

Agriculture Products and the Next Big Move

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Webinar Outline

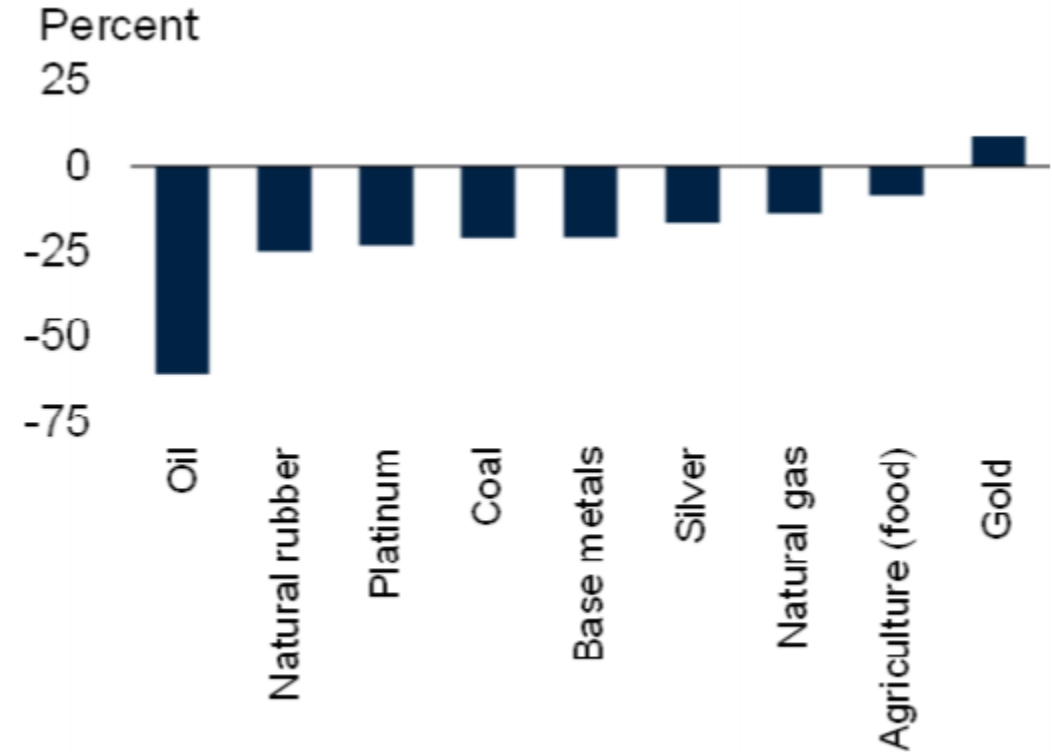
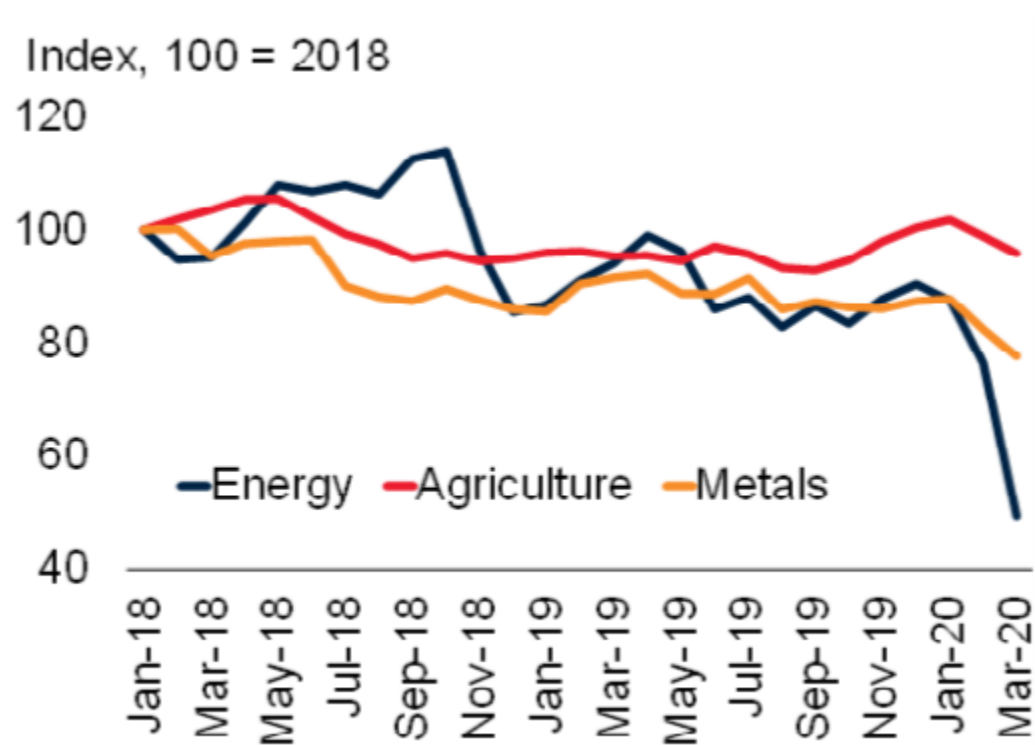
- 1) Understand the fundamental prospects on agriculture
- 2) Learn the impact of Covid-19 on commodities prices
- 3) Navigate the price of seasonality impact of corn and soybeans
- 4) Explore the trade opportunities between soybean oil and crude palm oil
- 5) Spread analysis as a trading tool



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



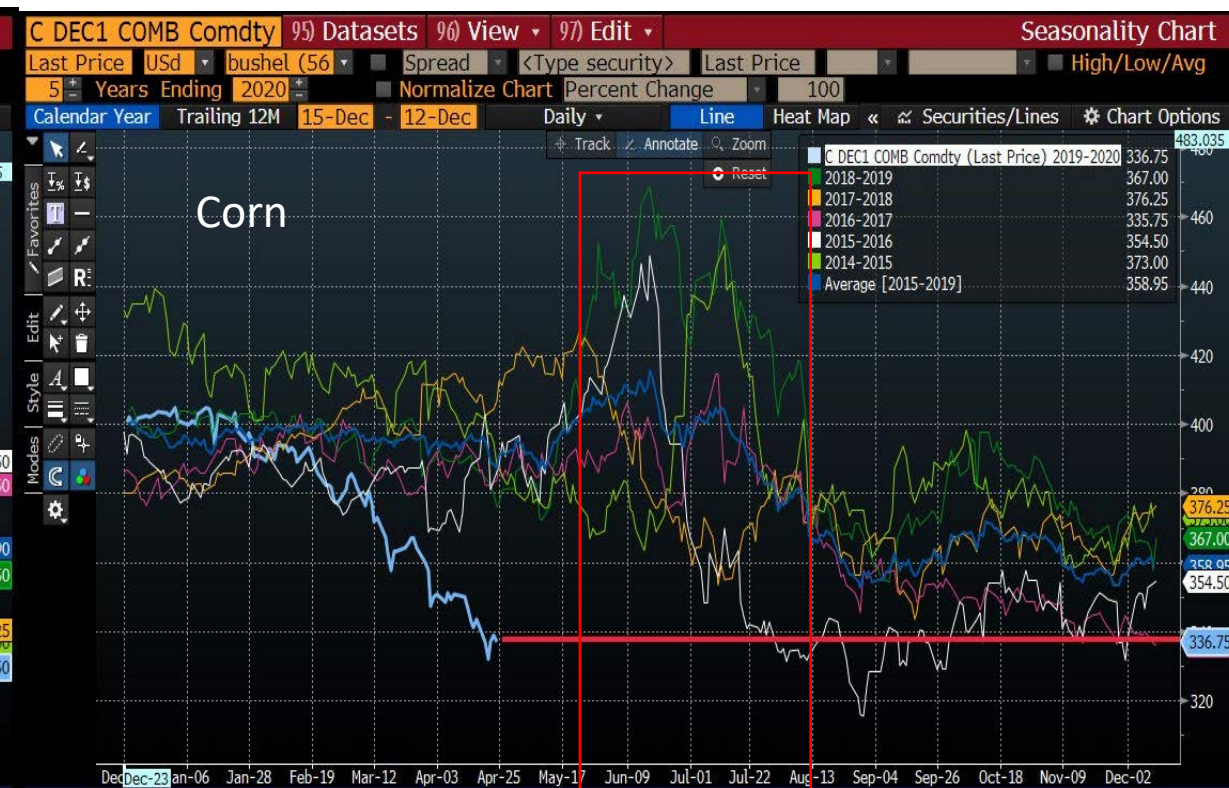
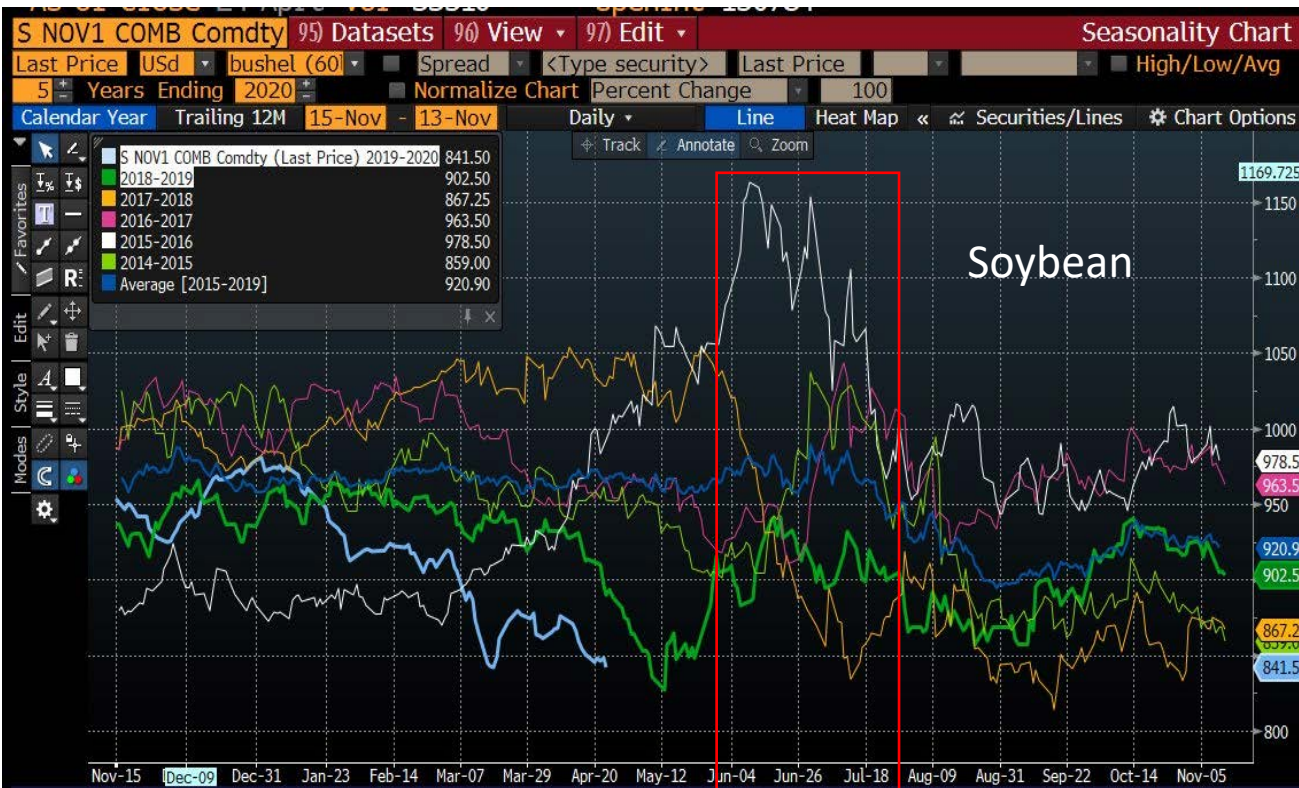
Overall price trend for Corn



