

Agri Monitor: Grains

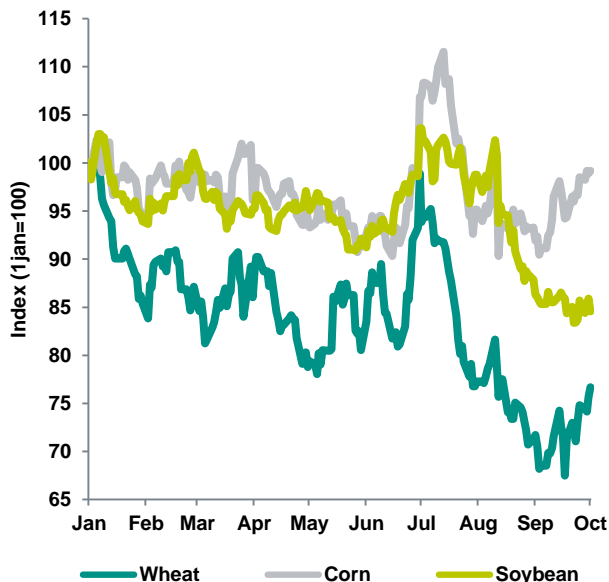
Non fundamentals lead the dance

Group Economics
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- Uncertainty around China's economic situation leads soybean prices lower
- Low oil prices and strong currency fluctuations cause fluctuating sentiment
- Again a record grains production expected in 2015/2016 season

Figure 1: Grain price index



Source: Thomson Reuters, ABN AMRO Group Economics

China feeding sentiment for price pressure...

In the past two months prices in the grains market reacted mainly to changing sentiment. After a short price recovery at the end of June, prices for grains and soybean became under pressure again since the end of July. One key event was the Chinese stock exchange crash, which. This crash fuelled fears of a stagnating Chinese economy, which put commodity quotes on international markets under further pressure. The most visible effect in the agri-complex was the severe impact on the soybean prices, clearly reflecting China's status as the world's largest importer of soybeans. In the days following the Chinese central bank's devaluation of the Yuan, prices for wheat, corn and soybeans declined by, respectively, 9%, 6% and 11%. Thanks to the adequate intervention of the Chinese government, our baseline scenario still assumes a soft landing for the Chinese economy.

...but the mood is mainly driven by market data...

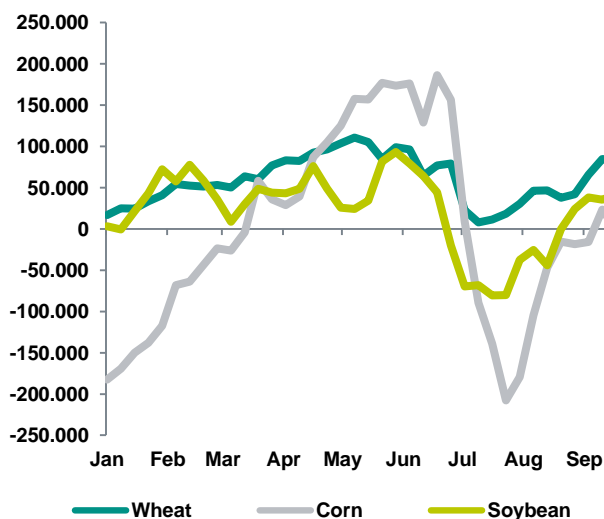
After a relative measure of calm had returned to the stock exchange in China, the market for agricultural commodities has also settled down again. Prices for soybeans have stabilised, albeit at a lower level than before the Chinese economic cooling, but persistent high demand is expected to push these prices not even lower again in the short term. For wheat and corn, the impact of the Chinese turmoil was ultimately cancelled out by new market data.

The USDA progress report of September showed that the US harvest projections for wheat and corn had been revised down. This coincided with expectations of a pick-up in demand for US wheat, prompting speculators to build up their positions. The consequence was rising prices.

...as well as by the oil price...

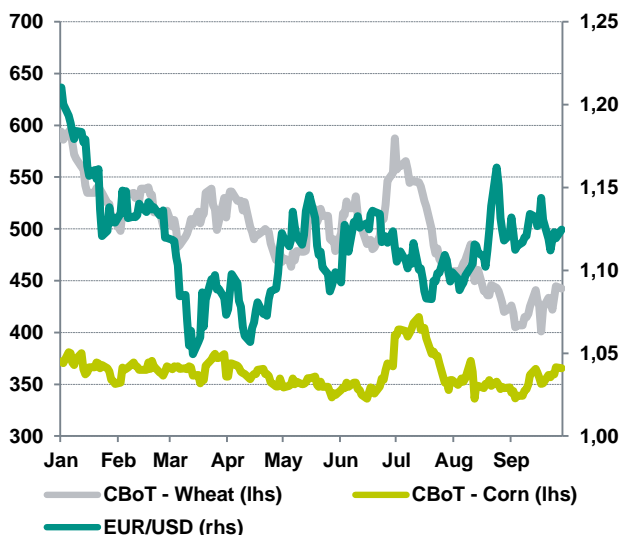
Notwithstanding the lower harvest projections, environmental factors are also playing a role in the current price fluctuations in the grain complex. The upward pressure on corn prices due to lower crop projections, and the accompanying repositioning of speculators, is currently being restrained by various factors, including the low oil prices. The policy of the (non) OPEC countries to maintain their oil output at a high level is leading to the accumulation of large oil production. This suggests that the price for crude oil is set to remain relatively low for the time being. The depressed oil price is also affecting demand for bioethanol. Prices of bioethanol have therefore been under pressure for some time, which is now also putting a drag on production.

