

GLOBAL COMMODITY MARKETS OUTLOOK

June 2022

MAREX
SOLUTIONS

Global Commodity Markets

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Our projections for global economic activity in the second half of the year remain negative as trade friction, supply chain pressure, and rising cost of borrowing are already taking their toll. Marex CMS index below confirms that there is diminishing conviction in the on-going price trend. Divergence in the monetary policies of key economies contribute to the formation of the prevailing currency market trends. The US economy is ahead in the monetary tightening cycle compared to other major economies which defines the trend of the USD value in the short-term. The interest rate differentials between the USA and other

economies are likely to narrow as the tightening cycle accelerates. In our view, "Normalization" (what a re-assuring term!) of monetary policy is the biggest threat to stability of the global economy. In essence, costs of doing business are rising but the macroeconomic backdrop is different from the textbook case for a borrowing costs to rise. This is because the causes for high inflation are not high productivity and strong economic performance. Many Central banks are tightening but they are doing so to control inflation which is largely imported, e.g. exogenous to individual economic performance factor.

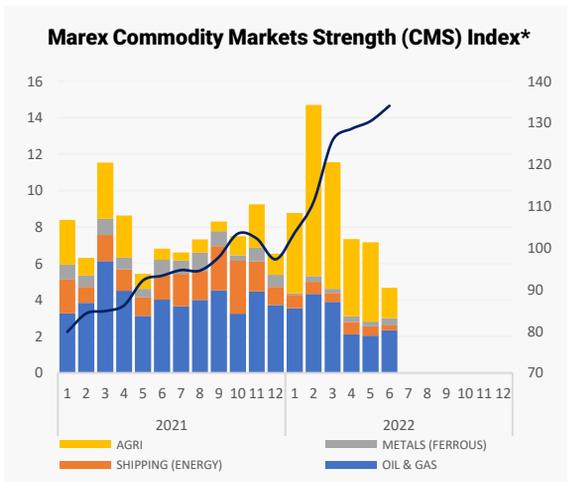


Figure 1. Source: Marex Research

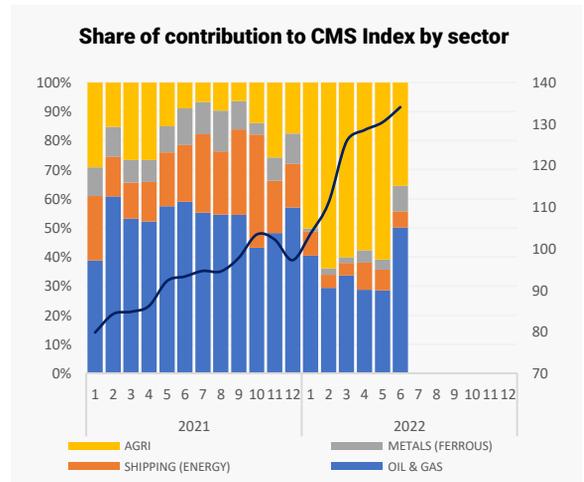


Figure 2. Source: Marex Research

Disruptions to trade from pandemic-related restrictions in Asia, trade friction due to sanctions on Russia, as well as pressure on global supply chains, slows down, disrupts, and ultimately diminishes the trade of raw materials, semi-finished and manufactured goods all negatively impacted the global economy in 1H 2022. The momentum of Global GDP growth continues to decline (Fig. 1) which is in stark contrast with the recent performance of most commodity markets. Evidently, the price rally has so far failed to acknowledge the on-going economic downturn. This is because certain commodity markets, namely energy and agriculture, have been very focused on the potential supply disruptions to Russian exports, thus not paying enough attention to the deteriorating demand. The slowdown is also visible in the Economy Capacity Utilization data – see Fig. 2. Capacity at which the economy operates indicates the so called “output gap” e.g., the underutilized share of the economy. The bigger this gap is, the weaker the economic prospects are, and the lower the demand for commodities consumed in the early stages of manufacturing processes will be. In theory, Asia and the USA have stronger potential for rebound due to a wider output gap compared to Europe.

This remains a positive theme for prices of key commodity markets so far in 2022 because these two regions are more important for price when adjusted for consumption. However, it is evident from the above statement that there is a degree of built-in expectation, rather than “hard” data. The reality YtD is that the output gap remains open and industrial activity is declining. Therefore, our projections for global economic activity in the second half of the year, especially Q3-22, remain negative as trade friction, supply chain pressure, and rising cost of borrowing are likely to take their toll. The stress on the global supply chain is not displaying any signs of abatement (see Fig. 3) even if manufacturing activity has been contracting (Fig. 4), thus, theoretically reducing the pressure on Just In Time (JIT) delivery of goods.

The negative impact of the war’s 1st stage in Ukraine has been largely priced into the markets, but this will be a prolonged conflict, and further friction is very likely. One positive development is the relaxation of the self-imposed economic constraint of China, where the expectation for large-scale government intervention is building up.

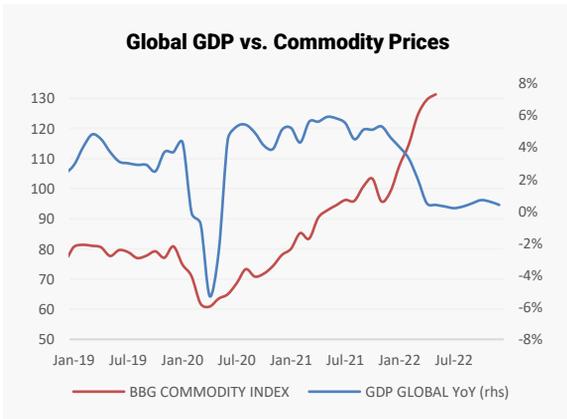


Figure 1. Source: Bloomberg, Marex Research

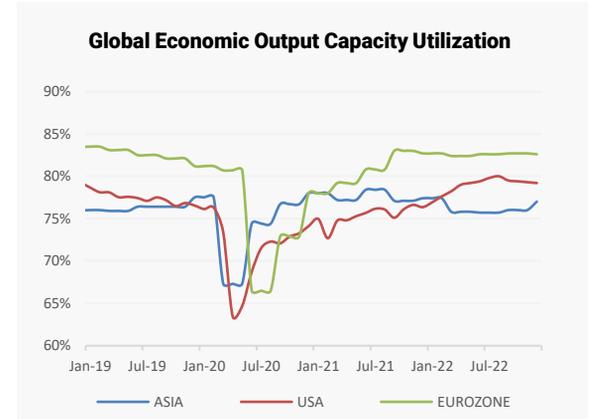


Figure 2. Source: Bloomberg, Marex Research



Figure 3. Source: Bloomberg, Marex Research

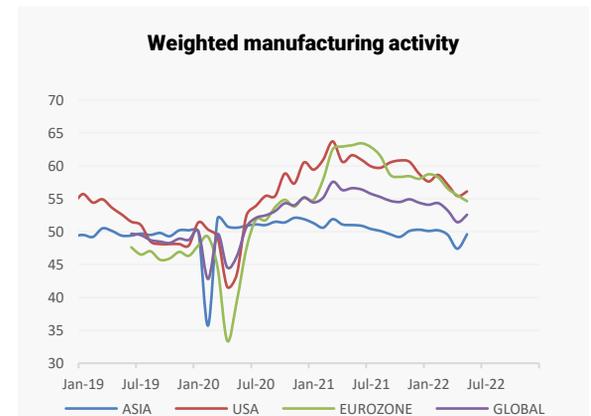


Figure 4. Source: Bloomberg, Marex Research

High-frequency (HF) fundamental data plays an important role in our commodity market research and analysis. The four most powerful HF proprietary indices (daily and intra-day frequency) of such data are presented below. These are population mobility as well as air-traffic, land, and seaborne movements.

We associate population mobility with economic activity and, therefore, with the consumption of commodities. It should not be surprising in this context that the first period of restricted mobility coincided with the collapse of the commodity prices, in particular the energy prices. The subsequent rebound in Q2-21 was strong, and the markets acknowledged it – see Figure 1. We also take into account the different levels of population mobility across the world and the contribution these regions have to the overall commodity sector price formation. Strong recovery of mobility year-to-date warranted the positive demand shock experienced by the markets in Q1-Q2 2022.

Asia clearly decoupled with the rest of the world in terms of mobility in the first stage of the pandemic, but it is also evident that their economic activity Q2 2022 was suppressed by the self-imposed restrictions in China. The latest data on mobility we have on hand for China indicates that activity is rebounding. This bodes well for consumption in Q3-22

Our other HF metrics, which represent important consumption trends, consists of the supply chain elements (sea, air, land traffic). The data for air and marine traffic is stronger when compared to last month. We expect further improvement as China relaxes restrictions and the summer holiday season in the EU and USA kicks in.

Our land transportation activity index has also rebounded MoM, but it remains off recent highs which is an indication of deceleration of on-shore economic activity. We can link this data to the erosion of end-user demand from high fuel prices.