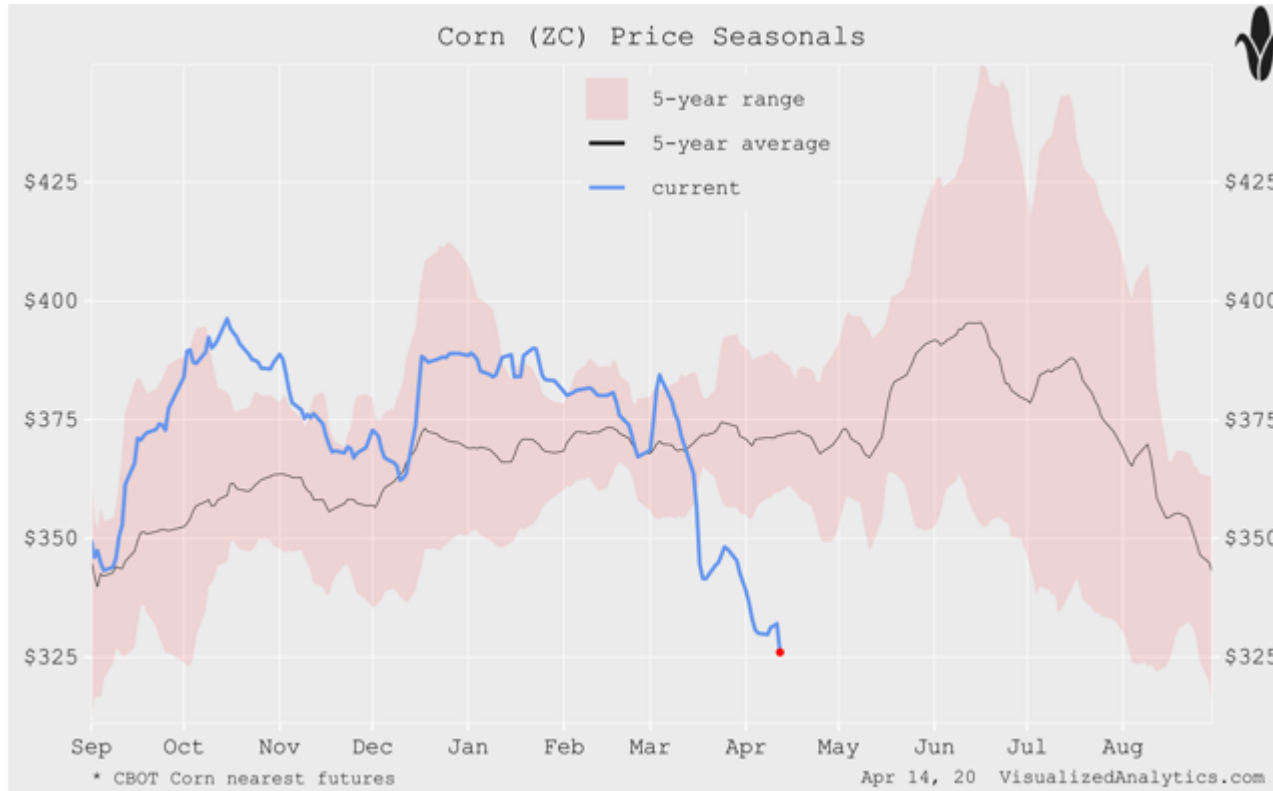
Source:Tradingview/Icebergx



Prices of corn and soybeans reaching multi years low



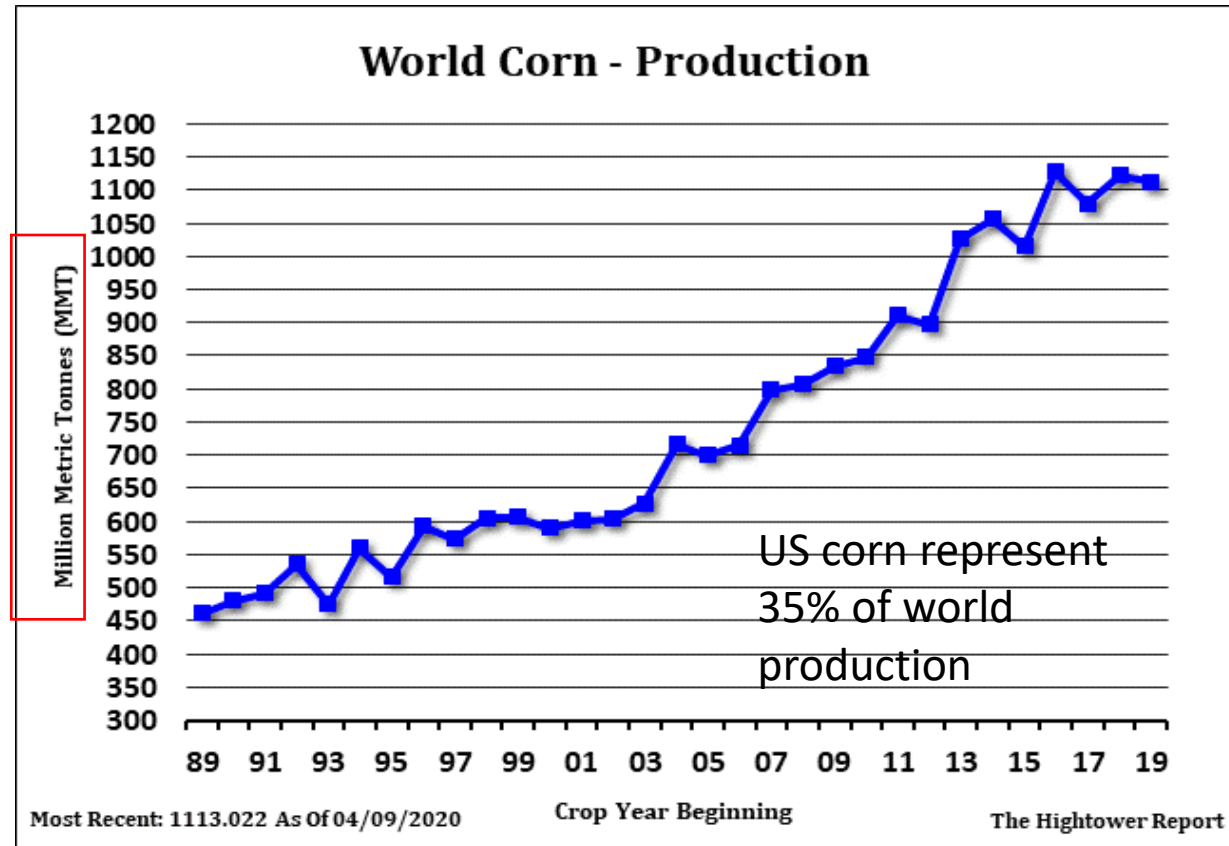
5 year price trend for Corn



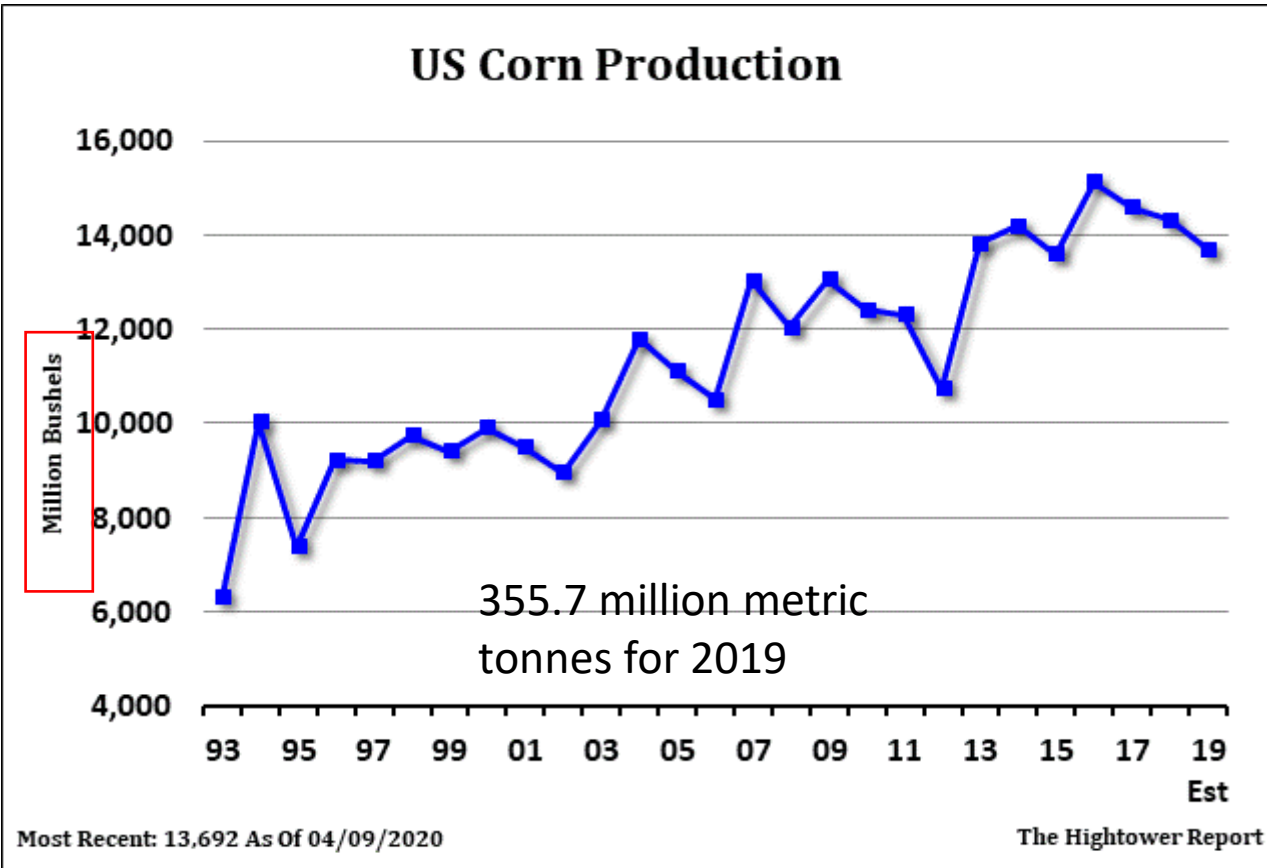
- Current price is below the 5 year average.
- Sudden sharp plunge was due to the collapse of crude oil prices.
- 5 year average price is around 350 cents per bushel.

World Corn Production continues to increase

World Corn - Production

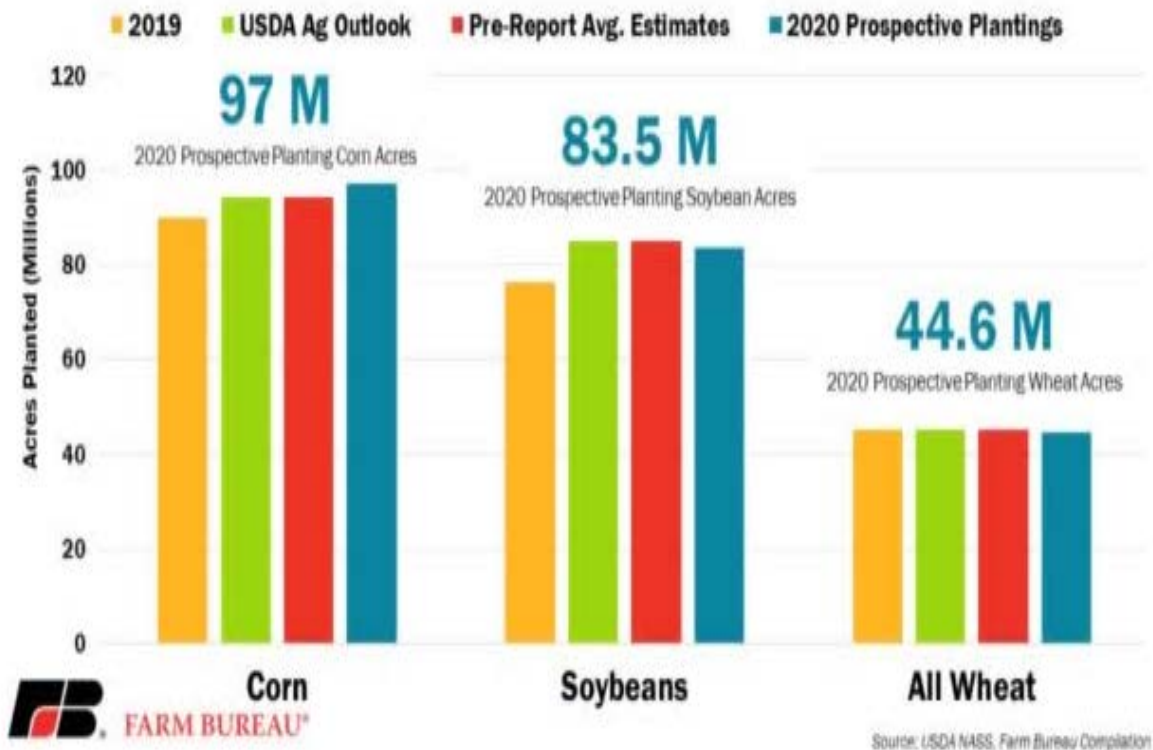


US Corn Production



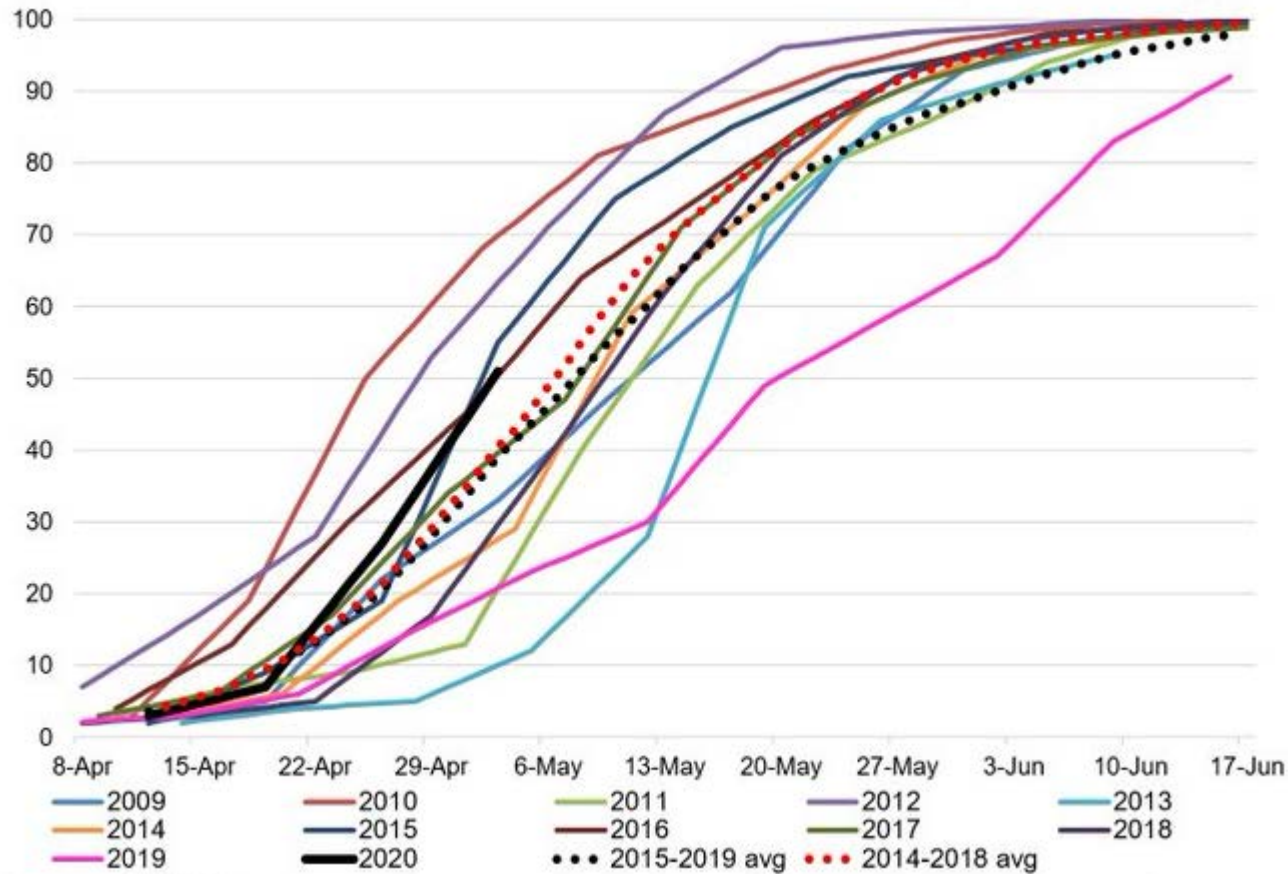
Expectation of rising corn production

- 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 (%)

