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**Brazil Macro | April 2022**

Commodities

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# INDEX

- 1. Overview**
- 2. Agriculture**
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## SUMMARY

- **Low inventories for most raw materials, coupled with idiosyncratic factors (e.g., adverse weather, past underinvestment, and high cost of production), have been feeding the commodity rally in 2022.** The ongoing geopolitical shock coming from Eastern Europe aggravates further what was already materializing as supply-demand imbalances, given the additional supply disruptions caused by the war and economic sanctions imposed against Russia, ultimately reducing exports/supply from key producing countries for key commodities (e.g., grains, fuels, fertilizers).
- **As a result, our commodity price forecasts have been revised upward for all indexes for 2022 and 2023.** On average, we pencil in a double-digit increase in the path for the headline CRB Index and its key components, as compared to our previous scenario, suggesting an extended commodity cycle. While rising global interest rates and China's the zero-COVID policy could negatively affect commodity prices from the demand standpoint, we still see persistently high material costs on the heels of massive (and aggravating) supply constraints, with the disinflation process taking longer to occur. In our view, high commodity prices largely mitigate the impact of global headwinds on commodity-producing countries (case in point Brazil).

OVERVIEW

01

# Geopolitical shock adds volatility to an already tight commodities market

- The Russia-Ukraine war led to a commodities shock across the board. As a result, we revised all our index forecasts up on average (2022YE, 2023YE). On average, we pencil in a double-digit increase in the path for the headline CRB Index and its key components, as compared to our previous scenario, suggesting an extended commodity cycle.

## Our Forecasts for CRB Index – End of Period

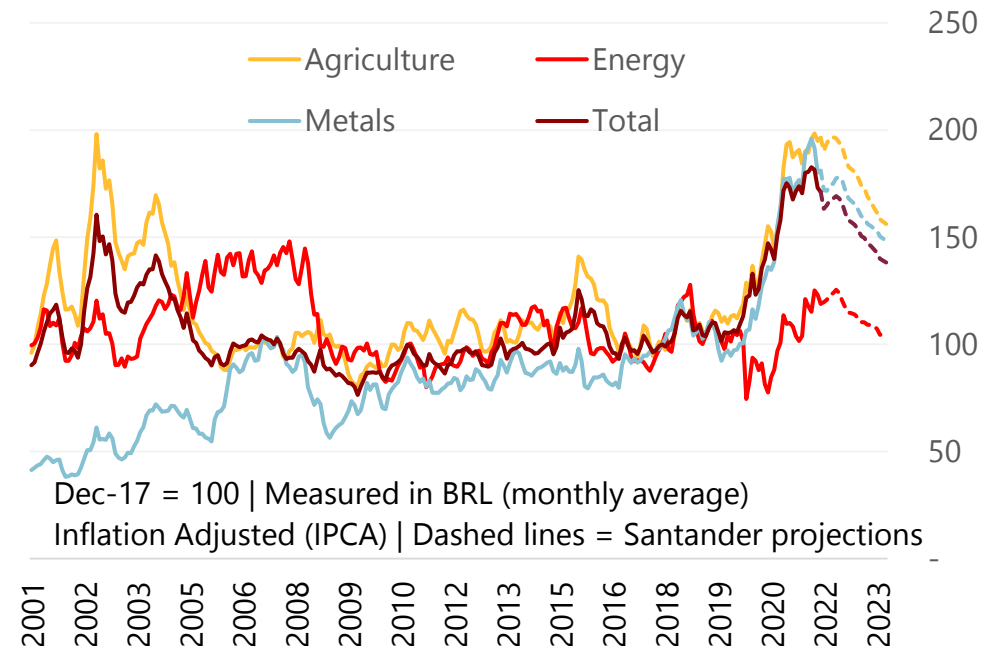
YE	2019	2020	2021	2022e	2023e
CRB Food	331	355	483	542 ↑	488 ↑
CRB Energy	1647	1161	1521	1850 ↑	1809 ↑
CRB Metal	749	887	1259	1306 ↑	1171 ↑
CRB	401	444	571	606 ↑	570 ↑

YE YoY	2019	2020	2021	2022e	2023e
CRB Food	1%	7%	36%	12%	-10%
CRB Energy	2%	-30%	31%	22%	-2%
CRB Metal	-11%	18%	42%	4%	-10%
CRB	-3%	11%	29%	6%	-6%

	Iron Ore	Soybean	Corn	Brent
YTD* %	15%	28%	34%	31%

\*April 25, 2022.

## Our Forecasts for CRB Index – Monthly Averages



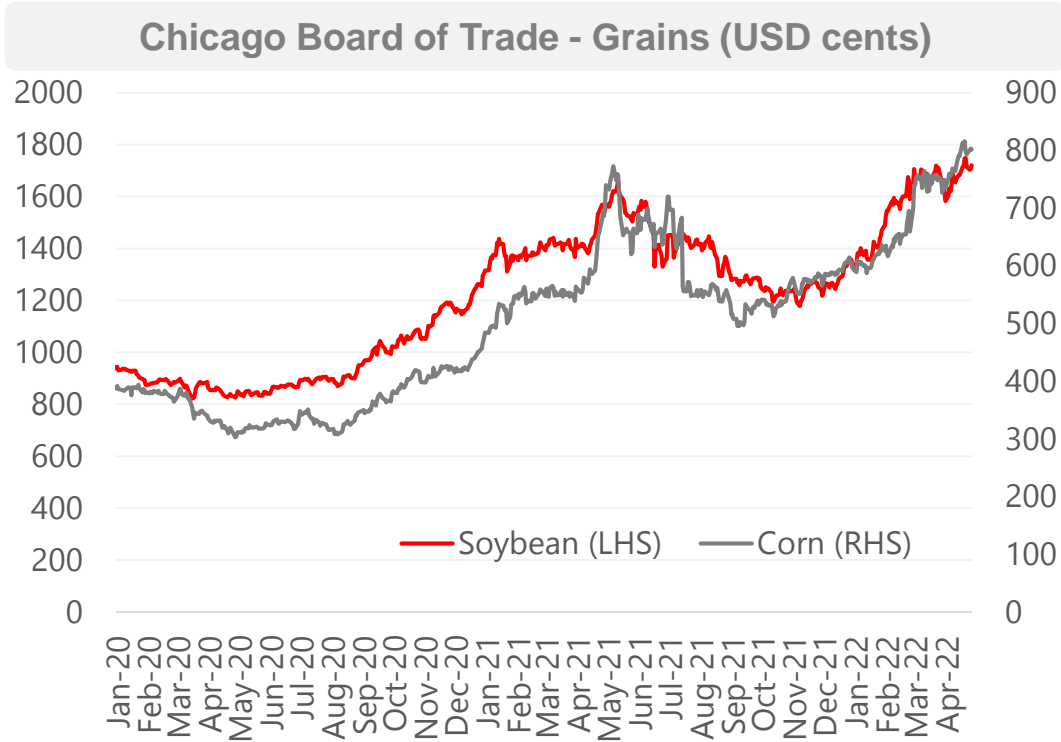
Sources: Bloomberg, Santander.