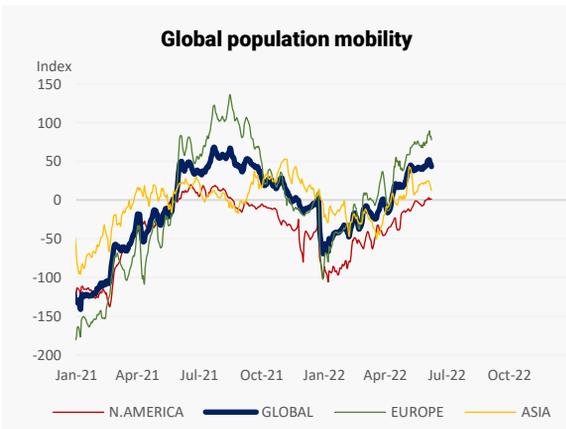


Figure 1. Source: Google, Marex Research

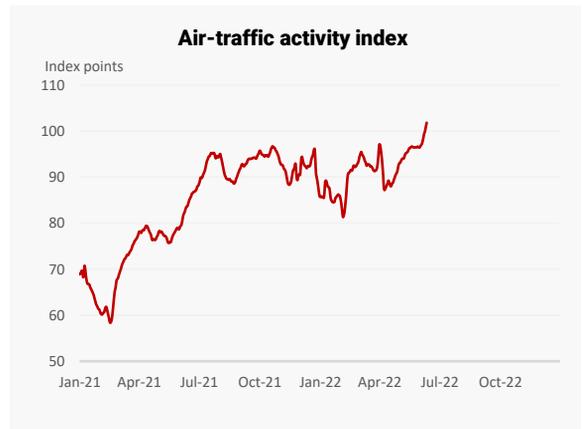


Figure 2. Source: Flightradar, Marex Research

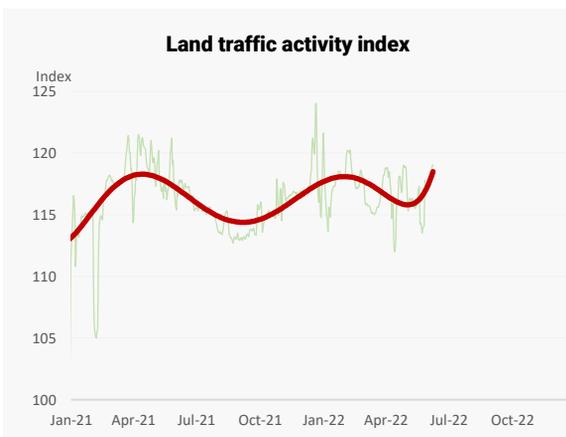


Figure 3. Source: Bloomberg, Marex Research

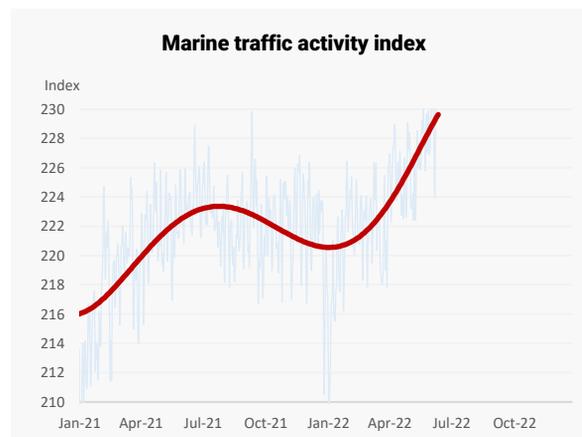


Figure 4. Source: AIS, Marex Research

Divergence in monetary policies of key economies contribute to the formation of the prevailing currency market trends. By far the strongest pull continues to be applied by the rate setting pace of the US Fed. The US economy remains ahead in the monetary tightening cycle when compared to other major economies which defines the trend of the USD value in the short-term – see Figure 1, realized values. Higher interest rates in the USA tend to increase demand for USD, which is compiled to the drive towards risk aversion in these turbulent geopolitical times. The result was the remarkable advance of the USD (+15%) since May-21.

The interest rate differentials between the USA and other economies are likely to narrow, as the tightening cycle elsewhere accelerates. The market appears to expect convergence in policy and rates as the median forecast suggest weaker USD in the 2H 2022 and early 2023 – see USD Index displayed in Figure 1.

The currency pairs presented in this report are USD crosses against: Chinese Yuan (CNY), Euro (EUR) and Australian Dollar (AUD). The pairs are selected on the grounds of their

relevance of shaping global and regional commodities supply & demand. We display historical/past value, current spot rate, median forecast and the prevailing forward market. The market consensus appears to be that the CNY is undervalued, and it should therefore appreciate but only marginally. The forecast on the other hand points to a different trend – one of CNY's further depreciation - see Fig. 2. The value of the EUR vs. USD is expected to increase gradually in 2H 2022 and early 2023 as the tightening policy of ECB gathers speed. The European monetary policy which was the most uncertain variable in our FX model for months due to the heavy dependence on the outcomes from the Ukraine/Russia war is now much clearer, as the ECB has also announced their policy plan.

We continue to be suspicious of the actions of most central banks as they appear to fight supply-side effect (inflation) with demand-side tool (higher borrowing costs). Measuring the Upside Potential Gap (UPG), where UPG is the difference between forecasted and market forward values, suggests that AUD should appreciate further +5.4%, Euro at +2.7% and CNY at +0.7% respectively.

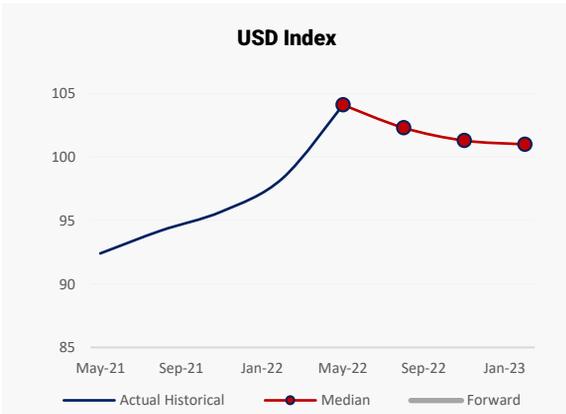


Figure 1. Source: Bloomberg, Marex Research

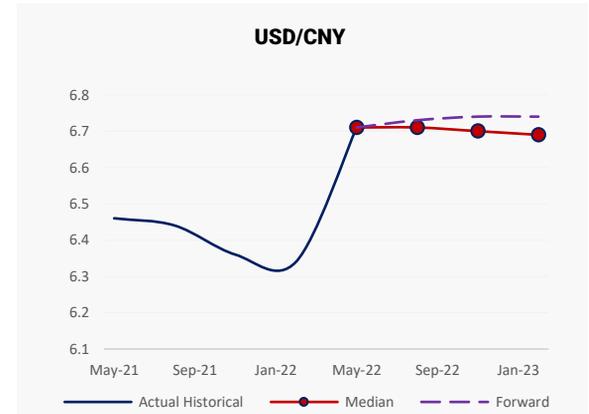


Figure 2. Source: Bloomberg, Marex Research

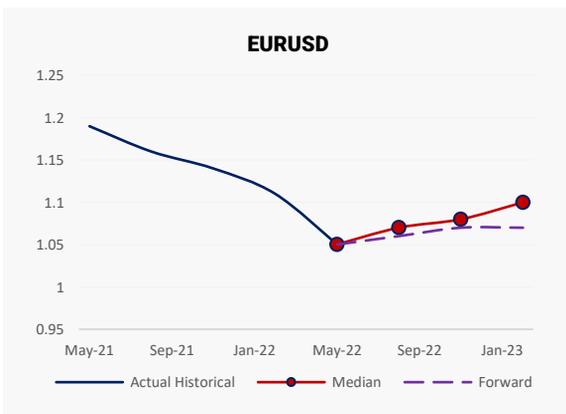


Figure 3. Source: Bloomberg, Marex Research

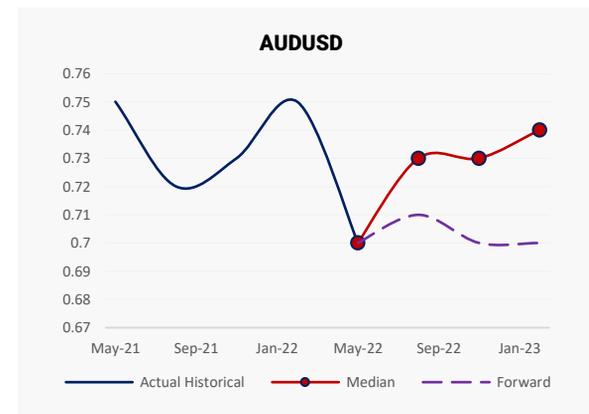


Figure 4. Source: Bloomberg, Marex Research

Global Commodity Markets

Money Flow Analysis

Our Money Flow Analysis (MFA) is based on the Commitment Of Traders (COT) reports as published by the CFTC as well as proprietary trade flow data. We use the COT report categories (Swap Dealers, Managed Money, Commercial Interest and Others) and we calculate the total long, short, and net market positioning. The TTF long/short exposure is unique as it is calculated with the help of proprietary data. Such market microstructure information is not available anywhere else.