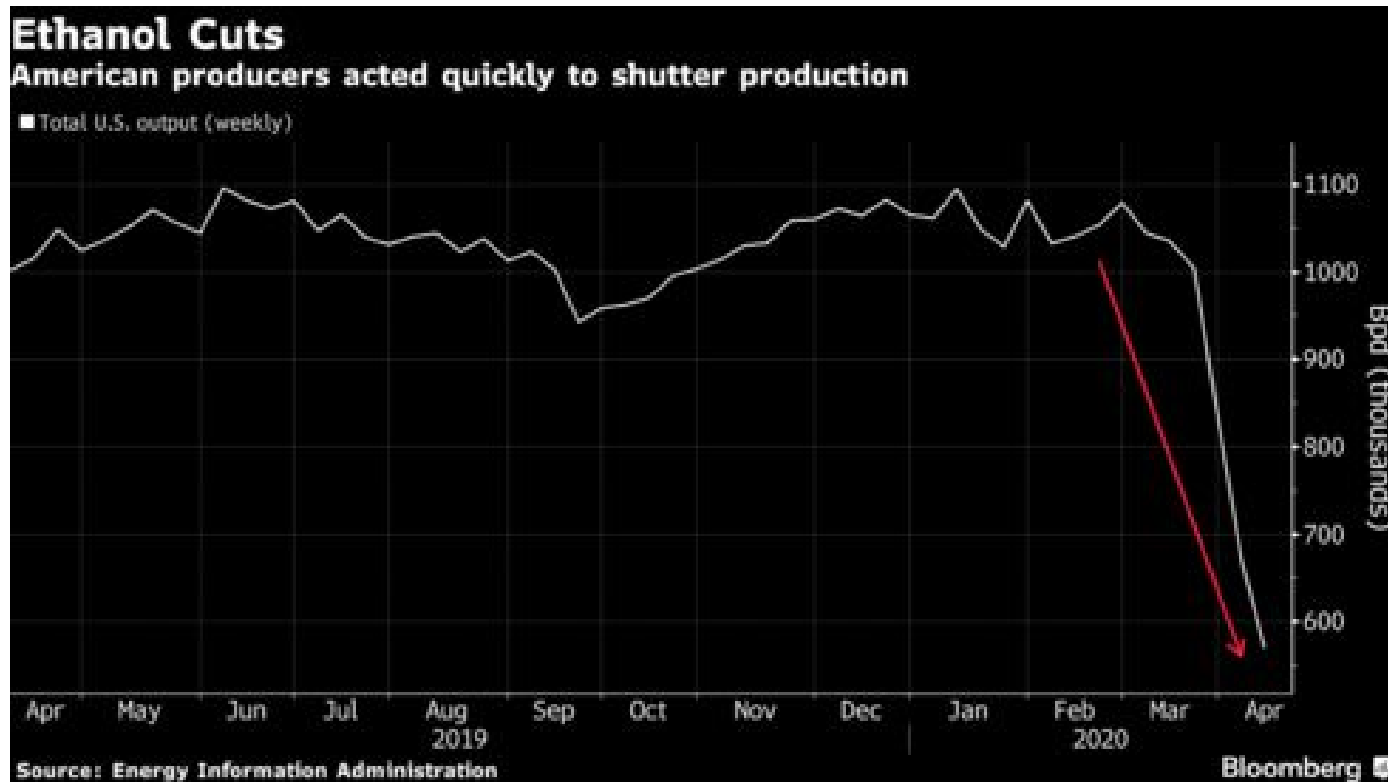


Data source: USDA/NASS

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



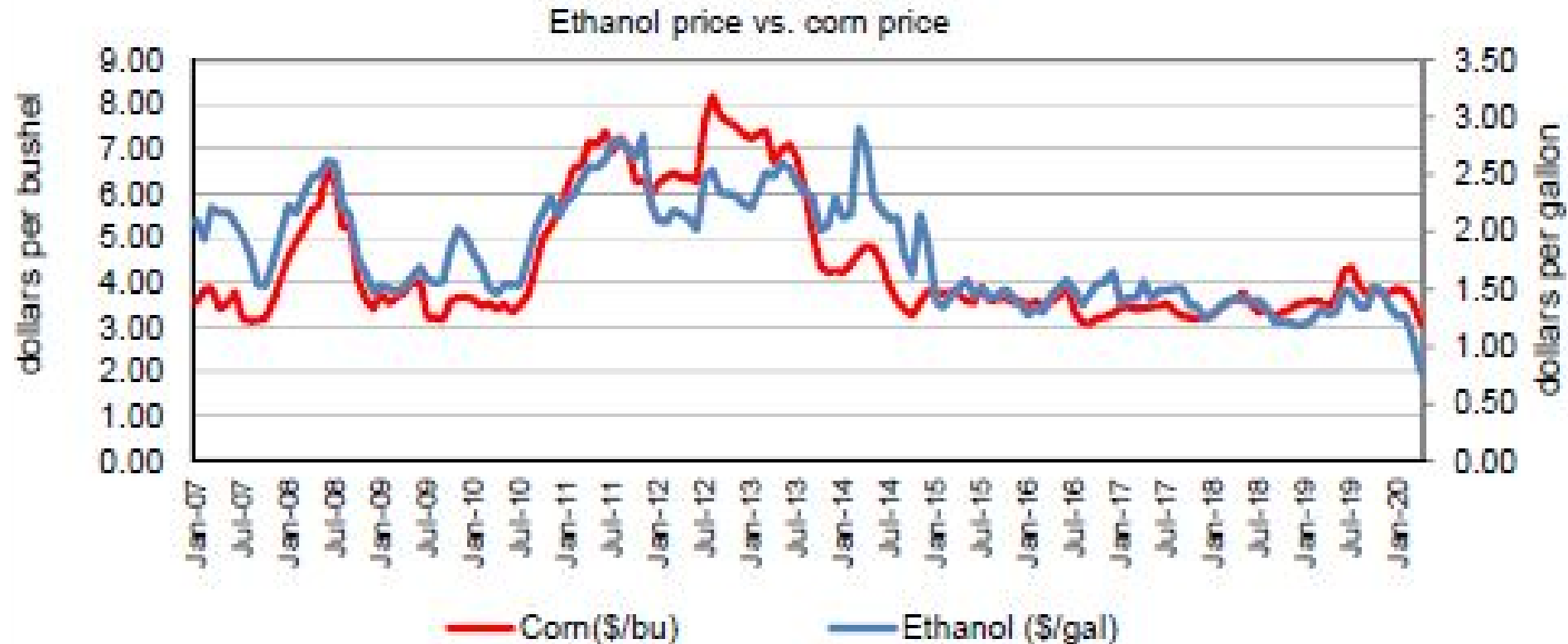
Ethanol usage plummeted in Q1 2020



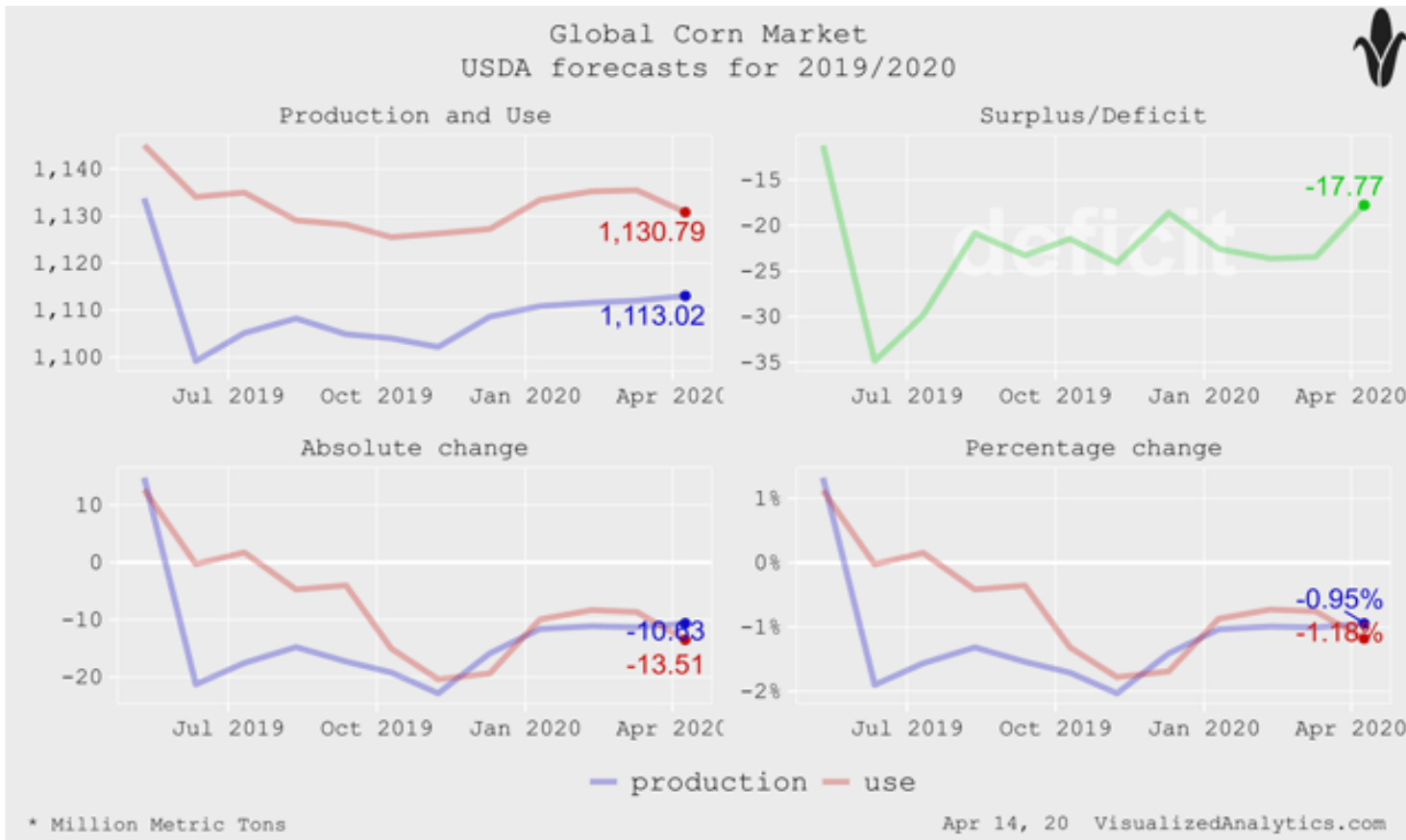
- Output based ethanol biofuel plunged by 35% as producers seek to stop production given the crush in crude mineral oil prices.
- Federal regulations mandated 10% production of ethanol production. This was then ceased.
- Thus, demand for corn has been crushed by lack of ethanol demand.
- Ethanol demand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



A close linkage between Ethanol price and corn price



Corn ending stock expected to increase

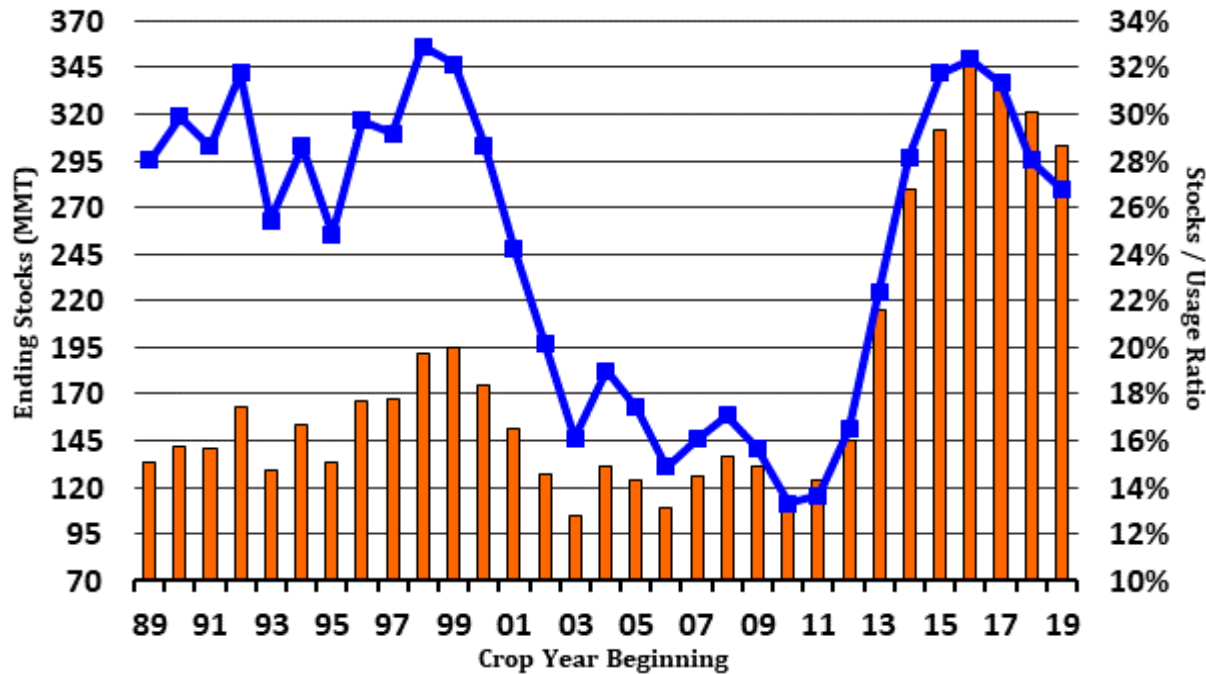


- Current supply demand dynamics suggest corn is still in deficit situation.
- But this could change with ethanol demand plummeted amid crude oil price collapse.
- Positive in the mid term.



World Agriculture levels remain elevated

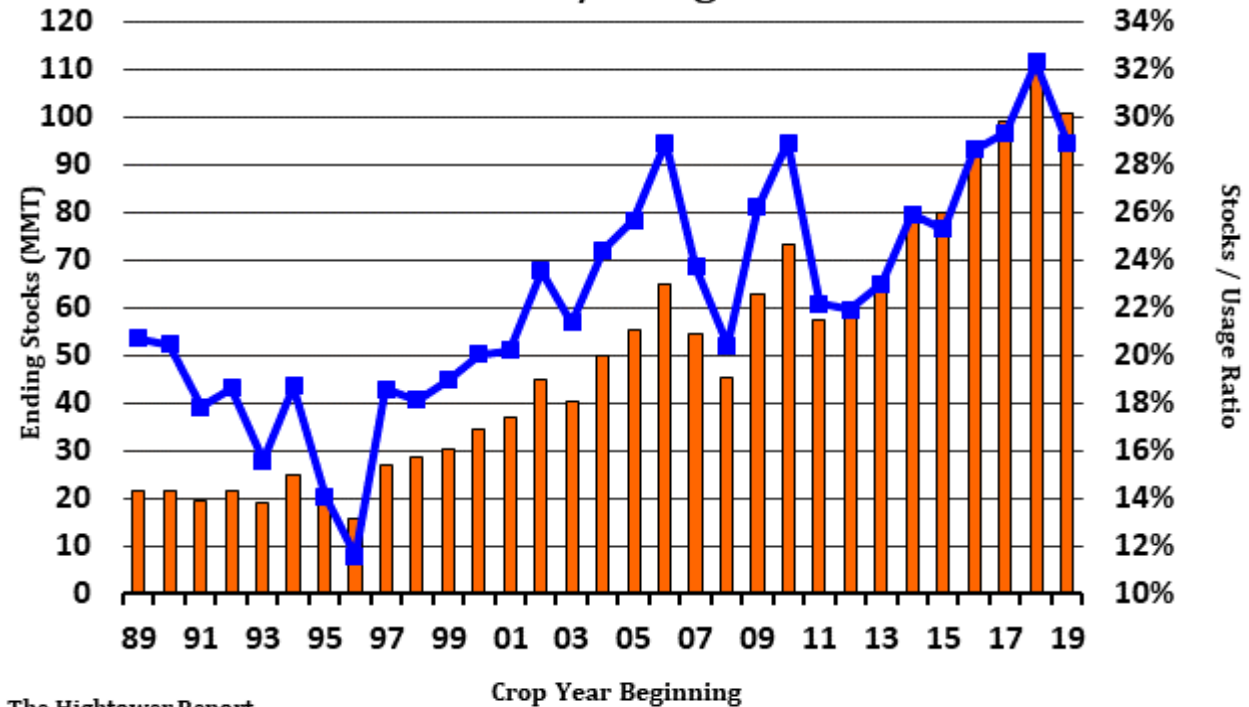
World Corn - Ending Stocks vs. Stocks / Usage Ratio



