

Agriculture Products and the Next Big Move

Prepared by: David Ng
10th June 2020



Disclaimer

This presentation is provided to you for general information only and does not constitute a recommendation, an offer or solicitation to subscribe for, purchase or sell the investment products mentioned herein. It does not have any regard to your specific investment objectives, financial situation and any of your particular needs. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of you acting based on this information. Investments are subject to investment risks including the possible loss of the principal amount invested. The value of the units in any fund and the income from them may fall as well as rise. Access to services and your account may be affected by market conditions, system performance and other reasons.

The information contained in this presentation has been obtained from public sources which IcebergX Sdn Bhd has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this presentation are based on such information and are expressions of belief only. IcebergX has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this presentation is subject to change, and IcebergX shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will IcebergX be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

You may wish to seek advice from a qualified financial adviser, pursuant to a separate engagement, before making a commitment to purchase any of the investment products mentioned. In the event that you choose not to seek advice from a qualified financial adviser, you should consider whether the investment product is suitable for you before proceeding to invest and we do not offer advice in this regard unless mandated to do so by way of a separate engagement.

IcebergX is not affiliated with Interactive Brokers LLC, or any other FINRA broker-dealer.



Webinar Outline

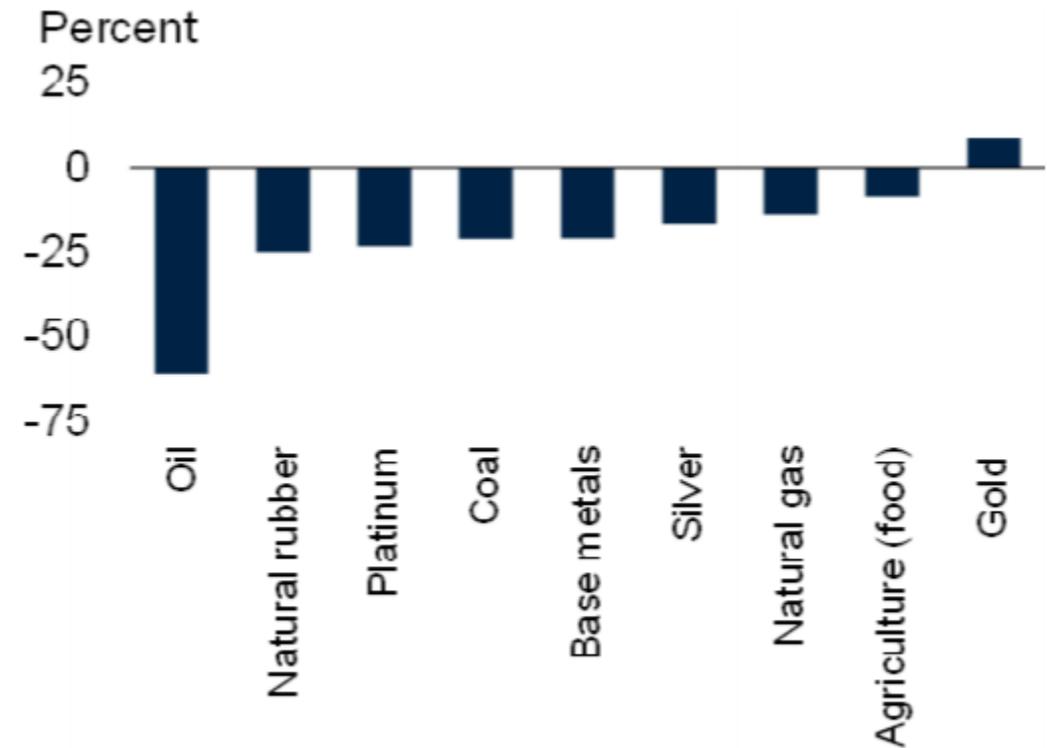
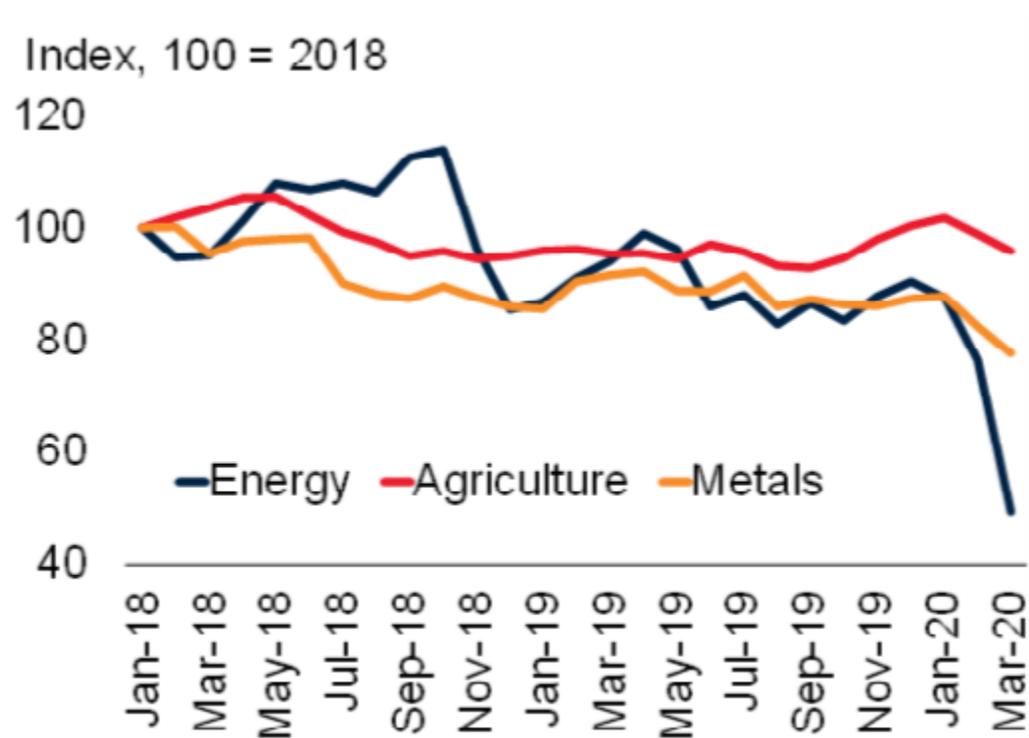
- 1) Understand the fundamental prospects on agriculture
- 2) Learn the impact of Covid-19 on commodities prices
- 3) Navigate the price of seasonality impact of corn and soybeans
- 4) Explore the trade opportunities between soybean oil and crude palm oil
- 5) Spread analysis as a trading tool



Commodity Index has been on a decline for years



Agriculture performance has been relatively stable



Understanding Agriculture fundamental dynamics

- Supply and demand dynamics
- Stock levels or Stock to Usage ratio
- Crop progress
- Planting intentions
- Weather forecast
- Government policy



Sample of WASDE Report

WASDE - 599 - 15

U.S. Soybeans and Products Supply and Use (Domestic Measure) 1/

| SOYBEANS | 2017/18 | 2018/19 Est. | 2019/20 Proj. Mar | 2019/20 Proj. Apr |
|----------------------------|---------|--------------|------------------------|----------------------|
| | | | <i>Million Acres</i> | |
| Area Planted | 90.2 | 89.2 | 76.1 | 76.1 |
| Area Harvested | 89.5 | 87.6 | 75.0 | 75.0 |
| | | | <i>Bushels</i> | |
| Yield per Harvested Acre | 49.3 | 50.6 | 47.4 | 47.4 |
| | | | <i>Million Bushels</i> | |
| Beginning Stocks | 302 | 438 | 909 | 909 |
| Production | 4,412 | 4,428 | 3,558 | 3,558 |
| Imports | 22 | 14 | 15 | 15 |
| Supply, Total | 4,735 | 4,880 | 4,482 | 4,482 |
| Crushings | 2,055 | 2,092 | 2,105 | 2,125 |
| Exports | 2,134 | 1,748 | 1,825 | 1,775 |
| Seed | 104 | 88 | 99 | 97 |
| Residual | 5 | 43 | 29 | 5 |
| Use, Total | 4,297 | 3,971 | 4,058 | 4,002 |
| Ending Stocks | 438 | 909 | 425 | 480 |
| Avg. Farm Price (\$/bu) 2/ | 9.33 | 8.48 | 8.70 | 8.65 |



