

Buenos
Aires
1ro. Diciembre
de 2015

Foro Internacional de Granos
International Grains Forum



Bolsa de Cereales



International
Grains Council



GLOBAL MACRO ENVIRONMENT IN GRAIN MARKETS: PERSPECTIVES FROM EXPORTING/IMPORTING COUNTRIES

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▶ **GLOBAL MACRO ENVIRONMENT IN GRAIN MARKETS:
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Current environment

- **Strong USD**
- **Lower commodity prices in dollars all sectors**
- **Slowdown in trade volumes/growth**
- **Divergent interest rate policies**
- **Inflation and currency depreciation [outside US and Europe]**
- **Evolving logistics**
- **Interconnectivity – cross border, cross asset class transactions**
- **Creeping interventionism: price supports, taxes**

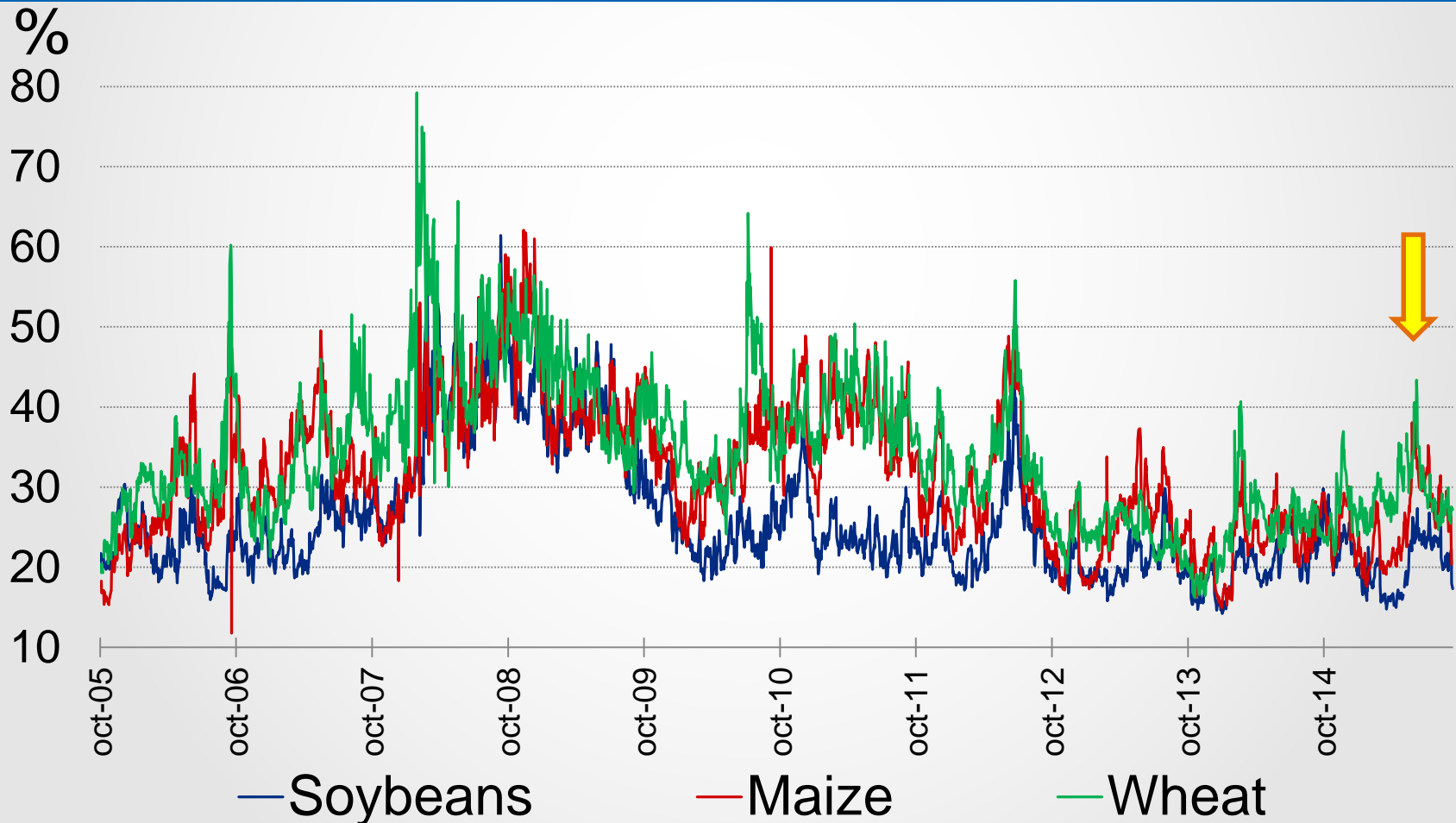
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US

