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COMMODITY MARKETING THAT MAKES CENT$

MOE AGOSTINO & THE COMMODITY RESEARCH TEAM

15+ YEARS IN SERVICE

2020 Energy and Fertilizer Report & Outlook

Brought to you by: OFA Ontario Federation of Agriculture

Highlights

- A combination of a Saudi/Russian price war and a destruction in demand due to COVID-19 led to a plunge in crude oil prices. Though this is bad for high cost producers and Big Oil, its a huge global economic stimulus package for consumers worldwide.
- **Oil prices could stay lower for longer amid the price war and the fight for market share and while the coronavirus pandemic batters oil demand (down 20 million barrels per day in April), it may all be short-lived if something gives.**
- **"Pull the Trigger" and reward the cheaper farm diesel fuel by booking at $0.61 to $0.67/litre or lower ahead of the 2020 planting season. Book all 2020 needs now or fill up and top up the tanks, add more on-farm storage or book forward for 6-12 months.**
- Growing production of natural gas and rising natural gas/propane supplies in storage will continue to weigh on prices into the 3rd and 4th quarter of 2020. **Look for lower prices in the July/August timeframe to lock in any natural gas/propane drying needs.**
- **It's time to reward the drop-in input costs and book 100% of your input needs through the summer of 2020 as prices are below last year and bouncing off 10-year lows! Get your hands-on seed, fertilizer, parts for equipment and fuel supply early, so that you are prepared to plant when Mother Nature allows. Act fast as logistics and supplies could still be hampered in a COVID-19 world. Call your preferred supplier and give them a heads-up regarding your plans.**

A Saudi-Russian price war for market share sends crude oil futures plunging by -65%!

Shortly after a March 6th OPEC + Russian meeting, where Russia decided not to participate in further crude oil production cuts, Saudi Arabia reversed course and said that by April 1, they would flood the market with more crude oil supplies. This resulted in a plunge in crude oil prices of over 65%- the worst since 1998. Crude oil prices have found some temporary support near $20/barrel. Saudi Arabia is looking to stick it to Russia and the U.S. shale producers, who last year produced a record 12.4 million barrels a day. **But some experts are forecasting a drop of over 20 million barrels per day in April so a break below $20 is very possible.**

The sovereigns most vulnerable to lower oil prices in 2020-21 are those with the highest reliance on hydrocarbons as a source of fiscal revenue and exports, and limited capacity to adjust, like Russia and Iraq and Kuwait. But Russia says they have sufficient buffers to cope with the situation. This according to the Kremlin's spokesman Dmitry Peskov, who reiterated the official Russian position that the country can live with oil prices at current lows for up to ten years? In the last fallout, in 2008/09, Russia 'cried wolf' when crude oil prices fell below $30. So, will this time be any different? The only low-cost producer is Saudi Arabia, at $7 - $10, while Canada and the U.S. are high.

Oil companies have already started to cut investments in response to the crash by slashing more than $40 billion off of their 2020 capital spending budgets, half of which is by U.S. shale frackers. But Big Oil will need to shut down oil wells as the world will run out of enough storage tanks and floating tankers. It will be a bloodbath as U.S. wholesale gasoline is selling at less than 50 cents per gallon. Refineries are losing money on every barrel they process, with Gulf Coast gasoline crack spreads plunging to a -$17 (that's minus U.S. $17 dollars) per barrel.

EIA forecasts Brent crude oil prices will average $43 per barrel (/b) in 2020, down from an average of $64/b in 2019. For 2020, EIA expects prices will average $37/b during the second quarter and then rise to $42/b during the second half of the year, but both these forecasts could prove to be too high?

Most oil-exporting countries peg their currencies to the U.S. dollar. As a result, a 25% rise in the dollar since 2014 offsets a 25% drop in oil prices. Global economic uncertainty keeps the U.S. dollar strong due to a flight to safety to the 'reserve currency'. Some analysts are projecting that the worst is yet to come with crude oil prices dropping to $10/barrel or to 0 if all the OPEC nations on April 1 decide to increase production, as we would run out of global storage. **With crude oil production cash costs for OPEC nations at $9 and non-OPEC at $15, combined with U.S. crude saturation, WTI crude oil prices will most likely fall below $20/barrel!**

COVID-19 global economic slowdown will eliminate over 16-20 million barrels per day in demand in Q2