Corn



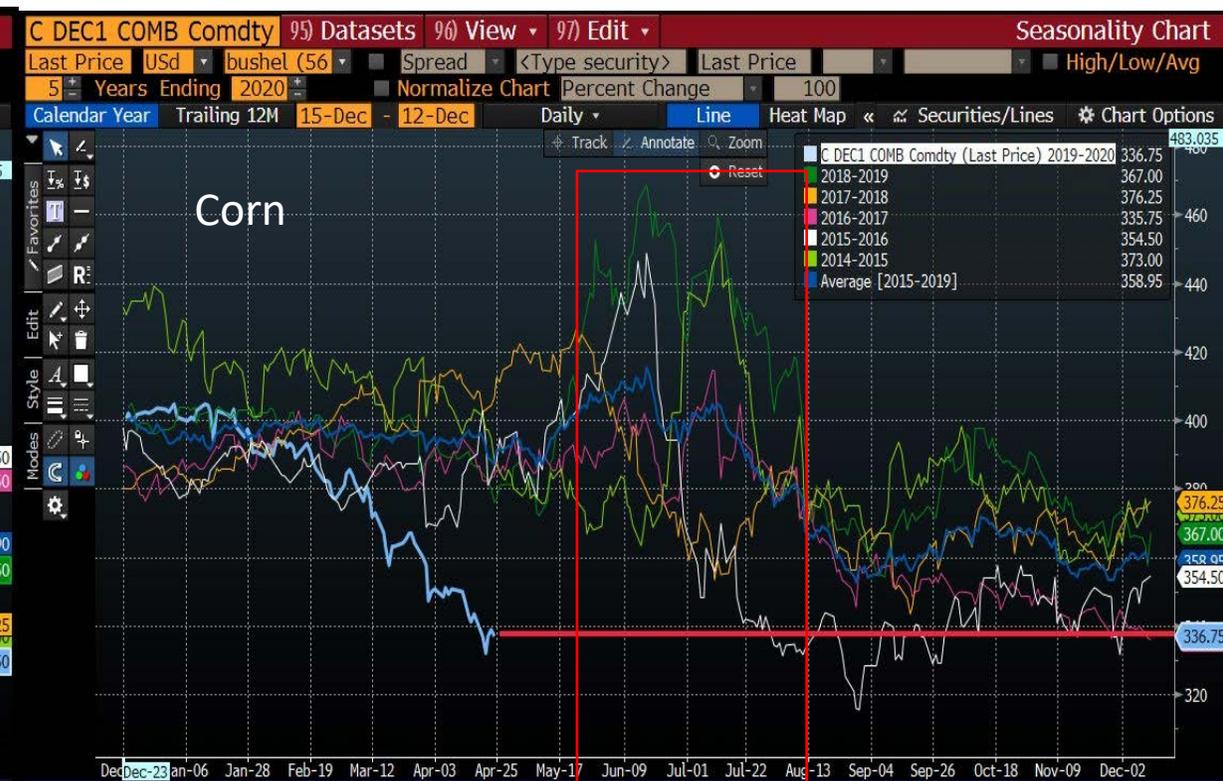
Overall price trend for Corn



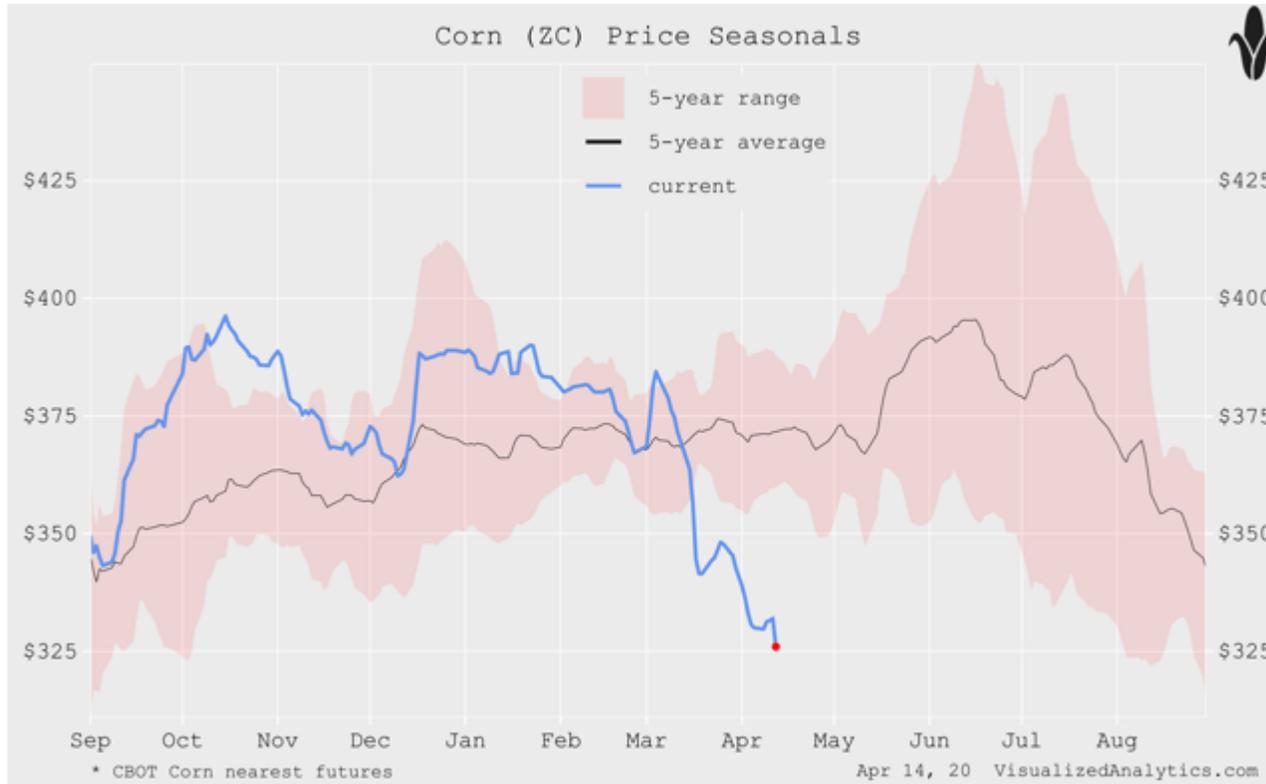
Source:Tradingview/Icebergx



Prices of corn and soybeans reaching multi years low



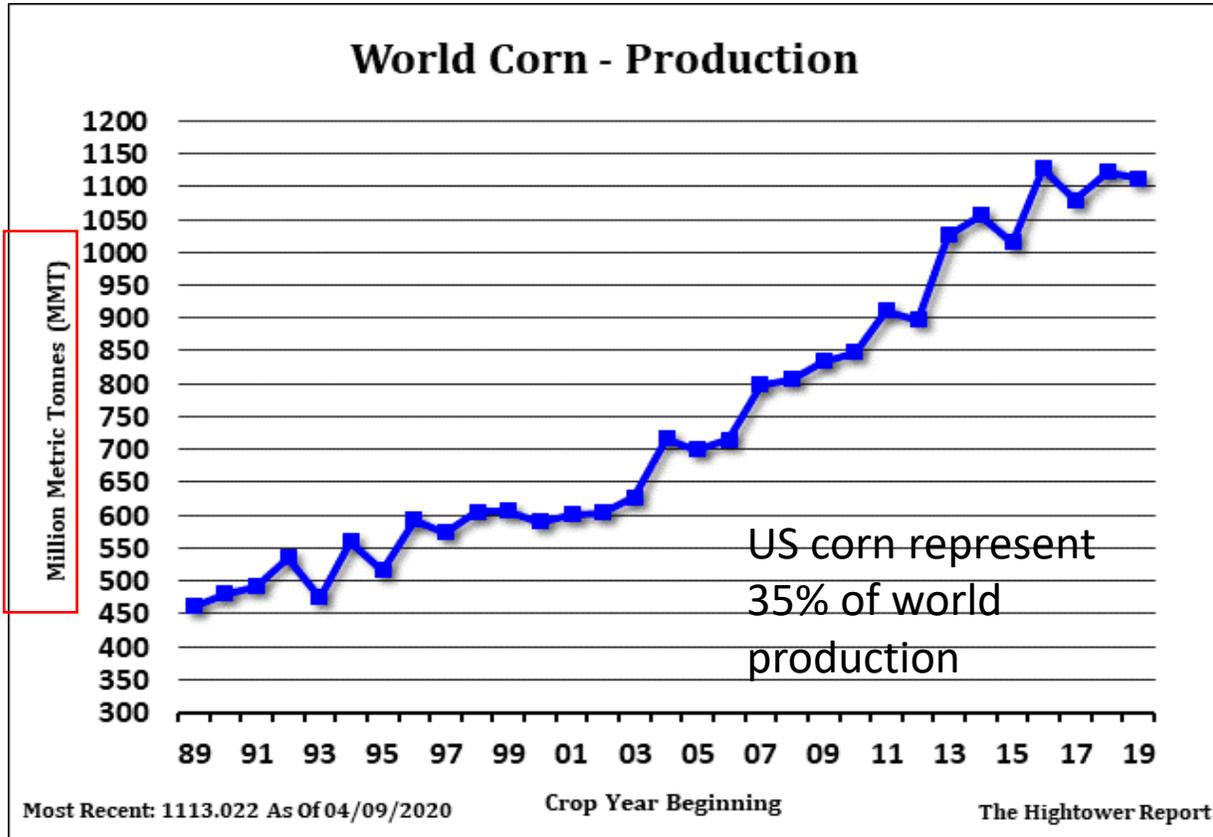
5 year price trend for Corn



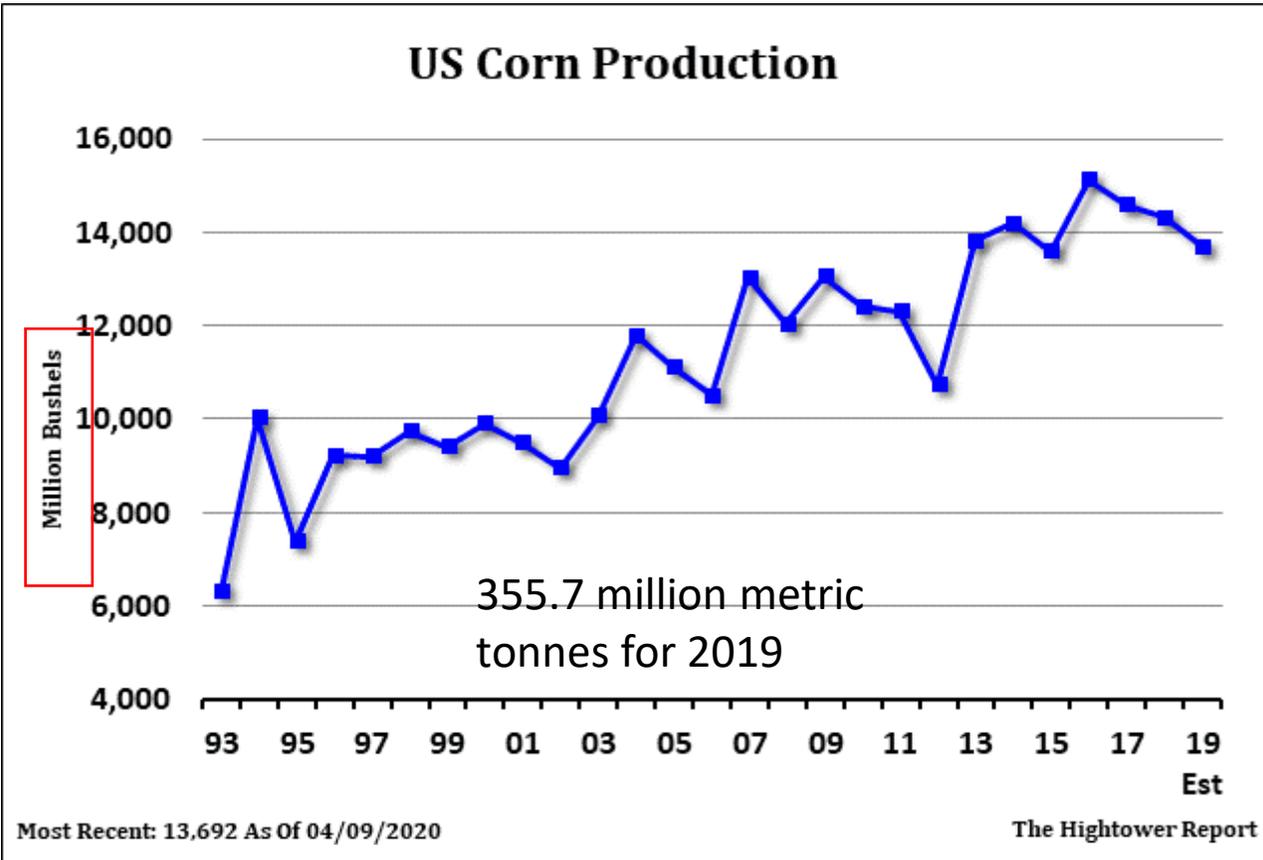
- Current price is below the 5 year average.
- Sudden sharp plunge was due to the collapse of crude oil prices.
- 5 year average price is around 350 cents per bushel.

World Corn Production continues to increase

World Corn - Production

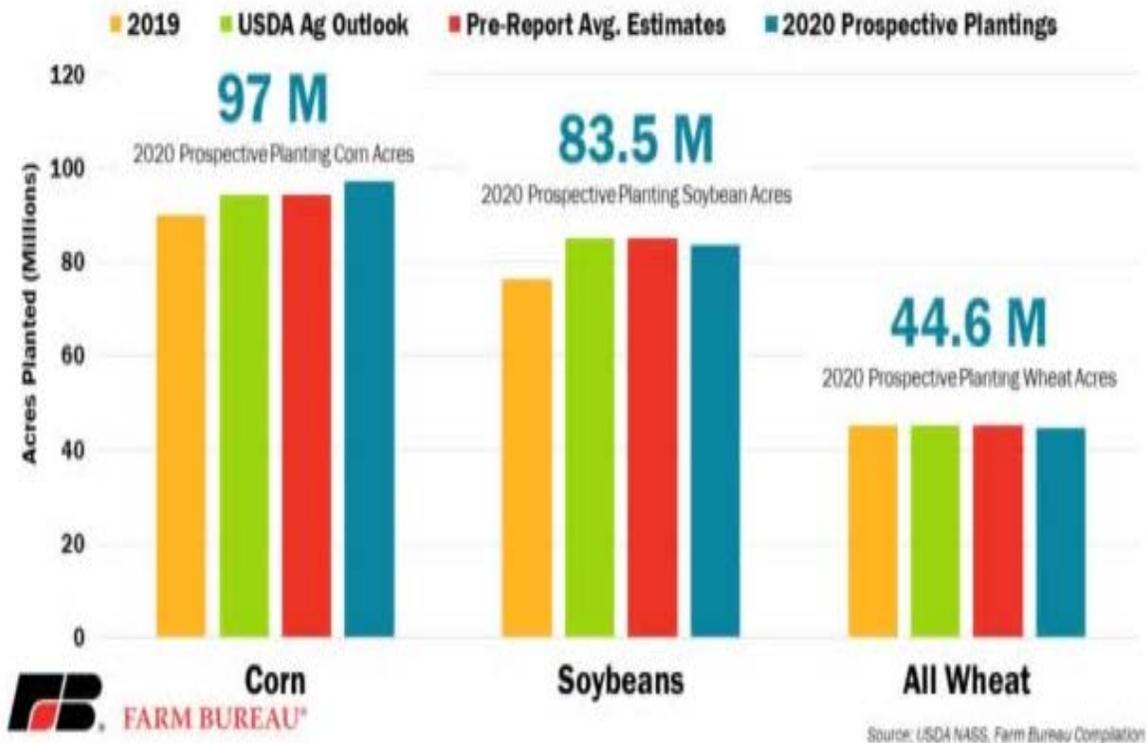


US Corn Production



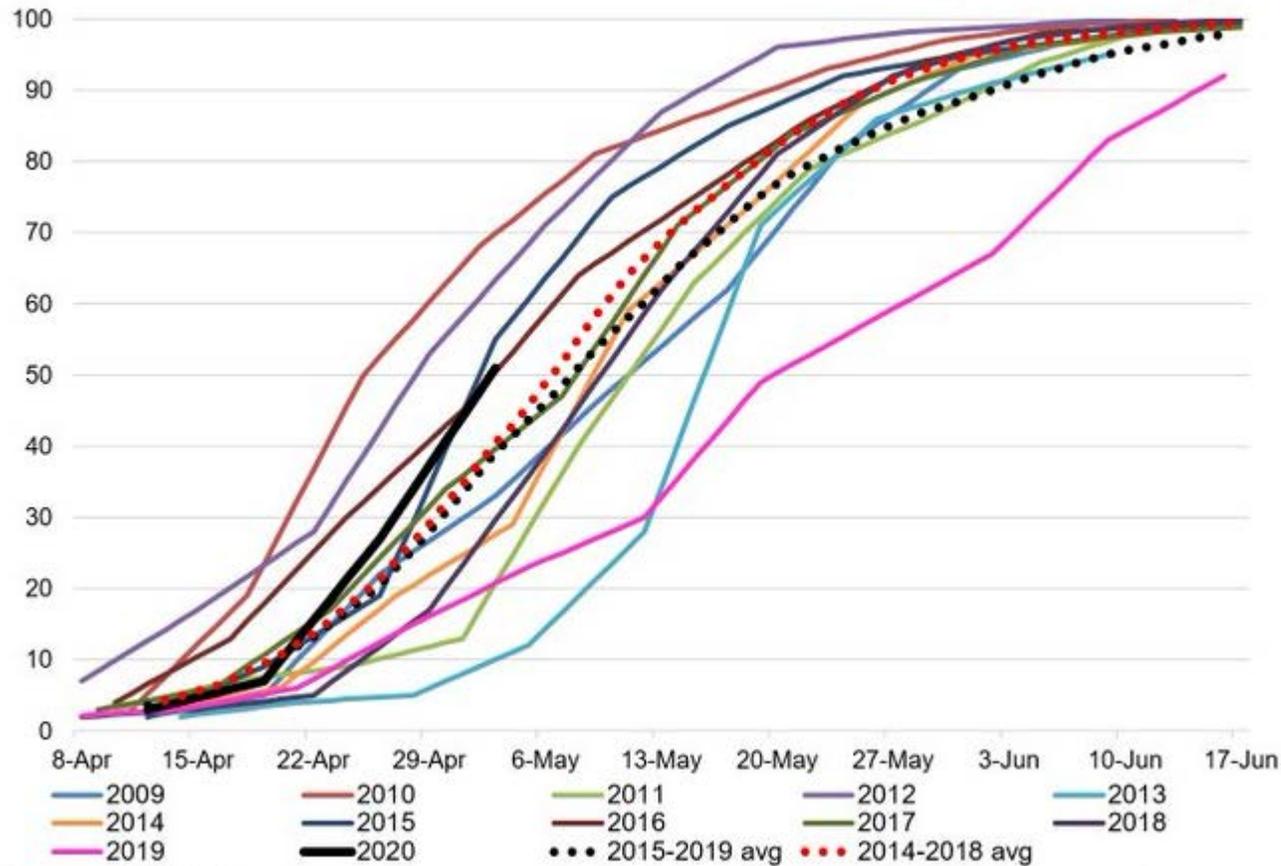
Expectation of rising corn production

- Corn production expected to increase.
- Soybean production for the crop year 2020 set to remain flat.
- Wheat outlook has been flat.



Planting Progress doing well

United States Corn Planting Progress (%)

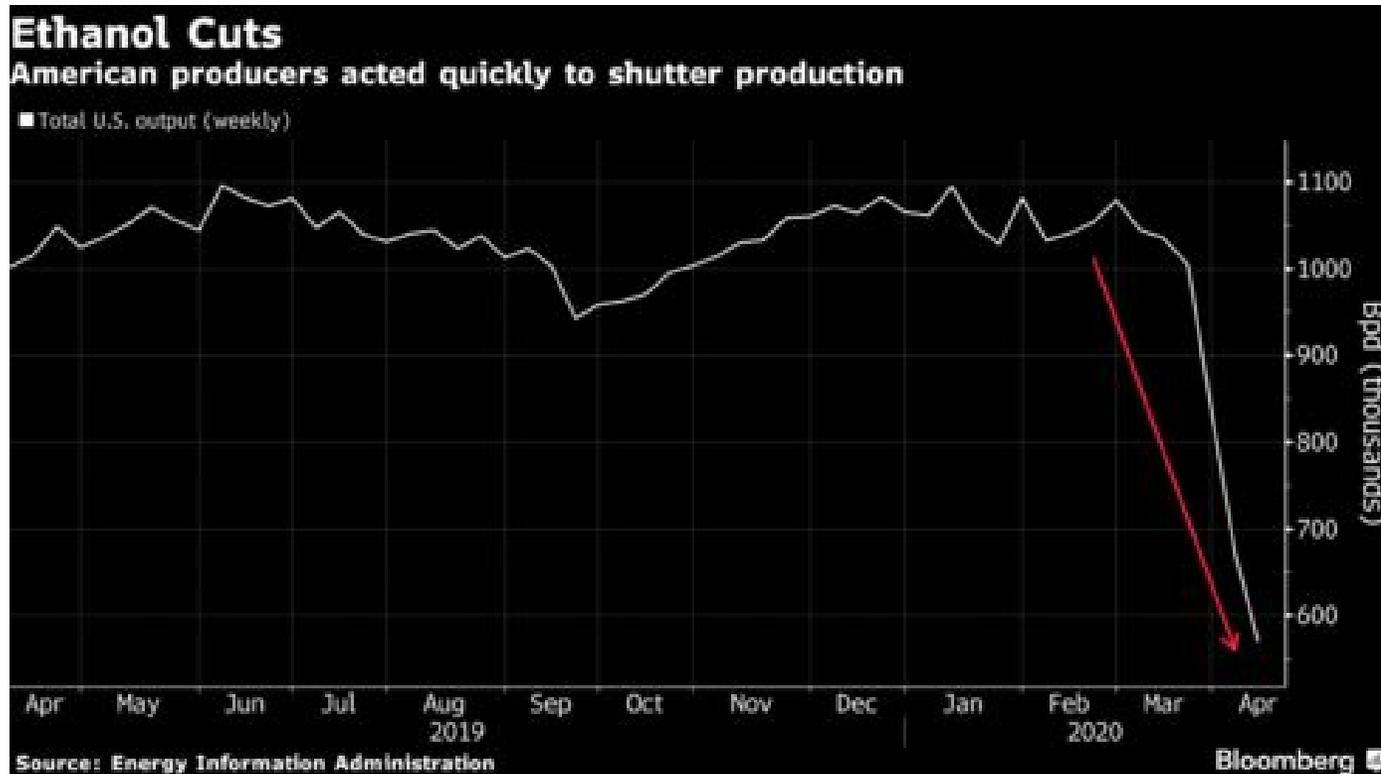


Data source: USDA/NASS

- Progress so far indicates planting to be on track.
- Suggest there are no further weather abnormalities.



