

From the volatility of soft commodities to the possible structural opportunities of agritech

Marco Mencini, Head of Research of Plenisfer Investments SGR

The 2023 has been a year of shadows and lights for soft commodities.

On the one hand there were significant price declines among some of the main cereals, which fell by an average of 40%, on the other hand, selected commodities such as cocoa (+60%) or sugar (+52%) have recorded a strong performance.

The market remains characterized by **high volatility**, with performance reflecting production trends connected to extreme or cyclical meteorological phenomena – such as the periodic return of El Niño –, but also to cyclical factors, such as the restriction of grain supply due to the war in Ukraine.

In the face of market volatility, which can attract speculative investments, in our view there is a long-standing and long-term **structural trend**: food demand will continue to grow and supply will remain limited. Growth will be driven by rising global population and increasing urbanization and middle-class development, which will lead to a change in eating habits. On the other hand, the supply will remain constrained to the space devoted to agricultural production, which is not likely to increase.

In this scenario, at Plenisfer we believe we can seize the opportunities associated with this secular trend with a "lateral" investment approach rather than a direct investment in soft commodities. We look i.e at the "**agritech**" sector, namely the sector of technology applications and solutions dedicated to agribusiness.

In a context of growing food demand and limited supply, we believe that this sector is set to be very decisive in increasing the productivity of cultivation areas and will benefit, in emerging countries, from a trend of **mechanization** and the trend of **digitization** and automation of **agriculture** in Western countries.



The industry has long been affected by technological development which will be further accelerated by the spread of new solutions, including **Artificial Intelligence** systems which will increase the accuracy of helpful calculations, i.e., to determine the amount of water or fertilizers to be used. This solution could also support the diffusion of **autonomous driving** systems that are particularly suited to agricultural areas and their adoption will increase as satellite systems become more widespread, capable of ensuring connection and data transmission even in rural areas

Looking at the agritech sector, we consider the 2023 as a year of **retracement**.

In particular, the main players of the sector, the three players that control almost 90% of the US market – the absolute leader John Deere, AGCO and CNH – recorded declines in stock prices of – 11%, –11% and –33% respectively¹.

This trend reflects various factors.

The agricultural machinery sector reflects **long term cycles**: traditionally the renewal of machinery takes place over a period of 7–10 years, a time frame which is, however, significantly narrowing in light of the speed in technological innovations that accelerate the obsolescence of the previous products.

The last cycle of strong purchases of machinery materialized between 2021 and 2022. During this period the growth in prices of agricultural commodities – supported first by the pandemic and later by events such as the war in Ukraine – generated huge cash that producers reinvested in machinery renewal.

In light of the 2023 commodity prices trend, producers have decreased investments: **the current year can be considered one of cyclical moderation**, a trend that we expect to continue also in 2024. However, next year we do not expect further strong pressure on major players stock prices which are already in line with the multiples recorded in the downturns of the industry cycle.

At Plenisfer, we therefore believe that agritech could enter a **new positive cycle starting from 2025** and should therefore be monitored carefully in light of its cyclical dynamics and the structural trends that will continue to support it over the long term.

Looking at this industry, it could allow to capture the potential related to the growing diffusion of artificial intelligence on the one hand, and of the trends of digitalisation and automation of production on the other in a market characterized by structural scarcity of supply and progressive and constant expected demand increase.

¹ Source: Bloomberg



Disclaimer

This analysis relates to Plenisfer Investments SGR S.p.A. ("Plenisfer Investments") and is not a marketing communication relating to a Fund, investment product or investment services in your country. This document does not constitute an offer or invitation to sell or buy any securities or any business or enterprise described herein and does not form the basis of any contract.

Any opinions or forecasts provided are accurate as of the date specified, are subject to change without notice, do not predict future results and do not constitute a recommendation or offer of any investment product or service. Past performance does not predict future returns. There can be no assurance that an investment objective will be achieved or that there will be a return on capital. This analysis is addressed exclusively to professional investors in Italy pursuant to the Markets in Financial Instruments Directive 2014/65/EU (MiFID). It is not intended for retail investors or US Persons, as defined in Regulation S of the United States Securities Act of 1933, as amended.

The information is provided by Plenisfer Investments, authorized as a UCITS management company in Italy, regulated by the Bank of Italy - Via Niccolò Machiavelli 4, Trieste, 34132, Italy - CM: 15404 - LEI: 984500E9CB9BBCE3E272.

All data used in this analysis, unless otherwise indicated, is provided by Plenisfer Investments. This material and its contents may not be reproduced or distributed, in whole or in part, without the express written consent of Plenisfer Investments.