- **Low inflation/interest rates**
- **Cheap oil – advantage to grain logistics**
- **Cheap grain/oilseed prices – higher domestic basis levels**
- **Undercut by other origins – esp. wheat**
- **Mandates for blend continue for biofuels**
- **Panama canal will aid gulf/NOLA competitiveness**
- **Volatility from other markets impact US grain prices**

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Implied Volatility (Daily)



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Brazil

- **CB rate 14.25%, 10% inflation**
- **Real fallen 45 % to USD [2 to 3.75 reals/USD since 2013]**
- **Largest trade partner is China**
- **Potential slowdown in FDI**
- **Infrastructure delays [ranks 120 out of 144] exacerbated by fall off in demand for iron ore**
- **Potential surge in soybean acreage – USDA estimates crop at 100m MT**

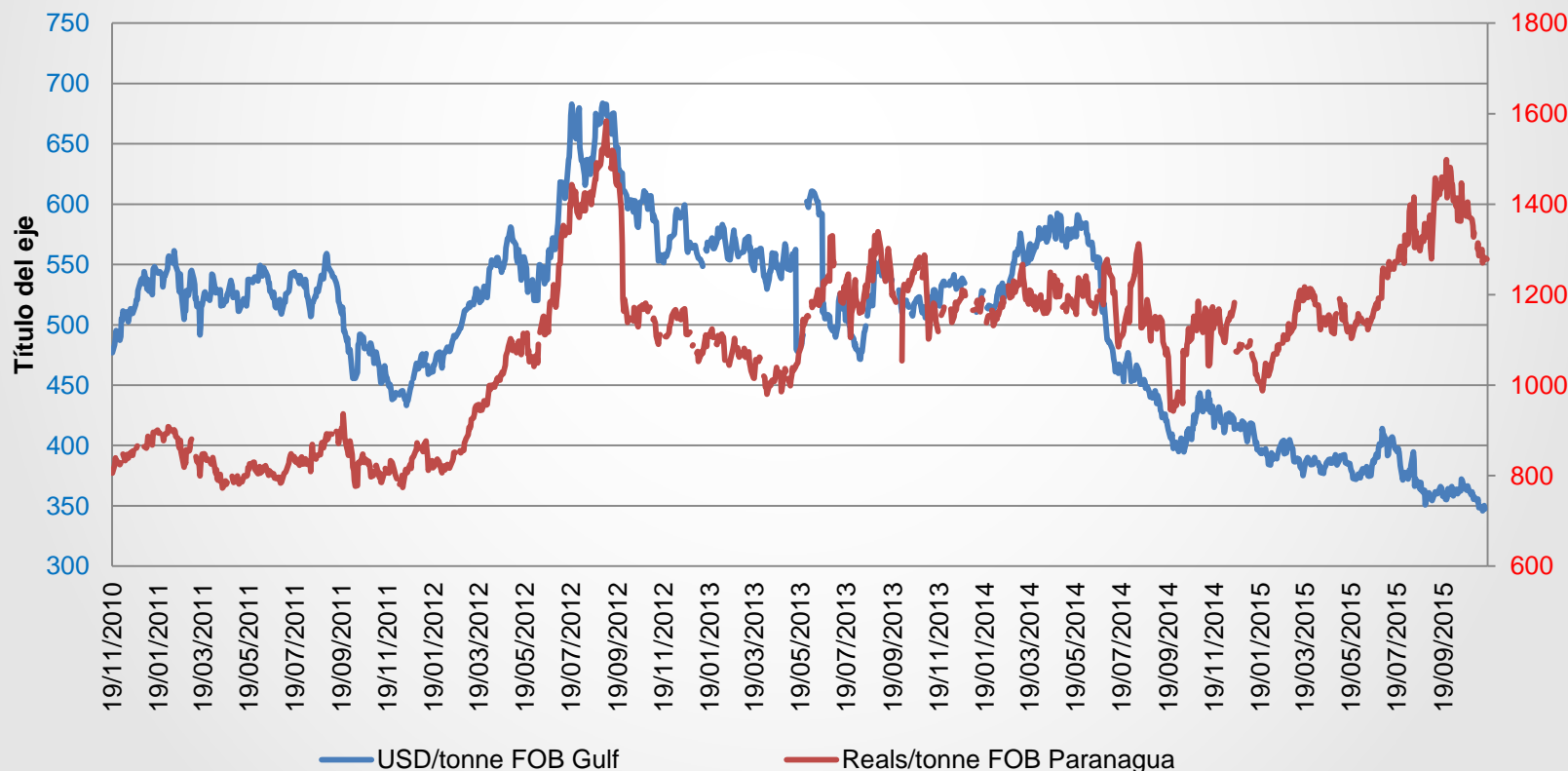
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Brazil soybeans vs US [fob]

