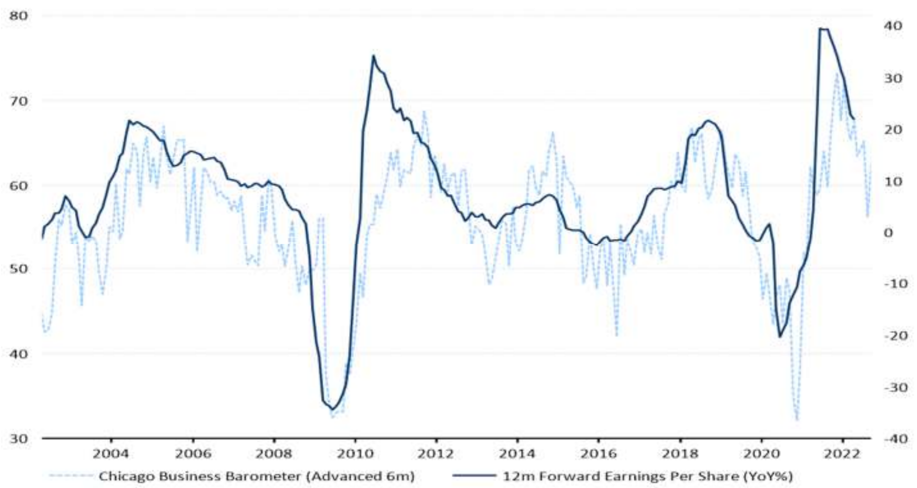
April 2022
Issue No. 23

GLOBAL INSIGHT

Overview

- In our Macro View, the devastating conflict in Ukraine has materially increased the probability of inflation proving more persistent, more pervasive and more pernicious than many households are either willing or able to bear.
- We enter the coming quarter(s) with a cautious optimism. Our positive outlook may well have been impaired by recent events but it has certainly not been extinguished.
- In our Investment Outlook, we assess activity in the first quarter and the position that financial markets find themselves.
- The hawkish change in central bank rhetoric at the turn of the year greatly increased financial market volatility before the start of the Russia-Ukraine conflict that exacerbated the European energy crisis and created a significant contraction in commodity supply.
- Latin America which is a major exporter of energy and grain has rallied strongly over the year with MSCI LATAM up 26.12% in USD terms
- In our feature piece, Aneeka Gupta, Director, Macroeconomic Research, at WisdomTree looks at the effects of the Russia-Ukraine conflict on agricultural commodities.
- A UN gauge of global food costs rose to its highest level since 1990.
- Russia and Ukraine are known to be the breadbasket of the European region. Together they account for 28.5% of supply in global wheat markets.

US Growth vs Earnings



Inside this issue

Economic Highlights

- US Unemployment currently 3.6%.
- Corporate earnings will fall within the range of 4-7%.
- 10yr Gilt yield also moved aggressively from 0.97% to finish at 1.60%.
- The Atlanta Federal Reserve produce a helpful real-time estimate of economic growth which remains consistent with lower, albeit still positive, growth of c.1%.
- The 10-year rate hit 2.50%, its highest level since May 2019.

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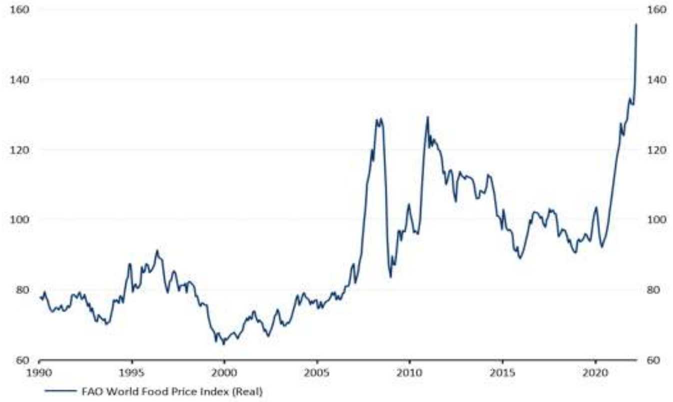
Based upon information available up to and including
14th April 2022

Key Issues in Charts

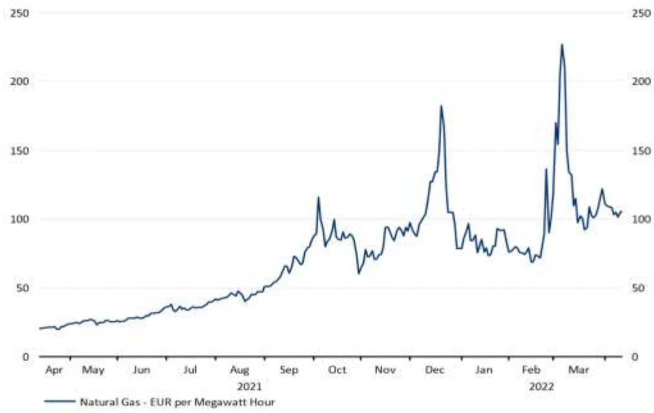
World Food Price Index



- This chart shows that the price of food has increased significantly since the conflict began.
- A United Nations gauge of global food costs rose to its highest level since 1990, illustrating the situation of strong demand amidst tighter inventories for key commodities.
- Signs that food inflation is increasing are unsurprising when supply chains are so disrupted.
- This is further exacerbated by the shortage of fertilisers affecting the ability of other regions to increase yield.

EU Natural Gas Price over the last 12 months

- The Russia—Ukraine conflict has seen the price of EU gas rise 55% year-to-date.
- Recent piece talks have eased the pressure on energy prices even though little progress has been made.
- Low inventories prior to the conflict had already put a strain on supply but the transitory nature of the price spike has now been called into question.
- Energy security is likely to be an important development not just in Europe but globally over coming years.



