Executive Briefing

Mintec

Agri-Food Commodity Price Forecasts 2023

Global food commodity Price Forecasts covering North America, Europe and Asia

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Introduction

After many rapidly increasing price inflations throughout 2022, it is time to prepare yourself for what 2023 has in store. This whitepaper will provide insights into where Agri-Food and Softs prices will move in 2023, while also addressing the state of the macro economy in the coming months.

We will be focussing on softs, grains and animal products in general while going through a few specific commodities as examples. This should give you food for thought in your own approach to the 2023 budget and help you to understand how you should be responding to the key Agri-Food commodity price developments.

Revisiting Previous Price Forecasts

When we made our Masterplan in late 2021 we were at a high point for all commodities. We predicted that this upward trend would not last. In our Masterplan we forecast that there would be a small decline in early 2022, while remaining in the high area. Then we saw two paths for commodity prices for the rest of 2022.

We always like to return and think analytically about what we predicted last year because we believe it is a transparent and revealing way to examine our methods and results.

We thought that the majority of commodities would experience an uptrend in Spring 2022. The key question was whether they would just go up slightly or whether they would reach all time highs. Then after that peak in the early months of 2022 we forecast a straight, prolonged decline till the end of the year. We also advised against hedging more than Q2 of 2022 because the price drop in April would have hurt.

In January 2022, we gave a complete Commodity Price Forecast for 2022. The overall message was that our analytical models point to most commodities reaching a peak in 2022 that in turn will lead to a more prolonged downtrend in commodity prices across most if not all commodity groups. And we made these forecasts before the Russian-Ukraine war began to influence price behaviours. Looking back now, we can see that our forecasts were quite close with the majority of commodities. Most hit the April 2022 peak and then experienced a tremendous decline.

In our Masterplan we measure price movements across Low, Normal and High Areas. Following the peak in April 2022, all commodities declined. Some still remained in the High Area but many also declined all the way down to the Normal Area. For example, all steel and metals went down to normal prices. Some softs and grain also decrease to normal levels with commodities like Palm Oil experiencing a 61% price decline.

Typically, the separate price areas of Softs, Animals and Grains/Oilseed move together but this has not always been the case. In recent years they have all been in an uptrend, even if they did not flow exactly together.

2022 Commodity Examples

Farmed Salmon prices followed the typical trend for commodities in 2022 and stuck relatively closely to our forecasts. There was an increase until April and a decline afterwards. Our projections hit these targets. For Cod we predicted an increase into Q2 of 2022 and that's what happened. Then we forecast a decline, and although quite weak, that decline is starting to happen right now.

We also produced forecasts for Chicken, Long Grain White Rice, Wheat, Cocoa Beans, Soy Beans, Orange Juice, Potatoes and many more food commodities that proved to be accurate throughout 2022.

Palm Oil & the Value of Dynamic Forecasting

Not all of our forecasts hit their mark. Some hit the bullseye but some are on the edge of the target. A good example of where we didn't get it quite right is Palm Oil.

For years, we have hedged Palm Oil well and been spot on with our forecasts. For 2022 our idea was that we should forecast a decline for Palm Oil prices in Spring 2022. However, we didn't get a decline, we got an increase instead.

This was totally different to what we expected and it could have been quite damaging if we relied on static forecasts alone. Thankfully we also rely on dynamic forecasts. While our static forecasting was off, with dynamic forecasting we were able to adjust. These dynamic adjustments are where you can really make or lose money.

We thought there would be a decline until Spring but in January 2022 we saw a break above the moving average in our dynamic forecasting. Our technical analysis showed that prices were going up and the fundamentals agreed.

When the technicals and fundamentals align that means we need to do something. As a result we decided on an October 2021 hedge on Palm Oil and then in January 2022, because of the signals provided by our dynamic forecasting, we partially-hedged into Q2. Then in February we covered most of Q2 of 2022 through to June.

