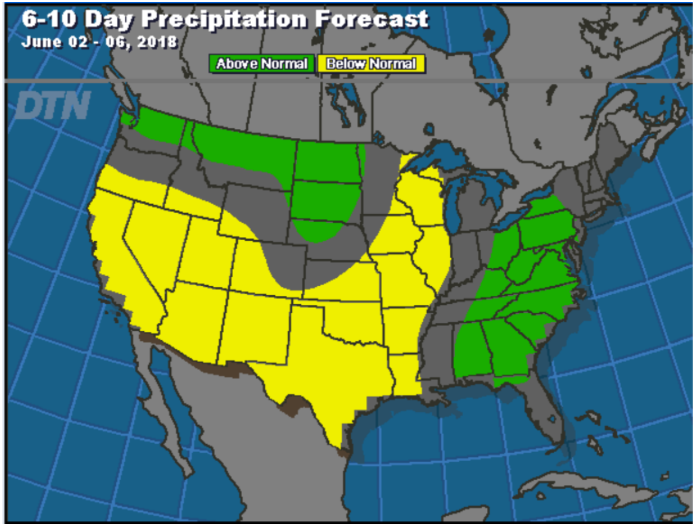
Bulls or Bears?

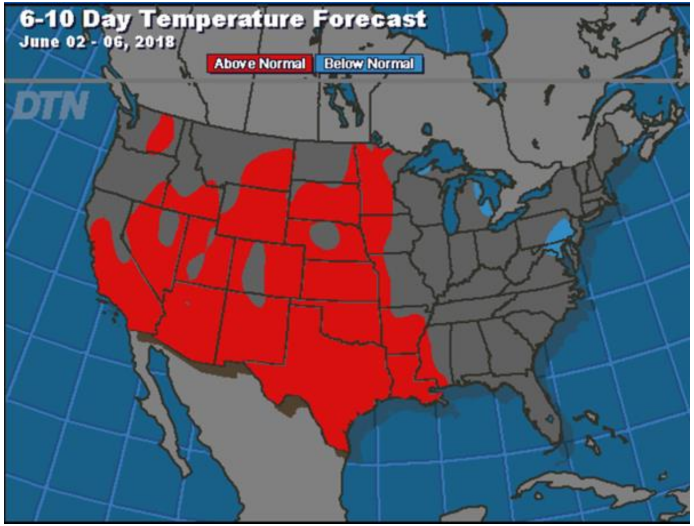
Grains 18/19 fundamentals

Sergii Kurbatov

Weather: US

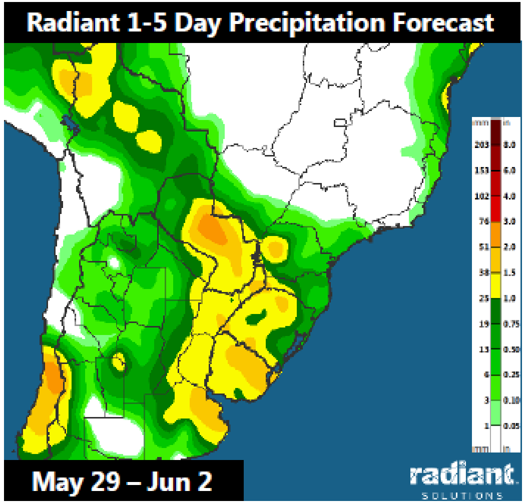
Very hot and dry weather will continue to stress wheat and cotton across the southern Plains. Below normal rainfall is expected across most of the central U.S. during the 6-10 day period.