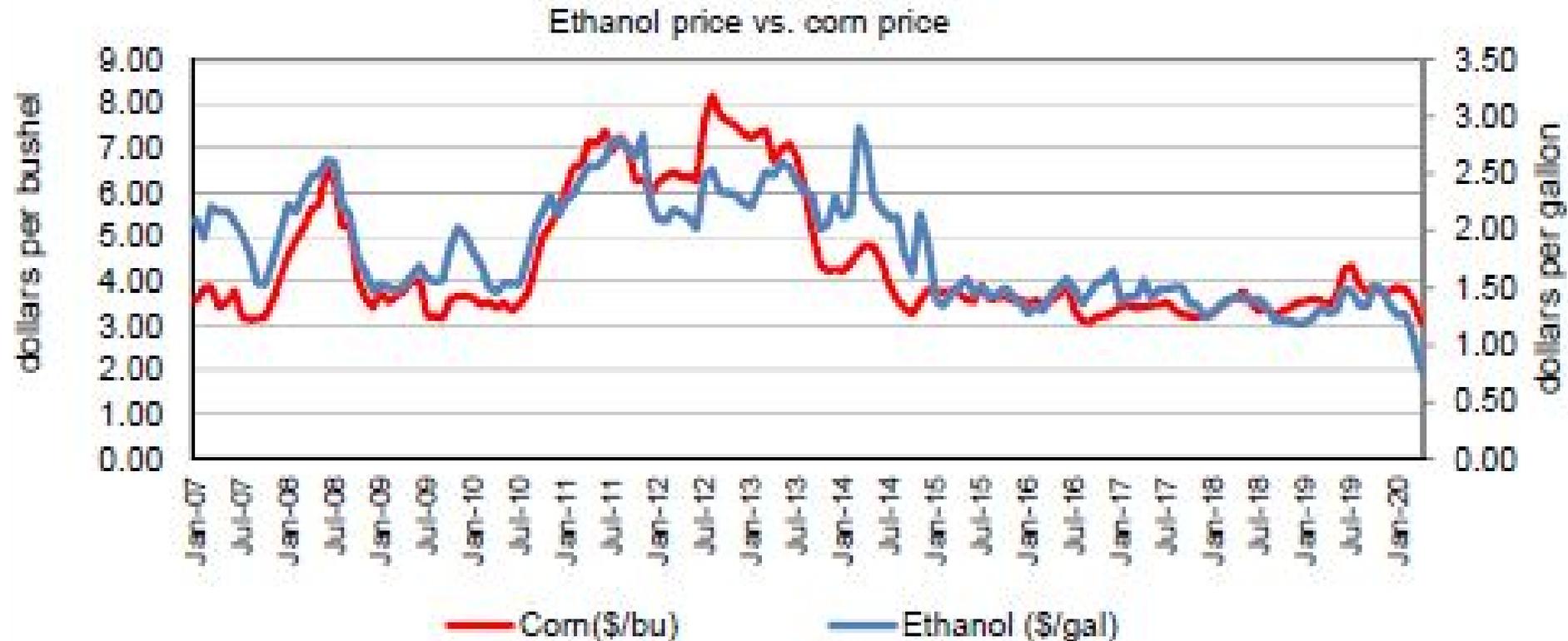
Ethanol usage plummeted in Q1 2020



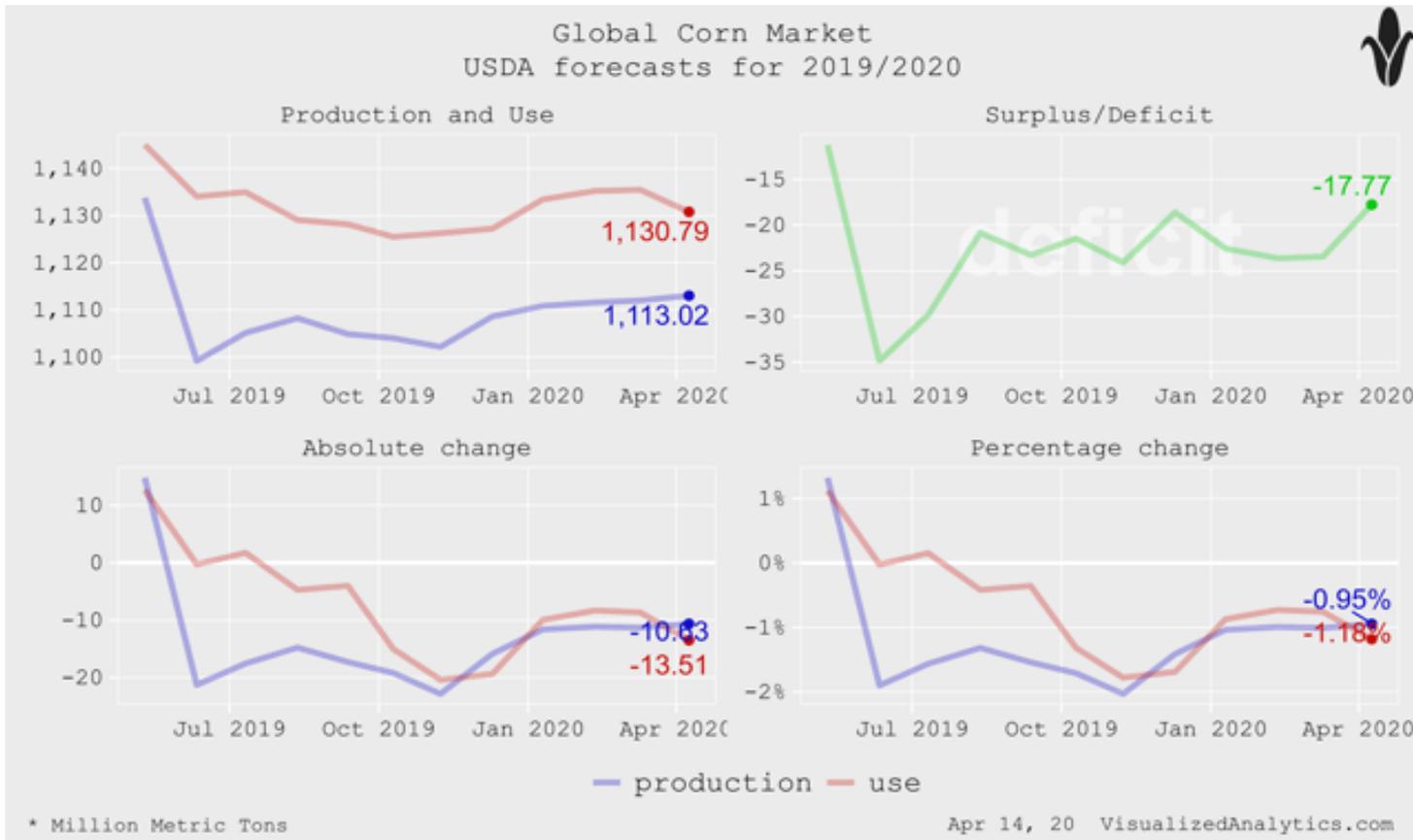
- Output based ethanol biofuel plunged by 35% as producers seek to stop production given the crush in crude mineral oil prices.
- Federal regulations mandated 10% production of ethanol production. This was then ceased.
- Thus, demand for corn has been crushed by lack of ethanol demand.
- Ethanol demand represents 40% of total US corn consumption.



A close linkage between Ethanol price and corn price



Corn ending stock expected to increase

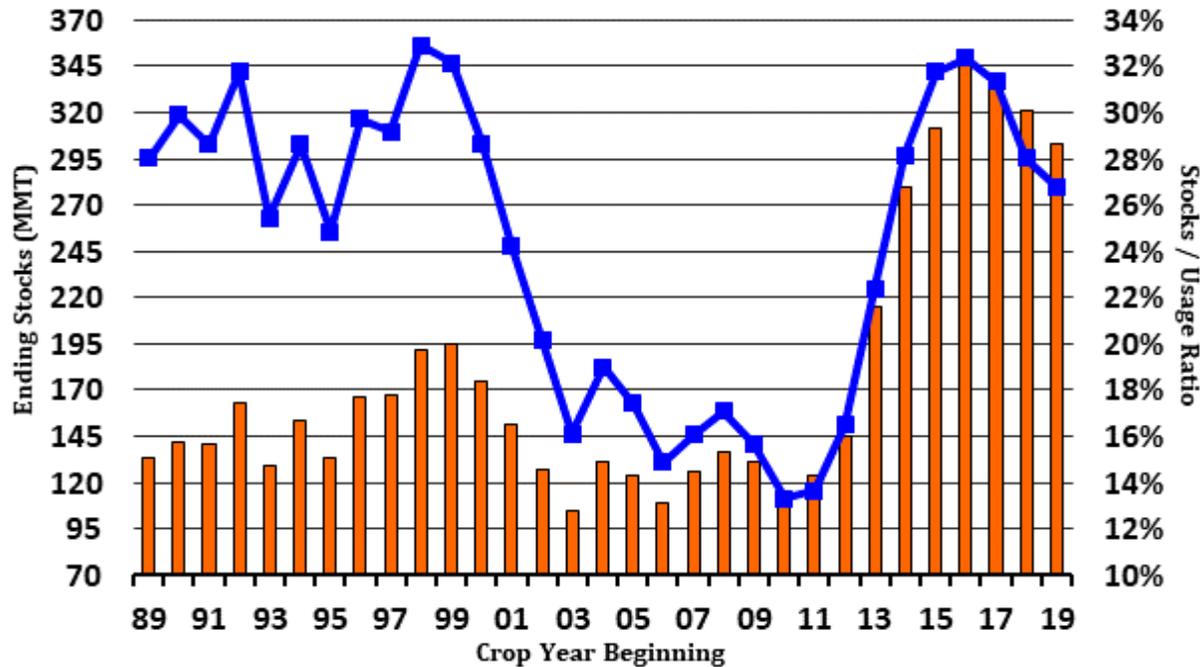


- Current supply demand dynamics suggest corn is still in deficit situation.
- But this could change with ethanol demand plummeted amid crude oil price collapse.
- Positive in the mid term.



World Agriculture levels remain elevated

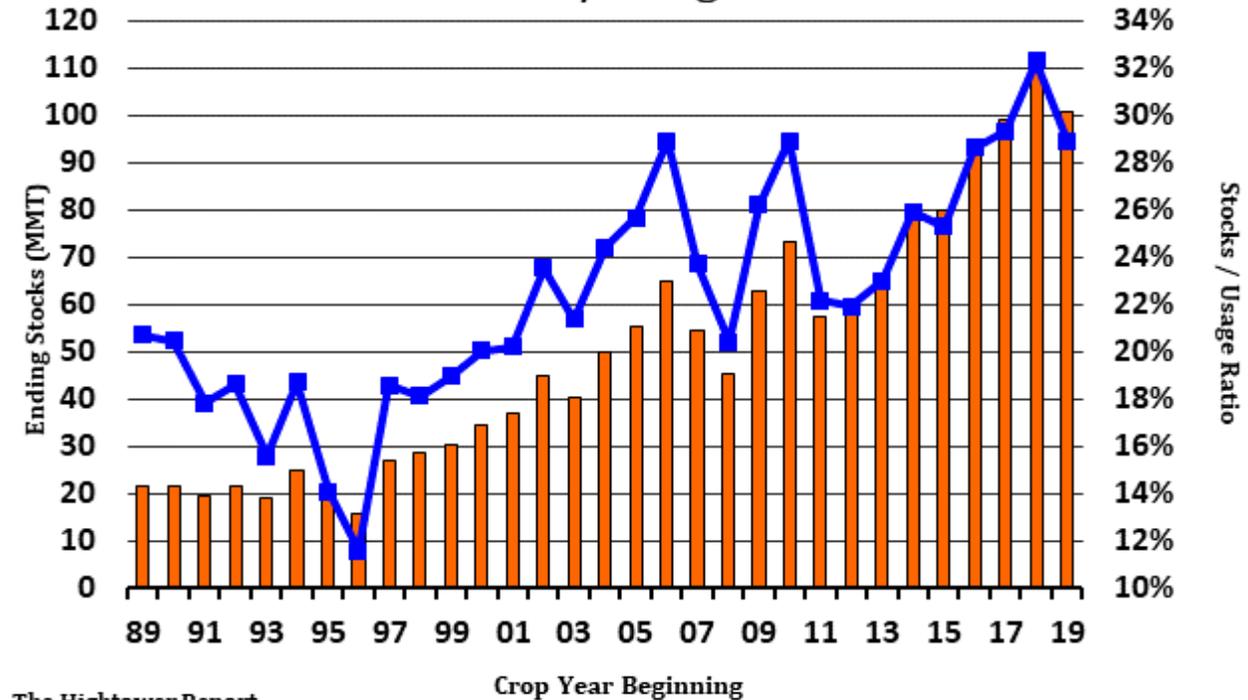
World Corn - Ending Stocks vs. Stocks / Usage Ratio



The Hightower Report | Source: USDA
Most Recent: As Of 04/09/2020

Ending Stocks Stocks / Usage Ratio

World Soybeans - Ending Stocks vs. Stocks / Usage Ratio



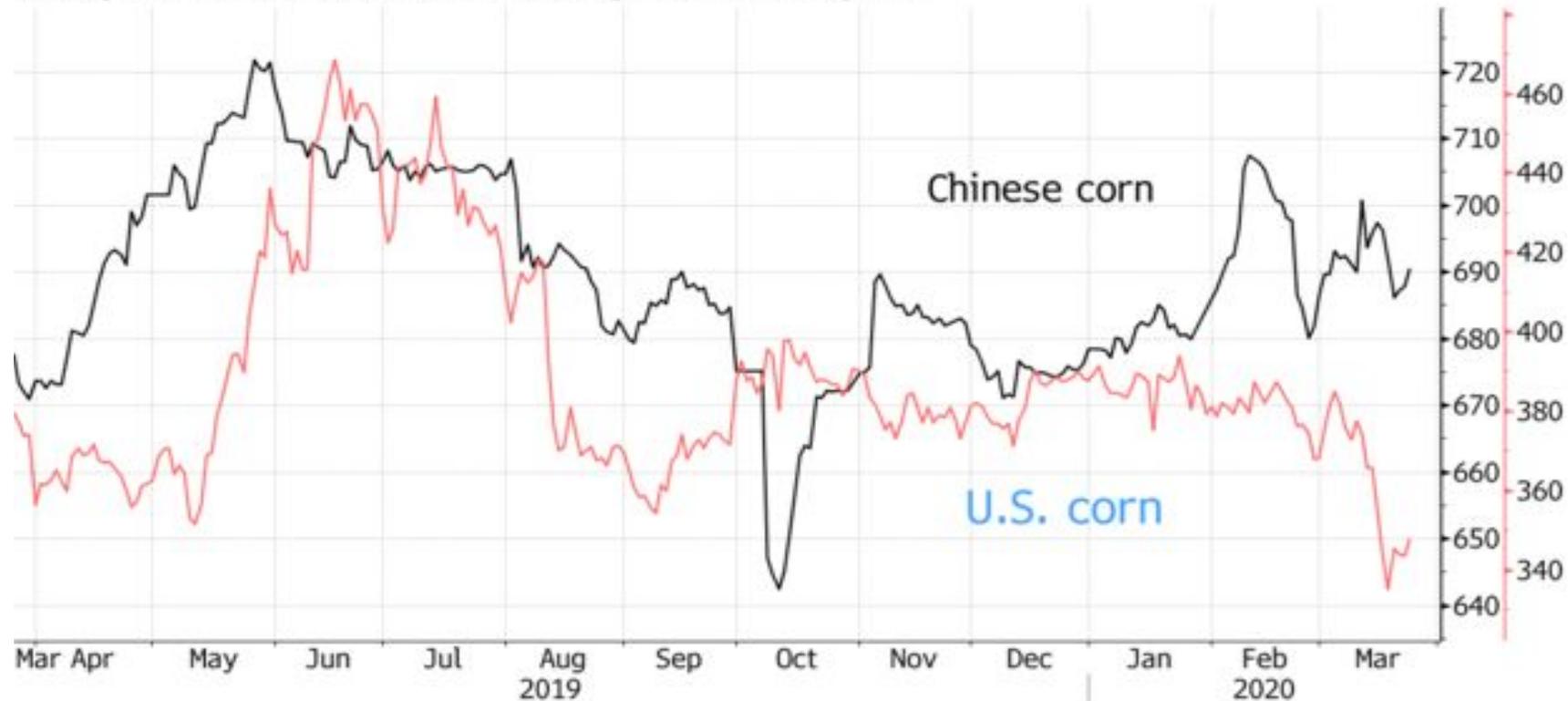
The Hightower Report
Most Recent: As Of 04/09/2020