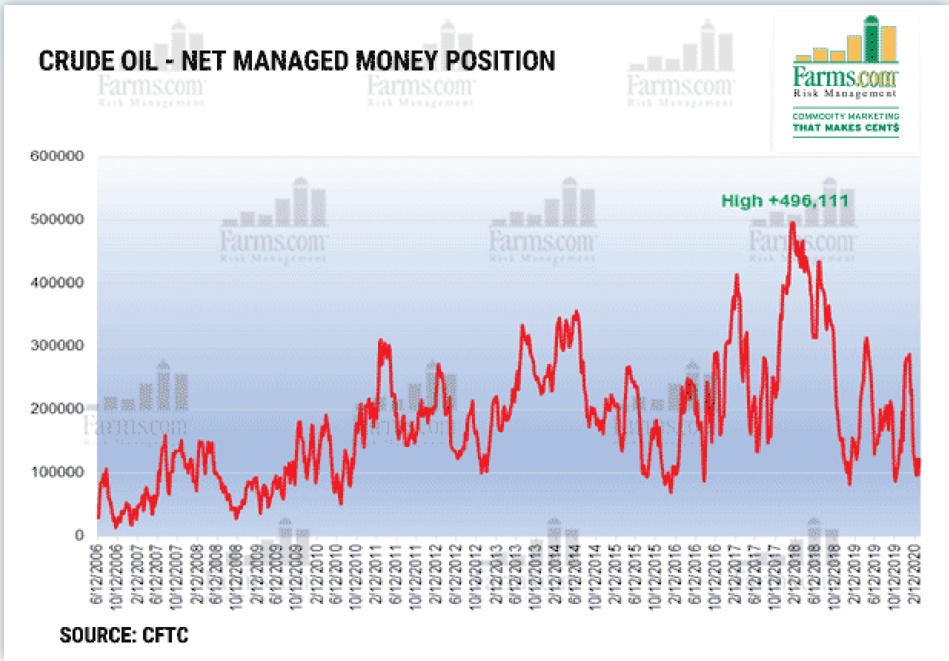
With countries around the world in lockdown and consumers stuck at home to contain the spread of COVID-19, gasoline demand is set to plunge by 50%, while jet fuel consumption has all but evaporated, with 87% fewer flyers taking to the air than a year ago.

Trump has said that he will interfere, but can he manage to convince the Saudis and Russians to call off the price war? The probability is low as the scale of their supply additions to the market (about 1.5 million bpd) is dwarfed by the destruction in demand caused by coronavirus lockdown.

The Saudis have done this 3 times in the past- the last one being in 1998 when they flooded the Gulf Coast refiners with heavy sour crude in order to rebuff Venezuela for grabbing oil market share. This sent WTI crude oil down to $10/barrel during late-1998. **But lower oil prices are always a huge global economic stimulus package for consumers.**

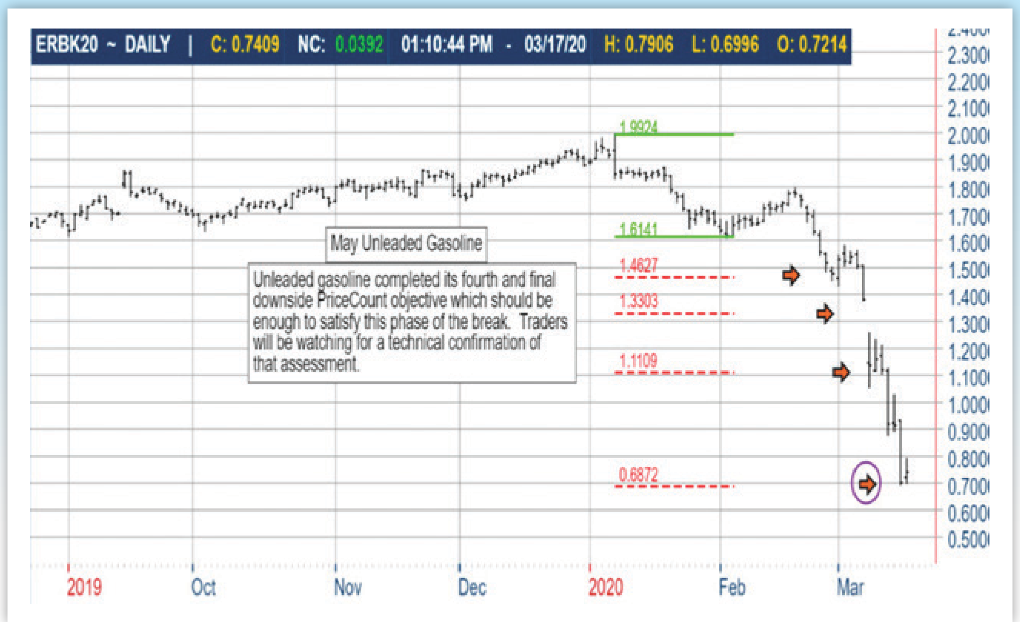
Crude futures are oversold as funds panic sell

