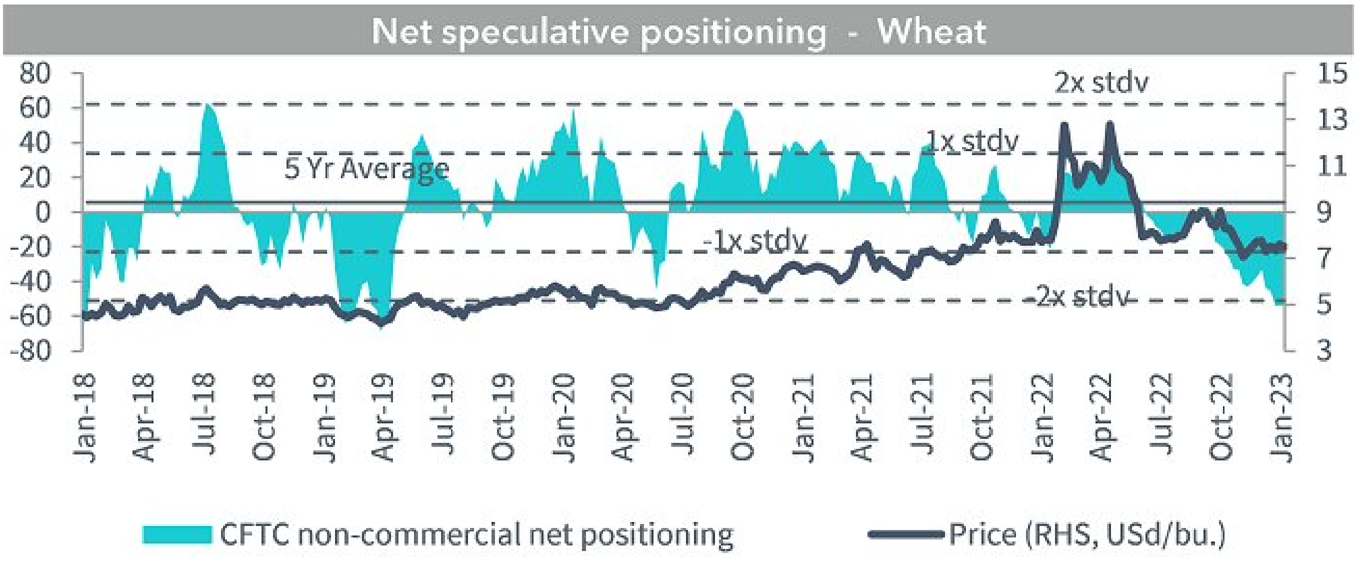
Wheat most exposed to geopolitical tensions

Wheat prices have under most pressure from the improved supply prospects from the Black Sea Region. However total grain exports have declined by 29% to 27.7mn tons in the ongoing season (from 1 July 2022 to 31 January 2023), with wheat exports down 42% over the prior year.3 The ongoing escalation in the Russia Ukraine war continue to threaten supply from the breadbasket of Europe.

The US Department of Agriculture is forecasting a noticeably smaller Russian wheat crop of 91 million tons for 2022 in sharp contrast to Russia's State Statistics Agency estimate at a record high of 104.4mn tons. According to the consultant firm SovEcon, the key growing region in the south of Russia has seen only around 40-80% of its normal rainfall over the past three months. The forecasts of this year's crop in Russia are less optimistic. In the 2022/23 season, a record crop in Russia enabled ample supply of the wheat markets, despite a considerably lower crop in war-torn Ukraine in particular, thereby dampening prices.

Lower supply is likely in the coming season, however, not only from the top wheat producers – Russia and the US – but also from Ukraine on account of the ongoing military conflict. The Ukrainian Grain Association (UGA) anticipates a crop volume of 16 million tons. According to the Ukrainian Agriculture Ministry, 20 million tons of wheat were harvested last year. Before the war, the crop had totalled around 30 million tons.

Net speculative positioning in wheat futures is currently more than 2-standard deviations below its five-year average, underscoring the extreme bearishness on the wheat market.



Source: Commodity Futures Trading Commission (CFTC), WisdomTree as of 31 January 2023.

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Amidst the ongoing conflict and lower wheat supply from Russia and Ukraine, wheat prices appear positioned for a rebound from current levels.

1 Bloomberg as of 31 January 2023

2 Indian Sugar Mills Association as of 30 December 2022

3 Bloomberg as of 31 December 2022

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