Total long and short exposure is displayed on the left y-axis of the diagrams, while the net exposure is found on the RHS y-axis. The market positioning data from some categories represents better the overall market stance. For example, a

closely followed category is the exposure of the Managed Money group but for the purpose of this analysis we combine all categories into a single long or short group.

Using the above data and methodology, we conclude that the agricultural markets which are part of this MFA continue to be net long. The corn market caught up in recent weeks as its net market length is now a positive number – see Figures 4-6. The energy sector is represented by the Crude oil and Natural gas COT data where we notice that the US gas market has been consistently net long for more than one year, while Crude Oil and European Gas display the opposite trend of structurally short markets.

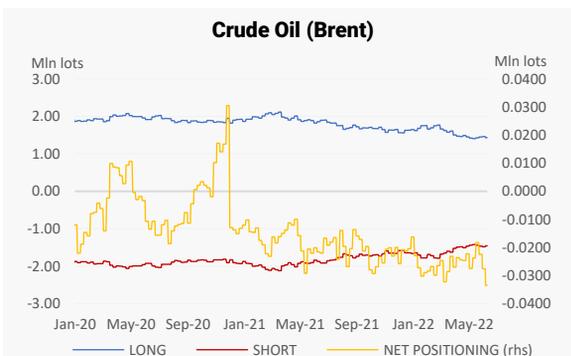


Figure 1. Source: Bloomberg, Marex Research

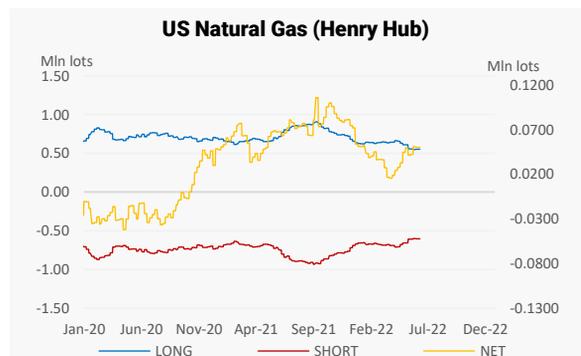


Figure 2. Source: Bloomberg, Marex Research

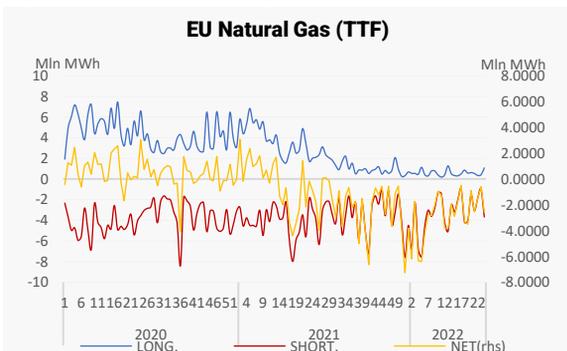


Figure 3. Source: Marex Research

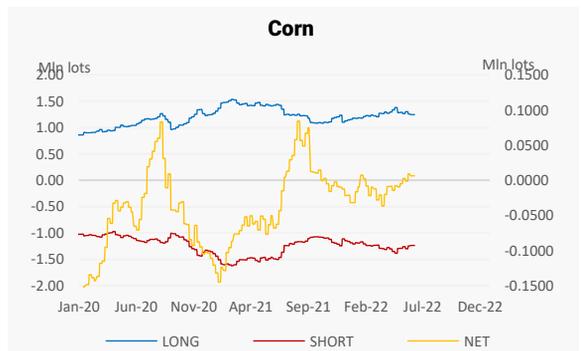


Figure 4. Source: Bloomberg, Marex Research

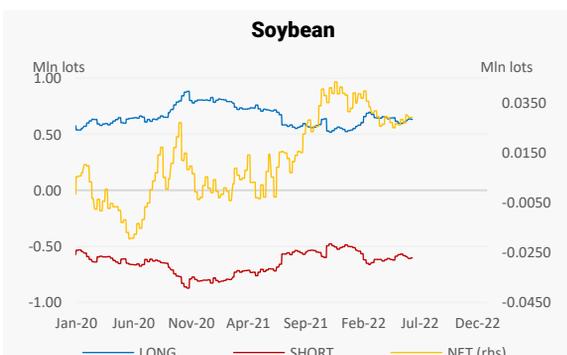


Figure 5. Source: Bloomberg, Marex Research

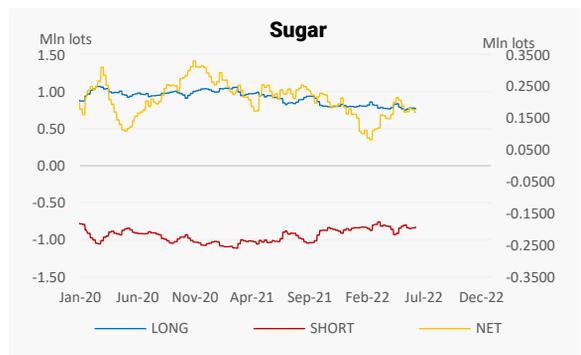


Figure 6. Source: Bloomberg, Marex Research

With respect to our last monthly update, the July-August-September forecast composite for SST anomalies in the equatorial/eastern Pacific is pointing toward La Niña conditions. The Indian Ocean dipole (IOD) is still predicted to be neutral. Therefore, SSTs over the Indian Ocean are not expected to play a leading role in the rainfall pattern over this and surrounding continental regions.

In the Eastern Hemisphere, our model is forecasting warmer conditions for most of Europe, north Africa, north Australia while northern Russia will be experiencing colder conditions. The most noteworthy positive rainfall anomalies are forecast for Indonesia and the Philippines. For this update, no continental areas are expected to experience notably drier condition based on the latest available data.

The long-term probability forecast of the El Niño Southern Oscillation (ENSO, top left bar chart) is suggesting la Niña and neutral conditions until August-September.

From September onwards, however, La Niña is predicted to become an increasingly likely scenario, which remains in line with operational guidance.

Focusing first on the Western Hemisphere, a warm temperature anomaly is forecast for the northeastern US. Colder temperatures are forecast for northern Canada and TX. Our rainfall anomalies outlook for the Western Hemisphere also hints toward a slightly wetter regime for the northern Amazon Basin and the southern Caribbean.

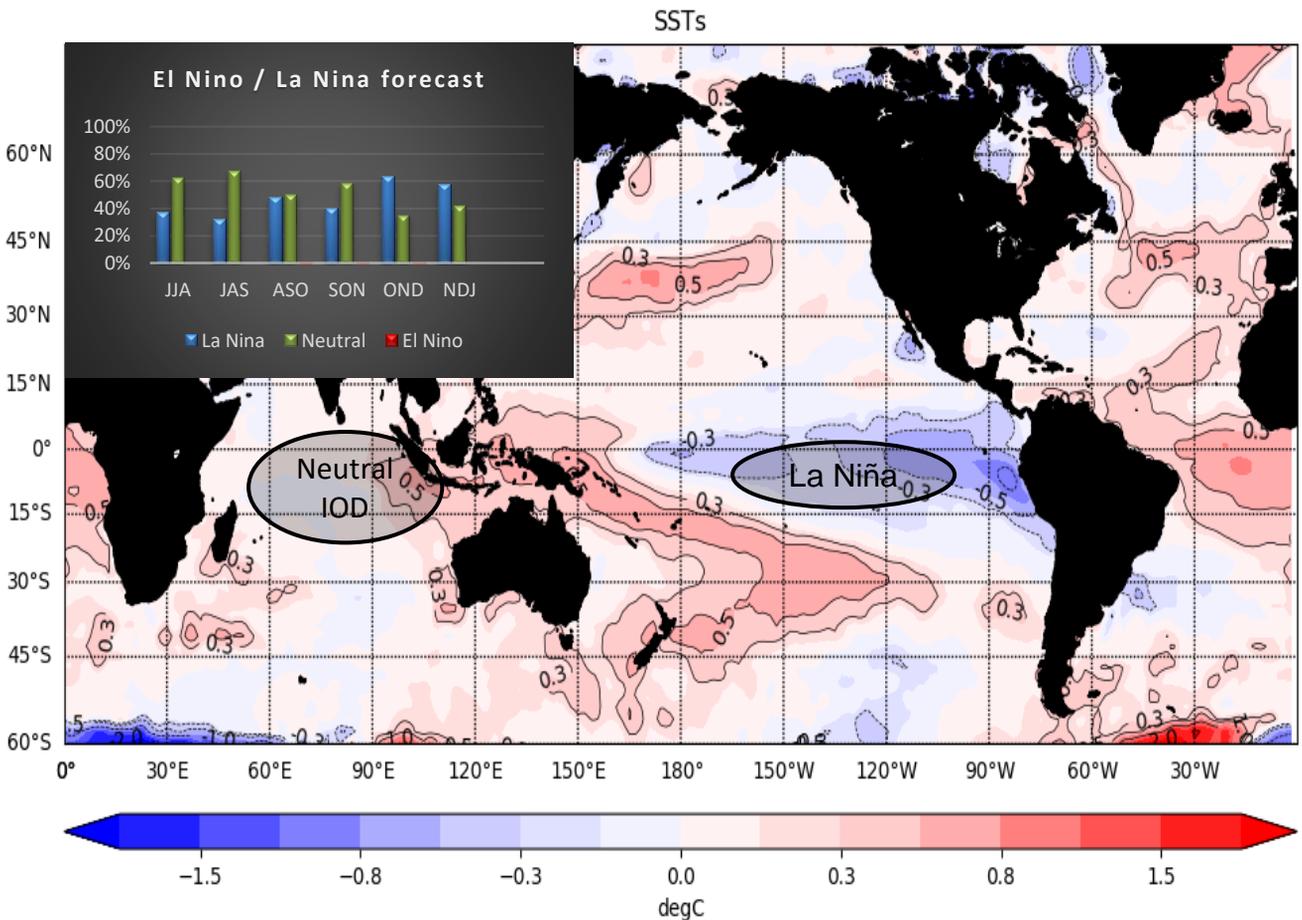


Figure 1. Source: Marex Research

On average, over the past 30 days above average temperatures have been experienced across the northern hemisphere. In North America, above average temperatures across almost all southern states from coast-to-coast and up the eastern coast, bar Florida. In Europe, most of continental Europe has also experienced above average temperatures, especially southwestern countries such as Spain, France, Italy. East Asia has been more inline with average, after a hot spring season, although provinces on the eastern coast, such as Hebei and Shandong have had above average temperatures.