Soybeans FOB

USD/tonne

Reals/tonne



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Vessel line-up Paranaguá



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Argentina

- **CB rate over 26%**
- **One of highest inflation rates**
- **Peso continues to lose value [from 5 to 9.65 since 2013]**
- **Interventionism in grain exports [taxes, quotas]**
- **Credit limited**
- **Cheap trucking**
- **Producer unrest – strikes, “hoarding” [silo bags]**
- **Production estimates lower by IGC**

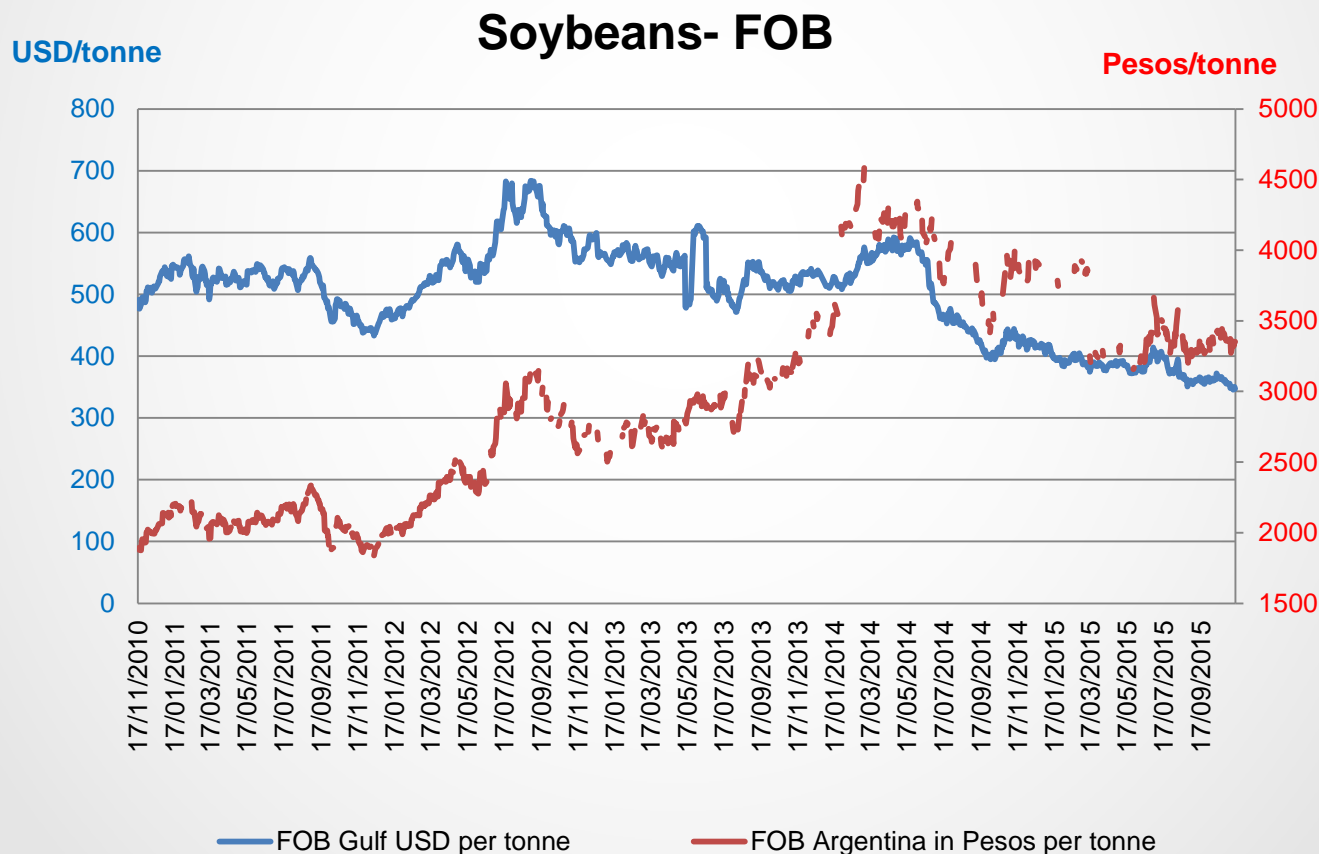
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Silo bag storage a revolution in producer pricing power