Although we didn't forecast an increase with Palm Oil, our dynamic forecasting saved us. We were able to take the majority of the pain away by doing a hedge well ahead of any turbulence that arrived as a result of the Russia-Ukraine war.

Then in May 2022 we said no more hedging and now we've seen a decline. A similar series of events occurred with other commodities such as Maize, Cattle, Butter and Soy Beans. With dynamic forecasting, and our hedging, we were able to save and cut away the pain.

How we Measure Ourselves

We would like to be perfect with static forecasting but we also appreciate the safety net that dynamic forecasting provides. Dynamic forecasting takes into account the technical and the fundamental elements that are constantly changing. We would like for all our static forecasting to come into play but it's not what we judge ourselves against.

When measuring success it is easy to just think about amplitude: did we hit the price target? But this is too simplistic. When we look back at what we did last year and how we want to improve next year we measure ourselves in three main ways:

1. Trend 2. Duration 3. Amplitude

Trend is the most important element. If we are standing in Q2 and we forecast an uptrend and we hedge, then we better see an uptrend otherwise our hedging is wrong. If we forecast an uptrend and prices drop, then nothing else matters. We can work with it, we can hedge. If we had forecasted a decline that's bad, but if we forecasted an uptrend and we got an uptrend then that is the most important element.

The second most important thing is duration. It is fine for prices to go up to Q2 like we expect but if they keep going up all the way to Q4 that would be bad because then you would have covered your hedging for Q2 but you wouldn't have covered here to Q4.

The final element is amplitude. Did you get to the target? How high will prices go? Will they hit the target date? This element is less important but still a worthwhile measuring stick. For example, let's say you hedge on Salmon when prices are low and then prices only go up a little bit before going back down again. Your cost is down and you've saved some money. Amplitude is the least important but we try to compare ourselves against all of them.

The majority of the targets are kept in place and not moved. It doesn't have to be fixed but for a lot of commodities like Salmon they have kept in place. Equally, with some commodities, like Palm Oil last year, we receive dynamic forecasting signals indicating that we need to change our projections.

Our Masterplan for 2023

Similar to 2022 we expect the majority of our projections to be close to the eventual price patterns with a few misses that will be caught by our dynamic forecasting analysis. Last year's Masterplan left us on a steep decline from a high peak in April 2022 to a decline well into Q4 of 2022.

Our forecast for 2023 is slightly different. We expect a price increase starting in Q4 of 2022 leading to a price increase into Q1 of 2023. Then once that increase peaks in Q1 of 2023 we're very likely to see a prolonged downward trend continuing until late 2023/early 2024. If we zoom out we can see that this downtrend is part of an ongoing decline from a peak in April 2022 that is expected to last until 2024, with an interruption in Q4 of 2022. Currently we are waiting for the dynamic signals of this increase into Q4 of 2022.

The big question is the size of the increase: will the increase last until Q4 of 2022 or will it continue into Q1 of 2023? Under normal circumstances it would go up until Q1 of 2023. However, there is an alternative scenario where we get the increase but it stops before 2023 even begins. In either case an examination of this upcoming peak is a short term consideration. In the long term it bears looking at the rest of 2023 which is likely to be a period of sustained and extended decline all the way to Q4.

The Macro Economy

As a result of the pandemic in 2020 the macro economy experienced a huge decline. People stopped buying altogether and then they went and bought everything. The market cannot absorb such volatile swings in the macro economy. It creates havoc. When the economy gets out of line we need to see a decline into the normal. This is called 'Mean Reversion'.

Looking at the macro economic background, which currently shows a decline in GDP, is vital for our predictions for Agri-Food commodities in 2023. Based on what we've been looking at recently, there may be upward corrections in the macro economy but then prices will most likely go back down in 2023.

