

StoneX®

— 100 years —

TIA Annual Convention

May 9th-10th



Ted Nelson

FCM Division

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— 100 years —

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Dealing with normal risk exposure



What is price-risk management

- **Acceptance** of risk is a strategy
 - Before you adopt this strategy, it is important to understand what your risks are.
- **Mitigation** occurs when we manage the price risk
 - Layering in forward financial hedges along with physical procurement to negate highs and lows of price volatility
- **Uncertainty** is your risk
 - Uncertainty over the commodity price and geo-political/weather risk that drives it

How do you measure risk

Volatility

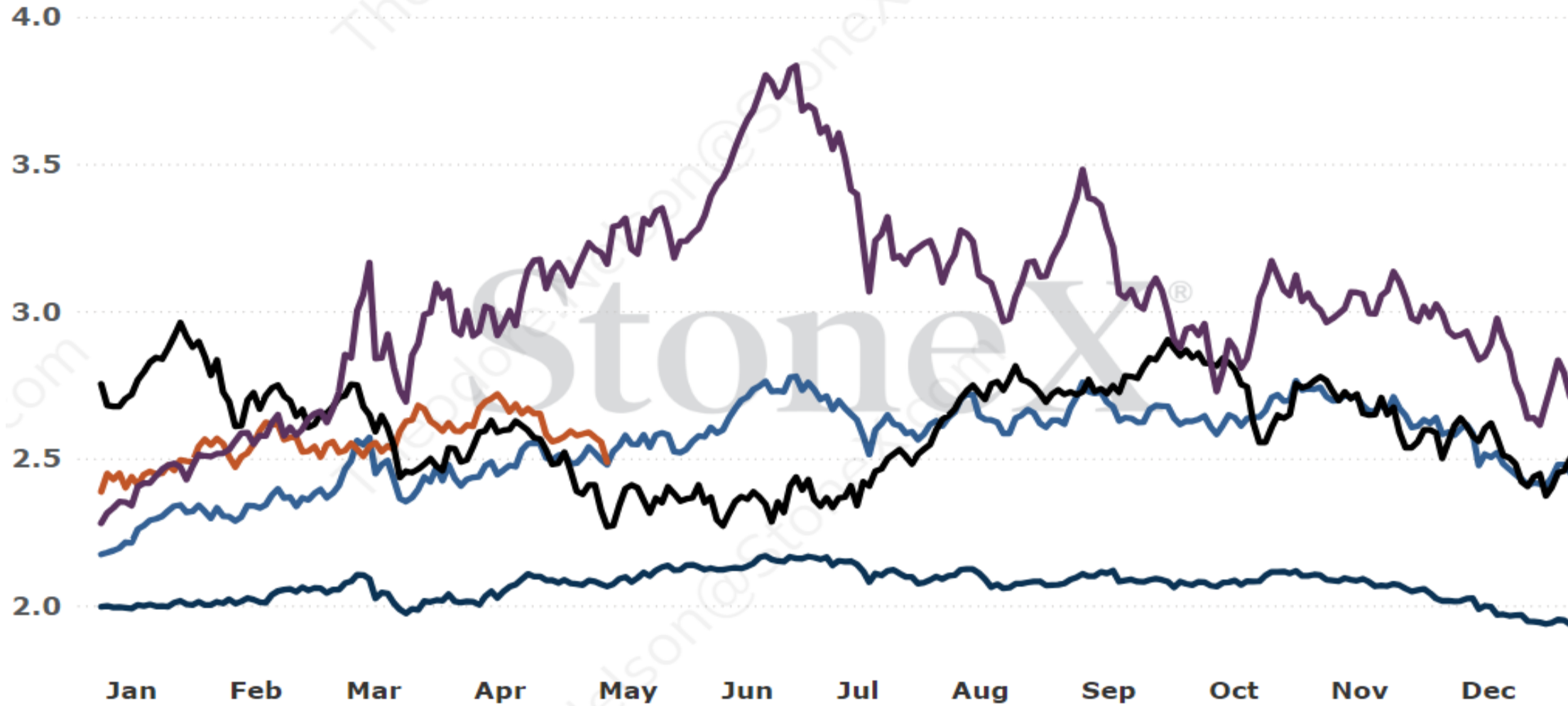
- Value representing the likelihood for change in:
 - Pace of price movement
 - Range of price movement
- Statistically generated value

Energy

8th Month Heating Oil (ULSD) Price (USD per gallon)

Source: Refinitiv, NYMEX

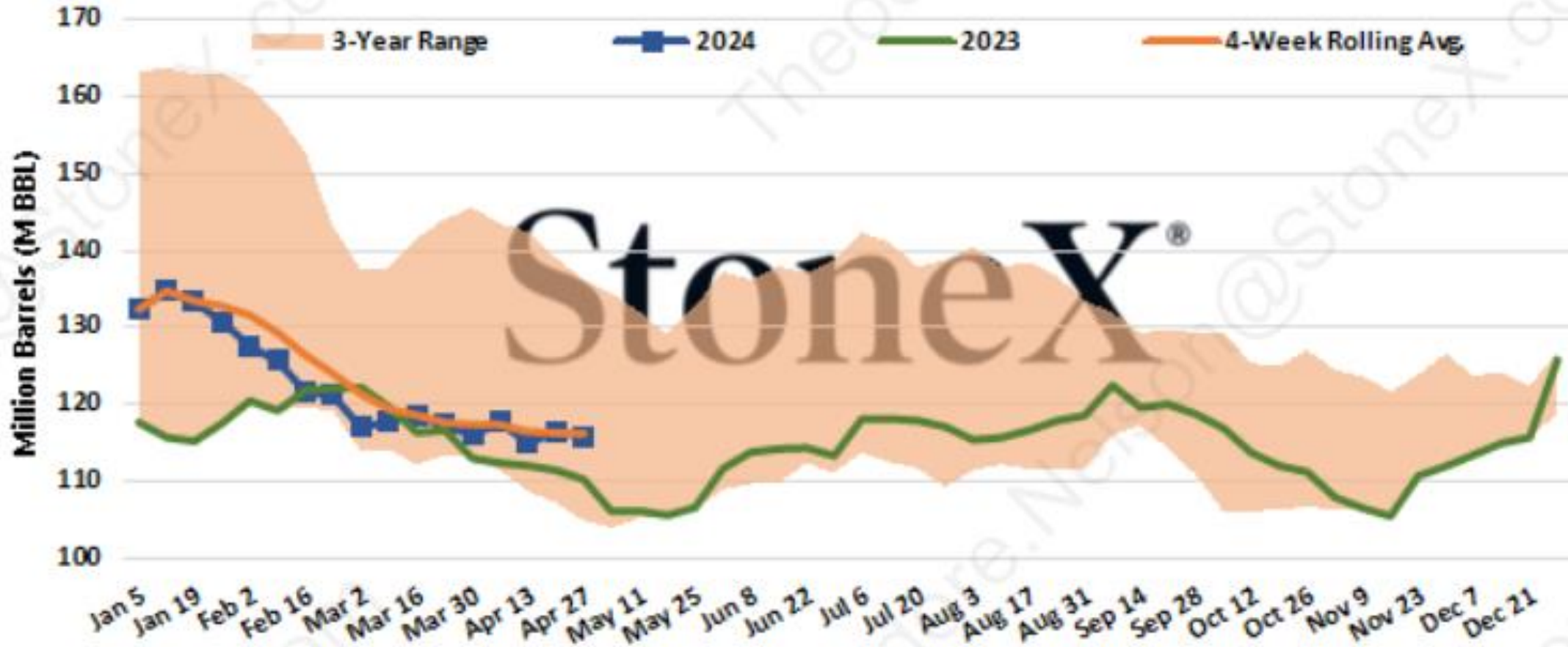
Year — 3 Year Avg — 10 Year Avg — 2024 — 2023 — 2022



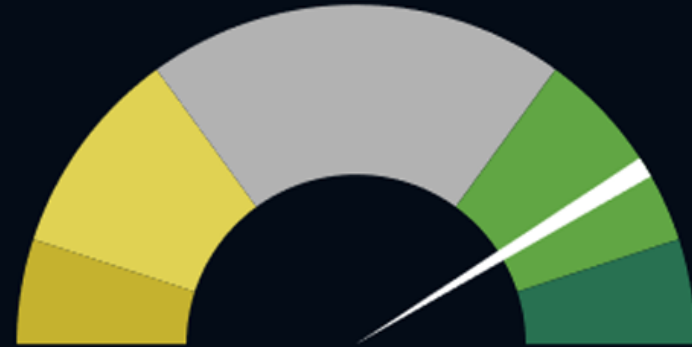
- ▶ **DISTILLATE FUNDAMENTALS** – Total petroleum inventories rose by 7.3 Mb on the week but are still at a 12.4 Mb deficit to the 5-year average. Diesel inventories fell by .73 Mb and are at an 8.6 Mb deficit to the 5-year average.
- ▶ **PRICE** - Seasonal patterns are most bullish the middle of May through the middle of June. Prices out through the next year are in the 30th and 40th deciles and .1500 - .2000 cents below the Median at \$2.6490.
- ▶ **MACROECONOMICS** – The ongoing conflict between Israel/Iran/Hamas has added a “fear premium” to world crude oil prices estimated at \$8-9/barrel. The concern is that world crude oil shipments may be affected but so far this has not been the case. News reports suggest Israel and Hamas may be negotiating a cease fire agreement.

