In Case You Missed It

Insights from the monthly ADM grower call | April 2024

Commodity Grain Update
Daniel Overberg, ADM

Synopsis

- The corn and soybean markets are on a sideways trend with growing carryouts and production up against static demand.
- **Uncertainty over demand is greater than the uncertainty over supply.**
- The wheat market continues to be controlled by low Russian prices.

Corn

- March 1 stocks report was a bit of a surprise, coming in on the low end.
- Estimates suggest a larger feeding number, but with a cattle herd that is at an 80-year low, a mild winter and weak fiber demand, that's tough to justify.
- In the April WASDE report, the USDA took ethanol run rates higher. <u>The current margin structure isn't spectacular but enough to support higher run rates, and ethanol exports continue to be robust.</u>
- We've seen a 24% increase in on-farm stocks versus last year, but the market continues to lack catalysts for any real rally.
- Exports are steady but we may start to see seasonal decline now and possibly a little bit of spot business picking up with worries over Argentinian production due to disease pressure.
- China is causing some concern due to recent corn order cancellations to try to boost their low domestic grain prices. That is a risk to U.S. corn exports.

Soybeans

- China is also a concern for U.S. soybean exports with indicators suggesting their imports may be lower than expected.
- Chinese pork production is lower, and while recent GDP data was a little better than expected, the outlook is more negative than positive.

Wheat

- The global balance sheet for wheat is slowly declining.
- Russia continues to be the wet blanket over the market with the cheap wheat they offer globally.
- Overall, Russian wheat remains stable, but any production issues could start to shift supply and demand.

Global Fertilizer Update
Chris Lawson, CRU

Synopsis

- Nitrogen and phosphate prices have started to move lower as anticipated.
- Expect a bump in nitrogen in a couple of months, but phosphate prices should remain relatively steady with a longer decline.
- Potash prices are steady and will remain stable.
- The big underlying risk to watch for is the conflict in the Middle East. Any escalation, major blockages on shipping lanes or attacks on key industrial facilities will have drastic implications for the fertilizer market.
- **The Middle East plus Egypt is an important region that cannot be underestimated. Together, the area accounts for:**
  - » **46% of total urea exports.**
  - » **48% of sulfur, a key raw material in phosphate production.**
  - » **44% of phosphate rock.**

Urea

- Since March we've started to see urea prices fall globally as additional tons have come into the market.
- The market has started to stabilize some with concerns in the Middle East and its role in overall nitrogen fertilizer supply, as well as secondary impacts on oil and gas prices.
  - » We have seen gas prices start to increase because of rising geopolitical tensions.

Phosphate

- Phosphate prices have started to correct course and have come down to nitrogen and potash levels.
- China's return to the export market and increased availability from other key suppliers, such as Morocco, have contributed to that trend.
- We expect to see a continuation of declining phosphate prices over the coming months.

Potash

- The potash market has not seen a lot of change and remains relatively quiet.
- There is still a decent amount of supply available.
- The big thing to watch is when China might sign its annual contract, especially given current geopolitical events. The Middle East represents 11% of global trade.

Domestic Fertilizer & Logistics Outlook
Nick Peterson and Noah Bishop, ADM

Synopsis

- Now is the time to **secure any remaining spring fertilizer needs** to avoid any pricing or availability issues related to logistics concerns.
- It looks as though planting will commence within a relatively tight window across most of the market. This compresses demand and typically causes strains on logistics systems. Be in communication with your ADM rep on availability.

Urea

- **Recommendation:**
  - » Secure remaining spring preplant needs now; you should be 100% covered on spring needs. A tighter planting window and just-in-time buyers will put constraints on logistics and likely increase basis spreads between local terminals and NOLA. Top dress tons today are priced at a stark discount to preplant and may present a good opportunity, too, as the international market has stabilized.
- **A number of vessels discharging at the end of March coupled with lack of demand due to adverse weather caused prices to decline at NOLA.**
- Interior prices have also seen some backwardation as a result but to a lesser extent due to logistics constraints.
- We expect NOLA urea values to stabilize around current levels with some opportunity for some slight appreciation in barges as the international markets find support.
- Looking forward to summer fill pricing, we see some potential downside but it's a moving target. **When we feel the prices have bottomed out, we will issue a summer fill recommendation.**

UAN

- **Recommendation:**
  - » Talk to your ADM rep today about securing any remaining needs for preplant.
- UAN values have slightly moderated as urea has softened but to a much lesser extent.
- The supply situation remains tight and the import lineup for April does not look like it will provide much reprieve.
- **If you need UAN in the deferred for side dress application, there may be a slightly better opportunity to buy**, but this will be dependent on timing and geography. Liquid fertilizer logistics are typically tighter than granular fertilizer logistics.

