

Food Inflation, the Fed & Recession: What is the latest in the market?

DIGITAL ENGAGEMENT TEAM

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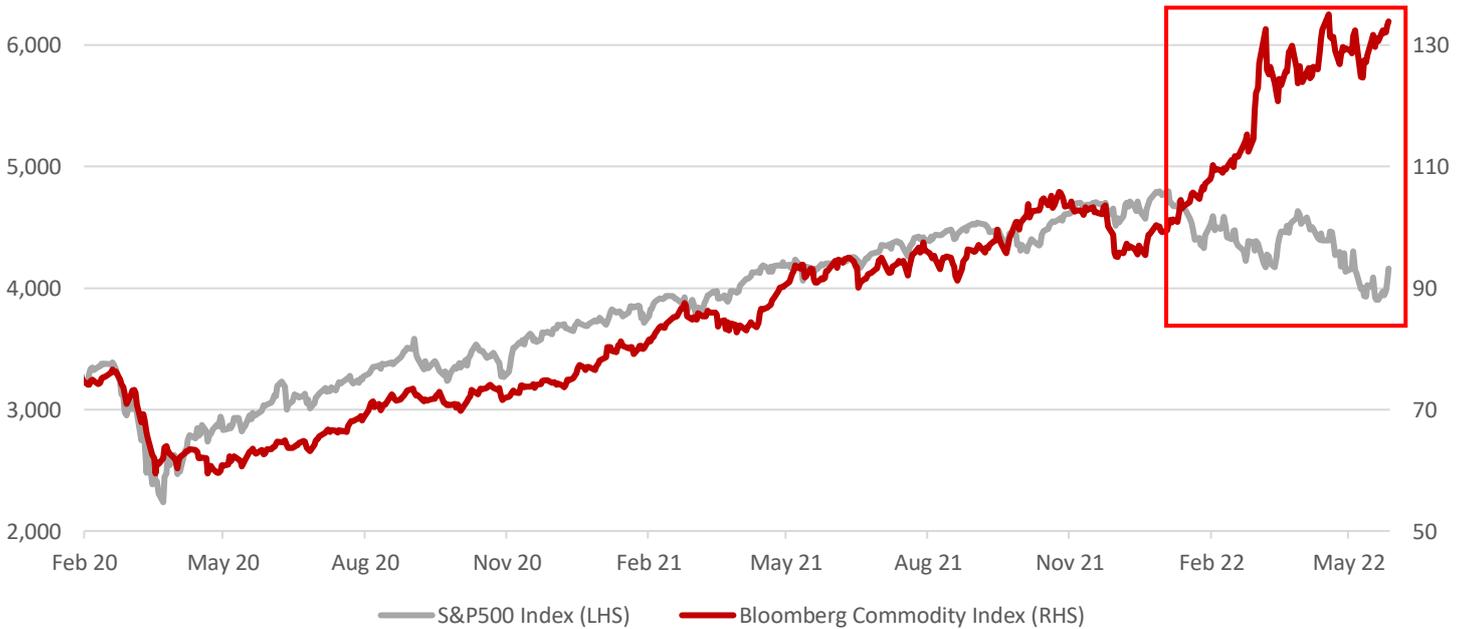
TRADING MATTERS SERIES: NEWS FOCUS

The summary and impact of a major news event

What is the market worried about?

The S&P 500 has had a torrid start to the year, experiencing its worst first four months to start any year since 1939, and even briefly entering into official bear market territory on an intraday basis.^{1,2} The reasons for pessimism are many: Disappointing results for companies, warnings on rising costs,³ and fears of persistent inflation.⁴ While commodities and stocks moved in tandem from 2020 to 2021 on the back of the reopening trade,^{5,6} 2022 marked the point when inflation became a problem and aggressive central bank policy became a drag on equities.⁷

Commodities and Equities were moving in tandem until 2022



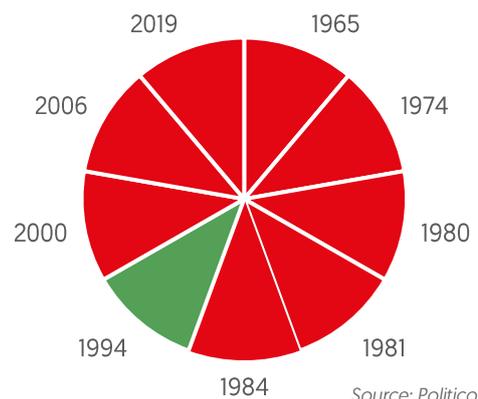
Source: Bloomberg, extracted 27 May 2022 closing

Recession...? Or not?