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



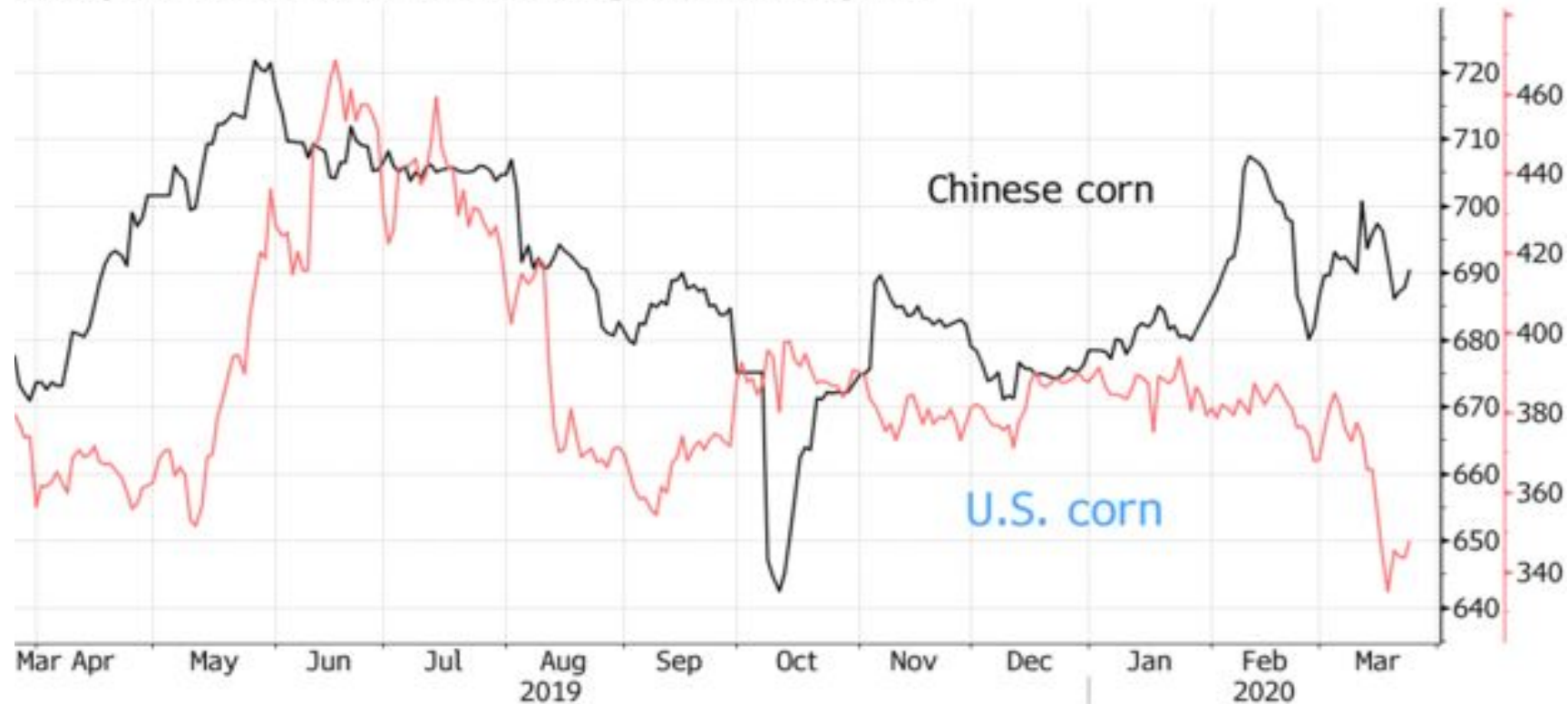
The Hightower Report
Most Recent: As Of 04/09/2020

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



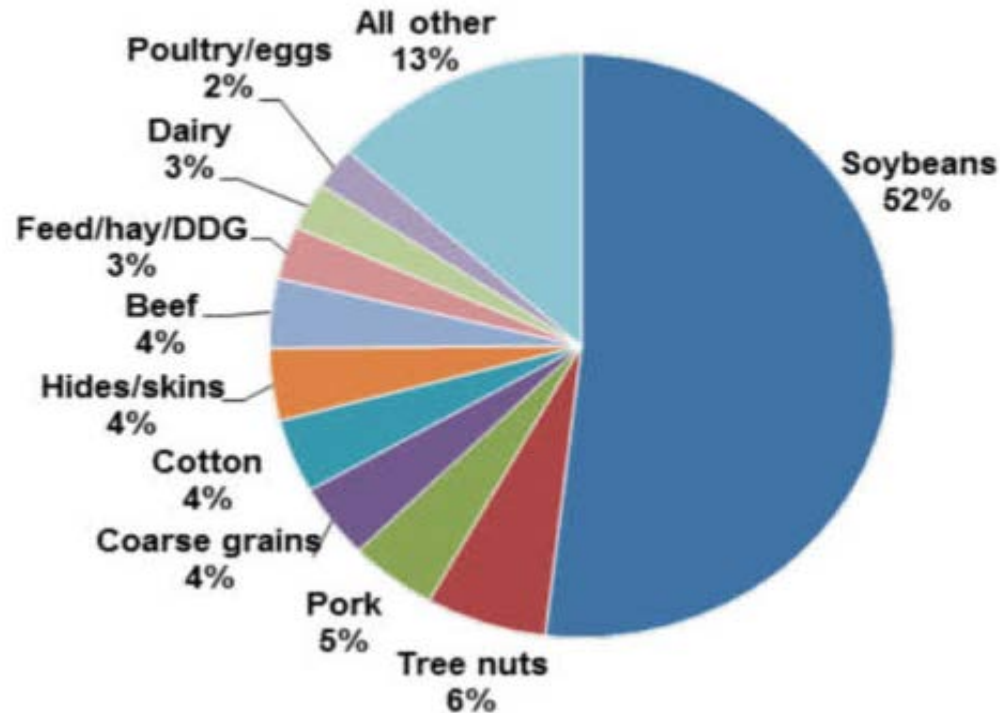
Overall soybean price trend



Soybean , a major commodity for US exports

U.S. Ag Exports to China

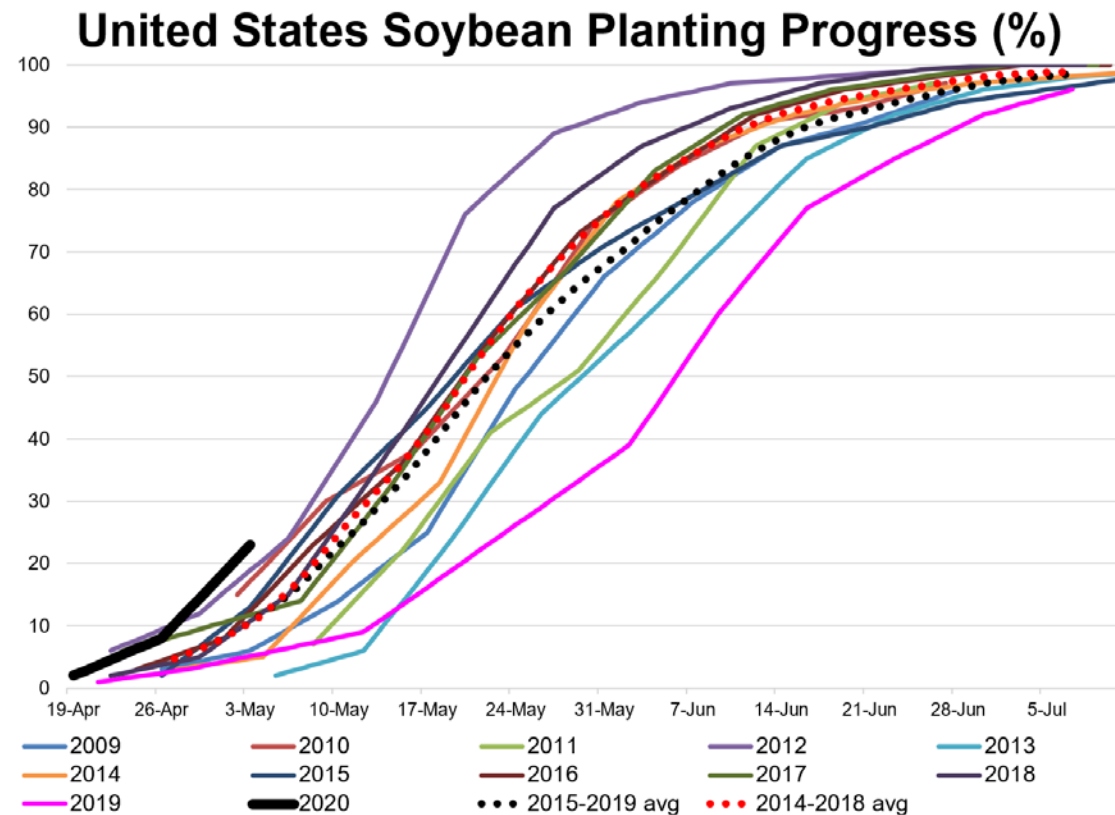
(Market share by value)



- 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

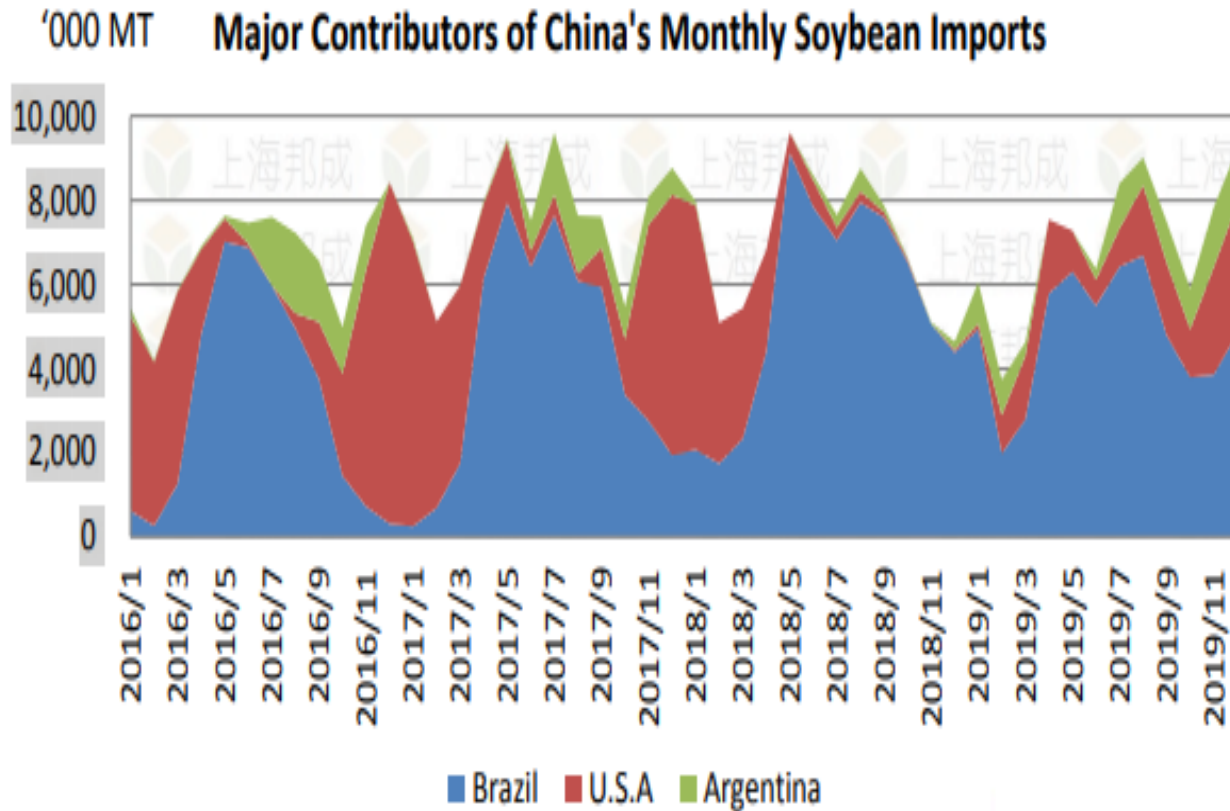


Data source: USDA/NASS

- 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.

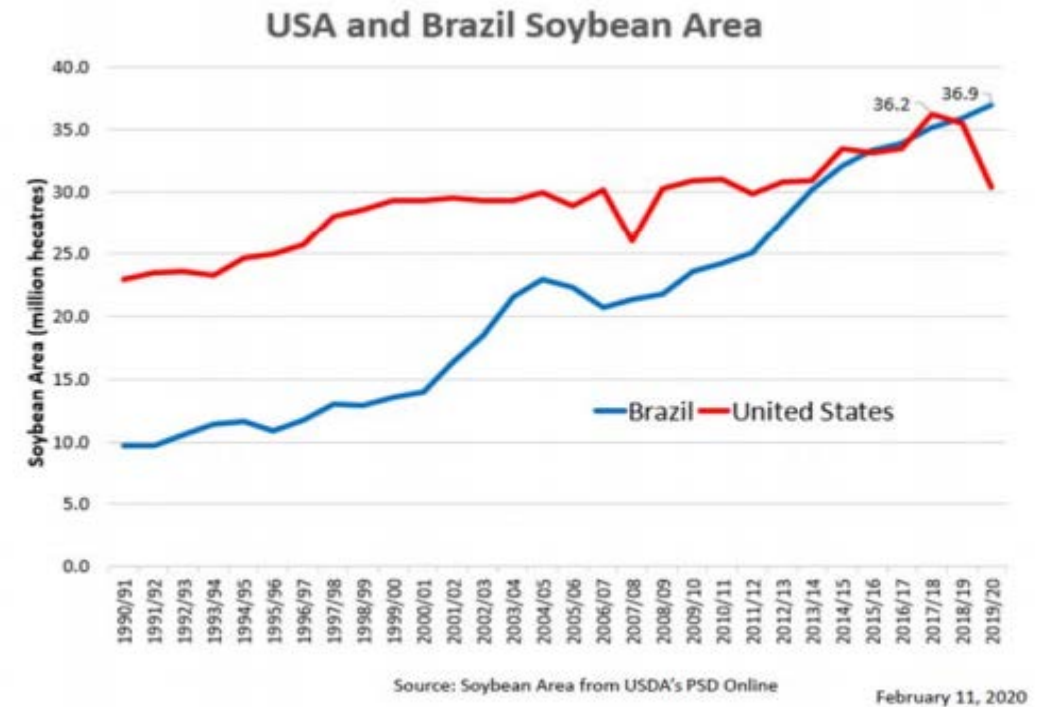
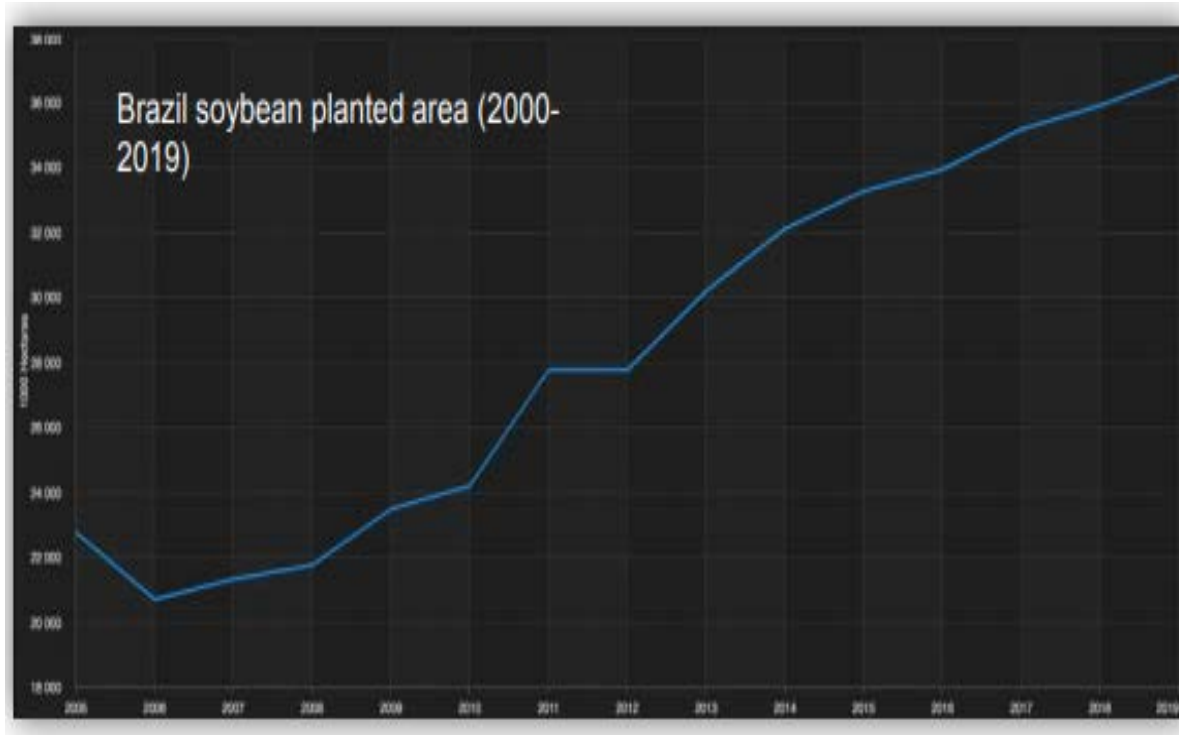