Ending Stocks Stocks / Usage Ratio

US corn prices are getting attractive in overseas market

U.S. Corn Allure

Cheap American corn is attracting Chinese buyers



Source: CME



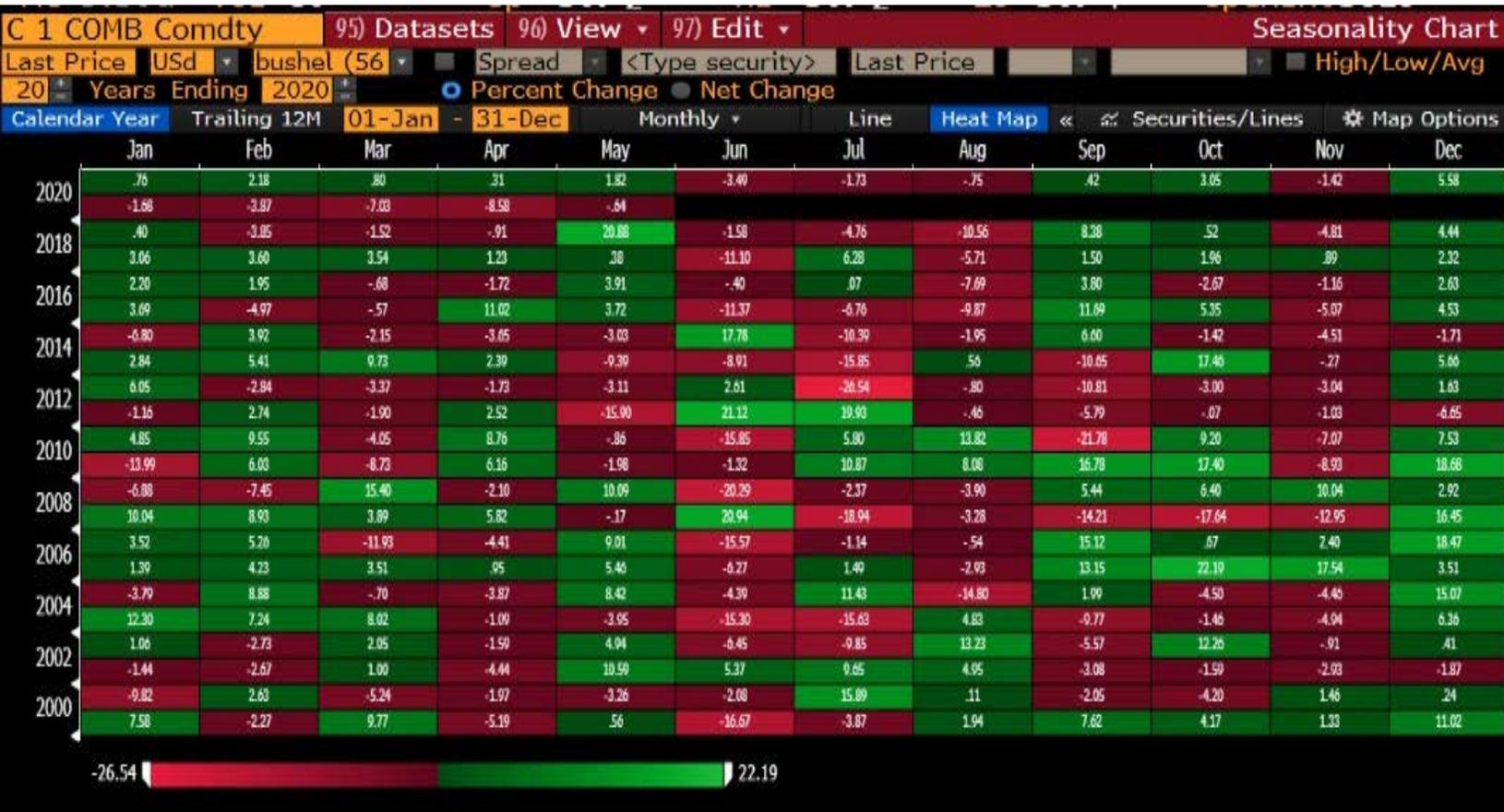
Corn is cheaper than wheat



- Current corn to wheat ratio is at 2012 low indicating massive discount in corn market relative to wheat market.
- Current wheat prices are viewed as overpriced. The sharp increase was mainly due to drought.
- The average ratio is around 80% but current level is around 60%.
- Based on historical relevance, one can short wheat contract and take a long position in the corn market.



20 Years Price Seasonality for Corn



- Strong periods are Jan, Feb, October and December
- Weak periods are June, July and November



Soybean



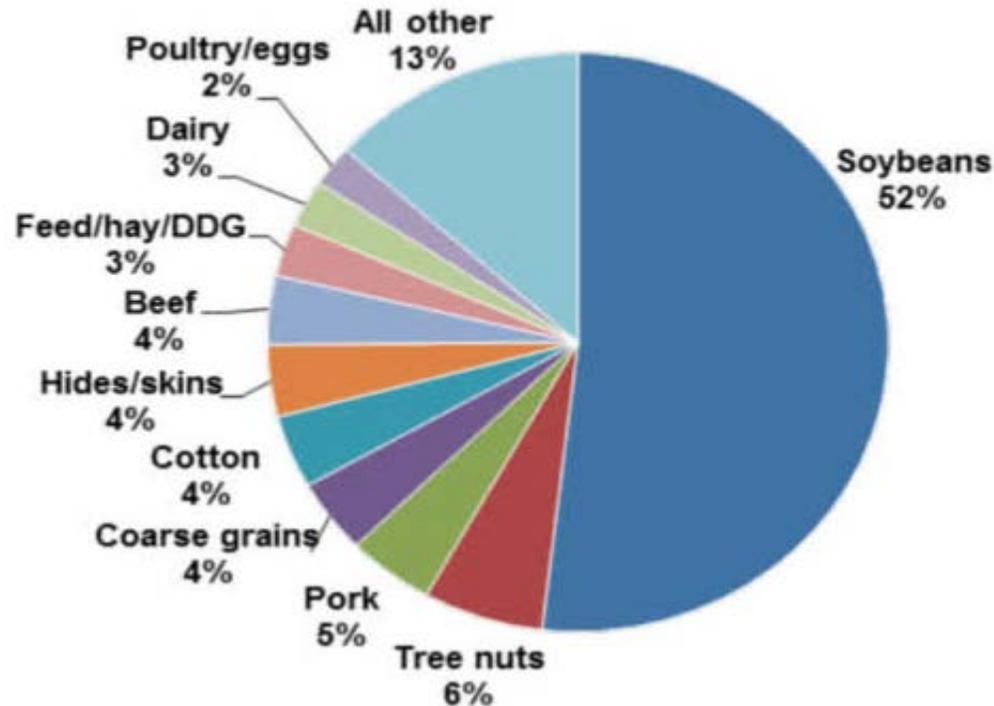
Overall soybean price trend



Soybean , a major commodity for US exports

U.S. Ag Exports to China

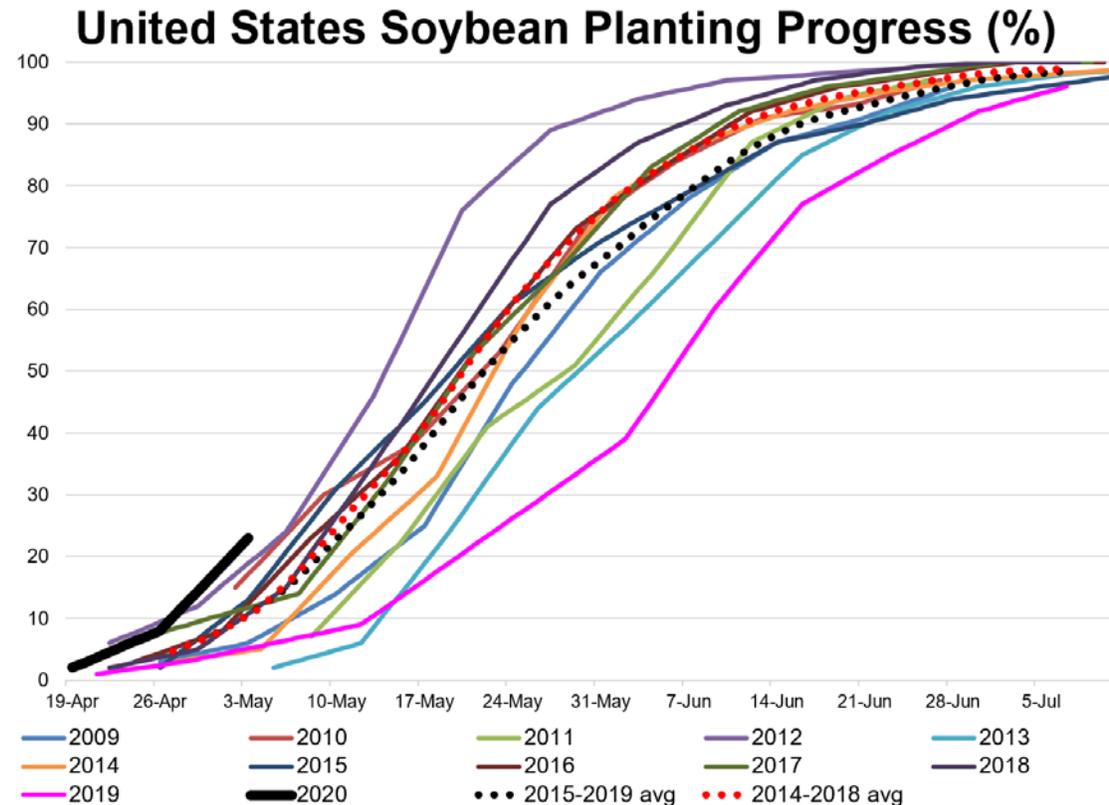
(Market share by value)



- Soybean still a major commodity for US exports to China.
- A definite point of negotiation in the trade agreement.



Planting Progress looks normal so far

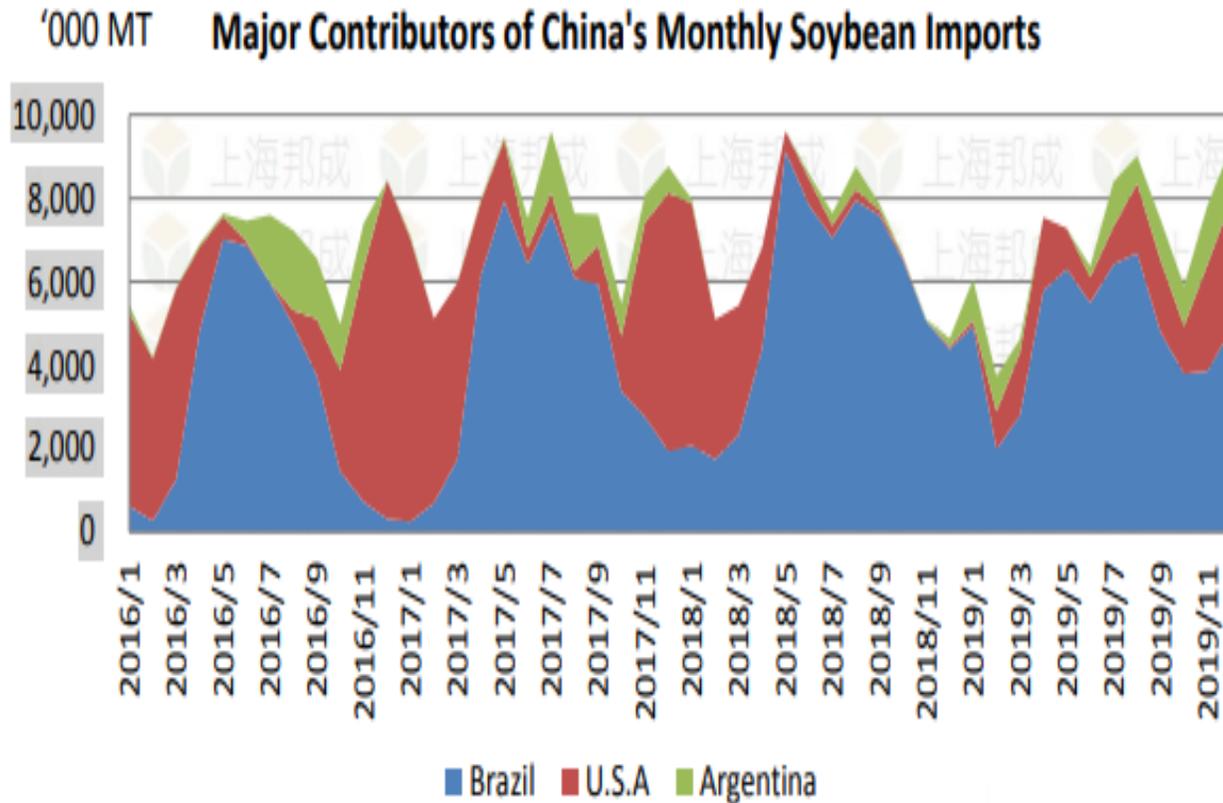


Data source: USDA/NASS

- Planting progress is a vital key crop report that traders pay close attention to.
- A good planting progress indicating supply is on track.
- A bad progress report usually indicates production stress typically caused by weather deterioration which is price positive.

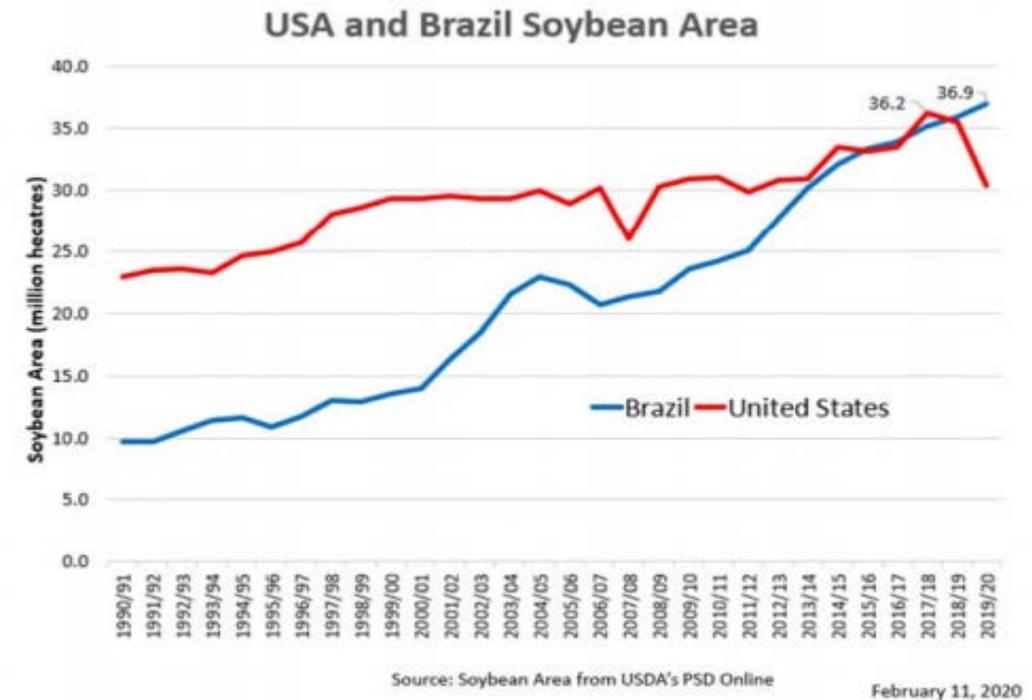
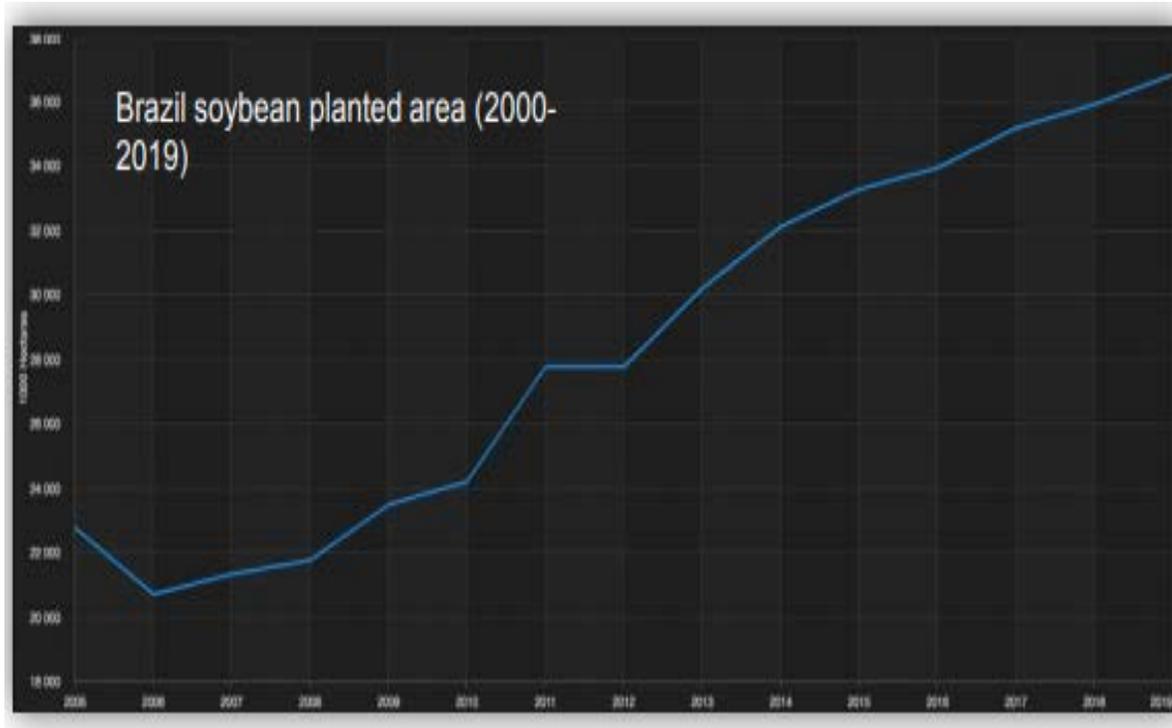