US Treasury Yield Curve since the start of the Pandemic

- This chart shows the different US yield curves and the signals that they may be showing.
- Work undertaken by Federal Reserve economists found that most of the forecasting value is concentrated in the very short end of the yield curve.
- Recession may not be quite as near on the horizon as many commentators are suggesting with respect to prior curve inversions.
- History suggests that the US Treasury yield curve remains the most accurate predictor of recessions.
- Time will tell if central banks can engineer a soft landing, in other words, considerably reduce inflation without causing a recession.

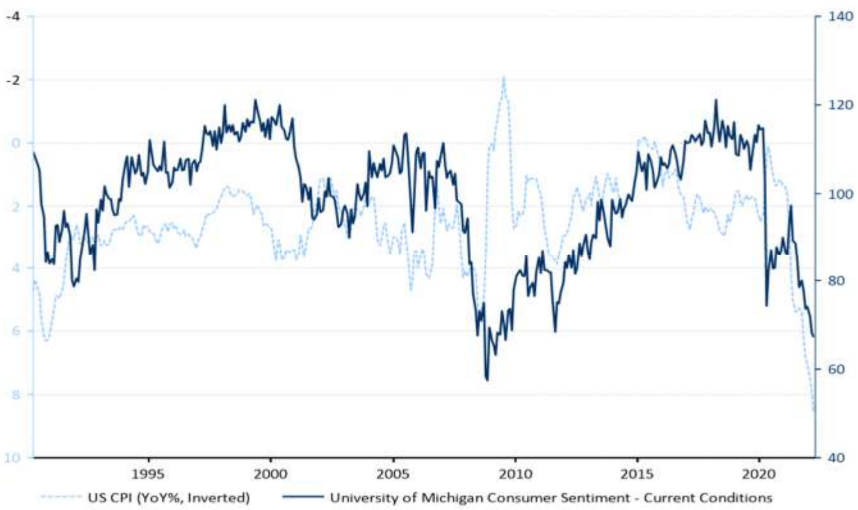
Cloudy With a Chance of Rain

Having entered 2022 with a very positive view on global economic growth, most specifically within the United States, we currently find ourselves having to look much further and much wider for signs of renewed optimism.

Our belief is that the devastating conflict in Ukraine has materially increased the probability of inflation proving more persistent, more pervasive and more pernicious than many households (i.e. consumers) are either willing or able to bear. This despite labour markets which remain incredibly tight, rapid growth in wages at the lower end of the income distribution and a seemingly unstoppable housing market.

Many of our favoured macro indicators, when considered alongside equity market internals, point to a clear deceleration in the overall pace of economic growth over the next 2-3 quarters. With headline price inflation continuing to realise at levels last witnessed more than four decades ago and mortgage rates having increased at an unprecedented pace it is perhaps no surprise to see signs of these issues having dampened consumer sentiment. US inflation data covering the month of March came in at 8.5% year-over-year and, in our view, the longer inflation persists at these sorts of levels the higher the probability of a more serious economic consequence.

Annual US Inflation vs Consumer Sentiment



Source: *Hottinger Investment Management & Refinitiv Datastream*

The cupboards are not bare...

The realities of higher energy prices, higher food prices and higher financing prices create significant uncertainty in household finances and drive observable changes in consumer behaviour over time. These changes are happening over a period in which businesses have generally been increasing their orders of finished goods owing to fears around continued disruption to supply. As a result, inventories (as measured by manufacturing survey data) have been accumulating since mid-2021. Inventory build-up has, at least historically, been a reliable indicator of declines in broad manufacturing activity over the months

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ahead. There are clearly significant differences between past episodes and today given the unique impact of the pandemic, which lead us to treat this data with additional caution. The message, however, does look to be fairly clear.

The Accumulation of Inventory Typically Implies Lower Future Output

Source: *Hottinger Investment Management & Refinitiv Datastream*

Another reason for our optimism around economic growth coming into this year stemmed from the incredible strength in employment data, where the total number of jobs created continued to surprise positively alongside the emergence of an astonishingly low rate of unemployment.

Peak employment?

Another reason for our optimism around economic growth coming into this year stemmed from the incredible strength in employment data, where the total number of jobs created continued to surprise positively alongside the emergence of an astonishingly low rate of unemployment (currently just 3.6% in the US, having reached 14.8% in the wake of the initial pandemic shutdown in 2020). Even here we are beginning to see signs of softening. Same store retail sales have a logical and intuitive correlation with broad levels of unemployment, and we are currently witnessing an observable slow-down in annualised growth rates which we believe could lessen the previously insatiable demand for workers.

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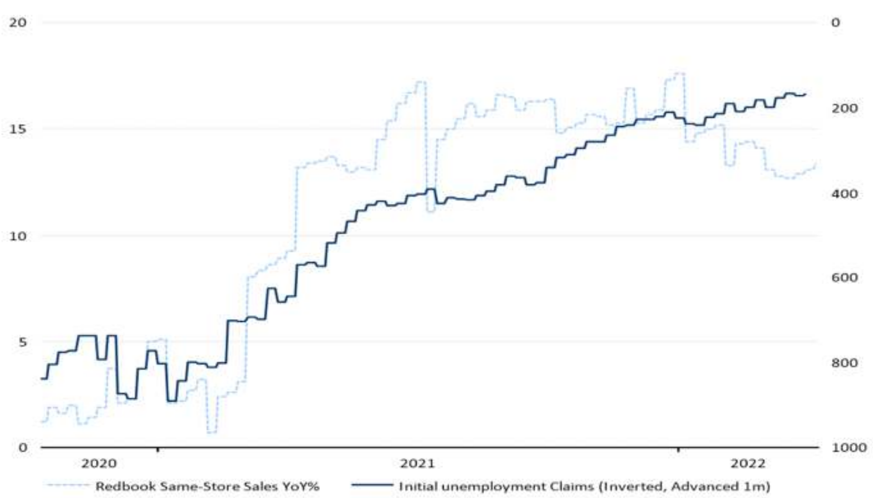
Same-store Retail Sales Diverging from Abroad Employment Trends



Source: *Hottinger Investment Management & Refinitiv Datastream*

The R Word

Having focused on fundamental macroeconomic data we then try to combine these analyses with market-implied expectations around inflation, interest rates and expected growth in order to corroborate, or indeed falsify, our initial findings. One of the most reliable ways of doing so has been attempting to discern the specific message being conveyed by global bond markets.