US Weekly Distillate Stocks

Source: DOE



Natural Gas

Commodity				Fundamental	Factors			
Commodity	5/2/2024	% MoM	% YoY		Production	Storage	Exports	Consumption
Nat Gas	2.035	-21%	-43%	Price	Flat	Bearish	Flat	Very Bullish
 <p>StoneX Market Indicator Natural Gas</p> <p>Source: Bloomberg</p>					Seasonality	History	Trend	Spec Positions
				Bullish	Very Bullish	Bullish	Bearish	
				Weather				This Week
Flat	Flat	Flat	Bullish					
Macroeconomic				TTF vs Henry Hub Spread	US Wind Generation	Forward Curve	Newcastle Coal Prices	
				Flat	Very Bearish	Bearish	Very Bullish	

Nat Gas Calendar Strips



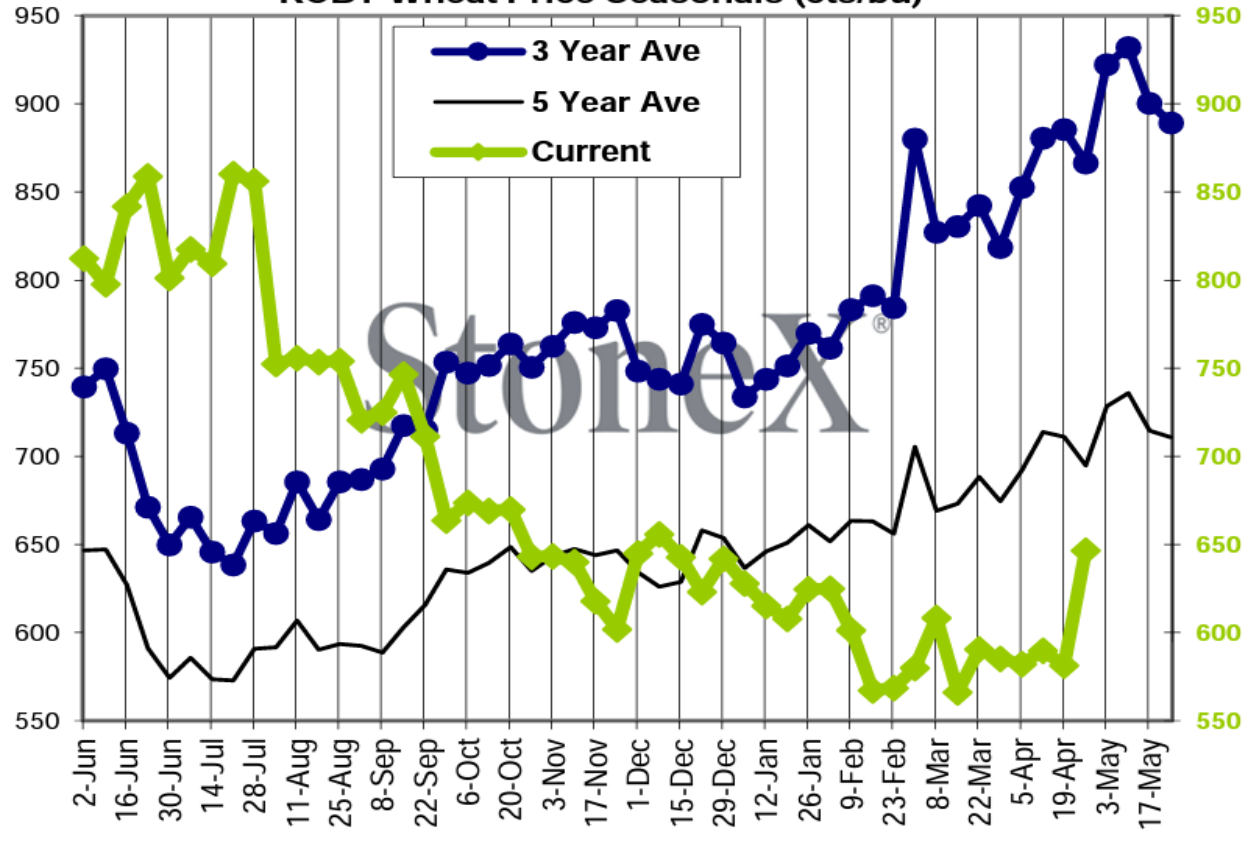
Source: Bloomberg CME



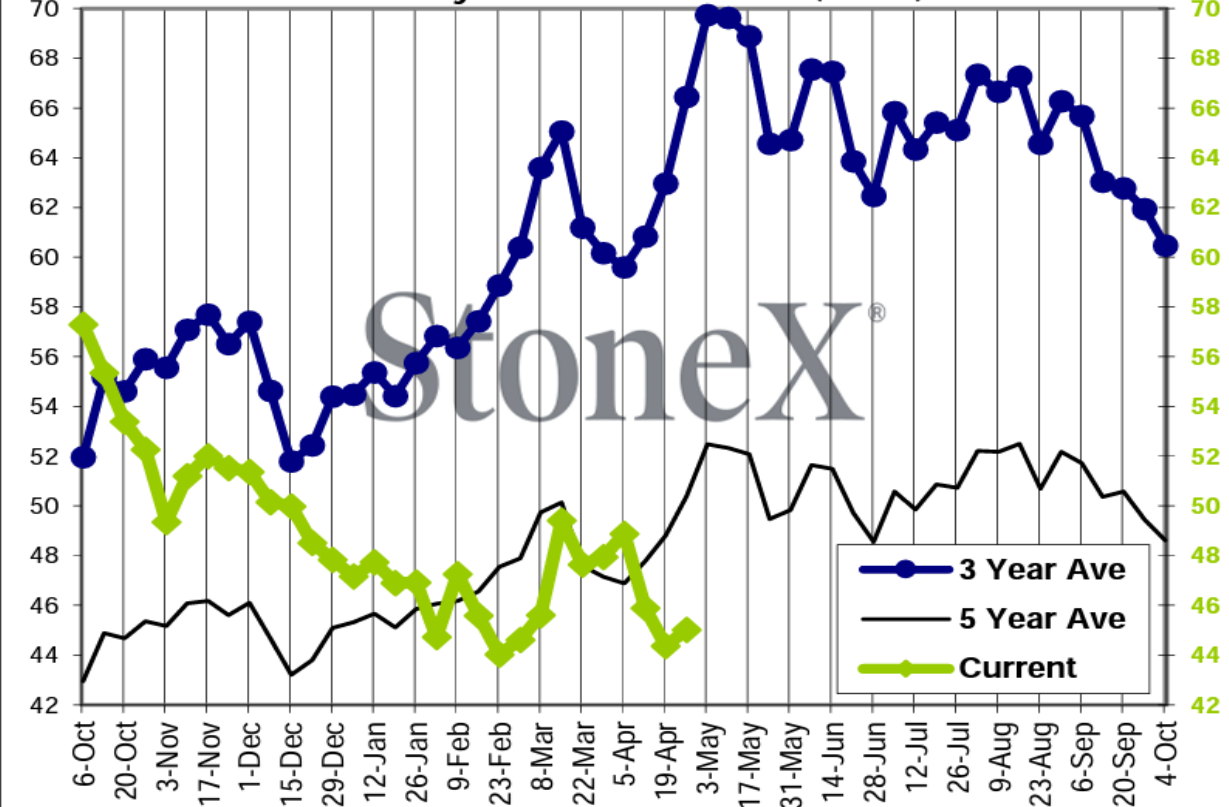
- ▶ **PRICE** – Seasonals are bullish the next 6 weeks. Prices for remaining 2024 are in the 20th decile. Both Long & Short-Term StoneX Indices are UP.
- ▶ **WEATHER** – Shoulder month weather is receding as temperatures heat up in late May. A transition from El Nino to La Nina this spring/summer has the NOAA forecasting more sustained “ridges” of above normal temperatures.
- ▶ **MACROECONOMICS** – Wind generation seasonally dips over the next two months, likely adding to natural gas demand for electricity. Newcastle coal prices are breaking out to the upside after a long consolidation period and should also support additional natural gas demand. Russia-Ukraine bombings continue to target key energy locations.

