March 2023

Mintec

Commodity Price Inflation Update

Price inflation continues to drive price increases for consumers.

Refine your buying strategy by understanding which agrifood commodities are still experiencing price increases and which are seeing falls.

Dairy

Grains

Vegetable Oils

Meat

Fish & Seafood

Nuts & Dried Fruits

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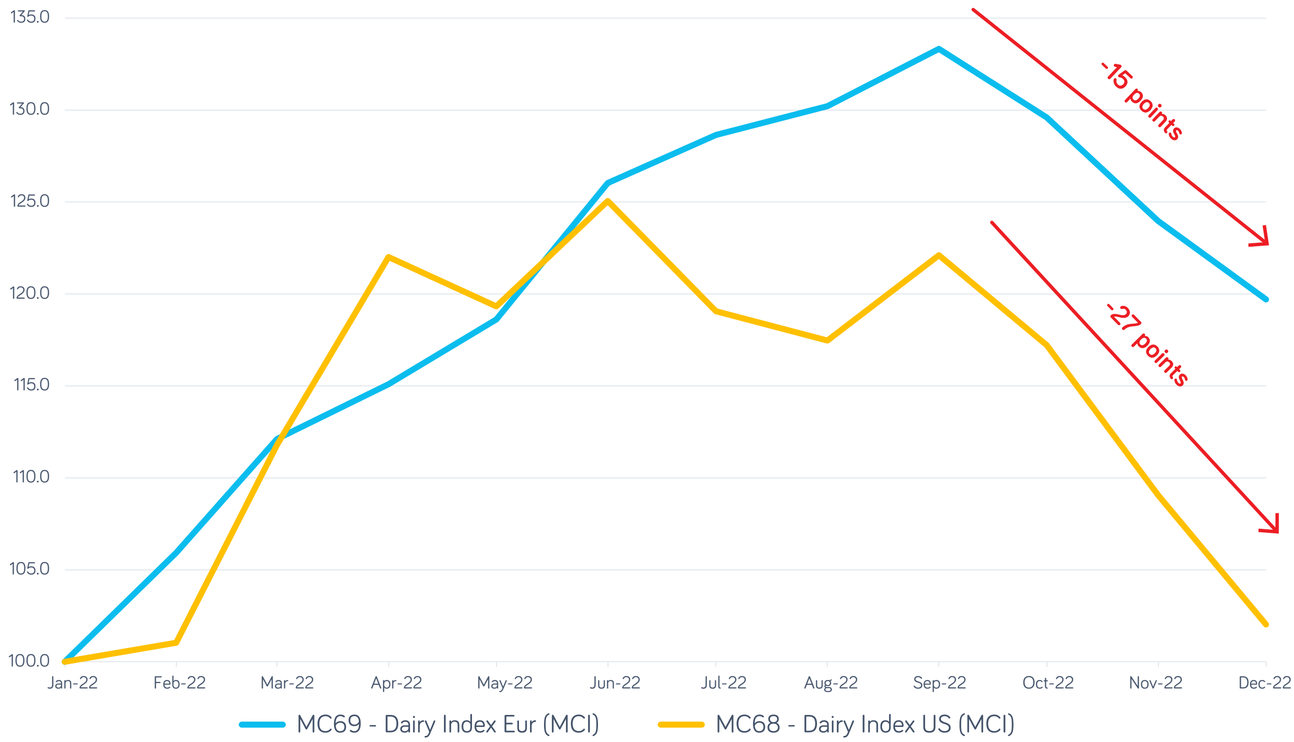
Dairy

EU & US Dairy MCI (Butter, Cheese, SMP & WMP)



The dairy market has been impacted by a number of factors across the last year. From the graph, we can clearly see two different pricing stages throughout the year. A steady price rise ran from January to September of 2022. This period was characterised by high input costs and fears of supply shortage. These catalysts were activated by the Russian invasion of Ukraine. Following on from this, buyers went into a panic state, and began to stock up rapidly to ensure deliveries. They paid for the commodity at a premium rate during this time.

We also saw many farmers make the decision to reduce the cow herd numbers. As a result, there was poor milk output. This sector-wide jolt was also aggravated by poor weather conditions and farm labour shortages in the US.

However, since the beginning of Q4, we have seen completely different market trends. Both in the US and the European Union, the price of dairy declined so we entered an entirely new playing field. This is largely down to the way in which inflation began to erode consumers' budgets. Therefore, we have seen a decrease in purchasing power, thus changing consumer trends. Furthermore, prices were aggravated by high output costs, also driven by the gas crisis.

We began to see stocks of milk and feed build up in Q4, thanks to a higher-than-average US milk supply, as well as a surplus in the EU. Consequently, there was more milk across the market. Stocks were building up and buyers were waiting for price declines. This phenomenon occurred in conjunction with a weaker demand in the Chinese market, marking the point at which prices began to plummet in October.

The global market sentiment is bearish for this commodity.

Milk

We have seen strong volatility in the dairy markets. On the graph, you can see our benchmark prices for milk in the EU and in the UK.

On both lines, you can see that we have seen extreme price volatility throughout the year, but especially during the first three months. During the last three months of 2022, we have seen a quite significant price drop on the liquid market, especially on the milk market, primarily driven by higher milk intakes.

The production was better this year than usual and coupled with this, we've seen mild weather conditions which supports the cows being released to fields for longer periods in order to graze. This in turn supported the production, and in addition, we did not experience such turbulent weather conditions as we occasionally see over the winter. This meant that cows produced more, as temperate weather enables them to feel comfortable to do so.

That was the case throughout the majority of Q4. We now see a similar drive on the supply side so far in Q1 this year. On the other side, we have seen quite stable demand.

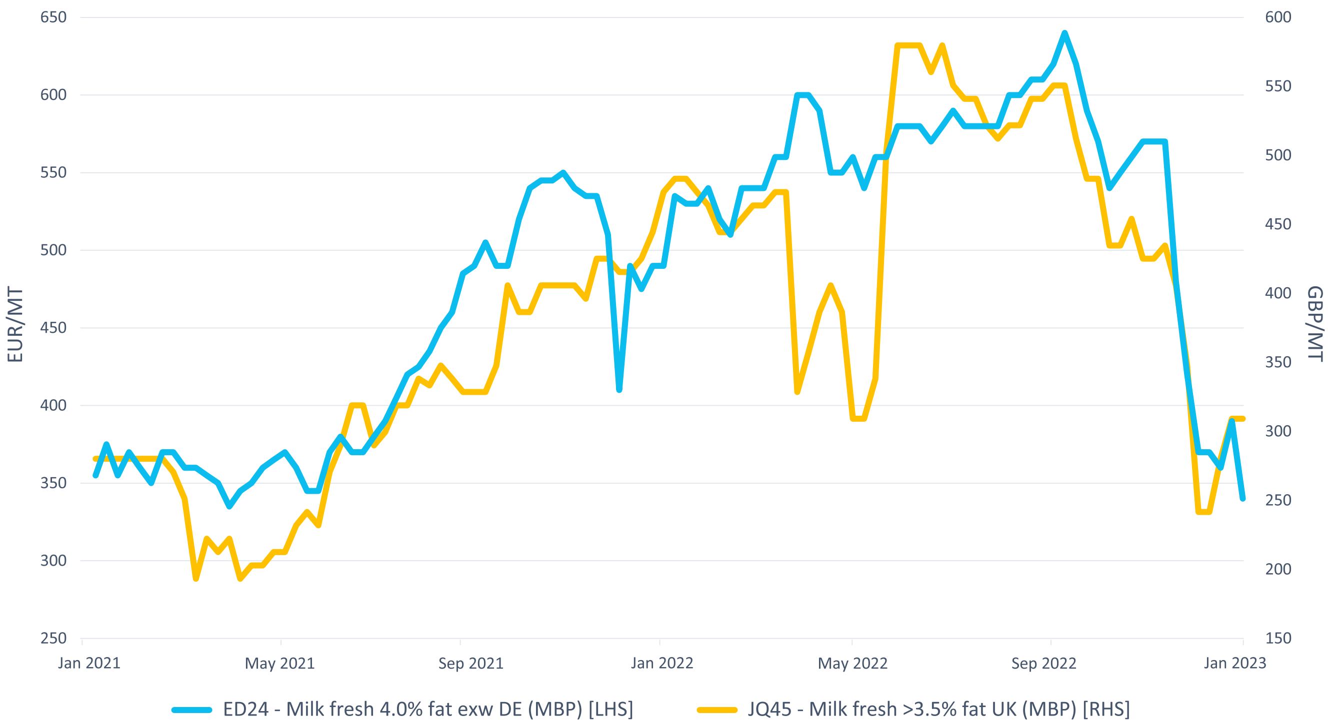
There was a drop around Christmas as processes and trade-offs reduced processing and trading capacity. However, in general liquids remained within a stable range of demand on the market.

If we look at the graph, we can see on the blue line that the current spot milk price for the European market is just below €350 per metric ton. If we compare this to the farm gate level, this is currently at around €600 per metric ton. Thus, we can currently see a difference of €250 per metric ton between these two products. With this being said, processors pay farmers what they would earn on the spot market.

We see quite similar pictures in the UK, and in other markets. These wide price differences obviously add significant pressure to the processes side. The feedback we have received from several market players so far is that this is expected. Processors across Europe are likely to reduce prices further, which could then have a negative impact on milk production later this year.

Now, looking into the short-term outlook, the sentiment for European and UK markets is that, during H1, prices will remain under pressure. They could even decline slightly further.

Mintec Benchmark Prices for Milk



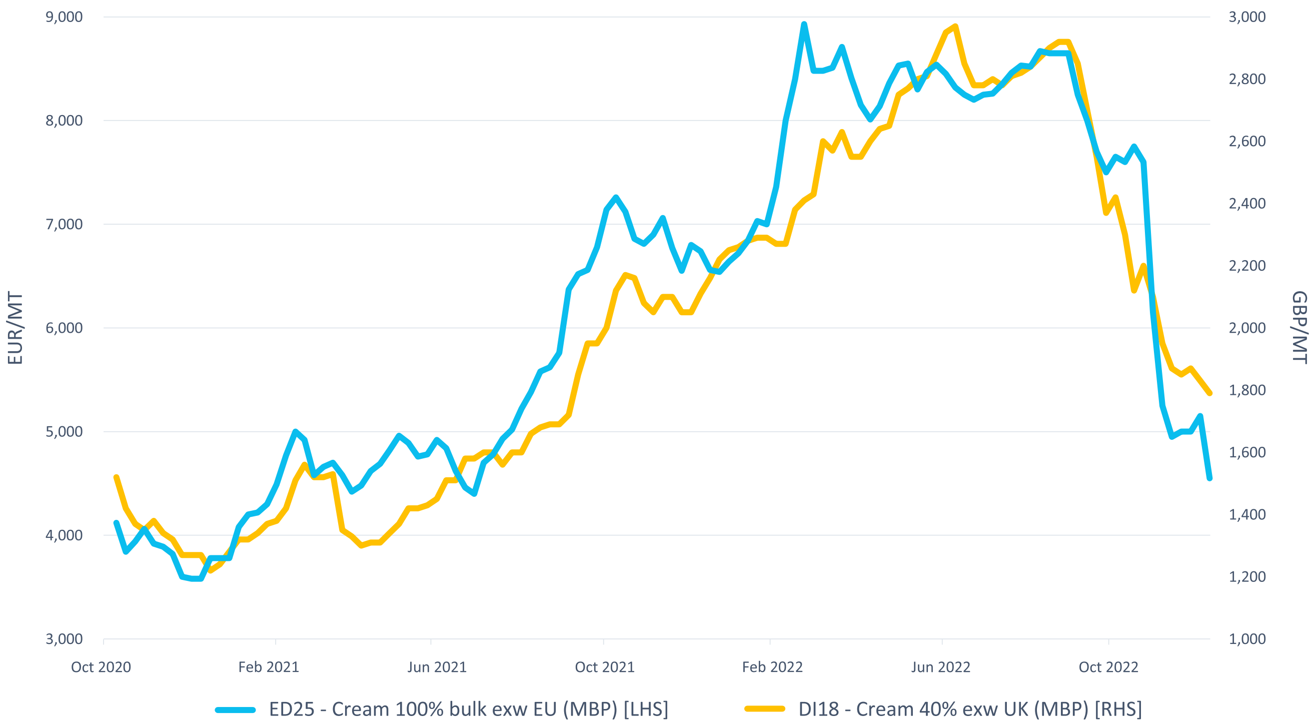
Cream

We've seen a similar picture to milk on the cream side. On the graph, you can see our benchmark prices for European cream and for the UK cream market too. We have seen a significant drop in pricing during H2. This was driven by increased availability. As we highlighted before, the surplus availability was driven by a better milk intake than usual. If more milk is available on the market, more cream subsequently enters the market, as well as being used in other tertiary products.

In Q4, we saw relatively slow demand for cream. Christmas demand added some interest on the supply side but did not elevate the price in a significant way. So, in general, moving into Q1 of 2023, the demand for liquids, especially cream, has declined further. According to all market participants whom we have consulted, it's expected that the demand will remain limited for cream, whilst the supply is going to increase moving forward.

With mild weather conditions will contribute to this, and owing to this factor, the quality of this commodity is expected to increase slightly over the next couple of weeks. This is expected to produce a bearish market sentiment.

Mintec Benchmark Prices for Cream



Skimmed milk powder

Looking into the powder markets now, starting with skim milk powder, on the graph we can see our benchmark prices for Europe and the UK. A similar story emerges here to that of liquid prices.

We have seen a significant drop in prices during the latter half of the year for powders, and

Since H2 we saw limited buying interests. On one hand, we have seen limited demand in Europe given that prices were reaching such high levels. The buying interest from European producers was simply not great enough to move prices, or support the current price level. Therefore, buyers stepped out of the market in anticipation of a price decline. This is indeed what they have seen in the market since then. This has placed a degree of bearish pressure on the market.

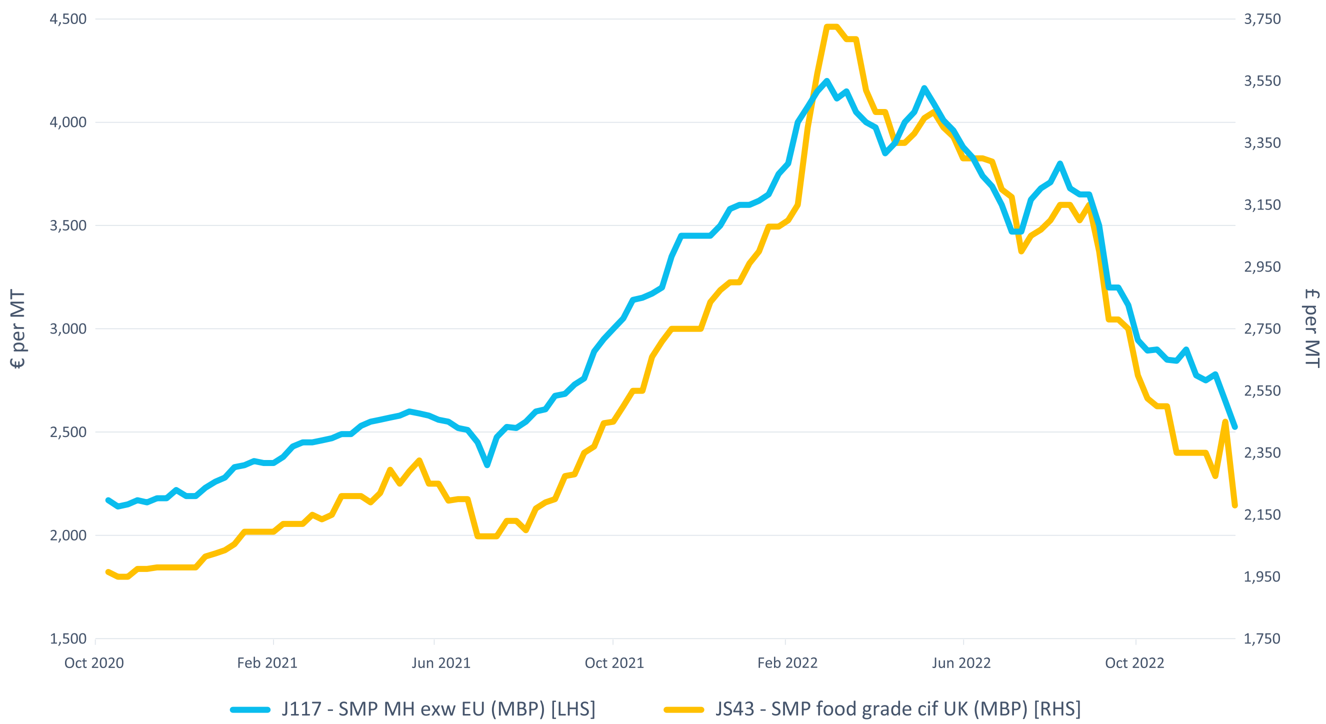
We have also observed that the strong US dollar has impacted import demand from low-income regions, especially across Africa. The issue we are now seeing is that even though European commodity prices are falling significantly, we can see here, just over the last two weeks in January, prices for skimmed milk powder have declined around €500 per metric ton.

The third aspect of this market drop which has impacted prices for this product so significantly is the low buying interest from China. Throughout last year, the nation still retained significant stocks which they built up in late 2021. Also, the zero covid policy also impacted their buying demand.

Now, China's zero Covid policy has been lifted. However, according to all market sources, a lot of Chinese people continue to follow the rules that were in place which continues to limit the domestic demand.

According to all market participants, the outlook for H1 is bearish. We are not anticipating Chinese demand to return to the market in the first half of 2023, along with that of other importing countries who are still struggling with the impact that the US dollar is having.

Mintec Benchmark Prices for SMP



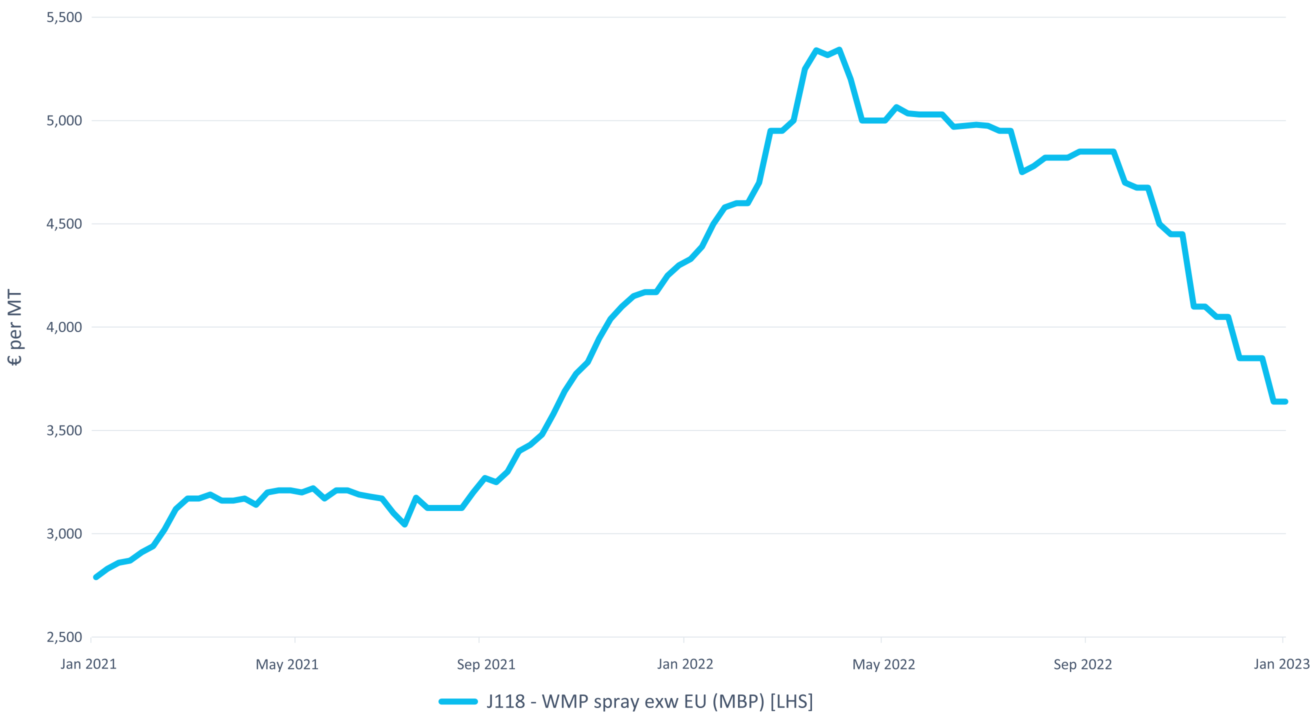
Whole milk powder

Now, moving onto whole milk powder, we've seen a similar story to skim milk powder. Since the middle of the second quarter in 2022, we observed a price decline on the market. We have seen quite limited domestic demand for European produced powder. In addition, we also saw restrained international buying interest for whole milk powder.

The greatest issue this year, especially for this particular market, was that European products were extremely uncompetitive compared to other players due to inflationary factors. On the European side going forward, there's simply not enough demand generated from inside the EU, nor coming from outside the continent.

Due to this, there's little incentive to increase the speed of production again. The outlook is therefore bearish on this market.

