

MARKET TRENDS FOR RAW MATERIALS

MACROECONOMICS

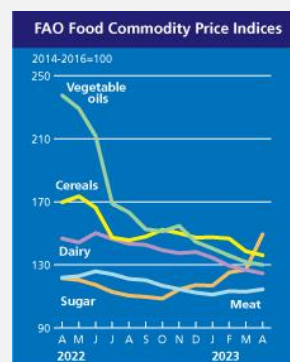
Instability and uncertainty are the order of the day. Value growth in retail and services continues but inflation is still high, as are interest rates, with central banks continuing their course of monetary tightening. Investor confidence continues to decline and the failure of two major US banks has created an additional sense of insecurity. Also, the ongoing conflict in Ukraine and the emergence of a critical migration crisis in Sudan could bring further turbulence to the markets.

FALLING INFLATION AND SUSTAINED SHELF PRICES

- 2022 was a complex year for the global economy. Sharply rising inflation has resulted in an unmanageable cost burden for companies, which have had to resort to increasing the final price to the consumer and adjusting to higher commodity costs, which rose very rapidly until last summer. However, the last few months have shown that the trends have now reversed and the downward trend in inflation is continuing, driven by falling energy and input costs (costs compared to a year ago: gas -57%, oil -22%, electricity -40%, fertilisers -67%, wheat -39%...).
- However, **retail prices still remain high at the supermarket and the effects are particularly noticeable in the shopping trolley.** According to data collected by Istat, the growth in the prices of food, household and personal care goods remains stable on a trend basis at 12.7%, thus exceeding April's inflation rate (8.3% on an annual basis) by four percentage points. In particular, there was an acceleration in the prices of unprocessed food (+9.3%) and a slight slowdown in processed food (+15.3%) on which the costs of processing and packaging, from glass to labels and caps, continue to weigh heavily.
- **The accumulated pressure on company balance sheets along the supply chain linking imports, producer and wholesale prices, up to the final distribution sector, is still present.** Companies are trying to contain inflationary dynamics for the coming months of the year, but losses in purchasing power of earnings and disposable income still have a decisive negative impact on household consumption and growth.
- In essence, **we are still in the midst of inflation.** The increases no longer reflect commodity prices but are slowing down and the new higher price levels have consolidated.

OVERVIEW FOOD PRICES AND THE ENERGY SECTOR

- The FAO Food Price Index confirmed consecutive price declines for the first months of 2023 in line with the downward trend that started last summer when price levels reached all-time highs under the pressure of inflation. In April, however, the trend stalled, registering an increase of 0.8 points (0.6 per cent) compared to March.
- The slight recovery in April was led by a strong increase in the sugar price index, along with a recovery in the meat price index, while the price indices for cereals, dairy products and vegetable oils continued to fall.



NATURAL GAS



Global gas markets are gradually rebalancing, but market tensions and price volatility are expected to be renewed in 2023 due to risks from adverse weather conditions, lower LNG availability and the possibility of a further decline in Russian supplies to Europe.

COAL



Falling gas prices continue to stimulate fuel switching, reversing the dynamic of last year, when extremely high gas prices contributed to increased coal use in Europe.

OIL



The main oil benchmarks remained stable after the European Central Bank decided to slow the pace of interest rate hikes however, concerns about demand in the major consuming countries remained. OPEC and Russia have started to voluntarily cut production.

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CEREALS



SOFT WHEAT

Wheat prices declining,
but the market was exposed to risks from corn

- Wheat price developments on the international market are dominated by competition between Russian and European origin. Exports from Russia are on course to reach a record high, and producer prices on the Russian domestic market have declined by 4% since the end of March, while FOB prices in US dollars have remained more stable recently, boosting exports. In the EU, wheat prices were characterised by volatility, while soft winter wheat prices remained more stable, supported by deteriorating winter wheat conditions in the US.
- **USA:** Projected an overall increase of 9% in the acreage sown with soft winter wheat in the US in 2023/24 compared to 2022/23.
- **EU:** French soft wheat conditions are still above last year's level, although drought remains a concern in many areas, both in France and other EU countries. Export forecasts for the EU were revised downwards due to the lack of competitiveness of European wheat in international markets.
- **THE BLACK SEA:** Tensions remain over the future of the 'wheat corridor', with Russia demanding the lifting of certain sanctions as a precondition for the renewal of the agreement due to expire on 18 May. In Ukraine, winter wheat production for the 2023/24 campaign is expected to fall by 5.5%.
- The price forecast for the 2022/23 campaign takes note of bearish price movements in the EU market in particular. It is considered unlikely that prices will rebound before the new harvest. This may be linked to potentially unwelcome news regarding corn planting in the northern hemisphere. **Bullish risk factors continue to be the weather in the main production areas as well as price trends for corn, which will be significantly exposed to the risk of drought in the summer, following disappointing Argentine harvests.**