Growing share of South American beans

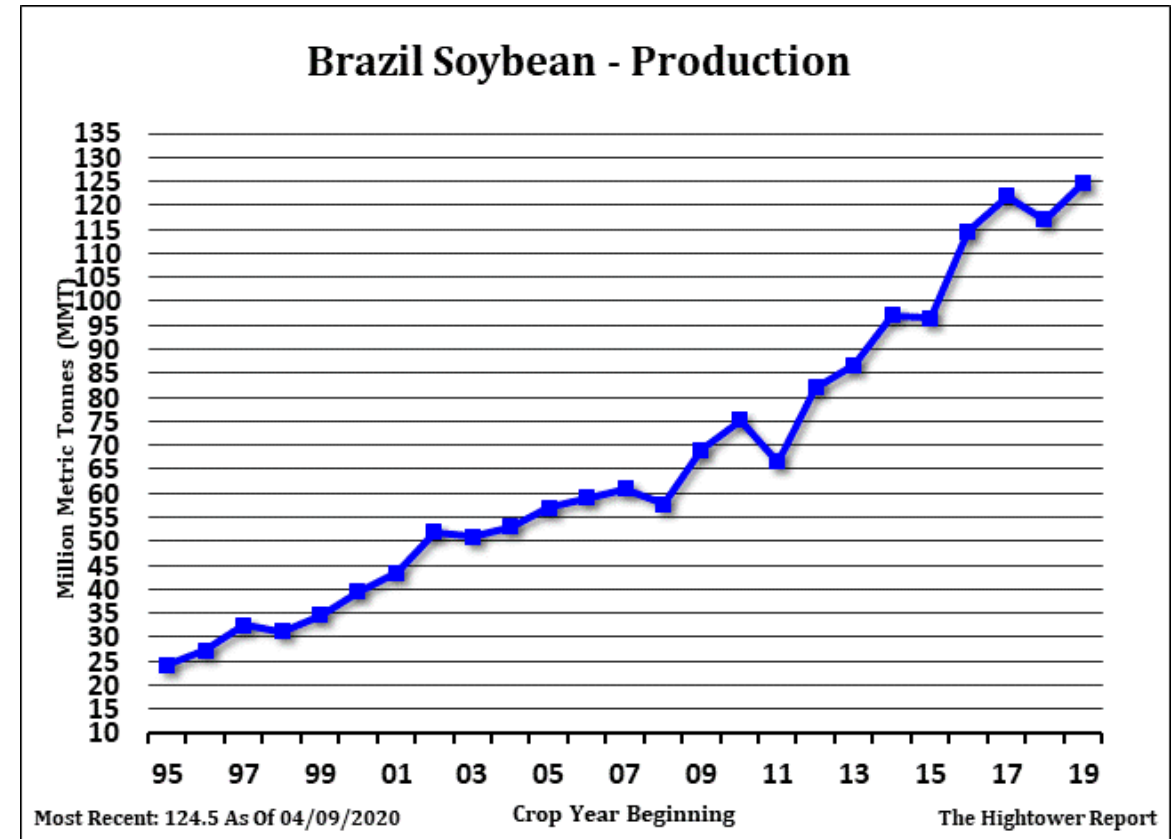
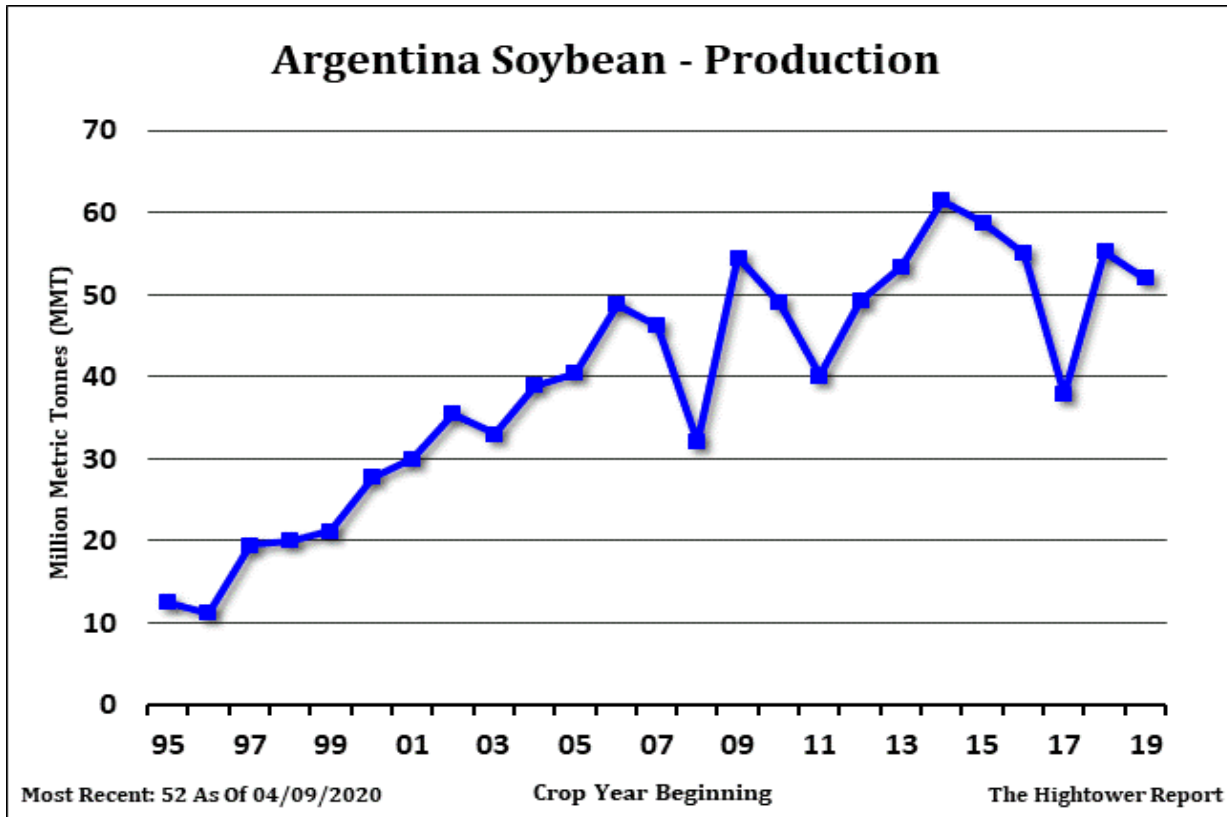


- Brazil remains a dominant player in soybean exports to China.
- Argentina share is slowly increasing.
- Sentiment for US beans was affected by ongoing trade war issues.

Increasing soybean production from Brazil



South American Soybean supplies more than 50% world production

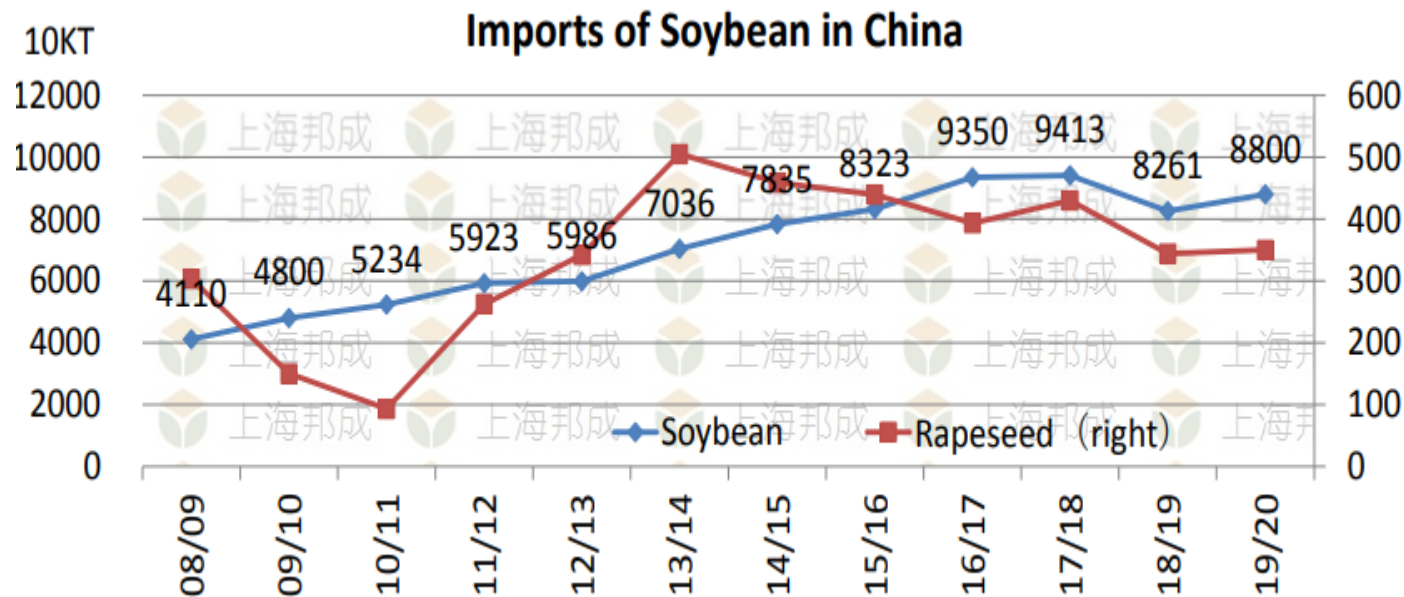


- Total combined South American supplies around 175 million metric tonnes annually.
- US alone supplies 95 million metric tonnes on average

Source:CME



Increasing demand for soybean in China



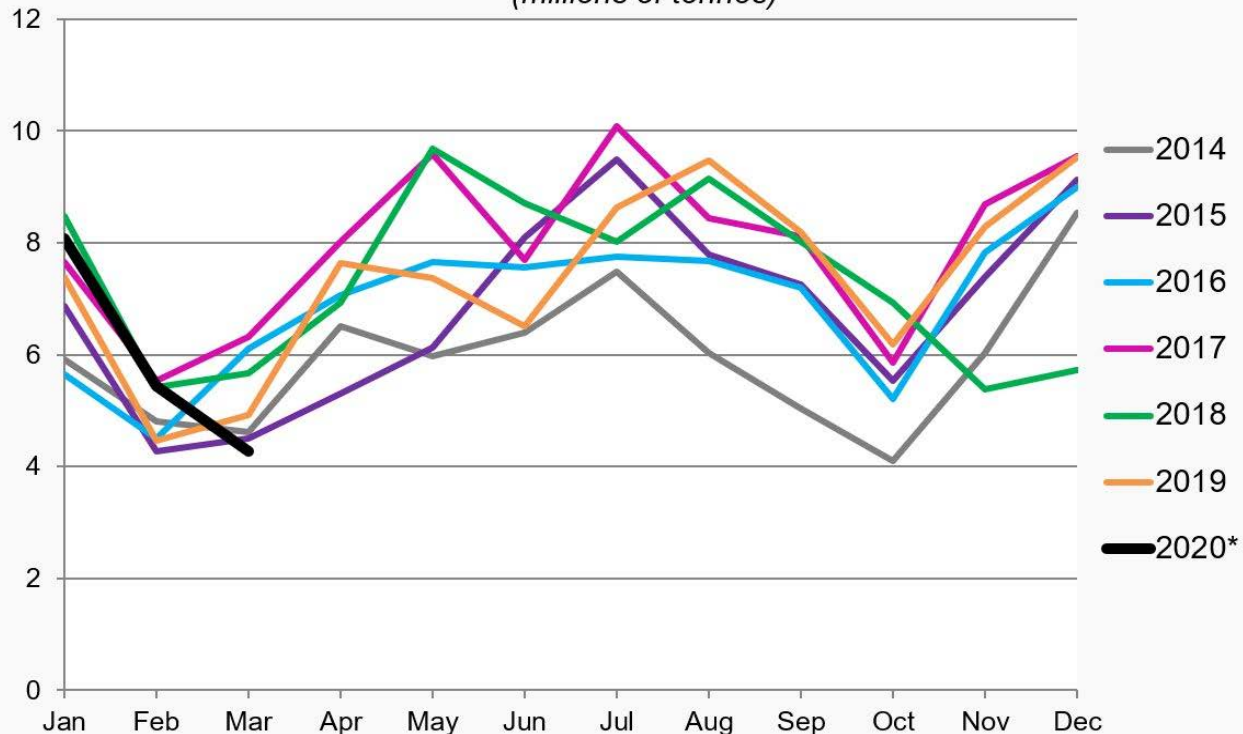
- Import of soybean is set to rise.
- Rising over the years.
- Demand for poultry increases the demand for soybean.



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.

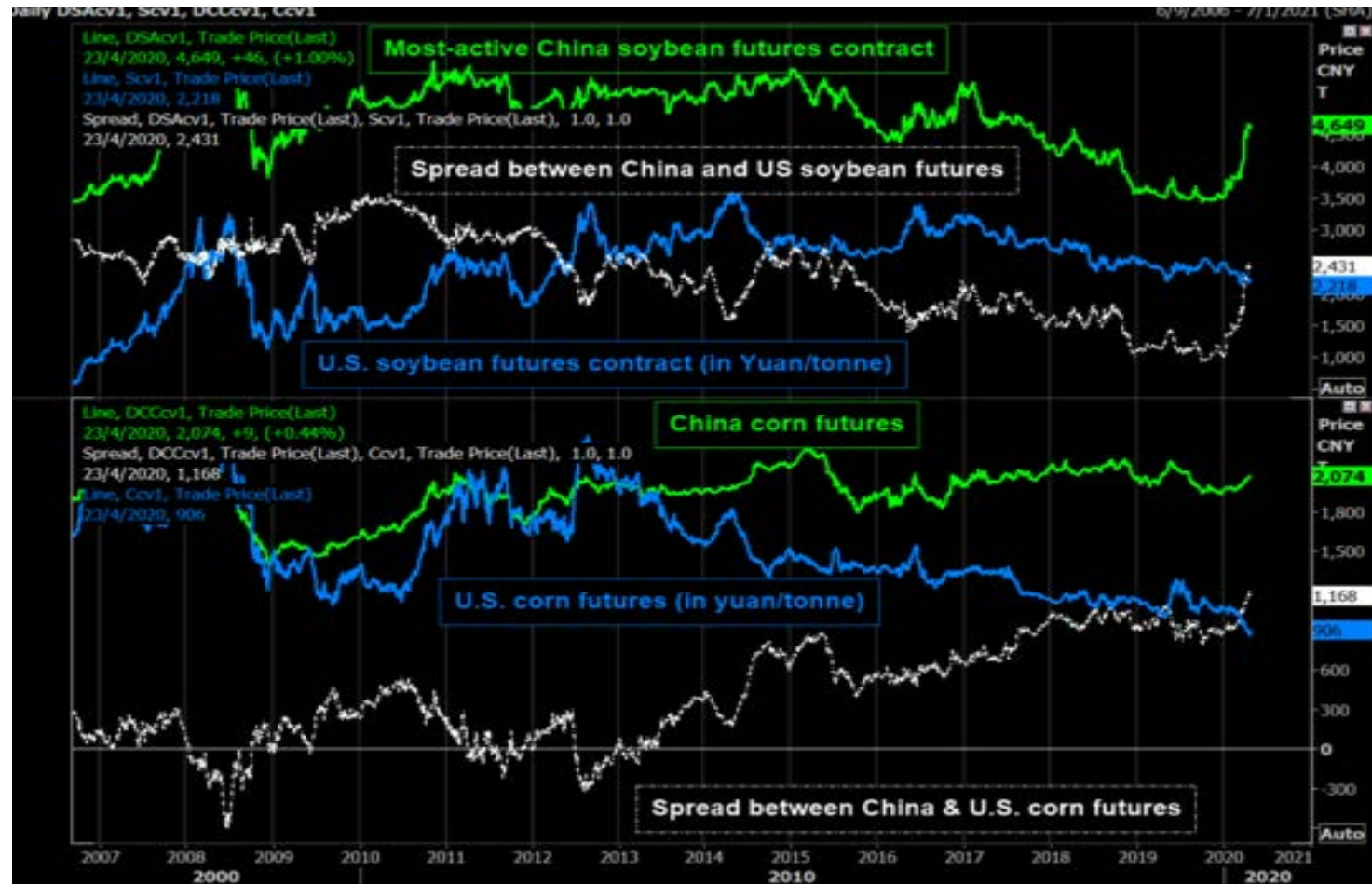
Data sources: General Administration of Customs of China; Reuters