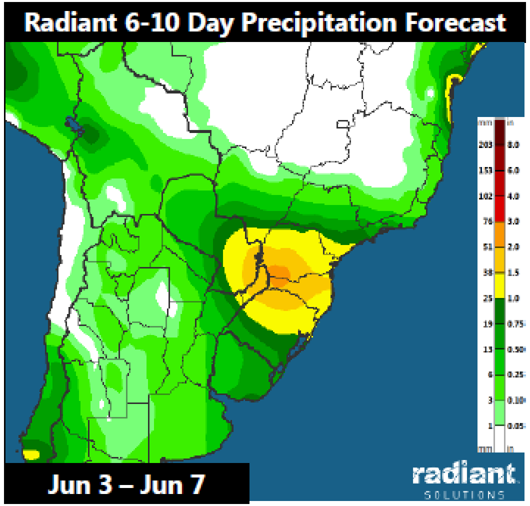




Weather: LA

Rain to increase in southern Brazil

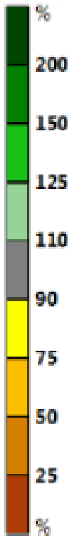


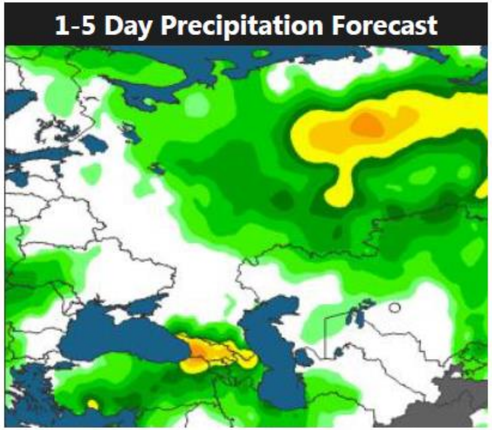


- Rainfall across the major growing areas of Brazil and Argentina was limited.
- The rains in Buenos Aires slowed any remaining soybean harvesting and rain will continue to slow fieldwork across eastern Argentina over the next few days.
- Dryness remains across southern safrinha corn belt, but crop growth is finishing up.
- The rains will improve soil moisture for winter wheat germination and early growth, but will slow maturation and dry down of the safrinha corn crop in Parana

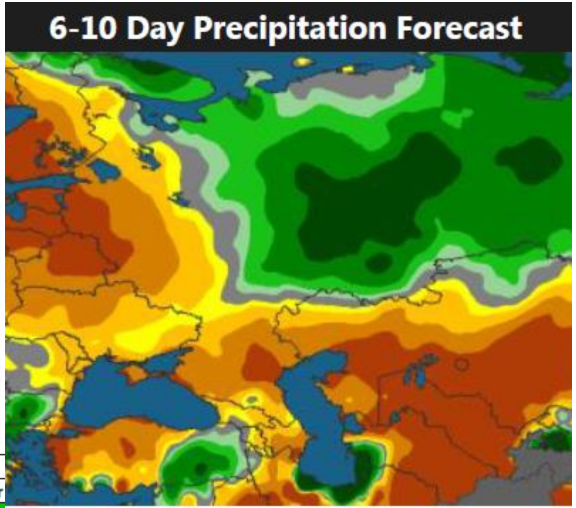
Weather: BS

Mostly dry weather prevailed across the Black Sea Region.





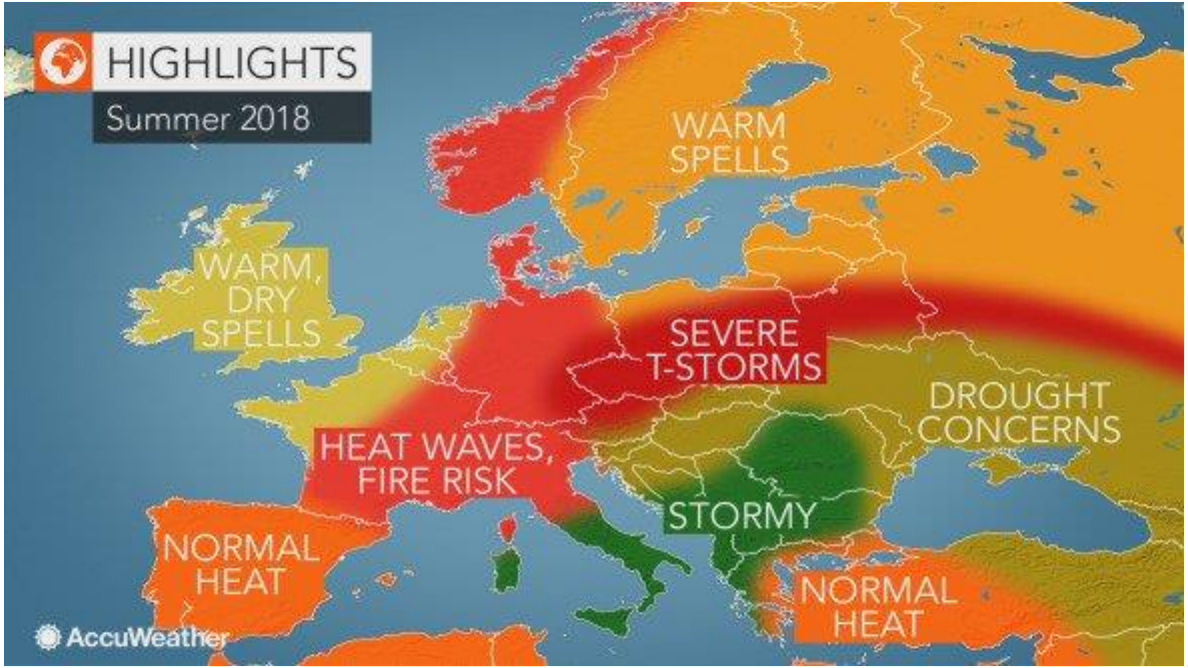
Black Sea % Precipitation Coverage				
5 Day Forecast	W. Wheat	S. Wheat	Corn	Sunflower
> 6 mm (0.25")	23%	65%	30%	26%
> 25 mm (1.0")	1%	8%	0%	0%