Growing share of South American beans

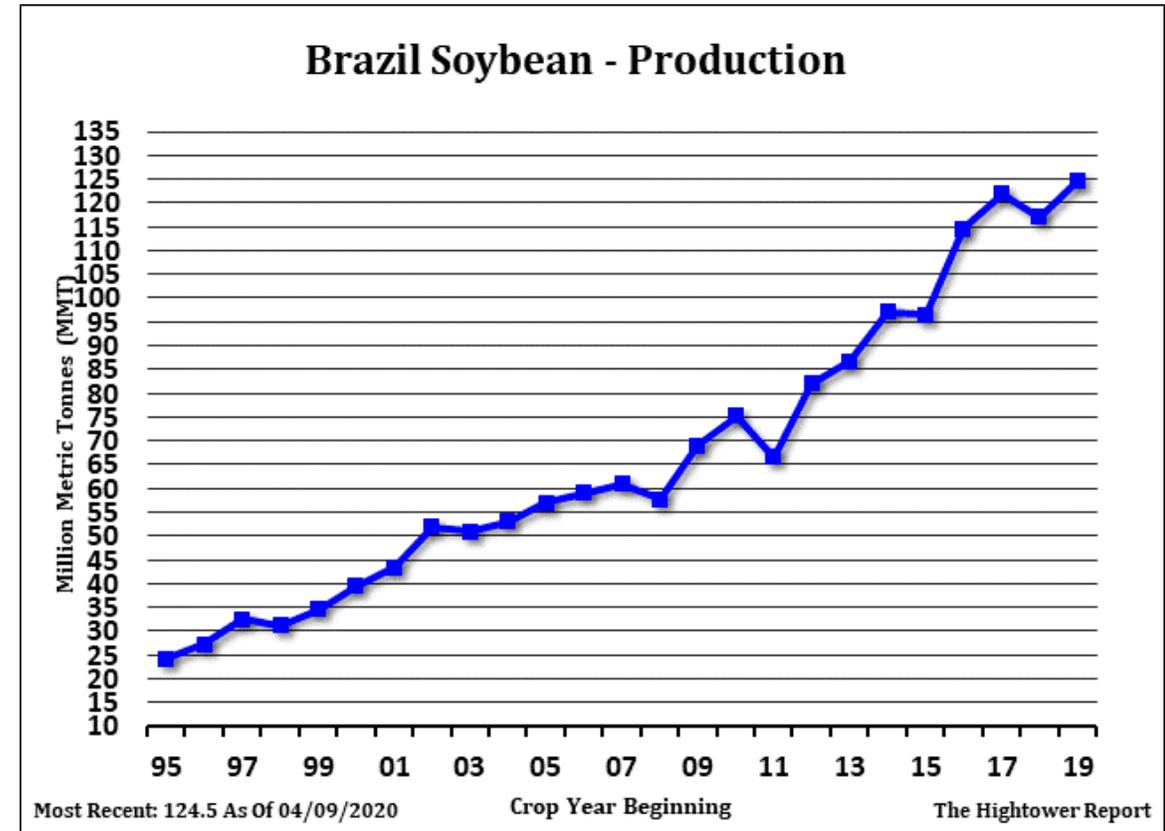
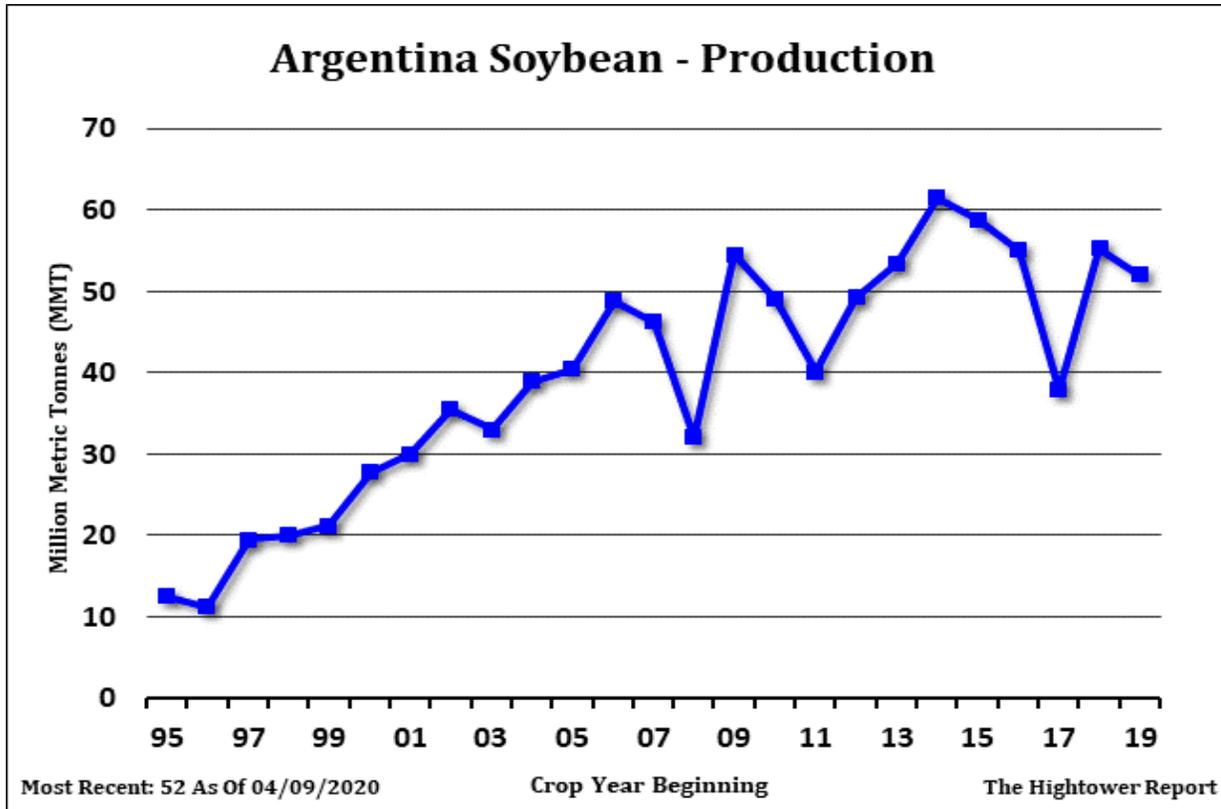


- Brazil remains a dominant player in soybean exports to China.
- Argentina share is slowly increasing.
- Sentiment for US beans was affected by ongoing trade war issues.

Increasing soybean production from Brazil



South American Soybean supplies more than 50% world production

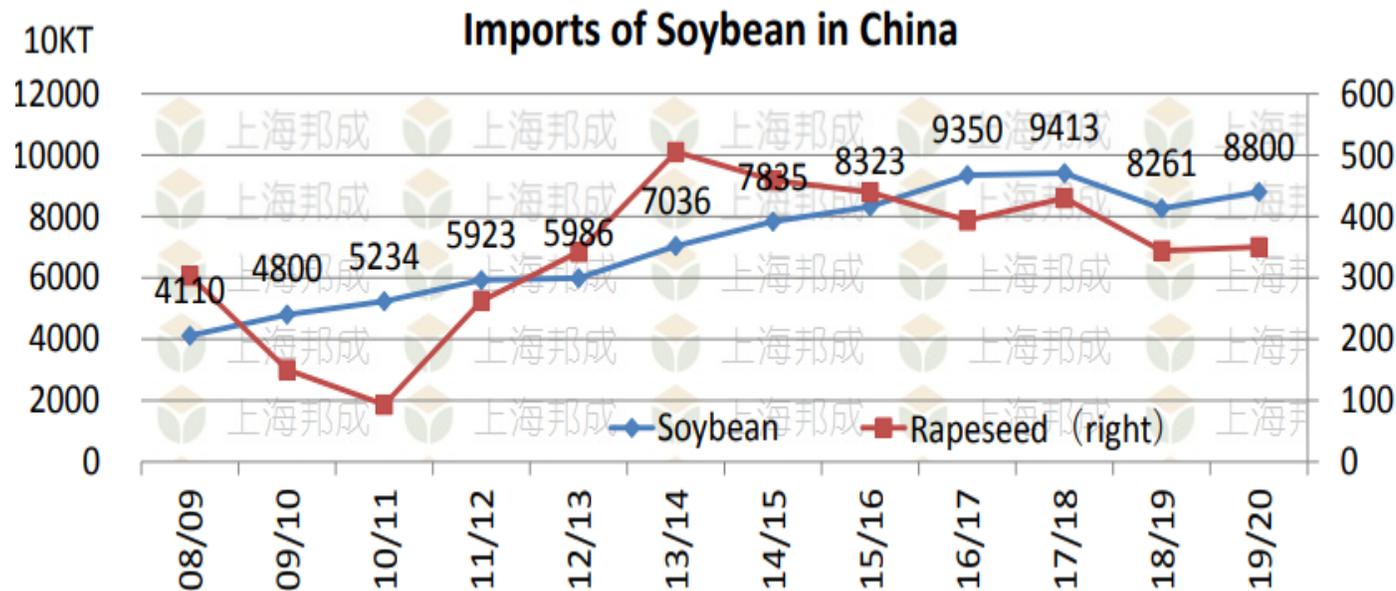


- Total combined South American supplies around 175 million metric tonnes annually.
- US alone supplies 95 million metric tonnes on average

Source:CME



Increasing demand for soybean in China



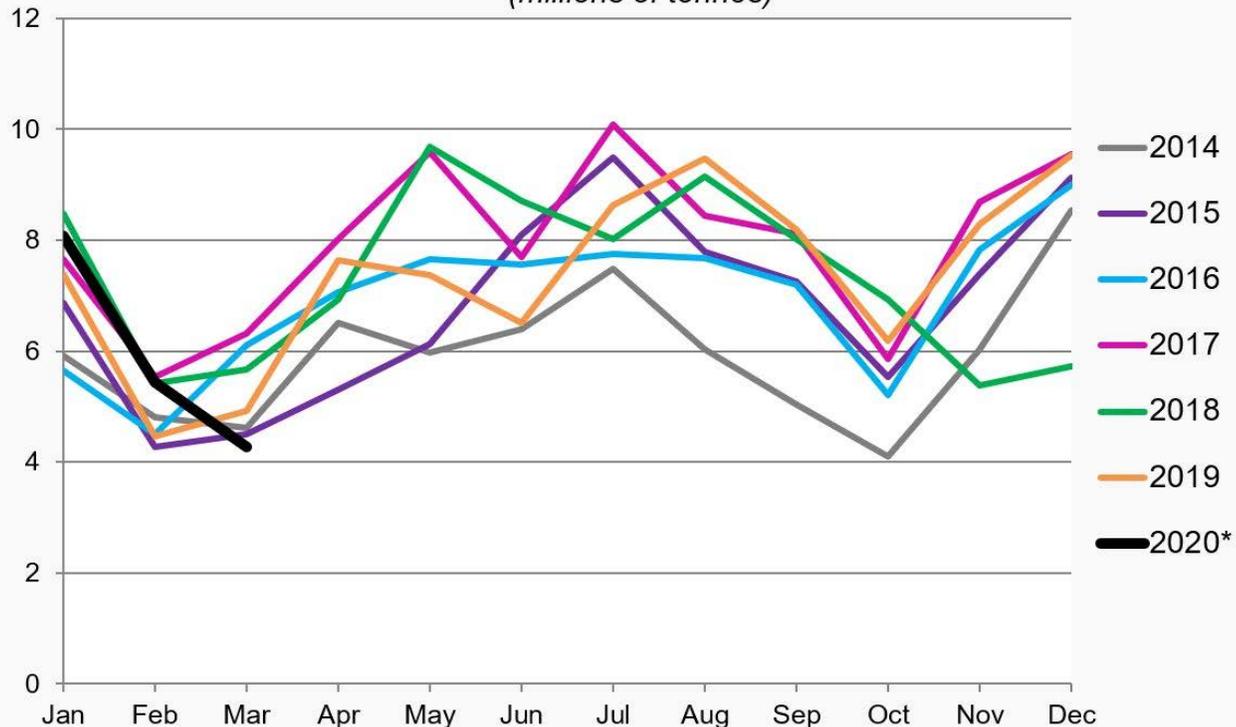
- Import of soybean is set to rise.
- Rising over the years.
- Demand for poultry increases the demand for soybean.