Having focused on fundamental macroeconomic data one of the most reliable ways has been attempting to discern the specific message being conveyed by global bond markets.

Anyone who works in the world of finance (and indeed many who don't) will, during recent weeks, have been inundated with countless articles highlighting the 'inversion' of the yield curve, citing its impressive and rather useful history of having accurately predicted *every* historical occurrence of recession in the United States some 12-18 months in advance. The curve most often referred to is colloquially known as the '2s10s Spread' as it describes the difference between the yield available on 2yr Treasury Bonds and that available on 10yr Treasury Bonds.

When the annual return you can obtain by lending your hard-earned savings to the government for a full decade is lower than that which you can earn for lending to them over a much shorter period (2 years in this case), consider this the bond market telling you that something, somewhere, is amiss.

The 'inversion' of the yield curve is the bond market telling you that something, somewhere, is amiss.

While we generally agree that the 2s10s curve is, and has been, a useful indicator of recession we are also of the opinion that this most recent inversion is being slightly misinterpreted by market participants. Work undertaken by Federal Reserve economists[i] back in 2018 looked closely at the forecasting ability of a wide variety of yield curve metrics and found that, by and large, most of the forecasting value is concentrated in the very short end of the yield curve (<2yrs). This also makes intuitive sense to us in that it suggests that the expected path of policy rates over the next 18-24 months is far better at detecting any emerging weakness in the wider economy.

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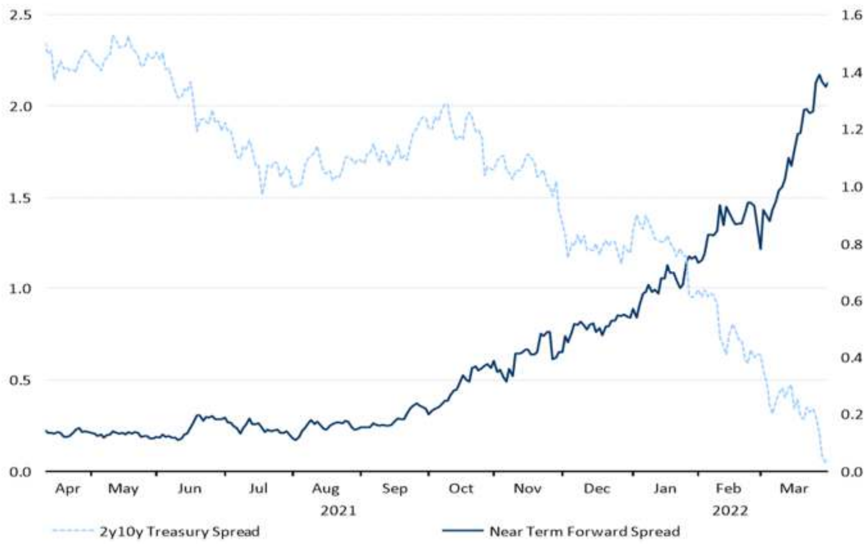
Near-Term Forward Yield Spread & 2y10y Treasury Spread



Source: *Hottinger Investment Management & Refinitiv Datastream*

We believe a better indicator of coming recession is that of the 'Near-Term Forward Yield Spread'.

With this in mind we believe a better indicator of coming recession is that of the 'Near-Term Forward Yield Spread' which is most easily thought of as the difference between the level of interest rates today and the level of interest rates that are expected to prevail 18 months from today. You will note below that this particular spread is still a long way from inversion (indeed it is quite the opposite.

Recession may not be quite as near on the horizon as many commentators are suggesting with respect to prior curve inversions.

In one respect a recession is, *and always will be,* on its way, however our point is simply to say that it may not be quite as near on the horizon as many commentators are suggesting with respect to prior curve inversions. The significant momentum that has accumulated within the US economy (particularly in employment & housing), the ongoing presence of sharply negative real interest rates, a nascent reopening in the wake of Covid and still *highly* favourable financing conditions for US corporates are factors that lead us to conclude the date of the next recession may well be further away than many anticipate.

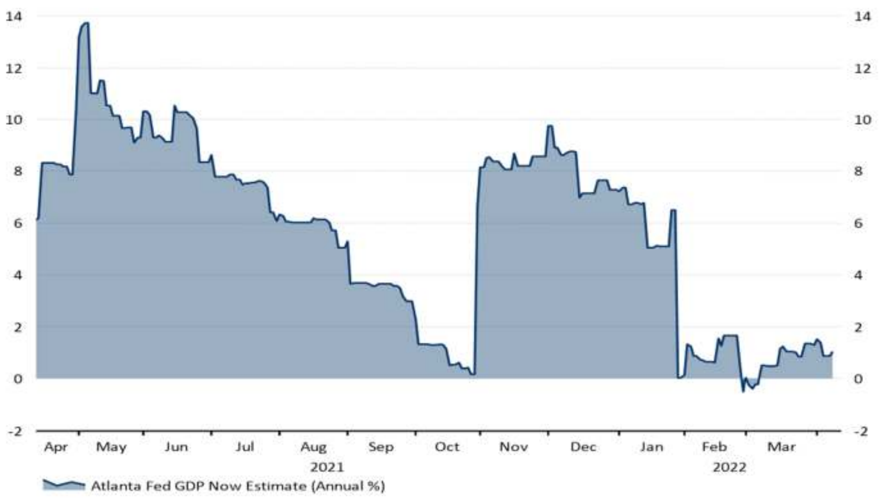
Slowing, Not Contracting

History shows us that with recession comes the increased likelihood of more severe equity market declines.