DURUM WHEAT

Marginal increase in production
but global stocks still insufficient

- **CANADA:** Acreage effectively unchanged from last year and production up +7% compared to last year.
- **USA:** Prices still falling, but with little trading. Durum wheat prices were weighed down by the sharp drop in spring wheat futures since mid-April, which brought the spread between the two categories back up..
- **EU:** The 2023 production forecast revised up slightly. However, the data still does not reflect the latest indications from Spain, where the persistent drought has reduced local operators' forecasts.
- **NORTH AFRICA:** Production is clearly recovering from last year's disastrous harvest.
- **KAZAKHSTAN:** Price declines in the domestic market have resulted in parity with those of soft wheat. Also competing for acreage are oilseeds the prices of which remain high due to export demand.
- **AUSTRALIA:** In view of the upcoming sowing season, expectations for the total 2023 harvest (durum and soft) are in sharp decline from last year's record production. Decreasing acreage and a return to lower yields than the high yields of the past three years are expected.
- At the global level, production for the 2023/24 campaign has been revised marginally upwards, particularly for the US, but the scenario of a fifth consecutive year of deficit and erosion of global stocks has in fact been confirmed.



MARKET TRENDS FOR RAW MATERIALS

CEREALS



CORN

Continued bearish volatility

Ukrainian exports drive European prices down

- **Corn prices have continued their downward trend over the past few months.** Falling wheat prices continued to support the downward trend, but while the US market was more sensitive to worsening conditions in Argentina, European prices were pushed down by abundant Ukrainian exports.
- **USA:** Consumption has decreased and imports have been similarly reduced, leaving ending stocks unchanged. Sowing is ongoing, in line with previous years, with drought limited to 29% of all corn cultivated areas.
- **UKRAINE:** Total exports are on the rise, due to the renewal of the agreement to export from the Black Sea. Some EU countries bordering Ukraine have complained about the arrival of large quantities of Ukrainian corn, which has caused large price drops and they plan to introduce more controls and restrictions. A decrease in production is expected in the face of decreasing acreage in the next season.
- **EU:** Production was revised downwards while imports increased at the same time. The high need for imports is confirmed by the fact that imports from July to April were 72% higher than the previous year. As for the 2023/24 season, according to the EU Commission, the corn sowing acreage is expected to decrease by 4%, but production is expected to recover following last year's drought.
- **BRAZIL:** Expectation of a record production is confirmed and the first crop of corn is being harvested. Overall, the weather is favourable.
- **ARGENTINA:** Argentine corn continues to be affected by the extreme drought that has hit the country in recent months. The harvest has begun, but conditions remain critical.
- The market remains short and therefore exposed to bullish volatility. Prices are expected to remain at lower levels than at present for the next campaign due to production being expected to pick up in both the US and the EU, good weather conditions permitting. Rainfall and temperatures in the main production areas still need to be monitored, as do developments in the Ukrainian conflict and the euro/dollar exchange rate.



RICE

Sustained demand and El Niño fears: FAO price index on the rise

- International rice quotations registered increases in April, up 2.5 percent on the FAO's All Rice Price Index compared to its value in March. **These rises are largely driven by a recovery in demand,** especially from Asia. However, concerns about the effects of El Niño will have on the upcoming Asian harvest are likely to materialise.
- Marked price increases characterised both the Indica variety due to substantial Indonesian and Malaysian imports, as well as white and basmati rice of Pakistani origin due to the sharp drop in production in Pakistan.
- Price increases are not holding back European imports: +5.2% from September to the end of April.
- Internationally, harvests are developing well in the main production areas and this will lead to a period of deflation, the intensity of which will also be defined by the effects of El Niño:
 - **CHINA** (main producer): rice sowing is starting under favourable conditions.
 - **INDIA:** Rabi rice harvest is starting, estimated by the Indian government to be at record levels.
 - **VIETNAM:** Rice yields currently being harvested are higher than last year, owing to favourable weather and increased fertiliser use (in deflation).
 - **THAILAND:** The second-harvest rice harvest is proceeding with good yields owing to favourable weather and sufficient water supply.
 - **ITALY:** April rice quotations on the Milan stock exchange remained generally stable. Paddy rice transfers remain sluggish and trade is very limited due to low demand from rice mills. For the coming campaign, areas are expected to decline by 3.4 %, although persistent drought conditions raise fears of lower sowings considering the high water requirements of rice. The contribution of the recent rains in the centre-north remains to be evaluated. However, despite the decrease in some areas, the arrival of the new crop is estimated to be higher than that of the current campaign.