China expected to purchase more beans

China's Monthly Soybean Imports

(millions of tonnes)



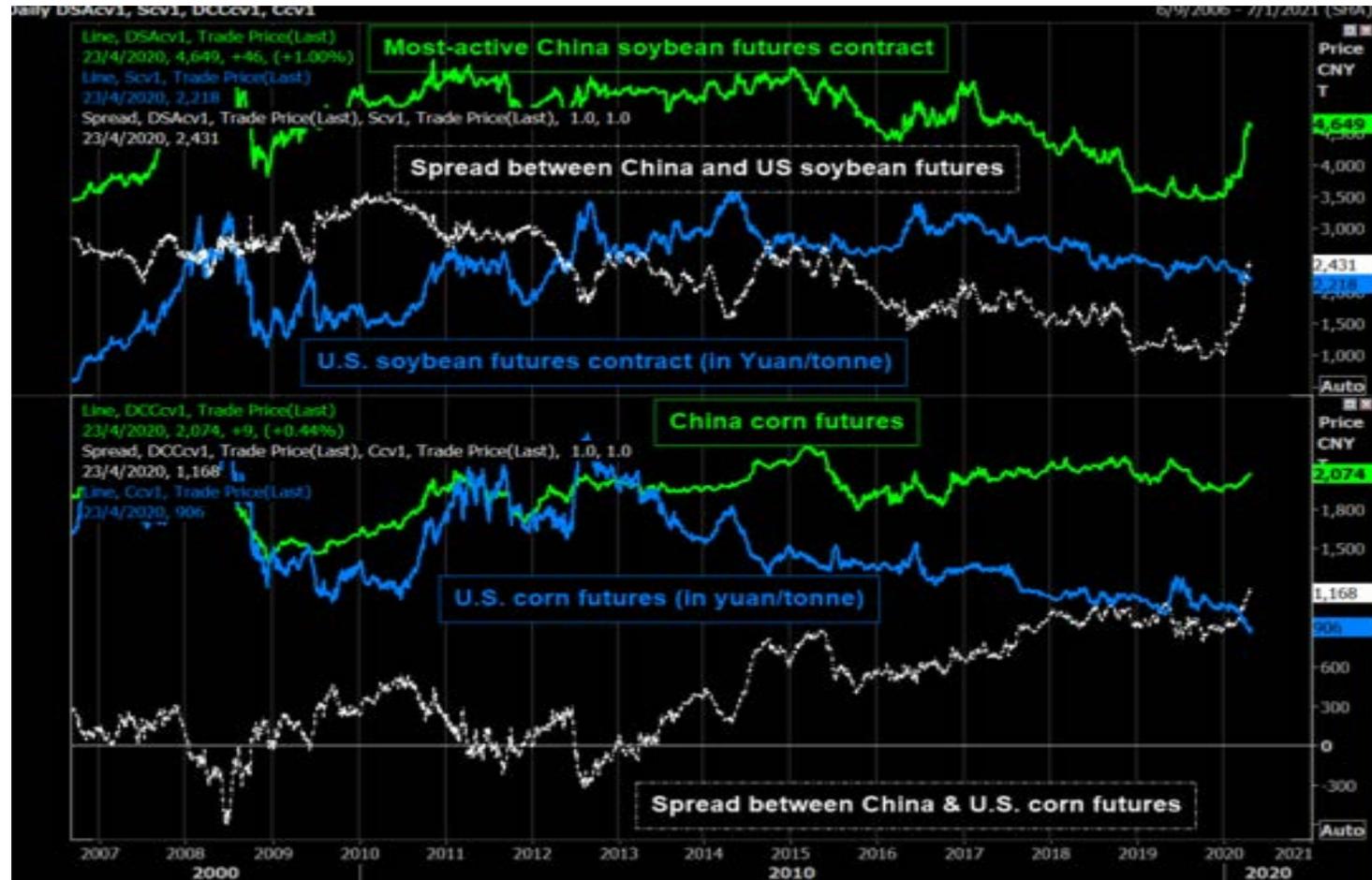
*Jan/Feb 2020 are estimated using the two-month total of 13.51 mmt and historical percentages.

Data sources: General Administration of Customs of China; Reuters

@kannbwx

- China reduce their purchases of beans in early part of this year.
- We reckon this will change as we enter Q2, Q3. Current stocks level is low and will need to be replenished soon.
- Seasonally, April and May, China will start buying beans.
- Current low price maybe an added advantage.

China soybean and corn is more expensive

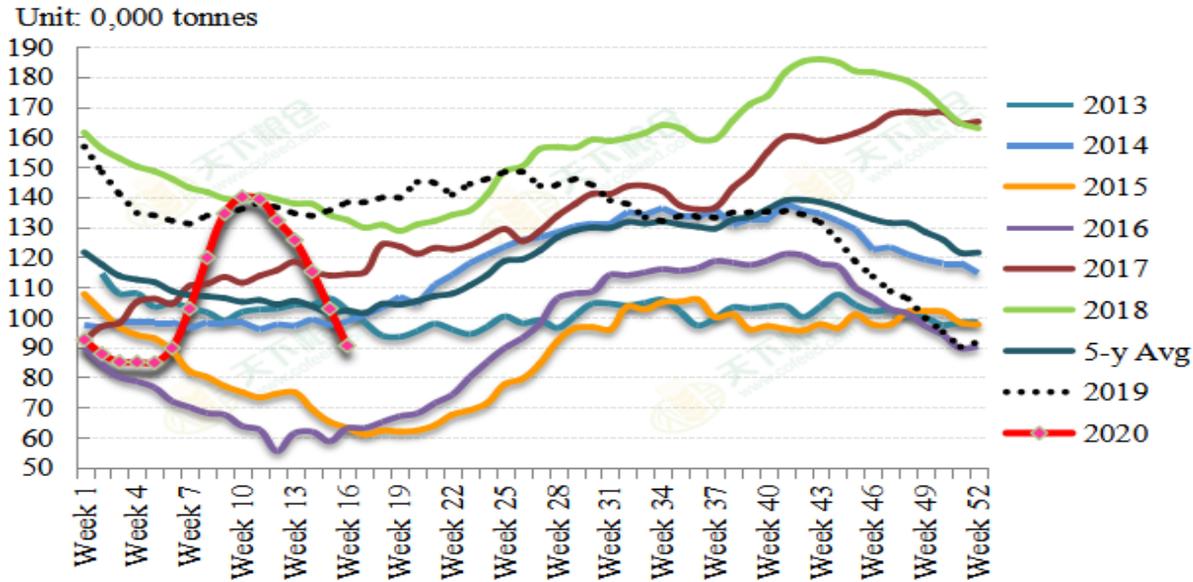


- US corn and soybean prices are getting more competitive to local China prices for both commodities.
- China may take this opportunity to increase their purchases.



Low stocks at China port

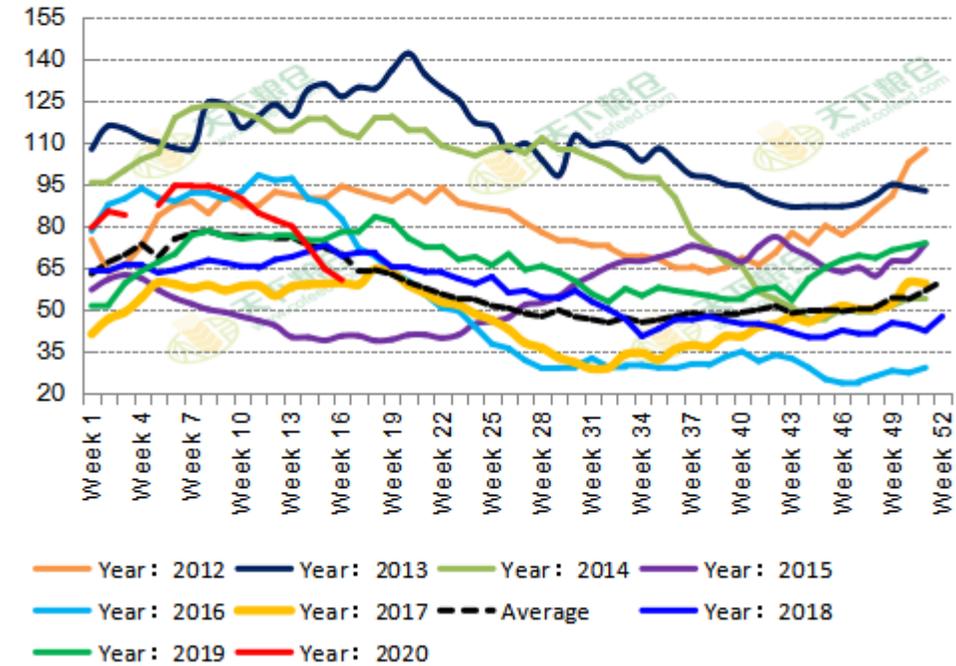
Soybean Oil Stocks in China



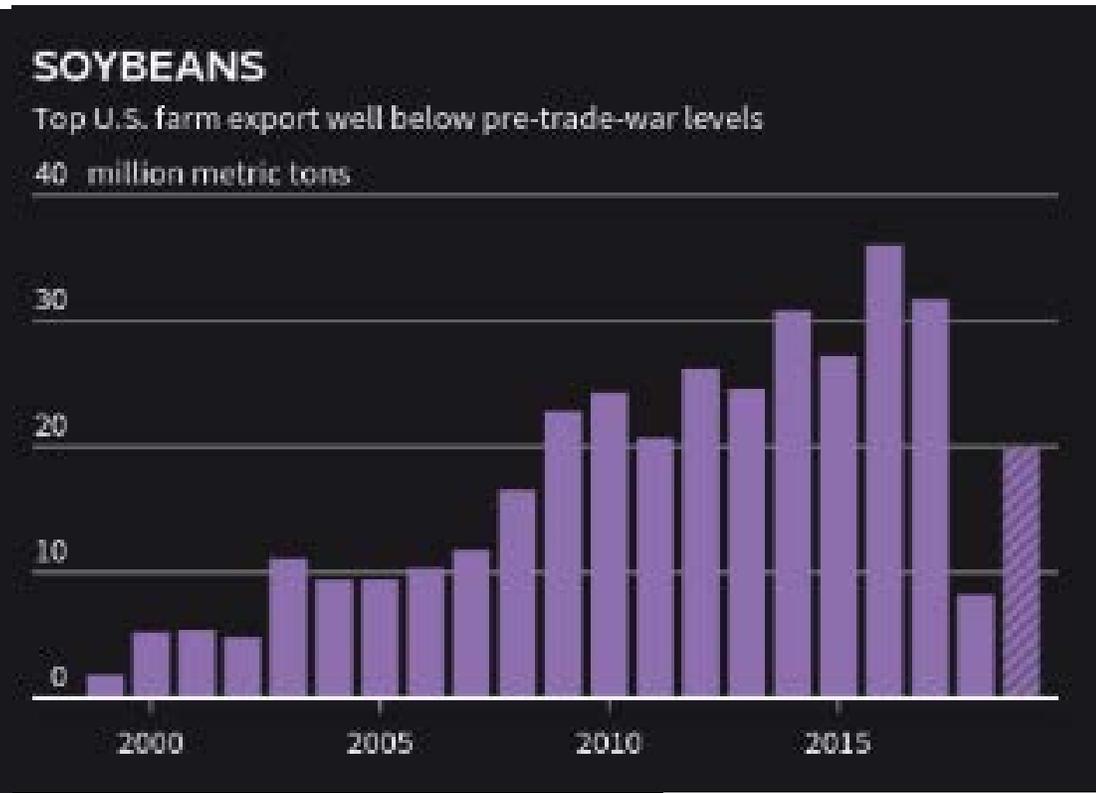
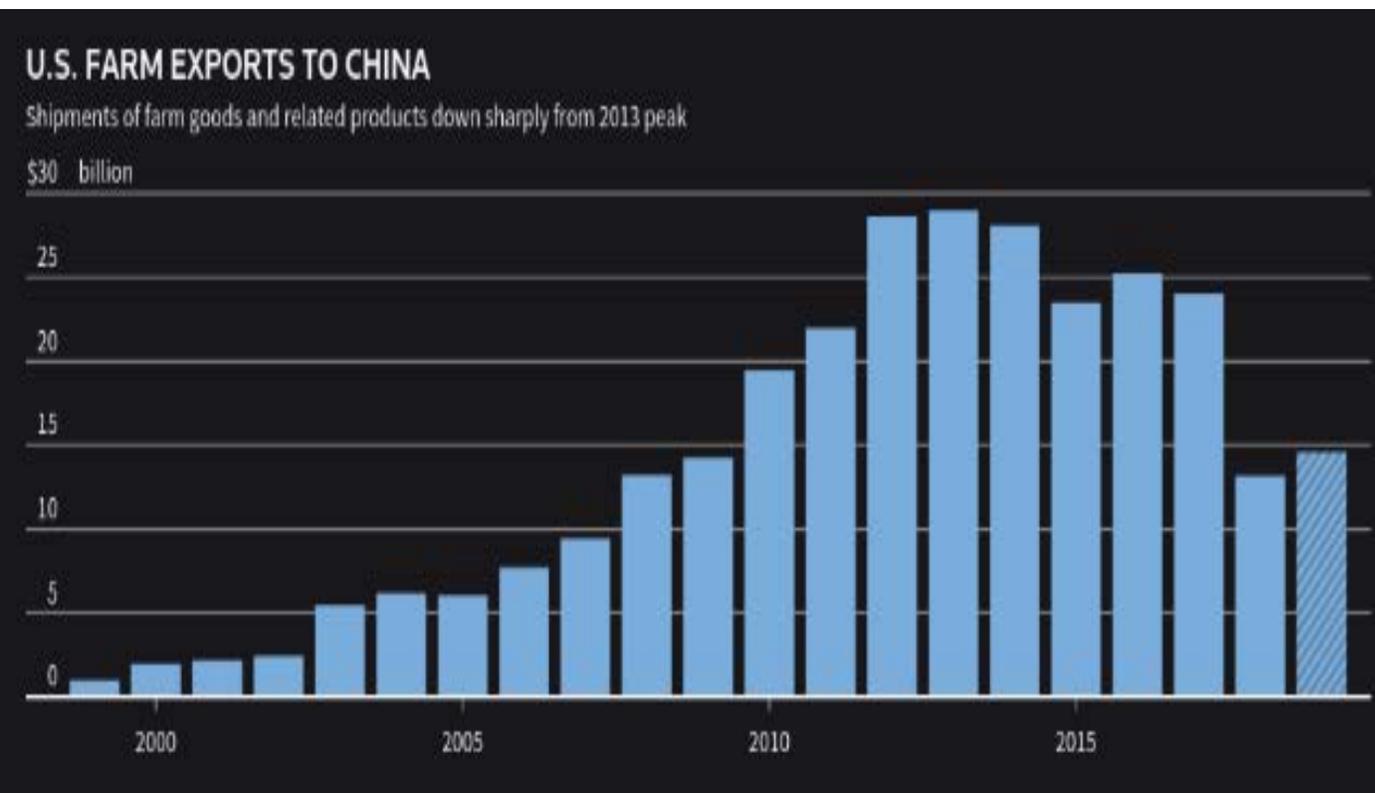
Data Sources: Cofeed

China's Palm Oil Stocks in Recent Years

Unit : 0'000 T



Impact of US-China Trade War on commodity demand



Trump aid to the farmers

- The aid plan includes \$16 billion in direct payments to farmers to boost their incomes, along with \$3 billion in government purchases of meat, dairy products and other food.
- An initial USDA proposal for the rescue package included an individual payment limit of \$125,000 per product category or \$250,000 overall per person.
- Trump's trade bailout and other farm subsidy programs have come under criticism for concentrating benefits on larger operations. Many farms reduce the impact of payment limits by including relatives in the ownership structure.
- This is crucial to gauge the political impact on President Trump's reelection especially on key growing areas which usually serve as a strong political ally to Trump's campaign.



US – China Phase 1 Trade Deal

| ANNEX 6.1 INCREASES IN U.S. EXPORTS TO CHINA OVER 2 YEARS | | | |
|--|---|-------------|--------------|
| Unit: USD Billion | | | |
| Product Category | Additional U.S. Exports to China on Top of 2017 Baseline | | |
| | Year 1 | Year 2 | 2-Year Total |
| 1. Manufactured Goods | 32.9 | 44.8 | 77.7 |
| 1 Industrial machinery | | | |
| 2 Electrical equipment and machinery | | | |
| 3 Pharmaceutical products | | | |
| 4 Aircraft (orders and deliveries) | | | |
| 5 Vehicles | | | |
| 6 Optical and medical instruments | | | |
| 7 Iron and steel | | | |
| 8 Other manufactured goods ^a | | | |
| 2. Agriculture^b | 12.5 | 19.5 | 32.0 |
| 9 Oilseeds | | | |
| 10 Meat | | | |
| 11 Cereals | | | |
| 12 Cotton | | | |
| 13 Other agricultural commodities ^c | | | |
| 14 Seafood ^d | | | |
| 3. Energy | 18.5 | 33.9 | 52.4 |
| 15 Liquefied natural gas | | | |
| 16 Crude oil | | | |
| 17 Refined products | | | |
| 18 Coal ^e | | | |
| 4. Services^f | 12.8 | 25.1 | 37.9 |
| 19 Charges for use of IP | | | |
| 20 Business travel and tourism | | | |

- China “shall ensure” additional purchases of U.S. agriculture products by \$32 billion over two years, the deal says, including \$12.5 billion above the corresponding 2017 baseline of \$24 billion in 2020 and \$19.5 billion above the baseline in 2021.



