

The Ghost In The Machine



Q1 EDITION 2026



ADM Investor Services
International Limited

EDITOR'S NOTE

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2026

AI, Credit, Data, Risk Management, Readiness, Agriculture, Land, Energy, Sugar, Dairy, Protein, Dry Freight, Price Formation, Basis, Farming, Profitability, Japan, Debt, Stimulus, SAF, Aviation, UK, Tourism

Welcome to the Q1 edition of the Ghost In The Machine, as

military conflict in the Middle East again disrupts supply chains, swinging the pendulum further away from 'Just in Time' to 'Just In Case' not only in the short-term, but also requiring long-term strategic repositioning.

There is a detailed discussion about AI implementation in commodities

and energy trading, highlighting the risks of focusing on speed, proof of concept and activity traps, and the need to understand not only what the technology is doing, but also why.

In a similar vein, there is a look at how AI and automation are transforming credit risk management, above all increasing productivity, but also emphasising that human judgement remains essential.

Sugar prices have had a torrid 12 months as markets have focused on a supply surplus, but perhaps greater attention needs to be paid to the tight stocks-to-use ratio, robust demand, and the risk of lower production and weather events.

The US joint ABA/Farmer Mac 2025 Agricultural Lender Survey suggests that up to half of US farms would be unprofitable, prompting a bipartisan group of agricultural and biofuel leaders to send a letter to Congress with a plan to revitalise the sector.

We also take an in-depth look at prospects for the dairy sector, and the complex interface between rising production, protein demand and changes in consumer behaviour.

What key points should investors be looking at with regard to the adoption of Sustainable Aviation Fuel (SAF) and the implications for airlines?

Dry bulk freight prices are formed by fundamentals, but what is recorded as "the price" is shaped by institutions, benchmarks, and conventions; as such, large-scale traders' risk management focuses increasingly on basis.

Finally, Japan's PM Takaichi faces a high-wire act in balancing a huge debt load against her government's expansionary fiscal policies.