Mintec Benchmark Prices for WMP



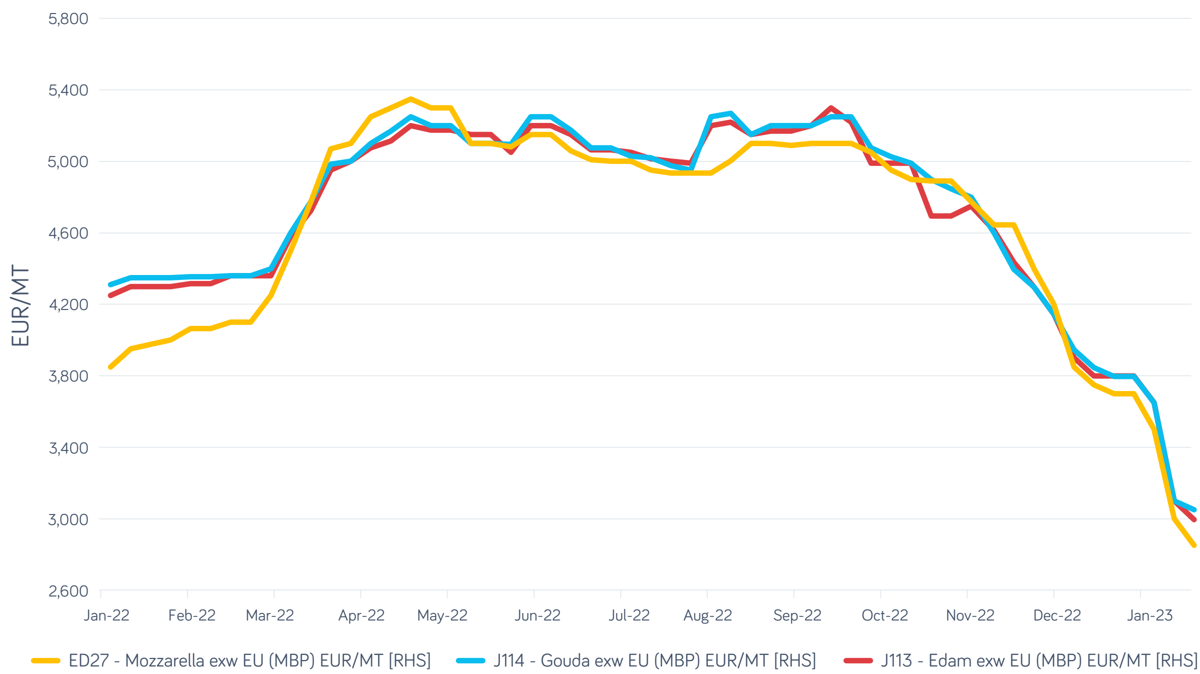
Cheese

Cheese is the most popular dairy food stuff, more or less, in the US and Europe. In the States, 50% of the milk output goes into the cheese market to produce the necessary quantity to meet demand.

In the top left graph, we can see the cheese prices of gouda, mozzarella, and edam in the European Union where each of them was performing similarly throughout the year. In addition, they were also performing in a similar way to the rest of the commodities discussed. Thus, we can see a price trend change in Q4 which added up to significant price declines. There were stocks built up by this time in the year due to higher output, which bolstered inventories.

Consumer demand was depleted, largely due to the cost of living becoming inflated. Retail buyers turned to own-brand products and they started to consume at lower volumes. At the same time, industry buyers that were aware of the inventories which had built up, so they weren't waiting for further price declines. Another factor shaping the market was that there was a growth in exports from the US, despite the strong US dollar.

Mintec Benchmark Prices for Cheese



Butter

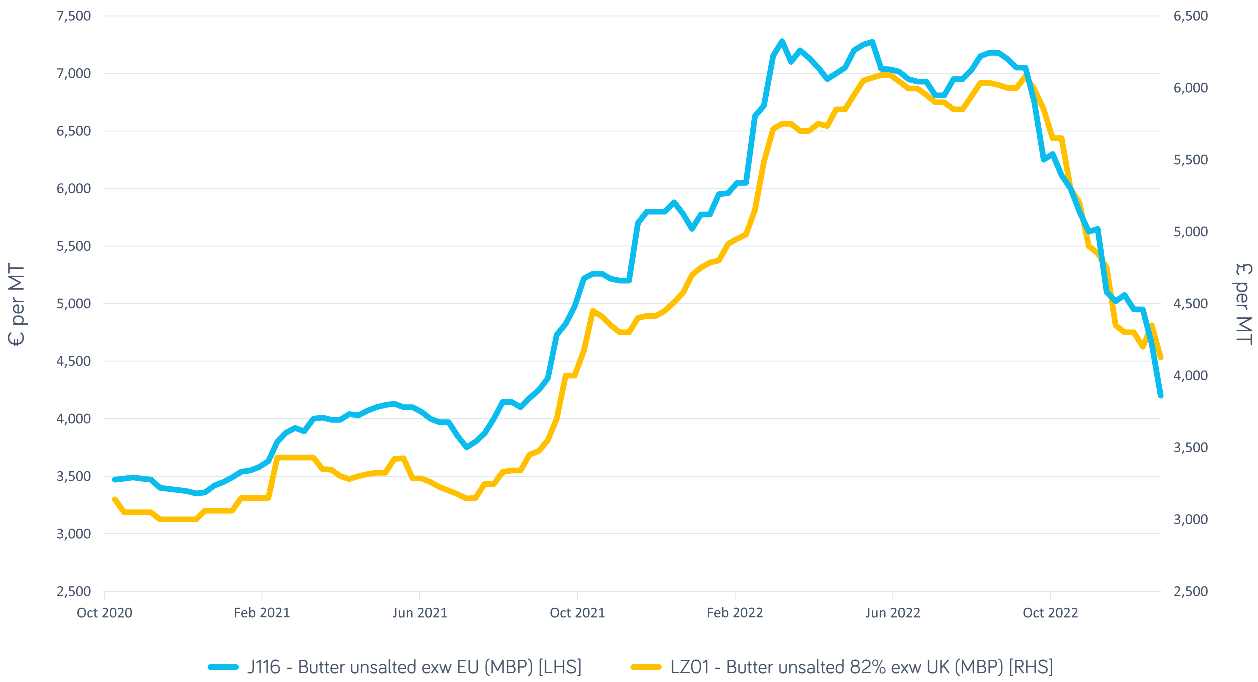
On the left, we can see the price graphs for butter. Again, quite a similar story emerges here to the other commodities we have analysed already.

Specifically for this commodity, we have seen a more stable price level over the summer. Then, during Q4, again, we've seen a massive drop, even more, than we've seen on some of the other commodities. The drop, especially during Q4, is driven by limited European buying interest.

At the present moment, especially during Q1, we generally see lower seasonal demand. Also, as highlighted, the increasing availability continues on a similar trajectory to what we see on the cream site. The short-term outlook is thus relatively similar to what we have seen across other dairy commodities. The sentiment is bearish. European demand remains uncertain, especially surrounding the consumer side.

Also, it's expected that processors will not wish to hold on to frozen products for too long. Whilst it is possible to store powder commodities for long periods with little hassle, storing frozen liquid-based products utilises great amounts of electricity. Owing to the maintenance costs for keeping these products, including butter, it remains to be seen whether producers are willing to keep stocks.

Mintec Benchmark Prices for Butter unsalted



Market cost drivers

Now, moving into the last section, we're going to look at some of the cost drivers including what both farmers and producers have faced throughout the year and how these factors have developed.

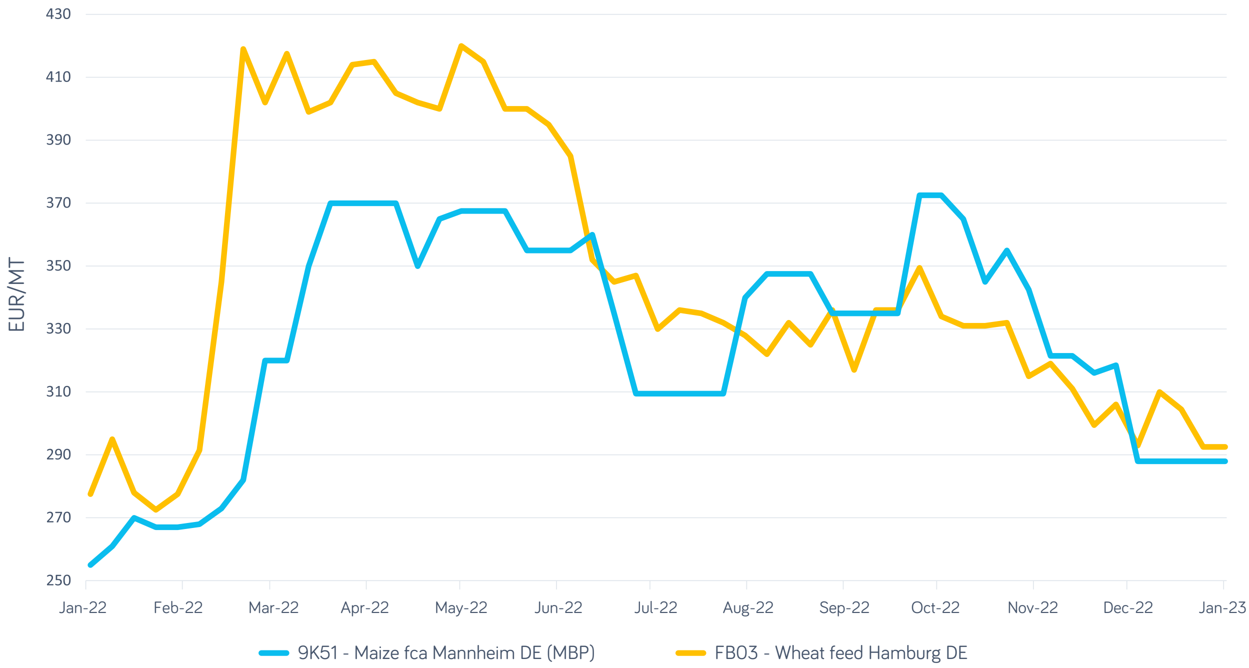
There are three key drivers. Initially, we have labour costs, which is quite important for both farmers and for producers, in light of how they have had to increase wages. As well as several countries adopting increased minimum wage policies, we have inflation impacting the labour costs as workers demand pay which aligns with the economic environment. All of those factors have added pressure to the production side of the general dairy industry.

The second cost driver is an elevated price of fertiliser and feed. The third is, of course, the energy costs which have caused disruption within the dairy sector.

If we look into the feed cost and the fertiliser cost here on the graph, we can see the feed prices for maize and wheat.

Feed costs are one of the key cost drivers for dairy farmers. We can see that between February and June, the prices for feed increased quite significantly. This was especially true for wheat, primarily driven by the escalation of the Russian and Ukrainian war, limiting the supply and international markets quite significantly. Since November, prices have come back down and the pressure on the farm side has reduced with the declining prices.

Feed Ingredient Prices EU



Cost for fertiliser is still fairly high, with no sign of abating. So, the cost pressure generally is going to remain quite firm on the farm side.

Natural Gas PEG Nord EEX FR (nearby contract)

Now, if we move to the producer side in the European Union, here we can see the development of gas prices throughout the year. This has been a volatile year for energy prices, also linked to the Russian Ukrainian conflict. As Russia is one of the biggest suppliers for the gas market, this has had a knock-on effect, driving up output costs for dairy producers immensely. Whilst we have seen the market retreat from the peaks we have seen throughout the last year, energy is still proving to be a headache for the industry as we enter H1 of 2023, and the war persists

In general, these cost drivers reduced the competitiveness of European producers compared to their US counterparts, and New Zealand's market as well.

Grains

Wheat

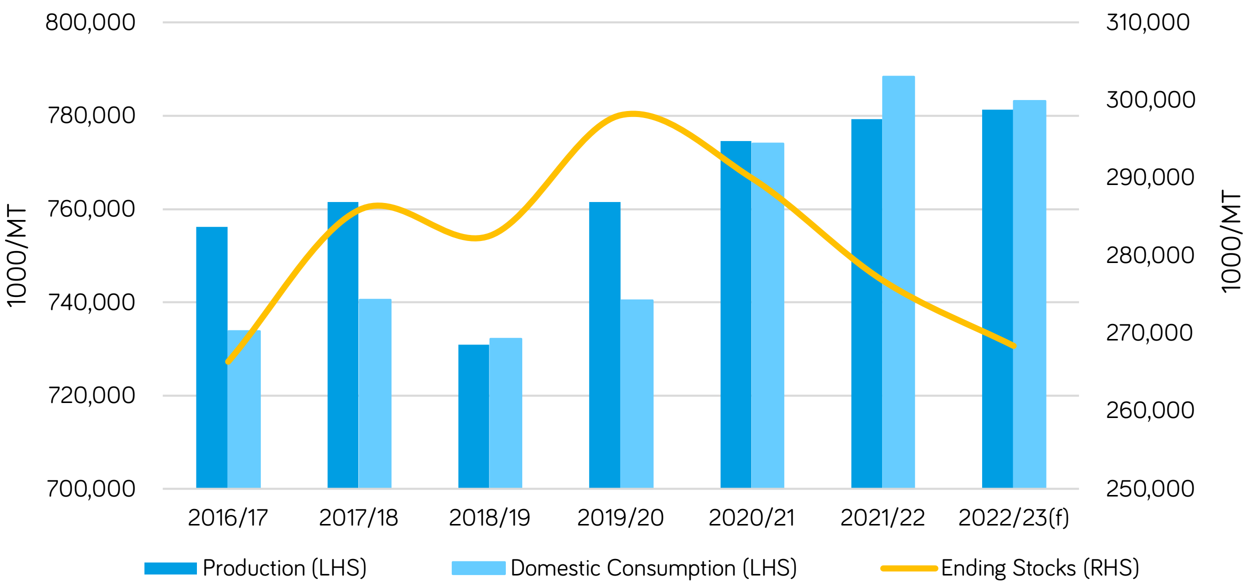
The blue chart displayed offers a view of the global picture for the wheat industry. Production is estimated to have reached a record high this year, stretching to 781 million metric tons. A driving factor for this is record crop estimates for Russia and Australia, two huge players in the sector. We have also seen higher production estimates for Canada in Turkey.

The trade picture looks favourable for this commodity, but the ending stocks appear to throw up some problems off the back of the season, especially when we have increasing consumption over time. Globally, ending stocks are proving tight, reaching the lowest level since 2016/17.

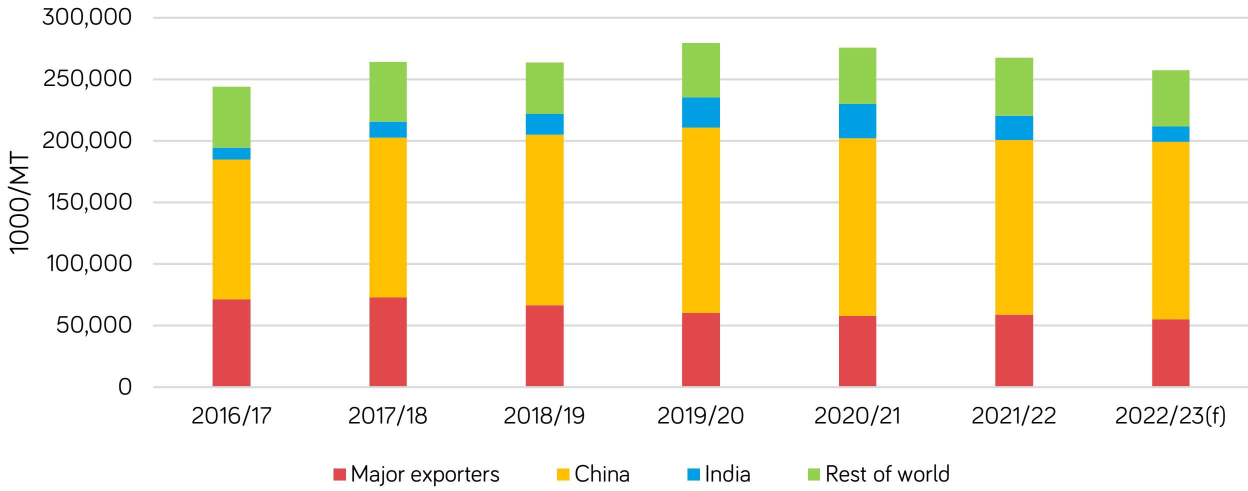
If we look at the chart below, the data shows that China - in yellow - accounts for more than 50% of the global ending stocks. However, its stocks are largely unavailable to the rest of the world. When China's contribution is removed from the global picture, we can see that the season is even tighter.

Therefore, with inventory at historically low levels, pressure on the supply side is increasing. A further factor which contributes to this is the conflict which we know is ongoing in the Black Sea region, as well as the lingering effects of the pandemic.

Global Wheat Production, Consumption and Ending Stocks



Major Exporters Ending Stocks are tight in 2022/23

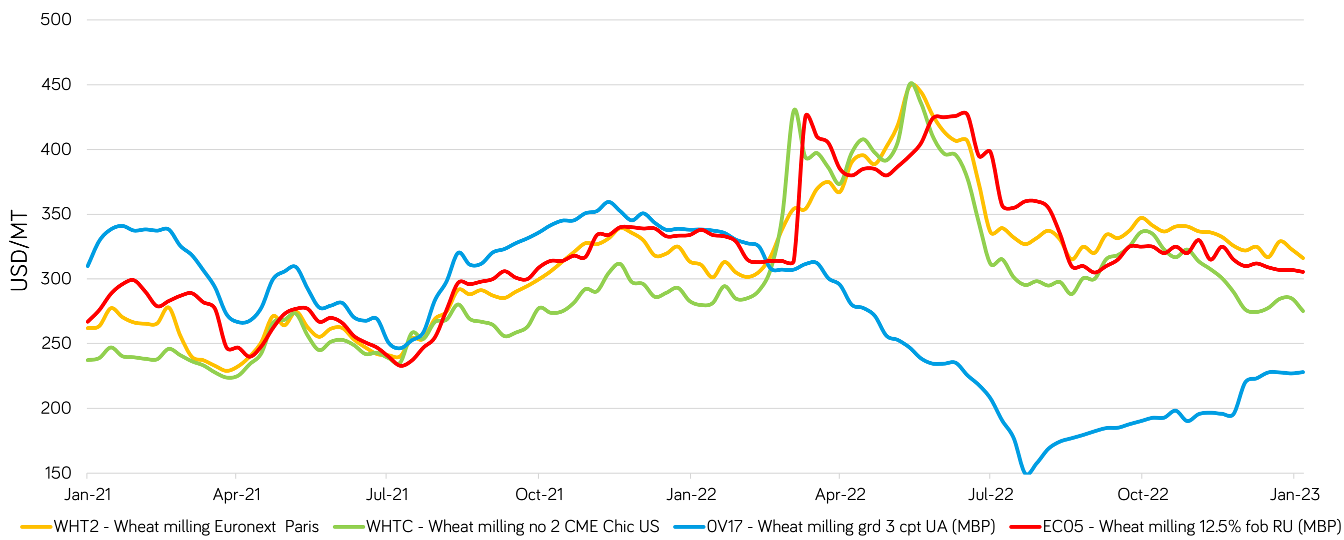


Wheat Prices

From this chart, it is clear to see that wheat prices have come down drastically from their record highs which we saw last March, and last May. This represents the market reaction to the war between Russia and Ukraine as, together, they account for approximately 30% of the global wheat export share. At the start of the conflict, several grain producers halted their operations. There was also severe logistical disruption at Black Sea ports, on railroads, and owing to the closure of shipping terminals in Ukraine. Moreover, Russian wheat exports were impacted due to international sanctions, as well as the gas crisis in Europe. Gas is used as a feedstock in fertiliser production, which is an important aspect of input costs for grain production. Therefore, gas prices have led to several fertiliser plants experiencing resource issues within Europe, and finding that prices of this necessary ingredient for production have increased.

The impact of war and elevated logistical costs have, together with adverse weather, contributed to high prices levels in this sector. This has thus tightened the balance sheet for wheat, especially for a year.

Wheat Prices have Declined from Peaks



Wheat in 2023

Going forward, it is important to understand that the wheat market sentiment is influenced by several factors. Firstly, we have the competitive Black Sea supplies on the market. Even during the ongoing war, Russia and Ukraine's wheat product remains competitive on the global market. Another factor influencing the market is the large Australian crop. We estimate that the nation's crop will sit around 42 million metric tons this season, with market participants suggesting that yields could climb even higher than expected. This could be a bearish factor for global wheat prices in the short-term.

Moving to China, we have the nation's Covid policy is something to watch going forward in terms of the demand for agricultural products. Now that China has relaxed restrictions, it will probably take some time for this to have an impact on the global demand. However, this may be seen in H2 of 2023.

A further factor which will impact the commodities market is recession fear. There is an expectation that wheat prices should decline due to slowing global demand as interest rates, and inflation continue to impact consumer decision making.