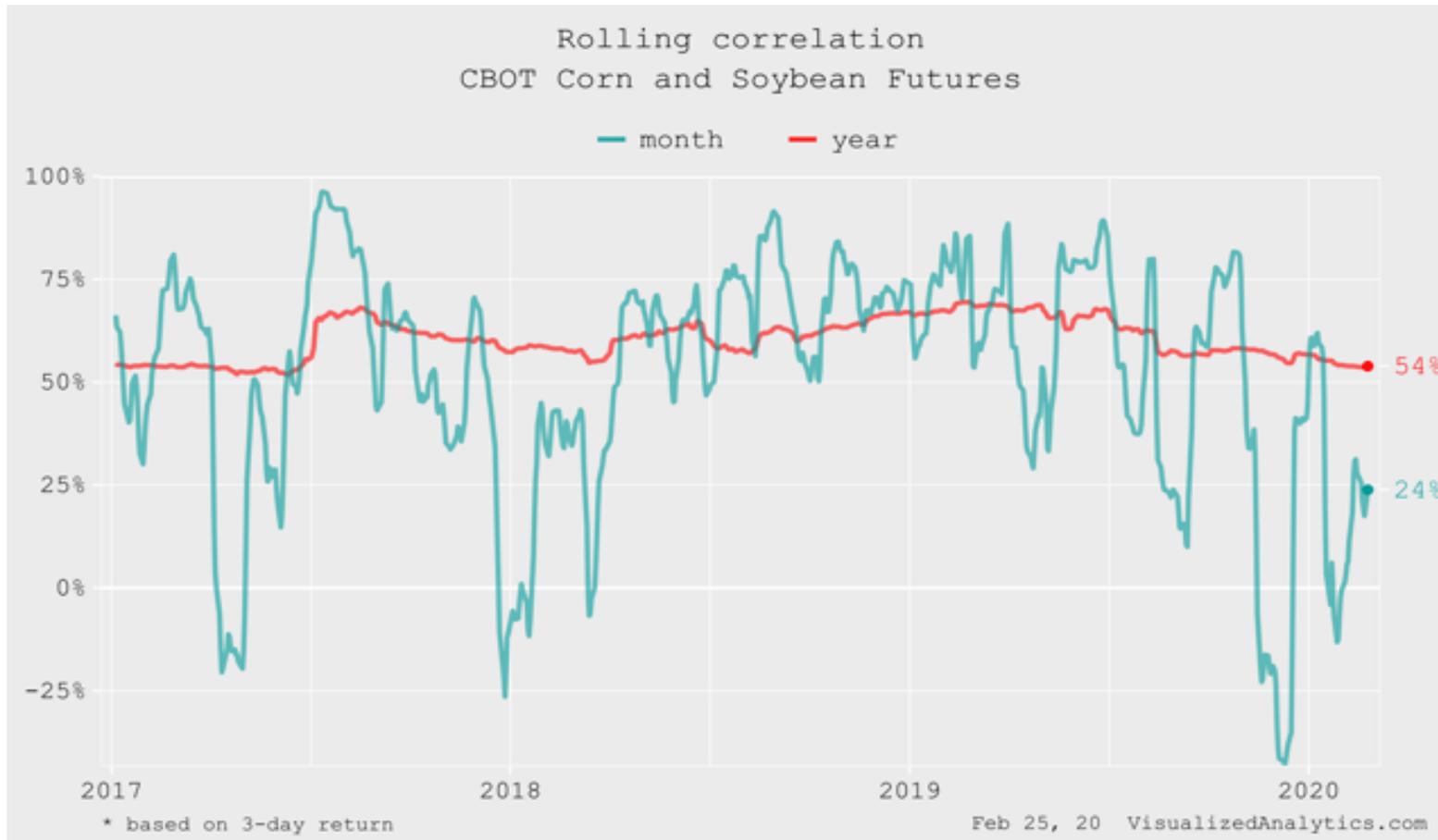
Trade Deal in Tatters



- “01-Jun-2020 04:30:51 PM - CHINA IS SAID TO HALT SOME US SOY IMPORTS AS TENSIONS RISE- BLOOMBERG NEWS EDITOR TWEET01-Jun-2020 04:39:29 PM - CHINA ORDERED MAJOR STATE-RUN FIRMS TO PAUSE SOME U.S. AGRICULTURAL GOODS PURCHASES AS BEIJING EVALUATES TENSIONS WITH U.S. OVER HONG KONG - BLOOMBERG NEWS, CITING SOURCESCHINA ORDERED MAJOR STATE-RUN FIRMS TO PAUSE SOME U.S. AGRICULTURAL GOODS PURCHASES AS BEIJING EVALUATES TENSIONS WITH U.S. OVER HONG KONG - BLOOMBERG NEWS, CITING SOURCES - Reuters News01-Jun-2020 04:39:29 PM”



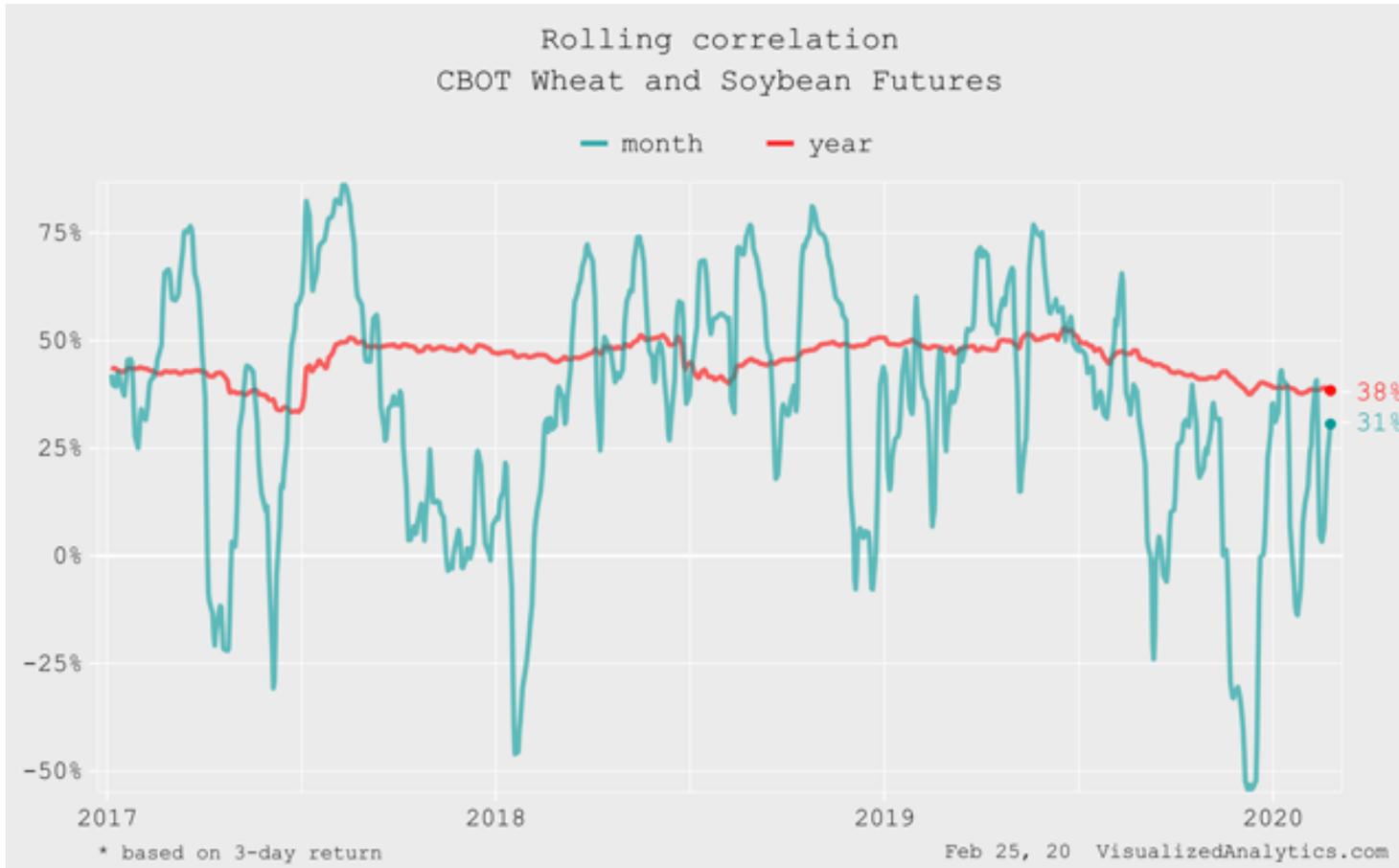
Correlation between Corn and Soybean



- Overall positive relationship between Corn and soybean.
- Recent times the strength of the relations has weakened owing to weakness in corn market.
- Soybean is supported by stronger demand for animal feed and China increasing import purchases.



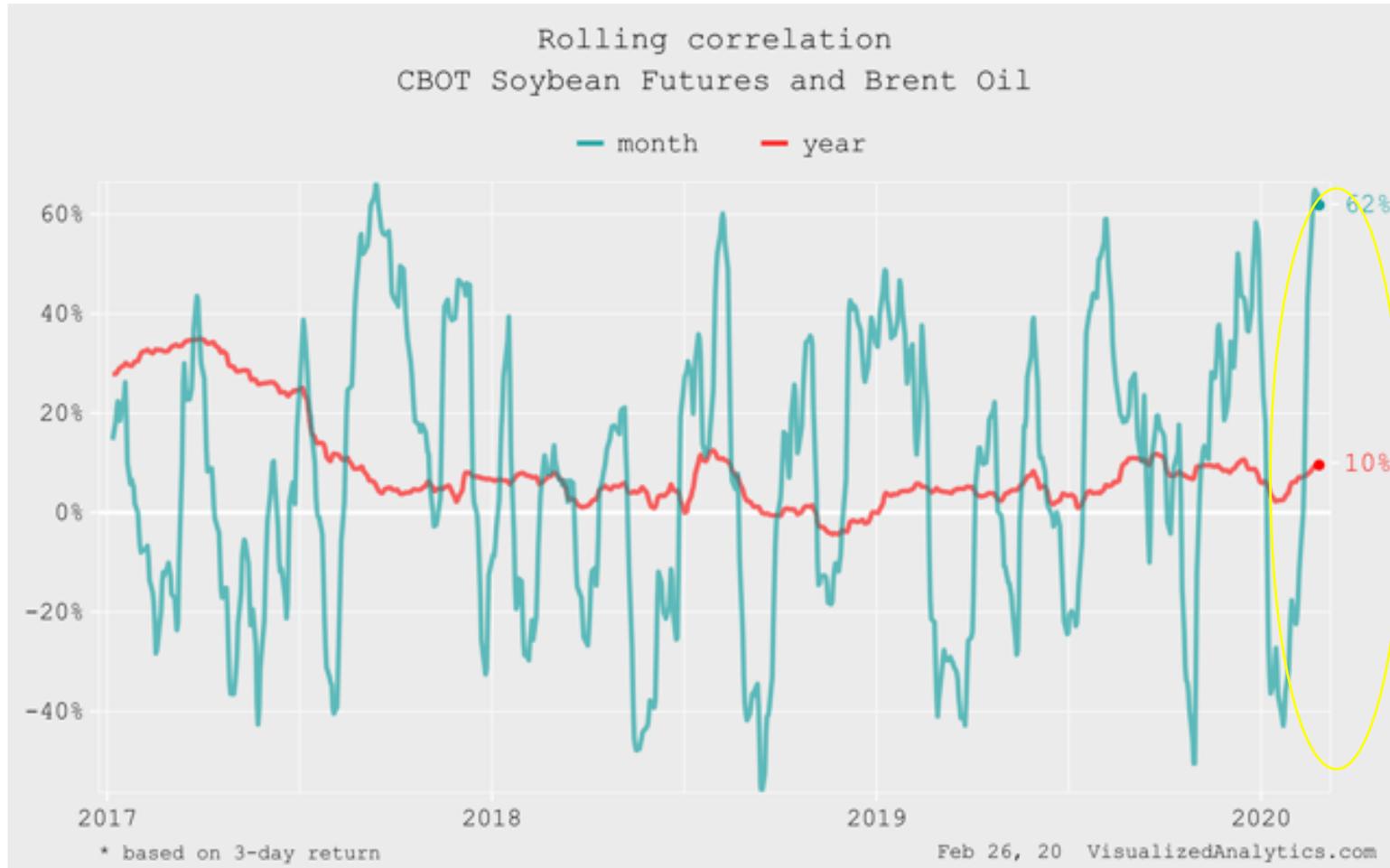
Correlation between Soybean and Wheat



- Generally a positive relationship between wheat and soybean.
- Seasonally the strength of the relationship weakens towards the end of the year as new crop starts surfacing into the market.



Correlation between Soybean and Brent



- Based on historical average, soybean tends to display a low relationship with Brent.
- However, in past months we saw a sharp increase in the relationship.
- Mainly attributed to relationship dynamics of biofuel usage.
- Lower crude oil prices dampen the demand for soybean which is used as biofuel.
- COVID-19 pandemic crisis also contributed to lower demand.



20 Years price seasonality for Soybean



- Strong periods are Feb, Apr, Jun and October
- Weak periods are July, Aug and September



Spread Analysis



Crop Calendar for Corn and Soybean

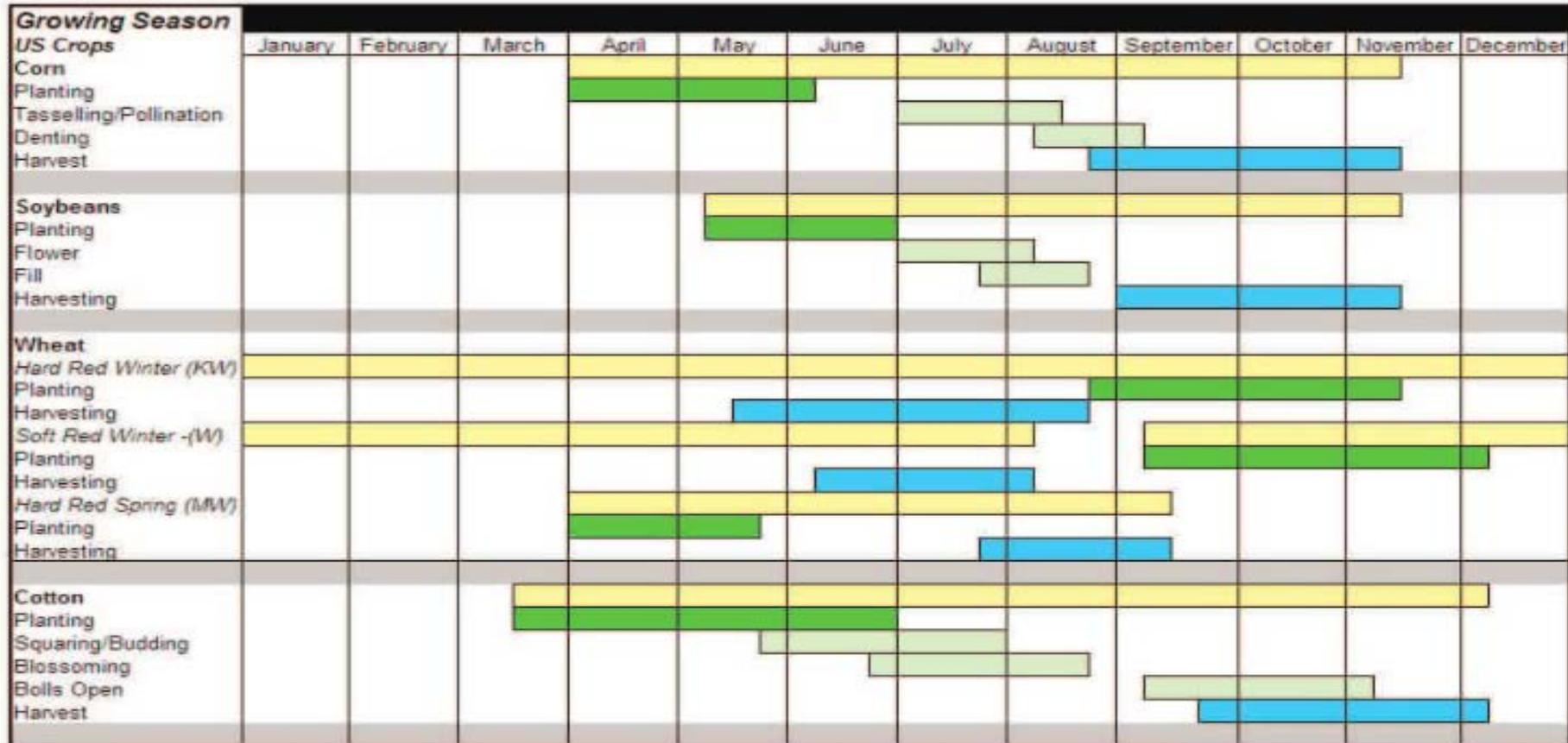
| US | Corn | Soybean |
|------------|------------------|---------------------------|
| Planting | April – June | April-June |
| Harvesting | October-November | September-end of November |

| Argentina | Corn | Soybean |
|------------|---------------------|------------------|
| Planting | September- November | October-December |
| Harvesting | Jan - April | March-May |

| Brazil | Corn | Soybean |
|------------|--------------------|------------------|
| Planting | September-November | October-December |
| Harvesting | May | Jan-April |