AGRICULTURE

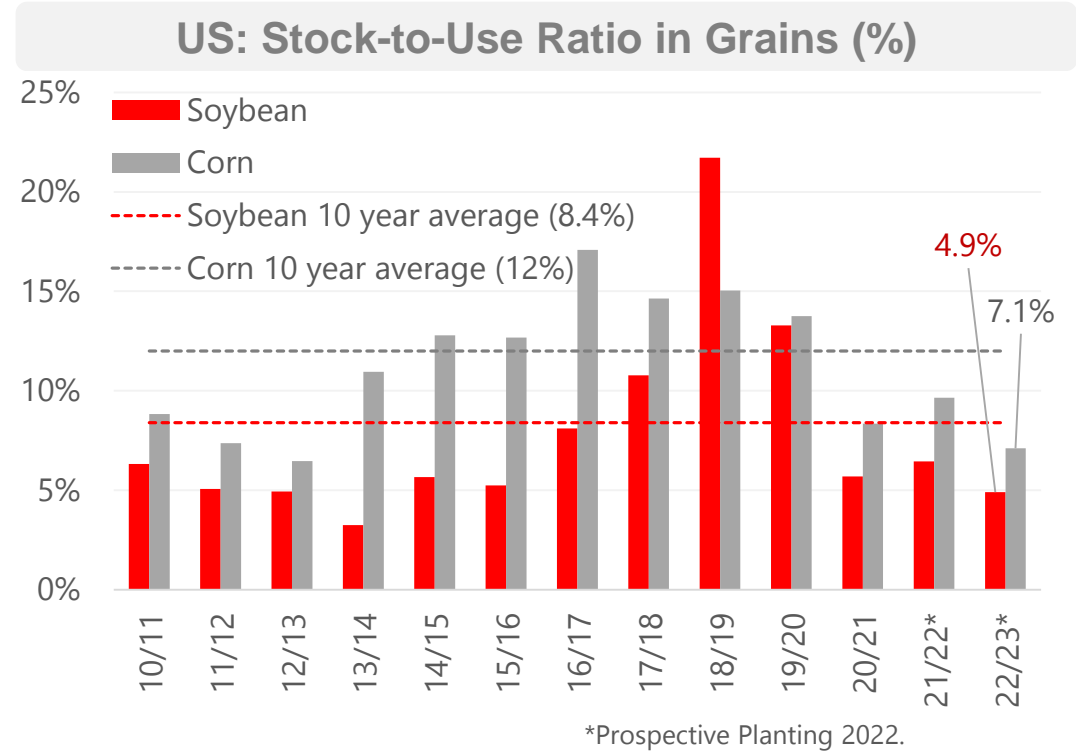
02

# Low stocks amid weather and geopolitical shock

- Low stock-to-use ratio of grains in the US point to a tight market. Both corn and soybean are at all-time high prices.
- The recent conflict between Russia and Ukraine has been pressuring the grain market even further, as both countries are key exporters: taken together, they account for 30% and 18% of wheat and corn global trade, respectively.



Sources: Bloomberg, Santander.



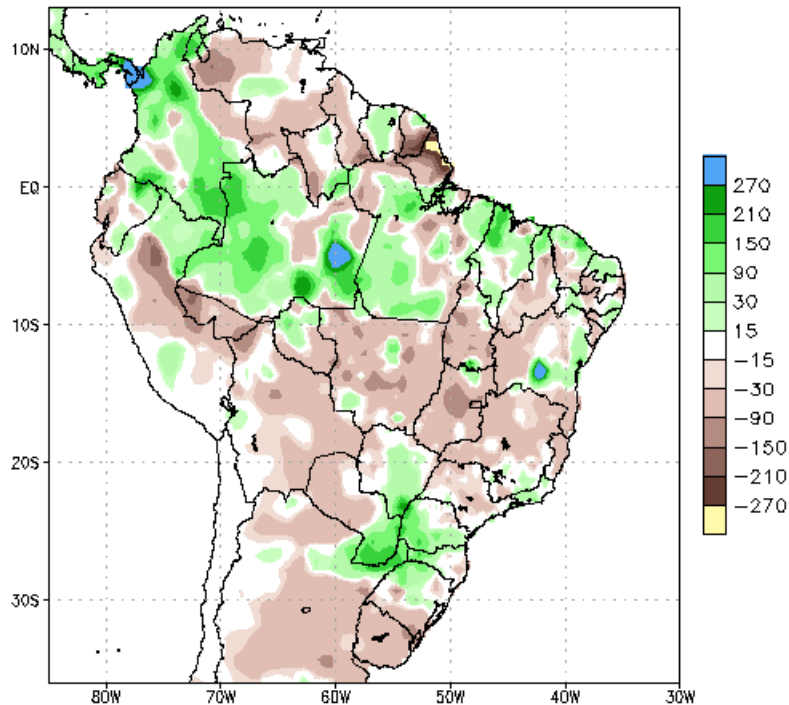
Sources: USDA, Santander.

# Low stocks amid weather and geopolitical shock

- Planting of “safrinha” corn is complete (the early harvest of soybean allowed for such a condition, meaning a much better prospect for the current marketing year). However, lately a few states (MG, GO, BA and SP) experienced rains below average, according to MBAgro.

## Precipitation (30-day anomaly)

Prp Anomalies (mm) 27MAR2022–25APR2022

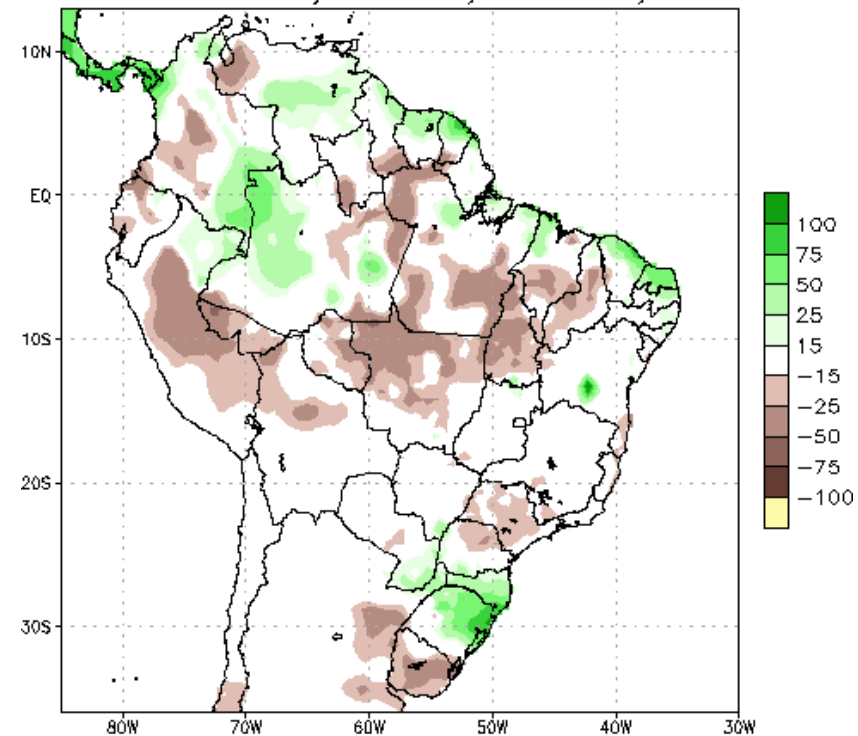


Data Source: CPC Unified (gauge-based & 0.5x0.5 deg resolution) Precipitation Analysis Climatology (1991–2020)

Sources: NOAA, Santander.