Wheat/Veg Oils

KCBT Wheat Price Seasonals (cts/bu)

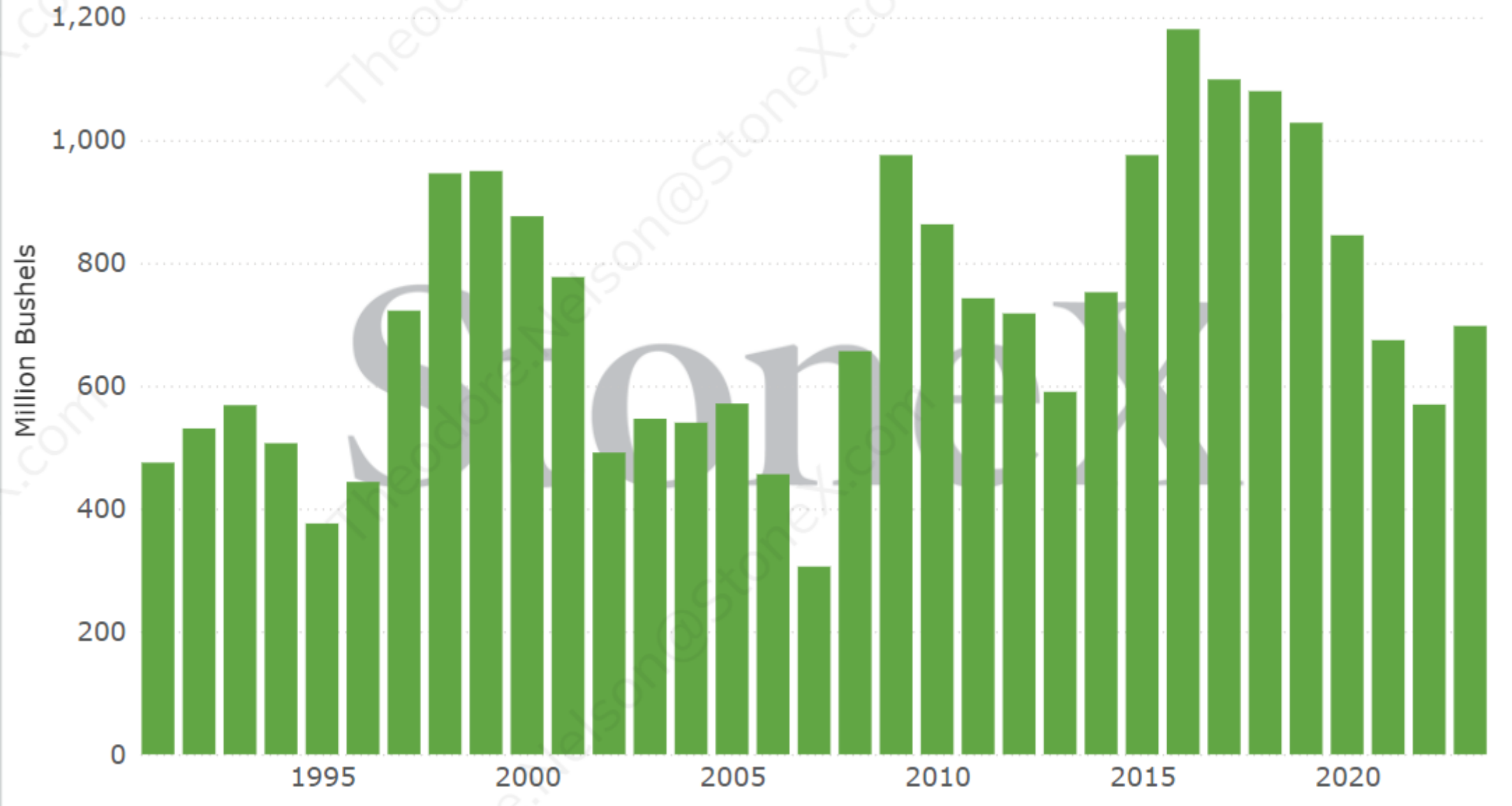


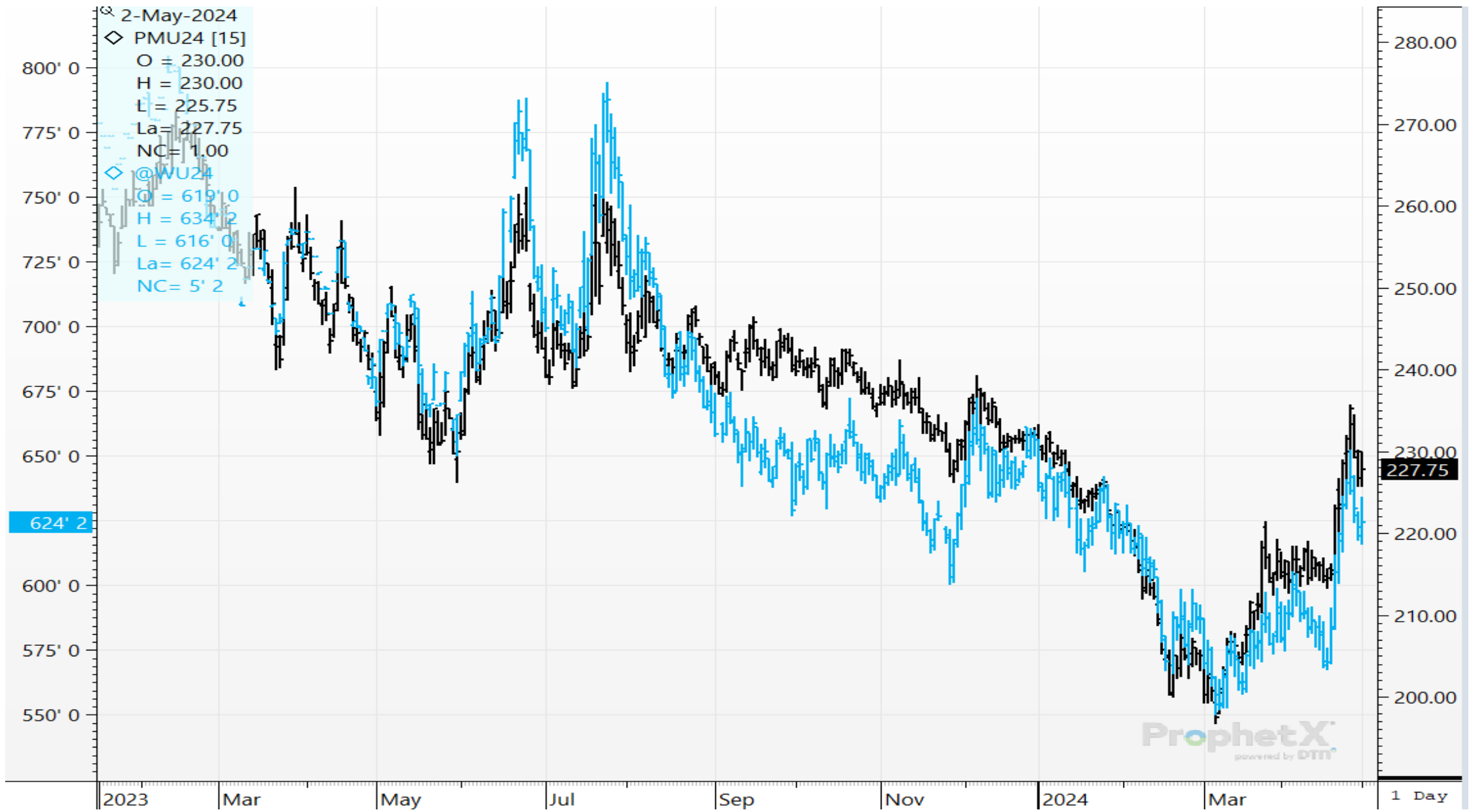
CBOT Soyoil Price Seasonals (cts/lb)