History shows us that with recession comes the increased likelihood of more severe equity market declines (an experience most investors would wish to avoid wherever possible). It is for this reason we believe it well worth distinguishing between slowing economic growth and outright contraction. The former, we believe, is arguably a healthy situation in the context of the double-digit GDP growth rates witnessed throughout most of 2021. Attractive portfolio returns can still be generated in an environment where growth is slowing, however we would argue that this becomes a far more difficult goal to achieve in an environment where aggregate output is shrinking. The Atlanta Federal Reserve produce a helpful real-time estimate of economic growth which remains consistent with lower, albeit still positive, growth of c.1%.

Attractive portfolio returns can still be generated in an environment where growth is slowing.

Growth Still Positive



Source: *Hottinger Investment Management & Refinitiv Datastream*

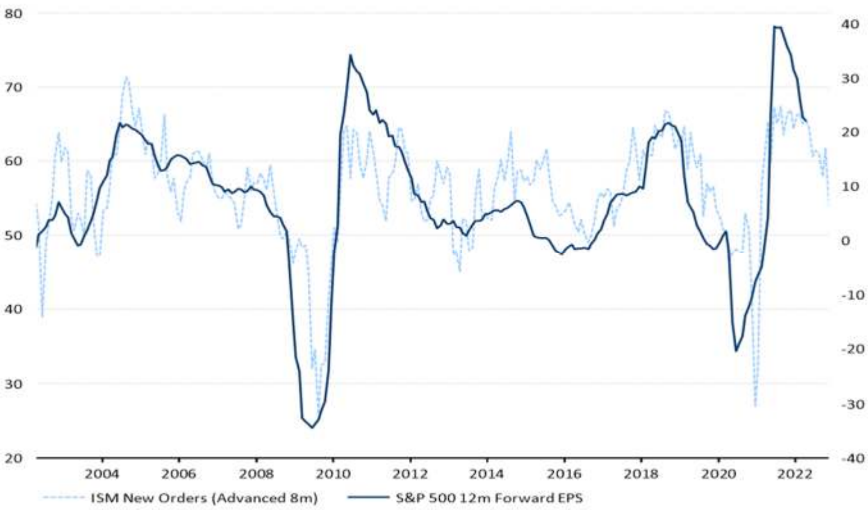
The New Orders component of the ISM survey points to a broad reduction in earnings growth.

What Does This Mean for Earnings?

Here we again turn to the timeliness of manufacturing sector data output to guide us with respect to the future direction and level of corporate earnings. The New Orders component of the ISM survey[ii] points to a broad reduction in earnings growth at the index level and, at least to us, suggests a rotation toward more defensive and higher quality equity exposures moving forward. It is important to note, however, that earnings are still likely to grow at a positive rate (albeit lower than investors have recently experienced) which we believe will fall within the range of 4-7% YoY, a level which is marginally below consensus analyst expectations of c.9.9%[iii].

earnings are still likely to grow at a positive rate albeit lower than investors have recently experienced.

Broad Index Earnings Look Set to Decelerate into Year-End



Source: *Hottinger Investment Management & Refinitiv Datastream*

All told we enter the coming quarter(s) with a cautious optimism. Our positive outlook may well have been impaired by recent events but it has certainly not been extinguished. We continue to find individual investment opportunities where recent events have facilitated a material de-rating in valuation alongside a broad improvement in operating outlook.

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[i] The Near-Term Forward Yield Spread as a Leading Indicator: A Less Distorted Mirror, Engstrom & Sharpe, (Divisions of Research, Statistics & Monetary Affairs, US Federal Reserve Board), 2018.

[ii] https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/march/

[iii] S&P 500 Analysts Consensus Revenues, Earnings & Margins, April 2022, Yardeni Research Inc.

Investment Outlook

At the turn of the year, we were warning that the risk of a central bank policy misstep had risen as the US Federal Reserve and the Bank of England in particular, were fearing that inflation was getting away from them.

At the turn of the year, we were warning that the risk of a central bank policy misstep had risen as the US Federal Reserve and the Bank of England in particular, were fearing that inflation was getting away from them. This has been further exacerbated by the Russia-Ukraine conflict which apart from the appalling humanitarian crisis has created a further supply shock in commodity markets. Therefore, as we close out the first quarter of the year, the two shocks that dominate financial markets are the sharp hawkish turn by the Federal Reserve in response to inflation pressures, and the responses to the Russian invasion. Both events have the capacity to increase the risk of global recession and threaten the hopes for earnings growth that are currently still strong. Higher input prices, supply chain disruptions, spiking commodity prices, and higher interest rates, all make it more difficult for companies to meet investors' expectations.