## GFS Precipitation Forecasts (7-day anomaly)

02May2022–08May2022 Anomaly



Bias correction based on last 30-day forecast error  
CPC Unified Precip Climatology (1991–2020)

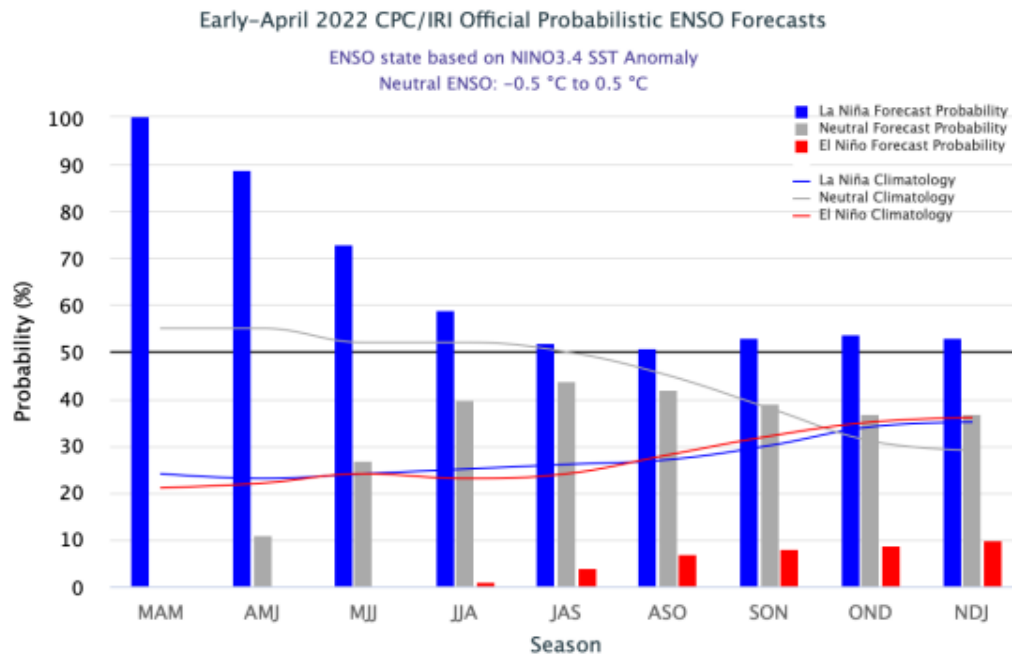
Sources: NOAA, Santander.



# Low stocks amid weather and geopolitical shock

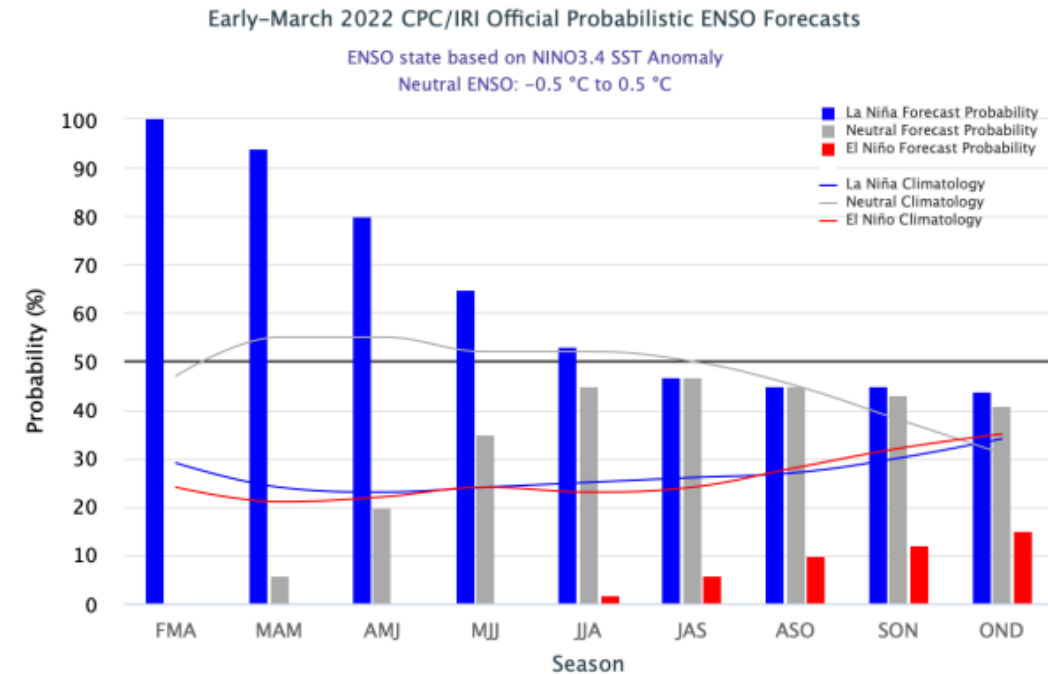
- According to NOAA forecast, La Niña is favored to continue into the Northern Hemisphere summer, with a 50% chance thereafter. It is a risk for the south part of South America that could suffer from drought conditions once again (third year in a row).

## La Niña Outlook – CPC/IRI PROBABILISTIC First half of April



Sources: NOAA, Santander.

## La Niña Outlook – CPC/IRI PROBABILISTIC First half of March

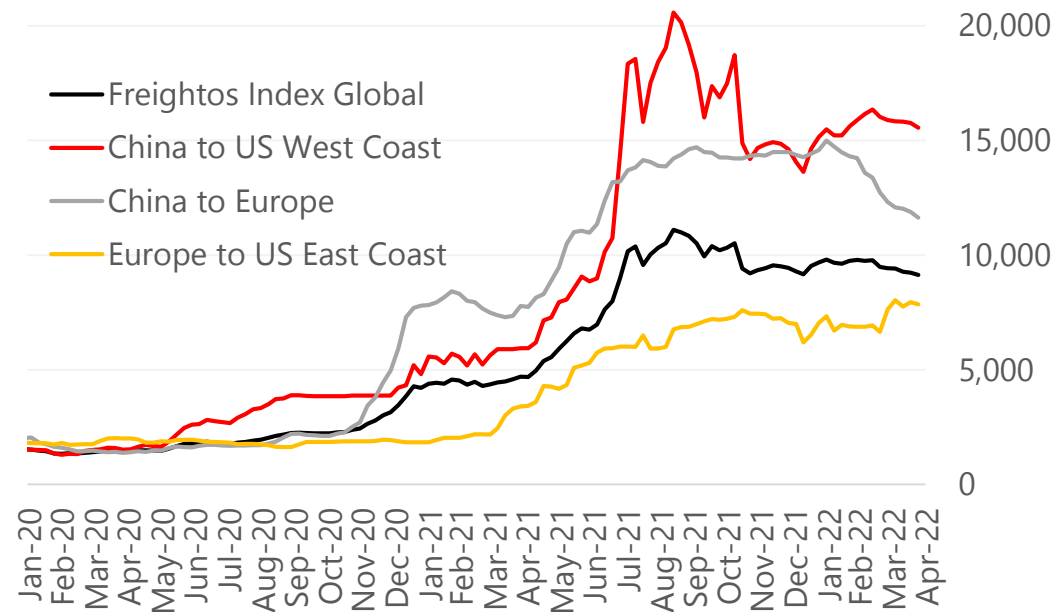


Sources: NOAA, Santander.