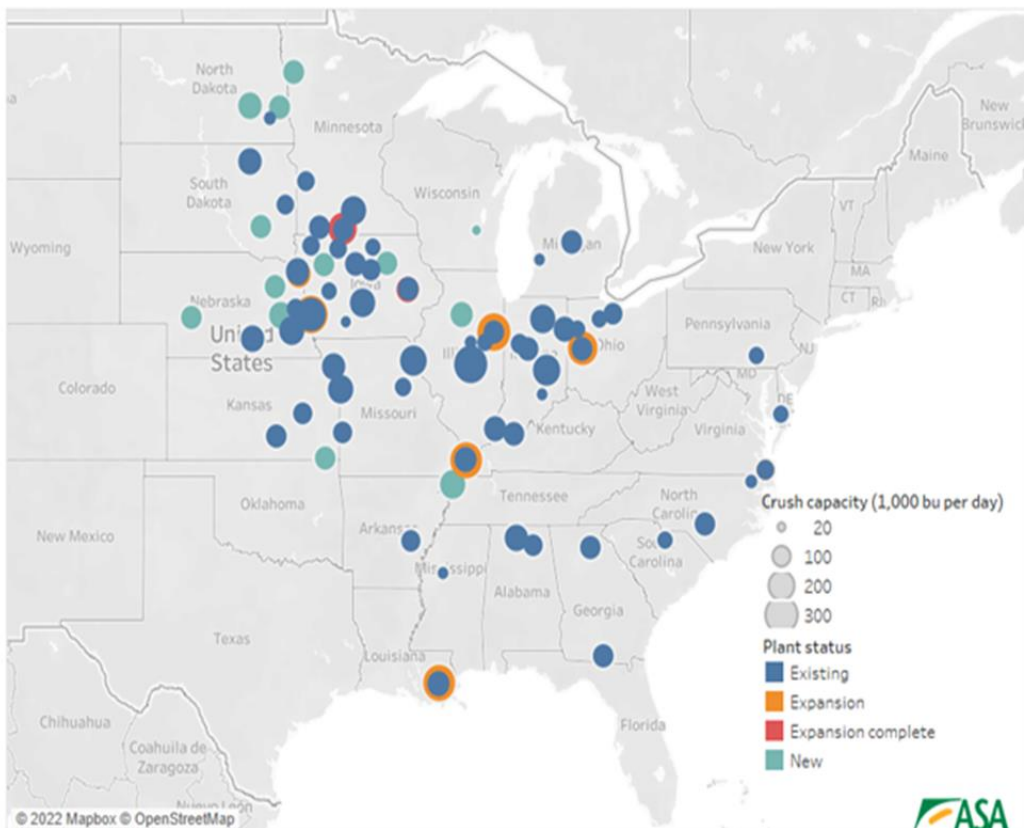
United States Wheat Ending Stocks (Source: USDA)

Legend ● Wheat





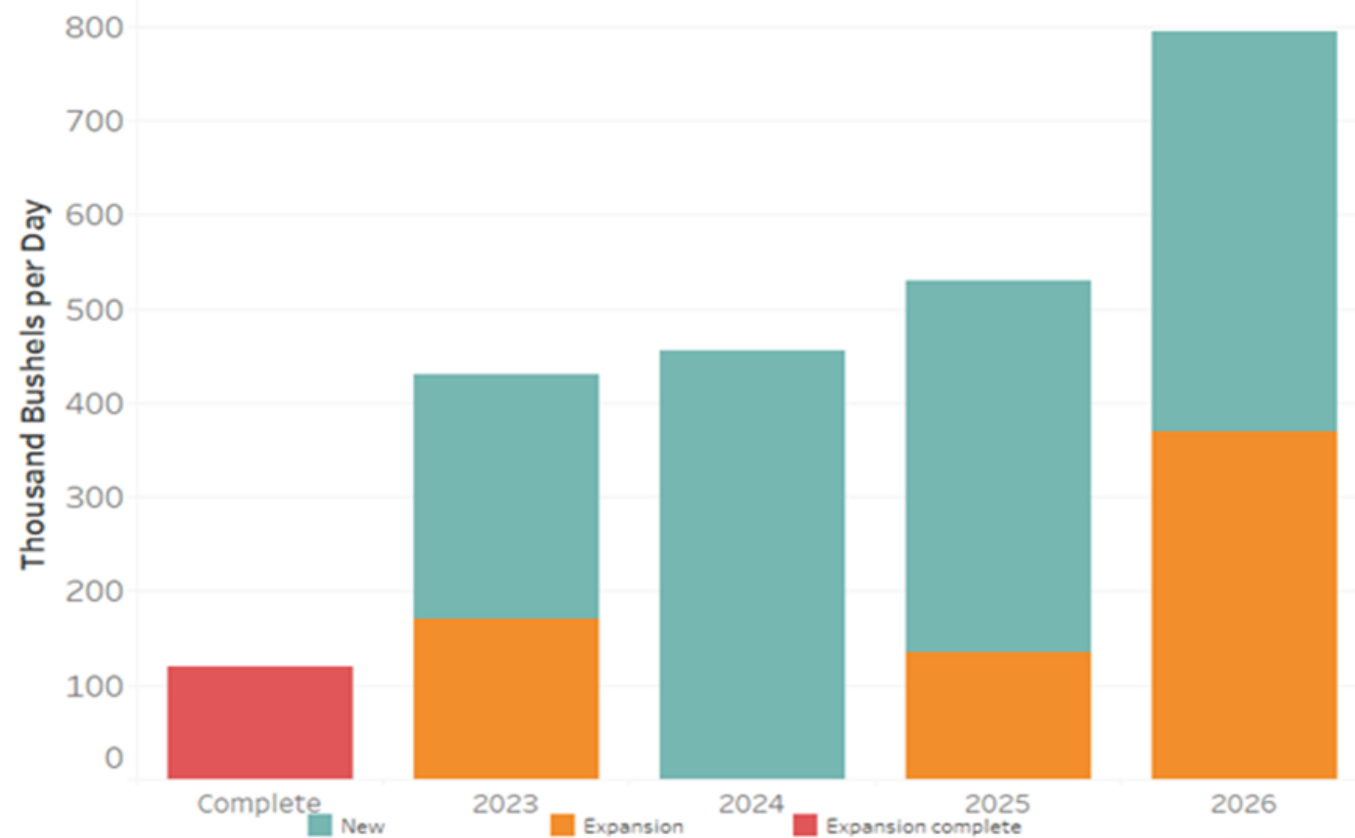
U.S. Soybean Crush Plants



Source: Gordon Denny and American Soybean Association



Soybean Crush Expansion by Year



Source: Gordon Denny and American Soybean Association

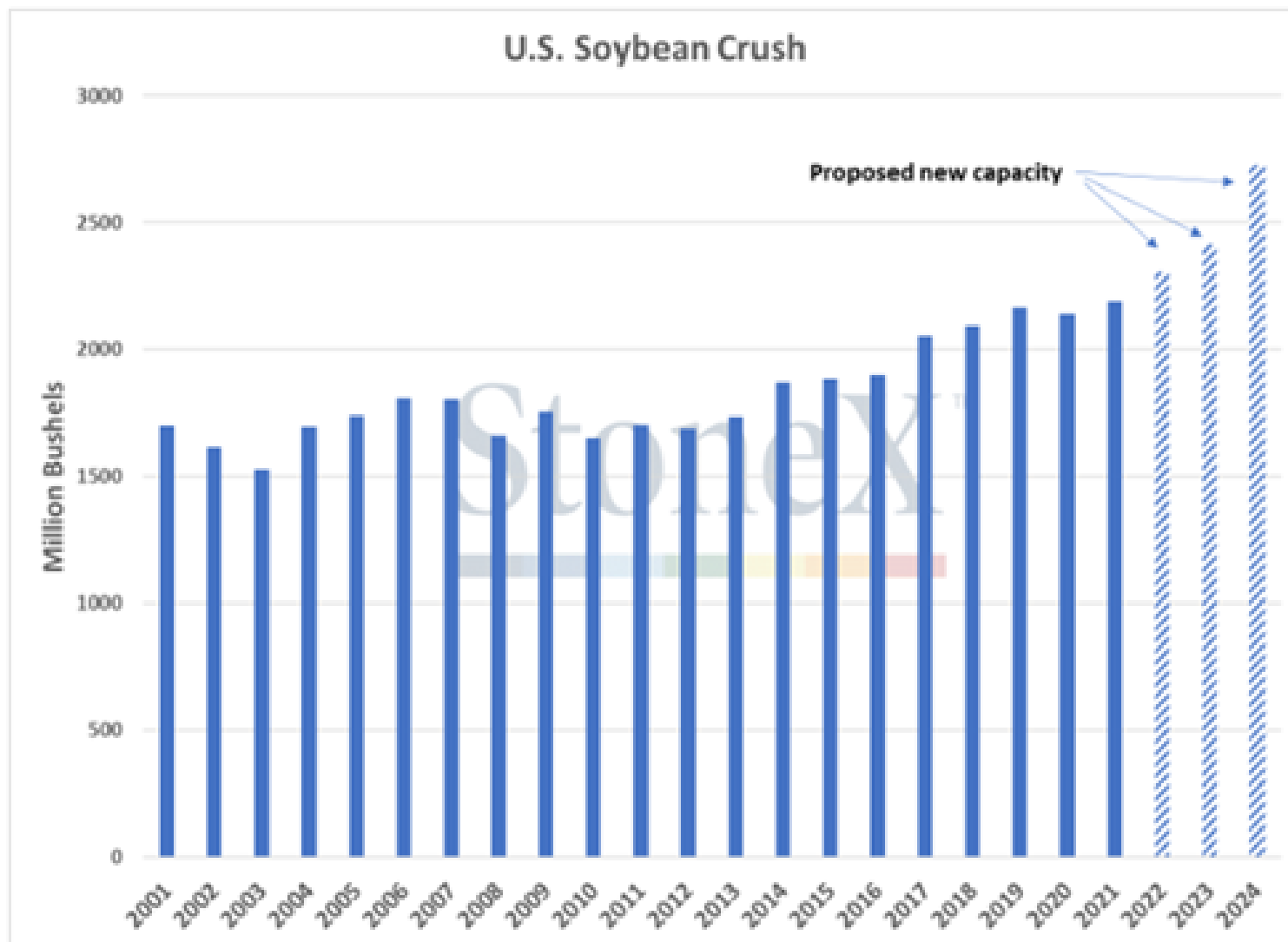


How do we meet Veg Oil Demand?