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First quarter earnings season will start in mid-April and surprisingly earnings estimates for full year 2022 for the S&P500 have actually risen since January 1st which we believe is unusual. Furthermore, European earnings estimates more closely associated with the war have also risen similarly to levels seen in 2021[i]. Following the strong recovery of earnings in 2021, earnings were always likely to slow but it is unlikely that we will enter recession while earnings are still growing. Although, guidance for the first quarter have come lower, many investors including us, will be focusing on companies future guidance to try to establish whether the optimism surrounding full year earnings is justified. Absolute Strategy Research see global EPS growth between 0-5% but they are at the lower end of the IBES consensus of 9%[ii]. We see that the pandemic tailwinds supporting earnings surprises and margins in 2021 are largely behind markets now leaving the risks to earnings growth to the downside in our opinion. While wages and other input prices are rising, inflation will probably dominate guidance, and the ability of firms to pass on costs will impact margins thereby determining how robust their earnings in the face of persistently high inflation. So, we would look to favour quality stocks that span all sectors rather than focusing on growth vs. value.

Absolute Strategy Research see global EPS growth between 0-5% but they are at the lower end of the IBES consensus of 9%.

Yield Curve Inversion

An inverted yield curve, when short-dated bonds yield more than long-dated bonds, could be a sign that a recession is coming.

When bond yields go up there is an inverse relationship on the price which will go down. An inverted yield curve, when short-dated bonds yield more than long -dated bonds, could be a sign that a recession is coming. Historically, an inversion of the US yield curve tends to be the best market-based predictor to potential recession in 8-12 months' time, although the 3months-10yr has been a more reliable indicator than 2yr-10yr curve and the former is still very steep[iii]. Central Banks look to combat inflation by raising interest rates. Despite the pricing in of aggressive rate hikes by the Fed, longer yields seem to be reflecting the possibility of a Fed misstep leading to a fall in growth, rather than a recession, particularly once quantitative tightening starts in May. Some would argue that Central Bank intervention since the global financial crisis has blunted the signalling skills of the bond markets, academic research originally published by Fed staff (Engstrom & Sharpe) in 2018[iv] highlights the idea that when market participants expect – and price in – an easing of monetary policy over the next 18 months their fears have, often, been validated. Current prices reflect a very steep rate path over the coming 2 years. We believe history suggests that the US Treasury yield curve remains the most accurate predictor of recessions. During March, the US Treasury yield curve has flattened considerably with the yield differential between two-year and ten-year benchmarks having reduced to 0.02%, while the five-year to ten-year part of the curve has inverted 0.11% as at month end. The speculation continues and time will tell if central banks can engineer a soft landing, in other words, considerably reduce inflation without causing a recession.

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Inflationary Fears

In the US, the 10-year U.S. Treasury yield hit a fresh two-year high Friday 25th March as investors anticipated a more aggressive Federal Reserve tightening cycle. The 10-year rate hit 2.50%, its highest level since May 2019. "If we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so," Powell said in a speech to the National Association for Business Economics. The increase in Interest Rates comes as Powell has said "inflation is much too high"[v]. As we have previously seen from January this year, there could be as much as seven interest rate hikes this year by the Fed.

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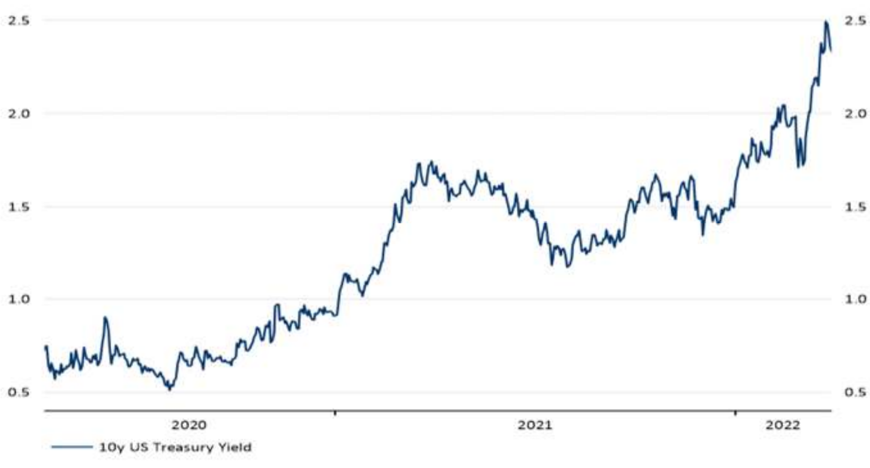
10YR US Treasury Yield



Source: *Hottinger Investment Management & Refinitiv Datastream*

The 10-year rate hit 2.50%, its highest level since May 2019.

This rising trend in eurozone bond yields reflects the growing investor uncertainty over the future trajectory in ECB policy rates[vi]. Price pressures intensified substantially within the Eurozone in March, headline inflation hit 7.6% in Germany and 9.8% in Spain, both statistics were well above expectations, and both at 40-year highs. Pressure on policymakers to act will rise as the market prices in almost three quarter-point hikes from the ECB by the end of the year.

Price pressures intensified substantially within the Eurozone in March, headline inflation hit 7.6% in Germany and 9.8% in Spain.

Over the course of the quarter the 10yr Gilt yield also moved aggressively from 0.97% to finish at 1.60% while the 3months-10yr yield curve remains traditionally shaped at +1.18%.

The story of inflation within the eurozone is mainly being led by the increase in energy prices and supply disruptions[vii].

After a first hike in December, the Bank of England moved twice more during the first quarter bringing policy rates to 0.75%. The press release from the March meeting highlighted geopolitical risks as accentuating its expectations for weak growth and high inflation adding that monetary policy will be used to anchor longer-term inflation trends. Over the course of the quarter the 10yr Gilt yield also moved aggressively from 0.97% to finish at 1.60% while the 3months-10yr yield curve remains traditionally shaped at +1.18%.

The hawkish change in central bank rhetoric at the turn of the year greatly increased financial market volatility before the start of the Russia-Ukraine conflict that exacerbated the European energy crisis and created a significant contraction in commodity supply.