# Low stocks amid weather and geopolitical shock

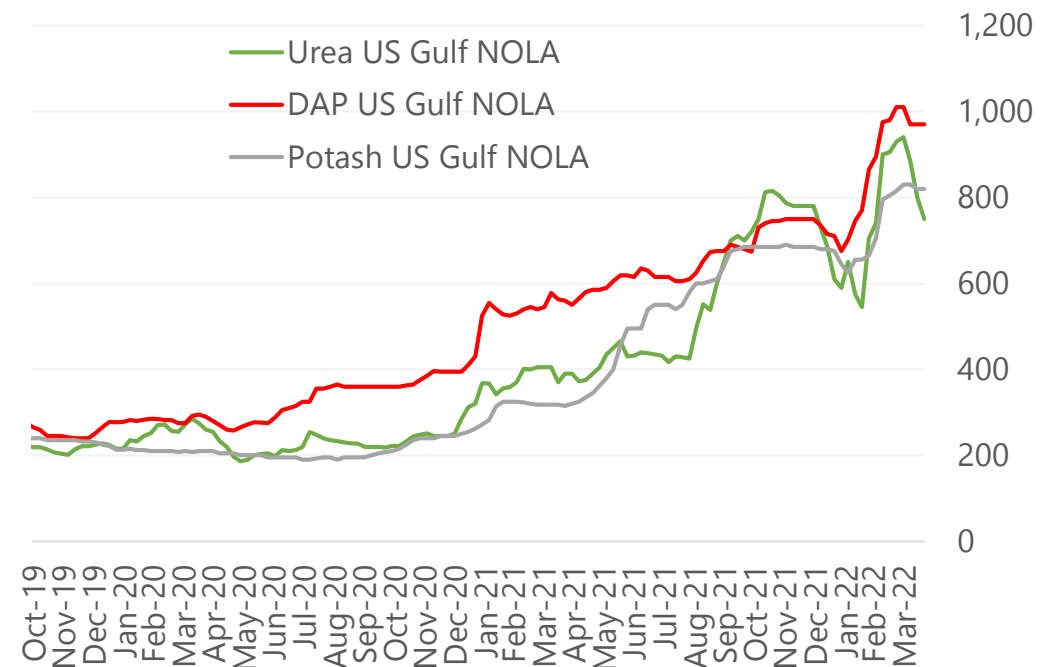
- Prices of material inputs (ammonia, nitrogen, nitrates, phosphates and potash) for the fertilizer market have been rising consistently since 2020 owing to global supply chain disruptions triggered by the COVID-19 pandemic that sent shipping freight rates up.
- The Russia-Ukraine conflict added to this tight market, as Russia (and ally Belarus) are significant producer of fertilizer ingredients. As a result, farmers across the globe have been facing soaring producing costs.

### Freight Costs Index



Sources: Bloomberg, Santander.

### Fertilizers prices (USD/t)

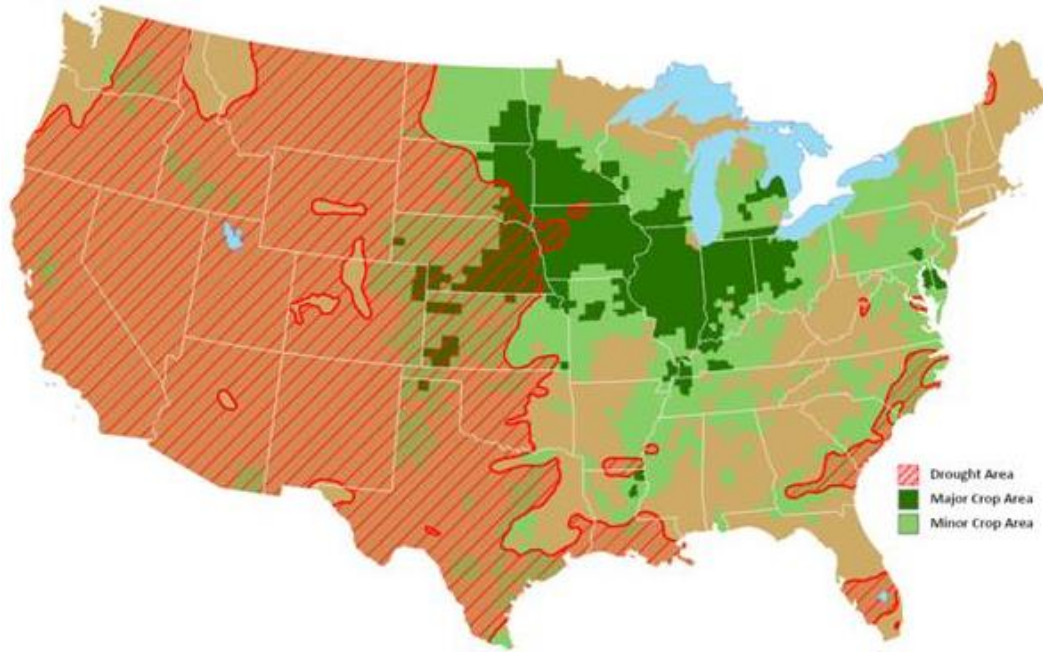


Sources: Bloomberg, Santander.

# Low stocks amid weather and geopolitical shock

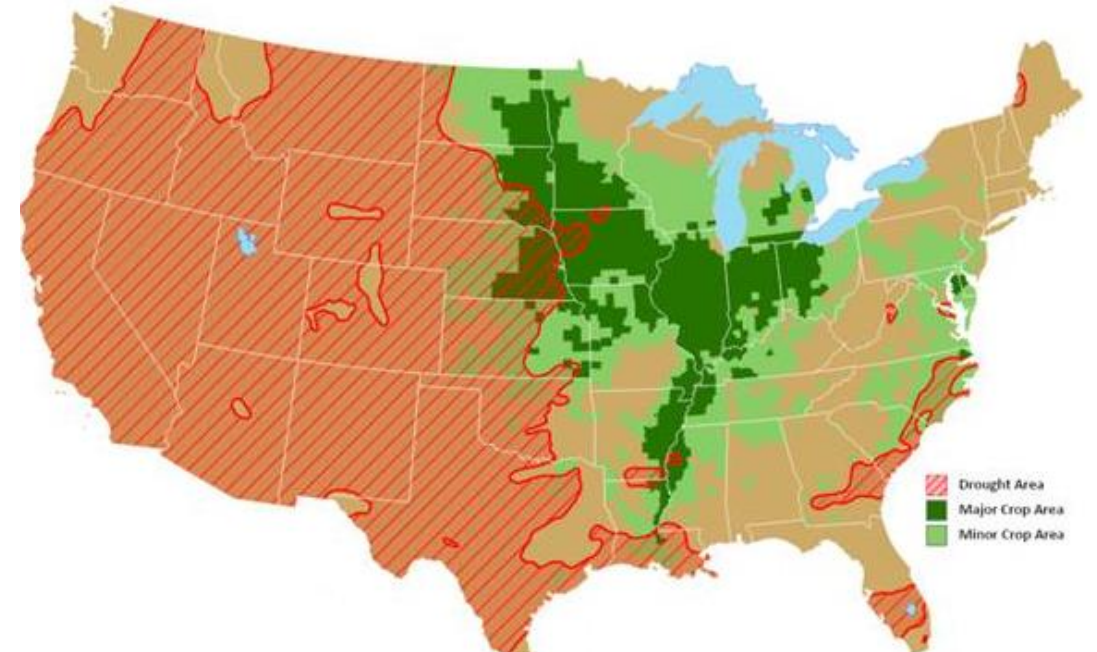
- U.S. corn planting is 7% complete by April 24, the slowest pace in almost 10 years owing to unusually cool weather.
- Approximately 23% of corn production is within an area experiencing drought; for soybean, 15%.