- Showers were minimal yesterday
- Dry conditions continue to stress wheat heading in drier 1/3 of belt through early next week; Ukraine likely to see showers cross the area mid next week easing stress but unlikely to hold together into S. Russia
- Corn/sunflower establishment hampered in S. Russia with mainly dry pattern next 10 days; spotty dryness in Ukraine less extensive given next weeks rains but soil moisture supplies still low
- Rains remain active across Urals/N. Siberia this week hampering late seeding and lowering final acreage
- Models still cooler than normal across much of the belt this week slowing germination and early growth but warmer next week

Hot and Dry summer is coming?

As per Summer 18 forecast map, most of Black Sea, esp UA n RU, **crops production areas may suffer the drought with lower yields**



Spring crops in Russia?

Russia. Sowing progress, May 29, 2018

Crops	Planned area, Th ha	Planted, Th ha		% complete	Lag in sowing vs 2017 (%)
		2018	2017		
Total spring crops	53371	39682	43502	74.4	-9
Spring grains and pulses	31022	22534	26624	72.6	-15
Spring wheat	12927	8330	11409	64.4	-27
Barley	7637	6494	6698	85.0	-3
Corn	3011	2464	2783	81.9	-12
Rice	184	155	166	84.4	-6

Politics & macro economy

Lots of uncertainty ahead

Wheat: fundamental factors

- US dryness and overall wheat acreage shortage
- Heat wave in Australia and crazy price levels for Ozzies wheat – advantage for Ukraine-Asia trade?
- A Russian crop below 72-73 mln t would immediately translate into higher demand for other origins.
- Ex rate USD/EUR back to 1.2? EU production lower?
- Demand for wheat around the world is growing
- Winter grains conditions in Ukraine and Spring crops in Russia under stress?
- Historical seasonal high is still in front of us?!
- Projected reduction of global carry out down to its lowest level since 2014/15
- Russians will find it challenging to maintain their new position at the top
- Overall, less comfortable than in 17/18.

- Wheat is the most "political commodity" in the world
- Ex rate USD/EUR?
- High quality milling wheat vs stabile demand?
- 73+ Mt of Russian crop is still ok
- Canadian farmers to plant more wheat (as pulses market is depressed)
- Iran & India and Egypt "saga" next season?
- Bottom line supply and demand remain bearish for wheat

Dry conditions that lower crop yields in Russia, the U.S., China, Canada, Australia, or other producing nations could cause the price to move appreciably higher in the coming weeks and months.

Corn: fundamental factors

- ➢ Generally optimistic prospects for commodities in 2018
- ➢ Money managers “bullish seasonality”
- ➢ Ukraine&South Am weather to watch!
- ➢ BRZ & ARG corn production?
- ➢ China&US negotiations. Trade issues between the U.S. and China are likely to add an additional level of volatility to the corn and soybean markets
- ➢ US Farmers planted less corn than beans this year because the new crop corn-soybean ratio had traded around the 2.5-2.6:1 level from late 2017 through late April.
- ➢ US exports high and carry-out down to 1.5-1.6 bln bu (yield 173.5).
- ➢ • Global still seen down on year by 25 mln t with growing demand for corn!
- ➢ **Corn looks strongest; trade issues another layer of volatility to the market for all grains**

- ➢ Lots of uncertainty ahead
- ➢ China&US negotiations
- ➢ US Corn planting continued to progress and is now 92% complete, slightly ahead of the 5 year average of 90% and last year at this time.
- ➢ Oversupply of corn and US demand from ethanol industry down.
- ➢ Bumper US and BRZ production is still on track as well as record production in top-exporting countries?
- ➢ Chinese demand on UA corn (3Mt in new season)?
- ➢ Another record of corn in Ukraine – crazy 30Mt as per USDA still traded?
- ➢ Ukr corn basis?