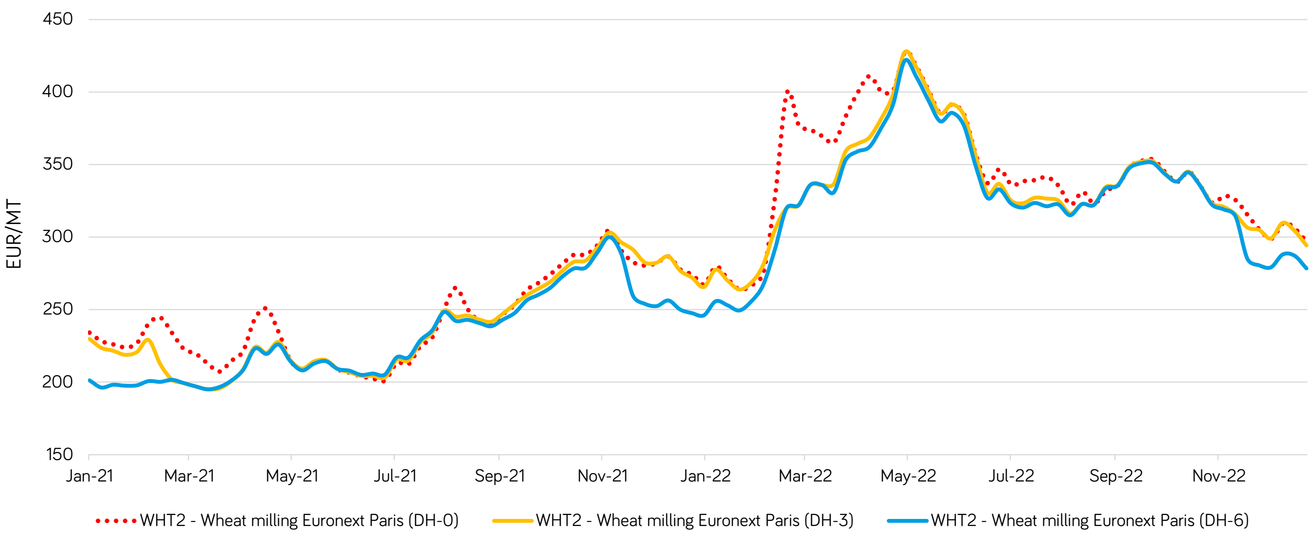
A potential upside risk to wheat prices is the reduced insurance market coverage for vessels which are sailing in the Black Sea region and cover for the vessels which are loading from Russia, Ukraine, and Belarus. This reduced coverage started this year on the first of January. Market participants believe that this could have, tightening effect on the market. This is due to the fact that we may see fewer agriculture shipments from these regions.

The last driving factor for the market is the weather in South America, especially in Argentina. The nation continues to have hot and dry weather, so the crop market sources which we have gathered are saying that the yield could be reduced to 0.5 million metric tons. Just to give a comparison, last season the crop yielded 22 million metric tons.

This could mean that we have vastly fewer exports from Argentina, and the global wheat supplies could be constrained because of this. As a result, we may see some price increase.

Overall, many industry participants believe that prices could actually move up in 2023.

Wheat Spot Price and Forwards



Corn

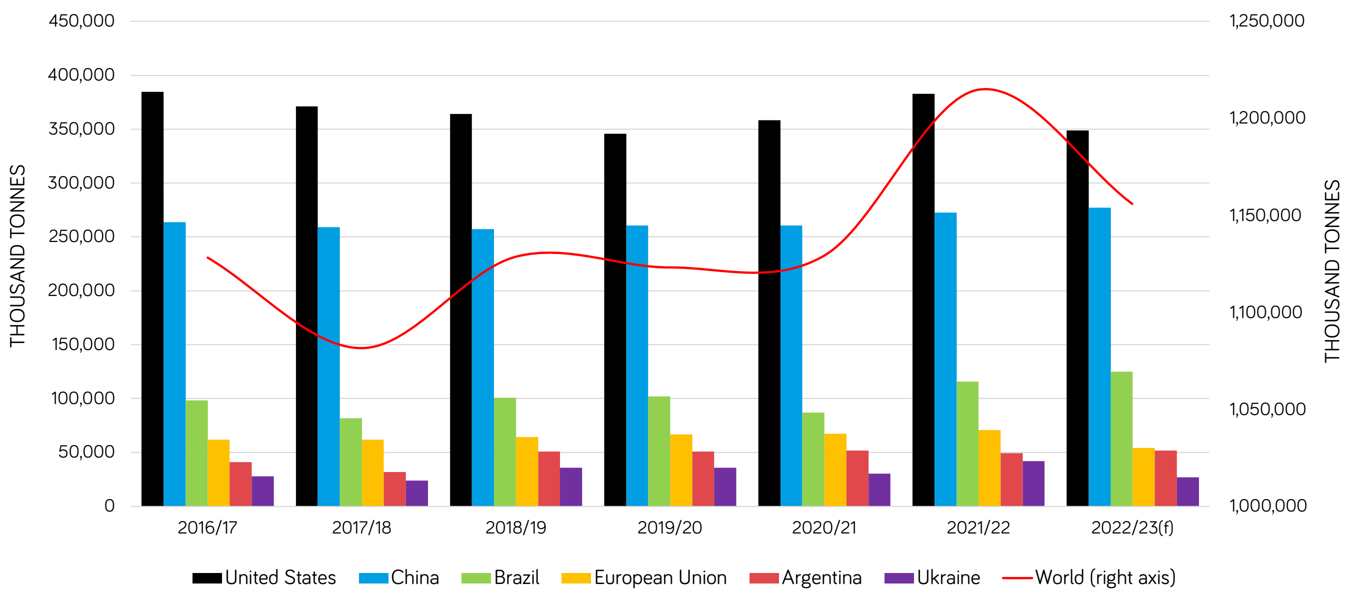
For corn, there is an altogether different situation to other commodities. From the chart we can see that there is a tightening global supply, although the large Brazilian crop which is expected can turn the table on this. The nation's crop was expected to reach 125 million metric tons. This figure totals around 8% year on year.

We will also see tight production in the US. The nation experienced a lot of dry weather. This year started off with almost 60% of its corn crop area in drought. Usually corn is planted from April to May and harvested from August to October, So weather conditions during that period, Especially in the first half of the season, will dictate the crop yields. Market players will be watching this closely.

We have declined estimates for Europe. For Ukraine, which is a major corn supplier, market participants believe that corn production could be 40 or 50% less year on year. Of course, this is due to the war. They have a lot of challenges with exports including vessel inspections on the black sea, as well as power outages in the country.

Similarly to wheat, the Ukraine and Russia account for around 70% of the global export share. Therefore, we saw very high prices in the meantime last year. We also had severe weather conditions in key regions including Brazil, Argentina, and also Europe, so it also contributed to the price increase. From July onwards, the price started to ease due to improvements in the Ukrainian trade flow.

Corn Production in Key Regions



Vegetable Oils

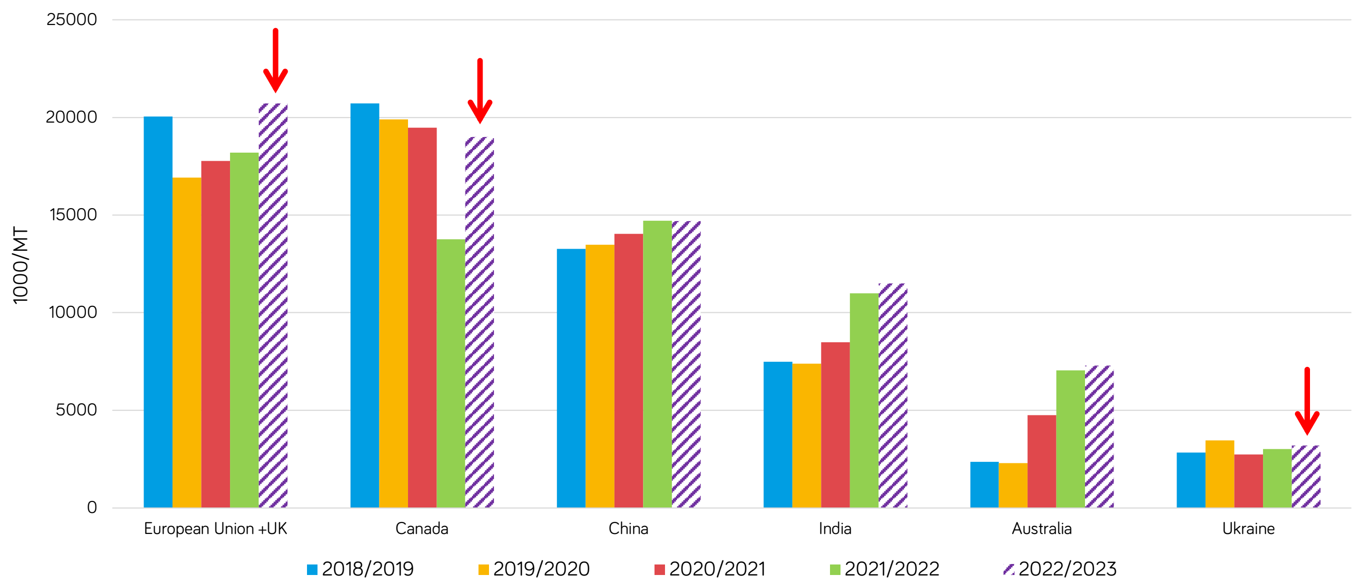
Rapeseed and rapeseed oil

Aside from the war, one of the key factors which kept rapeseed prices fairly high is that supply was really poor. Canada had a very depleted harvest, and produced much less in the 2021/22 season than normal.

Now, turning to the graph which shows Europe and the UK, the harvest has been very strong. The margins for this commodity were very strong, and producers were looking to get above average levels of seed in their field. This subsequently led to impressive rates of production. Rapeseed has also become a cash crop, leading to higher growth rates. The commodity has become an increasingly important tool for farms to use in order to make good margins on their land.

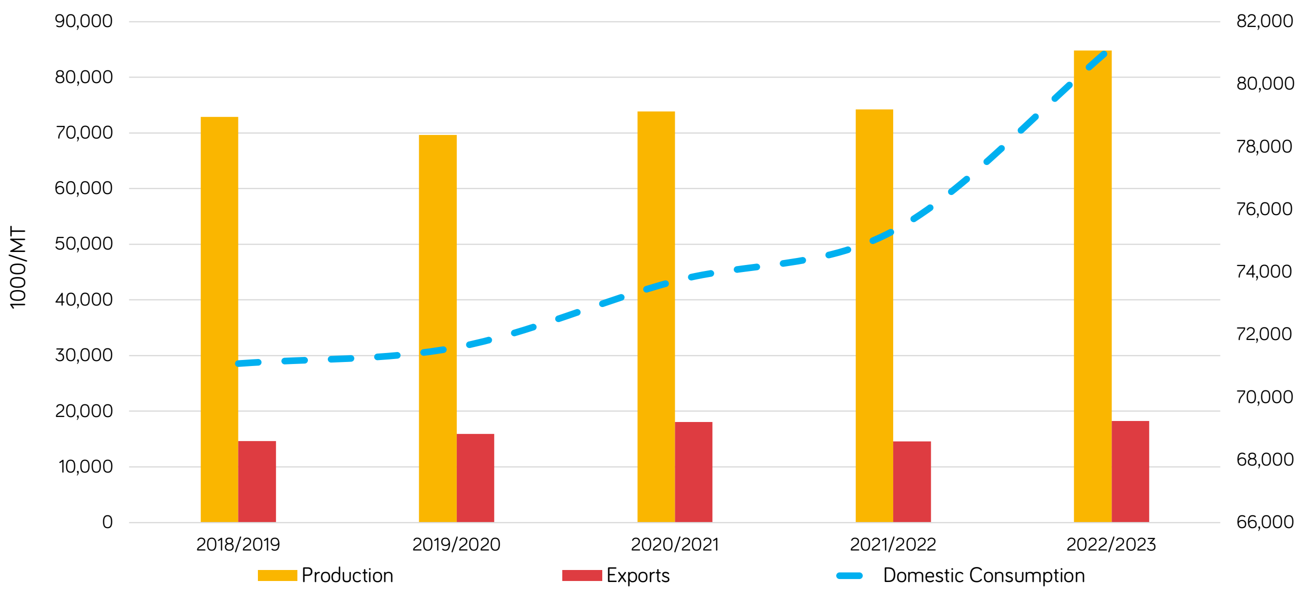
In contrast, Ukraine is struggling to till their crops in order to plant them. However, planting has exceeded expectations according to the Ukrainian Agriculture Ministry. They planted 104% of their target. How much of this crop survives to harvest still remains under question, however, the Ukrainian wheat market has still retained exports owing to the fact that a number of large European market players are taking advantage of the cheap prices at which Ukrainian wheat is being sold.

Rapeseed Production



Rapeseed imports into the EU and the UK has been very high across the year, as is demonstrated on the graph. It's been a very tumultuous time for the Ukraine market, but an opportunity for the European market to import rapeseed at cheap prices.

Rapeseed Fundamentals



The graph demonstrates rapeseed fundamentals. Clearly, this market is still tight. Despite some of the increases we're expecting to see in plantings and also the overall level of production, it still remains a fairly narrow picture even when taking into account the amount of rapeseed on the EU marketplace, thanks to Ukraine. Prices since the peak in April have, however, declined. The general market sentiment is that the bearish trend is certainly outweighing any bullish factors.

Spot buying is limited across the market for this commodity. However, the whole forwards and spot market is in decline.

This has been illuminated to us by the fact that even though buyers are interested in forwards, even the prices in this space are still declining.

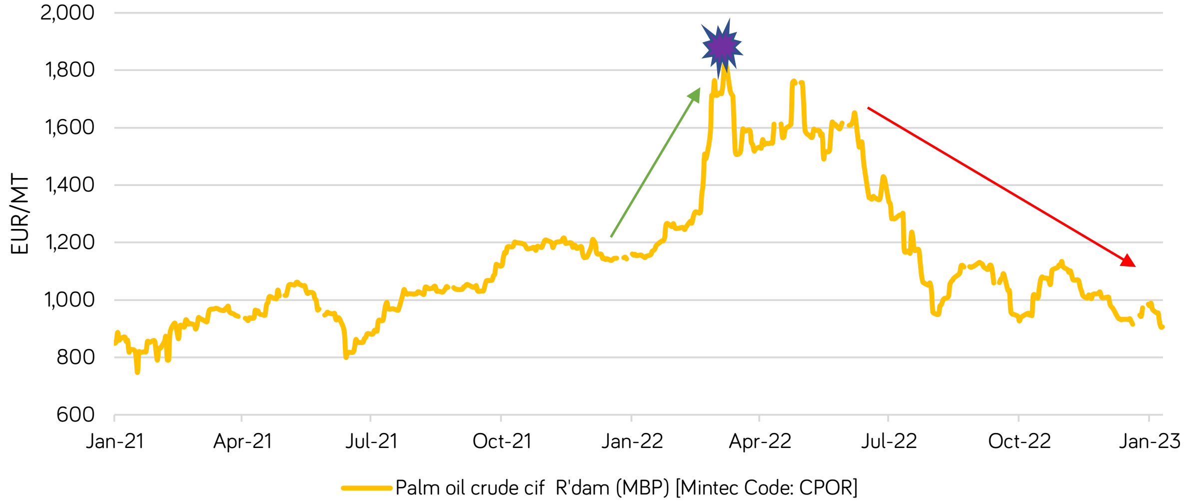
Market participants are suggesting that even if you go to suppliers, they are willing to do deals, and that they're willing to offer lower than what the listing suggests, demonstrating the weakness that this side of the market has.

A further factor which is impacting the rapeseed market is EU deforestation policy. A reduction in feedstocks could push biodiesel market players towards an increase in use of rapeseed and rapeseed oil. The impact that this could have on the market for this commodity is huge, as this policy will be extended across the whole of the EU – a large market force in this sector.

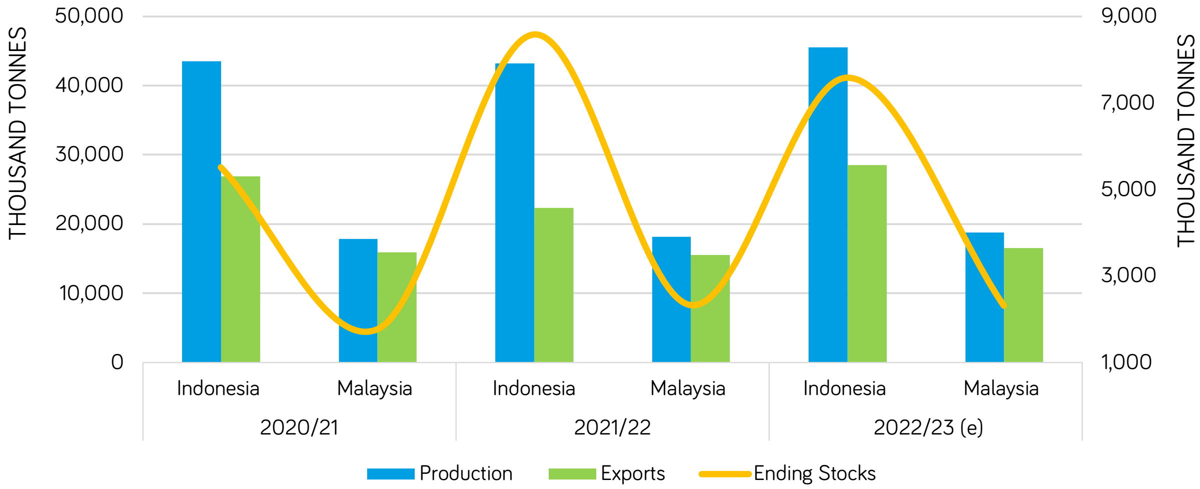
Palm Oil

Palm oil prices, as depicted by this graph, have declined significantly from the elevated levels, reached in H1 of 2022. This operates alongside a general decline in prices in the wake of global conflicts.

Mintec Benchmark Prices for Crude Palm Oil



Indonesia & Malaysia S&D



The EU price reached a record high on the 11th of March, and this was off the back of a shortage of alternatives, including rapeseed oil and sunflower oil. An additional factor is that palm oil is historically priced at a discounted rate to its industry alternatives..

Following on from this period, prices remained at elevated levels. This was off the back of the Indonesian palm oil export ban which was implemented on the 28th April, in addition to ongoing labour shortages in Malaysia at the time, which prevented their harvest from reaching its full potential.

However, prices began to decline from H2 2022 and this was following on from Indonesia lifting its ban, mainly owing to the fact that it produces more product than it can accommodate in terms of storage.

Prices have continued to decline into January of this year. Therefore, comparing the last assessed price yesterday to the peak last year, we find a 50% decline which is hugely significant. There have been improvements in average estimates for the current season in Indonesia and Malaysia which have also contributed to the price decline. Indonesia has a 5% increase year on year, and Malaysia has a 3% increase year on year. With Malaysia expected to resolve its ongoing labour shortages, this is a recipe for further production boosts to product in this market.

The sentiment in the market still remains more bearish. According to the input data, prices are still higher year on year. In addition, overall demand, particularly from China and India, has and will continue to be a major determinant for palm oil prices moving forward. Moreover, the growth of China's economy and imports raises concerns regarding its demand outlook for palm oil moving forward.

Even despite the positive global supply outlook, various policies could restrict further price declines, the first one being Indonesia's policy both for its domestic market obligations and biodiesel mandate.

New year marked a revision in Indonesia's domestic market obligation. It now requires more volumes to be kept on the domestic market, and this would thereby reduce supplies available for exports. This was broadly in anticipation of weaker production in the first quarter of this year. Also, the biodiesel mandate is expected to be raised from 30% to 35%, and this will commence on the first of February. This change could see supply, or exports, tightened, and further support prices.

Deforestation policy across the EU could also impact the palm oil market due to the elevated difficulty surrounding obtaining permits to export to nations within the continent. This could thus deter many sellers from attempting to sell into the EU due to these logistical difficulties, and just general questions about its necessity.

Soy

In a similar vein to palm oil, soy prices within the EU declined from a record high also reached in H1 of 2022. Lower demand has driven this market depletion, especially as many EU buyers have substituted for rival oils which carry cheaper price tags.

Buyers had built up stocks of soybean oil due to higher seed availability and crushing activity. Therefore, the EU did not appear to be looking to buy soybean oil for this reason.

Market participants have reported that stocks in the EU are currently on a declining trajectory, with players still maintaining a watch-and-see approach based on moving prices and current uncertainty regarding demand outlook.

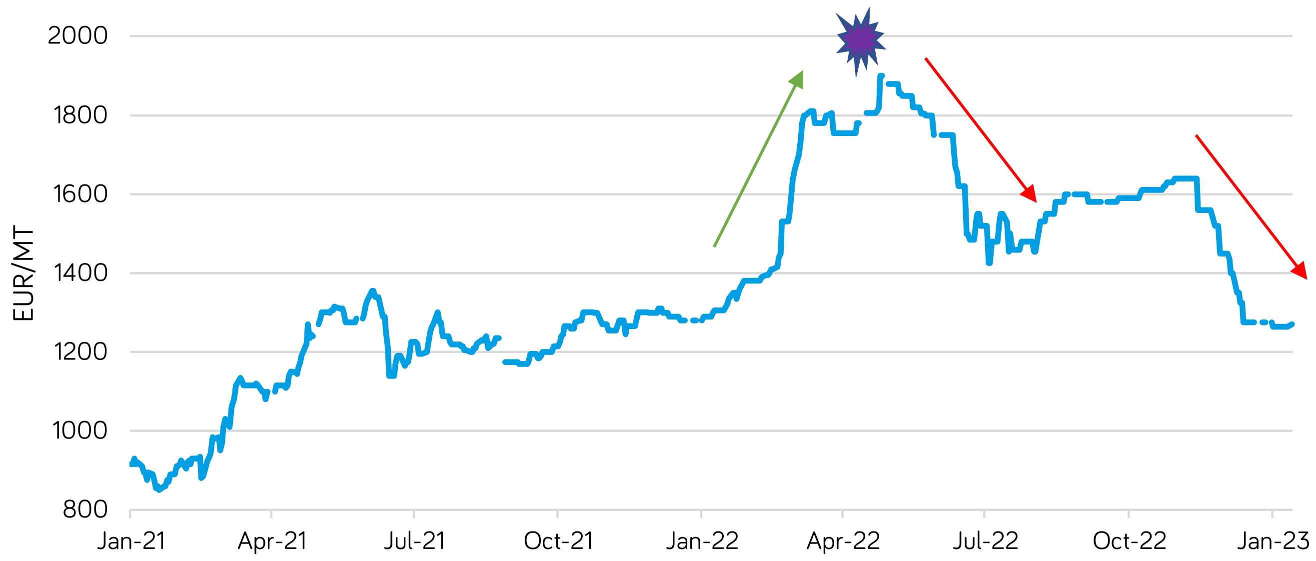
Considering supply and demand fundamentals, the latest report dated the 12 January demonstrated a bullish sentiment, with a surprising reduction to the US crop. This nation's yield was estimated to carry lower month and month figures. In comparison to December's estimate, there was a 1.6% month on month decline, and a 4.2% year on year decline.