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VEGETABLE OILS



SUNFLOWER OIL

Import bans from Ukraine in several Eastern European countries generate tensions

- **Sunflower oil continues to be the most competitively priced vegetable oil** in the recent period due to the increased supply from the Black Sea. This has generated strong pressure on domestic sunflower seed quotations in countries neighbouring Ukraine, igniting protests from local farmers. This resulted in the decision of some Eastern European countries to unilaterally impose import bans on the Ukrainian product. Uncertainties also remain over the renewal of the Black Sea corridors, generating further tensions.
- **UKRAINE:** Processing activities remained high in March and sunflower oil exports were also up, rising by 50% in Q1 2023 compared to the same period last year, reducing the country's stocks accordingly.
- **RUSSIA:** Buoyed by a record harvest, processing activity remains high and exports have also increased strongly, supported by strong demand from China and India, along with several countries in the Middle East and Africa.
- **EU:** The high volume of imported sunflower seeds (mainly of Ukrainian origin) by EU countries was one of the main reasons for the reduction in purchase volumes, which contributed to a strong increase in processing activity by European processors and an increase in the supply of domestically produced sunflower oil to domestic markets. Over the same period, the export of sunflower oil from the European Union doubled compared to the previous year.



OLIVE OIL

Drop in production in Spain more severe than expected

- From the beginning of the year to date, **the price of Italian extra virgin olive oil has remained stable at the highest price of the current campaign.** These quotations were supported by the record prices observed on the European market, which increased further following the worsening conditions in Spain.
- **SPAIN:** Spain's limited availability of olive oil in the current campaign is the worst in 25 years, mainly due to the severe drought damage to the harvest. In Spain there has already been a partial substitution effect with sunflower oil and other cheaper vegetable oils.
- **TURKEY:** Despite low rainfall, the Turkish harvest in 2023 is expected to remain at record levels.



PALM OIL

Low Indian demand limits exports

- **MALAYSIA:** While remaining at high levels, Malaysian exports suffered from low Indian demand due to the increased competitiveness of other vegetable oils. Unusually discounted sunflower oil over palm oil and a weak Malaysian Ringgit contributed to lower prices. Malaysian stocks declined sharply as a result high exports and unusually low production affected by lower than average yields. Added to this dynamic was the news of the European Parliament's approval of the law banning imports into the EU of raw materials grown on deforested land after 2020.
- **INDONESIA:** Export restrictions imposed by the Indonesian government have contributed to higher prices, making sunflower oil and soybean oil more attractive to several importing countries and prompting some Indian buyers to reduce palm oil imports. In China, on the other hand, expectations of a growth in palm oil imports remain, stimulated by the decision of the Chinese Ministry of Agriculture to limit dependence on soya imports. Total export volumes declined slightly, under the sharp drop in Indian demand partly offset by the increase in Chinese imports. On the other hand, consumption was slightly up, driven by demand from the food and biodiesel industries, keeping Indonesian stocks low, down 48% from last year.
- **The main bullish risk factor from June onwards is the development of El Niño, which could cause widespread drought in South-East Asia,** jeopardising expected production growth, and undermining the expected price decline.
- **TUNISIA:** Olive-growing areas continue to increase in the country and production has started to increase again.
- **ITALY:** Faced with low production and high internal consumption, the next campaign in Italy is expected to start with limited initial stocks while production, although on the rise, continues the downward trend of the last ten years. For 2023/24, the available supply is still limited and insufficient to replenish stocks. The average price of Italian olive oil has risen significantly by more than 30% in the last five years. The Xylella bacterium in Italy has infected more than 21 million olive trees, leaving more than 8 thousand square kilometres of infected territory, equal to 40% of the Apulia region (the heart of Italian olive growing). Killer bacteria and severe drought have scorched potentially 30% of the national oil production this year.