Markets are now becoming increasingly fearful that the Fed's tightening campaign will not achieve its desired soft landing.⁸ After all, its track record has not exactly been stellar: Only 1 out of 9 times since 1961 has the Fed managed a "true" soft landing, embarking on a rate hike cycle to rein in inflation without triggering a recession.⁹

Still, while recession risk has been steadily rising, most economists are not putting it as their base case even as they brace for rising costs and slower growth, at least for now.¹⁰

1 out of 9, the Fed's track record of a "true" soft landing⁹



Source: Politico, Piper Sandler

S&P 500 Index



A glance at the benchmark S&P 500 Index and how various sectors have performed over the course of the year

Not all stocks have fallen the same in 2022. Even as their technology counterparts have struggled in the inflation and rising interest rate environment, Energy names have massively outperformed year-to-date, rising in tandem with oil prices. But the headwinds for energy companies are now growing, with oil prices still elevated, but sensitive to any slowdown and developments around oil supply and the war in Ukraine.¹¹ Behind the Energy sector, another sector has been quietly rallying as well: Agriculture.

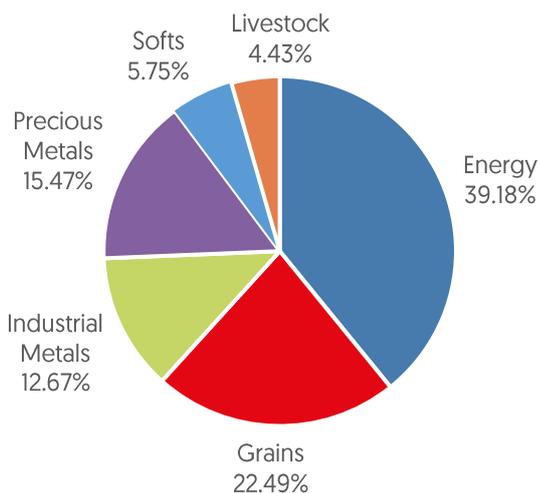


Source: Bloomberg, extracted 27 May 2022 closing

The ongoing Russia-Ukraine war caused not only energy, but also food prices to soar globally. Russia was not only the world's largest exporter of oil to global markets prior to its invasion of Ukraine,¹² it also accounts for approximately 29% of the global wheat export market together with Ukraine.¹³

Adding fuel to the inflationary fire, high energy prices have also flowed down to food prices due to the energy intensive production of fertilisers,¹³ as well as the impact oil has on delivery costs and logistics.¹⁴ Commodities are often seen as a hedge against inflation, as large commodity players generally are able to pass on the inflationary costs to their purchasers.¹⁵

Breakdown of the Bloomberg Commodity Index by Group



Source: Bloomberg, extracted 27 May 2022 closing

Food inflation and protectionism

Faced with inflationary pressures, food inflation is anticipated to persist,¹⁶ made worse by protectionism especially in Asia.¹⁷ India has moved to restrict sugar exports, Indonesia flip flopping over palm oil exports,¹⁸ while closer to home here in Singapore even live chicken exports from Malaysia have been impacted by the wave of food protectionism.¹⁹

With grains forming the 2nd largest component group of the Bloomberg Commodity Index, food related components together with it add up to almost 30% of the index weighting, only just behind Energy.

United States

Below are some of the largest companies based on Market Cap in the agricultural industry listed in the United States



Archer-Daniels-Midland [ADM US]

- For 2021, ADM's revenue exceeded US\$85 billion, up almost US\$21 billion as compared to the prior year revenue [25 Mar 2022, Yahoo Finance]
- ADM sees global supplies of key crop staples will remain tight for at least two years after harvest shortfalls in some countries and shipping disruptions triggered by Russia's invasion of Ukraine [27 Apr 2022, Reuters]
- ADM partners with lab-grown meat start-up Eat Just [17 May 2022, Financial Times]

Market Cap [USD]	50.04 Billion
Current Price	88.93
Analysts' 12M Target Price	98.46
Upside/Downside from Analyst Consensus [%]	10.72%
Indicated Yield	1.80%



Bunge Ltd [BG US]

- Bunge reported a higher quarterly adjusted profit and raised its full-year earnings forecast by 21% on robust demand and tighter supplies of essential crops since Russia's invasion of Ukraine [28 Apr 2022, Reuters]
- Bunge, the world's biggest oilseed processor, is using satellite imagery to reduce the sourcing of soybeans from deforested areas in Brazil [25 May 2022, Bloomberg]