Delving further into the macro economy, the Consumer Price Index (CPI) presents another significant challenge. For example, in the EU the CPI is at 9.7% in 2022 and inflation hasn't been this high since 1982. This is an unprecedented level that has resulted in panic across industries. From a consumer perspective, people are paying extra money for electricity, gas, heating, petrol and a whole host of essential goods and services. With all of these extra costs people have less money and will be forced to buy less.

Our macro-economic analysis shows that EU new orders are tumbling because people have less money. Demand is falling which means demand for commodities is falling which in turn means that prices should be falling. The macroeconomy is putting a downward pressure on prices around the world that we expect to last until 2024.

Prices will be pulled down as the macro economy moves towards recession. Even though there are predictions for an upturn in Q4 of 2022, and possibly Q1 of 2023, the power of the macro economic downturn looks set to pull the prices of all commodities down in 2023. As buyers, are you going to buy anything? No, you're going to reduce inventories, meaning a decline in buying. The demand for raw materials will plummet and this decline in demand will cause all prices to go down.

So, while a typical seasonal increase for all commodities is due in Q4 of 2022 this upward trend is going to be swiftly counteracted by the huge decline in the macro economy and the lack of demand. Therefore any increase into Q1 of 2023 is likely to be relatively weak and quite unlike the increase we saw in Spring of 2022.

If you want to learn more about the macro economy you can sign up for our monthly macro economy seminars where we explore all the recent and relevant global insights.

Where are Agri-Food Prices Likely to go in 2023?

We have forecasted a whole host of Agri-Food commodities. Here we're going to focus on a few key commodities in detail such as Wheat and Sugar and then briefly highlight the forecasts for a number of others such as Corn, Rice, Palm Oil and Cotton.

Wheat

Wheat milling Euronext Paris

Milling wheat | origin:any | of sound fair and merchantable quality | Euronext Paris; France | | [futures]

Source Mintec Analytics

Wheat milling no 2 CME Chic US

Wheat | no 2 Soft Red Winter | exchange-approved grades and standards | Chicago Mercantile Exchange (CME); Chicago USA | | [futures]

Source Mintec Analytics

With Wheat we are forecasting an expected peak in Q4 of 2022 before a steep decline that potentially extends down to summer of 2023 and may be interrupted by a temporary peak.

When we look at our regression model, which shows all our fundamentals combined, we see that the price of Wheat remains in a fairly large bubble above our fairband which should put downward pressure on the price. Furthermore, previously when we have seen this sort of bubble back in 2008 and 2013 the price always returns back to the middle of the fairband. We should see something similar happen in Wheat which should take the price back down to something between a low of 221 and a high of 244.

Our seasonality projections for Wheat point towards a small peak in early 2023. There is the possibility that the price will continue to rise until April 2023, which would align with the normal seasonality peak for Wheat. However, with all the different macro factors pointing downwards an increase is not very likely.

When we look at the Wheat Price Speculation graphs for Europe we can see that they are at a very low level, comparable to 2013 and 2016. We often see an increase in the speculators before another decline. Therefore it is possible we could see this happening following the upward trend into late 2022/early 2023.

Inventory levels of Wheat are forecast to decline but will still remain at a high level. There is no immediate shortage of wheat in the global market. As a result there should not be a lot of upward pressure on wheat prices. This favours our projections for a continued long decline.

Looking at the technical analysis, the price of Wheat has broken above the moving average which indicates some sort of increase. This is the reason we have covered late 2022/early 2023 with a partial hedge. However, as the MACD still remains below the dotted signal line in our short term Wheat graphs, we believe the coming upward trend will not last long before a decline. When we look at the RSI (our momentum indicator) Wheat prices are continuing to gain momentum which is fueling an upwards movement that also follows the projected increase in late 2022/early 2023.

In our medium term graph, that provides stronger but slower signals, we see more or less the same. The price is below the moving average pointing to an upwards correction. Yet when we look at the long term projections the price is above the moving average and the MACD is above the signal line which is a bit at odds with the short and medium term projections.