Lower production figures have meant a decline in exports and supply, of not just bean, but also soy oil. This was estimated to have downturned significantly by 55% year on year, according to the USDA.

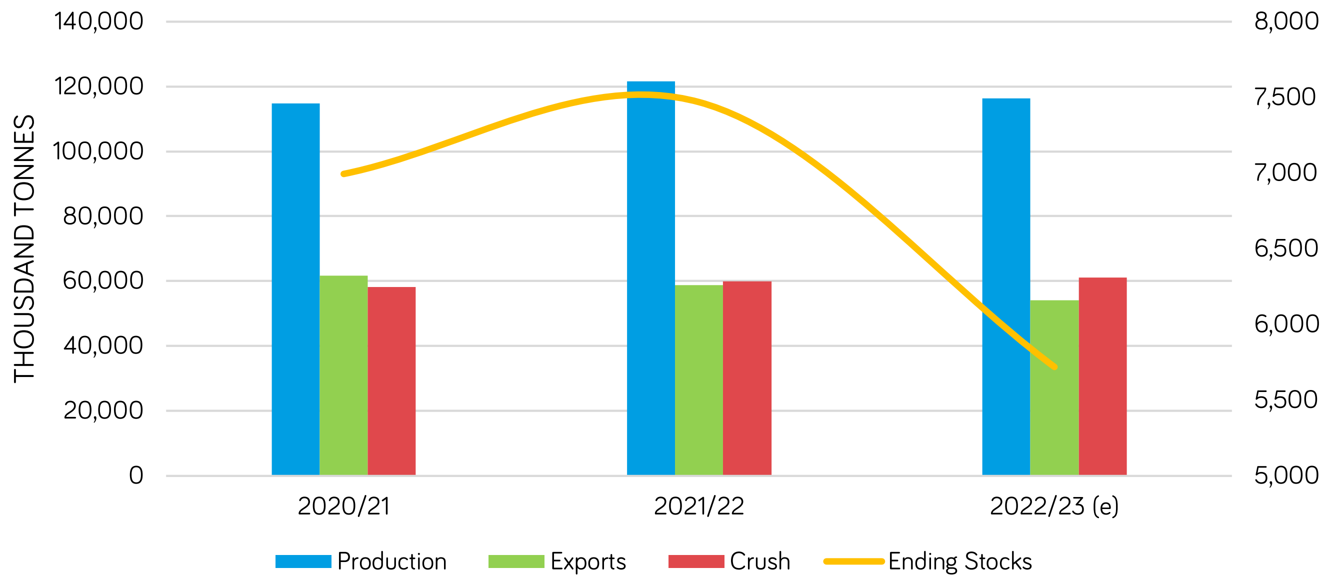
An increase in domestic consumption also contributed to this lower export availability. Despite the decline in crop output, the USDA has maintained its biodiesel usage forecast after a slight downward revision by the EPA last year, in early December.

Overall, soybean oil prices could remain firm in the short-term. This is heavily dependent on China's level of demand, in a similar sense to palm oil.

Mintec Benchmark Prices for Soybean Oil



US Soybean Supply & Demand



Meat

Beef

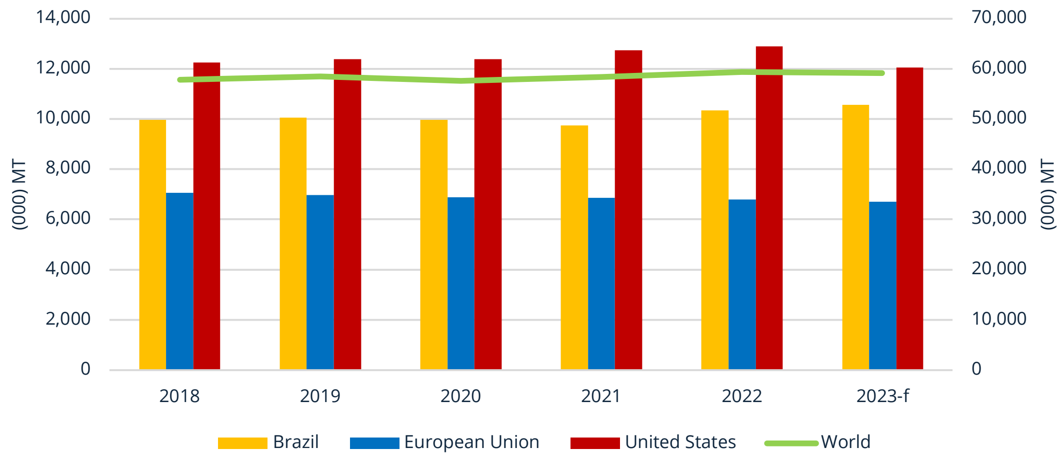
As is demonstrated on the left-hand side of the graph, global beef production is expected to remain broadly stable, with the potential to fall marginally in 2023. The overall yield is expected to reach fifty 59.2 million tons. The decrease in output of the EU and the US beef markets is expected to be counterbalanced by an increase in the Australian and Brazilian beef markets.

Nevertheless, the carcass prices among the major exporters still remain relatively high when compared to pre-pandemic levels. This indicates that the factors of a limited supply and firm demand from the key markets are working in unison, inflating prices. In line with what we have heard from market participants, we expect that supplies could fall further, as opposed to being stable.

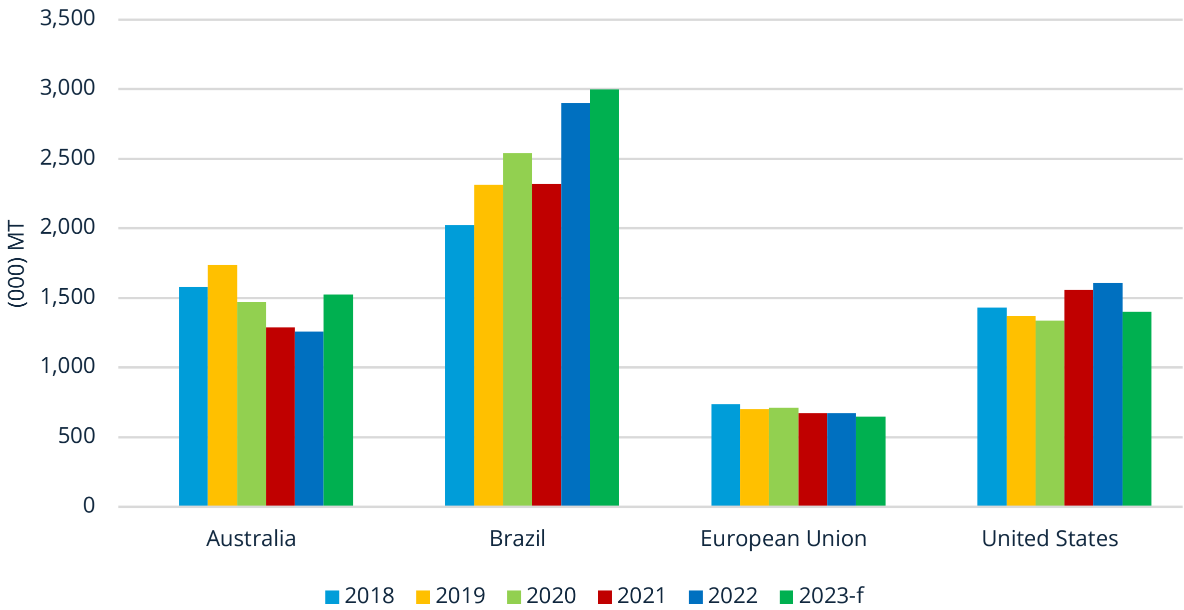
In addition, tight supplies are expected particularly in the US, which is one of the key markets engaged in beef production. This is due to high levels of herd rebuilding activity required owing to the fact that the nation has faced copious rates of drought over the past two years, and there was subsequently a high slaughter rate of beef cows carried out within this time frame.

The exports side of the market is expected to remain stable across H1 of 2023. This is again influenced by the fact that the increase in exports from the Australian and the Brazilian beef market will be counterbalanced by a decrease in the EU and US market, both of which are expected to be low on supplies. A further crucial factor to note which will affect the global beef landscape is that Australia has been engaged in herd rebuilding activity for the last two years, akin to the US. Therefore, there may be an increase in beef exports leaving this country than anticipated, especially to the Asian market.

Global Beef Production



Global Beef Exporters



Market overview of US beef

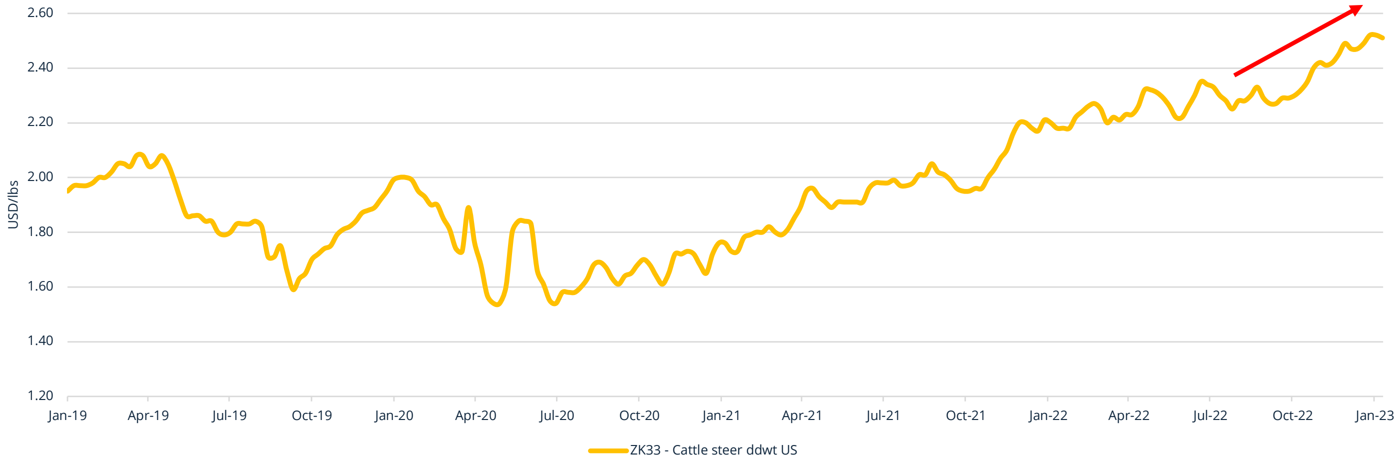
Due to the persistent drought in the US, prices of US beef continue to increase as you can see on the graph. This can mainly be attributed to tight cattle supplies coming out of the market, particularly fed cattle supplies in the nation. Throughout December 2022, a slower than expected rate of fed cattle slaughter, along with lighter carcass weights, offset the high rates of cow slaughter carried out in the US. As a result, production in Q4 of 2022 was depleted by £115 million, consequently leading to a surge in price of the commodity.

A further factor in price inflation is the fact that feed prices were inflated during this period, again owing to the drought. This weather event continually renders pasture conditions in an inferior quality than usual. Looking forward into the next six months, it is likely that these conditions will persist. Whilst some relief will be experienced due to expected rainfall across the nation, the pasture and forage availability in the central and the Southern Plains are expected to remain in largely similar conditions as seen in 2022 and 2021. As a result, tight cattle supplies are expected to persevere into H1 of 2023, ultimately leading to a bullish price trend.

In addition, despite the inflated prices of beef which have been bolstered by the strengthening US Dollar, global demand for US beef remains strong historically, and that is also expected to continue in 2023. Given that supplies from the EU and New Zealand are expected to remain low, exports from the US could also be expected to be driven up by this factor.

There are certain price drivers which we could conceivably expect to prevent US beef costs from rising further. Imports from other countries such as Brazil are expected to remain high in the first half of 2023, so this could potentially flood the market with imported stock, mitigating any potential shortages and driving the US beef price down. Furthermore, since activity in the beef market at the start of 2023 indicates that supplies of beef could grow abundant in the US in H1, this factor could restrict any further growth in the prices.

Cattle Steer Prices US



Market overview of European beef

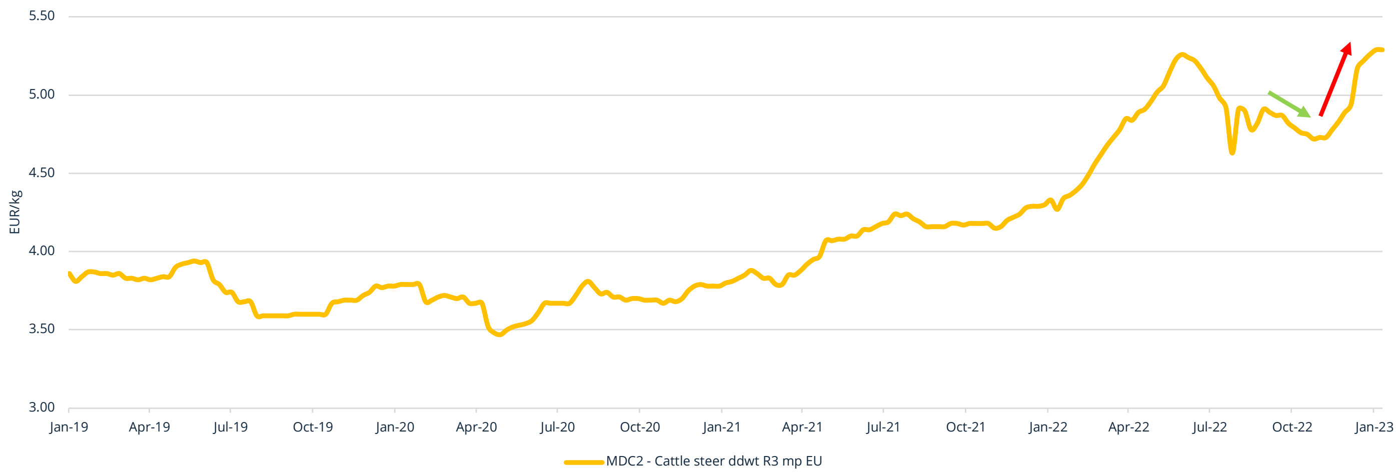
We are seeing high imports from a few regions, such as the UK. These almost doubled in Q3 of 2023. From the graph, we can also see that prices slightly decreased in Q3. However, it is important to note that this was merely a temporary dip. Thereafter, prices began to rise, and this trend continued into 2023.

In central Europe, the beef cow herd has expanded significantly in the past decade. However, it came to a standstill in 2022. An important factor for the historic expansion of Central European herds was respective governments' financial support which they allocated to farmers. There was also a lower financial risk of rearing beef cattle, as opposed to the generally more intensive farm animal husbandry system of dairy cattle or swine and poultry.

However, the increase in the cost of production and a stagnating demand of European beef had a directly negative impact on the central European production. As a result, most of the farmers in this region were unable to keep their animals, subsequently seeing swathes of farmers carry out both official and backyard slaughtering campaigns. Production fell by 1.1% year on year in 2022. Overall, this is the main reason we have seen prices remaining relatively strong.

A tertiary explanation for the high cost of European beef is an ultimate increase in the consumption of beef, especially in regions of southern Europe. This was supported by the alleviation of pandemic restrictions which increased tourism in nations across the continent. Looking into the next six months, this is a trend which is expected to continue.

Cattle Steer Prices EU



Market in 2023

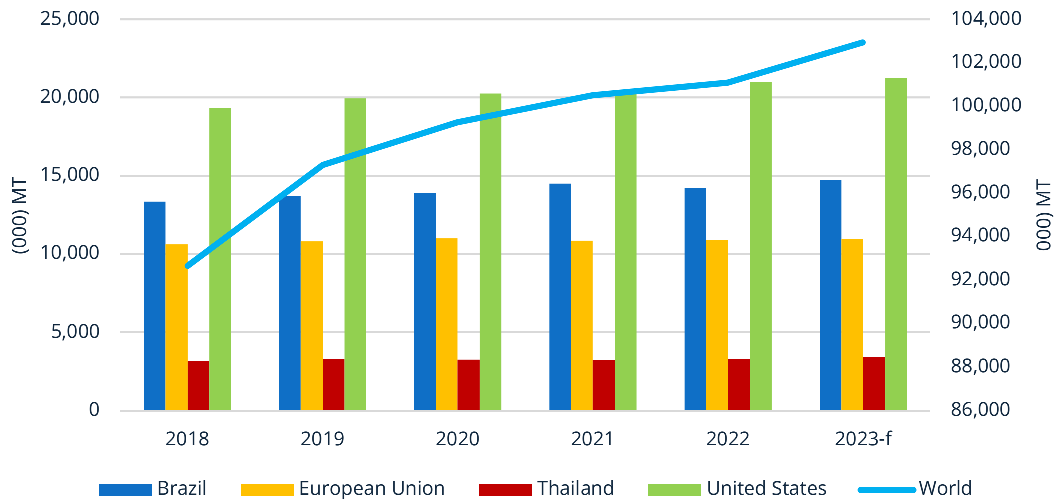
An increase in production could be seen in the latter half of 2023, rather than in H1. Therefore, we expect the cattle supply to remain tight in the first half of the year. Though we have seen that there is the easing of feed grain prices due to the grain corridor and the expected increase, especially in the wheat production in the key growing regions, this could ultimately prevent European beef prices from rising further.

However, a further factor to consider which could prevent prices from growing is the prospect of increased inflation in the EU. In instances where we are operating in an inflationary environment, we generally observe a negative correlation with beef consumption. It is plausible that consumers could be deterred from purchasing beef, and instead turn to cheaper alternatives such as chicken and pork.

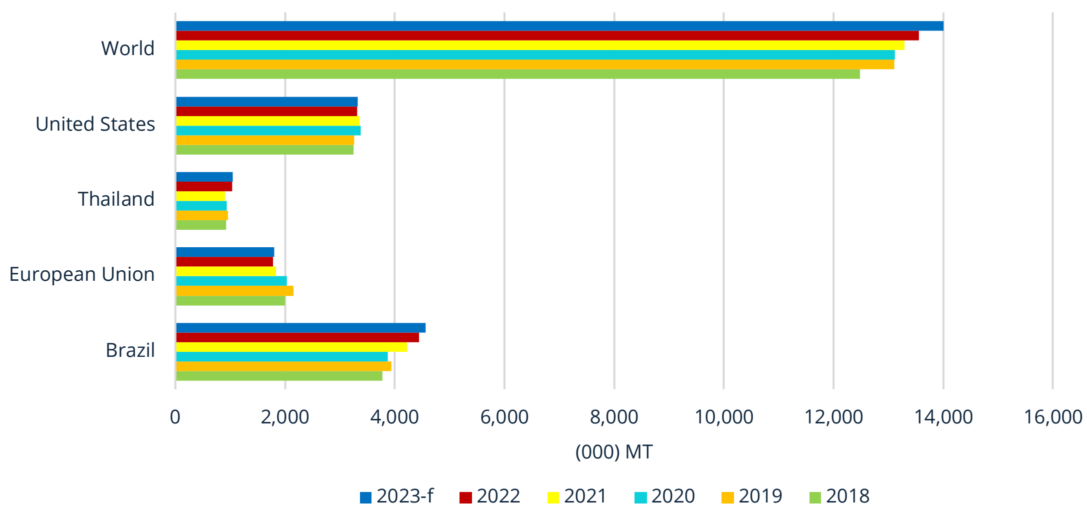
Chicken

As displayed on the left-hand side of the bar chart, global chicken production is expected to rise by 1.8% year on year in 2023, reaching approximately 103 million metric tons. This is due to an increase in all key regions of production. Brazil and Thailand account for large portions of the increase, accompanied by a slight increase in the US market.

Global Chicken Production



Global Chicken Exports



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Market overview of Thai chicken

Looking specifically at the Thai market, the lower cost for feed, along with genetics, will spur continually a high Thai output. Therefore, levels of meat production are expected to increase by 4% in 2023. We are also anticipating a rise in domestic demand for the chicken meat, as well as an uptick in tourists across the region, driving up demand Also, the arrival of more foreign tourists will slowly drive up. The Thai government is forecasting that a total of 20 million foreign tourists will arrive in the nation, since almost all entry rules related to Covid-19 have now been removed.

Market overview of Brazilian chicken

The Brazilian beef market is wielding high production rates, and high export potential. According to the USDA, exports from the nation are expected to increase by 3.8% in 2023. The Brazilian Association of Animal Protein is forecasting an 8.5% increase in international sales overall this year, reaching 5.2 million tons. This would set a new record for Brazilian chicken exports.

A crucial factor for us to note with regards to this commodity is the international chicken market: supplies may remain limited globally. This in turn could be an opportunity for Brazil to secure more trading. In Ukraine, meat availability is expected to remain below volumes observed before the war.