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EGGS AND MILK



MILK AND DERIVATIVES

More deflation on powders, butter and spot milk

- **Prices in the EU have mostly returned to a stable/weak position.** Current reductions in input costs, especially feed and energy, contribute to the weakness of milk and dairy prices.
- On average, between March and April: the price of butter - 2.6%, the price of skimmed milk powder -7.8% and the price of whole milk powder -2.4%. The price of German spot milk and Italian spot milk also fell (with a premium of about €6/100Kg over German).
- More rigidity on Italian cheese quotations, affected by the barn milk price agreed until June at 575 €/100lt.
- **Demand**, in an uncertain macroeconomic environment still characterised by inflation and restrictive monetary policies, **has not yet triggered a clear recovery trend:**
 - Chinese demand is still relatively low;
 - The month of Ramadan (23 March - 21 April) further slowed demand;
 - EU traders maintain short hedging strategies;
 - EU exports are further slowed down by the strengthening euro.
- At the same time, there was also **an improvement in supply from the main producing countries.** In Germany, milk deliveries in March were 3.3% higher than in the same period last year.
- It is expected, however, that in the medium to long term the recovery of Asian and domestic demand and the risk of energy price increases will drive up prices.



EGGS

Prices stable at record highs

- The egg market continues to be characterised by a **substantial supply shortage, stiff demand and prices at record levels**, which have broken the upward price trend since the beginning of March.
- Several factors with bearish potential do stand out:
 - The declines affecting feed prices, especially in the EU. The recent strengthening of the euro against the dollar and bearish short-term fundamentals on wheat are also transmitting weakness to corn and oilseeds.
 - A more relaxed energy environment: the average price of natural gas in April was 60% lower than it was in April 2022.
- Currently, the seasonality of consumption and production and decreases in production costs are expected to drive price quotations which, at average levels, will remain higher than in 2022.
- **The market still remains undersupplied. As at February 2023:**
 - Exports -19% compared to February 2022.
 - Imports +93% compared to February 2022.
- Demand, which is already seasonally buoyant, shows a good level of robustness, with eggs representing one of the cheapest of the noble proteins, despite inflation and limited economic growth.
- On the issue of bird flu, the development of vaccinations continues to be monitored, with France in the forefront having already ordered 80 million doses.



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LEGUMES



LENTILS

Global production on the rise

- **NORTH AMERICA:** Sowing operations began in the USA later than normal due to heavy snowfall in the first part of April; this was also the case in Canada. Expectations of a drop in seeding acreage in Canada were confirmed.
- **INDIA:** Quotations fell under pressure from an abundant new crop. Quality was affected in some regions by rainfall during harvest, but on the whole, it is considered to be good to satisfactory.
- **AUSTRALIA:** Export data for February showed a noticeable acceleration, with volumes registering a new record. India was the main destination market (55% of the total), followed by Bangladesh and Sri Lanka.
- The main international markets generally maintained an upward trend, particularly in Canada, with green quotations still showing a large premium over red quotations.
- For 2023/24, global production is expected to increase for the second year in a row (+5%), driven mainly by India and Canada. Increases in consumption and final stocks are also expected.



CHICKPEAS

Positive production outlook

- **CANADA:** Expectations of increased acreage confirmed. Increased export projections for the current crop year (at an all-time high) which will bring final stocks to their lowest levels.
- **INDIA:** About 85-90% of the harvest was completed. In terms of quality, the grading was mostly below average. Demand in the domestic market is brisk and stocks are high.
- **AUSTRALIA:** Exports slowed down in the last two months. Bangladesh was still by far the largest destination market (67% of the total), followed by Pakistan and the United Arab Emirates.
- **Kabuli:** The recent heavy snowfall and low temperatures in Canada are keeping the market on edge, threatening to delay sowing. Quotations are still hovering around historically high levels in the North American market due to low expected final stocks and the need for average yields of future crops in order to see increased supply from this area.
- **Desi:** The Indian government remains confident that its first production estimate is correct. In fact, the import ban on yellow peas (typically substituted during chickpea shortages) remains in place. At the same time, chickpea exports in the first two months of the year have increased in comparison to 2022.