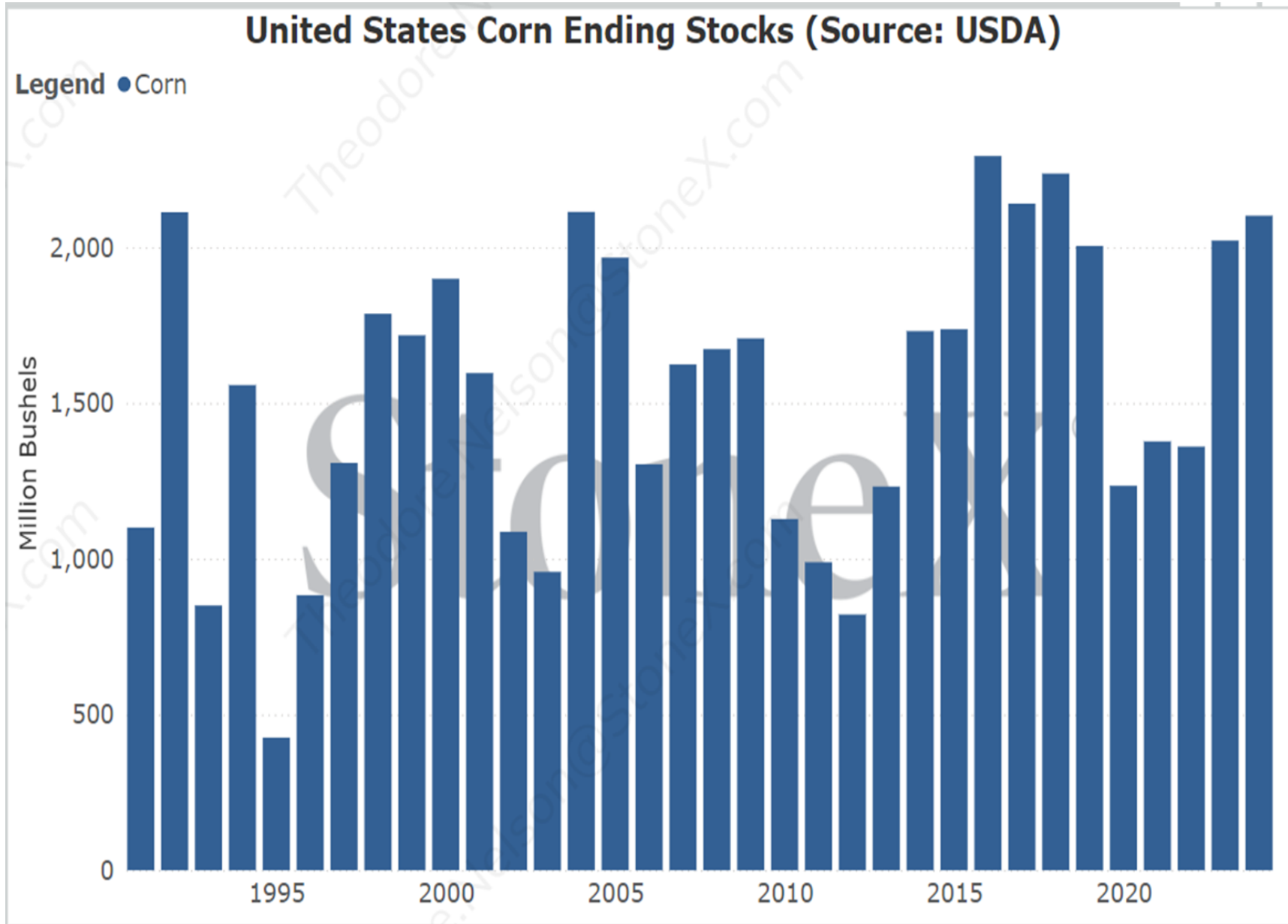
Easy math for 2024

- 1 bln gallon increase of bio/renewable production
- 7.6 lbs of feedstock to make 1 gallon of bio/renewable
- 7.6 bln lbs of additional feedstock required
- (add 660 mbu of crush capacity)
- 11 lbs of oil from 1 bushel crushed
- 7.26 bln lbs of additional soybean oil from proposed plants

240 mln lb deficit made up mostly by imported canola oil of which there are numerous plants being announced in Canada. We will also shut off exports of soybean oil, used cooking oil, and animal fats. (UCO and animal fats account for almost half of total feedstock into bio today but can't increase easily (we don't grow animals specifically for that and food demand for soybean oil is relatively flat).



Corn

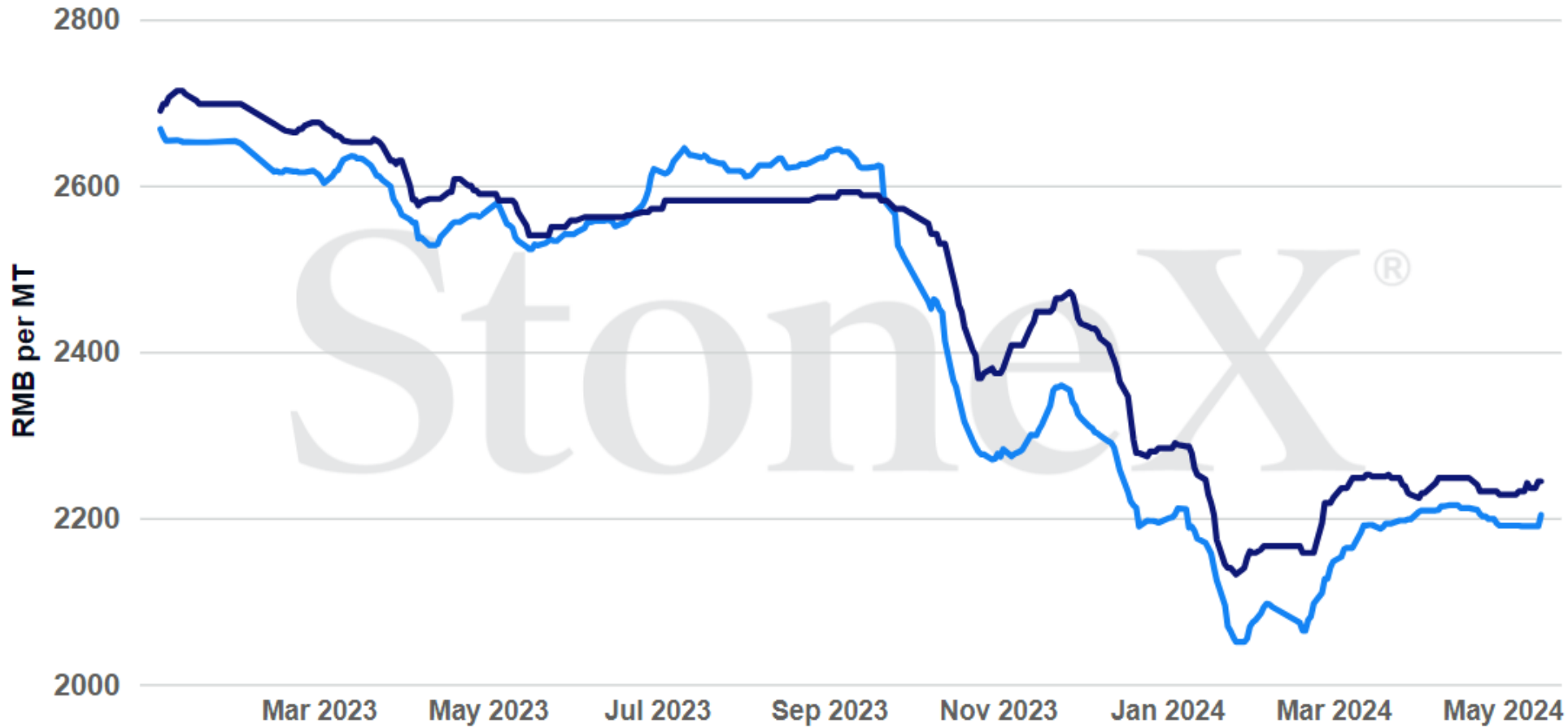


- Corn stocks looking to rebound for 2nd straight year
- Ending stocks look to be 40% off their 2020 lows
- This is bolstered by better US crops and South America crop also being “normal” the past couple years
- China is looking to have a materially better crop as well with domestic prices well off September 2023 highs and leveling out
- Risk still being put in market through with US crop going into critical growing season the next 90 days.

