



# Agricultural Commodities Super Cycle

Investment Idea :  
02 september 2022

## Structuration : Phoenix Memory

Maturity:

- **3 years**

Exposure:

- **Worst of on**

Underlying's:

- **Archer-daniels (ADM)**
- **BUNGE (BG)**
- **INVESCO DB AGRIC (ETF)**

Autocall Trigger: **100**

Observations: **Quarterly**

Coupon Barrier: **60%**

Memory Coupon: **9%**

European Barrier: **60%**

## Overview :

We believe that the **time to invest in the agricultural commodities sector** is very interesting.

Indeed, **several factors are putting pressure on agricultural prices** to continue rising.

First of all, the **Ukraine war is destabilizing world production** and exports for a while.

Secondly, the **multiple droughts and wildfire on earth have also affected agricultural production.**

Finally, the increase in the price of raw materials, of which gas is one of the main cost factors in the production of fertilizers, **will support the agricultural prices for a while longer.**

## Why Now ?

### 1) Ukraine war disrupts for a while the production and export of agricultural materials:

Indeed, **Ukraine is one of breadbasket in the world**, the market share of Ukraine in worldwide exportation is 28% of the wheat (sixth exporter), 14% of corn (third exporter) and 70% of sunflower oil (first exporter). **The FAO forecasts predict a decrease in Ukrainian agricultural commodity exports of 45% in 2023 compared to 2022.**

### 2) The strong impact of climate change on production:

**Drought and wildfire** in Europe, North America and India have **affected agricultural production**, while last year's drought in Canada severely affected wheat and grain crop yields. As a result, **water levels have fallen to extremely low levels** in many parts of the world, such as California, which is an important agricultural region. **Three-quarters of U.S. farmers say this year's drought is hurting their crops**, according to a survey by the American Farm Bureau Federation.

### 3) The significant increase in the price of natural gas has affected the cost of fertilizers and production:

**Nutrien Ltd**, one of the world's largest fertilizer manufacturing companies, **warns that severe supply disruptions "could last beyond 2022,"** confirming the words of fertilizer manufacturer Rosier's CFO, who warns of a tense situation.

Agricultural producers plan to reduce production to maintain profitability in the face of rising fertilizer prices. **Forecasts indicate that feed prices could soar in 2023 because the price of nitrogen fertilizer is indexed to the price of natural gas, which accounts for 90% of its production costs.**



## Which investment vehicles?

We have decided to **select the 2 leaders and one ETF in agricultural raw material industry**. ETF give us **direct exposure to the commodity future market**.

- **Archer-Daniels-Midland Co** is a major processor of oilseeds, corn, wheat, and other agricultural commodities. Additionally, the company owns an extensive network of logistical assets to store and transport crops around the globe. ADM also runs a nutrition business that focuses on both human and animal ingredients. The company is also a large producer of corn-based sweeteners, starches, and ethanol. **(Market Cap. 49 B USD)\***
- **Bunge Ltd** Founded in 1818, Bunge is a **global agribusiness** and food company with operations along the farm-to-consumer food chain. The agribusiness segment generates roughly two thirds of profits and includes the largest oilseed processing capacity globally. The company is a leading oilseed processor and seller of packaged vegetable oils and other food and ingredients products. **(Market Cap. 15 B USD)\***
- **Invesco DB Agriculture:** seeks to track changes the DBIQ Diversified Agriculture Index Excess Return. The ETF is designed for investors who want a cost-effective and convenient way to invest in commodity futures. The Index is a rules-based index composed of futures contracts on some of the most liquid and widely traded agricultural commodities. **(Market Cap. 1,54 B USD)\***

**\*Morningstar information**



## Which Structuration?

To capture the bullish trend of the agricultural commodities market as well as the high level of volatility, we have designed a Phoenix product with memory effect, whose parameters are the following.

### Phoenix Memory

- Maturity: **3 years**
- Exposure:
  - **Worst of on the downside**
- Underlying's:
  - **Archer-Daniels-Midland Co**
  - **Bunge Ltd**
  - **ETF Invesco Agriculture**
- Autocall Trigger: **100 %**
- Observations: **Quarterly**
- Coupon Barrier: **60%**
- Memory Coupon: **9%**
- Capital Barrier: **60% European**

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