Meanwhile, other integral chicken meat producers across the European Union, such as France and Poland, have been facing production headaches surrounding influenza. Again, the misfortune of these key producers could prove favourable Brazilian chicken exports.

Overall, global chicken meat exports are expected to increase by 3.3% in 2023, mainly supported by the strong Brazilian exports.

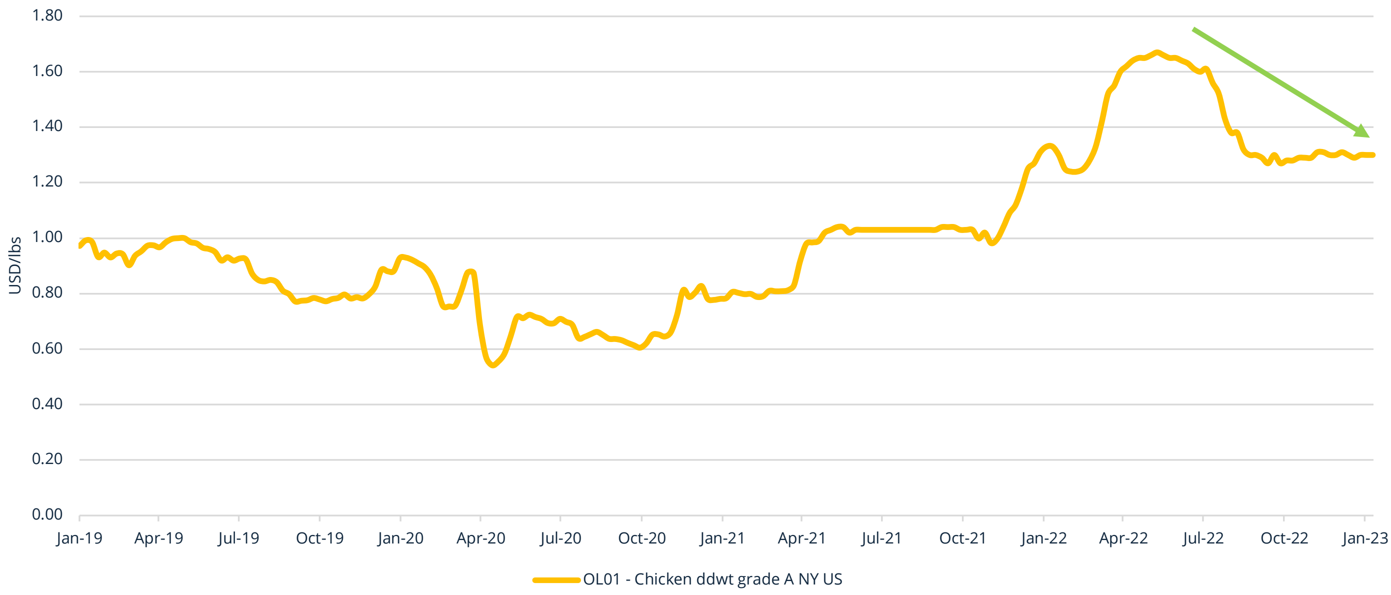
Market overview of US chicken

An important aspect of the story to note is that the US market has been behaving in a manner which is contradictory to what we have seen in other markets. Prices have been falling since mid- 2022. This is largely because of the high supplies and high slaughter weights seen in the US market.

Also, high cold storage stocks in 2022 was a market driver. These were almost 21% higher year on year. In Q4 of 2022, this led to a decline in prices.

According to market participants, prices are expected to continue with the bearish trend, or they could remain stable. According to the USDA, the initial stocks are expected to be up 16% year on year. In addition, there could be a marginal decrease in production in Q1. However, this could be offset by a later increase which is expected in Q2.

Chicken Prices US



Market overview of EU chicken

The EU chicken market has performed in a relatively stable manner across the last six months, as can be seen on the graph. The primary reason for this is represented by two counterbalancing drivers. The former is high chicken placements in Q3, indicating high supplies. However, concurrently, there was mass killing of poultry birds carried out in the EU market due to the avian influenza epidemic.

Other factors which kept prices buoyant were the high input costs across feed and energy. They make up for a large percentile share in chicken production. These were consistently high because of the Ukraine and Russia War. However, at the same time, there was enough supply in the market which led to stable prices.

Consumer demand for the product also remains strong, which supports the market.

Chicken Prices EU

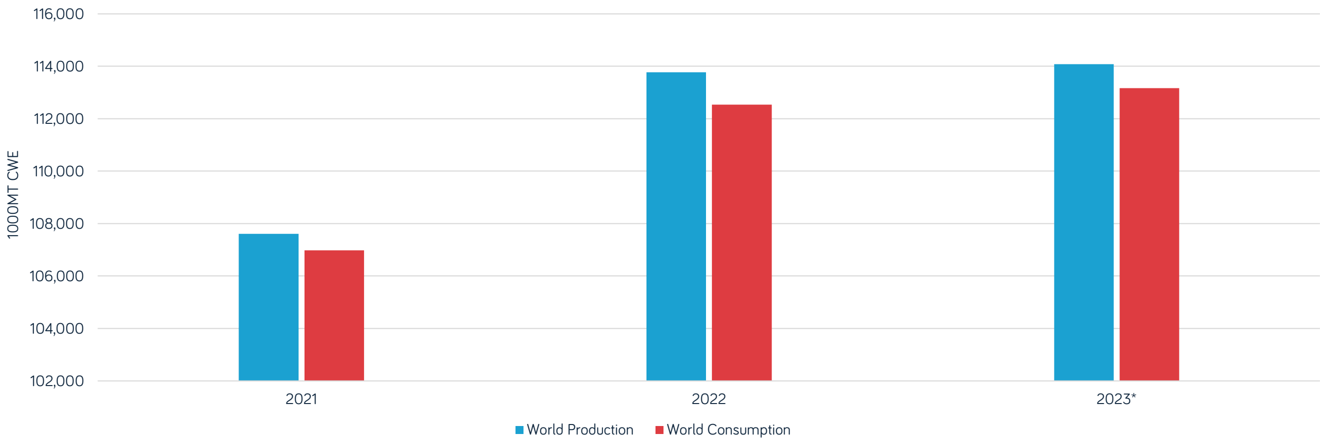
Pork

From the graph, we can see a massive increase in production across the last two years in his sector. The biggest question is, why was the increase so strong? This phenomenon can be closely linked to the African Swine Fever situation. The estimated production rate for next year demonstrates relative stability. However, domestic consumption is also expected to increase, so we can see both market drivers etching up slightly.

We can observe from the graph that the European Union and the United States both produce more pork meat than they actually consume. Therefore, they heavily rely on international markets to take those over supplies in order to stabilise the domestic market.

On the other hand, we have countries so-called net importers. We can see China is one of the biggest players in the global pork market, and they actually produce less than they consume. Therefore, in order to cover their complete consumption, they need to import from other regions including the European Union, US, and Brazil.

World Production and Consumption



Market overview of EU pork

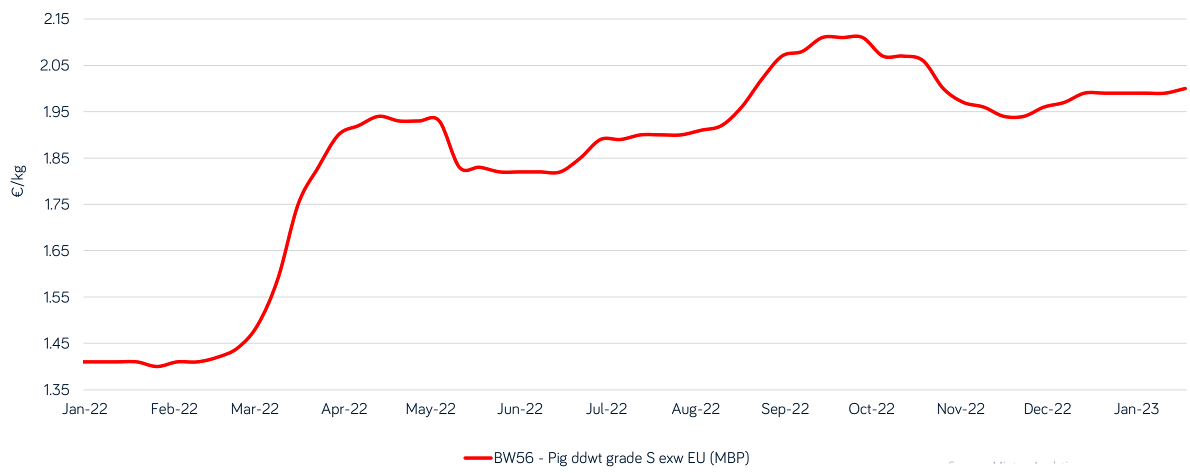
Over the last six months, there has been interesting volatility in European markets as displayed on the graph. An important thing to note is that this market behaviour is not completely linked to the increasing input costs the industry has been facing throughout the year to the Russian Ukrainian war. Whilst this factor has played a role, we have also seen a decline in production in the sector.

Lately, especially over the last six months, we have seen a stabilisation of Chinese market activities within Europe. This is partly due to the fact that we still see some key exporters banned from exporting to China due to the African Swine Fever situation developing across the continent. Belgium and Spain are still relatively active in exporting to China, working to move oversupply out of Europe and into the international markets.

Compared to prior years, Chinese demand for pork has declined significantly. However, we have now seen more stable numbers. Consequently, market participants including sellers and producers have the capacity to plan based on steady demand coming in from China.

Finally, in Europe we have seen an increasing demand for this commodity. This was driven primarily by inflation. We have all been impacted by rising costs across the board, and food price inflation has been dominating the news for quite some time now. If we look at consumers' sources for meat protein, beef and lamb rest on the higher priced end of the spectrum, and then we find cheaper animal proteins including pork and chicken at the other end. Due to the inflated cost of food, and living in general, we are starting to see more buyers switching from the high costs or high price.

Mintec Benchmark Prices for Pig EU



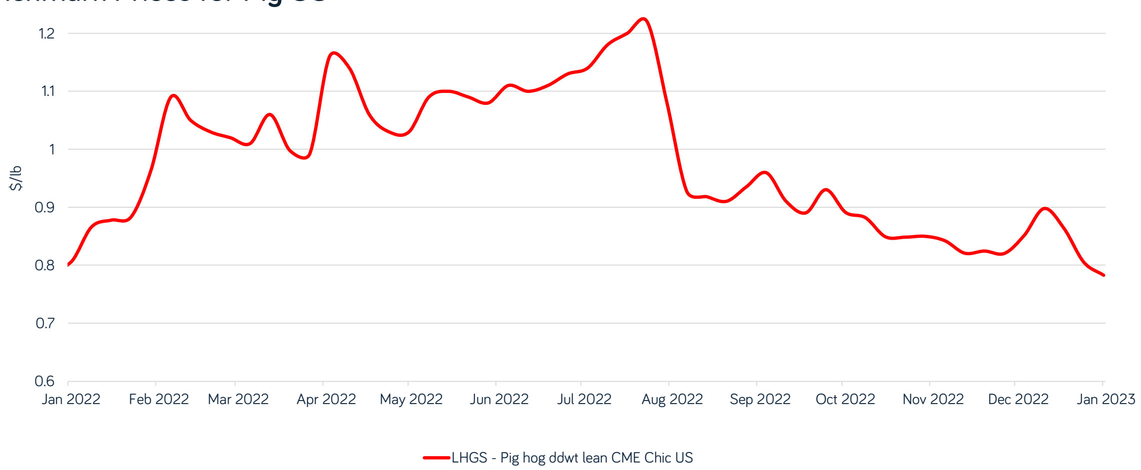
Market overview of US pork

The picture on the US side is contrasting to the European market. We can see that since August 2022, prices have been on a continuous downward spiral until about December.

The market enjoyed a slight boost from late November to early December, which can be linked to the holiday season. In this period there would have been heightened levels of domestic buying to facilitate Christmas and New Year's celebrations. This supported the pork market.

The US pork market has seen a decline in production. This has of course had an influence on prices. Meanwhile, the strength of the US dollar has also reduced the competitiveness of US exports on the global marketplace. This has led to a lot of pork products instead remaining in the domestic market. Mexico represents an example of this phenomenon in action. The nation is one of the top three trade markets for pork. However, due to the high prices of US pork meat, Mexico has allowed imports from the European Union and Brazil this last year in order to fight domestic food price inflation, and not pay high US prices due to the strong dollar. Mexico is not the only nation to do this. Other key trade partners have also looked elsewhere to secure more competitive rates.

Mintec Benchmark Prices for Pig US



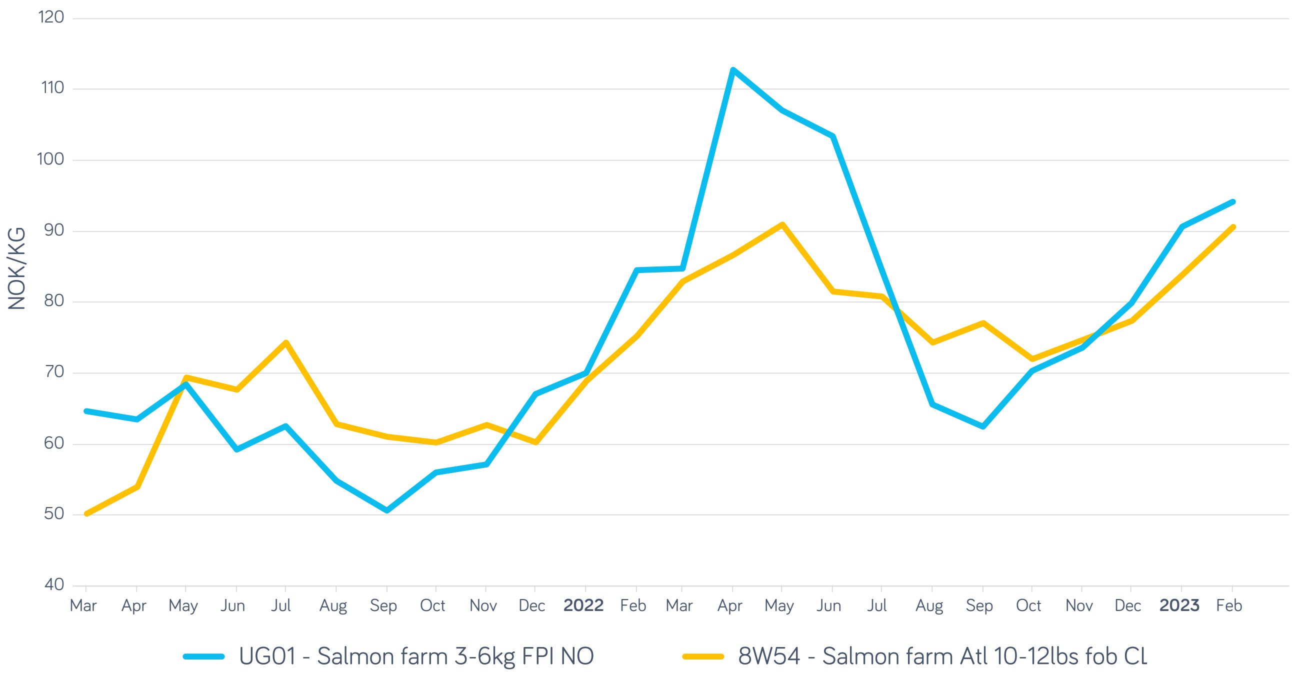
Fish & Seafood

Atlantic Salmon

Farmed Atlantic Salmon prices reached an all-time high in 2022. The main benchmark for the 3–6-kilogram Salmon, as reported on the fish-caught index from Norway, peaked in late April 2022 at a price of 125 Kr per kilogram, as shown in the graph. This price of the commodity is more than double the five-year average for the period preceding the global pandemic.

High prices for Salmon were not confined to Europe, however. If we look to Chile which is also a large producer of the commodity, the price of salmon farmed in this region also peaked around about the same time as the Norwegian price, around a few weeks later.

Norwegian Salmon Prices - Atlantic Salmon Prices



These peaks were driven by various factors including weaker year-on-year production based in Norway and Chile, as well as depleted frozen inventories. The latter catalyst was particularly prevalent in the Norwegian markets, which contributes to a tight global market overall. At this stage, we also saw the impact of higher feed, fuel, and energy costs on prices as inflationary pressures began to mount across the world.

However, we did see lower average prices for the commodity across the year, particularly during the second half of 2022, if you return to the graph. This dip coincided with the burden of energy costs softening, whilst the demand for Salmon across the food service industry, including restaurants and hotels, slowed. However, the prices, even at the end of H2,were resting still significantly above the five-year trend.

Outlook for 2023

Most pertinently, we expect demand to outstrip supply. Global consumption is expected to grow at about 2 to 4 percent. This is despite the recessionary environment which is anticipated in at least a third of the world during 2023.

However, we've seen very significant upward shifts in purchase rates across restaurants and the wider food service industry as consumption with respect to Salmon fillets has grown within the sector. Overall, we're therefore seeing a lot more consumers buying into this commodity when dining out, and at home.

A higher number of consumers are buying value-added products at supermarkets in addition to this service uptick. Therefore, the retail presence of this commodity has substantially increased, and it's expected to continue doing so for the first part of the year. Coupled with this elevated demand however, we're also seeing that supply is quite restrained, particularly from the large producers, including that of Chile and Norway.

Capacity for production is fairly limited on these fronts, particularly in the coastal areas. Owing to this technological restriction, many market actors don't expect to see production increase by more than 2% which is the equivalent to about 55,000 tons of additional inventory of this commodity. This will lead to some tightening of this market.

Another catalyst which may inhibit growth and production in the Salmon space is that Norway is in the process of approving a new 40% tax on all salmon farms. This may prompt some farmers to leave the market, as well as any businesses who see a direct hit as a result of this real-term profit cut.

North Arctic Cod

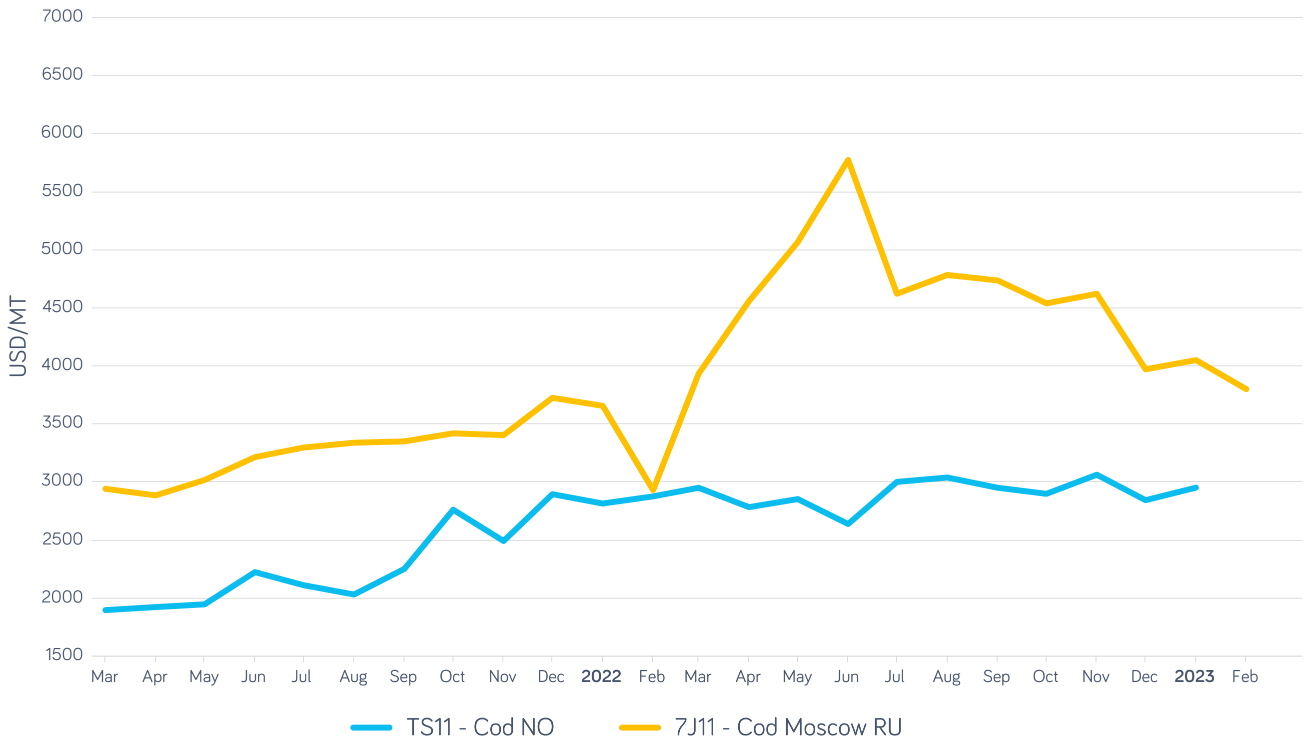
In 2022, the North Arctic Cod market could be seen to be characterised by tight supply, especially with regards to stock coming from the Barents Sea: the key fishery location shared by Norway and Russia. These countries, in aggregate, account for around 20% of North Arctic Cod, along with Iceland, the Faroe Islands, as well as locations off the north coast of the UK and Scotland.

We saw a price peak in June 2022, as can be seen on the graph. This was, to some extent, owing to the Ruble appreciating sharply against the US Dollar due to some of the fallout from the Russian invasion of Ukraine.