Historically, the managed money crowd rarely go short in crude oil but after being long at over 500,000 contracts in 2018, they have reduced that position to only 100,000. **(Please see chart below)**



Technically, futures remain oversold, finding some short-term support at $20, but a break below this level would mean that we are headed to $15 or $10/barrel. **(Please see chart on the right)**

WTI Crude Oil Long-Term Chart



The plunge in crude oil has spilled over into gasoline and ethanol prices as well. **Ethanol futures are trading to new record contract lows as 36 U.S. plants shut down leading to a loss of over 2.9 billion gallons of ethanol production or a 300 – 500 million corn bushel loss in usage!** **Corn futures have now become a 'gas trade'.** **(Please see charts on the left and below)**

2020 Ethanol Weekly Futures Chart

Source: www.qtplus.com

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BOTTOM-LINE

Crude is so cheap that a barrel of Western Canada Select (WCS) is being quoted at $4.69 (hit a low of US $3.82 on March 30th) and its cheaper than a pint of beer at $5.00! Prices are likely to remain under pressure until the coronavirus situation turns a corner. And, if we continue the projected supply/demand balance path, even Saudi Arabia and Russia will not be immune from the price fallout. Oil prices could stay lower for longer amid the price war and the fight for market share while the coronavirus pandemic batters oil demand. But it may be short-lived if something gives like a Trump or G20 intervention.

While financial markets are forward-looking and are starting to rebound as the contagion fears stabilize, commodity markets are spot assets and must clear the surpluses developing today from weak demand and rising supply. Longer term, however, lower prices will lead to a beneficial re-balancing of the market.

"Pull the Trigger" and reward the cheaper farm diesel fuel by booking at $0.61 to $0.67/litre or lower ahead of the 2020 planting season. Book all 2020 needs now or fill up and top up the tanks and add more on-farm storage or book forward for 6-12 months.

Falling demand and surging supplies will remain as headwinds for oil price rises and would be deflationary. Our forecast remains bearish through the second quarter, but we turn more optimistic for the second half of 2020. We were forecasting a $55 - $65 target in our last report in Nov. of 2019 but that did not include two "Black Swan" events coming out of left field. (Please see chart on the right)

2020 CRUDE OIL FUTURE PRICE TARGETS & OUTLOOK AS OF 03-27-2020

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TREND	TARGET RANGE
2nd Quarter of 2020	$10 - $20
3rd Quarter of 2020	$30 - $40
4th Quarter of 2020	$40 - $50

SOURCE: FARMS.COM RISK MANAGEMENT

Natural Gas / Propane

Warmer than normal weather, plunge in crude oil prices and record production weigh on natural gas prices at a 5-year low

Warmer-than-normal temperatures in February reduced demand for space heating and put downward pressure on prices, which traded down to a historically 5-year low. EIA forecasts that natural gas prices will begin to rise in the second quarter of 2020 as U.S. natural gas production declines and natural gas use for power generation increases. **(Please see chart below)**

U.S. dry natural gas production set a record in 2019, averaging 92.2 billion cubic feet per day (Bcf/d) and could average a 3% increase in 2020. Low oil prices typically reduce associated gas output from oil-directed wells, so monthly natural gas production should decline throughout 2020.

2020 U.S. Natural Gas Weekly Futures Chart

Source: QT Charts

Growing natural gas supplies in storage ended February at 2.1 trillion cubic feet (Tcf), 9% more than the five-year (2015–19) average. EIA forecasts that total working inventories will end March at 1.9 Tcf, 12% more than the five-year average. In the forecast, inventories rise by almost 2.1 Tcf during the April through October injection season to reach almost 4.0 Tcf on October 31, which will weigh on prices as we enter the 2020/21 winter season.

Plunging crude oil is a headwind for propane, with plenty of supplies to go around

Propane prices have fallen to their lowest level in 17-years after outstripping pipeline capacity last fall both in the U.S. Midwest and Canada. When propane as a percentage of crude trades at 51% range or lower, it encourages higher exports and creates larger inventory draws. U.S. propane inventories are on par with the 5-year average. **(Please see chart below)**

2020 Propane Weekly Futures Chart

Source: www.qtplus.com

In Canada, prior to April 2014, most propane produced in western Canada was exported to U.S. markets on the Cochin pipeline. In April 2014, the Cochin pipeline was reversed to transport light petroleum liquids from the US to western Canada. Exports of propane to the US dropped dramatically, leading to an oversupply of propane in Canada and resulting in much lower propane prices.