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THE GHOST IN THE MACHINE

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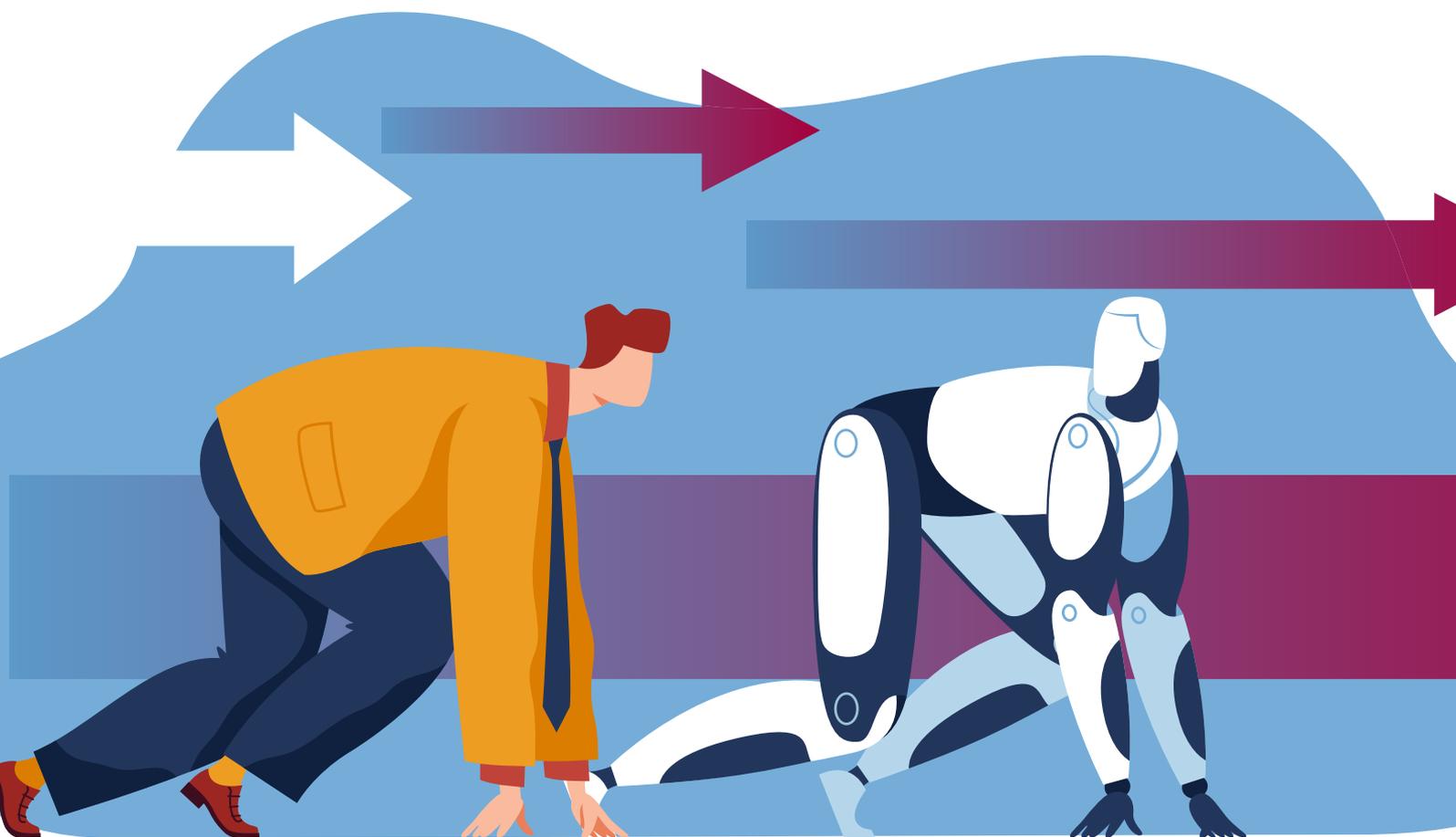
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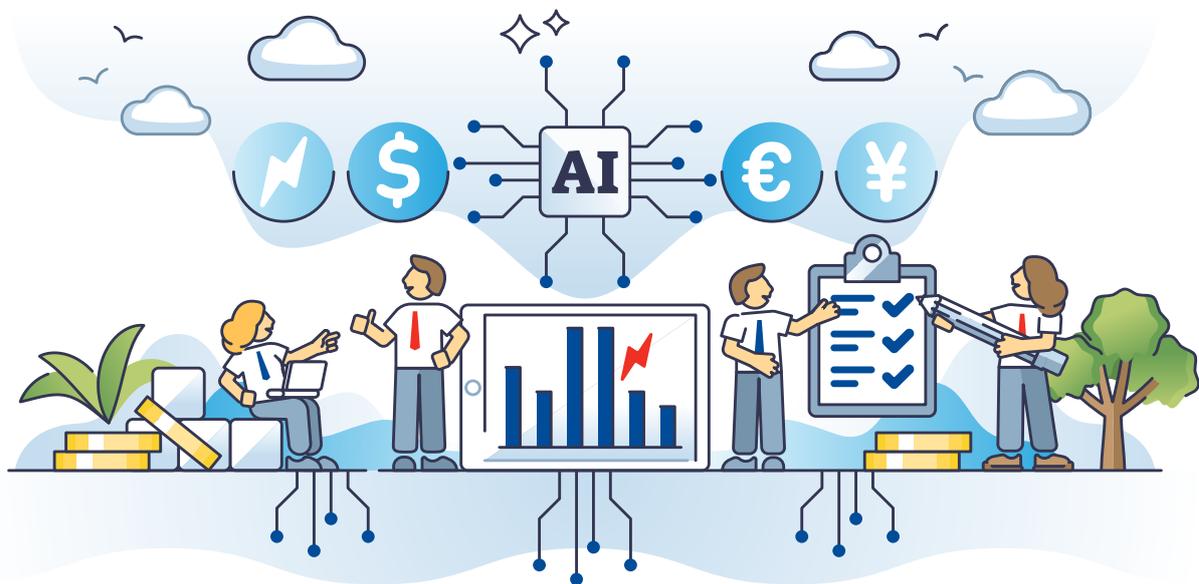
About ADMISI



AI IN TRADING IS NOT A RACE. BUT IT IS A READINESS TEST.

Across much of the energy and commodities sector, artificial intelligence still feels like a question of timing. Some organisations see caution as prudence and choose to wait. Others highlight a growing list of proof of concepts as evidence that they are already moving forward. In both cases, progress is often judged by visible activity rather than measurable impact, restraint at one end, experimentation at the other.





In reality, AI adoption is neither a simple switch nor a competitive sprint. It is a test of how well an organisation understands its own processes, data, and decision making. What AI exposes is not just technical capability but organisational reality. This is why some AI efforts in trading are failing for the reasons people do not expect. They don't collapse because the models are inadequate or the technology immature. They falter because AI brings hidden assumptions into the open, and many organisations are not yet prepared to confront them.

“**WAITING DOES NOT PRESERVE SIMPLICITY – IT ALLOWS COMPLEXITY TO BUILD OUT OF SIGHT.**”

STAGE ONE: NOT STARTED YET, BUT NOT STANDING STILL

There are legitimate reasons why some trading businesses have not yet deployed AI in live operations. Regulatory scrutiny is intense, margins are volatile, and the cost of mistakes is high. In that context, caution can feel like responsible governance.

The danger is confusing inaction with neutrality.

Even organisations that have not launched formal AI programmes continue to change. Processes evolve organically. Manual workarounds become part of everyday practice. Data is reconciled through experience and judgement instead of explicit rules. Critical knowledge settles in people rather than systems.

Much of this remains invisible. Human expertise quietly absorbs inconsistency and ambiguity as part of routine work. When AI is eventually introduced, these hidden dependencies surface almost immediately, and early initiatives tend to stumble not because the technology is weak, but because the organisation struggles to answer simple questions with certainty. Which figure is authoritative. When it becomes final. Who owns it. Under what circumstances it can change.