China Corn Price Offered by Industrial Processors

Source: JCI

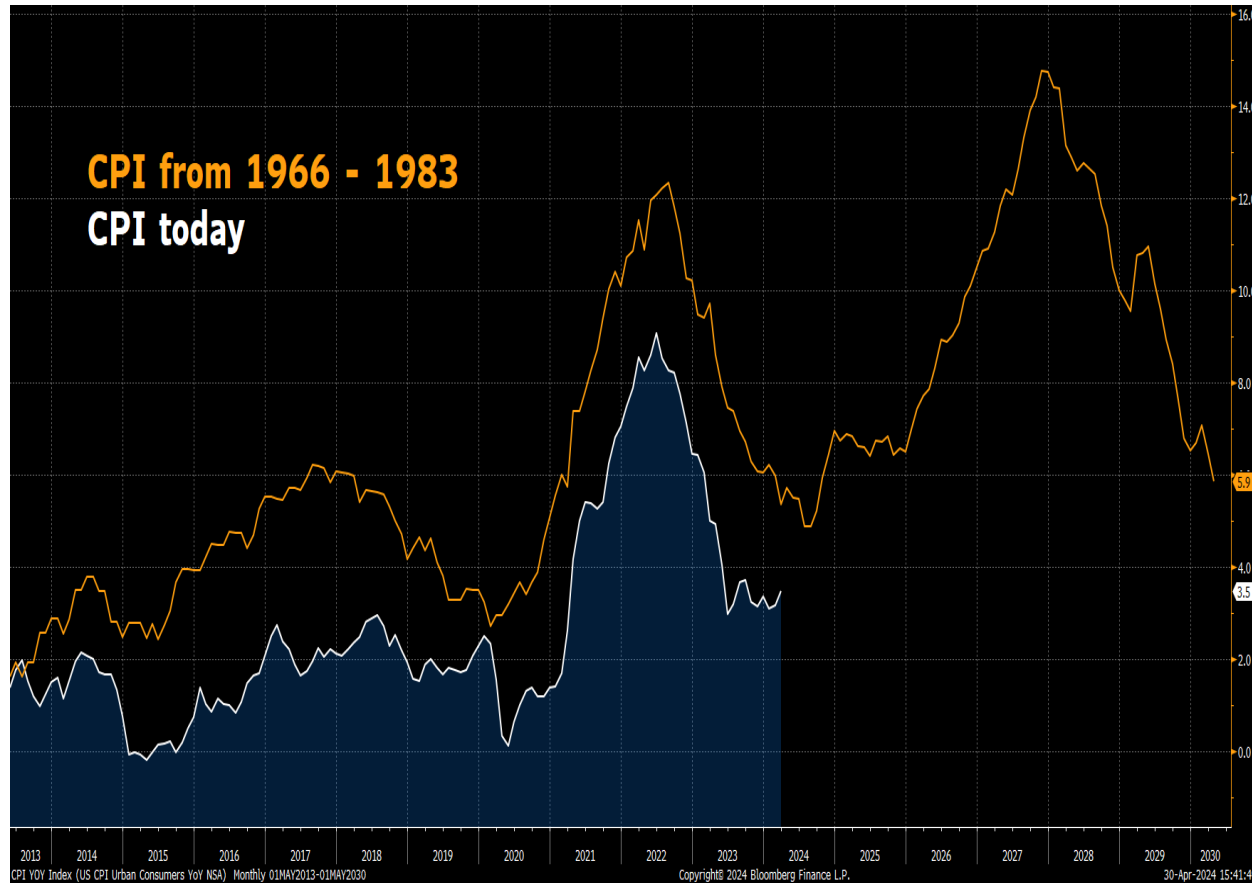
● Heilongjiang Province ● Jilin Province



Rates

CPI from 1966 - 1983

CPI today

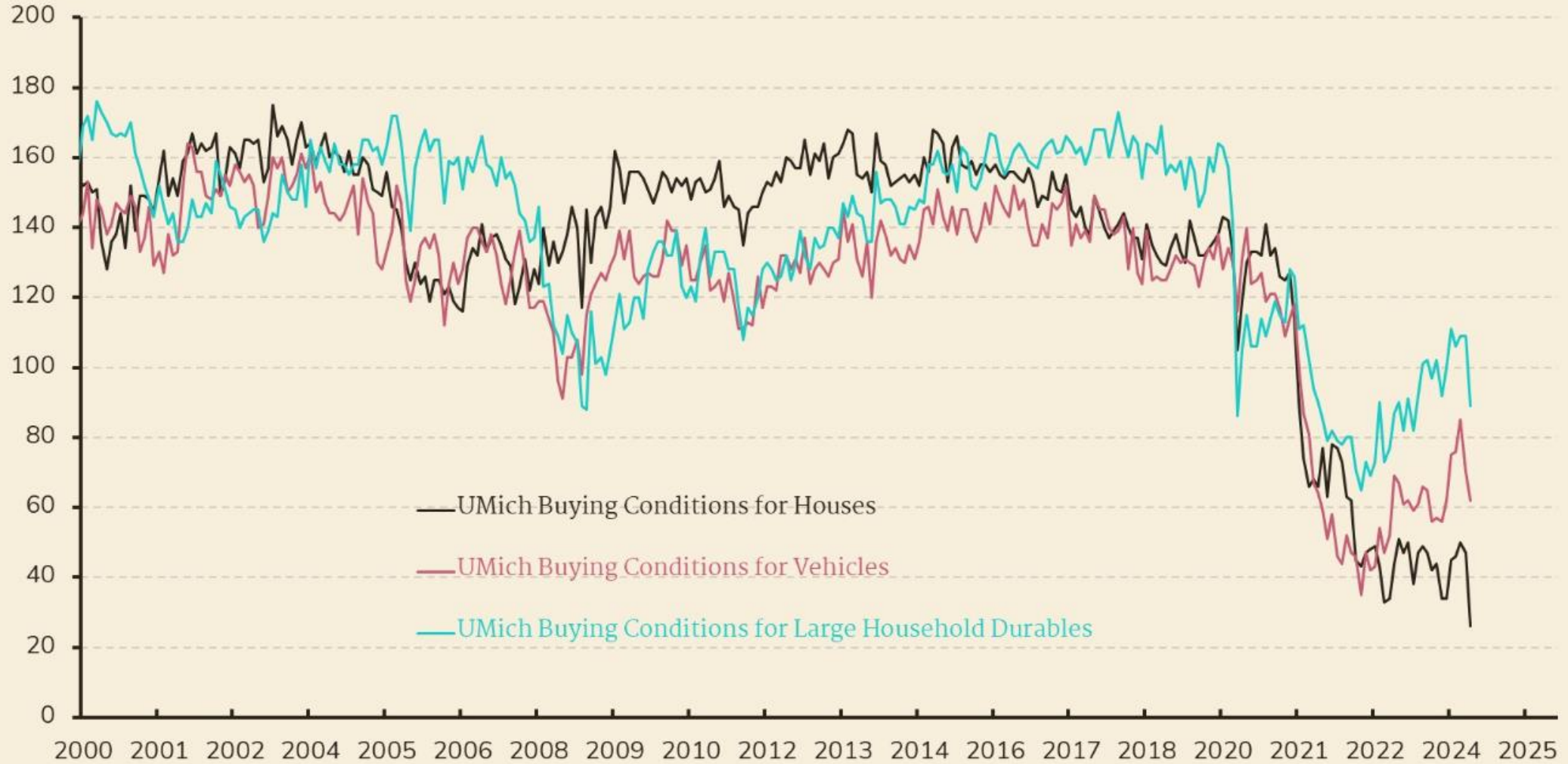


September or 2025

- The economic necessity for rate cuts just isn't there. Plain and simple
 - GDP is strong
 - Corporate earnings are solid
 - We're averaging 235k monthly jobs
 - The unemployment rate is at 3.8%
 - Wages are rising faster than inflation (all of which will be refreshed on Friday)
 - But most importantly, inflation progress is slowing, if not completely halted
- In addition, timing this year is especially tricky given the November election. And I am sure the barrage of critical Trump tweets back in 2019 are still fresh in Powell's memory
 - **This one comes to mind for me: "The Fed is like a powerful golfer who can't score because he has no touch – he can't putt!"**
 - So, to avoid tying the first rate cut into politics, its more than possible the Fed takes the November meeting off the table
 - Before that, we've got June, July, and September. Given that the "needed confidence inflation is moving sustainability toward 2%" clock has effectively been restarted – June and July are conceivably off the table as well. Leaving September as a reasonable window of opportunity
- If they skip September, I'd submit we don't see the first cut until 2025 - when the election dust settles, and new fiscal stimulus intentions are laid out
- In September – as long as the labor remains on solid footing – Powell may frame the cut as a way to recalibrate policy to maintain a 2.50% spread over inflation.
- That is, to keep rates pegged to inflation so that they are not applying too much of a breaking effect on the economy. A 10-20 bp improvement to PCE over the summer gets us there
 - Because again, there really isn't an economic necessity to lower interest rates anytime soon