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USD vs Argentine peso



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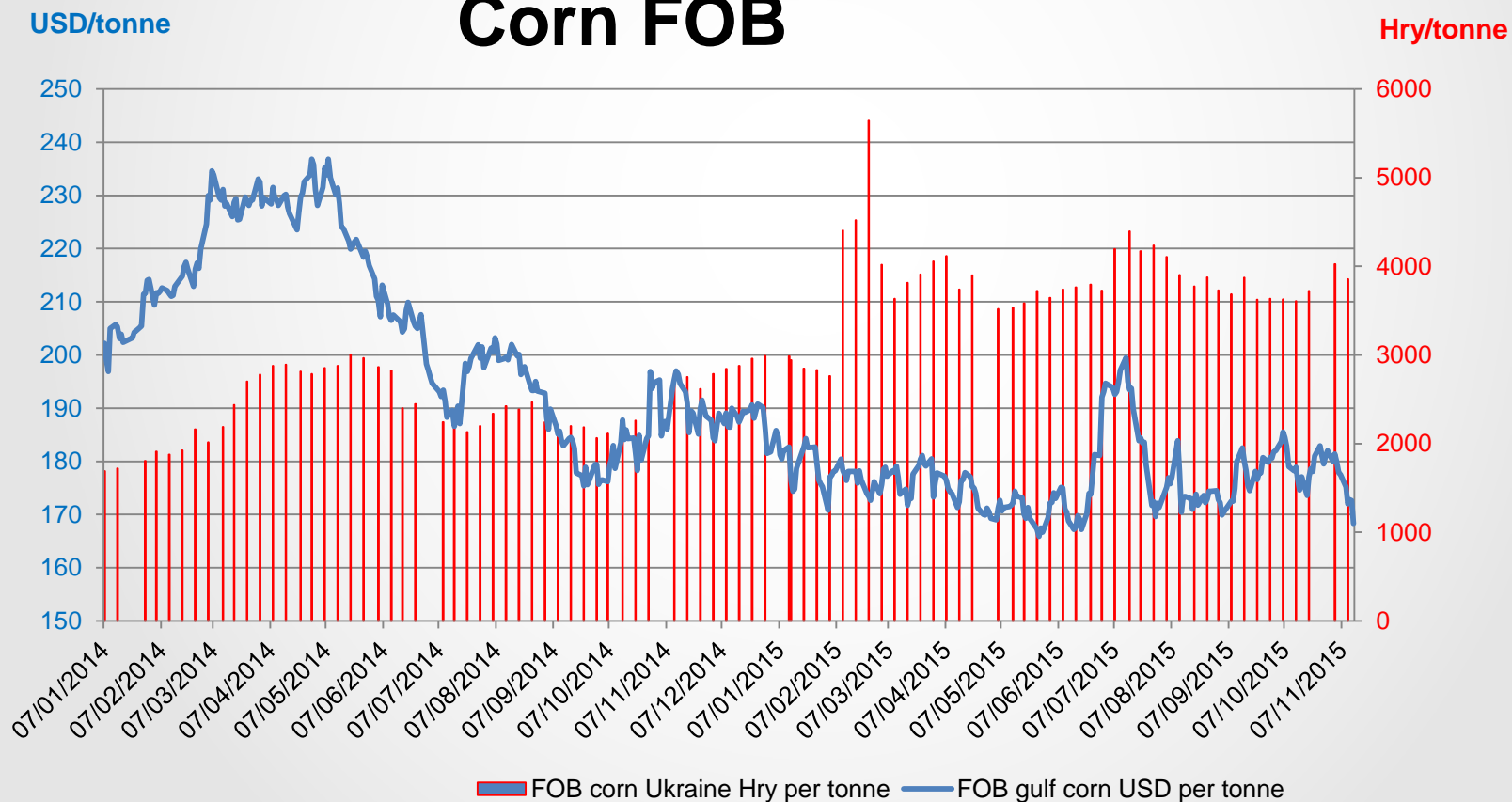
Ukraine

- **CB rate of 22%**
- **Hryvnia weak [from 7 to 23 since 2013]**
- **Grain exports largest foreign exchange earner [over metallurgy] of USD 16bn**
- **Large supplier of corn to China – 4m MT/year**
- **Mega farms vs. subsistence farms**
- **Cheap rail freight [state-owned] but rail car shortage**
- **No institutional support: high credit/input costs**
- **Reduced sowings 2015/2016 winter wheat -**

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USD vs UAH [hryvnia]