Phosphates

- **Recommendation:**
  - » Buy the P205 you need today to make it through spring and optimize for yield as much as you can.

- NOLA had a pretty dramatic short squeeze on DAP in the first half of March that put some upside pressure on the market.
- We've seen some mild price backwardation, somewhere between $20 and $25, over the last 30 days.
- Moving into the last part of April and early May, logistics will be the main driver with questions on product availability and how quickly it can get in and out of the terminal.
- Looking ahead to summer fill, the countervailing duty case is still uncertain, and the market is pricing based on some sort of return by either Russia or Morocco in early Q3.
- **We expect the market to bottom out in late May or June** prior to increasing global market demand. At that time, we will roll out our summer fill buying recommendation.
- Programs to buy, carry or store production with ADM, as well as forward pricing opportunities, are great options to help take advantage of summer fill lows and avoid large capital outlays.
  - » Talk to your ADM rep about opportunities to fit your needs.
- Be aware that backwardation in the grain market does carry some downside risk on phosphates — this risk can be managed by forward selling grain against fertilizer purchases.

AMS

- We continue to recommend 100% coverage on AMS needs going into spring with nylon production decreases. If you have needs on AMS, values continue to move higher, lock in remaining spring needs if you are uncovered.

Questions from Our Growers

Growers who attend the conference call can get their questions answered by our industry experts.

How does the 90 million corn acre estimate start to impact urea demand?

- With supply in line with the five-year average, a tight carryout from last year should offset the decreased corn acreage and associated demand for urea.
- When you factor in reduced prices of urea over the last several weeks, we see a more comfortable affordability picture relative to crop commodity values that should support demand.
- The other factor to consider is fall application of ammonia. We believe the fall-applied ammonia market to be a little larger this year, so that could offset the tighter supply situation with urea. However, UAN supply has also been tighter and that could bolster urea demand.

Trendline yield looks very achievable for 2024. What is going to be the impact of another record crop year as we look at the NPK complex moving into fall, knowing that cash corn will likely be somewhere in the $3.75-$4 range?

- Once we move out of the U.S. peak season, NPK prices are driven by other global regions. Generally, the view is that demand across these regions is set to improve, so we don't foresee demand being reduced from year to year.
- On the supply side, geopolitical turmoil could have a major impact, especially in the Persian Gulf region, which produces about 20 million tons of urea per year.
- Additionally, the extent we see backwardation in the grain market will be an indicator of the price pressure we see on fertilizers. Affordability issues kill demand.

Looking at the 2025 crop with a December futures price of $4.87 for corn and November soybeans at $11.45, what are your thoughts on marketing 25%-30% of your crop?

- If you can define your operational margin for 2025, forward marketing 10%-15% is probably a pretty comfortable area to start.

- With growing stocks and static demand, 25%-30% may also be prudent if you have a higher degree of comfort with fertilizer prices.
- Assuming a normal production cycle, we could be in year two of a possible four-to-five-year downward cycle.
- It's a good idea to plan grain sales against your forward fertilizer purchasing.

What is your confidence in the 90-million-acre corn estimate given the large number of unaccounted acres and the short-term risk going forward?

- The market is probably trading a little closer to a 91-million-acre estimate.
- Weather will be a big factor moving forward into the spring planting season.
- The acreage reduction still must be reconciled once we get to the final June planting number.
- Heavy application of ammonia in the fall tends to lock in planted corn acres. This is one of the largest fall-applied ammonia years we've seen and that should bode reasonably well for a slightly larger corn acreage.

What's the magnitude of the risk if the acreage number is increased to a level that would heavily impact price?

- If demand stays static and a 92-million-acre number comes to fruition, we could see the lows $0.15-$0.20 lower than we saw in February.
- North of a 2.5-billion-bushel carryout could shift the market into another paradigm that leads to lower prices.

Watch for an email or text announcing the next grower call in June.
Contact your ADM Fertilizer representative for call information.

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