PEAS

Low international demand

- **NORTH AMERICA:** US imports halved as demand for Canadian yellow peas dropped sharply. Following heavy snowfall in early April, planting took place later than usually in the USA and Canada. Expectations of a drop in acreage in Canada were confirmed.
- **CHINA:** In an attempt to limit the country's heavy reliance on soybean imports for animal feed, China's Ministry of Agriculture may encourage the increased use of peas for long-term feed use.
- **INDIA:** Confident of a chickpea production in line with last year's, the Indian government has stated that it will continue to ban imports of yellow peas, despite calls from importers and millers to change this policy.
- **EU:** A significant part of the peas imported from Europe originate from Ukraine, which often offers better quality and prices than other supplying countries. Therefore, the initiative by Poland, Hungary and Slovakia to block wheat imports from Ukraine caused tension in the market. However, the downward trend in French peas quickly resumed in the face of virtually no demand and an inability to counteract the weakness of the cereal sector.
- As of today, a strong recovery in international demand seems unlikely to stimulate price growth between now and the end of the current campaign. This is mainly due to large stocks, high production forecasts, Russia's entry into the Chinese market, and the Indian government's latest declarations that it will continue to ban imports. The situation is different for greens, which are still suffering from limited availability and are expected to remain tight.



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COLONIAL GOODS



COFFEE

Weak supply and high prices

- **Robusta:** Robusta coffee quotations on average increased by 14% between March and April, reaching their highest level since 2011. Sustained demand and limited supply have supported quotations. In response to restrictive monetary policies and inflation, International demand for coffee, tends to shift to the Robusta variety, which is cheaper than the Arabica variety. There are particular concerns on the supply side about the upcoming harvest 23/24 in Indonesia, third largest producer global producer of Robusta, affected by excessive rainfall and in Brazil where production declines are expected
- **Arabica:** The deterioration in supply is the main driving factor in a context of extremely low stocks. In Colombia, at a cumulative level (Oct-Apr), production and exports are still down by 11% and 15% respectively compared to the same period last year. In Brazil, supply also remains tight, down 17% compared to April 2022. There is still uncertainty about the impact of weather conditions on yields for the next harvest, given the recent rains and the increased likelihood of the El Nino phenomenon.
- In anticipation of the Brazilian harvest and weak Colombian and Indonesian supply, the market remains highly risky and volatile, with limited and uncertain bearish potential.



COCOA

Record grinding and concern over mid-crop

- London quotations continue their bullish trend recording a 15% increase since the beginning of the campaign, consolidating the **bullish trend** that characterises the current campaign **due to the strong uncertainty on African supply**.
- **IVORY COAST:** Arrivals at ports and exports figures show there was limited supply and exports were 7.4% lower between October to April than for the same period in the previous year. Excessive rainfall is delaying and damaging the harvest with quality suffering from the poor use of pesticides and fertilisers and limited by the qualitative and quantitative consequences of the conflict in Ukraine. Expectations for the mid crop (April to September) are forecasting a 25% lower harvest than last year.
- **EU:** Solid demand remains despite inflation and restrictive monetary policies. Early 2023 saw an all-time high for grinding.



SUGAR

Lower than expected productions

- International prices were characterised by **bullish volatility** throughout April. Prices reached 12-year highs.
- The main driver for this was the further **deterioration of supply** in important production and export areas:
 - **INDIA:** Production for the current year was revised downwards (-8.4% compared to 21/22 production), below the threshold imposed by the government for the release of new export quotas.
 - **BRAZIL:** Production in the first two weeks of the campaign was below expectations. In addition, the government is considering raising the ethanol content in petrol to 30%, which would incentivise the conversion of sugar cane to ethanol, further limiting supply.
 - **THAILAND:** Production, although up compared to 21/22, ended early and remained below initial expectations.
- **EU:** Spot prices remain at record levels. The Commission further revised production downwards for the 22/23 to -11.9% when compared to 21/22. Net import requirements were further increased, confirmed by the trend of cumulative imports, which in mid-April were 65% higher than in the same period for the previous year. As far as the 23/24 campaign is concerned, production is expected to increase by 3.7% compared to 22/23, but this would not reduce import requirements by much. European prices for 23/24 are expected to remain at historically high levels, despite lower energy costs compared to 22/23 being the main downward driver.

VIDEO

[Highly volatile agrifood markets: modelling and forecasting for a new supply chain approach](#)