There's also a 20% reduction in the Barents Sea catch quota. Each year, the authorities, responsible for the region, tend to increase or decrease the catch quota. Last year, the reduction occurred alongside some logistical disruptions attributed to the war in Ukraine, as well as rising oil prices. So this all contributed to the bullish Cod market that we saw through a sizable proportion of 2022.

With this being said, there was some price correction towards the end of the year. A depleted demand for Cod in the Chinese market was catalysed by a resurgence in Covid restrictions including lockdowns. Therefore, the overall market price was slightly depleted by this as China is a big consumer of the commodity.

Atlantic Cod Prices - Russian Cod Prices



Outlook for 2023

In a similar vein to the Salmon market, we expect an upside price risk in H1 of 2023. One reason for this is that the Barents Sea quota is being slashed again by a further 20%.

Secondly, Norway and Russia, two key producers, are likely to experience consistent supply issues related to poor weather. This will place a limit on trawler activities which may also contribute to a tight supply.

Thirdly, the impact of increased Chinese demand which is expected to rebound as Covid restrictions ease will mean that prices may inflate as supply becomes strained due to new imports from the country.

Generally, we are expecting to see substantially more innovation in the realm of farmed cod. This is because this commodity is a limited resource. Alongside the Barents Sea quotas tightening further over the next few years, supply will be further strained leading to this need for innovation. With this being said, however, any market impact from innovation we expect to see is not anticipated to come into fruition for years, potentially as many as five.

Supply is at a five year low. However, in settings such as supermarkets for example, we are seeing innovation on the level of value-added products which should also support some of the demand on this commodity if procurement and product professionals collaborate on addressing this problem.

Alaska Pollock

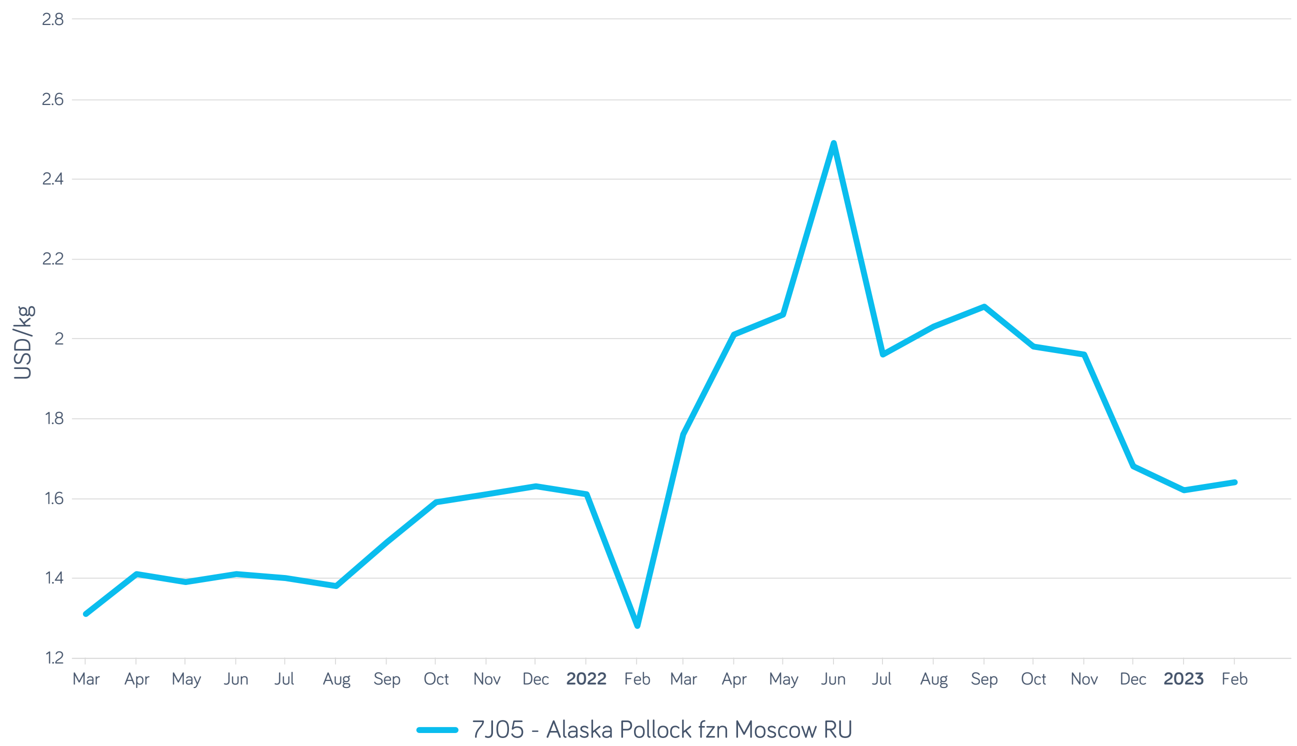
Russia is the main global producer of Alaskan Pollock, and this is a notable point to recall when considering the market for this commodity. The nation was responsible for approximately 55% of global output in 2022, followed by the USA, which accounts for about 40% of global output.

The Russian price for Alaskan Pollock peaked in June 2022, as is demonstrated in the graph, and was likely sold at auction. A large quantity of these products will go to China which will export it to other large markets including North America and Europe.

The peak demonstrated here was the result of a few different factors. Partially, the strength of the Ruble against the US Dollar contributed to this June high point for Alaskan Pollock pricing. However, the resurgence in Chinese demand for the commodity also contributed factorially, as the nation is such a prolific importer. From the first of January 2022, China lifted sanctions on the import of Russian seafood. This in turn hugely accelerated pricing.

During H2 of 2022, pricing did subside in line with China's demand for Alaskan Pollock decreasing in tandem. This is on account of lockdowns being imposed once again in various Chinese provinces, as well as Coronavirus being discovered on Russian imported seafood barges.

Alaska Pollock Prices



Outlook for 2023

With these many points of note in mind, the outlook on Pollock markets for H1 of 2023 is shaping up to be more bearish than other seafood commodities.

In terms of supply, the Russian inventory is relatively stable despite international sanctions. We're still expecting to see significant volumes of Russian seafood imported to regions across the globe. For example, Russian Pollock may well make its way to regions in North America and Europe.

For this reason, Pollock stock is expected to be available in significant volumes. With the same token, we do not expect the same kind of supply issues which we're noticing across other seafood commodities such as those mentioned in this document.

A further point that’s notable when considering the outlook for the Alaskan Pollock market over the next year is that huge markets are consuming less Pollock on average, according to data gathered over the last year. Americans, which is a huge market for this commodity, consumed around 2.1% less Pollock last year on average.

There could be many reasons for this, including the fallout from the war in Ukraine. In addition, the US traditionally consumes Pollock in a food service setting, as opposed to in a home scenario, so with the inflationary environment that we are seeing, it is also possible that consumers have been making fewer purchases in food service settings, contributing to depleted consumption.

The impact of consumer decision making on consumption of Pollock will be lesser in Europe in 2023. As the European market more traditionally stocks Pollock in a retail setting, demand is still expected to be sustained in this region.

Overall, it is expected that the strength in flow of Russian supply will outstrip any demand for Alaskan Pollock.

Prawns

Prawns are harvested extensively across the world, in countries including India, Vietnam, Indonesia and Ecuador, just to name a few.

From the graph, we can see that the Ecuadorian price is shown by the red line, and the Indian price from the main producing region of Andhra Pradesh is shown in the blue line. If we consider the graph, up until November, we can see that the Ecuadorian price surpassed the Indian price. This is mainly owing to the fact that there was very strong demand from North America in this time period, which exercised tightness in the Ecuadorian prawn market. In addition, the market was inhibited by the white spot disease which was also afflicting some of the prawn stock set to be harvested for production within Ecuador.

With this said, in recent times, Ecuador has really increased its technological capacity, bolstering its production framework. In 2022, the nation was on course to be the first to produce one million tons of whiteleg phones, surpassing India as the largest producer. This competition that we've seen from Ecuador, as well as from other producers including Vietnam amongst others, demonstrates very strong volumes of the commodity being added to the flow of the global supply chain. This in turn has rendered the prawn market very much a buyer's market.

In comparison to other seafood commodities including the one’s which we cite in this document, there's decreased pressure on buyers to secure prawn stock as there are significant volumes available on the global markets.

In a comparative sense to other commodities, we see relatively weak food service demand for prawns in both the European market as well as in the US. Market. Amongst a lot of market participants, there is a depleted appetite for buyer demand. This is one of the features of the market which is likely to lead to deflated prawn prices compared to the previous couple of years.

Indian Prawn Prices - Ecuadorian Prawn Prices

Skipjack Tuna

Skipjack is the key Tuna species used within the canning industry. The Central Pacific Ocean is the main fishery for Skipjack Tuna in the globe. And a lot of products sourced from this region go to Thailand, which is the largest canning nation, and the country will traditionally either source the commodity in whole, or in part, and are canned domestically before being exported.

Meanwhile, in Europe we have a canning industry in Spain. The nation will purchase Tuna loins from Thailand or Ecuador, and either package the product domestically as it is the most cost-efficient process in terms of employing the use of machinery, as opposed to loining the Tuna domestically which is very labour intensive. Tuna loining tends to take place in countries where the average wages tend to be lower.

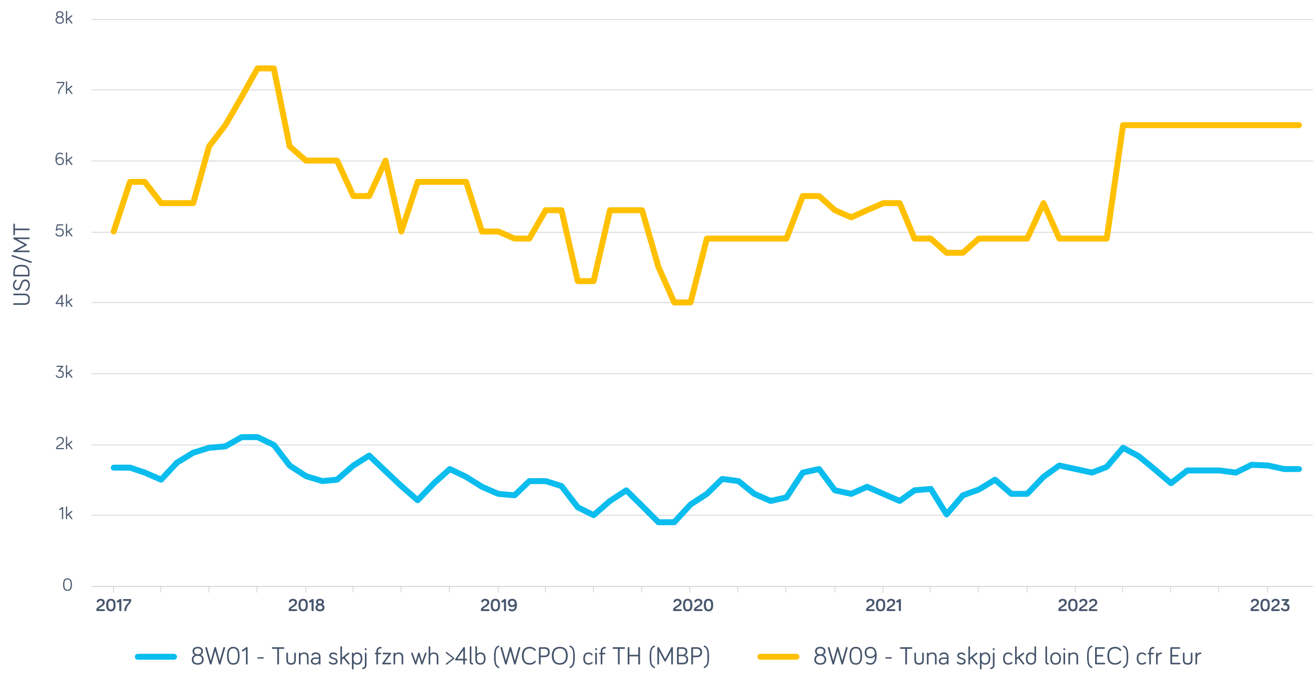
An interesting pattern we can see with the Thai Skipjack prices are the emergence of a sawtooth pattern. The reason why we can observe this notably in the Tuna industry is due to seasonality. During particular times of the year, we have restrictions on how you can fish in the Western Central Pacific Ocean. This means that there are bans on using certain types of fishing, most markedly those types which enable higher volume of fish to be caught at any given time such as use of fish aggregating devices.

July to October tends to be the period in which these bans are instituted. Concurrently, this is when we'd expect to see prices rise. The difference in price during this period has been less stark in recent years as we've had issues in the global supply chain.

A further reason for prices to stay relatively stable is the large influence of Thailand, particularly of Thai Union which is a very large canning company owning fishing fleets as well as processing capacity. In addition, it also holds large inventories of Skipjack. Therefore, the Thai union is very adept at controlling the pace and the supply of canned Tuna, or Tuna loins, to the market.

Thus, when prices of the commodity are low, you'll see some of the high volume held back from the market which will bring the price up. Consequently, when there's high demand, you tend to see Thai Union releasing proportionally more stock to market, and vice versa. This trend is what produces the sawtooth pattern that we see in the graph.

Thai Tuna Prices - Ecuadorian Tuna Prices



Outlook for 2023

In H1 of 2023, we expect relatively stable demand for Skipjack sourced from both Ecuador and on the Asian markets. Tuna is one of the few commodities, when considering all food products, which we would say are recession proof. Historically, during times where we see various epicentres of recessions and a subsequent squeeze on local income, Tuna represents a relatively cheap product for households to continue buying. On the retail side, or even in food service, demand is expected to remain strong.

In terms of supply, we are seeing Tuna caught in the crosshair of sustainability debates which have impacted fishing more heavily in recent years. The prospect of mammals such as dolphins being caught by trawlers is a concern for consumers as well as industry. Therefore, any ESG related curtails placed on fishing activity may impact supply if producers are not able to keep to their predetermined schedules for distribution.

Overall, the market for skipjack looks to be a stable one as we have moved into a new year.

Nuts & Dried Fruits

Turkish Sultanas

As displayed in the graph, the Turkish sultana market demonstrated a downward trend from June 2021 until July 2022, reaching a low of around $1400 per metric ton. A driving catalyst of this pattern is the weakness of the Turkish lira versus the US Dollar in this period. The lira fell substantially in comparison.

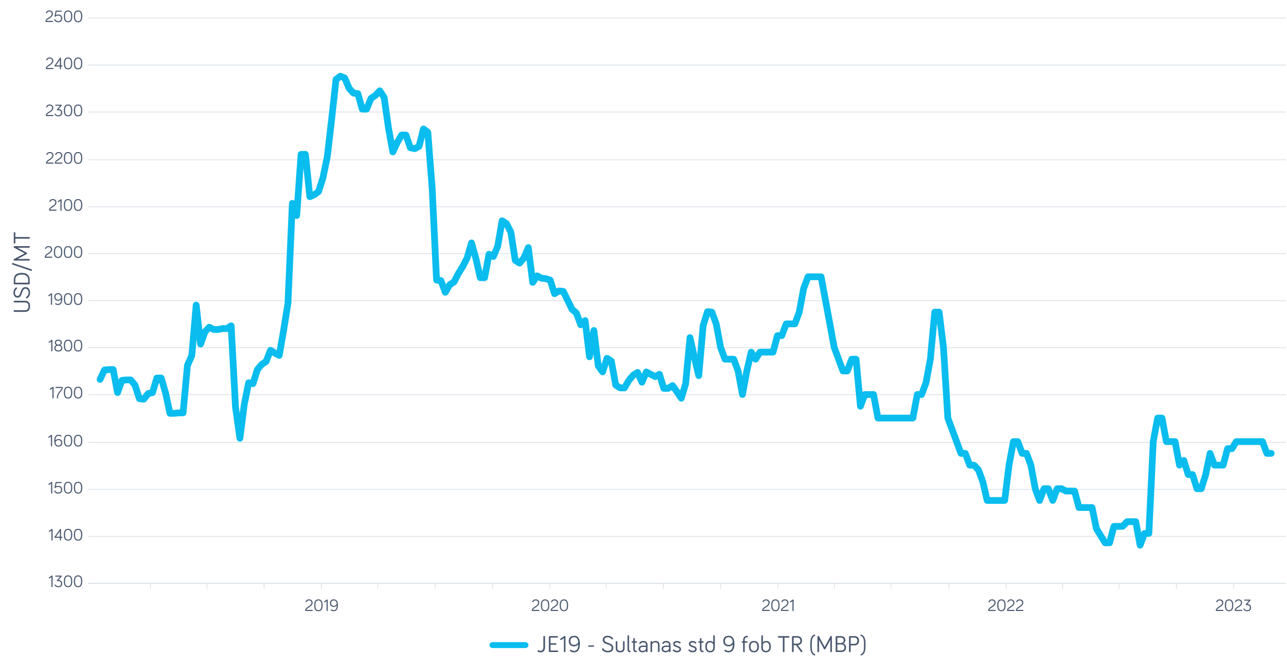
However, in August of last year, prices picked back up again and a high of $1650 per metric ton was achieved in the market. A factor of this uptick is the Turkish Grain Board (TMO)'s announcement that there would be a substantial hike in purchasing prices for the new season crop. Whilst in the previous campaign, the TMO was purchasing sultanas at a rate of 13 liras per kilogram, the hike saw the organisation purchasing the commodity at a price of 27 liras per kilogram.

When the TMO's announcement was made, the market saw a spike of around $250 per metric ton. At the time, there were some expectations that the market may climb higher still. However, from this point forth, prices began to deplete again due to the volume of sultanas in Turkey being more abundant than was previously expected.

The Turkish authorities anticipated that the sultana supply would represent a volume of 320,000 tons. However, the crop exceeded this expectation by some margin, with some estimations representing an excess of 20,000 tons above the suggested figure. Darker-coloured fruit from the 2022/23 harvest was more plentiful than other varieties of sultana due to some growing regions of lighter-coloured fruit being inundated with heavy rainfall during the harvest season, stunting productivity in this area.

If we move forward to the end of December 2022, the TMO bought somewhere between 90-95,000 tons of sultanas. There was some indication that the TMO would continue purchasing the commodity at an increased rate as we moved further into 2023. However, this prediction appears not to have materialised as purchasing slowed towards the end of the last year. Allegedly, this move is due to a lack of warehousing facilities to build a store of the fruit any larger than what already exists.

Mintec Benchmark Prices for Turkish Sultanas



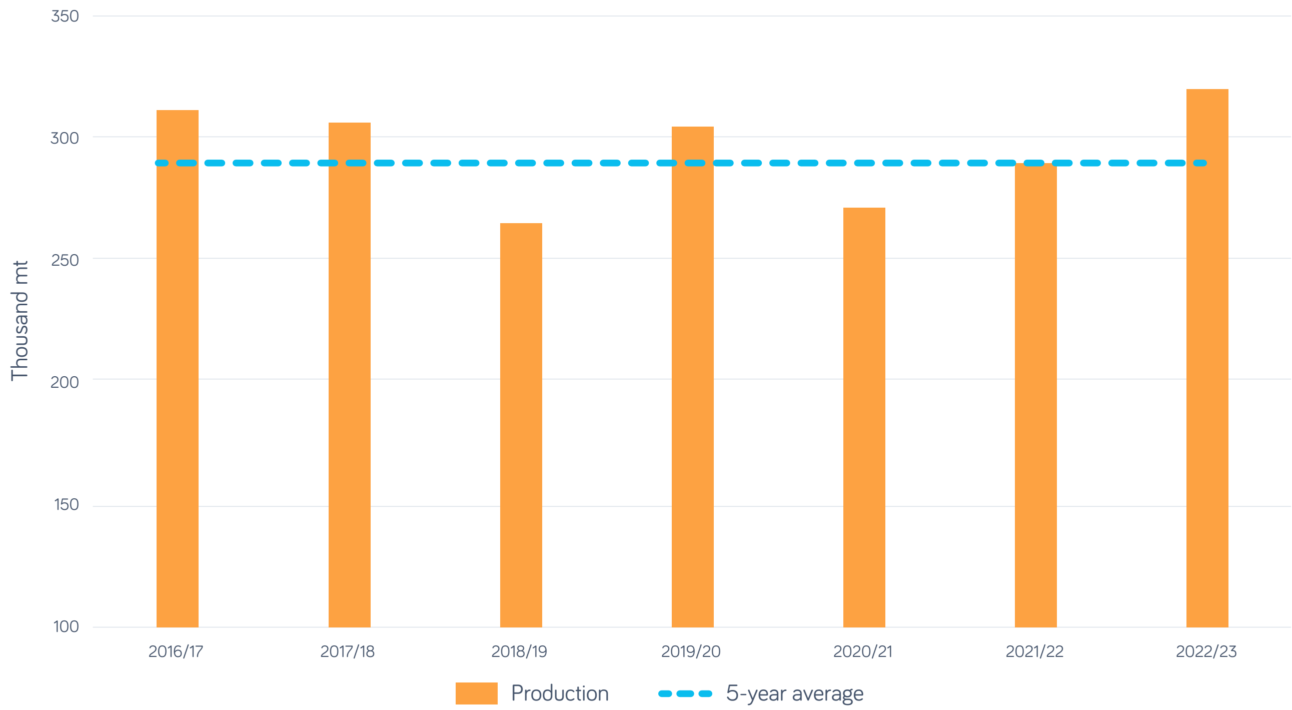
Market Expectations

As aforementioned, Turkey produced an abundant supply of sultanas across the last season. If we look to the top left of the chart, we can see how this year's supply compares to previous years. The official forecast comes in at 320,000 tons. Some traders believe that the crop size is even higher than that. Projections sit in the region of 340,000 tons in some cases.