Indeed the long term patterns indicate that prices are in a continued uptrend. Usually a long term uptrend lasts for only 1-2 years. However, this particular uptrend has lasted longer than 2 years which indicates that we may be creeping up on a peak. Moreover, we have seen a bullish divergence being triggered between the price and the RSI which will fuel the price upwards for at least a short while which supports our notion of a late 2022/early 2023 peak before a decline.

Sugar

Sugar #11 ICE NY

Sugar | cane sugar stowed in bulk | free on board from any 28 foreign countries and USA | Intercontinental Exchange (ICE) USA | | [futures]

Source Mintec Analytics

The price of Sugar should soon reach a low before an increase into Q4 of 2022 or potentially Q1 of 2023. The price is likely to continue in a relatively reliable sideways pattern. We need to see a break out of this pattern before a real trend can begin.

From a regression standpoint we can see that prices are in the low area and look set to increase. In the seasonal pattern we can see that the price has a tendency to peak in October, followed by a small decline in December and then a final peak in February. This seasonal behaviour favours a Q1 increase. It also seems like the speculators are backing a increase in the near future before a potential new trend can begin.

The inventory level is forecasted to decline through all of the 2023 season. This will put an upward pressure on the prices until at least Spring of 2023 favouring our forecast of an increase to Q1 of 2023.

When we look at the technical indicators, the price is likely to remain within the bounds of the reliable sideways trend pattern. However, we also predict there will be more upward and downward volatile movement for Sugar prices throughout 2023.

The MACD and RSI levels also indicate that Sugar is in an ambiguous sideways pattern rather than a real significant upward or downward trend. When we look at the long term we see that the price is below the moving average which could indicate that the price has started a new and longer decline. However it could also be a fake signal, an outcome favoured by the RSI level.

Corn

Maize yellow A1 Euronext Paris

Maize (Corn) | French yellow red corn | of sound fair and merchantable quality | Euronext; Paris France | | [futures]

Source Mintec Analytics

For Corn EU we expect to see some sort of decline into early Q4 of 2022 before an increase into Q1 of 2023. We're seeing a lot of sideways movement for Corn, so the price could remain within normal, stable parameters. For Corn US we expect that the price should make a low in Q4 of 2023, similar to the EU, before an increase into Q1 of 2022 followed by a significant decline into Q3.

Palm Oil

Palm oil crude BMD K' Lumpur MY

Palm oil | delivered in bulk; be of merchantable quality | maximum 0.25% moisture and impurities | unbleached | Bursa Malaysia Derivative Exchange (BMD); KL Malaysia | [futures]

Source Mintec Analytics

A low for Palm Oil prices should soon be in place, which will then likely be followed by an increase into Q2 of 2023. If we receive the right signals from our static and dynamic forecasting, we would advise hedging Palm Oil soon to cover most of 2023. Additionally, we see a very similar pattern for Rapeseed Oil.

Rice

Rice white long grain fob VN

White rice; long grain | 10% broken | free on board | Ho Chi Minh; Vietnam | |

Source Mintec Analytics

As with the other grains, we see that a low should soon be in place for Rice. We will then likely have a very substantial increase into 2023. This movement is a bit at odds with the macro economy. However Rice has not seen the same sort of price increase as the other economic commodities. Therefore covering this increase with a longer hedge is likely to be very beneficial.

Soybean oil and Soybeans

Soyabean oil crude CME Chic US

Soyabean oil | crude | exchange-approved grades and standards | Chicago Mercantile Exchange (CME); Chicago USA | | [futures]

Source Mintec Analytics

For Soybean Oil we should soon see a peak in late 2022 followed by a big decline into 2023 and for most of the year. The projections for Soybean Oil closely follow our overall predictions within our Master Plan. In contrast, for Soybeans we've observed that the peak has already occurred and prices have now begun their initial decline to a final low sometime in late 2023.