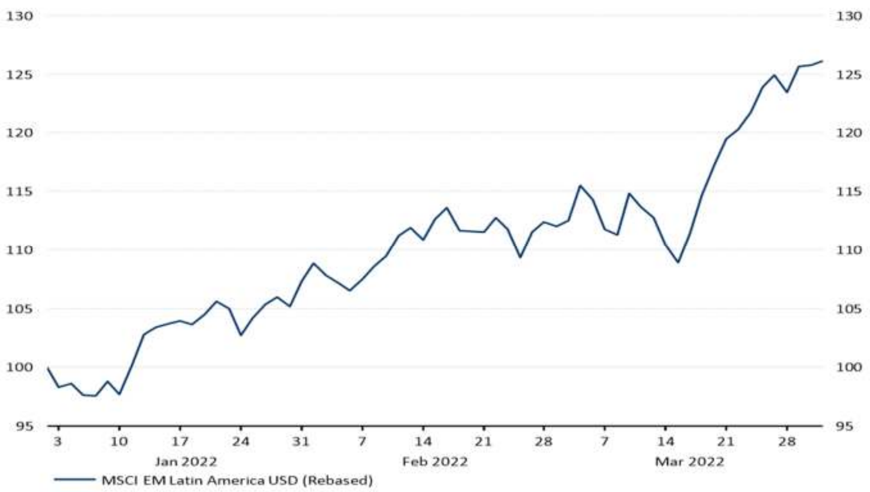
Cross Asset Round-up

The hawkish change in central bank rhetoric at the turn of the year greatly increased financial market volatility before the start of the Russia-Ukraine conflict that exacerbated the European energy crisis and created a significant contraction in commodity supply. Equity markets were pulled from their downward path in early March by the commencement of truce talks between Russia and Ukraine even though no breakthrough has been forthcoming but remain negative year-to-date. Global equity markets represented by the MSCI World Index are down 5.81% over the quarter with developed equities generally outperforming emerging markets. The S&P500 fell 4.95% while the defensive nature of the FTSE 100 added to the cheap value of UK assets since BREXIT rose 1.78%; the FTSE All-share fell 0.48% over the quarter. In Europe, we see that output has suffered in countries with a greater supply exposure to Russia, with Germany seeing the largest declines. This has also been reflected in stock markets with the Dutch AEX down 9.31%; the German GDAX down 9.28%; and the Italian MIB Index down 8.53%; while the French CAC40 was only down 6.74% over the course of the quarter.

Latin America which is a major exporter of energy and grain has rallied strongly over the year with MSCI LATAM up 26.12% in USD terms.

Emerging markets have been split between commodity exporters and importers although overall the strength of the dollar has hindered growth.

MSCI LATAM Year-to-Date



Source: *Hottinger Investment Management & Refinitiv Datastream*

Latin America which is a major exporter of energy and grain has rallied strongly over the year with MSCI LATAM up 26.12% in USD terms while MSCI Asia Pacific ex Japan which is led by China but also includes commodity exporters such as Australia, fell 6.11% over the quarter in USD terms.

In Japan, the Yen generally considered to be a safe haven in times when geopolitical and financial tensions are raised, has weakened against a strengthening dollar by around 6.5% due to its position as a significant energy importer. The Nikkei 225 has been equally disappointing having fallen 5.58% over the course of the year

The Yen generally considered to be a safe haven in times when geopolitical and financial tensions are raised, has weakened against a strengthening dollar.

Commodity prices have continued to rally this year amongst the growing uncertainty with the Russia-Ukraine Crisis and the resulting disruptions to supply. Russia and Ukraine are two of the world's largest suppliers of wheat/grain (we believe around 30%); the region is also a major contributor to industrial metal supply; and Ukraine is the major global supplier of neon gas used in the semi-conductor industry[viii]. The WisdomTree Enhanced Commodity ETF has rallied 22.88% during the quarter underlining the supply side pressures, and the inflation protection offered by commodities to investors. The tussle between negative real yields and a strong dollar had left gold without its usual safe-haven credentials in the face of rising inflation. However, the yellow metals fortunes turned around in March leaving the price 6.99% higher over quarter. Listed real estate and infrastructure are also relatively defensive investments with attractive dividend returns although there has been a clear outperformance this year by infrastructure potentially due to the emphasis on renewables and sustainable energy projects.

Russia and Ukraine are two of the world's largest suppliers of wheat/grain (we believe around 30%); the region is also a major contributor to industrial metal supply; and Ukraine is the major global supplier of neon gas used in the semi-conductor industry.

The outcome of the war in still uncertain so we would expect the price of commodities to be underpinned exerting further pressure of global growth. Central banks have targeted inflation over preserving growth and the chances of them executing a soft landing amongst such volatility will be challenging. We are happy to have raised cash in portfolios giving us some dry powder to put to work in selective US equities or potentially timing the belly of the government bond market as it continues to see rising yields. The level of optimism that still exists within equity markets may be misplaced, but it may also be a sign that the alternatives to equity investment remain unattractive when real yields remain in deep negative territory.

The level of optimism that still exists within equity markets may be misplaced, but it may also be a sign that the alternatives to equity investment remain unattractive.