Based on the two 15-day forecasts below, we consider it likely that many of the conditions described above will persist.

Whilst a low pressure tracking over northeastern China induced below average temperatures last week, we also saw temperatures remaining strong for eastern provinces. Focusing on our one to five day forecast, we see low pressure over southern China, up to Shanghai, expected to bring cooler than normal temperatures. Combined with this is the presence of the Mei-Yu front over southern China which provides heavy rainfall, and as already brought flash flooding to southern China. Despite this, rainfall forecast anomalies suggest below average weekly mean rainfall for the time of year.

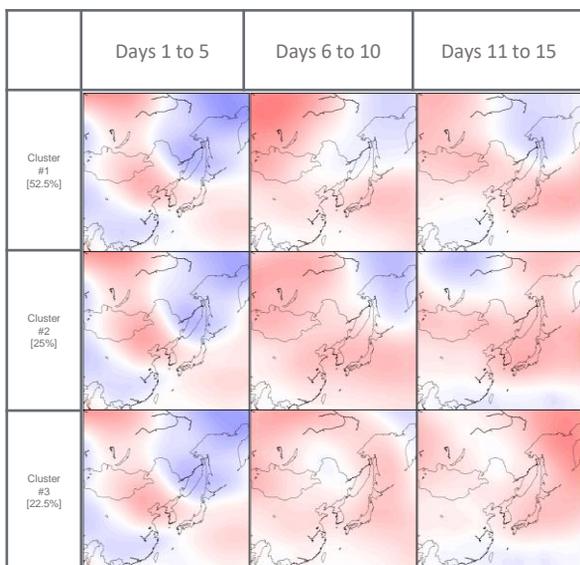
However, our forecast expects the low pressure area in the south to begin to dissipate and that in the north to track eastward allowing high pressure to dominate across China,

South Korea, and Japan and for high temperatures to dominate. This aligns with the general outlook for the next three months (JAS) which show high pressure and above average temperatures dominating the Far East Asian region.

Whilst coal stocks remain strong, and restrictions continue in Beijing, gas stocks have been dropping in both China and Japan which may see extra pressure from this added heat during the cooling demand season.

Similarly, our European Forecast, shown below, continues to shows high pressure dominating over southern Europe. Whilst in the one to five day period low pressure off the coast of Portugal may allow cooler temperatures to develop in Portugal, these may develop further into Spain and France depending on the weakening of the high pressure area, and the strengthening of the low pressure over Scandinavia. However, our current indications for the 11 to 15 day forecast suggest that temperatures in this area will recover.

EAST ASIA: Run 16th June 2022



EUROPE: Run 16th June 2022

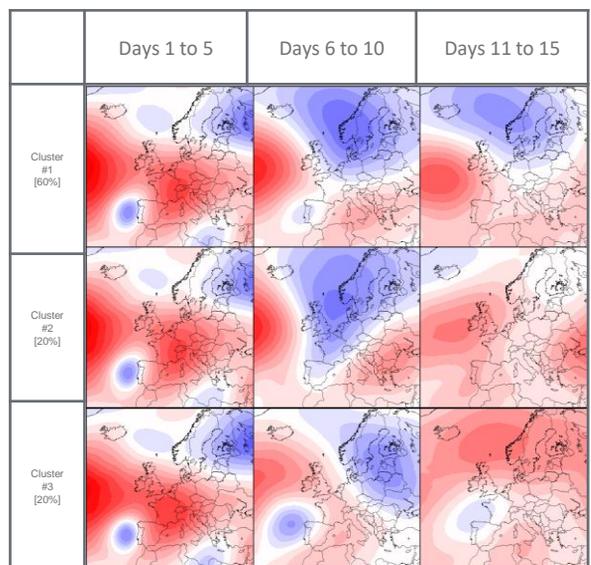


Figure 1. Source: Marex Research

The extraordinary combination between perceived future and realized supply and demand volatility continues to drive the price discovery of the crude oil market also in June. Contraction of global end user demand observed in early Q2 2022 was the logical outcome from the positive price shock that followed the invasion of Ukraine. Initially, downstream demand coped well, in fact better than our expectations, but then the economic slowdown in combination with erosion in purchasing power started to influence the spending patterns of the end-users in Europe and USA. Key industrial areas of China were still under lockdown which further cooled the price rally – see Fig 1.

The positive shift in demand, both perceived and realized, resurfaced mid-May onwards. First, restrictions in China were gradually lifted. Second, the resilience of the consumers in Europe and USA surprised on the upside. Travel patterns changed with lower short-haul volume of traffic, but strong increase in distance. Self-sanctioning of Russian crude intensified as the EU agreed on a ban of seaborne Russian crude. One direct example of the robust end-user demand is the strength of refinery margins in all main production regions. Margins spiked initially on the back of low products supply, but they were sustained because the economy was able to accommodate them.

Supply helped the market find a floor, too. Russian exports were strong in Q1-22 and early Q2-22, but then weakness appeared as it became more difficult to place the seaborne shipments even at the discounts they were offered. USA output appeared capped at 11.9-12mbd which, in combination with rising prices at the pump, created the incentive to secure domestic supply and control the outflow of USA crude. OPEC, and Saudi Arabia in particular, remain key source of spare production capacity. The agreed

increase to output of the cartel in late May was welcomed but deemed insufficient by the market.

Last but not least, we remain concerned by the negative carry which offers no incentive to accumulate inventory. The result is a tight spot market with little ability to absorb short-term negative supply or positive demand shocks. Our view is that the new market equilibrium will be established when sufficient information about the replacement of Russian barrels becomes available. The evidence that Russia's oil production is slowing down is mounting. India has been a prominent taker of Russian crude but their intake is likely to decline in Q3 which leaves China as the only other major buyer. So far OPEC has been reluctant provider of extra barrels, but our base-case assumption is that this will gradually change in Q3.

Our long-term fundamental Supply & Demand model for the crude oil market is based on different dynamic scenarios of development for the supply, demand and inventory flows. The probabilistic range is the widest on record which, as explained earlier, is related to the abnormally high risk of both supply and demand disruptions. Our base case scenario in May for FY2022 was for demand growth of 1.6% and supply growth of 1.15%. This month we maintain our supply growth number but upgrade our demand growth forecast to +1.7%.

The model also tested other outcomes. For example, we tested for different volumes of SPR releases as share of total global SPR. We also tested for various positive (+3%) and negative (-5%) demand shocks as well as supply shocks. Each development attracts a probabilistic outcome which allows us to calculate and display the Probabilistic Weighted Average (PWA) Forecast.

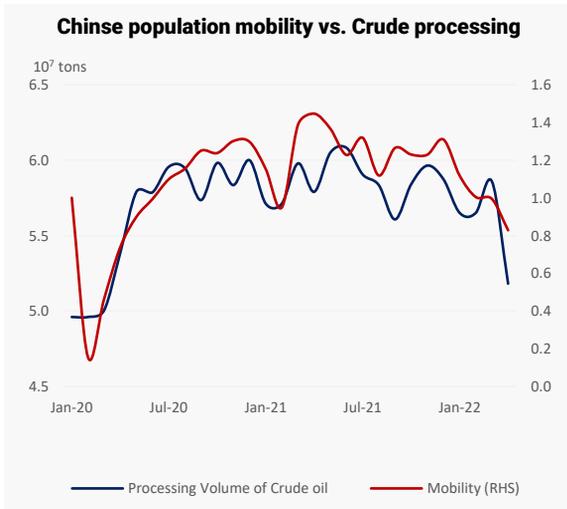


Figure 1. Source: Marex Research

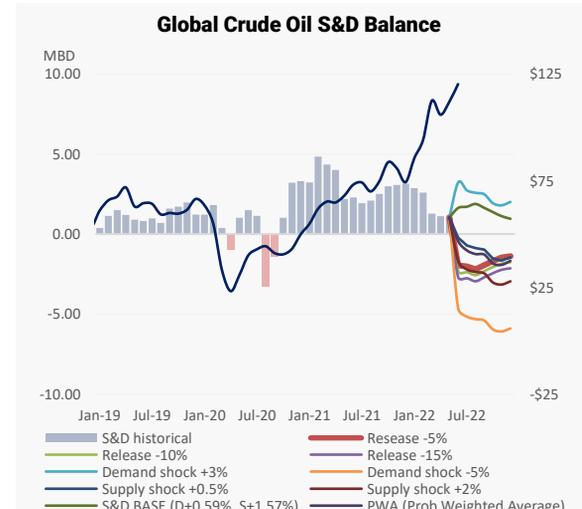


Figure 2. Source: Bloomberg, Marex Research

Over the past 30 days, since our last publication, we have seen Henry Hub prices continue to rally for the most part. By the 7th of June we had witnessed prices above \$9/mmbtu in several instances, with prices closing that day at \$9.3/mmbtu. However, on June 8th Freeport LNG terminal, located in Texas, was forced to close due to an explosion and fire. The resultant complete closure is expected to last for around three months and partial closure until late 2022. As would be expected, the subsequent sudden reduction in ability to export LNG has led to Henry Hub prices dropping as the country has leant towards oversupply in the short-term.

