



GRAINS

CURRENT TRENDS

- U.S. agricultural exports are projected to be down \$0.5 billion to \$135 billion in fiscal year (FY) 2020 over 2019, per Economic Research Service data.
- For FY 2021, U.S. agricultural exports are estimated to increase 12.6% to \$152 billion, led by higher prices for soybean and corn exports. The forecast for soybean exports is at a record \$26.3 billion because of higher unit prices and strong demand globally, especially from China.
- As a result of reduced competition, higher unit prices and record volumes, corn exports are expected to be around \$13.2 billion for FY 2021, which is 31.8% higher than 2020 volumes.
- Uncertainty surrounds the status of a phase-two China trade deal; however, to the extent China meets its phase-one quotas for 2021, the industry will benefit from the increased purchase volumes.

PROJECTED VALUES (12-MONTH OUTLOOK)



APPROXIMATE NET RECOVERY ON COST

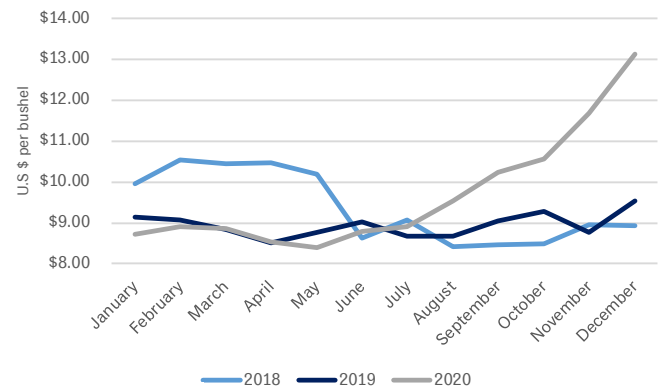
65-75%

raw materials

70-85%

finished goods

U.S. SOYBEAN PRICES: THREE-YEAR TREND



source: www.macrotrends.net

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PRICE OF SOYBEANS UP DRAMATICALLY: After a significant dip in 2019, soybean prices were at six-year highs as of December 2020. There are several factors that have triggered higher prices, including increased demand from China, speculation regarding precipitation levels in Argentina and Southern Brazil, rising vegetable and palm oil prices, and pandemic-related labor shortages in Malaysia and Indonesia, which together account for about 85% to 90% of the global production of palm oil. Additionally, the lower U.S. dollar has increased demand for worldwide exports and U.S. dollar denominated prices.

Soybean prices rose to \$13.12 per bushel from \$9.53 per bushel for the 12 months ending December 2020, an increase of 27.4% over the prior year. Price increases carried into early 2021 with the price per bushel up to \$13.86 for the week of January 19, representing an increase of 51.3% over the same week in 2019.

The robustness of the domestic crushing market is primarily the culmination of strong demand for soybean products. A less positive outlook for foreign competition, especially for top exporter Argentina, is propelling demand and prices for U.S. products. As a result, year to date export sales of U.S. soybean meal have been better in 2020/21 than first anticipated. In October 2020, with strong sales to China, the USDA raised its forecast of new-crop soybean meal exports by 500,000 short tons to 14 million. Such market strength warrants USDA's increase of the 2020/21 average price forecast for soybean meal by \$15 per ton in January 2021 to \$390.

The export demand for soybeans was equally high in the fall of 2020. Cumulative soybean export inspections amounted to 1,044 billion bushels for September through November 2020, outpacing the second-fastest seasonal rate seen in 2016/17. A rare shipment of soybeans to Brazil drove a portion of the increase; however, dramatically increased soybean shipments to China comprised virtually all of the annual uptick. Soybean export sales commitments to China as of the fall of the 2020/21 growing season surpassed 30.4 million metric tons (mt) or 1,115 billion bushels, marking a gain of 78% over total commitments for the 2019/20 season.

While certain inventory positions may be impacted by short-term price fluctuations from an inventory valuation perspective, on a mark-to-market basis recovery rates should increase because of continuous increase in demand and upward price trend.

CORN DEMAND EXPECTED TO INCREASE IN 2021: Despite the volatility of some markets in 2020, the corn market ended at a multi-year high as a result of multiple factors, and expectations for 2021 are robust. The leading factor contributing to this market strength has been high demand from China, notwithstanding higher U.S. corn prices. Year-over-year, export sales of U.S. corn were up 162% over 2019. According to the USDA, China's corn imports for 2020/21 are anticipated to be about 16.5 million mt, representing a significant increase over the estimated 7.6 million mt reached for 2019/20.