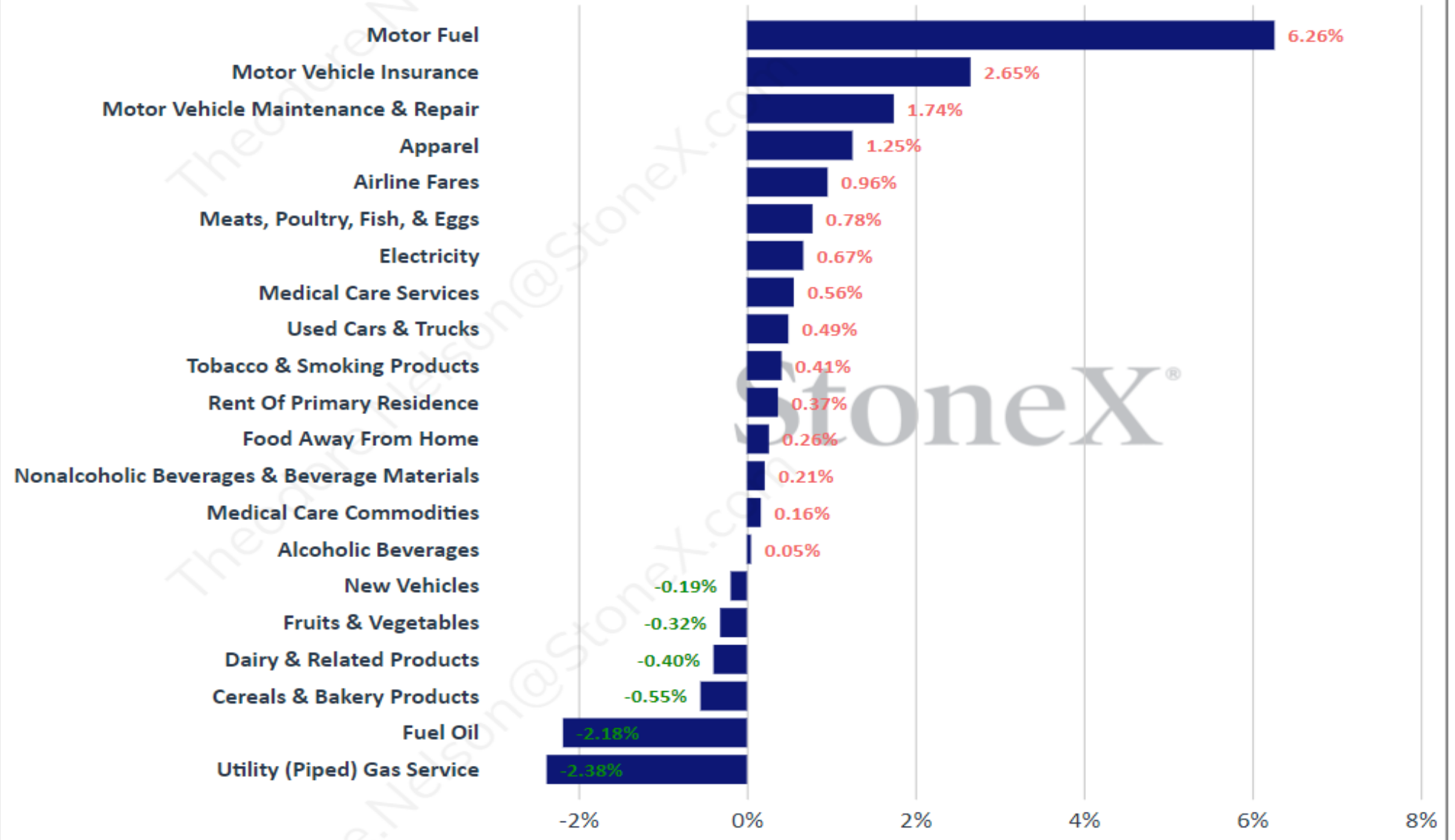


U of Michigan Buying Conditions



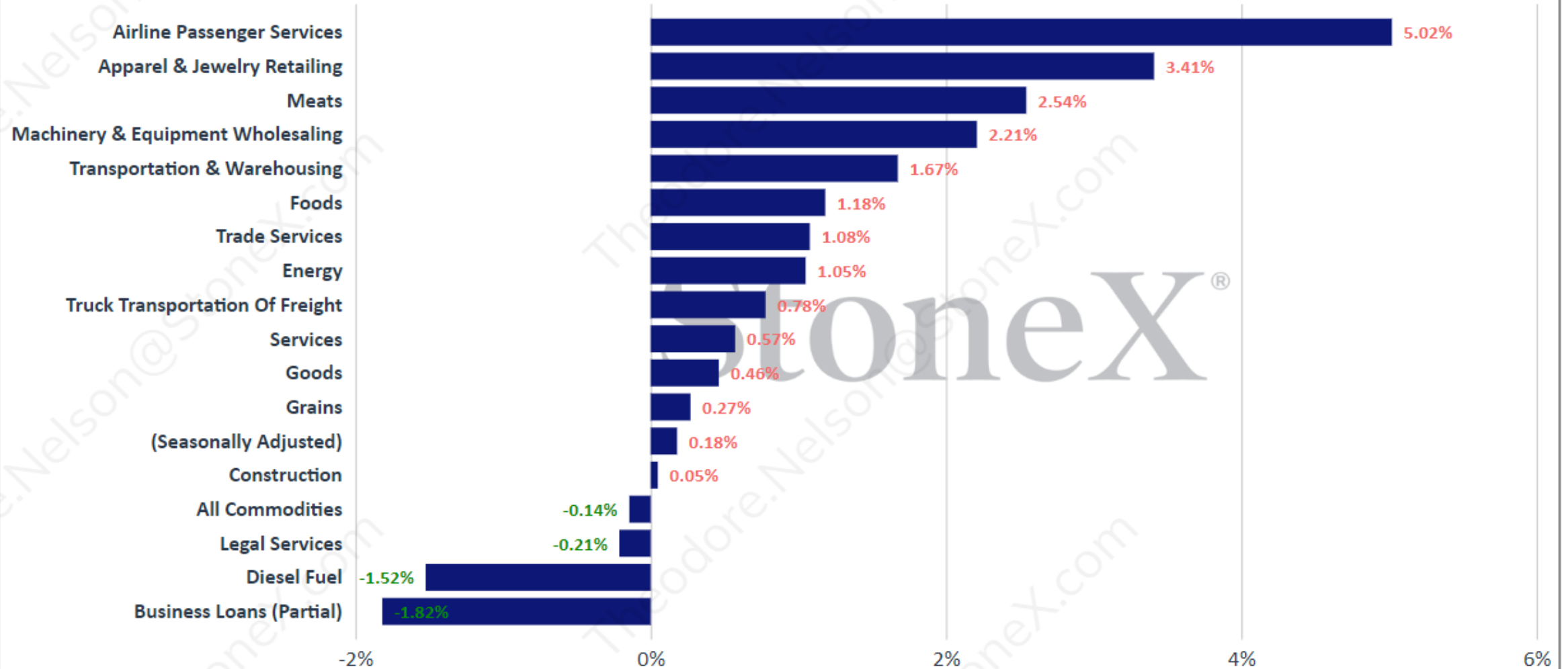
Mar '24 CPI Numbers: Select Categories Month/Month Change