However, here we focus on how this may affect our view in the medium-term, we start by considering the month ahead. Due to the unexpected nature of the Freeport explosion, changes to LNG exports have left approximately 2 bcf/d of supply unaccounted for. In Figure 1 we have presented our supply to LNG ratio (red line) which can be interpreted by understanding an increase in the ratio (upwards movement in the red line) signifies tightening of domestic supply due to increased exports or vice versa shown by a decline in the ratio (downward movement in the red line). Until supply contracts, these additional volumes could be redirected towards storage, which has remained below the 5-year mean for much of 2022 so far. However, when factoring in the loss to LNG exports in our medium-term view we continue to see tightness in the summer season for Henry Hub gas (as shown by Figure 2).

Another factor that is likely to affect the supply and demand balance as we enter the summer season is the arrival of hurricanes. The National Hurricane Center has forecast

hurricane activity to be above average this season due to ongoing La Niña and above average temperatures in the Atlantic basin. Hurricanes can lead to close of rigs in the gulf, LNG export terminals on the gulf coast, shipping delays, as well as damage to infrastructure due to storm surges, strong winds, and heavy rainfall. Some preliminary forecasts for the end of June suggest a cyclonic system will track towards the Texas coastline. However, with this long lead-time, and inconsistency between model runs, we have low certainty in the creation of the storm, but if this verifies, we may see further disruption to US LNG exports.

Although domestic demand has remained strong into the summer season so far, with our data indicating above average domestic demand, on average, for every week since week 13. Current outlooks for the summer season indicate above average temperatures are expected for much of the lower-48, with strongest positive anomalies expected to focus over the northeast and the southwest. If this verifies, we can expect summer domestic demand to be maintained at a level above average.

Now, when we consider supply, in our last medium-term outlook we presented the supply estimate of 104.62 bcf/d for June, our latest update has dropped to 103.82 bcf/d. Overall, despite the unexpected changes to LNG, our S&D model still points towards tightness in supply for the summer season.

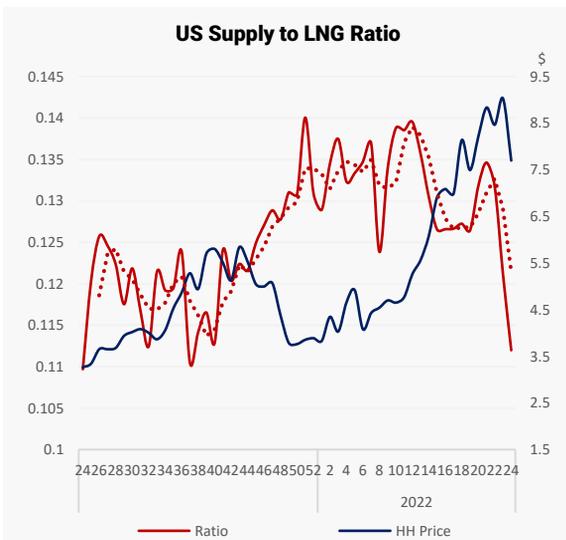


Figure 1. Source: EIA, Marex Research

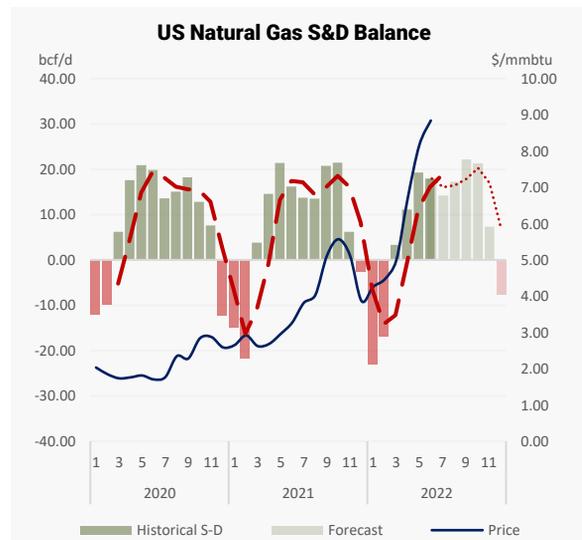


Figure 2. Source: EIA, Marex Research

The European natural gas market is still a hostage to Putin's Russia, but the steady inflows of pipeline and LNG gas is having soothing effect on both price and volatility.

Restocking cycle is developing at rates notably above the average for this time of year which is beginning to compensate for the multi-year low of inventory levels observed in Q1-22. European storage capacity is currently at 50% and rising – see Figure 1 below where our projections for the storage cycle in 2H 2022 are displayed. We consider past rates of injections, seasonality as well as future imports. Fire at major US export LNG facility obliged the market to spike temporarily, after which the prevailing supply and demand balance kicked in, and the price resumed its downtrend.

The wild card is Russia, and its conviction to use natural gas a weapon against Europe. Imports of Russian gas remaining relatively stable was not what the market priced in the early days and weeks of the war, but there is a chance that Russia still resorts to energy blackmail on a large scale. Cutting gas supply to Bulgaria, Poland or Finland is one thing. Cutting North Stream 1 is another. Once the treat to pipeline import flow disruption dissipated (for now), the attention of the market turned to the impact from self-sanctioning, speed of re-stocking, and security of gas supply in North Africa, Azeri gas and LNG.

Demand for natural gas has remained relatively weak over the last couple of months. This is helped by favorable temperatures and decline in industrial output on the back of the war, trade friction and spiraling inflation which is hurting end-user demand.

The negative shock induced by the Russian-Ukraine conflict and subsequent trade friction is clearly visible in the European macro data. Such adverse economic conditions are already influencing demand, especially industrial demand, and in times of stable, even rising supply, also price.

The result from the above developments and assumptions for supply and demand in 2022 is displayed with the help of the European S&D natural gas market balance in Figure 2. This month we introduce the scenario analysis discussed in the last month publication. We believe that outlining different scenarios of supply and demand variations will contribute to the thought process going forward.

The base-case scenario we continue to work with is for YoY supply increase of 0.95% and demand decrease of 1.91%. There are multiple scenarios streaming from this base-case assumption as supply has the potential to contract strongly (Russia acting unilaterally), which will outweigh the demand destruction in our base-case scenario. It is also plausible to assume that demand contracts by more than 2% as alternatives muscle in, and high prices continue to suppress end-user demand. The scenarios displayed below include Supply increasing by 1% and contracting by 5%. It also includes demand increasing by 2% and contracting by 1%. The model can be stress tested with stronger supply and demand shocks, but the magnitude of such shock is unknown.