Sunflower Oil, Cocoa bean and Coffee

Sunflower oil fob NW Eur (MBP)

Crude sunflower oil | of good merchantable quality; 2% basis FFA max 3% FFA | 0.50% max moisture and impurities | quantity 1000-3000MT | free on board; North West Europe; six ports option | Mintec Benchmark Prices (MBP)

Source Mintec Analytics

The price of Sunflower Oil will soon hit a low in Q4 of 2022 which will be followed by an increase into Q2 of 2023. Hedging most of 2023 will likely be very beneficial however we need to get a good signal first before committing. Cocoa has been moving sideways during 2022. We expect that it will make a final peak in Q1 of 2023 followed by a large decline throughout the year.

Coffee arabica should also be making a peak in late Q4 of 2022 before a new substantial decline into Q3 of 2023, again following the masterplan. Coffee robusta should also make a peak in Q4 followed by a steep downward trend. The forecast for Coffee robusta has the potential to change depending on the height of the peak in Q4 of 2022.

Cotton, Orange Juice, Potatoes, and Wood

Cotton #2 ICE NY US

Cotton | basis grade strict low middling | Staple length:1 2/32nd inch | Intercontinental Exchange (ICE) USA | | [futures]

Source Mintec Analytics

Cotton has made a large drop during 2022. As a result we are likely to see a low in Q4 of 2022 followed by an increase into Q1 of 2023 and then another decline into late Q3 of 2023. Hedging in late 2022 will allow you to cover most of 2023 which will be very beneficial. A peak in orange juice prices happened in September in 2022 and there should be a steady decline all the way to Spring of 2023.

Potato prices should peak in Q4 of 2022 until a decline to a new low in early 2023 followed by substantial incline into Autumn of 2023. Wood has reached its 2022 peak and is due to experience a steep decline into Q4 of 2023, which has already begun.

Cattle steer, Butter and Chicken

Cattle steer ddwt R3 mp EU

Steers | R3 deadweight | market price | Europe | |

Source Mintec Analytics

Cattle EU peaked in Q3 of 2022. We are due a new low soon in Q4 of 2022 and then, sadly for the buyers, we will see another increase in Autumn of 2023. For Cattle US we have also already seen the peak which will be followed by a decline into Q4 of 2022 and potentially Q1 of 2023 before another increase into the rest of 2023.

European Butter has moved more or less sideways since April, but we continue to expect some larger decline in Butter price. Currently the price of European Butter is at a level that is too high compared to the rest of the world. For American butter we predict that we've already seen the highest peak this year and that there will be a decline into Q4 before another increase into Q1 of 2023.

Similarly, for European Chicken, we expect that a peak has already occurred after a quite large increase throughout 2022. Now we are forecasting a decline for European Chicken into late Spring or early Summer of 2023. For US Chicken, we expect to see a bit of up and down action before a correction to a final low in Q1 of 2023 followed by an increase into late 2023.

Cod, SMP, Whole Milk and Salmon

Cod fzn 1-2.5kg del NO

Cod | frozen | gutted; headless | 1-2.5kg | delivered | Norway

Source Mintec Analytics

Cod prices are forecast to experience a final upwards push upwards into Q4 of 2022 before a decline into 2023. The pattern, as with many of the other Agri-Food commodities, looks set to follow our master plan. As far as we can tell, the price for Cod in 2023 will be on a prolonged downward trend, all the way to Q4. For SMP (Skim Milk Powder) we expect to see a short upward correction in Q4 of 2022 and then a final downward movement to a low in Q1 of 2023.

The projections for Whole Milk Powder are an increase into late 2022 and then a decline to either Q1 of 2023 or potentially down into Q3 2023. We have tried to cover this increase with a hedge now to reduce any upside potential. For Salmon we should see an up, down, up correction into Q1 of 2023 before a final push down to late 2023.