Corn FOB



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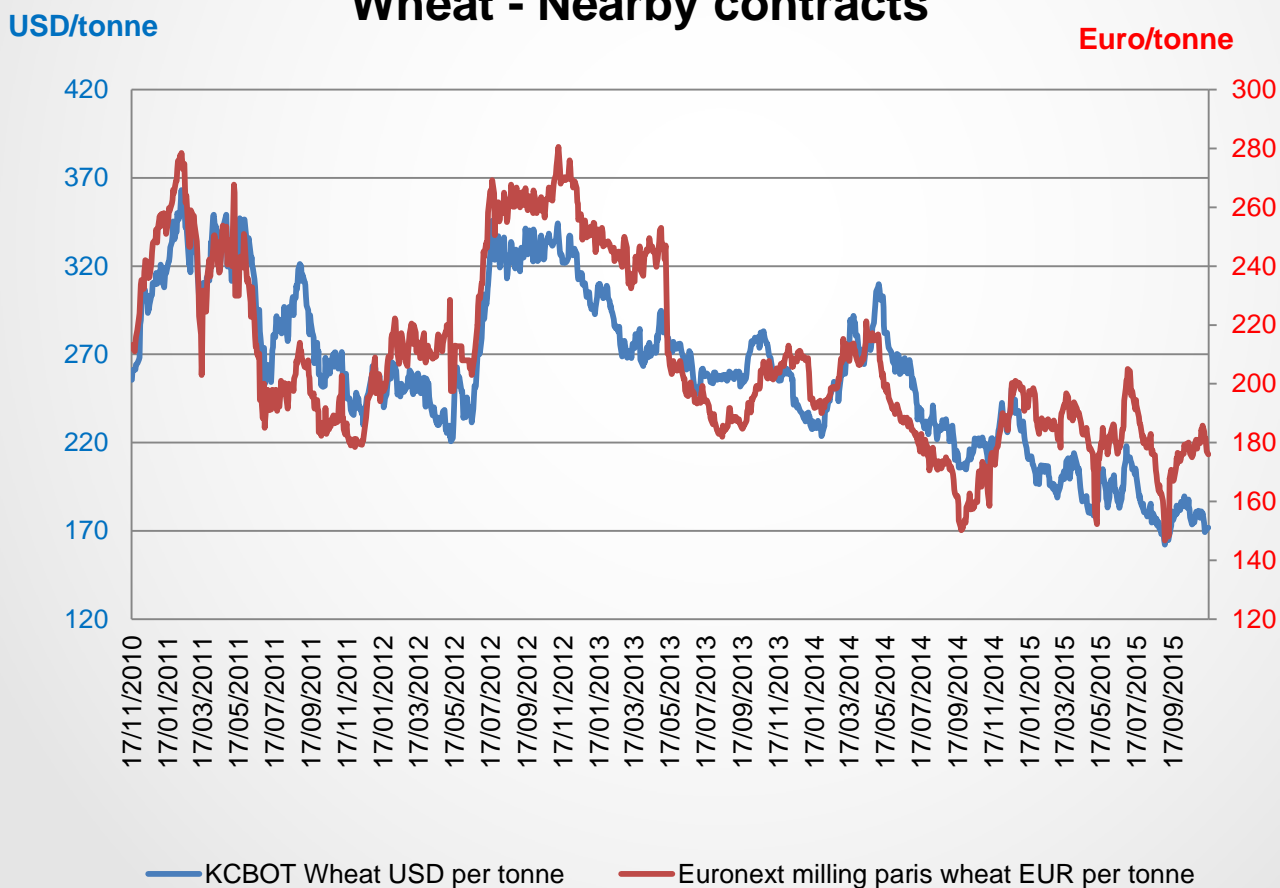
EU

- **Low CB rate**
- **Declining euro to USD [from 7.8 to 9.3 since 2013]**
- **Strong institutional producer support including credit and stocks/price management**
- **Strategically placed to Middle East/Asian wheat importers**
- **EU CAP – supports farm income by 18% of gross receipts [OECD]**
- **Will surpass US in wheat exports 35MT vs 23**

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French milling wheat vs. US HRWW