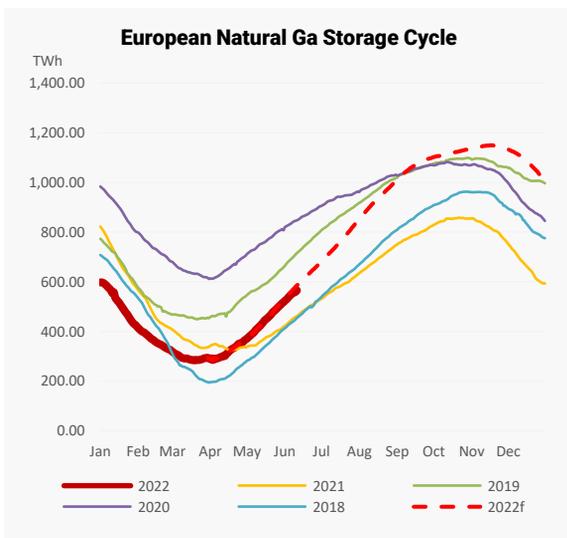


Figure 1. Source: Bloomberg, Marex Research

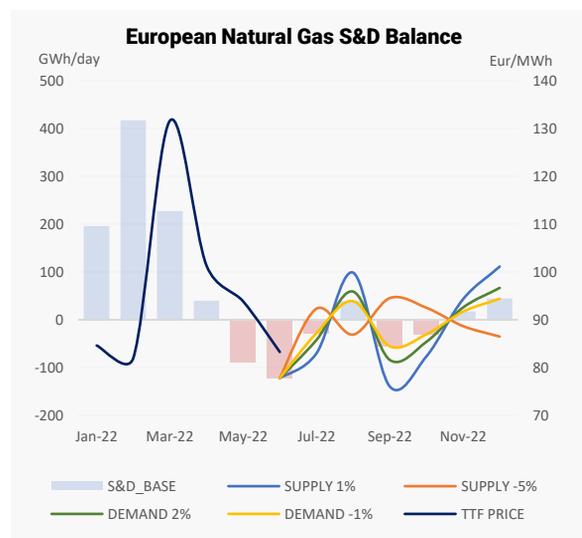


Figure 2. Source: Bloomberg, Marex Research

Following an explosion at Freeport LNG plant on 8th of June, the plant's operator announced, on the 14th of the month, an extension to the 3-week shut-down to 90 days, with full capacity not expected to come online until the end of the year. The 15mtpa plant, consisting of 3 trains of 5 mtpa each, accounts for 18.3% of US' baseload nameplate capacity. A closer look at DoE's monthly LNG export report reveals that in the period Jan-April 2022, the facility exported 220 Bcf of Natural Gas, putting its share in total volumes exported from the US in this period slightly lower at 16.8%. During the same period, 77% of the plant's output was directed to Europe, while a mere 17% ended up in the JKTC area. Focusing on Europe, the plant stood for 16.8% of US LNG volumes to reach the continent. It, therefore, comes as no surprise that following the announcement, the front month of Dutch TTF settled 15.9% above the open, especially during a period when Europe sees reduced pipeline feed due to planned maintenance on Nord Stream.

Elsewhere on the supply side of the S&D equation, EIA's latest update on the country's liquefaction capacity, released on June 8th, puts Calcasieu Pass trains 10-18 under "commissioning" status, used to describe the steps from introduction of feedgas to first LNG Export. Once fully operational, the nine trains will add 5 Mtpa to US's liquefaction capacity.

Looking into demand, seasonal outlooks are predicting above average temperatures in both Europe and the JKTC region for the July-September season. This may, in turn, translate to increased cooling demand in the northern hemisphere during the 3-month period. Besides demand, weather can also impact LNG availability. NOAA have issued a forecast for above average activity during the Atlantic hurricane season which is likely to affect shipments to Europe.

Prior to the shut-down of the Freeport LNG plant, our medium-term view suggested a relaxation of the market following June, driven mainly by the rapid influx of the commodity in Europe during the past months. Indicatively, IEA's latest assessment of LNG trade growth in Europe, the commodity's premium market in 2022, called for a 25% y-o-y increase. Our data for the period Jan-May, places the so-far achieved y-o-y increase close to 55%. With European inventories at 52.6% of full capacity (as of week #24), 6% above the 4-year mean (excluding 2020), our model pointed towards an easing of the market in the up-coming months.

To account for the supply loss from the Freeport shut-down, we retrieve historical data of the weekly total output of the plant. In the period Jan 21-April 22, the plant averaged 4.3 shipments or 13 Bcf of gas per week, although output has admittedly been quite volatile. This roughly equates to 52.3 Bcf or 1.1 million tones (mill t) lost per month. Considering the volumes lost over the next 3 months into our model (colored bars in the graph), we notice a shift towards tighter balance over June-August, although the overall trajectory remains unchanged. Most importantly, we record a deficit of volumes in September which was not present prior to the facility's shut-down.

Finally, we introduce a series of scenarios regarding the duration of reduced gas flows via Nord Stream. Gazprom announced on 14th of June, a 67 mcm/day cut in the gas transferred via the pipe on the basis of delayed delivery of equipment needed for repairs. We see that even 1-week of subdued flows (yellow line), transposes our S&D model to an area of deficit over the studied period.

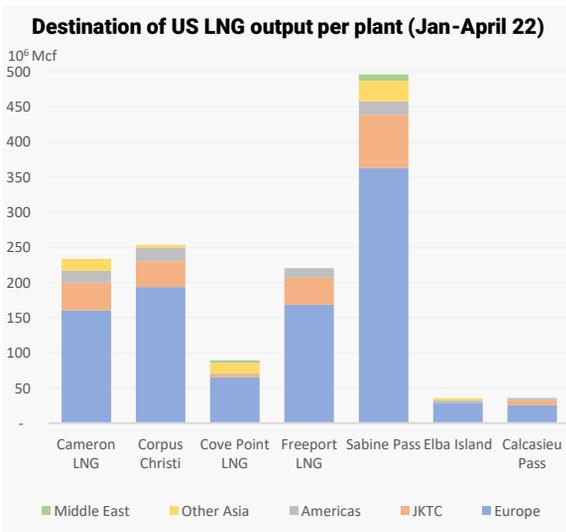


Figure 1. Source: DoE, Marex Research

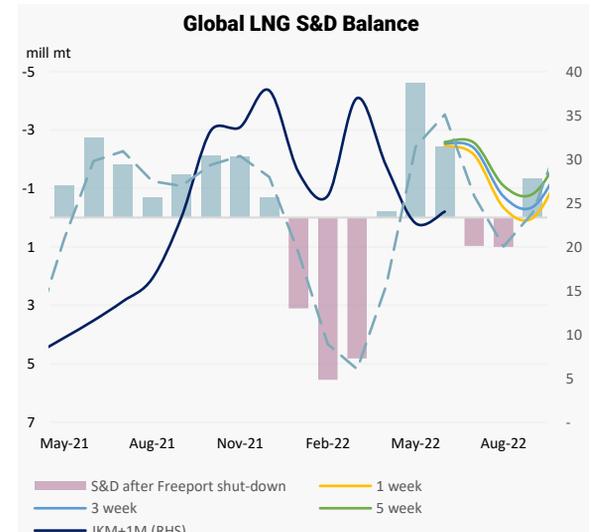


Figure 2. Source: Marex Research, Bloomberg

Global Commodity Markets

Weather & Climate Outlook (Agriculture)

The upcoming months are critical for many crops across the globe. We present our global seasonal weather outlook for July/August/September from our proprietary seasonal model.

continental areas showing negligible departures from the base 30-year climatology.

In Figure 1 we present our temperature anomaly outlook for July/August/September. Beginning with the US, we note that a warm temperature anomaly is forecast over the northeastern portions of the US. Colder temperatures are, however, forecast for most of the state of Texas and southwest Oklahoma.

In South America, our rainfall outlook points toward wetter conditions over the north Amazon basin and in northern Mato Grosso. This area remains a key corn producer, which crop may benefit from surplus rainfall. A weak dry signal is forecast over the south of Brazil including Rio Grande do Sul and Parana.

In the Eastern Hemisphere, our model is forecasting warmer conditions for most of Europe, North Africa, north Australia while northern Russia will be experiencing colder conditions.

For precipitation in the Eastern Hemisphere, our model is forecasting noteworthy positive rainfall anomalies over the Philippines and Indonesia with the remainder of the

