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Investing for a
world of change

Notes from the road: The end of plenty – opportunities in agriculture

A week in the Corn Belt, including farm visits and meetings with companies across the US agricultural value chain, highlighted that the backdrop in agriculture is changing. We see selective opportunities for long-term investors.

A graphic designed to look like a postcard. The background is a light beige map of North America. The word 'POSTCARD' is written in a large, black, sans-serif font across the top. In the top right corner, there is a circular postmark and a postage stamp with a scalloped edge. The stamp depicts a stylized landscape with a yellow sun, green hills, and a red barn. On the left side of the map, the 'Corn Belt' region is highlighted in a light red color. To the right of the map, there is a vertical line separating it from a list of three bullet points. At the bottom right, the name 'Dawid Heyl' is written in a cursive script, with 'Portfolio Manager' in a smaller, sans-serif font below it.

POSTCARD

Corn Belt

- Conditions are changing in the agriculture sector. We expect volatility, but there are new opportunities for long-term investors in parts of the value chain.
- Grain markets are tightening. Supply risks are rising after years of plentiful production, and ethanol and renewable fuels are becoming bigger sources of demand.
- We see nitrogen fertiliser as the standout opportunity. The agricultural-equipment sector looks more challenged; investors may have to wait for farm balance sheets to repair.

Dawid Heyl
Portfolio Manager



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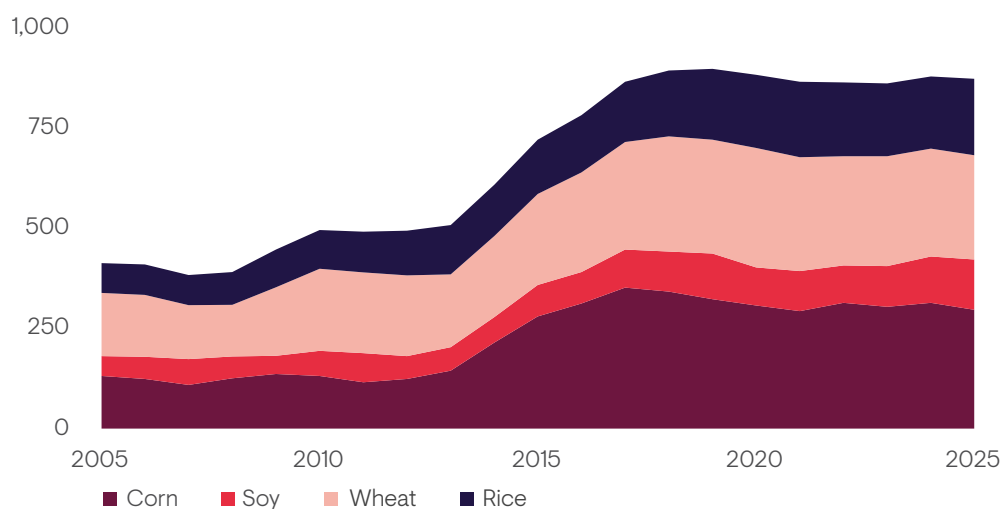
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1 Grain markets are tightening; costs are rising

For much of the past decade, investors in agriculture have contended with abundant grain supplies, supported by favourable growing conditions. However, global inventories of the major grains have plateaued, supply risks are increasing and additional sources of demand are emerging.

Weather is a potential pressure point. Meteorologists are monitoring conditions that could develop into a prolonged El Niño, which in turn could disrupt production of rice, wheat, palm oil and pulses. Among the major producing regions, parts of Southeast Asia, India and Australia have historically been most exposed to the weather phenomenon, while the US Midwest and Western Europe are less so.

Figure 1: Global inventories of corn, soy, wheat and rice (mm MT)



Source: Bloomberg, Ninety One. September 2026.

Prices have begun to respond, with new-crop corn futures rising 23% during July and August and soybeans rising 13%. But prices are still only modestly above the estimated cost of production for the marginal US farmer. At these levels, there is little incentive to expand acreage, so the market has not yet rebalanced.

Cost inflation came up repeatedly in conversations. A prolonged period of higher global oil and associated diesel and fertiliser prices is a particular concern for farmers. For investors, however, the picture is more nuanced. Broad upwards pressure on prices is likely to add to global inflation, which may benefit the asset class overall: natural resources equities have historically tended to perform well during periods of higher inflation.¹

2 Nitrogen fertiliser is a standout opportunity

The Gulf is a major source of nitrogen fertiliser and related inputs, and disruption to shipments has tightened global supply of these important commodities. Northern Hemisphere farmers entered the conflict relatively well stocked, which cushioned the impact on the current crop. Now, farmers may have to re-enter the input market, to the benefit of fertiliser producers.

Nitrogen is our preferred area within agricultural inputs, and we think supply may remain tight for longer than the market expects. European fertiliser production is under pressure from high and uncertain gas prices, and ammonia prices rose sharply in the weeks before our US visit. Usage is hard to ration further, as farmers have already trimmed application where they can and cutting more would begin to affect yields. Northern Hemisphere restocking is due to begin early in the new year.