**U.S. Corn Areas in Drought**  
April 26, 2022



Sources: USDA, Santander.

**U.S. Soybean Areas in Drought**  
April 26, 2022



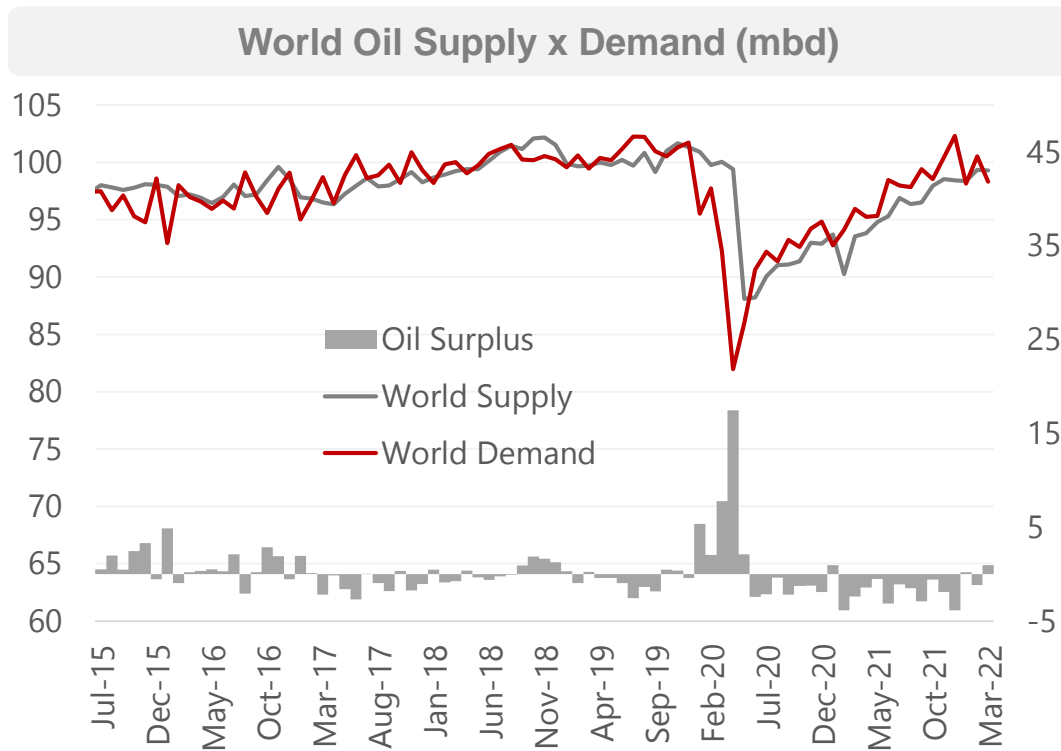
Sources: USDA, Santander.

ENERGY

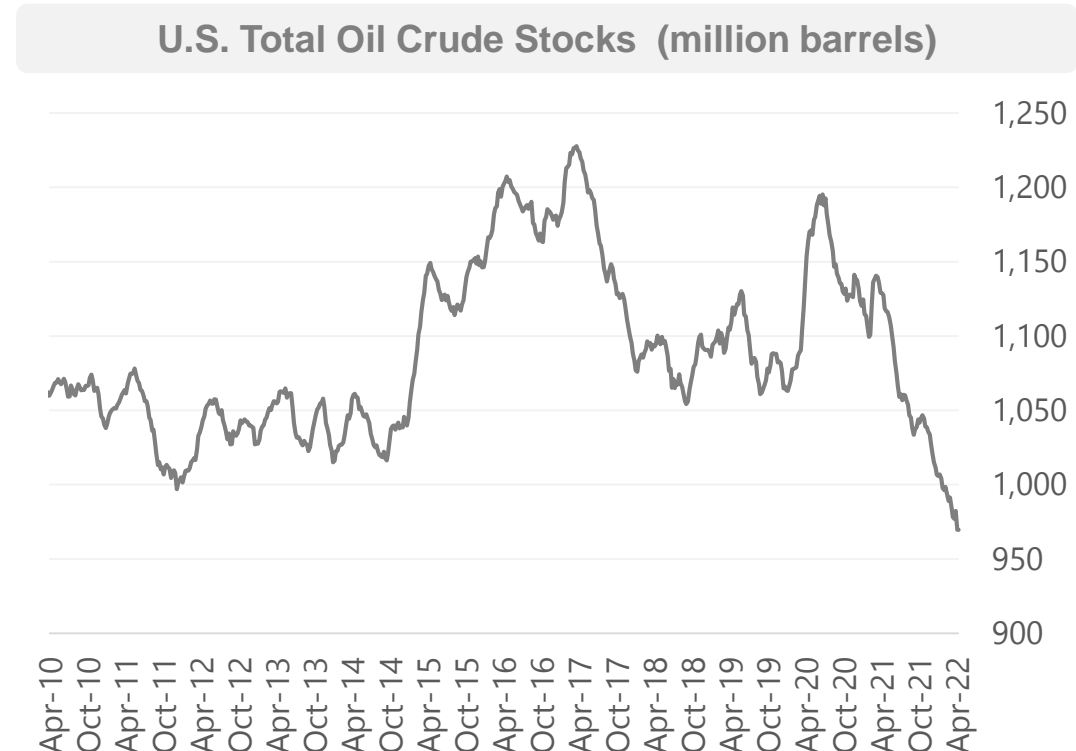
03

# Geopolitical shock adds volatility to an already tight commodities market

- Global market deficit. As the economy recovers from the coronavirus pandemic and majors oil producers fall short of output, the global oil balance of supply and demand has been consistently running on deficit.
- As a result, global inventories are the tightest in at least 7 years: US crude inventories is already below 2011-2015 levels when Brent crude oil stayed above \$100/bbl.