Crop Calendar for Soybean, Corn and Wheat



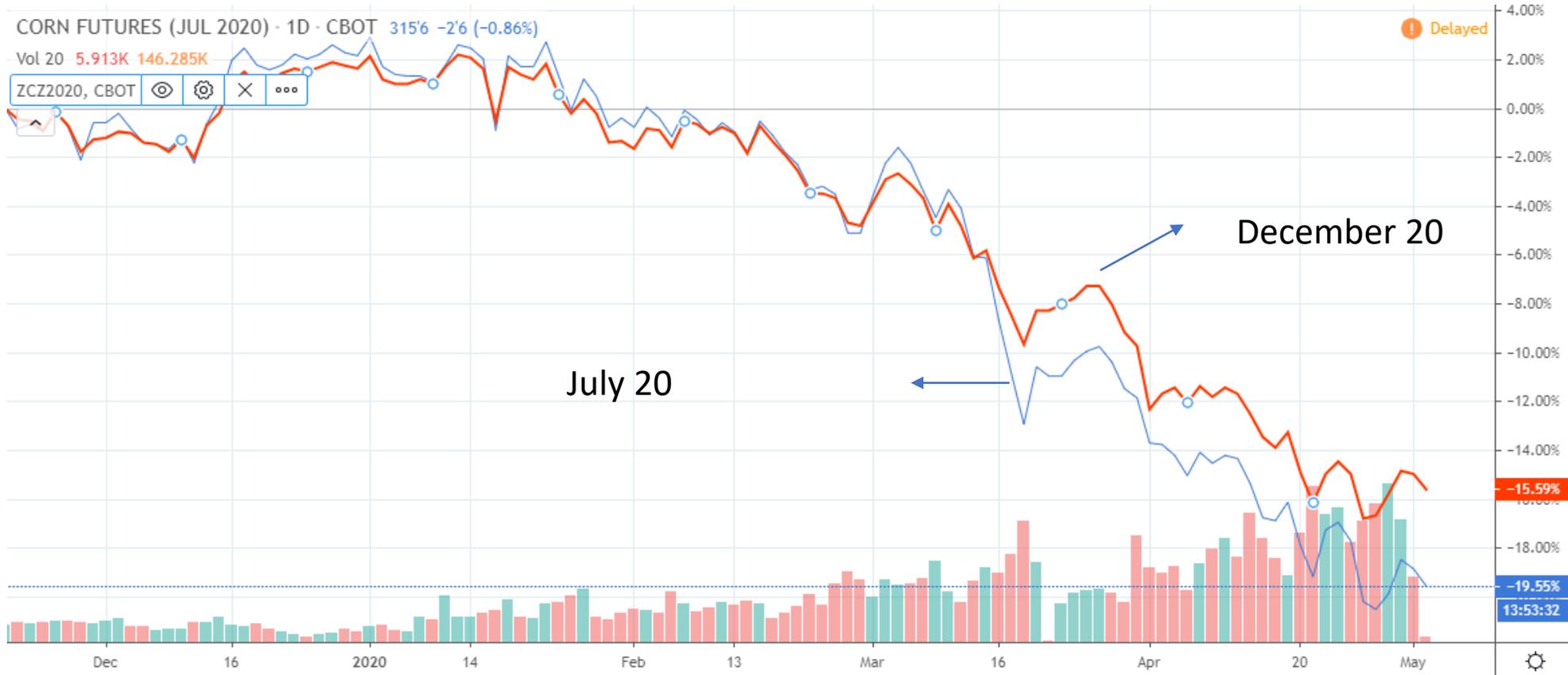
Old crop vs New crop

| Commodity | Old Crop | New Crop |
|-----------|--|----------|
| Corn | March, May, July, September | December |
| Soybean | Jan, March, May, July, August, September | November |

Old crops refer to crops that sit in inventory or those that are still growing in the field. In the futures market, the nearby delivery months of March, May, June, July, August, and September are old crop months. The new crop month for soybeans—right after the harvest—is November, and for corn, it is December.



Old Crop vs New Crop Corn spread



Old Crop vs New Crop Soybean Spread

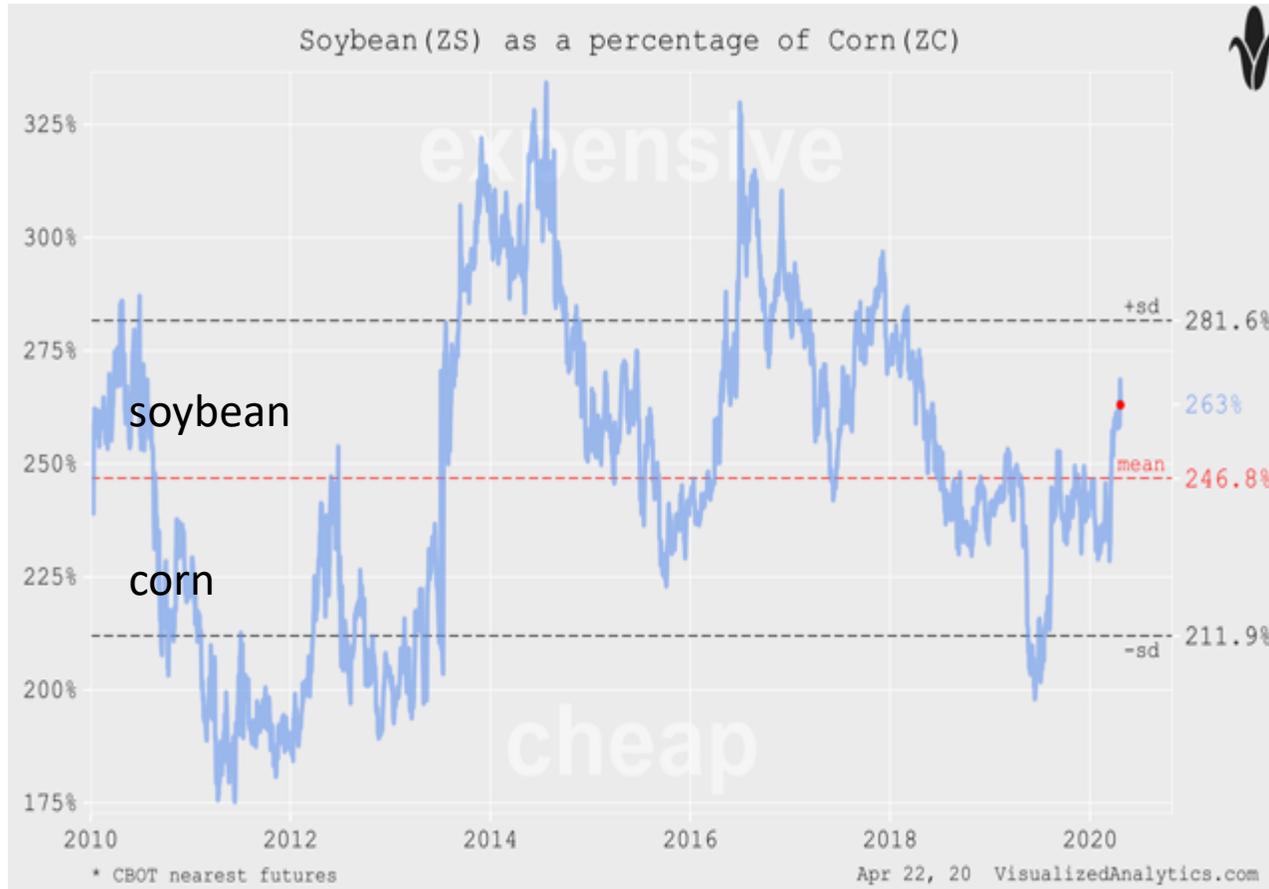


Trading the new crop vs old crop spread

- **Premium** market happens when old crop prices are **higher** than the new crop prices and a **discount** market happens when old crop prices is **lower** than the new crop prices.
- If you are bullish on the spread you will be having a long position in July 20 and a short position in December 20 contract for corn.
- If you are bearish on spread you will be having a short position in July 20 and a long position in December 20.
- USDA report on production, export and stock level could affect the near term contracts. Weather is an important parameter.



Soybean to Corn Spread



- The **higher** the soybean-corn ratio, the **more attractive soybean is to be planted** . The **lower** the ratio, the more attractive **corn is to be planted**. The dividing point between soybeans and corn is a ratio value of around 2.35 or 2.4. (The ratio is sometimes expressed as the figure followed by a colon and 1, as in 2.35:1.)
- The price of a bushel of soybeans based on the November futures contract price divided by the price of a bushel of corn-based on the December futures contract is called the soybean-corn ratio.

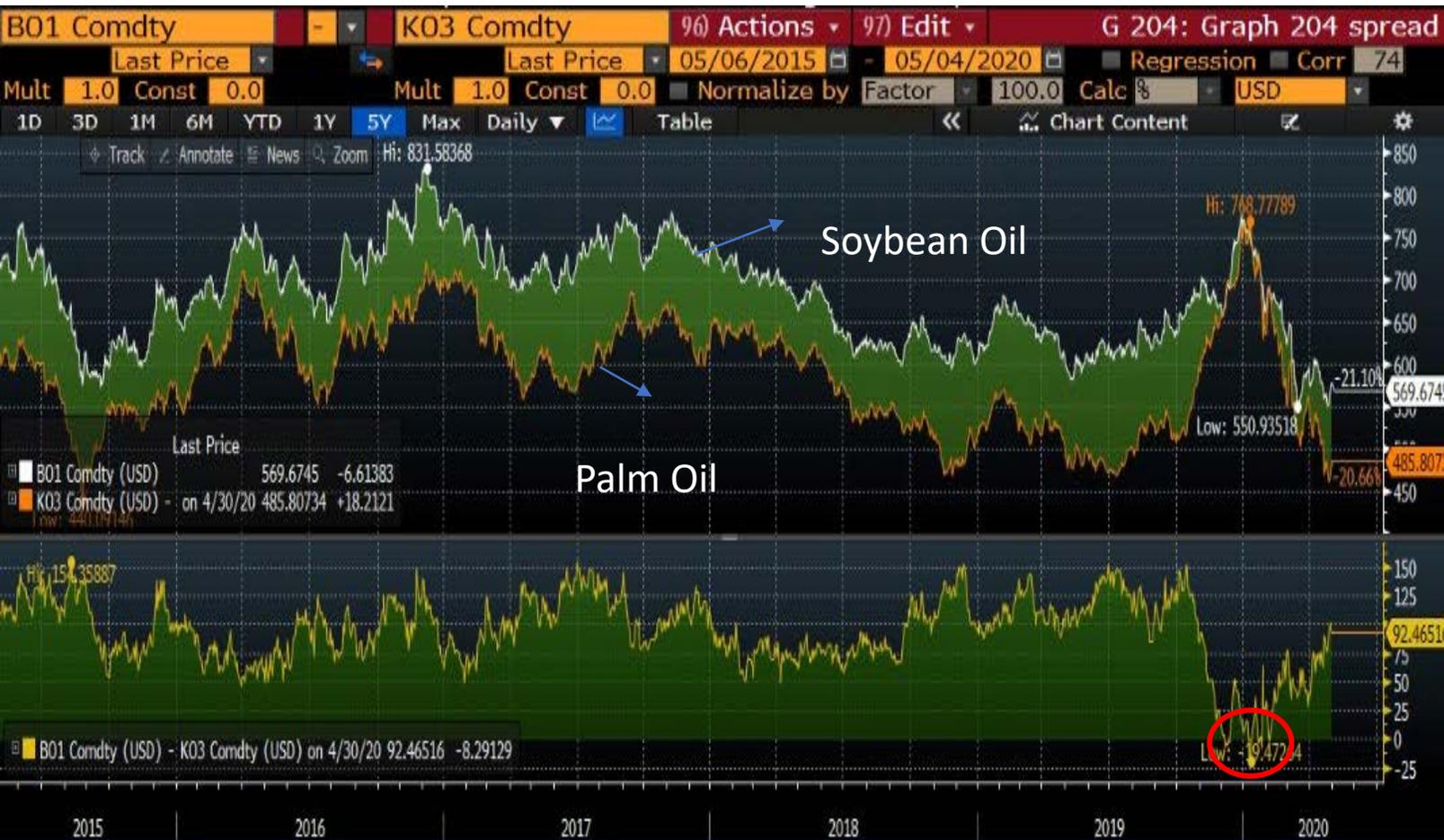
Correlation between soybean oil and palm oil



- Both soybean oil and palm oil prices tend to display positive relationship.
- On average, every 1% positive movement in palm oil, a 0.45% similar movement is expected in the bean oil market.



Soybean Oil to Palm Oil Price Movement



- Historically , soybean oil has typically traded at a higher premium compared to palm oil.
- However, occasionally soybean oil traded at a discount. This happened earlier this year whereby prices of palm oil broke the key resistance level at RM3000. In fact palm oil traded at premium compared to soybean oil.



The soybean oil to palm oil spread



- Average spread between the soybean oil and palm oil is around 100 USD.
- Spread does go below 0 which means palm oil is overpriced.
- In this situation, you may take a short position in palm oil and long position in soybean oil.



WASDE Crop reports date for Year 2020

- June 11, 2020 - 12:00pm ET
- July 10, 2020 - 12:00pm ET
- August 12, 2020 - 12:00pm ET
- September 11, 2020 - 12:00pm ET
- October 9, 2020 - 12:00pm ET
- November 10, 2020 - 12:00pm ET
- December 10, 2020 - 12:00pm ET

World Agricultural Supply and Demand Estimate report released is usually considered as having the same effect as “non-farm payroll” number released. It is a significant report date for the agriculture market.



Price Outlook for 2020



Long Term Corn Price key support level



- Not the lowest point yet in history.
- Lowest since 2004.
- Critical support level at 310 level.
- A breach below that level could trigger a new bearish rally.



Futures Contract Margins

| Product | Margin | Minimum Tick | Average Daily Range |
|-------------|----------|-----------------------|---------------------|
| Corn | 1100 USD | 0.25 cents= 12.50USD | 9 cents |
| Soybean | 1815 USD | 0.25 cents= 12.50 USD | 14 cents |
| Soybean Oil | 935 USD | 0.01 cents= 6 USD | 7 cents |
| Palm Oil | RM5000 | RM1= RM25 | RM80 |

The difference between trading agriculture and financials market

- Agriculture products in general display more seasonality effect compared to financial markets which tend to display continuous trend.
- Agriculture displays less volatility especially when the product is on a downtrend. Unlike financial markets which can display high volatility on a downtrend market.
- Due to the lower volatility, traders will need a longer time frame.
- Volatility kicks in during the release of important report dates.

Resources and links

- <https://www.cmegroup.com/trading/agricultural/>
- www.usda.gov
- <https://soygrowers.com/>
- Bloomberg.com
- Reuters.com
- <https://www.agmrc.org> (website on ethanol)

Feel Free to Reach Me on a Personal Level

David Ng – Proprietary Trader

nghengsoon@gmail.com

Iceberg X Sdn Bhd