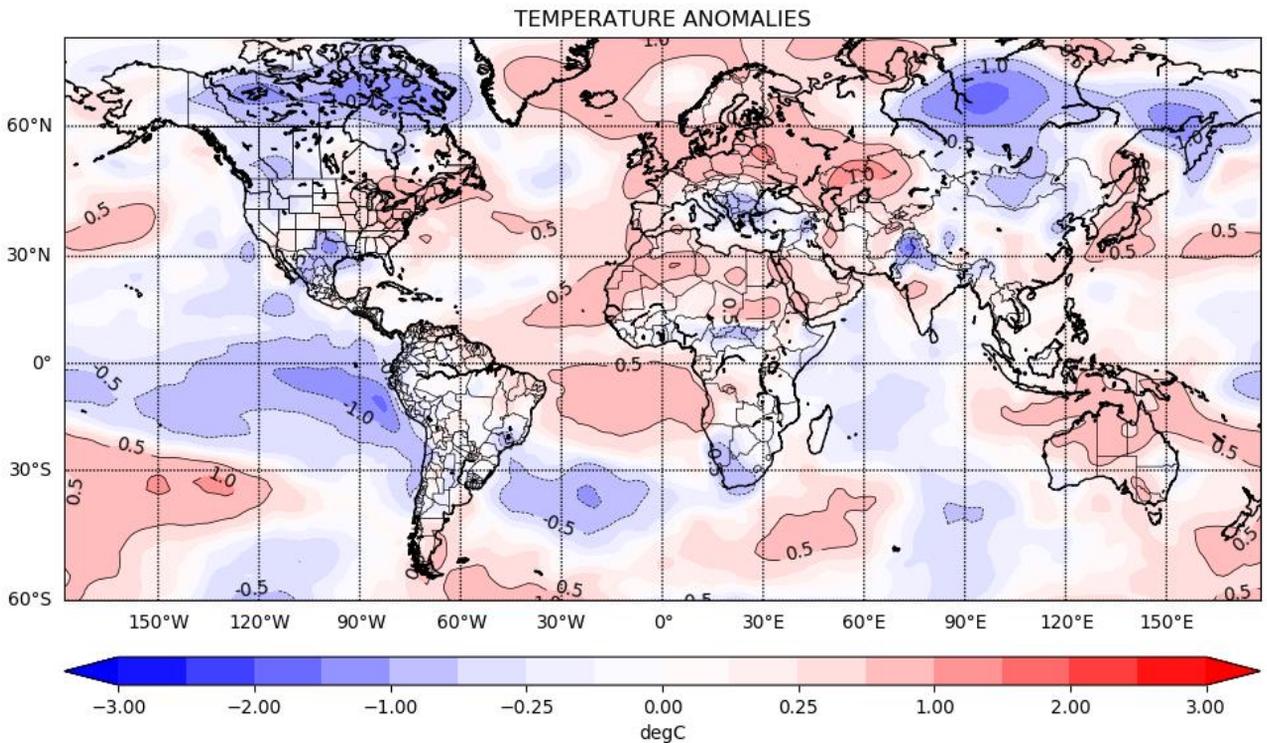


Figure 1. Source: Marex Research

The wheat market continues to be dominated by the events in Ukraine. The S&D balance remained bearish for a decade, but the war has abruptly changed the calculations for anticipated forward supply. It is a logistical impossibility to export +20mtn t of wheat without seaborne transportation involved before the next harvest. Furthermore, serious questions remain about the ability of the Ukrainian farmers to collect the impending crop. Our previously published assumption of between 15% and 18% YoY decline explicitly did not take into account the port blockade. If blockade is not lifted, the short-fall on the seaborne market will be significantly higher.

In May, the USDA estimated global production of 2022/23 wheat at 774.8 million metric tons (MT), down by 4.5 million metric tons from 2021/22. Interestingly, the US is projected to see an increase of 5% in production compared to the previous year due to the Durum and other Spring wheat production, which is estimated to be up by 51 percent from last year. The planting of spring wheat is nearly complete in the US, with overall progress behind the 5-year average due to unfavorable planting conditions in the Midwest. The largest contributors to the decrease in the global yield projection in 2022/23 are Ukraine and Australia with wheat production down by 11.5 MT and 6.3 MT from 2021/22, respectively. The harvest of winter wheat in Ukraine typically starts in July, however, the invasion of Ukraine has resulted in the abandonment of wheat in conflict regions.

When we study the total wheat exports so far in 2022 and compare to the previous years, we see that wheat exports have so far been above the three-year average and have increased compared to 2021. In Figure 1, we have displayed

monthly global exports of wheat in 2022 and compared this to the average of the past 5 years (red dotted line). The grey area represents the maximum and minimum values corresponding to the monthly timestamp of the x-axis, as recorded throughout the period 2017-2021. Interestingly, we see that in the first three months of 2022 exports were at the maximum of the 5-year range. This is most notable in March when Russian and Ukrainian exports were at their highest in 2022. Although, as the graph suggests, exports seasonally dip during the May-June period, this year the drop has been below the long-term mean.

Our long-term fundamental view for the global wheat market is based on different dynamic scenarios for development of supply, demand and inventory levels – see Figure 2. Our base case scenario is for the supply to decline by 2%, while demand to increase by 1.5%. More than 100bp from this increase is projected to come not from end-user demand, but from aggressive re-stocking, e.g. accumulation of inventory in order to meet certain security of food supply criteria. We stand by this statement for both major net exporters such as France, and swing suppliers, such as India.

Other plausible scenarios include much larger supply contraction, e.g. -5%, or stocks decline by -5%. Even if the slope gradient of the predicted S&D balance curves varies, it is clear that the market will only get tighter in 2H 2022. Much of this tightness is already likely to be priced in, but the uncertainty around the export ability of the world's 5th biggest exporter is such, that the wheat market is likely to remain very nervous well into 2023.

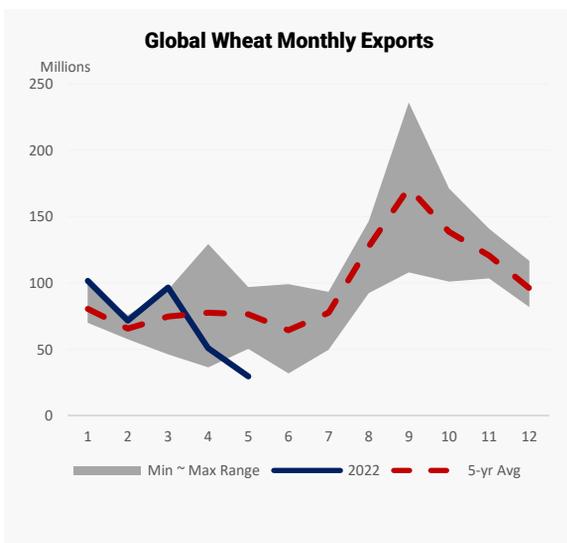


Figure 1. Source: USDA, Marex Research

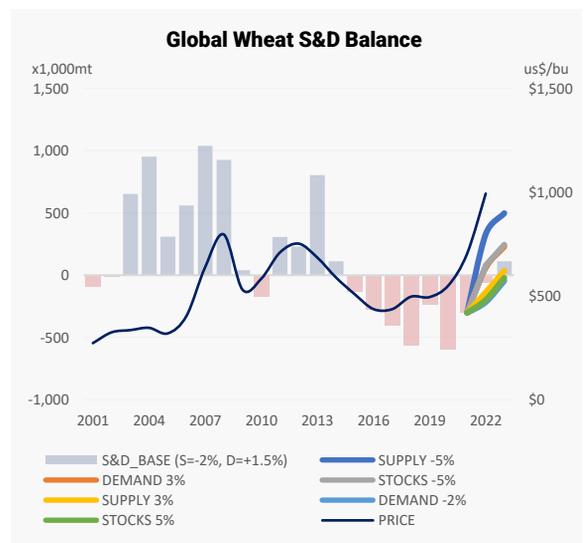


Figure 2. Source: USDA, Marex Research

Weather conditions in Brazil and the US and their potential impact on corn continues to be relevant. Back in April, the USDA projected the corn area in the US at 89.5 million acres, down by 4% from last year. Planting is now nearly complete in the US, and focus is turning to the upcoming weather conditions over the next few weeks for the growing season, which we discuss in more detail in the Soybean outlook.

Here we focus on Brazil where much of Mato Grosso, the largest corn producing state, saw rainfall totals below the long-term average (anomaly -1 to -5 mm/day) over April-May. Although it is typical for rainfall rates to reduce as we head into the dry season, rainfall is still important for good soil moisture conditions in preparation for the dry season. The early end to the wet season may be linked to the ongoing La Niña conditions which we also saw in 2021. The below average rainfall in April and May across Central Brazil has had noticeable impacts on soil moisture levels as much of Mato Grosso and Goias have seen low moisture conditions over May and June.

Southern corn states (Mato Grosso do Sul, Parana and Rio Grande do Sul) generally wetter conditions have been recorded over the past month, bringing good moisture to the corn regions. However, these regions have already seen two risks of frost over May and June. Unusually cold temperatures for the time of year have created a risk of damage to corn from frost this week, particularly in the southern corn states. We are still early in the growing season for the Safrinha corn so it will be important to keep a watch for more risks of frosts over the upcoming months as the crop matures. Colder temperatures are forecast to return to the southern states (Rio Grande do Sul, southern

Parana and Santa Catarina) this weekend, creating more possibilities for frost.

The global spot physical corn market remains relatively tight, but the forward S&D balance is implying that further price gains will be increasingly difficult to materialize. Weather and geopolitical strains on supply remain the two leading factors. The result is a Supply growth which is still weaker than Demand growth – See Figure 1.

We have documented the exceptional demand strength in all our publications since 2020 and the market reacted accordingly – see Figures 1& 2. The data for 1H 2022 keeps suggesting continued demand strength although demand increase has slowed in recent months. Corn, just like other Ukraine-Russia conflict dependent commodities, was impacted by the assumption that exports from these two origins will be lower. The result is over-inflated price due to perceived future supply reduction, not realized/current reduction. In other words, the market remains tight, but it is nowhere near as tight as suggested by the price.

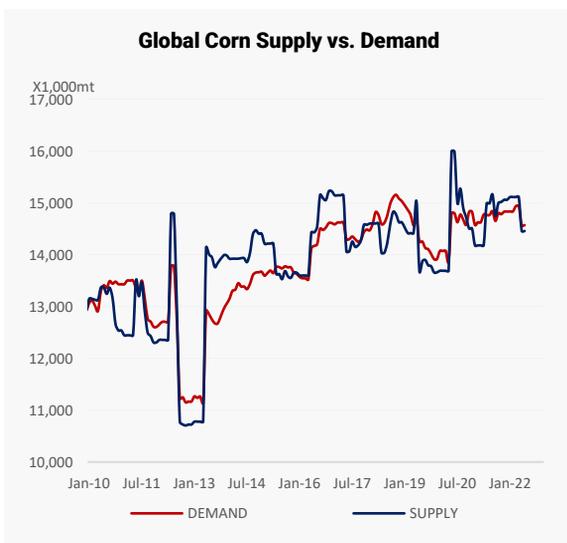


Figure 1. Source: USDA, Marex Research



Figure 2. Source: USDA, Marex Research

We documented the exceptional demand strength in 1H 2022 – see Figure 1. This strong positive demand shock remains key contributor to the ongoing soybean price rally due to the delay in the propagation of the shock through the global trading system. We saw demand particularly firm and consistent downstream along the supply chain which, unlike the occasional spike in midstream demand in the past, was an indication for a fundamentally strong market. The apparent disconnect between downstream demand growth and price in the last 10 weeks concerns us.