@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

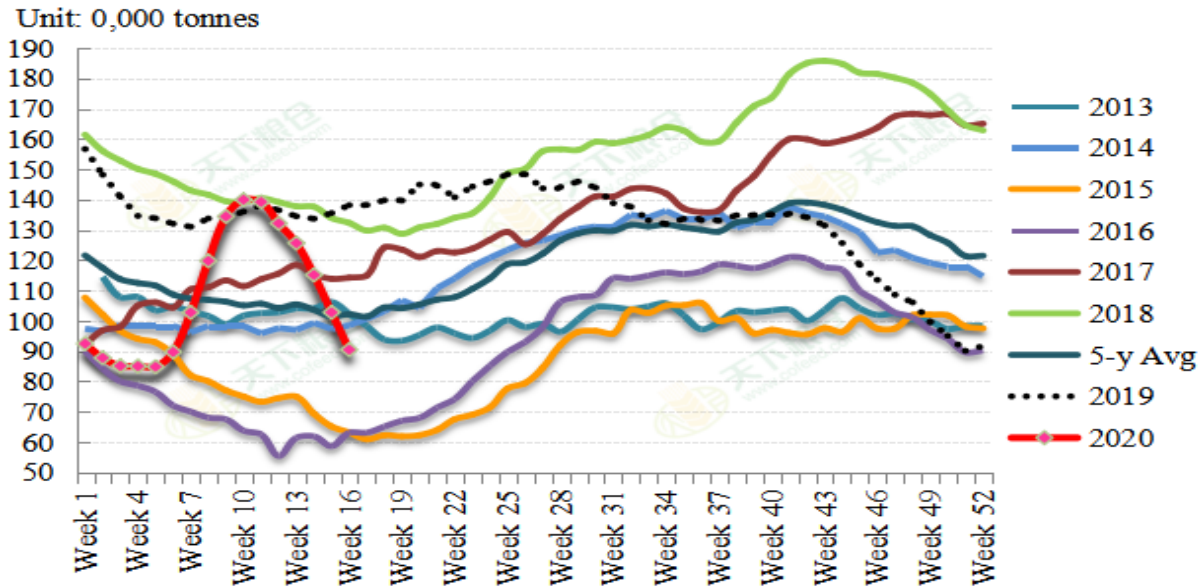


- US corn and soybean prices are getting more competitive to local China prices for both commodities.
- China may take this opportunity to increase their purchases.



Low stocks at China port

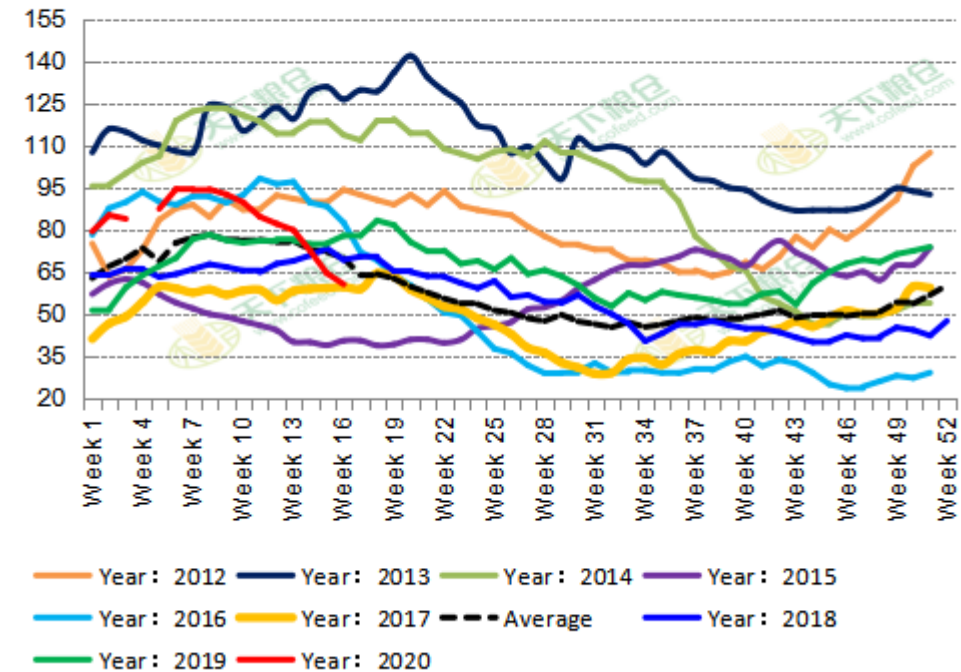
Soybean Oil Stocks in China



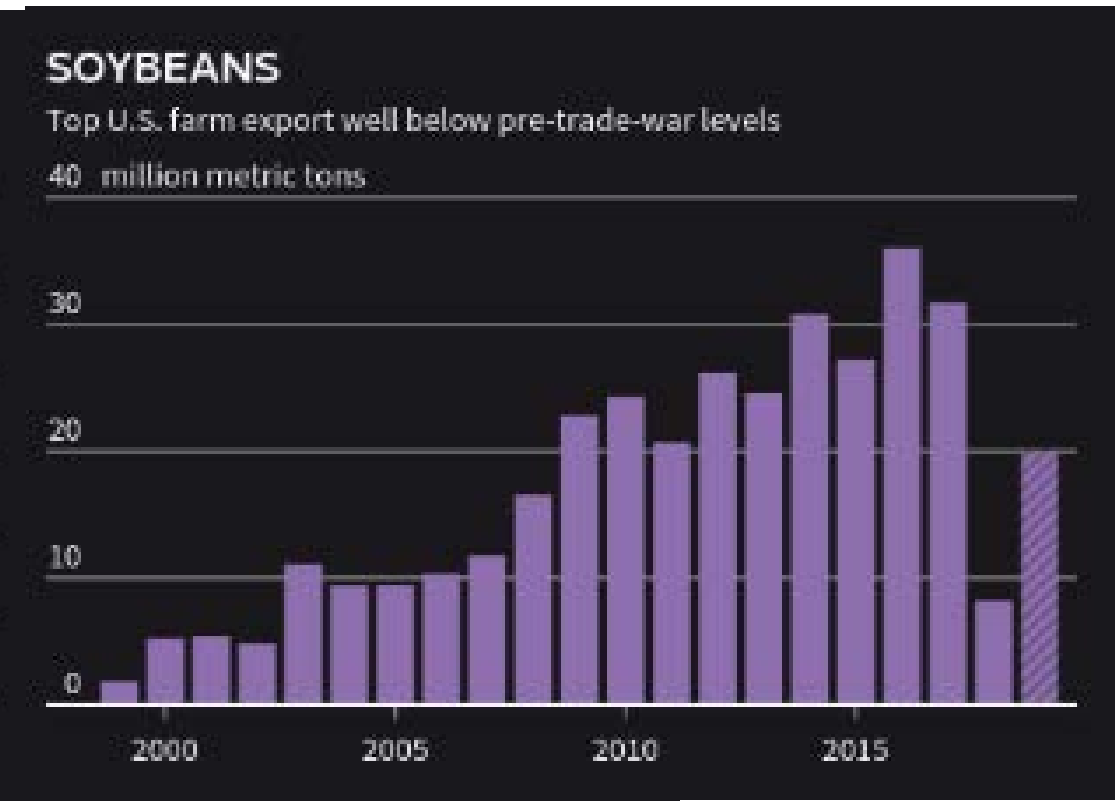
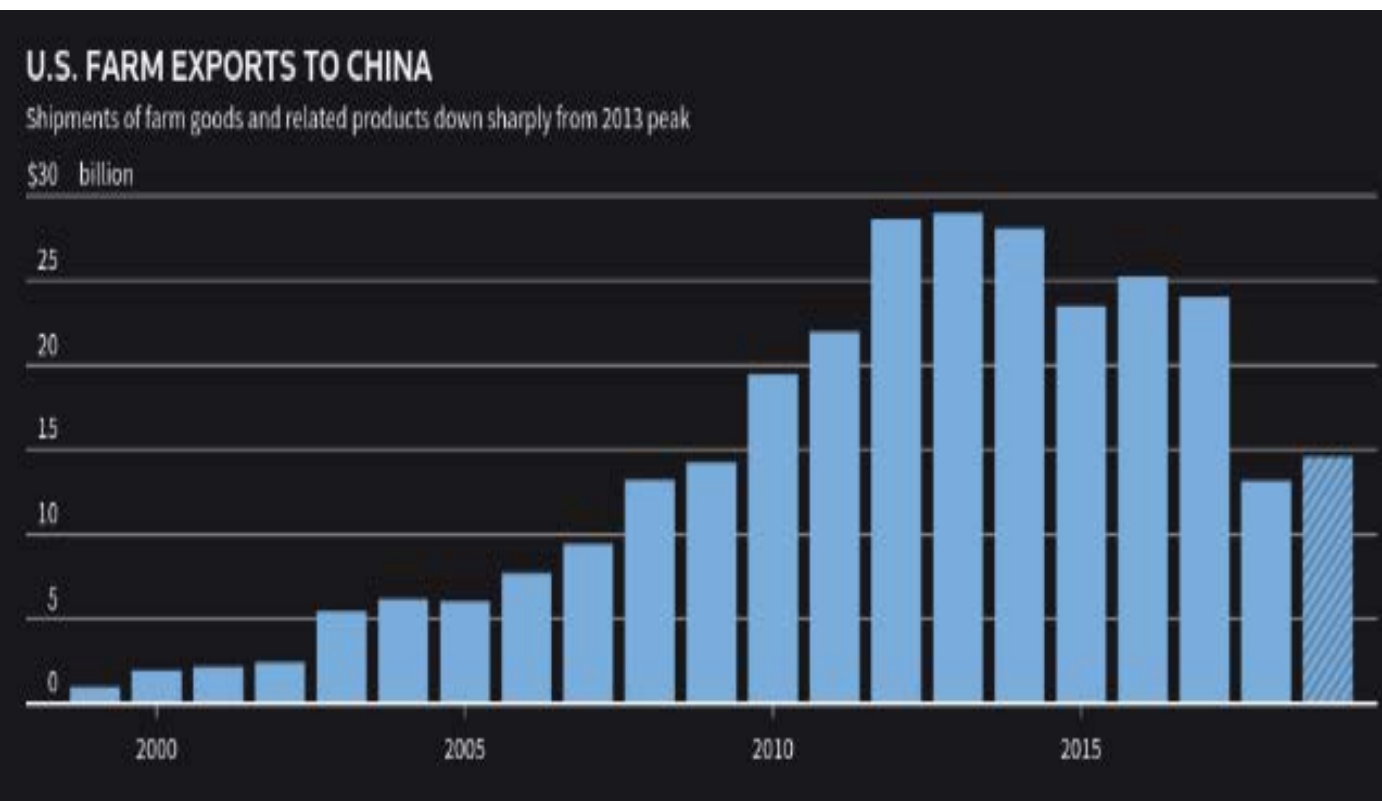
Data Sources: Cofeed

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.