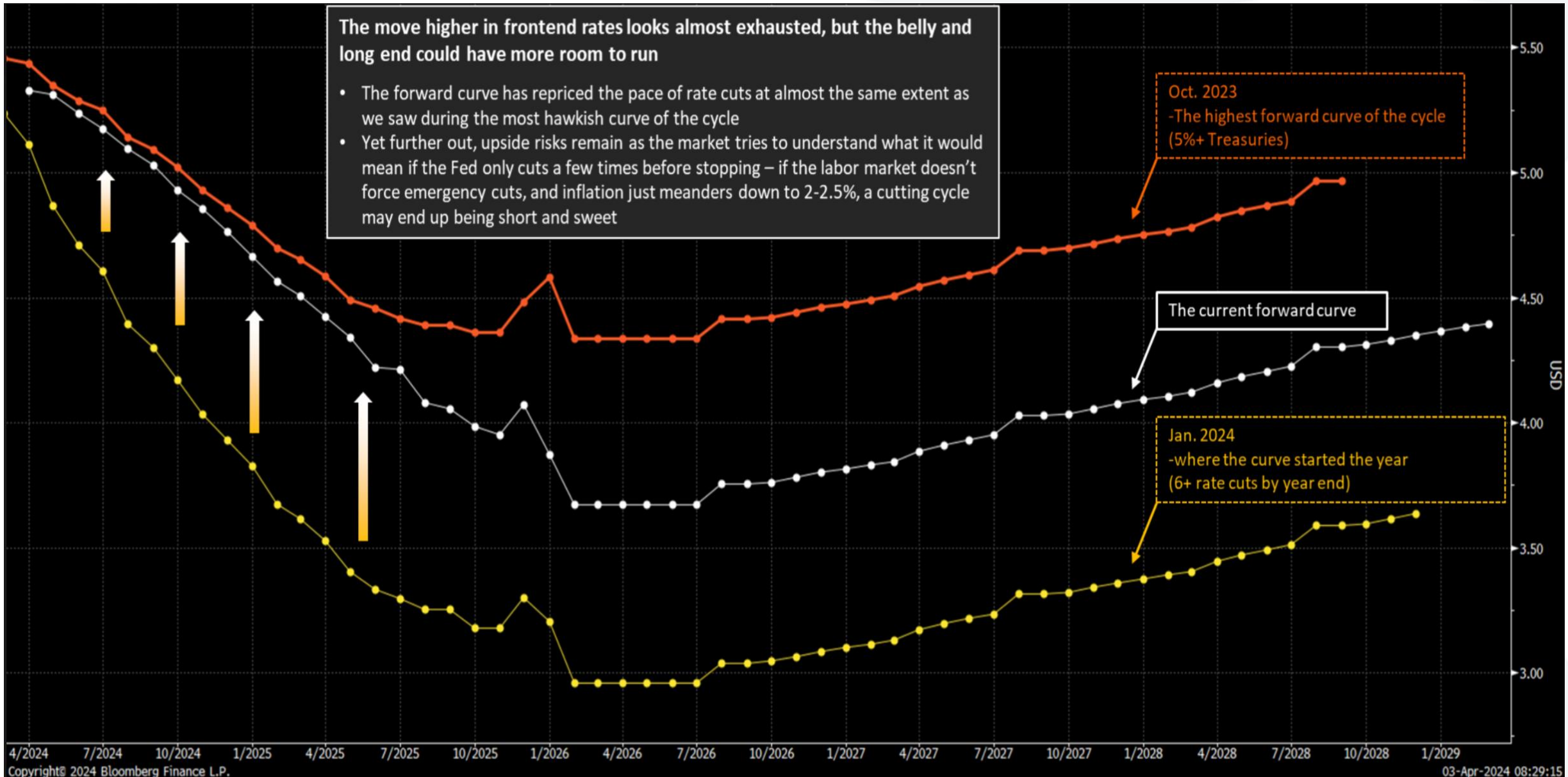
Source: StoneX Calculation & Bureau of Labor Statistics



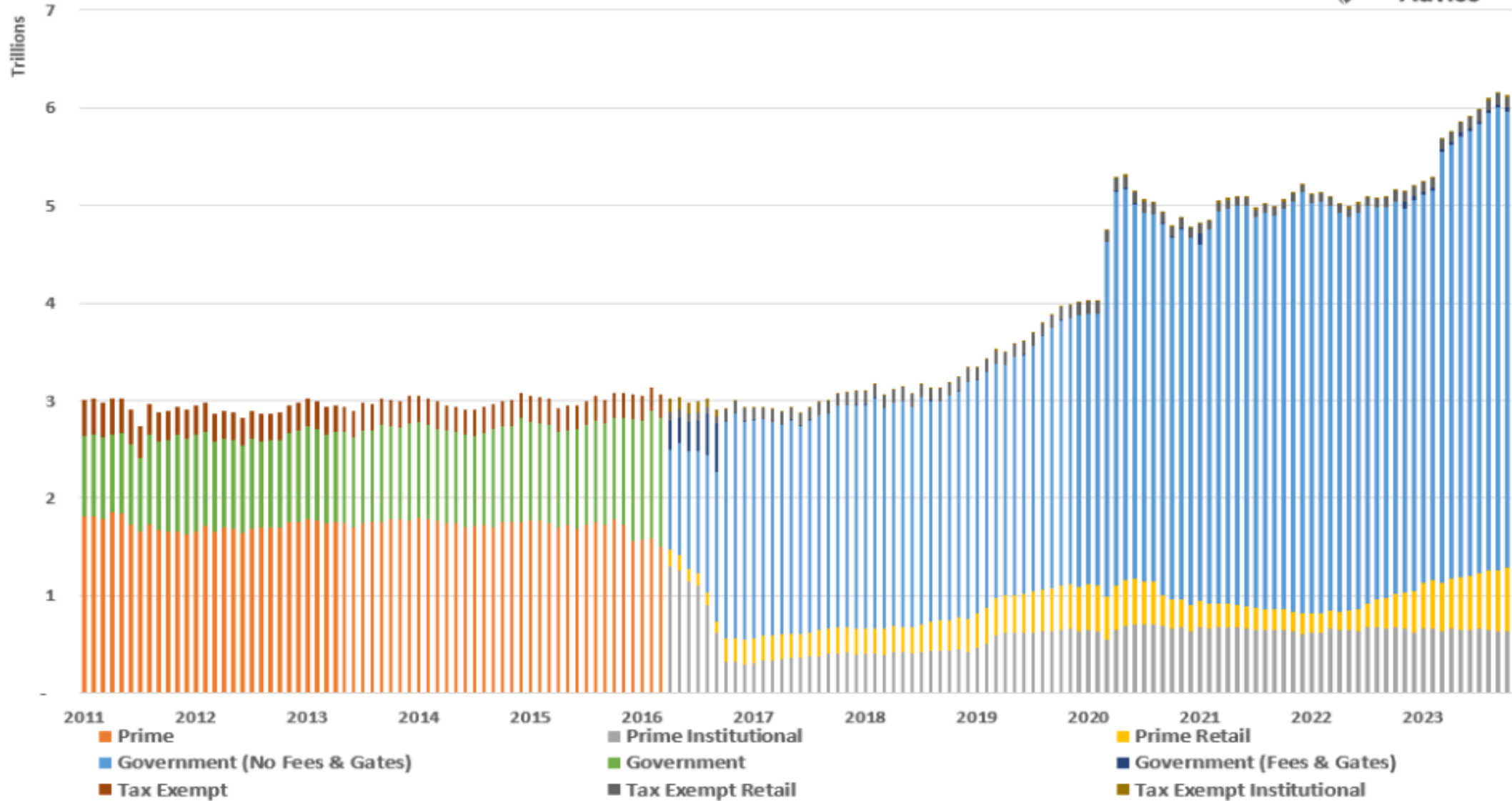
Mar '24 PPI Numbers: Select Categories Month/Month Change

Source: StoneX Calculation & Bureau of Labor Statistics





Money Market Funds By Type



Packaging/Plastics

Current Conditions

- US polyethylene producers have announced increases of 3.0 cents per pound for the month of March. Spot prices have weakened a bit throughout the month as domestic demand remains flat. Ethylene contract prices appear to have softened by 0.025 – 0.5 cents per pound in March. Domestic production continues to improve as new capacity comes online. Exports remain strong and US suppliers continue to use this opportunity as a “safety valve” to avoid a significant inventory build.
- The domestic US (PGP) propylene market remains tight as several PDH producers continue to recover from expected and un-expected downtime this past winter. Propylene prices continued to rise by 1.0 – 2.0 cents per pound in early March. Domestic demand is improving; however, some upcoming PP plant outages may prompt supply issues. US prices are expected to follow propylene up in the month of March but there may not be enough support for producer margin enhancement.
- Crude oil prices continue to rally higher while natural gas prices are turning back lower. Natural gas exports are expected to drop substantially as Freeport's LNG export terminal is offline for the next several months. Propane rebounded slightly in March but the end of inventory draw season will likely cap moves higher.

Outlook

Near term market conditions for polyethylene are fairly flat. In spite of efforts to raise prices in recent months, the combination of lackluster domestic sales coupled with low ethylene prices and new capacity coming online have counterbalanced continued strong exports. The situation for polypropylene is significantly different. Due to high domestic US prices PP exports have been minimal. A tight market for PGP propylene has pushed PP prices higher in recent months. There is a chance we could see prices tick up in March if propylene remains firm.

Market Indicators

Current Market Indicators		
Energy	Current	Last Month
WTI Crude Oil (\$/bbl)	82.22	77.67
Henry Hub Natural Gas (\$/MMBtu)	1.715	1.885
Mont Belvieu Ethane (\$/gal)	0.1830	0.1912
Mont Belvieu Propane (\$/gal)	0.8182	0.8971
Feedstocks	Current	Last Month
Spot Ethylene Mont Belvieu (cents/lb)	0.1888	0.1888
Spot Polymer Grade Propylene (cents/lb)	0.5713	0.5283
Production Rates	Current	Last Month
HDPE Op Rate (%)	87.5	85.1
PP Op Rate (%)	75.8	72.5
Price Momentum	Current	Last Month
HDPE (March)	Flat	68
PP (March)	Slightly Higher	75

The background of the slide features a large, stylized 'X' shape. The 'X' is composed of two intersecting diagonal bands. The top-left and bottom-right quadrants are a dark blue color, while the top-right and bottom-left quadrants are a slightly lighter, medium blue color. The text is centered on this background.

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Thank you

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