Additionally, the pandemic drove a huge rise in demand for hand sanitizers, which, in turn, drove demand for key ingredient ethanol, which can be produced from corn. This surge is expected to continue into 2021 as the world continues to manage the ongoing pandemic and inherent market demand for hand sanitizers seems to have somewhat permanently shifted.

The Expert: Alex Sutton



Alex Sutton provides specialized industry guidance and market research to support Gordon Brothers' Commercial and Industrial Valuation practice. Previously, Alex headed Gordon Brothers' Industrial Valuation practice, where his team produced reports used primarily for financing and financial reporting. Read his full bio [here](#).

Another factor contributing to higher corn prices is the decrease in production from key suppliers such as the U.S., Brazil and Argentina. As of January 2021, U.S. corn production for 2020/21 was lowered to 14,182 million bushels, primarily due to the national average yield being reduced from 175.8 to 172.0 bushels per acre per USDA Market Outlook data. Corn exports are projected to be 2,550 million bushels in 2020/21, which would still be a record if realized, but is 100 million bushels less than the agency projected in December 2020. U.S. corn production and exports have also been reduced for 2020/21. Although down from prior projections, U.S. exports are expected to come in at 64.0 million tons, which still represents a record high. At the same time, Chinese corn use and imports are growing, as the spread between world and domestic prices is substantial. Current dynamics are pushing world corn prices higher for 2021 over 2020.

WHEAT PRODUCTION INCREASES: The wheat harvest for the 2020/21 period is expected to increase due to production increases in Russia and Canada, both key exporters of wheat. Australia's contribution to wheat production after many years of drought is also expected to increase the harvest by 1.3 million mt. Per the USDA, global wheat exports from Australia, Canada, Russia and the U.S. combined are projected to increase by 2.9 million tons to 193.7 million through 2021. This increase in exports is a result of increased demand from China, Pakistan and Turkey each of which are trying to temper escalating local food price inflation.

Key factors contributing to the increase in production and demand in 2020 were the implementation of the phase-one trade agreement with China in February, coupled with a smaller than expected and relatively lower quality domestic wheat harvest in the U.S. Overall, the increase in demand for wheat will benefit the U.S. and Canada significantly; however, it is still too early to predict if wheat prices will trend upward as much as soybeans and corn. If drought materializes as projected in the U.S. plains in the winter and spring of 2021, an increase in wheat pricing would be expected.

Additionally, an increased wheat production in Canada is expected for the 2020/21 season over the prior year per data published by Statistics Canada. Wheat production is estimated at 28.6mt for 2020/21, representing a 5% increase over 2019/20 crop levels.

GRAIN MARKET INFLUENCES:

• Climate

Weather conditions caused decreases in supply in 2020, which drove higher prices, and these conditions are expected to continue to affect prices into 2021. La Niña, the cool phase of the El Niño-Southern Oscillation climate pattern, was in place across the tropical Pacific in December 2020, impacting parts in Brazil and Argentina and negatively affecting sugarcane, wheat and soybean planting. In the U.S., drought in the Midwest is posing challenges in wheat planting, and the lack of snow may impact the wheat supply in 2021. The drought is also causing wildfire activities in California and Colorado and could deplete rivers, stifle crops and eventually drain water supplies in some Western states.

• Food Inflation

Rising food prices are at the top of many governments' lists of concerns. To temper the inflation, Pakistan is already importing large quantities of wheat. In recent years, Turkey has also imported large quantities of wheat because of higher domestic consumption and in an effort to control domestic prices and keep up with the huge increase in exports of wheat-based products. The Bloomberg Agriculture Spot Index, based on nine crop prices, has increased 28% since late April 2020, reaching its highest level in more than four years led by increases in wheat, corn, soybeans and sugar prices.

• Geopolitical Tensions

International disputes such as the U.S.-China trade war; tension between the U.S., Saudi Arabia and Iran; and ongoing protests by farmers in India in opposition to three new farm bills passed by the Indian Parliament in September 2020 could throw commodities into a bull market. Geopolitical conflicts not only affect supply chain disruption but also price volatility because of currency exchange rates.



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