Any price dips in the gain markets over the coming weeks will present a buying opportunity. It is likely that we will see another price scare in late June or early July that sends prices higher.

Barley: fundamental factors

- ➢ US export of sorghum?
- ➢ Lower exports ex Ukraine replaced by higher exports from EU and Australia.
- ➢ Much lower crop in Ukraine (-1.3 mln t)
- ➢ Higher global demand because of China which replaces sorghum partially with barley.
- ➢ Carry-out slightly less tight than before but far from becoming comfortable
- ➢ China is back !
- ➢ Generally favorable situation among feed crops (growing demand with lowering supply)
- ➢ Compound feed demand growth

- ➢ higher crops in the EU (Spain), Canada, Australia, and Argentina (total 3 mln t)
- ➢ “Chinese papers” & UA barley?
- ➢ Saudi Arabia speculations on increased Ukr/EU supplies?
- ➢ Comfortable balance sheet in general but does it mean premium over feed wheat in coming season again?

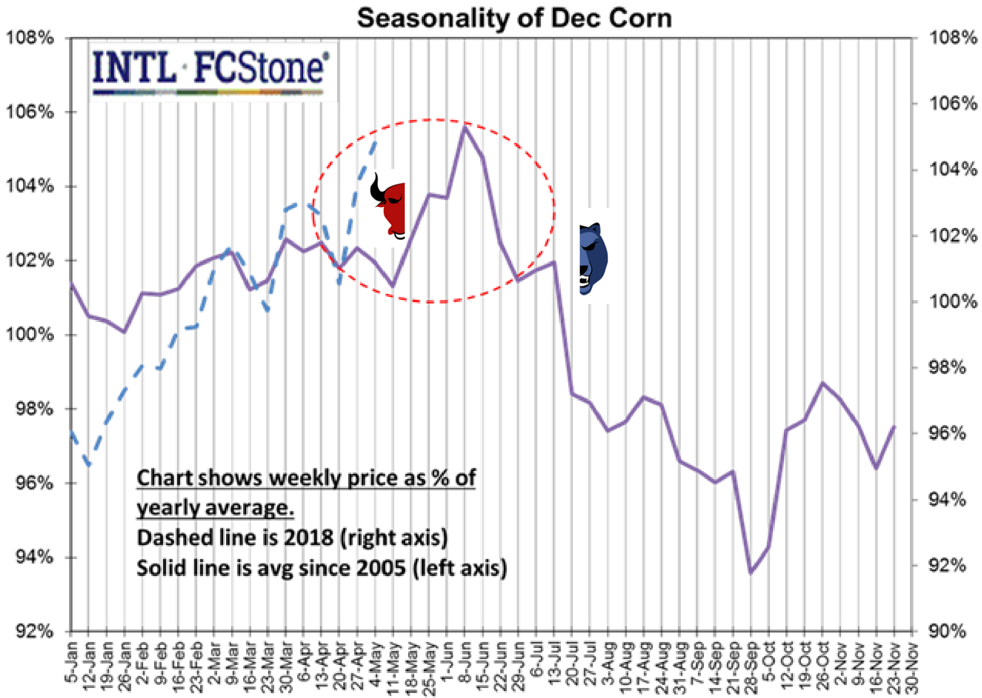
Grains: fundamental factors

Corn in June - July: historically the biggest price gain during the year recorded…

Last years we saw rallies in late June 2016 and 2017 were years where crop production in the three major grain markets was at bumper or record levels.

However, in each year the markets experienced brief rallies during the period of uncertainty during the growing season.

Thanks Cap!? ☺



Ukraine: peas & barley?! Soyabean?