However, the TMO's procurement strategy will extract significant swathes of the supply from the marketplace and continue to impact market trends for the commodity as we move further into the new year. 30-40,000 tons of the commodity may be subjected to a delayed release into the marketplace by the TMO, as elections in Turkey which will occur mid-year may prompt a desire to place tight controls on the market for this commodity. Usually, these stocks would be released in the early months of the new year, so the delay will likely cause market activity to deviate from normal years.

In terms of demand, there are two themes emerging currently. On one side, as with many other nuts and dried fruits, there are concerns over the rising inflationary pressures and recession fears sweeping the globe. It is yet to be seen how this economic environment is going to impact the consumption of non-essential items among consumers. As with any food stuff, it is difficult to ascertain which commodities consumers will regard as essential, or non-essential, in the face of financial uncertainty. However, sultanas are not generally regarded as staple foods. Therefore, there are concerns emerging among buyers with regards to this potentially damaging factor. This adversity is not only impacting sultanas but reaches across all nut and dried food categories. These concerns extend to macadamias, walnuts, and a whole host of other crops.

Turkish Sultana Production



However, contrary to these concerns regarding potentially changeable consumer habits, an optimistic note on the sultana front is that the commodity is competitively priced in comparison to analogous goods. This may mean that consumers reach for sultanas over other similar goods carrying a heftier price tag.

A further factor to take into account for the sultana market in 2023 is the hike in minimum wage across Turkey. The new wage rate has been increased by over 50% in comparison to July 2022, and doubled from two years ago. This will have an impact on production costs as the demand for labour in order to keep the supply chain moving remains the same.

To summarise, supply in the sultana market is abundant. However, the TMO has been squeezing the market. Going forward, fluctuations in the market can very much be seen to depend on the way in which the TMO manages the stock it holds, whether that is last year's crop, or this year's.

US Dollar – Turkish Lira Exchange Rate

The Turkish lira's exchange rate and strength is a driving factor of the sultana market. As you can see from the graph, it has depreciated rapidly against the USD in the past twelve months. This depreciation extends backwards across the last few years.

In November 2022, Turkey's inflation reached 84.4%. Meanwhile, the Turkish Central Bank has continued to slash rates off the back of this soaring inflation. Therefore, the central bank of the country is following a divergent approach to most nations in its bid to tackle the inflation problem. Most central banks are hiking interest rates, including that of the UK, USA, and many other global economic powers. Turkey's approach to inflation is one of the main reasons why the lira has performed so badly compared to currencies elsewhere.

When you consider the graph, the decline of the currency slowed somewhat sicne September of last year. This is off the back of several intervention tools deployed by the Turkish authorities. The Turkish central bank has been burning through it's foreign currency reserves in a bid to keep its own currency solvent. The government has also introduced a scheme which protects lira deposits against forex depreciation. This was extended in December last year for a further twelve months. These interventionary measures have encouraged the stabilisation of the lira over the last few months. However, there still remains a slow and steady depreciation of the currency against the dollar.

Vietnamese Cashews

Mintec Benchmark Prices for Vietnamese Cashews

Vietnamese cashew market in the last year

The Vietnamese cashew market represents similar trends to the sultana market. As you can see from the graph, prices of the commodity bottomed between last year and the very beginning of 2023. After reaching historic lows around a month ago, the market has had an uptick in recent weeks.

There have been several factors impacting the cashew market in recent months. Foremostly, the demand from key consumer markets has not demonstrated the strength expected. We have seen heavy stocks remaining across purchasing markets. This could be because, when prices were low, purchasing increased, perhaps with an expectation that prices would quickly stabilise and inflate. However, this did not happen, and the market continued to deplete.

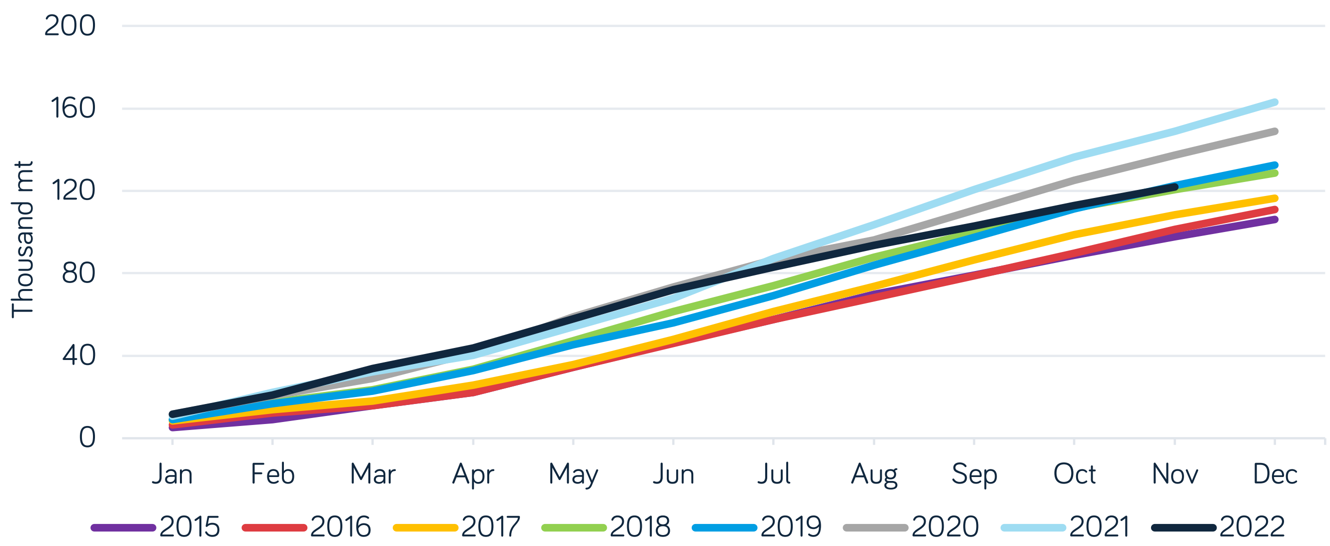
Furthermore, similarly to sultanas, the cashew market has been impacted by inflationary pressures, the rising cost of living, and a fear of impending recession. Consumers have changed their behaviour by focussing on staples, and moving away from non-essential items, of which cashews unfortunately fall under the umbrella of.

We are hearing that a lot of the buying in this commodity sector is being conducted with a more short-term approach than we can usually expect. Buyers are looking at shorter tenders. This is not just impacting cashews, but also extends across many other commodities. This is to be expected when markets are coming down exponentially. Due to the low demand, we're seeing a decrease in processing in Vietnam. Producers are scaling down the processing capacities in order to mitigate wasted resources.

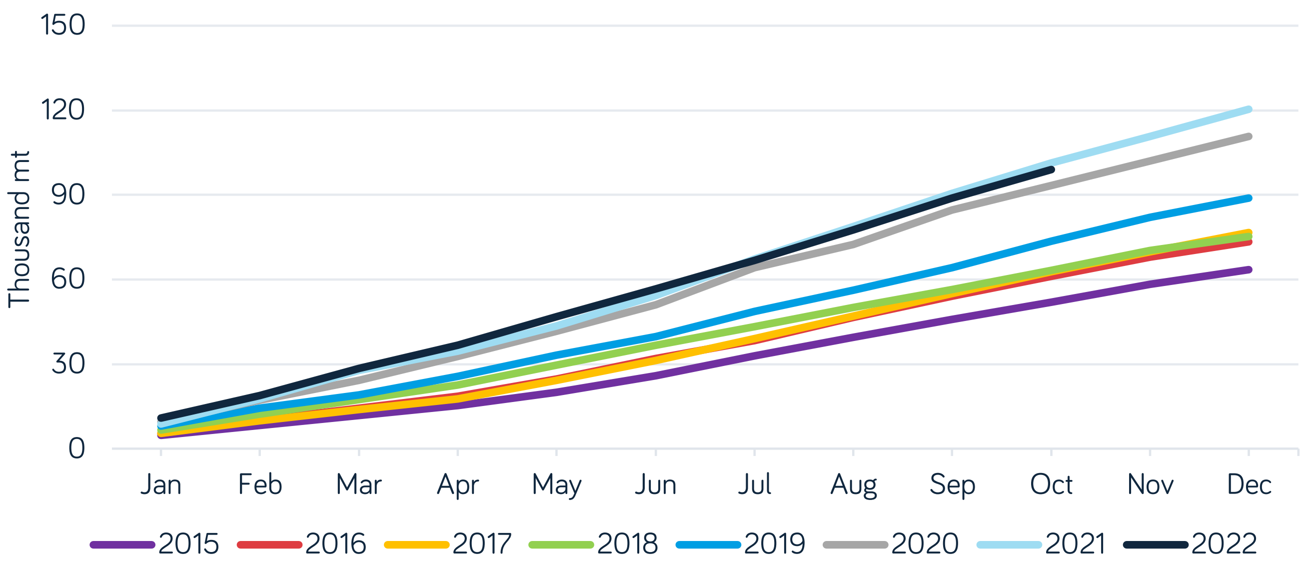
After a lengthy period of slow demand, prices moved up in November of 2022. The market was increasingly active in this period, and there was lower availability of the cashew commodity.

Market Expectations

United States Cumulative Cashew Imports



European Union Cumulative Cashew Imports



We've seen slow demand in the cashew market over the past several months. We also know that exports from Vietnam fell last year in 2022. As you can see from the chart, on the top left it is clear that cashew imports into the US demonstrated a huge decrease across the last year.

In the 11 months through to November, US imports reached just slightly over 120,000 tons. That is a decline of almost 20% in comparison to the previous campaign. With regards to the EU, the decline in imports has not been as dramatic. Nonetheless, the imports fell. These statistics can be seen to further indicate the weaker demand from key consumer markets.

As well as western markets, we are also hearing that the demand from China for this commodity is not as strong as expected. Previously, this was most likely down to the zero covid policy, when heightened lockdown restrictions were in place across parts of the nation. If we move to the current day, China is still battling surging covid numbers. Therefore, this factor is still hampering demand for cashews from China.

Diminished figures for imports and exports across the EU and the US indicate that several nations are drawing upon stocks of the commodity which they already have stored. As they continue to burn through their supplies, we expect that they will plausibly return to the market as they run low on supplies, thus increasing demand.

However, overall, the current market sentiment remains: short-term basis procurement is on the rise.

Contemporaneously, the market is now starting to look towards the harvest in south-east Asia, in Vietnam and Cambodia. The market is heavily dependent on how the crops will develop in these regions. So, if we see abundant supply in these markets, we can expect prices to remain subdued if the crops in these markets are short. This could drive prices higher.

Over the last couple of weeks, we've heard that Vietnam has been experiencing a lot of rain. We've also heard that a variety of traders are concerned about this rainfall. However, conversely, we've also received testimonials that the rain is not as concerning as some may be suggesting. Demonstrably, there are a spectrum of opinions on this matter.

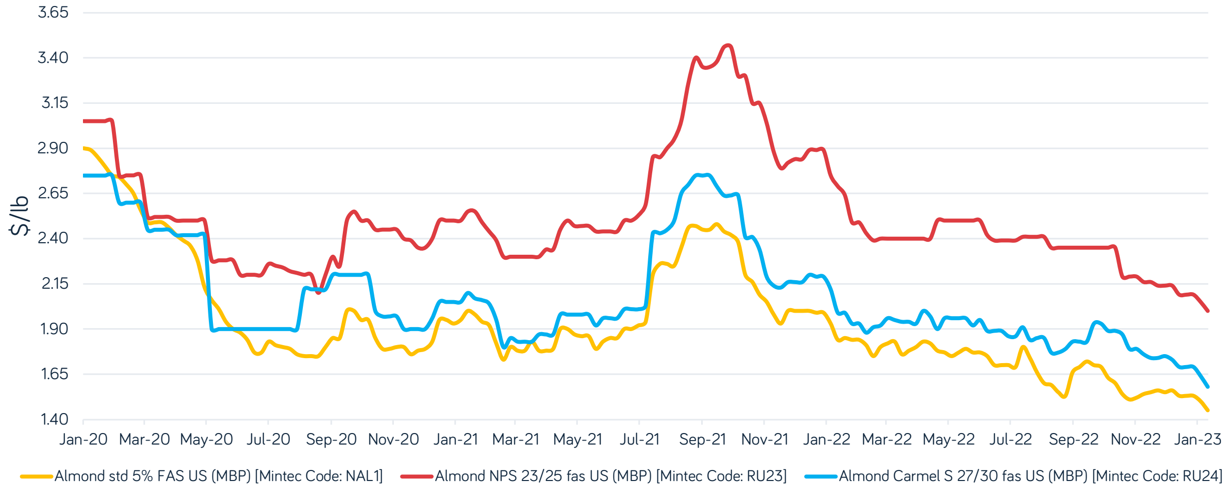
As you can see, the levels of rainfall are mapped on the charts. In the bottom right, you can see that in the first and second week of January, you can see two green images. This indicates that there has been plenty of rain which puts the crop in a precarious position.

Almonds

As we have seen the cost of living rise, there has been a decrease in demand for almonds. This has affected many commodities. However, the tree nuts in particular, and the dried fruit, are viewed as more premium food items, rather than staple foodstuffs, by a lot of people, driving down demand as people look to cut costs of grocery shopping.

This catalyst for the market has emerged concurrently to several US tree nut markets experiencing a lot of excess apply. Almonds can be seen as the poster child for this phenomenon as we've started the season for this commodity with this £800 million carry over. Due to this fact, we are seeing a misalignment of supply and demand. This has been the case over the past few years in any case. We've also seen subdued prices within the market. Sellers are losing money on each container that they sell currently.

Mintec Benchmark Prices for US Almonds



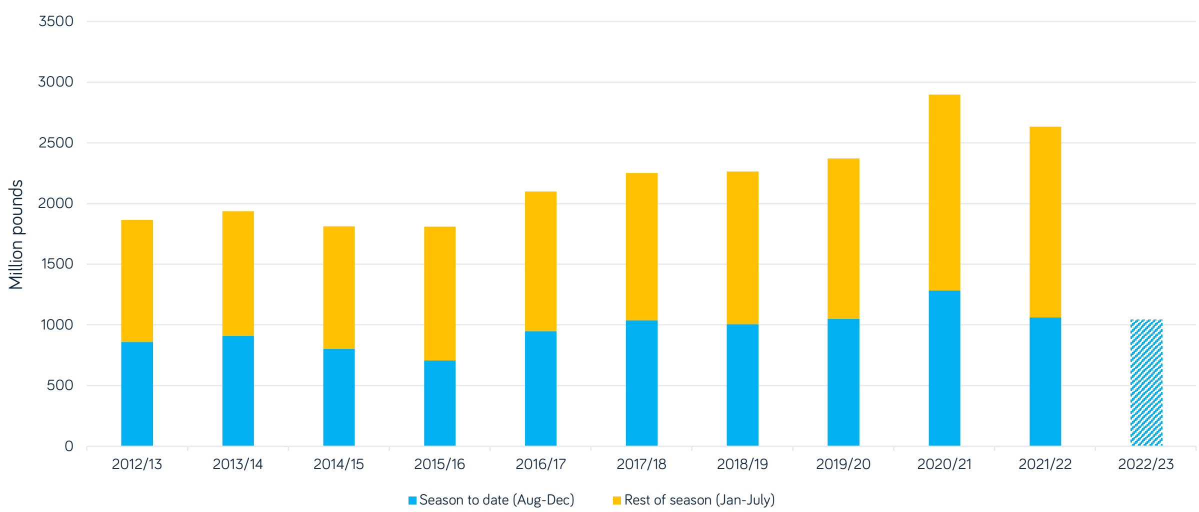
In recent weeks, prices have moved down even further. From the chart, you can see we have the Mintec benchmark prices. We've seen this gradual slip in prices as an excess supply has been met by muted demand. For Q4, people have mainly been running on pre-existing crop supplies. Very large volumes have been purchased to allow nations and organisations to essentially stock up at the end of last season. Naturally, this has had a muting effect on demand and, therefore, limited shipments and commitments moving forward.

In recent weeks, we've seen a further decline in production. We've seen producers start to pull out trees, because the demand simply isn't there for the volume in the market.

What we've seen in previous years, where there's been a drought, is that the market is flooded with smaller almonds. The quality can be found to be slightly lower than average, and we have a lot less of the large size almonds. However, regardless of this, we've seen prices for large sized almonds move down quite considerably over the last few months, as is demonstrated by the red line on the graph.

Now, the reason for this is, despite the large almonds being in limited supply, they're easy to sell. So, we've seen very stiff competition from various suppliers who are deeming it necessary to boost their cash flow and needing to do this on a short-term basis. Essentially, they're wanting to make rapid and easy sales. This factor has been pushing down prices at the top end of the market.

Historical US Almond Shipments



If we consider this graph, we can see that shipments of the almond commodity are lagging slightly behind last year, despite lower prices and improving exchange rates. This trend shifted slightly as we moved into December. It was a relatively good shipment month. A lot of this success has been attributed to just a couple of Spanish processors in particular. They were looking to lock in relatively large volumes of supply for shipment in December. In a sense, this was pitched as 'a gift' to the industry to improve figures.

What this actually means, however, is that purchasers of the commodity are filling up stores. At the moment, almonds are a very attractive buy - they are very cheap. Therefore, even if there is limited consumer demand, for a lot of purchasers now is the time to buy when rates are at historically low levels.

The continual decline in prices produces questions as to whether or not the bottom of the market has been found yet. Obviously, at this time, people are making a lot of money.

Market Expectations

Looking forward to the almond market in 2023, the real question here is over demand, and whether the industry can afford to eat into their starting stocks. We started the season with the aforementioned £800 million carry over. A problem currently plaguing the sector is, unless shipments are stepped up, this surplus could just roll into the next season, and we'll still see a situation of oversupply.

A lot of growers are removing orchards currently. This will see a slight decrease in the overall growing area for the commodity. However, the issue remains that we have more trees incoming, and thus, an inevitable flood of supply in the market.

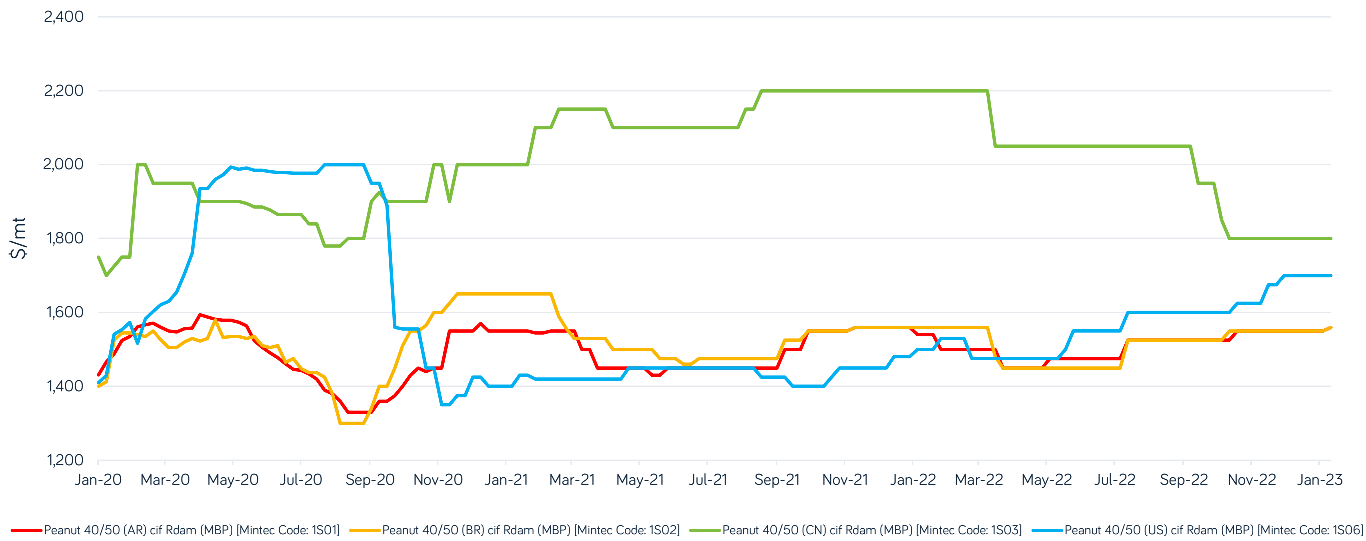
Weather will play a part in the almond market moving through the next year. Reservoir levels are still below average for this time of year, but they are above where they were last year. Due to heavy rainfall, flooding and storms, the water from these weather events has been swept straight out to sea, and has therefore been lost. So, in order for soil moisture in particular to recover, areas where there is prevalent growth will need further precipitation. However, we are still seeing an improved situation upon where we were in the previous year. Growers that we have talked to have said that there is a marked improvement.

However, market players shouldn't expect the commodity to immediately bounce back to a branch breaking crop. This is because the trees require some time to recover from the drought which we have seen.