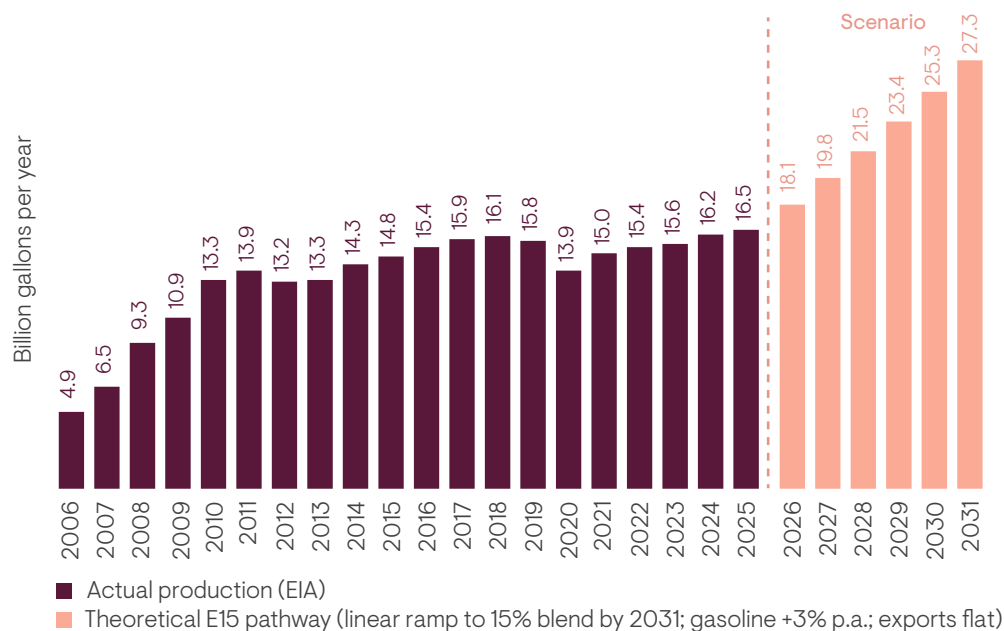
Among other inputs, seeds are another area where we think the outlook appears more attractive, particularly relative to crop protection.

1. See our May 2026 paper, 'Preparing for regime change: the role of natural resources equities'.

3 Corn has a new demand engine

One of the strongest messages from the trip was the prospect of a structural increase in US corn demand to make ethanol. Most gasoline sold in the US today contains up to 10% ethanol. Legislation to permit year-round sales of 15% blends (the E15 pathway) is advancing and enjoys broad support, including from lawmakers who see it as a way to grow domestic demand for farm products and reduce reliance on annual support payments. The move from today's blend towards 15% implies a meaningful increase in ethanol use, and therefore corn demand, over time. Renewable diesel benefits from similar dynamics (near-term tightness in diesel markets is even more pronounced than in gasoline markets).

Figure 2: US fuel ethanol production, 2006-2025, with theoretical E15 pathway to 2031



Source: EIA, oxygenate plant production of fuel ethanol (annual sums of monthly data). 2025 supply/disposition: gasoline supplied 3,261mb; ethanol blended 326.8mb (10.0% blend); exports 52.7mb. Scenario: production = gasoline pool × blend rate + exports (held at 2025 level) + 2025 residual. Gasoline pool +3% p.a. from 2025: blend rate ramps linearly 10.0% → 15.0% by 2031. 2026 shown as scenario year.

Federal renewable fuel obligations are now a larger driver of renewable diesel demand than California's Low Carbon Fuel Standard and other state programmes combined, which broadens the opportunity beyond a single state. Margins remain strong, and we think the market may be underestimating the potential earnings contribution from this demand source.

4 Equipment sector has longer path to recovery

Agricultural equipment is a less positive story, for now. Farmers will need time to repair their balance sheets before purchasing expensive machinery, and manufacturers expect only a gradual recovery. There is pent-up replacement demand because industry production has been below underlying demand for two to three years. This has caused the value of used machinery to firm up, narrowing the gap with new equipment. However, the market appears to be anticipating a more substantial recovery in the agricultural equipment sector than the evidence from the farm gate currently supports.

Looking ahead

The path ahead is unlikely to be smooth for the agriculture sector. In the near term, we are watching the progress of El Niño, fertiliser pricing and availability ahead of the next planting season, the progress of ethanol legislation and the 2028 renewable fuel obligations, the pace of Chinese purchases of US farm products, and the speed at which farm balance sheets are recovering.

While we expect volatility, we see opportunities for long-term investors in the parts of the value chain with the strongest supply and demand dynamics: nitrogen first, biofuels close behind along with seeds, while agricultural equipment may have to wait for balance sheets to repair.

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