Wheat - Nearby contracts



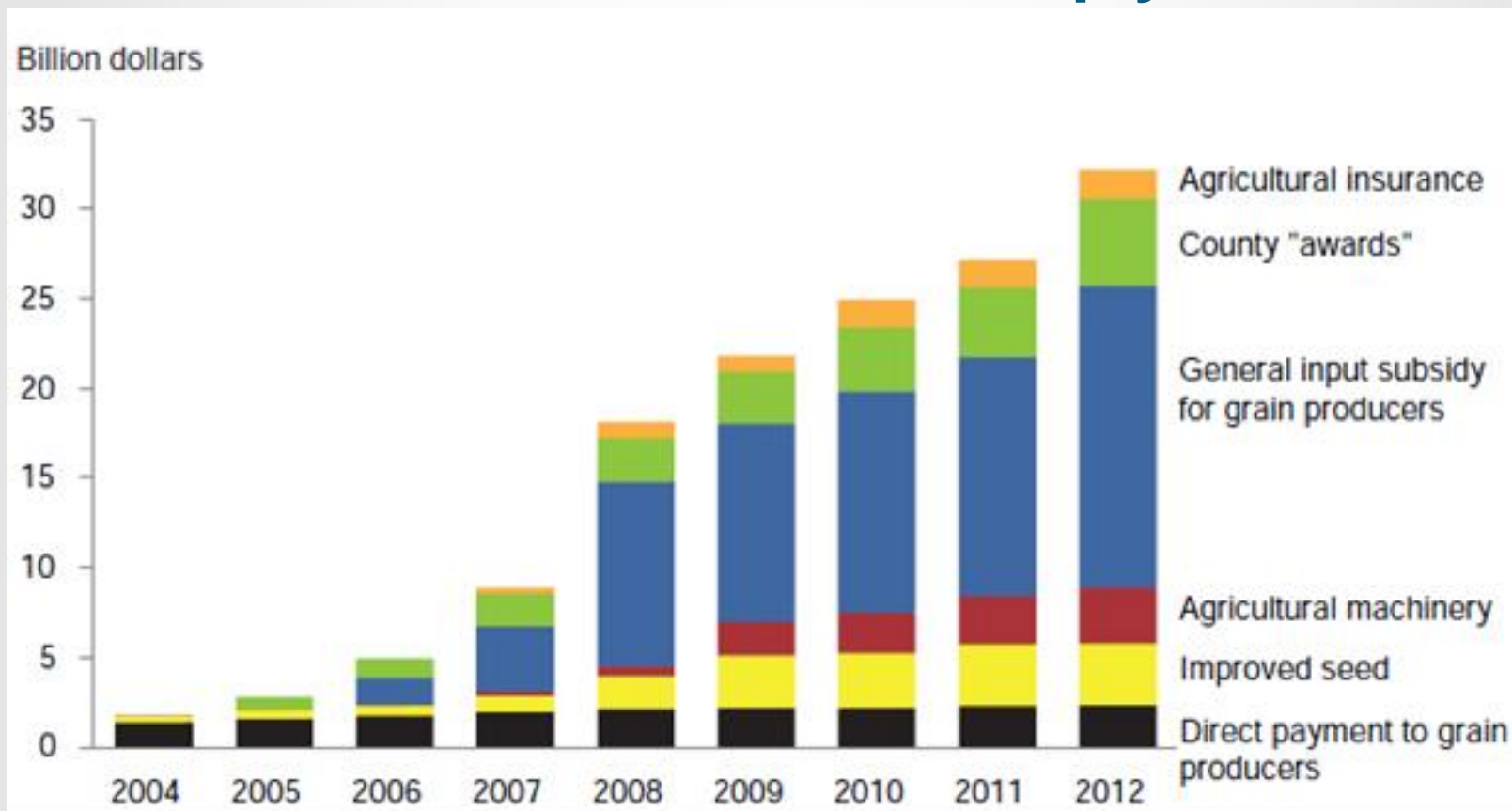
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China

- CB lending rate 4.35 %
- Declining renmimbi since May 2015 [6.19 to 6.35]
- Growth slowdown
- Massive intervention in price/stocks management – USDA estimated \$127 per MT of production [2012]
- Support price \$9+/bu corn, \$10+/bu wheat – experiencing stocks management issues
- Soybean crush margins went negative in 2014

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Subsidies have increased sharply since 2006



Source: Gale, Growth and Evolution in China's Agricultural Support Policies, 2013.

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Factors impacting global grain flows go beyond supply and demand

- **CB policy**
- **Fiscal/budgetary policies**
- **Currency valuations**
- **Logistics**
- **Other asset classes**
- **Food security policies**
 - **Interventionist measures**
 - **Price/income supports**

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