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[i] Bloomberg Opinion - Points of Return – John Authers, April 8, 2022

[ii] Absolute Strategy Research_Investment Committee Briefing_April 1, 2022

[iii] Bloomberg Opinion_Points of Return_John Authers_March 29, 2022

[iv] https://www.tandfonline.com/doi/abs/10.1080/0015198X.2019.1625617

[v] https://www.cnbc.com/2022/03/25/us-bonds-treasury-yields-flat-friday.html

[vi] Absolute Strategy Research – EUR bond yields' shifting drivers – March 30, 2022

[vii] Absolute Strategy Research—Eurozone inflation surge continues—March 31, 2022

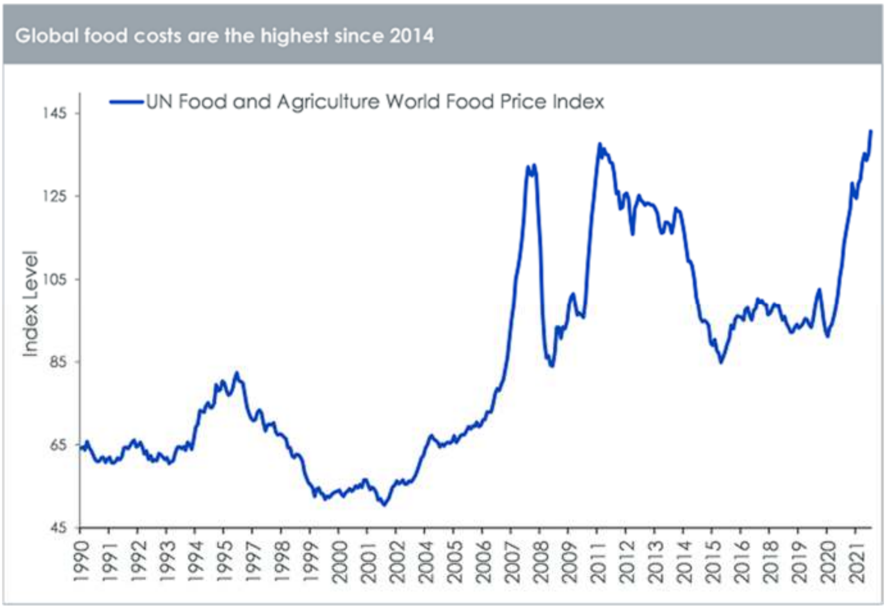
[viii] https://www.reuters.com/technology/exclusive-ukraine-halts-half-worlds-neon-output-chips-clouding-outlook-2022-03-11/

Russia’s War in Ukraine Roils Supply Tightness Across Key Agricultural Commodities

By Aneeka Gupta,** Director, Macroeconomic Research, at **WisdomTree
23 March 2022

A UN gauge of global food costs rose to its highest level since 1990.

The Russian invasion of Ukraine has triggered a price response across grains, oilseeds and fertilisers owing to supply disruptions. The upward trend of rising food prices was firmly in motion before we started the year owing to the COVID-induced pandemic, stockpiling by national governments and adverse weather conditions. However, it has been exacerbated by Russia’s economic isolation and the closure of Black Sea ports used to ship goods. A United Nations (UN) gauge of global food costs rose to its highest level since 1990, illustrating the situation of strong demand amidst tighter inventories for key commodities.



Source: *WisdomTree as of 28 February 2022*

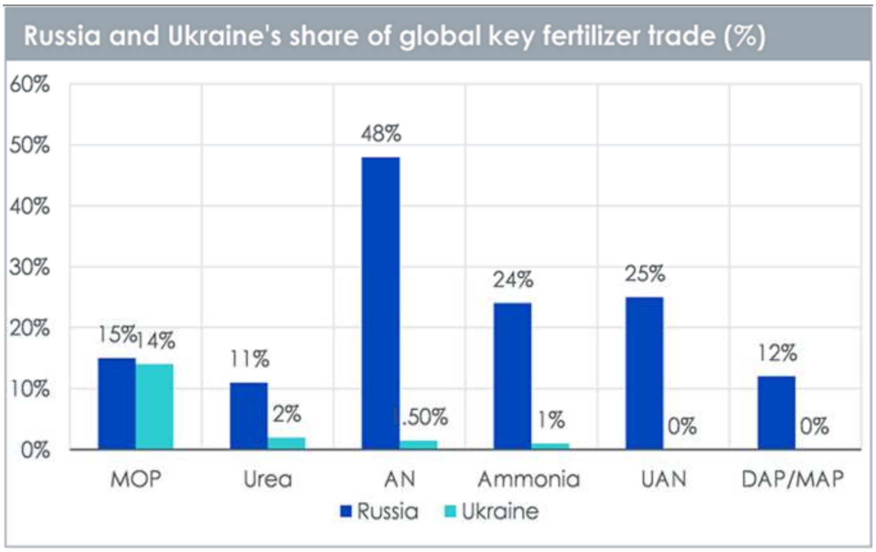
Strong demand amidst tighter inventories exists for key commodities.

Historical performance is not an indication of future performance and any investments may go down in value.

Russia and Ukraine account for a significant share of the global fertiliser trade. The war and related sanctions have constrained nitrogen, phosphate and potash exports.

High fertiliser prices could impact global agriculture production

Russia and Ukraine account for a significant share of the global fertiliser trade. The sanctions on Russia alongside the war in Ukraine have constrained nitrogen, phosphate, and potash exports. The rally of natural gas prices had a material impact on fertiliser prices prior to the invasion. As the energy price rally continues to rally on, we expect the uptrend in fertiliser prices to continue which could result in reduction of farmers usage which could place global agricultural yields at risk, causing further supply pressure. Owing to its high soil quality, Argentina tends to use less fertilisers, but Brazil (the world’s largest importer of fertilisers) of which 85% of its needs are imported, is likely to feel the impact more. Russia alone accounts for 25% of Brazil’s total fertiliser imports. Historically grain prices have followed the rally of fertilisers after supply disruptions.



Source: *CRU, WisdomTree as of 31 January 2022*

Owing to its high soil quality, Argentina tends to use less fertilisers, but Brazil (the world's largest importer of fertilisers) of which 85% of its needs are imported, is likely to feel the impact more.

Please note: **MOP** also known as potassium chloride; **AN**– Ammonium nitrate; **UAN** is a solution of urea and ammonium nitrate in water; **MAP** and **DAP** fertilizer are types of ammonium fertilizers. These fertilizers are widely used for agricultural purposes as sources of nitrogen and phosphorus.