Market Cap [USD]	17.41 Billion
Current Price	114.72
Analysts' 12M Target Price	133.78
Upside/Downside from Analyst Consensus [%]	16.61%
Indicated Yield	2.18%



Corteva Inc [CTVA US]

- Largest agriculture globally by market cap [Companies Market Cap]
- Corteva reported a 19.6% jump in first-quarter operating earnings, which beat Wall Street estimates, driven by strong demand for crop protection products such as herbicides and insecticides [04 May 2022, Reuters]
- The price of everything that goes into producing crops is surging, threatening to further fan global food inflation [19 Mar 2022, Bloomberg]

Market Cap [USD]	45.63 Billion
Current Price	62.91
Analysts' 12M Target Price	62.70
Upside/Downside from Analyst Consensus [%]	-0.33%
Indicated Yield	0.89%



The Mosaic Company [MOS US]

- Fertilizer and feed producer Mosaic said Russia's invasion of Ukraine continues to push prices of some agricultural commodities higher, with the conflict also impacting fertilizer supplies amid low stocks globally [03 May 2022, MarketWatch]
- Mosaic expects Q2 and the remainder of 2022 to be sizzling strong [03 May 2022, Seeking Alpha]

Market Cap [USD]	21.67 Billion
Current Price	59.85
Analysts' 12M Target Price	74.67
Upside/Downside from Analyst Consensus [%]	24.76%
Indicated Yield	1.00%

Singapore

Below are some of the largest companies based on Market Cap in the agricultural industry listed in the Singapore

Wilmar International [WIL SP]

- Wilmar makes additional investment in Pakistan-listed Unity Foods (11 Feb 2022, The Business Times)
- Wilmar saw its net profit climb 17.8% to US\$530.3 million for the first quarter ended Mar 2022, on the back of firm palm oil prices (29 Apr 2022, The Business Times)
- A joint venture between the group controlled by Asia's richest person Gautam Adani and Singapore's Wilmar International Ltd have outperformed 121 Asian initial public offerings worth over US\$100 million (26 May 2022, The Economic Times)

Market Cap [USD]	19.26 Billion
Current Price	4.16
Analysts' 12M Target Price	5.78
Upside/Downside from Analyst Consensus [%]	38.99%
Indicated Yield	3.73%

BUMITAMA AGRI LTD [BAL SP]

- Bumitama saw its net profit for the first quarter surge to 873 billion rupiah from the previous year's Q1 profit of 167 billion rupiah (12 May 2022, The Business Times)
- Indonesia is due to resume exports of palm oil on 23 May 2022 after a ban of more than 3 weeks, but industry traders and companies were awaiting details on accompanying rules to secure domestic supplies of the edible oil to control cooking oil prices (23 May 2022, The Business Times)

Market Cap [USD]	0.94 Billion
Current Price	0.75
Analysts' 12M Target Price	0.97
Upside/Downside from Analyst Consensus [%]	28.67%
Indicated Yield	5.00%

Golden Agri-Resources [GGR SP]

- Golden Agri-Resources reported net profit of US\$188 million for the first quarter ended Mar 31, 2022, rising nearly fivefold from the previous year's Q1 net profit of US\$41 million (12 May 2022, The Business Times)
- Golden Agri-Resources' chartering arm signs up to the Sea Cargo Charter. Specialising in palm oil shipping, Golden-Agri Maritime is the latest company to join the Sea Cargo Charter, a framework for measuring and reporting the climate impact of ship chartering activities (11 May 2022, Golden Agri-Resources)

Market Cap [USD]	2.64 Billion
Current Price	0.29
Analysts' 12M Target Price	0.42
Upside/Downside from Analyst Consensus [%]	46.32%
Indicated Yield	3.78%

First Resources [FR SP]

- First Resources posted a net profit of US\$73.6 million for its first quarter ended Mar 31, 2022, jumping by 738.5 per cent from the US\$8.8 million it recorded a year earlier (13 May 2022, The Business Times)
- Palm oil stocks rise in Singapore as Indonesia lifts export ban (20 May 2022, Dow Jones)

Market Cap [USD]	2.31 Billion
Current Price	2.02
Analysts' 12M Target Price	2.29
Upside/Downside from Analyst Consensus [%]	13.42%
Indicated Yield	3.14%

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