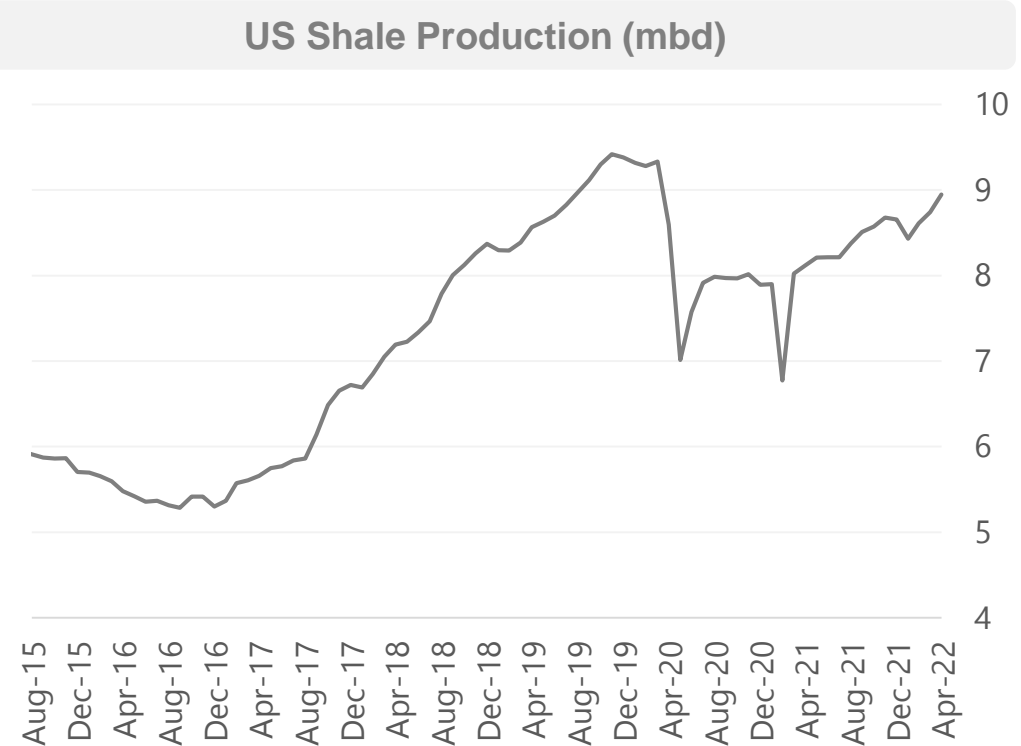
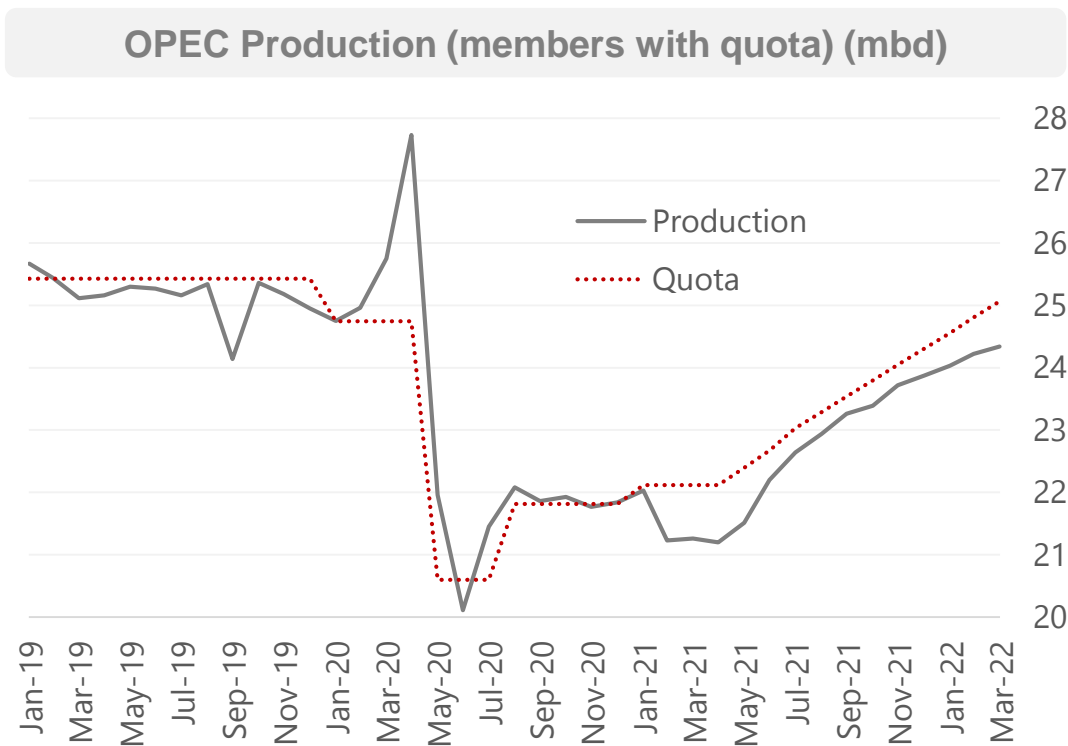
Sources: Bloomberg, Santander.



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- Underinvestment in OPEC+. The organization has been gradually increasing its production quota on a monthly basis. However, it has been failing to meet its target due to production shortfalls in several members, owing to low investments before and during the pandemic.
- Underinvestment in shale producers. US oil production is currently at 11.6 million barrels, still 11% down the pre-pandemic level. This discipline – to prioritize investor’s return rather than output growth - has so far proved resilient to higher oil prices.