Grains landscape appear most exposed to the war in Ukraine

Wheat has witnessed the sharpest price increase across agricultural commodities over the past month driven by the Russia-Ukraine war. Russia and Ukraine are known to be the breadbasket of the European region. Together they account for 28.5% of supply in global wheat markets. The unwillingness of buyers to purchase Black Sea offers has already translated to soaring regional freight and insurance costs as physical tenders become riskier due to sanctions risk.

Russia and Ukraine are known to be the breadbasket of the European region. Together they account for 28.5% of supply in global wheat markets.

Russia has announced that it would be suspending exports of wheat, barley, corn, and rye until the end of the crop year on 30 June to countries in the Eurasian Economic Union. In the current crop year, Russian wheat exports are 45% down versus the prior year owing to a lower crop, export taxes and an export quota that has been in place since mid-February. Deliveries from Ukraine have also largely ceased for the time being as its export terminals have been closed since the start of the war.

According to the latest monthly estimates by the United States Department of Agriculture (USDA), global wheat stocks have been estimated to rise from 278 million tons (mt) to 281.5mt owing to a bigger wheat crop in Australia[1]. USDA also lowered its forecast for wheat exports from Ukraine and Russia in the current crop year by a total of 7mt. The downward revision is likely to impact prices in the coming months.

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We expect higher demand from the EU and the US to continue to lend a tailwind to wheat prices. The rising probability of rain in the US wheat-growing areas alongside Argentina's decision to increase the export quota for wheat in

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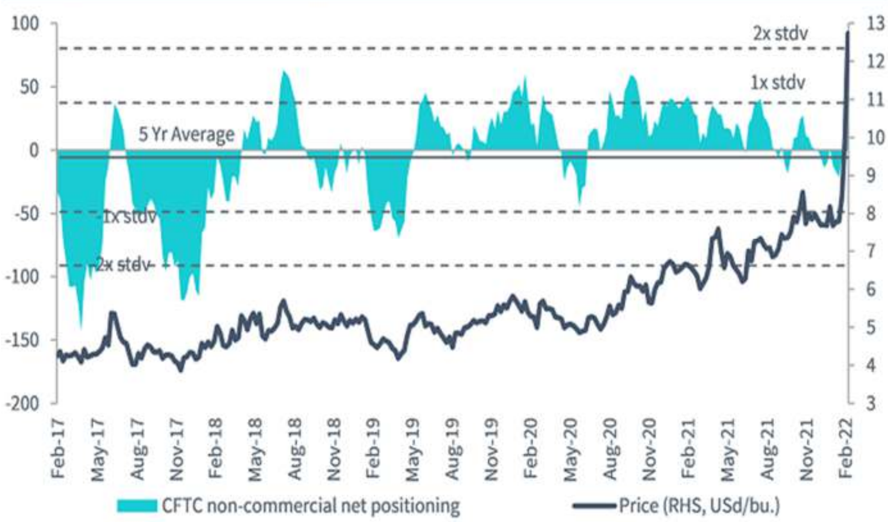
the 2022/23 season by 8mt to 10mt has weighed on wheat prices over the past week. However, it is unlikely to alleviate the short term tightening of supply caused by the outage of wheat deliveries from Russia and Ukraine, as it will be months before the 2022/23 crop becomes available in Argentina.

Net speculative positioning in wheat turned to net long (+23,026 contracts) from net short (-17,003 contracts) in a span of a month underscoring a sharp improvement in investor sentiment in wheat emanating from the supply disruptions caused by war in Ukraine[2].

The short term tightening of supply caused by the outage of wheat deliveries from Russia and Ukraine is unlikely to be alleviated, as it will be months before the 2022/23 crop becomes available in Argentina.

Net speculative postioning in wheat futures (2017-2022)



Source: *Commodity Futures Trading Commission (CFTC), WisdomTree as at of 8 March 2022*

STDV – Standard deviation - The standard deviation is a statistic that measures the dispersion of a dataset relative to its mean. Usd/bu = US Dollars per Bushel.

Historical performance is not an indication of future performance and any investments may go down in value.

Ukraine represents about 15% of global corn exports and 10% of wheat exports. And so, what happens in Ukraine matters for corn supply as well.

Ukraine represents about 15% of global corn exports and 10% of wheat exports. And so, what happens in Ukraine matters for corn supply as well. In its latest monthly report, the USDA revised down the global corn inventory estimates for 2021/22. In addition, global corn export estimates were revised down by 3.8mt owing to downward revisions in Ukrainian exports. Deteriorating corn conditions in Argentina and potential export taxes on the crop coming out of the country continue to buoy the global corn market.

Global edible oils market tightens on disruption in Black Sea exports

The uncertainty surrounding the Black Sea sunflower oil shipments is lending a tailwind to soybean oil. The Black Sea accounts for 60% of world sunflower oil output and 76% of exports, so the uncertainty over the ongoing war is prompting buyers to seek alternative oils. Seeking alternative vegetable oils poses a challenge in a market that has been facing tight supplies even prior to the war in Ukraine. Palm oil, the most produced edible oil has been in short supply owing to restricted exports by the top producer Indonesia. At the same time, soybean oil, the second most produced edible oil is also being impacted by restricted exports from South America owing to the ongoing drought conditions. The latest monthly report by USDA reflected a tighter supply situation in the global soybean market, with inventory estimates revised lower from 92.8mt to 90mt owing to poor crops in South America.

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[1] United States Department of Agriculture, World Agriculture Supply Demand Estimates (WASDE Report) March 2022

[2] Commodity Futures Trading Commission (CFTC) as of 11 March 2022

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