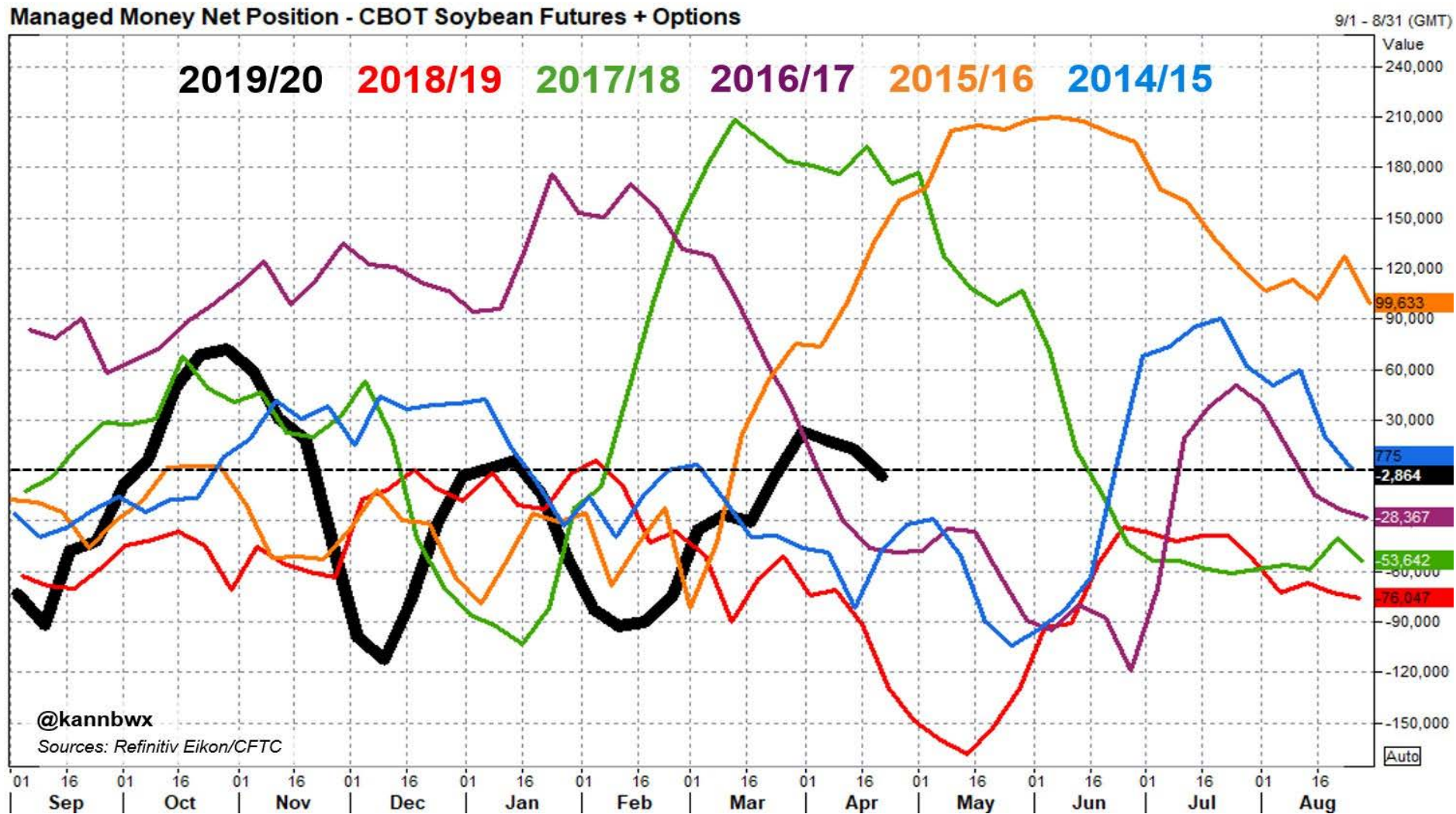
Trade Deal in Tatters



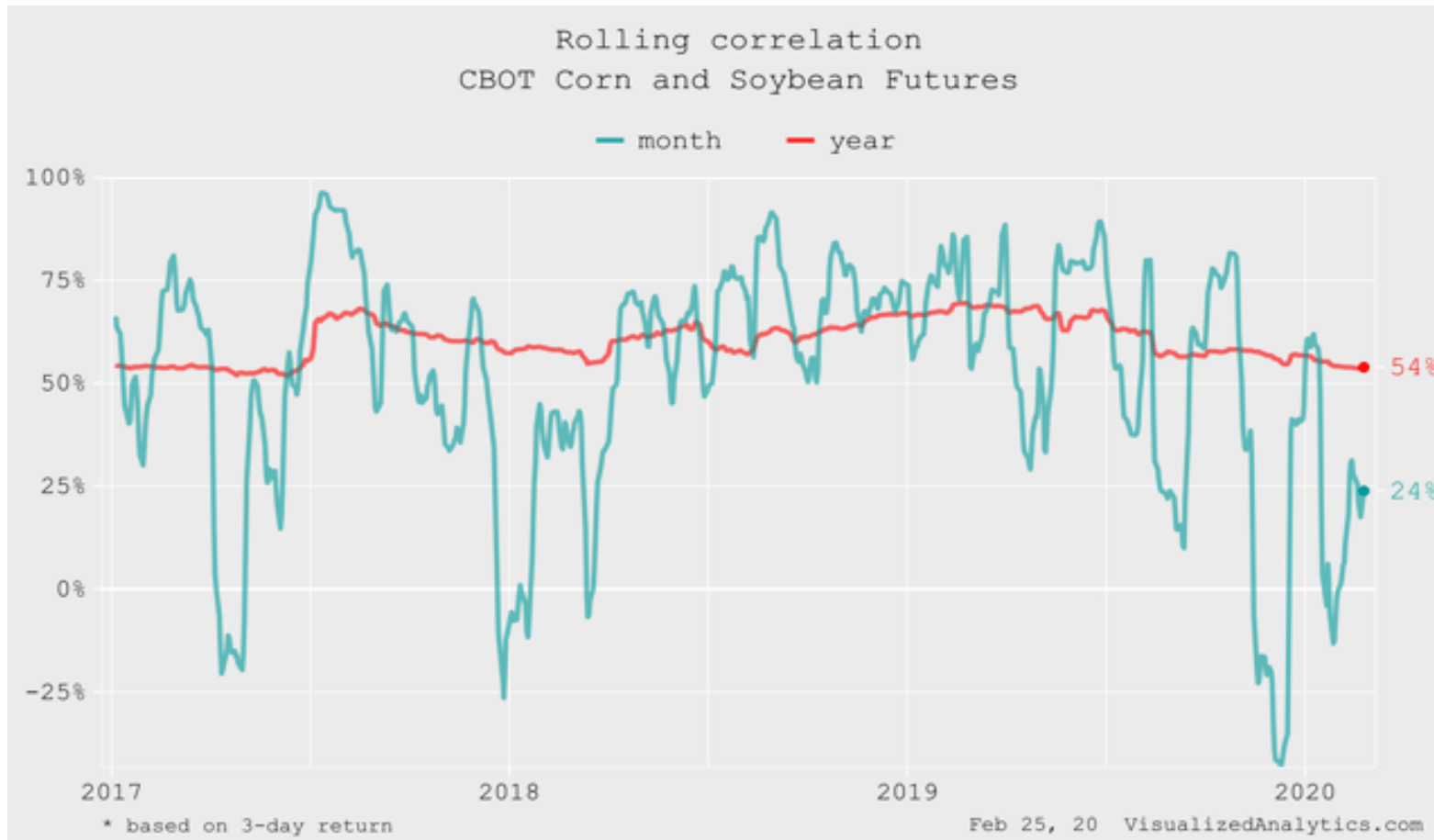
- “01-Jun-2020 04:30:51 PM - CHINA IS SAID TO HALT SOME US SOY IMPORTS AS TENSIONS RISE- BLOOMBERG NEWS EDITOR TWEET01-Jun-2020 04:39:29 PM - CHINA ORDERED MAJOR STATE-RUN FIRMS TO PAUSE SOME U.S. AGRICULTURAL GOODS PURCHASES AS BEIJING EVALUATES TENSIONS WITH U.S. OVER HONG KONG - BLOOMBERG NEWS, CITING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



Soybean overall net positioning remains negative



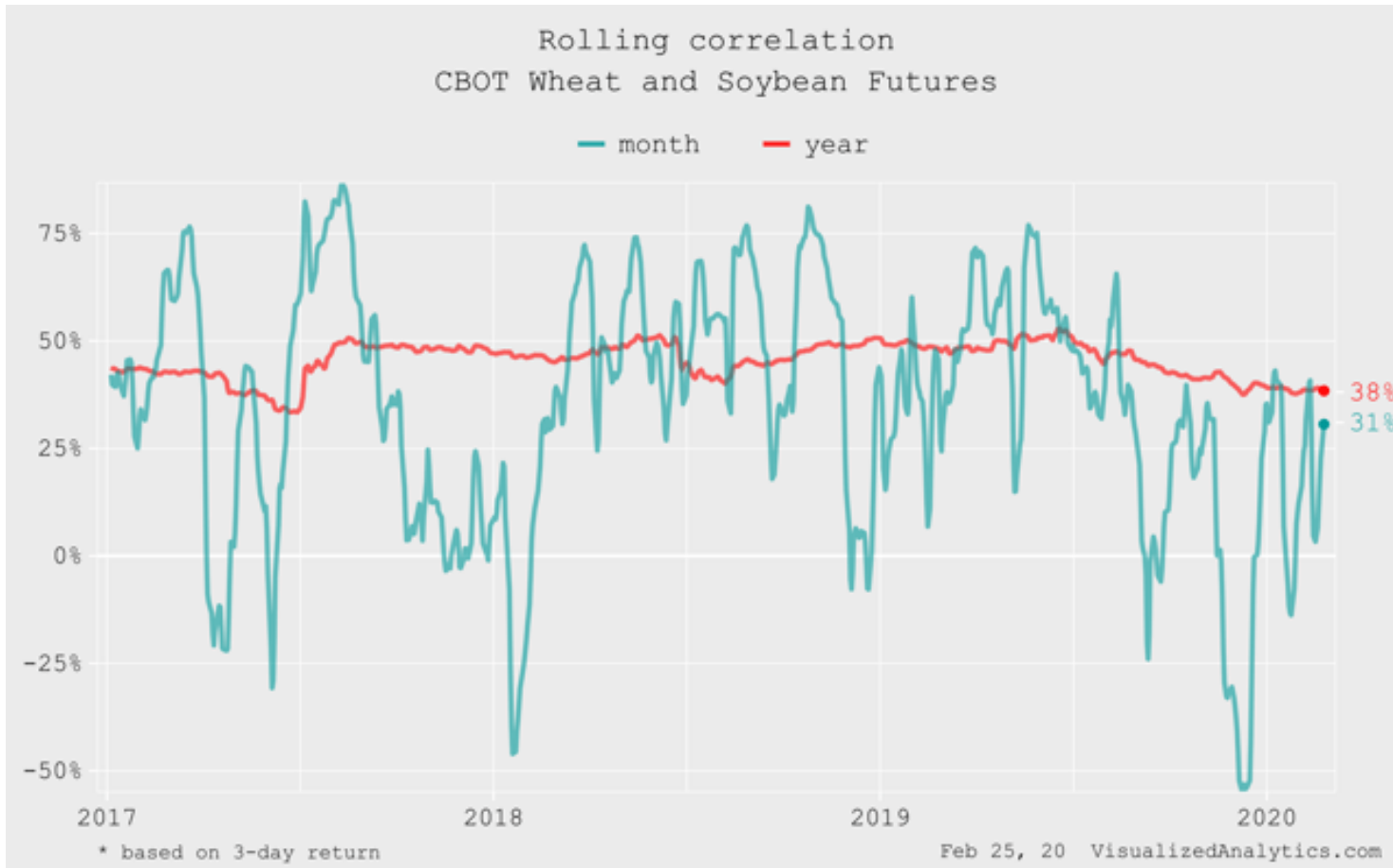
Correlation between Corn and Soybean



- 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.



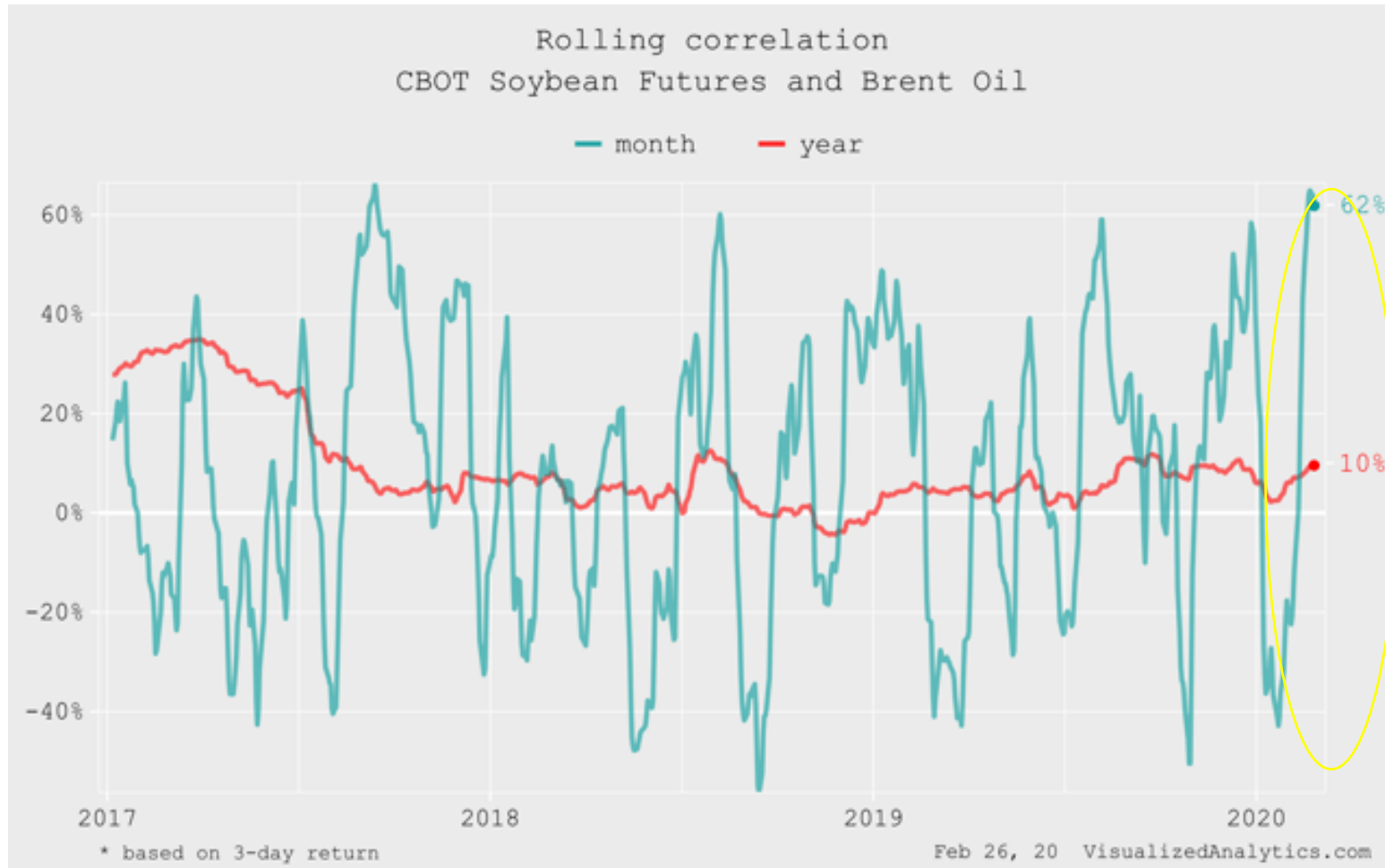
Correlation between Soybean and Wheat



- 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

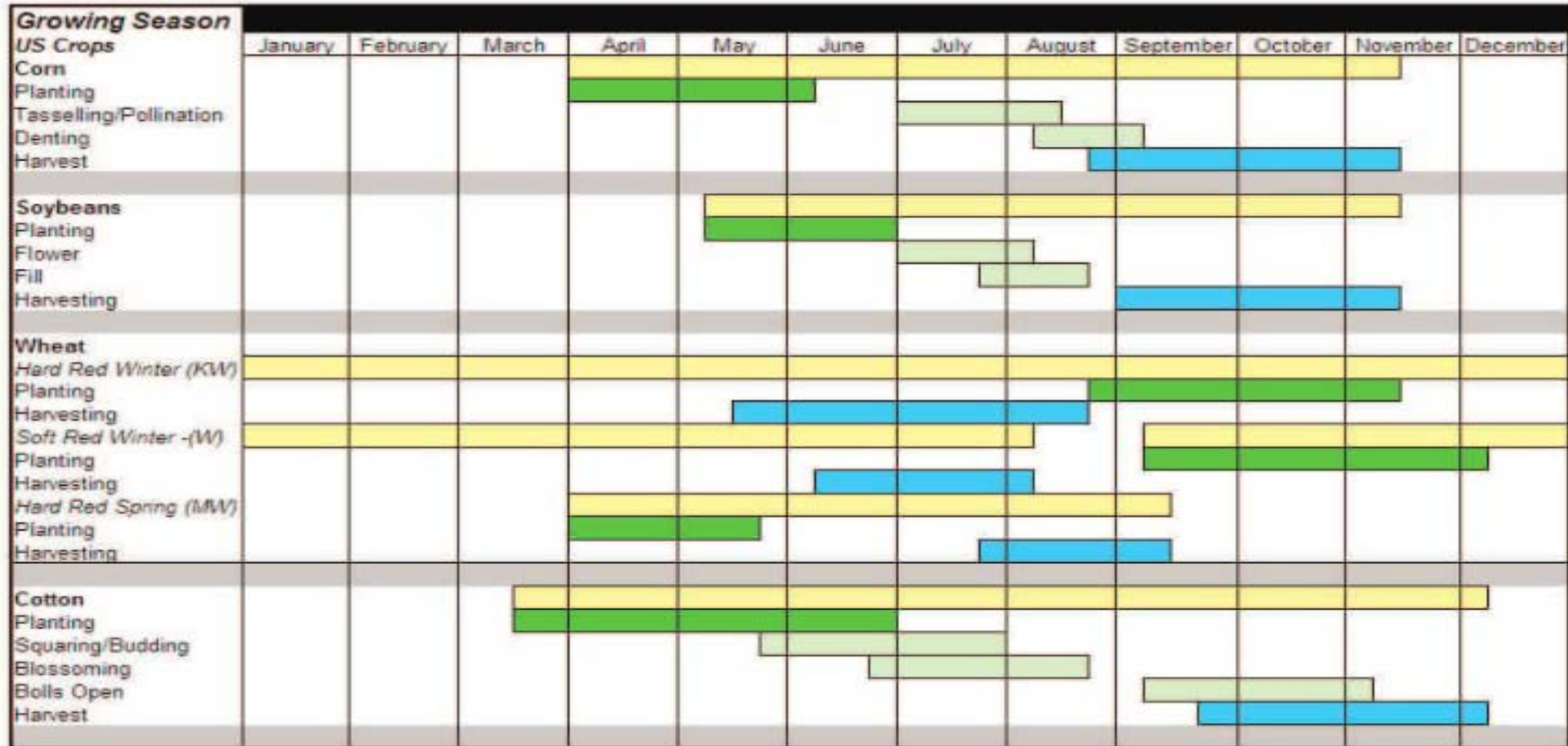
US	Corn	Soybean
Planting	April – June	April-June
Harvesting	October-November	September-end of November