Hedging Template

So what should you do when it comes to hedging? There are three sorts of steps you can take to ensure that you are hedging properly:

Step 1: Firstly, when there is a break above the moving average you can make a full hedge of Q4. Then in Q1 you can make a partial hedge with some of your volume or, if you don't want to hedge at all, you can make a plan.

Step 2: Secondly, if there is also a break above the MACD, you can still fully hedge Q4 as above, but then we would advise you to fully hedge Q1 (No plan, no partial). Then for Q2 you will probably also need to partially hedge. Or you could plan

Step 3: Thirdly, if you are paying attention to fundamentals and your company's "risk aversion", you may want to fully hedge Q2. While we realise that this is a more risky strategy but if there are several fundamentals pointing towards this scenario then a fully hedged Q2 might be worth it.

Don't put all your chips on red or black. Go through the steps, do it in sequence. That is the best way to approach hedging. Then when we get the signals you can rely on us to notify you of changes in the forecasts and how you should hedge Q1 all the way to Q4 of 2023.

Summary

To summarise our expectations for 2023, we expect the overall trend for Agri-Food commodities to peak in Q4 of 2022/Q1 of 2023 before a steep decline that potentially extends down to summer and even Q4 of 2023. We don't expect Agri-Food commodity prices to remain high throughout 2023.

The challenge for buyers will be to minimise costs in order to maximise profits and adapt to movements of Agri-Food prices. Obviously, with volatile markets and socio-economic unpredictability, this challenge has become increasingly difficult. Ultimately we believe that the solution will be to align and coordinate your action by following reliable forecasts and hedging advice based on proven methodologies with demonstrable results.

By relying on the insights and forecasts we've gathered at Mintec you'll be able to reduce exposure to price risk and price increases and optimise supplier costs. All in all this should help you produce more predictable results and increased margins throughout 2023.

Strengthen your buying strategy and control exposure to price risk

The Mintec Commodity Price Forecast Service delivers future price predictions and hedging recommendations by identifying key turning points and commodity trends.

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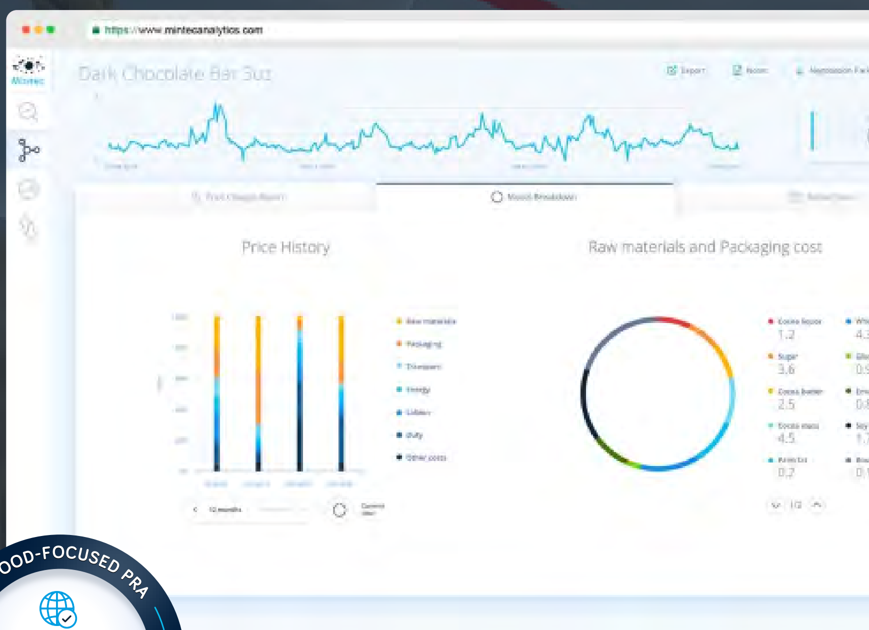

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sales@mintecglobal.com | UK +44 1628 642498 | USA +1 972 897 74949 | www.mintecglobal.com