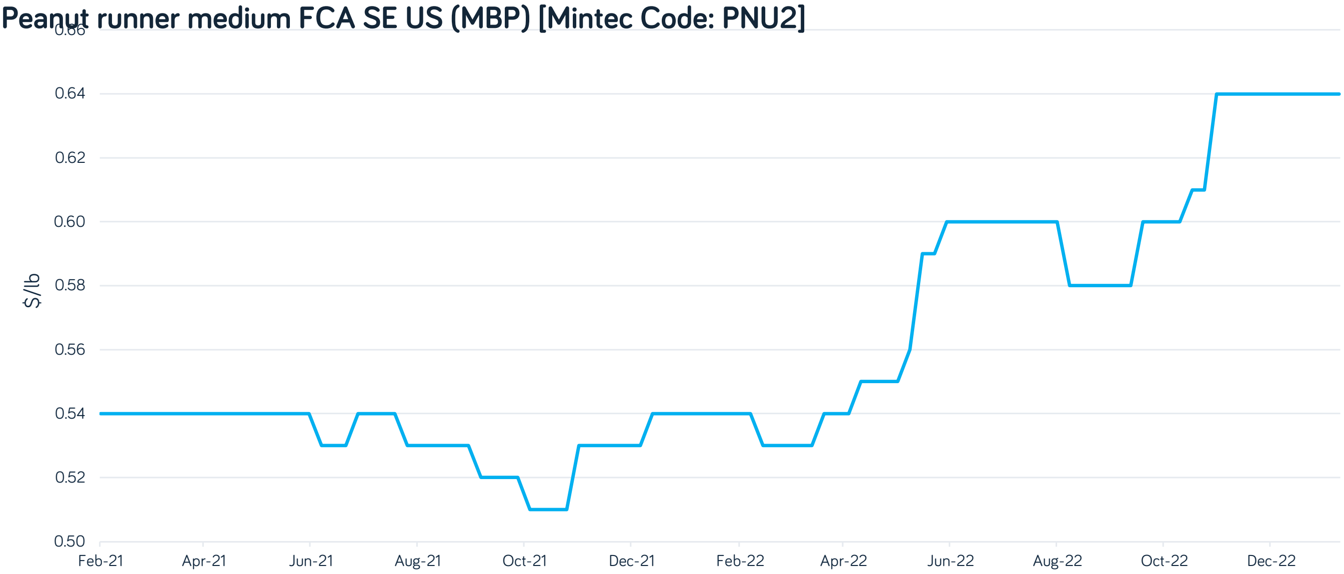
Peanuts

Peanuts, unlike the tree nut commodities, are performing relatively well currently. Tree nuts have been subjected to a sizable crunch resultant of the rising cost of living, and inflation, as people view them as premium items. However, peanuts can be seen to offer very good value for money. For a lot of cultures, they are very much a staple food stuff. Due to this, we've seen steady purchase rates and maintained relatively good prices in the market.

Mintec Benchmark Prices for European peanuts (CIF Rotterdam)



Peanut runner medium FCA SE US (MBP) [Mintec Code: PNU2]



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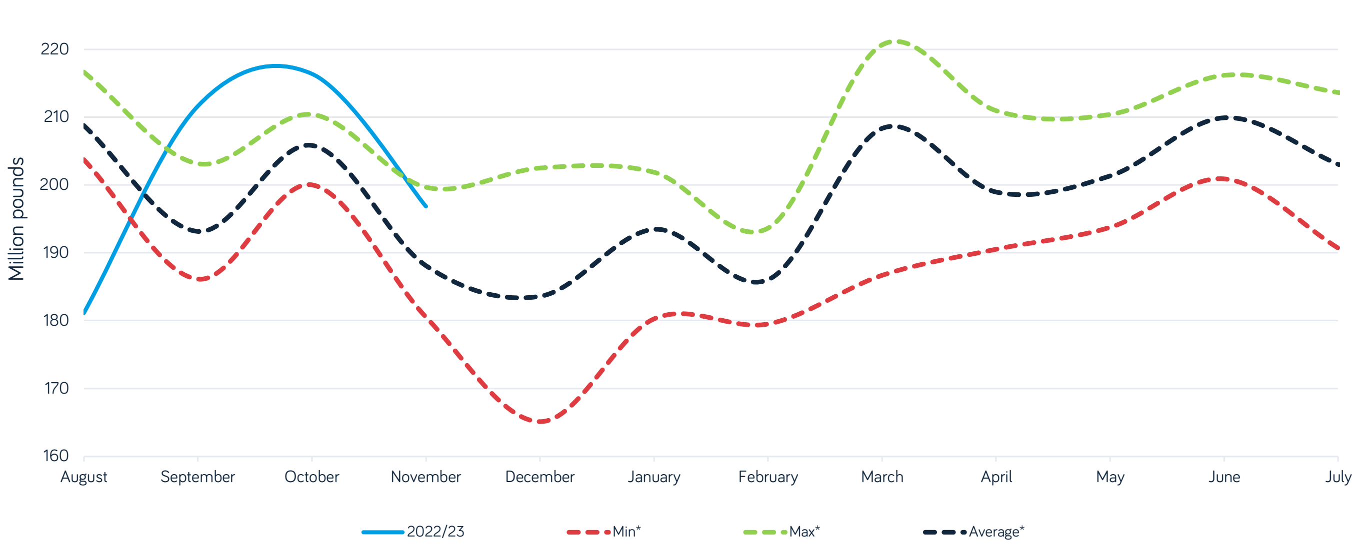
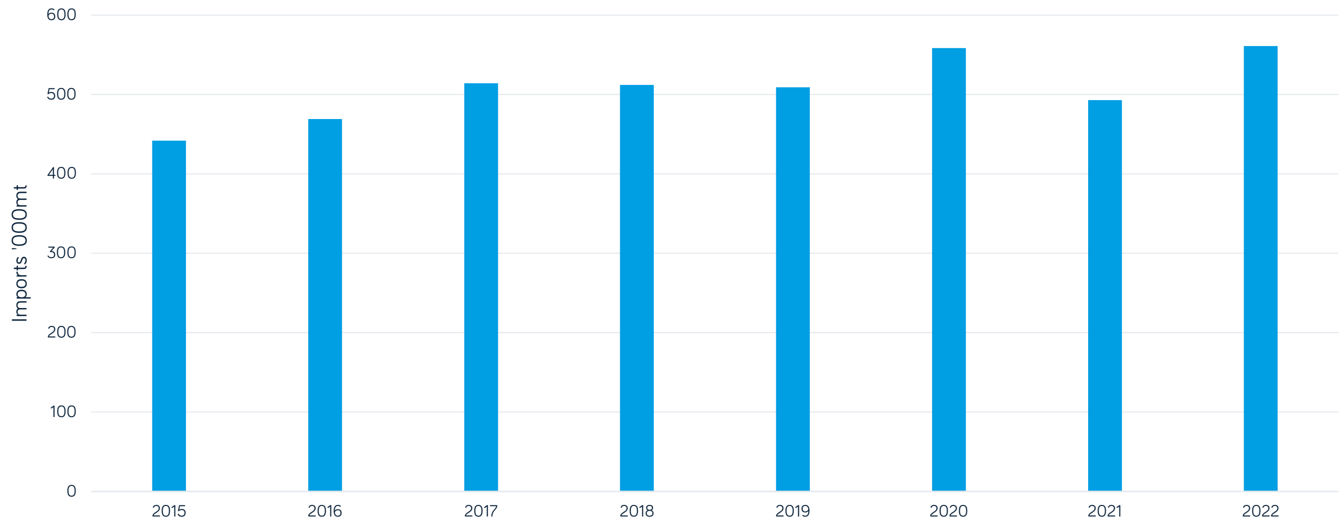
When a lot of other commodities have fallen due to lack of demand, we've seen prices in the US exceed expectations. Generally, demand and consumption so far has been relatively good. Similarly, for Europe, we've seen demand remain relatively good. As well as this, steady prices have emerged out of South America.

Looking at the European market in particular, it is mainly Argentinian supply moving into the continent at the moment. This is partially down to the fact that Brazil has a limited supply of the commodity which will meet EU requirements. Meanwhile, the US is very much priced out of the market. They're very much focused on procuring North American supply, and on domestic sales. Furthermore, China is also priced out of the market at the moment.

US peanut usage: Total edible grades used in products

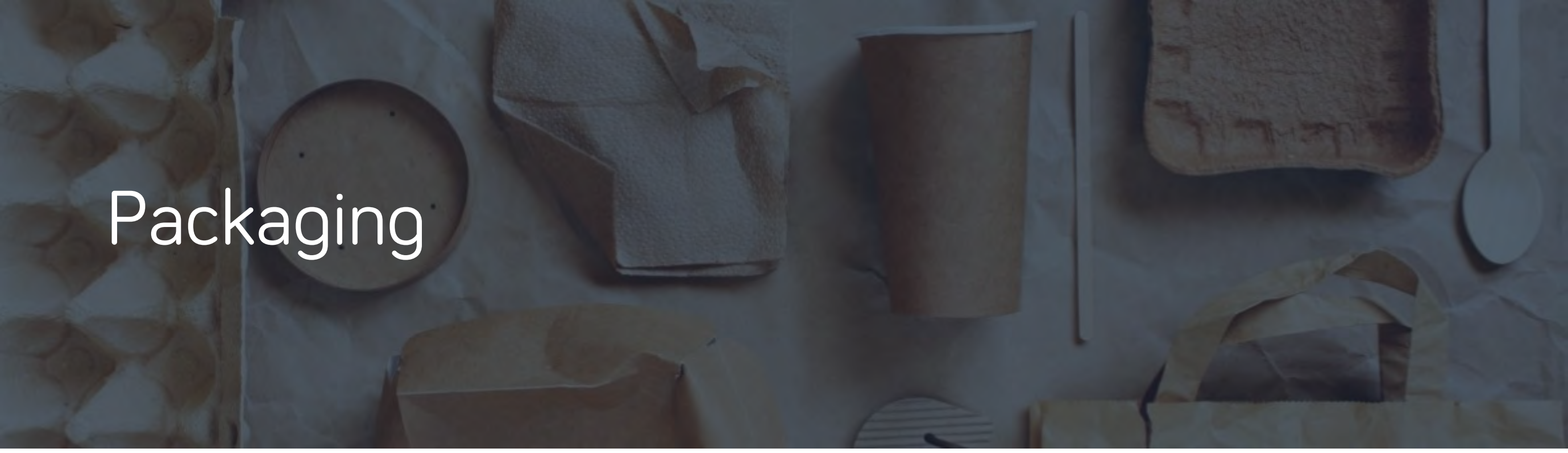


European Union Groundnut Imports (January-October)



Looking at demand globally, we've previously mentioned that it's been fairly stable. Looking at the US side, you can see from the graph that overall peanut usage has been fairly good. Here, it is trending above average, which is to be expected. Peanut butter, for example, does very well in this region.

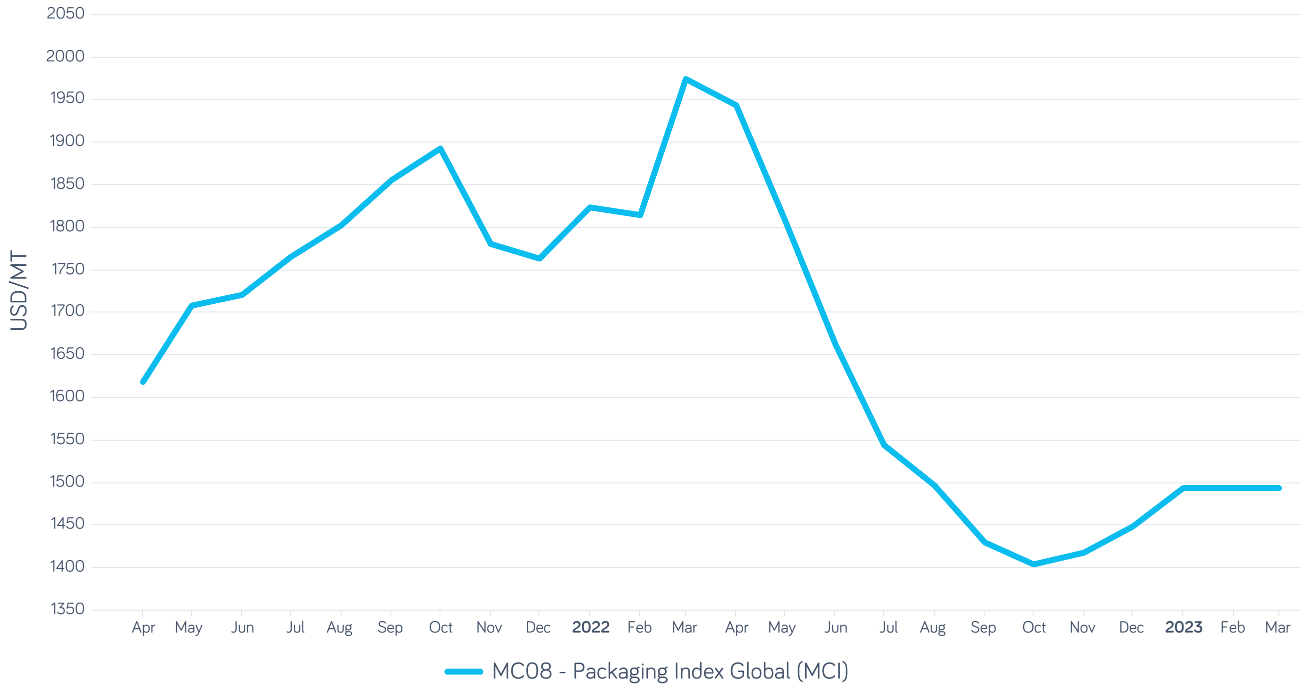
The currency easing has also provided some benefit, incentivising buying and encouraging consumers to stock up on the commodity.



Packaging

The Mintec Global Packaging Category Index (MCI) rose by 3% month-on-month (m-o-m) but was down by 18% year-on-year (y-o-y), to $1,493/MT in January 2023. There were mixed movements in the prices of packaging materials last month. Plastics prices were relatively stable in US, but were weak in the EU, and many market players believe there will be a price increase in February on the back of expected oil price increases. Metals continued to rise in price following a demand recovery and increased raw material costs. Finally, Europe's paper market continues to be characterised by weak demand, so prices continued to fall amid declining production costs.

Packaging Index Global (MCI)



Plastics

Prices in the plastics market fell again in January amid weak demand and cheaper raw materials. The contract price for ethylene (C2) and propylene (C3) fell by €95/MT amid decreasing oil prices, pushing down the price of various types of plastic. Nevertheless, for February, market players expect oil prices to be higher and the price of raw materials for plastics production to rise. Market participants do not anticipate a recovery in demand before Q2 2023. Due to weak demand prospects, raw materials are most likely to be the main driver in the price movements of plastics.

In the EU, HDPE and LDPE prices were down by 4% and 3% m-o-m to €1,613/MT and to €1,990/MT, respectively. Market supply was low, but demand was even lower, so the main factor behind the price decline was cheaper ethylene (C2). US HDPE and LDPE prices have been stable for three consecutive months, at USc 73/lb and USc 95/lb, respectively. Suppliers' efforts to raise prices were unsuccessful as demand was unusually weak, while supply dropped only towards the end of the month amid tornado action on 24th February, which temporarily paralysed operations at some plants in Texas.

PET prices in the European market continued to decline in January against the backdrop of cheaper propylene (C3). The price is down 6% m-o-m to €1,341/MT in January. Lower production in Europe has not helped to balance the market, as imports from Asia are resulting in oversupply. US PET prices have been relatively stable for four consecutive months and there are no obvious factors pushing the prices up or down.

EU PP prices fell by 6% m-o-m in January to €1,151/MT. Demand from refiners remains weak and, with production prices falling due to cheap raw materials and energy, a price reduction occurred. PP prices in the US dropped 4% m-o-m to a monthly average of USc 70/lb after a brief period of stabilisation in December and the first half of January. Many market players believe a price bottom has been reached, or will be reached, in the near future. Producers intend to reduce supply and increase sales margins. In addition, rising oil prices could be reflected in higher commodity prices and may reverse the current trend.

Metals

Steel and aluminium prices continued to rise in January. China continued buying iron ore and coking coal, thereby supporting raw material price increases, which were reflected in rising production costs around the world. Steel producers started to raise prices on products to recoup elevated input costs and increase margins, while buyers realised that prices are likely to have bottomed out and increased purchasing activity. Nevertheless, statistics from steel- and aluminium-consuming sectors are still in a downward trend, so there are no fundamental signs of demand changes for steel. A more severe situation exists in the construction industry, where about 50% of steel and 30% of aluminium is consumed. In the US, the number of building permits sits at the mid-2020 level, but in the last two months, the number of permits has stopped declining and stabilised. In the EU, the Business Confidence Index for the construction industry has been negative for three consecutive months.

The CME's USA steel hot-rolled coil (HRC) January average monthly price rose by 3% m-o-m, to $883/MT. In Europe, HRC prices accelerated by 7% to €719/MT in January, in contrast to the previous month when prices declined by 3% m-o-m. An important factor in the supply reduction was the decrease in steel production in December, which put a strain on the steel market. Thus, global steelmaking fell by 11% y-o-y in December 2022 and EU steelmaking was down 17% y-o-y. Steelmaking in other European countries fell 19% y-o-y, in Turkey it was down 20%, and production in the US fell 8%. In China – the biggest steelmaker in the world – production declined 10%. In January, some companies already started to ramp up production and bring back idle steelmaking capacity. Many market participants are hoping that after Chinese New Year celebrations, the Chinese government's consumer incentives policy will help revive demand for steel and steel production. As a result, it is likely that raw material prices may continue to rise, potentially pushing up production costs and steel prices in all regional markets.

The LME aluminium 3-month price in January slowed to 2% m-o-m (3% m-o-m in December) to $2,578/MT. The weekly trend saw a steady rise at the end of the month, with some market players suggesting that aluminium prices have increased too quickly. LME stocks dropped to the lows of October 2022 in mid-January, on the back of increased buying activity, but in the second half of January, traders started to replenish stocks and aluminium stock levels picked up again. Overall, the global aluminium market situation is positive. Many producers see good prospects for their products, at least in the short term, and have started to increase primary aluminium production. According to the International Aluminium Institute, all regions of the world increased production in December compared with the previous month. In particular, production in the US and Europe grew by 3.5-4%, ahead of China and other Asian countries. Aluminium prices have also been pushed up by rising alumina prices, with alumina in short supply. Mintec estimates that the increase in alumina prices in January was reflected in an average increase in aluminium production costs by $50/MT. There is also growing confidence in the market that Russian aluminium could be banned from EU and US markets, which could trigger a deficit in the global market and hence a potential price increase. The introduction of an import ban was one of the main factors behind the price surge when Russia launched military attacks against Ukraine in 2022. However, no safeguard measures are yet in place, and last year primary aluminium production rose by 18% y-o-y, according to Rosstat.

Paper

Prices on the European market for paper products continued to fall. The market situation is characterised by weak demand and oversupply. Lower production costs, on the back of cheaper raw materials and energy, is contributing to lower prices. However, the downward price trend appears to be slowing.

The French Kraftliner 175g price in Europe continued to fall in January at the same pace as last month's 3% m-o-m decline, to €945/MT. Market demand remains weak and no significant changes are expected in February. Lower energy prices are allowing producers to make concessions on sales. Prices for French Testliner 2 in Europe fell by 6% m-o-m, to €770/MT. The volume of orders remains low for testliner, so suppliers have been forced to reduce prices.

The Semi-Chemical Fluting price on the European market decreased by 3% m-o-m after nine months of stabilisation under the influence of the general trend on the paper market and was €898/MT in January. As expected, despite a narrow segment with a small number of producers and consumers, weak market demand affected this market segment. The outlook for the market remains poor and a recovery in the coming months is not expected.

The price of GC2 in January in the EU market has been stable for seven consecutive months, at €2,045/MT. In this segment, the market remains balanced with good demand and moderate supply. In the GD2 segment, the demand situation remains negative, so prices accelerated downwards in January by 5% m-o-m (3% m-o-m in December), to €1,555/MT. Producers cancelled energy surcharges in January due to lower electricity prices in Europe, which resulted in lower transaction prices and, consequently, led to a faster pace of price decline.

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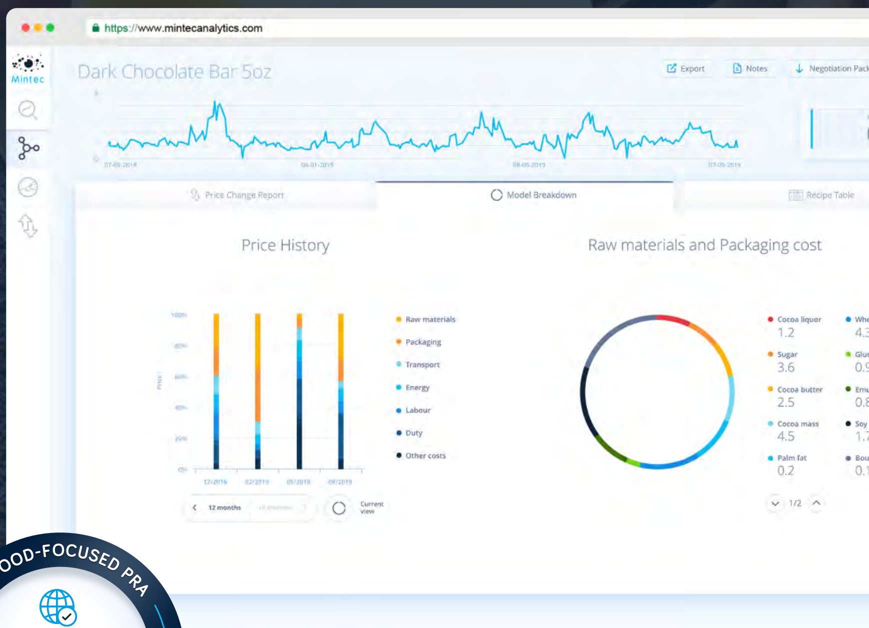

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