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



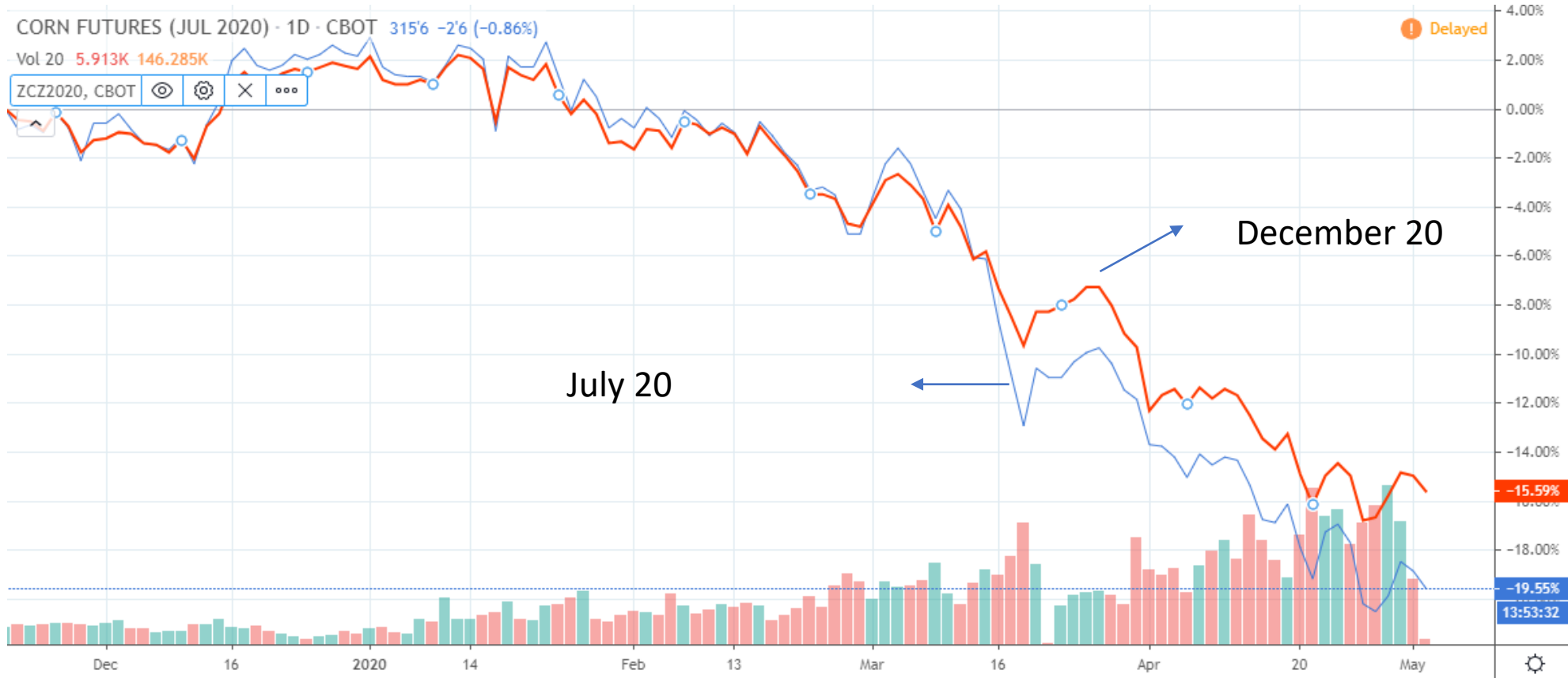
Old crop vs New crop

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

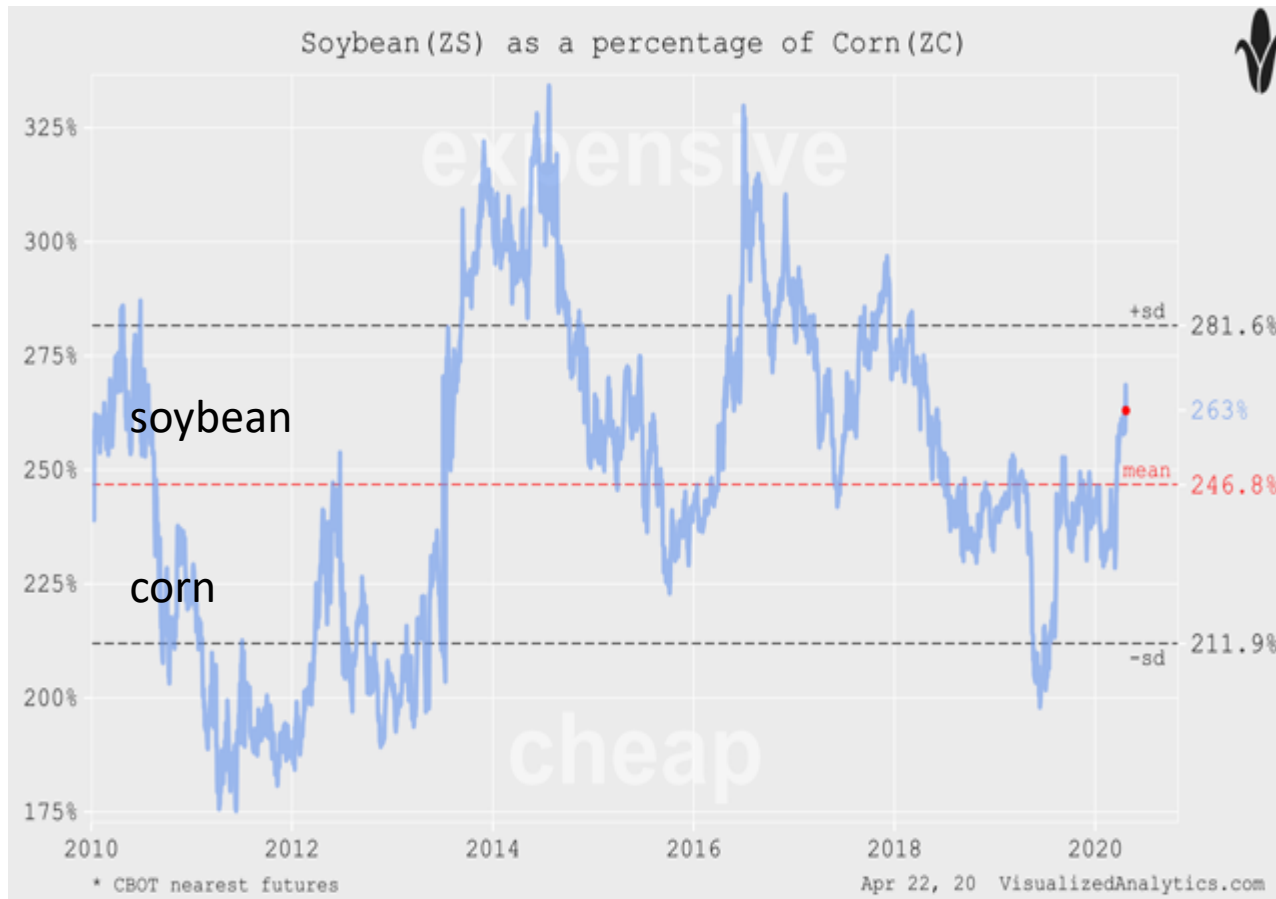


Trading the new crop vs old crop spread

- **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.

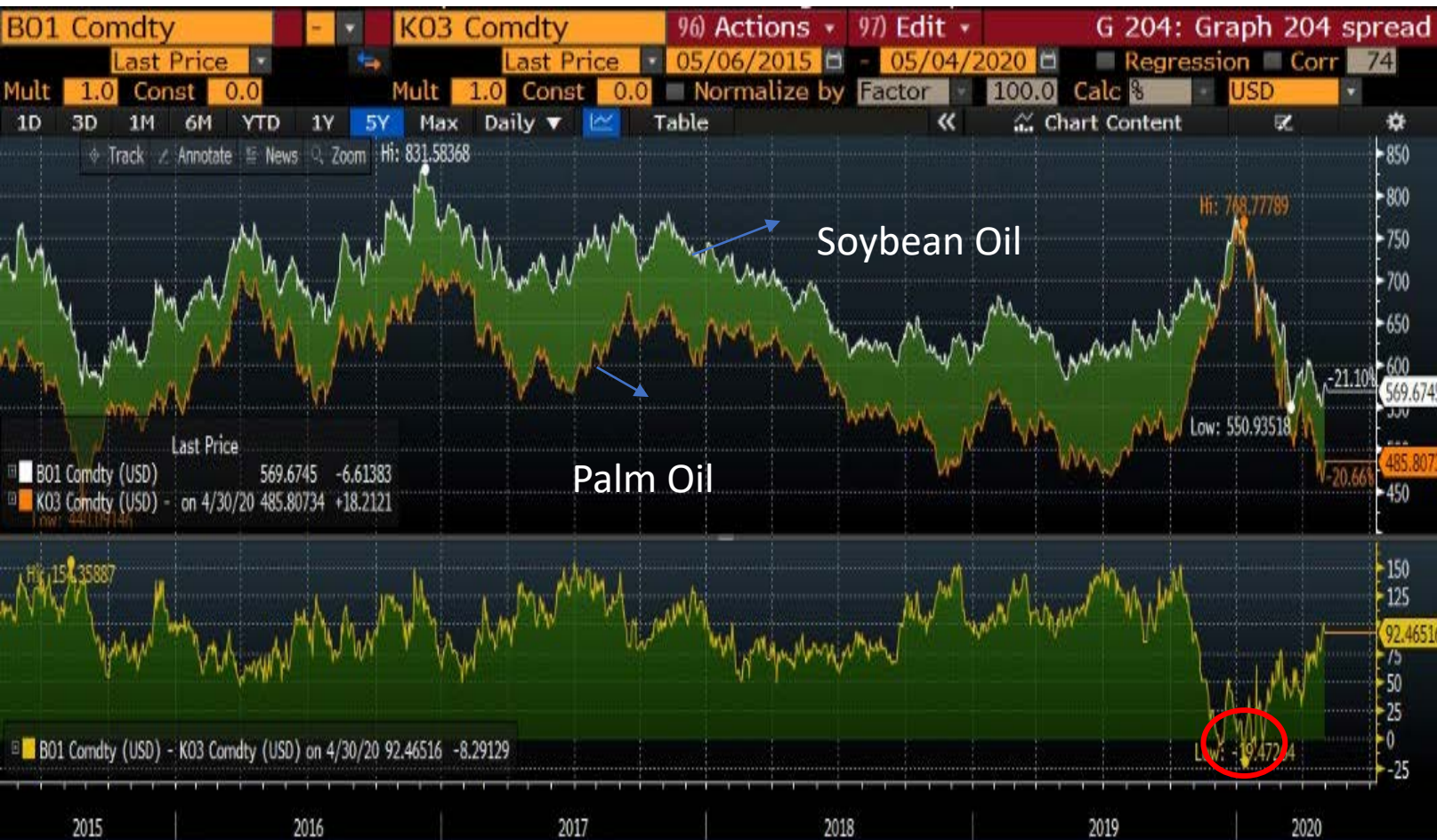
Correlation between soybean oil and palm oil



- 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

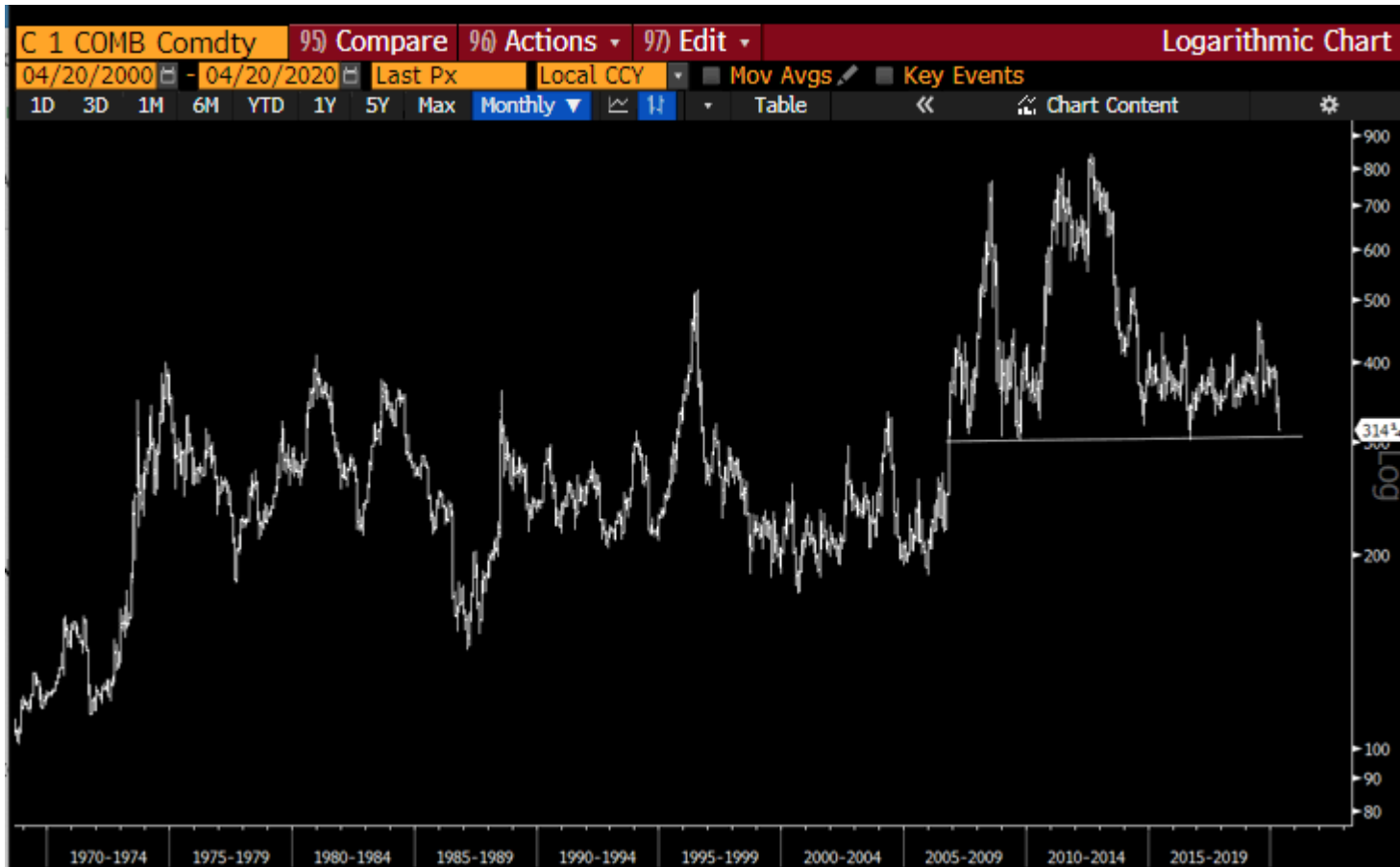
World Agricultural Supply and Demand Estimate report released is usually considered as having the same effect as “non-farm payroll” number released. It is a significant report date for the agriculture market.



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

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