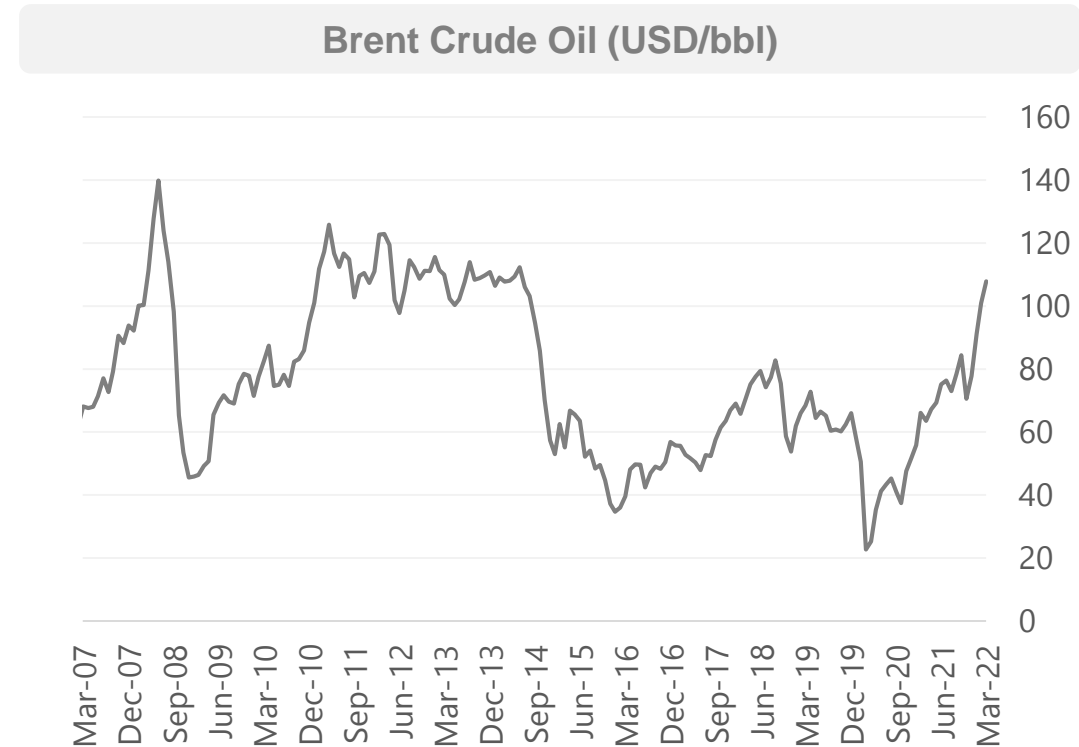
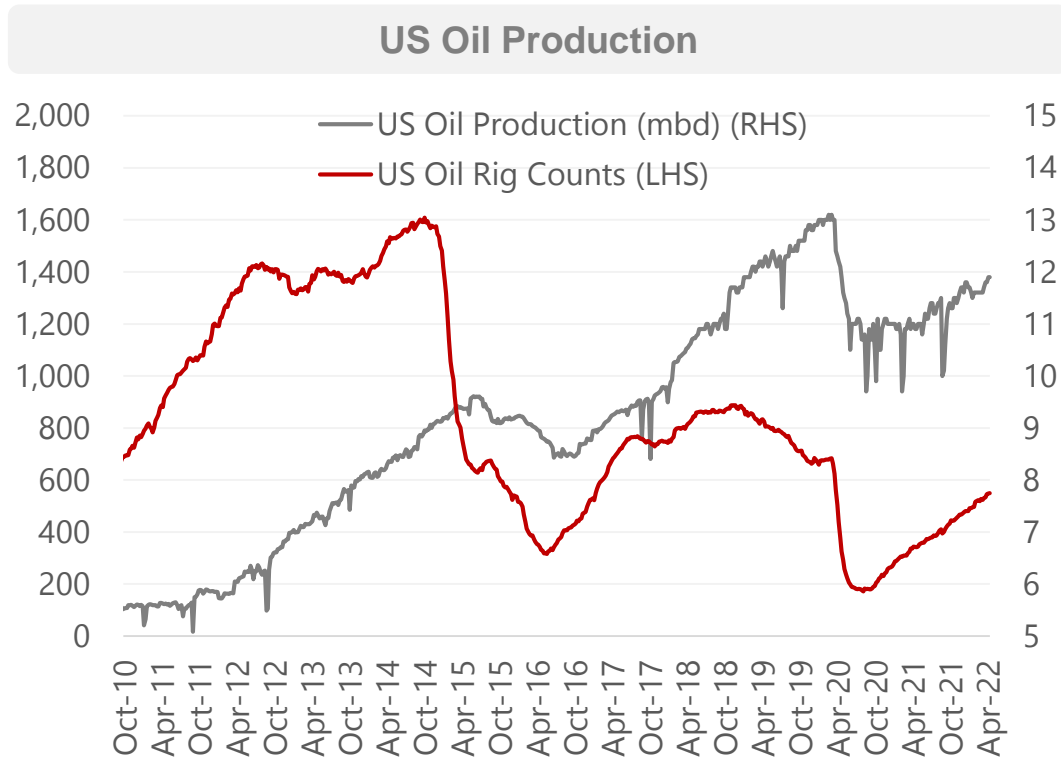


Sources: Bloomberg, Santander.

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# Geopolitical shock adds volatility to an already tight commodities market

- Rig counts in the US are increasing, but are still below pre-pandemic levels.
- Following the Russian invasion of Ukraine, Brent oil reached \$130/bbl, and it is now within the \$100-\$115 range.