THE BOTTOM-LINE

Plenty of propane and the growing production of natural gas supplies and above average supplies in storage by year-end will continue to hamper prices into late 2020. So, look for lower prices in the July/August end-of-summer timeframe to lock in any natural gas or propane drying needs. By the 2020/21 winter, production declines will be visible enough that gas prices will rally sharply to help U.S. inventory reach comfortable levels by summer 2021.

The timing of any recovery in demand and pricing remains uncertain, tied mostly to the U.S. and European responses to the coronavirus in 2Q-2020, as well as the pace of recovery in China and across Southeast Asia.

Fertilizer

COVID-19 and plunging oil prices are not spilling over into fertilizer prices, BUT...

Total global demand for fertilizer nutrient is estimated to grow by 1.9% in 2020 to 201.66 million tonnes. However, slowing global economic growth and demand, from COVID-19, and plunging crude oil prices have had almost no material impact on fertilizer prices that are still down from September of 2019 but have started 2020 with a slight upward bias. **Nonetheless, prices are all down on average by 6 -22% vs. a year ago.** **(Please see chart below)**

The Palmer Drought Severity Index, a monthly measurement of soil moisture released by NOAA, showed that February 2020 was one of the wettest of the last century, second only to last February. USDA lowered its expectations of corn-planted acres by 500,000 acres to 94 million acres in February, which is still higher than last year but less bullish than its earlier projections. We will get the first farmer survey-based report on Tuesday March 31st. Corn prices are at a 11-year low, due to demand destruction in ethanol, and below break-evens. With many fringe areas still wet, we could still see sizable prevent plant acres again this year and a switch to other crops as a result total corn acreage could come in below 94 million.

A late and wet harvest dampened demand for fall fertilizer applications

Most farmers are still waiting for their fields to dry out before starting pre-planting applications. Concerns remain that the coronavirus issue would create further cutbacks in downstream fertilizer and chemical production in China, which would reduce ammonia import demand. A good U.S. planting season could boost fertilizer demand and prices. **The longer the COVID-19 persist it could lead to delays in planting.**

If China's manufacturing sector continues to struggle, ammonia demand for fertilizers and other industrial uses may be forced to look for another home. That could lead to an ammonia supply glut which could weigh on NH3 prices ahead of spring applications. We are not forecasting a sharp rise in anhydrous prices like last year, but the risk exists, with demand right around the corner. 94-96 million U.S. planted corn acres in 2020 would create enough demand to prop up N prices.

U.S. WHOLESALE FERTILIZER PRICES (IN U.S. $ PER TON)

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NUTRIENT / FUEL	26-Mar-20	CHANGE IN LAST 2 MONTHS	CHANGE VS. SPRING 2019	CHANGE VS. JAN. 1, 2020	CHANGE VS. SEPT. 2019
Anhydrous	$502.83	$6.58	-$113.64	$3.65	$22.83
DAP	$404.39	$7.17	-$112.94	$8.28	-$34.78
MAP	$406.00	$2.00	-$111.50	-$0.25	-$31.50
Potash	$362.46	-$1.54	-$29.34	-$0.27	-$11.83
Liquid Nitrogen	$240.17	$1.78	-$39.93	$1.36	-$23.58
Urea	$370.60	$8.60	-$31.90	$8.60	$0.60
Farm Diesel	$1.74	-$0.55	-$0.88	-$0.68	-$0.55

SOURCE: USDA

THE BOTTOM-LINE

Delayed fall-2019 applications and a further delay in spring plantings could see fertilizer demand develop slowly but it's that time of the year when prices seasonally can spike on increased demand. With COVID-19 still handicapping us, and with governments asking everyone to lockdown (ag will be excluded), but there is still risk that supplies and logistics could be hampered.

2020 Canadian Dollar Weekly Futures Chart

Source: www.qtplus.com

It's time to reward the drop-in input costs and book 100% of your input needs through the summer of 2020 with prices below last year and bouncing off 10-year lows! Manage your supply, logistics and demand risk heading into the 2020 planting season. Get your hands-on seed, fertilizer, parts for equipment and fuel supply early, so that you are prepared to plant when Mother Nature allows. Act fast as logistics and supplies could still be hampered in a COVID-19 world. Call your preferred supplier and give them a heads-up regarding your plans.

Lackluster crude oil prices, a strong U.S. dollar and a weak Canadian economy that has fallen into a recession will continue to weigh on the commodity currency- Canadian dollar (CDN $). This will cause the CDN $ to remain at the lower end of the long-term range of $0.68 - $0.72 until the economy rebounds in 2021. Near-term, the currency is oversold and has baked in all of the negative news. As confidence grows over time and the economy sees a V-shape recovery, we could see the loonie recover to the $0.74 - $0.78 range. (Please see chart above)

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