Ukraine planting progress

	Forecast area 2018	Planted, ths ha						% of forecast					
		2018	2017	2016	2015	2014	2013	2018	2017	2016	2015	2014	2013
Earley spring cereals	**2 386**	**2 278**	**2 349**	**2 423**	**2 078**	**2 729**	**2 863**	***95%***	***99%***	***97%***	***91%***	***92%***	***98%***
Spring wheat	177	167	172	166	142	162	178	*95%*	*96%*	*96%*	*100%*	*99%*	*99%*
Spring barley	**1 594**	**1 502**	**1 564**	**1 816**	**1 559**	**2 122**	**2 209**	***94%***	***95%***	***95%***	***90%***	***99%***	***98%***
Oats	205	191	198	213	208	249	273	*93%*	*95%*	*98%*	*88%*	*99%*	*98%*
Peas*	**424**	**418**	**415**	**229**	**170**	**196**	**203**	***99%***	***100%***	***100%***	***97%***	***99%***	***98%***
Sunflowerseed	**5 559**	**5 576**	5 415	5 210	4 256	4 449	4 072	*100%*	*100%*	*104%*	*97%*	*105%*	*100%*
Soybean	**1 931**	**1 670**	1 834	1 806	1 922	1 636	1 366	*86%*	*94%*	*87%*	*101%*	*101%*	*95%*
Corn	**4 602**	**4 514**	4 395	4 382	4 256	4 758	4 776	*98%*	*98%*	*97%*	*95%*	*92%*	*100%*

*as of start of May 415 th ha of peas planted (100%) - final revised number by MinAgri

	Forecast 2018	Planted, ths ha				
		2017	2016	2015	2014	2013
Winter crops area 2018/19MY, ths ha	**8 122**	**7 862**	**7 422**	**8 371**	**7 782**	**8 588**
Winter wheat	**6 291**	6 098	6 003	6 660	5 849	6 532
Winter barley	**826**	878	1 004	1 051	1 084	1 086
Winter rapeseed	**1 005**	886	415	661	849	970

Ukraine: SnD estimate

Another bumper crop in Ukraine???

Wheat	2018/19*	2017/18*	
	March	March	Jan
Opening stocks	***1.20***	***1.06***	***1.06***
Acreage seeded	6450	6300	6300
Acreage harvested	6400	6260	6260
Yield, mt/ha	4.11	4.17	4.15
Crop	***26.3***	***26.1***	***26.0***
Imports	2	2	2
SUPPLY	**27.51**	**27.16**	**27.06**
Food Industry	4250	4300	4300
Feed Usage	3600	3500	3500
Seeds	1350	1300	1300
Exports	***17.0***	***16.5***	***16.5***
Other purposes and losses	300	360	360
DEMAND	**26.5**	**25.96**	**25.96**
Ending stocks	***1.01***	***1.20***	***1.10***

Barley	2018/19*		2017/18*
	May	*May*	May
Opening stocks	***0.54***	***0.44***	***0.36***
Acreage seeded	2300	2300	2530
Acreage harvested	2280	2280	2500
Yield, mt/ha	3.26	3.26	3.32
Crop	***7.4***	***7.4***	***8.3***
Imports	2	2	2
SUPPLY	**7.94**	**7.84**	**8.67**
Food Industry	400	400	420
Feed Usage	2500	2500	2550
Seeds	650	650	670
Exports	***4.0***	***4.0***	***4.4***
Other purposes and losses	80	80	85
DEMAND	**7.63**	**7.63**	**8.13**
Ending stocks	***0.31***	***0.21***	***0.54***

Corn	2018/19*		2017/18*
	May	March	May
Opening stocks	***1.0***	***0.55***	***0.41***
Acreage seeded	4600	4450	4470
Acreage harvested	4550	4400	4350
Yield, mt/ha	5.85	5.84	5.68
Crop	***26.6***	***25.7***	***24.7***
Imports	30	30	30
SUPPLY	**27.63**	**26.28**	**25.14**
Food Industry	370	370	400
Feed Usage	4700	4600	4600
Seeds	190	190	190
Exports	***21.0***	***20.0***	***18.5***
Other purposes and losses	450	400	450
DEMAND	**26.71**	**25.56**	**24.14**
Ending stocks	***0.92***	***0.72***	***1.0***

Source: Ukragroconsult

Ukraine: peas?!

Peas	2018/19*	2017/18*	2016/17
Opening stocks	***59***	***19***	***10***
Acreage seeded, Th ha	420	410	239
Acreage harvested, Th ha	418	410	235
Yield, MT/ha	2.63	2.56	3.17
Crop	***1100***	***1050***	***745***
Imports	0	0	0
SUPPLY	**1159**	**1069**	**755**
Food Industry	95	100	90
Feed Usage	25	25	25
Seeds	130	130	130
Exports	***850***	***750***	***486***
Losses	5	5	5
DEMAND	**1105**	**1010**	**736**
Ending stocks	***54***	***59***	***19***

Source: Ukragroconsult

Really???

???


SELL IN MAY AND GO AWAY?
NAH!
B. Rich
HEDGEYE