Supply of soybeans on the global seaborne market increased in Q3-Q4 2021 which had a sobering impact on price. The latest data in our model indicates that supply is again declining which is supporting the price rally – see S&D Balance in Figure 2. Having said that, such short to medium-term supply squeeze is unlikely to last as the projected yield remains above last year’s trend and our base-case S&D balance is for negative shock in 2H 2022 – see projections in Figure 2.

Our focus remains on US weather as the planting of soybean nears completion. According to the USDA, soybean planting is 88 percent complete as of the 12th of June. While this is behind last year’s progress by 5 percent, the current progress is equivalent to the 5-yr average. So far 70 percent of soybean has emerged 4 percent behind the 5-yr average. The soybean currently looks to be in good conditions, with 70 percent of soybean estimated to be in the good to excellent category.

With planting nearly complete, attention is turning on the weather conditions for the growing season. The

environmental conditions over the next few months will be important for determining this year’s crop yield. We have discussed our in-house global seasonal weather forecast for July/August/September (JAS) in our weather and climate outlook. We will now discuss the temperature and rainfall outlook for the next 3 months in the US. Our temperature outlook for JAS points to a warm temperature anomaly across the northeastern portions of the US. A cold temperature anomaly, however, is forecast over the state of Texas and southwest Oklahoma, where less soybean is generally produced. We also compare our in-house seasonal forecasts to NOAA’s NCEP/NOAA multi-model ensemble outlook, which indicates warmer than average temperatures over the northeastern US. NCEP also forecasts warmer temperatures across much of the US, especially the western US, which is currently suffering from severe drought.

The NCEP rainfall anomaly outlook for JAS points toward wetter conditions across the eastern US while drier conditions are forecast across the plains and the upper Midwest.

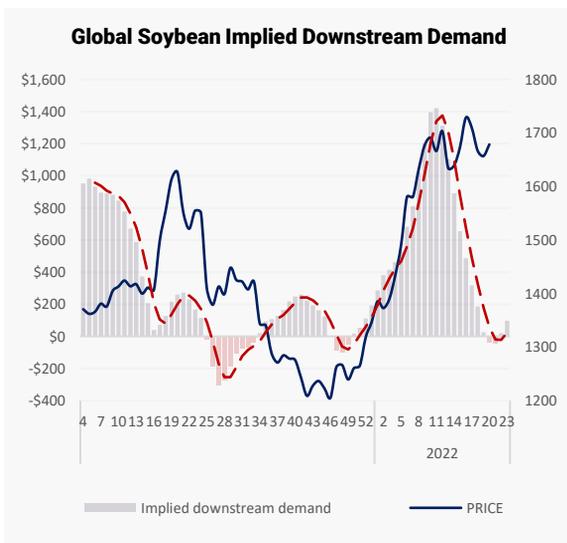


Figure 1. Source: Bloomberg, Marex Research

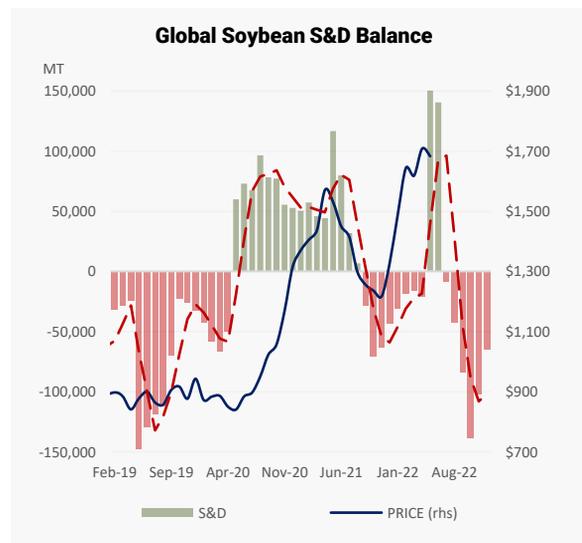


Figure 2. Source: USDA, Marex Research

The price of sugar on the international market has largely followed the prevailing supply and demand conditions until early 2021. The disconnect since the start of last year is worth analyzing and monitoring because it happened at the time when the importance of Supply to the sugar market price formation declined sharply from 34% to 23%. At the same time, the combined impact of Demand and Macroeconomic environment on price increased from 66% to 77%. The multi-year trend is displayed on Figure 1 below. The sharp increase of Demand in the market price formation process is particularly interesting for us.

Our crude oil market view is turning less bullish for 2H 2022 compared to 1-2 months earlier, which will have implications for one of the important sugar price determinants in our model, namely the ethanol parity. Such forecasts are subject to unprecedented external forces as Russia is increasingly using its energy exports as a weapon against Europe, and the OPEC cartel remains reluctant to increase output. In addition to our medium-term view for crude oil, we acknowledge the bearish sentiment for ethanol in Brazil on the back of recent decisions around lowering taxes for gasoline. Such actions in election years aim to lower gasoline prices as a measure to control inflation, in turn putting more pressure on the ethanol parity. Another remark which can be made on the prevailing market conditions is that the harvest in CS Brazil which was delayed at the start of the cycle, is gaining momentum. This is likely to further improve implied supply.

Moving our attention to another important center of both supply and demand for sugar, the next few months are important for cane production in India as the monsoon season progresses. Cane regions in western and southern

India are largely reliant on the Indian monsoon, bringing rainfall and much needed moisture for crops over June to September. This year's monsoon saw a delayed start as it stalled over southern India. Cane regions in Maharashtra, Kerala, Andhra Pradesh, Odisha and Uttar Pradesh recorded normal to below normal rainfall. The greatest deficits were recorded along the western coastline of the southern Peninsular. Closer to normal rainfall was recorded in cane regions in Tamil Nadu. Despite a slow start to the monsoon, it is still early in the monsoon season so initial dryness is not a significant concern. Our short-term forecast for India points to wetter conditions over key cane regions in western Maharashtra, Andhra Pradesh and Odisha over the next 10 days.

The Indian Meteorological Department's latest monsoon forecast estimates monsoon rainfall will be normal to above normal in the monsoon core regions, where most of the agricultural regions which rely on rainfall are located. Our in-house forecast of the El Niño Southern Oscillation is suggesting La Niña and Neutral conditions until August-September. From September onwards, La Niña is predicted to become an increasingly likely scenario. La Niña conditions during the monsoon season are generally associated with increased monsoon rainfall in India. However, a negative Indian Ocean Dipole is forecast to develop in the second half on the monsoon season which may make rainfall more volatile over India.

There is no material change in our S&D balance view for 2022. Next publication will introduce our latest probabilistic range forecasts based on different scenarios for supply and demand shocks.

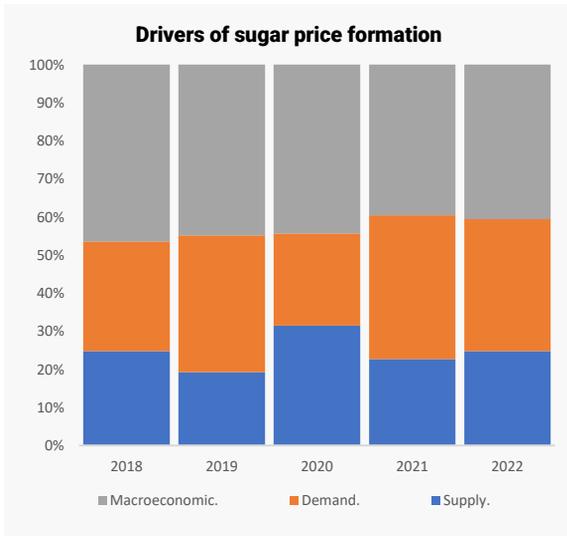


Figure 1. Source: Marex Research

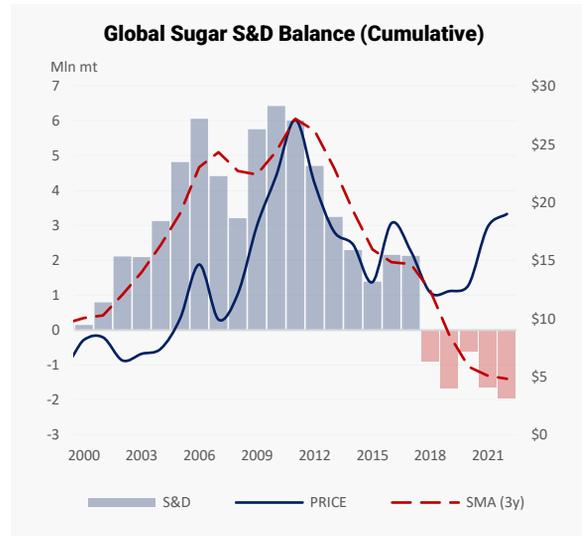


Figure 2. Source: USDA, Marex Research

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