METALS

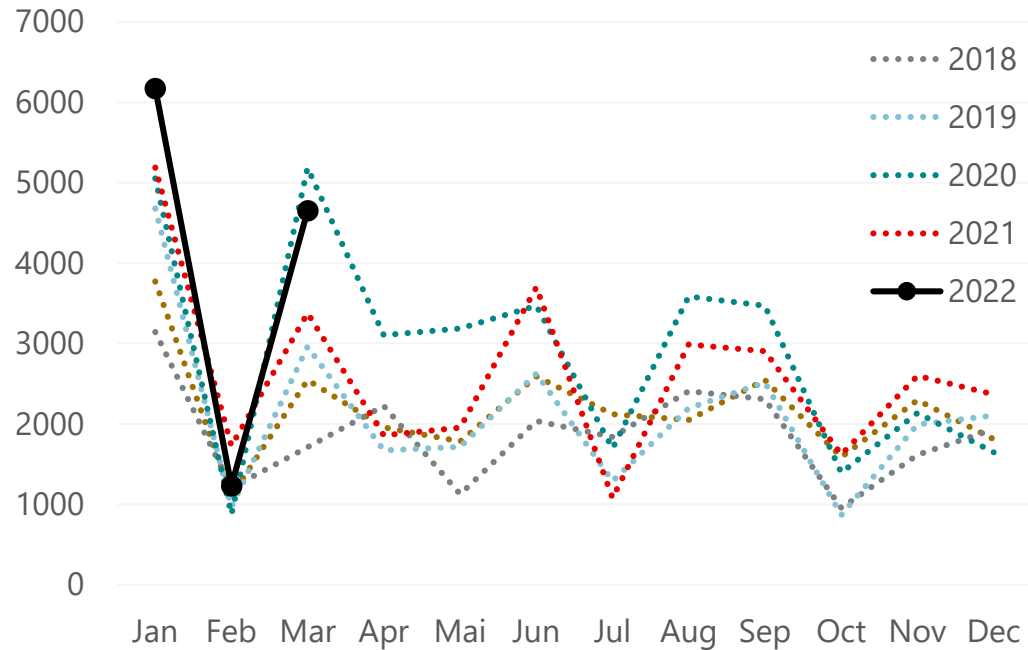
04



# China Will Keep Adding Stimulus To Support Growth

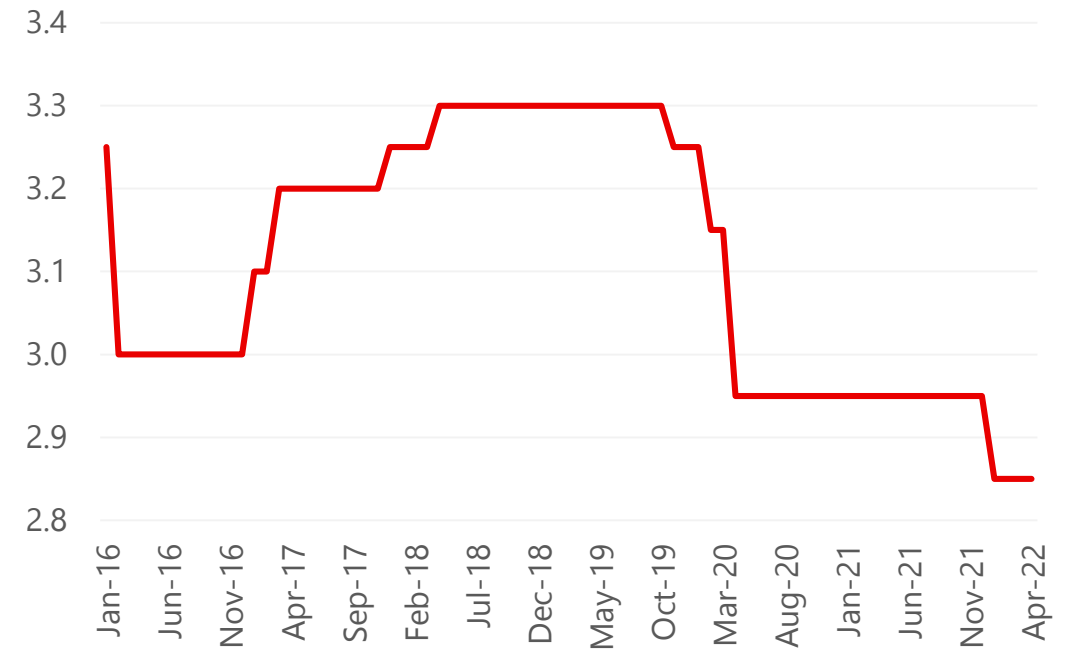
- Government is concerned with the activity slowdown and is already acting to support growth. The traditional instruments are being used (monetary, credit and fiscal tools). We expect 2022 to be a year of “stability”, with growth just below 5.5%.
- Stimulus in China means a tailwind for industrial metals.

Aggregate Financing (CNY Billions)



Sources: PBOC, Santander

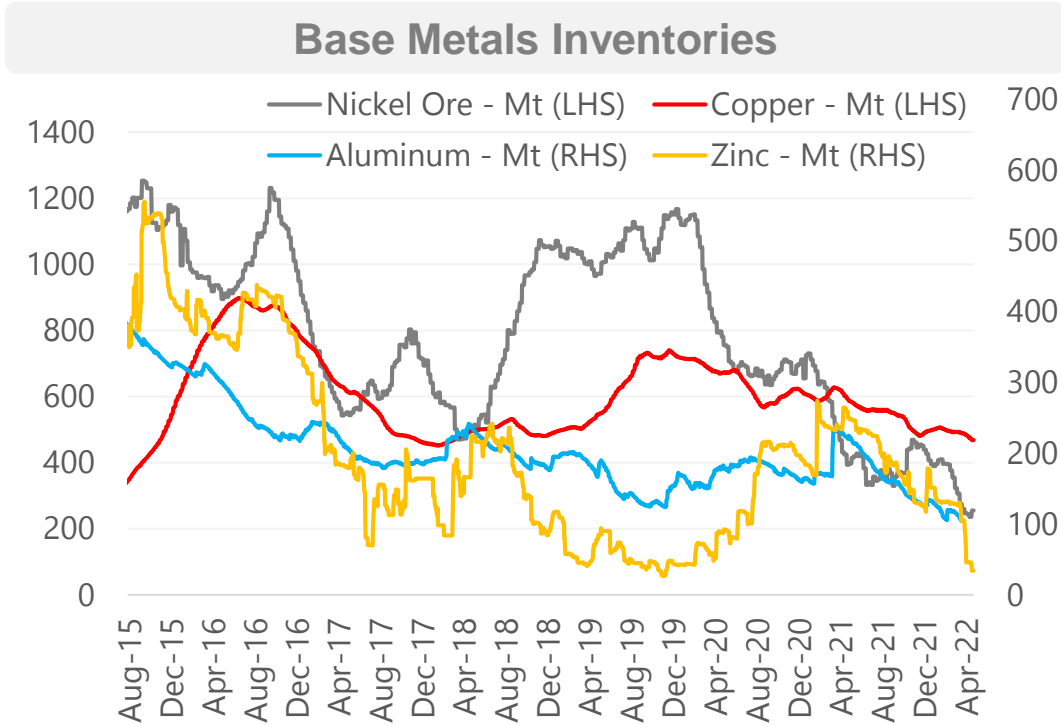
1 Year Medium Term Lending Facility (%)



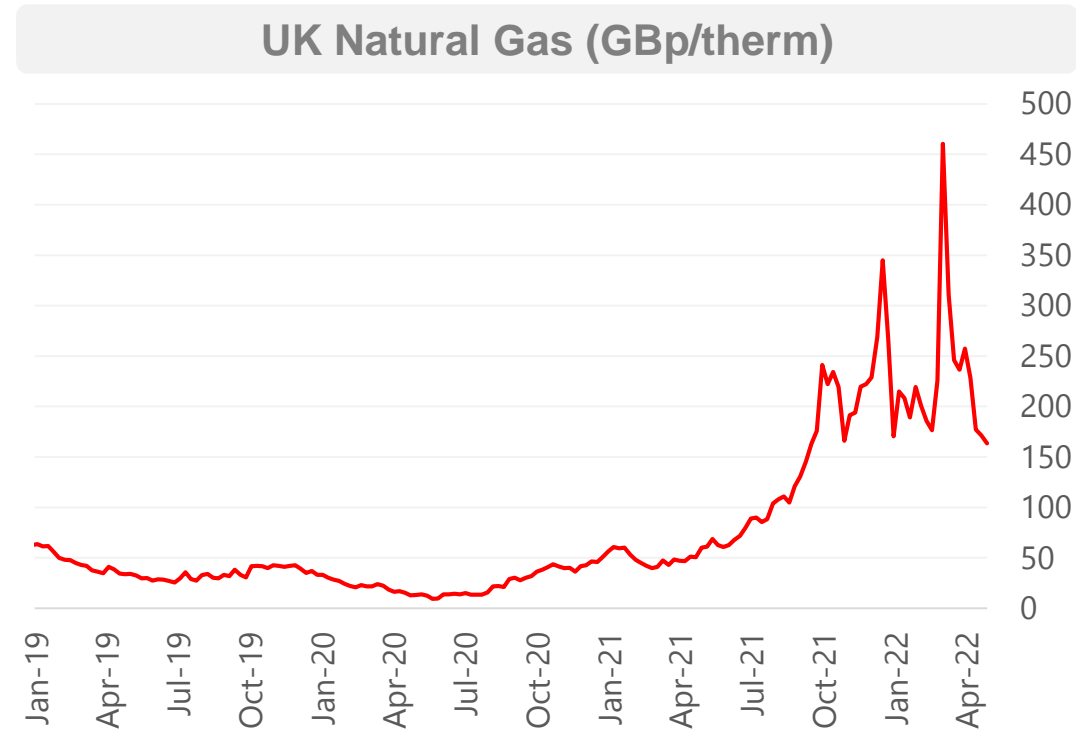
Sources: Bloomberg, Santander

# Several metals facing low stocks and higher production costs

- From London to Shanghai warehouses, some metals have inventory levels at multi-year lows.
- The power crunch in China and Europe send prices up, raising concerns about supply shortage in industrial metals. The geopolitical shock adds to this already tight scenario.



Sources: Bloomberg, Santander.



Sources: Bloomberg, Santander.

# Brazil Macroeconomic Research Team

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