Figure 2: CFTC Net positions 2015



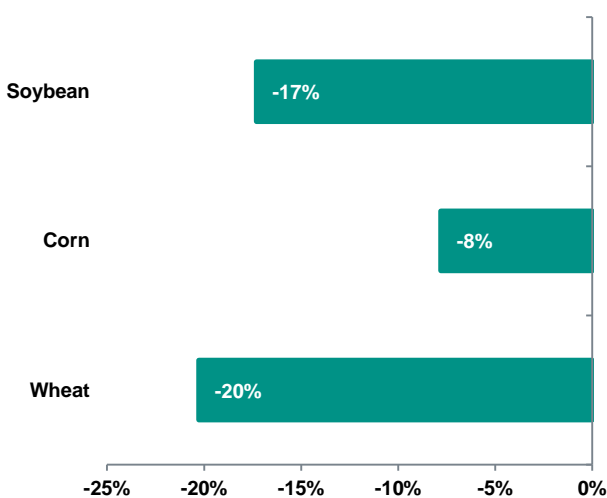
Source: Thomson Reuters, ABN AMRO Group Economics

Figure 3: Wheat, Corn vs. EUR/USD in 2015



Source: Thomson Reuters, ABN AMRO Group Economics

Figure 4: Price changes since July 01, 2015



Source: Thomson Reuters, ABN AMRO Group Economics

Table 1: ABN AMRO price forecasts

Price	Q1 2015*	Q2 2015*	Q3 2015*	3m	6m	2015
Wheat (CBoT) (USDc/bushel)	526	510	519	530	530	520
Wheat (Matif) (EUR/ton)	191	182	179	185	185	185
Corn (CBoT) (USDc/bushel)	387	368	378	415	415	395
Corn (Matif) (EUR/ton)	158	161	160	185	185	170
Soybeans (CBoT) (USDc/bushel)	992	964	964	875	925	950

Source: ABN AMRO group economics, * actual ** average

Given that the most important raw materials for the production of bioethanol are corn and soybeans, the slack in the oil market is also constraining the upward price potential for corn and soybeans.

...and due to fluctuating exchange rates

As the leading grain quotes are in US dollars (USD), the development of this currency has a major impact on the direction of grain prices. Moreover, as the United States is the world's largest exporter of corn and wheat, much of the physical trade is settled in USD. The resurgence of the USD since the start of this year has served to dampen wheat and corn prices. The stronger USD undermines the US export position, which is putting pressure on USD nominations for grains. We expect to see the USD gathering further upward momentum towards the end of the year, which may also put a ceiling on the increases in corn and soybean prices.

Apart from the reinvigorated dollar, the steady weakening of the Brazilian real (BRL) is also having an effect on soybean and corn prices. Brazil is among the top 3 producers and export partners for both corn and soybeans in the world. Due to economic instability, the BRL has now sunk to a historic low against the USD. Anticipating a further weakening, Brazilian farmers are flooding the market with their produce and the resulting oversupply is pushing prices down. Finally, the position of the Russian rouble (RUB) and the Ukraine grivna (UAH) is also playing a role. Both currencies are going through a tough time, which is having a disruptive effect on the dynamics in the world grain market. The chances of an increase in corn and wheat prices thus seem limited.

Expectations in the grain market

As described above, numerous factors can influence the direction of wheat, corn and soybean prices. And there are clearly many more we could discuss here, but the main game changers at the moment are the ones mentioned above. The level of the "game" is determined by the fundamentals. Grain harvests have been abundant in recent years, so that stocks have been significantly replenished. The 2015/2016 season is expected to produce another excellent crop. In its latest projections the IGC even predicts a record harvest of over 2,000mt (fractionally higher than last year's record). To date, the USDA is not forecasting a historic record for 2015/2016 but does expect the grain crop to be more than ample, and a strong runner-up to last year's record.

The question for the upcoming season is not whether production will be high, but how high it will be. Sentiment can turn quickly, so price fluctuations between -5% and +5% cannot be excluded. That said, prices now seem to have reached their bottom level. With harvesting in the Northern hemisphere now in full swing, it is mainly the weather conditions that can give prices upward potential. From this perspective anxiety about El Nino still tempers the prospects and drought in the Black Sea Region and in large parts of Australia are causing a deterioration in conditions in the wheat market. Nevertheless, we maintain our forecast at USDc/bushel 530 for the end of the year. Our forecasts for corn are also unchanged, with growing upward potential as a result of smaller crops. Soybean prices find new lows, due to the worsening sentiment around China. This has prompted us to adjust the year-end forecast to USDc/bushel 875.

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