Such questions are manageable when people bridge the gaps informally, but they become unavoidable when a system must operate consistently, at scale, and under scrutiny. For those that have not yet begun, the warning is straightforward - waiting does not

preserve simplicity, it allows complexity to build out of sight and when AI finally arrives, it meets not a clean slate but years of unexamined assumptions.

STAGE TWO: THE PROOF OF CONCEPT TRAP

At the opposite end are organisations that have embraced experimentation. They have run multiple AI proof of concepts and can demonstrate technical feasibility with some even showcasing impressive results in controlled settings.

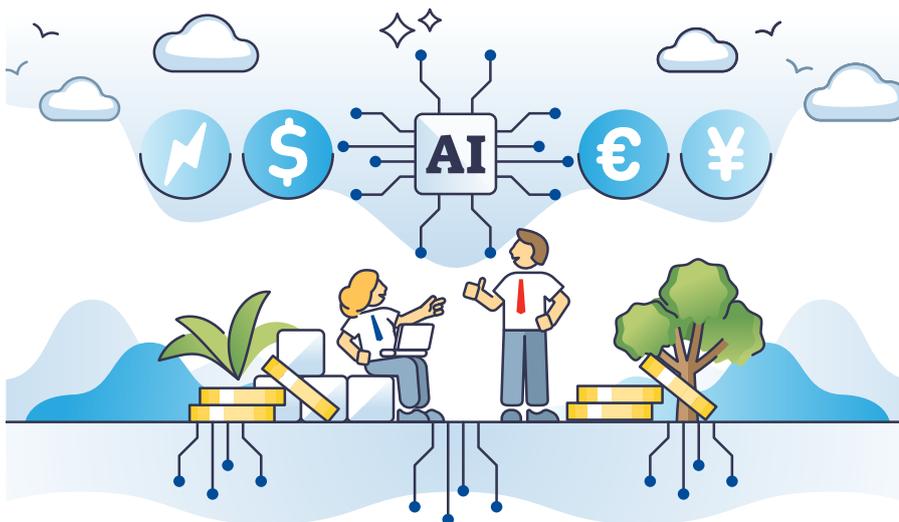
Yet daily operations often look much the same.

This is the proof of concept trap. POCs are designed to answer narrow questions quickly. They sidestep governance, streamline data flows, and operate outside production constraints. That is precisely why they succeed. It is also why they struggle to scale.

Over time, organisations accumulate a portfolio of successful experiments without a clear route to operational value. Each POC carries its own assumptions and solves a local problem, and few address the harder issues of accountability, trust, or ownership of decisions.

Repeated experimentation can also introduce fragility. Point solutions multiply. Architectural coherence begins to erode. Confidence weakens, not in AI itself, but in the ability to translate insight into impact without increasing risk. At this point, progress slows not because the technology has disappointed, but because the organisation has reached the boundary between experimentation and responsibility.





WHAT RESILIENT BUSINESSES DO DIFFERENTLY

Businesses that move past this stage tend to share a few common traits. They recognise early that AI will change faster than traditional systems, and so instead of pursuing stability through rigidity, they design deliberately for evolution. Business logic is separated from model logic and assumptions are recorded rather than hidden.

They treat validation and observability as core disciplines, not simply to satisfy regulators, but to sustain trust. They know where their numbers originate, how they are produced, and when they deserve scrutiny.

Most importantly, they define AI's role in decision making before scaling its reach. They are clear about where it informs, where it recommends, and where it acts and human accountability is explicit, not assumed.

REDEFINING PROGRESS

Success with AI in energy and commodities trading is often described in terms of sophistication. Smarter models. Faster computation. Greater automation.

In practice, success is more subtle than this.

It appears in organisations that can defend their numbers under pressure, and in systems that evolve without undermining trust. Teams that succeed are the ones that understand not only what the technology is doing, but why.

AI does not reward speed for its own sake, nor does it penalise caution. It rewards honesty about readiness.

AI is not replacing traders. It is exposing how trading organisations truly function, and those prepared to face that reality will find progress comes more naturally. Those who are not will continue to mistake activity for momentum.

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WHERE PROGRESS REALLY STALLS

When businesses find themselves caught between early promise and meaningful impact, the instinct is often to search for better tools, more data, or more advanced models. In practice, the blockage usually sits elsewhere.

It appears where AI meets real decision making.

Trading decisions are time sensitive, commercially delicate, and shaped by context that rarely fits neatly inside systems. Introducing AI into this environment raises questions that extend beyond performance metrics. How much trust is sufficient. Who carries accountability when outputs are incomplete or wrong. When human judgement should override automated insight, and how that intervention is recorded.

Many organisations realise at this stage that they have never fully described how decisions are made today. Processes exist, but their interpretation varies across desks and regions. Exceptions are handled skilfully, but informally, and risk is managed through experience rather than explicit frameworks.

AI struggles with ambiguity of this kind, and while it does not fail spectacularly, it simply cannot advance without clearer boundaries. This is where many initiatives slow dramatically, not for lack of potential, but because they have reached the limits of implicit understanding.

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*AI DOES NOT REWARD
SPEED FOR ITS OWN
SAKE. IT REWARDS
HONESTY ABOUT
READINESS.*”

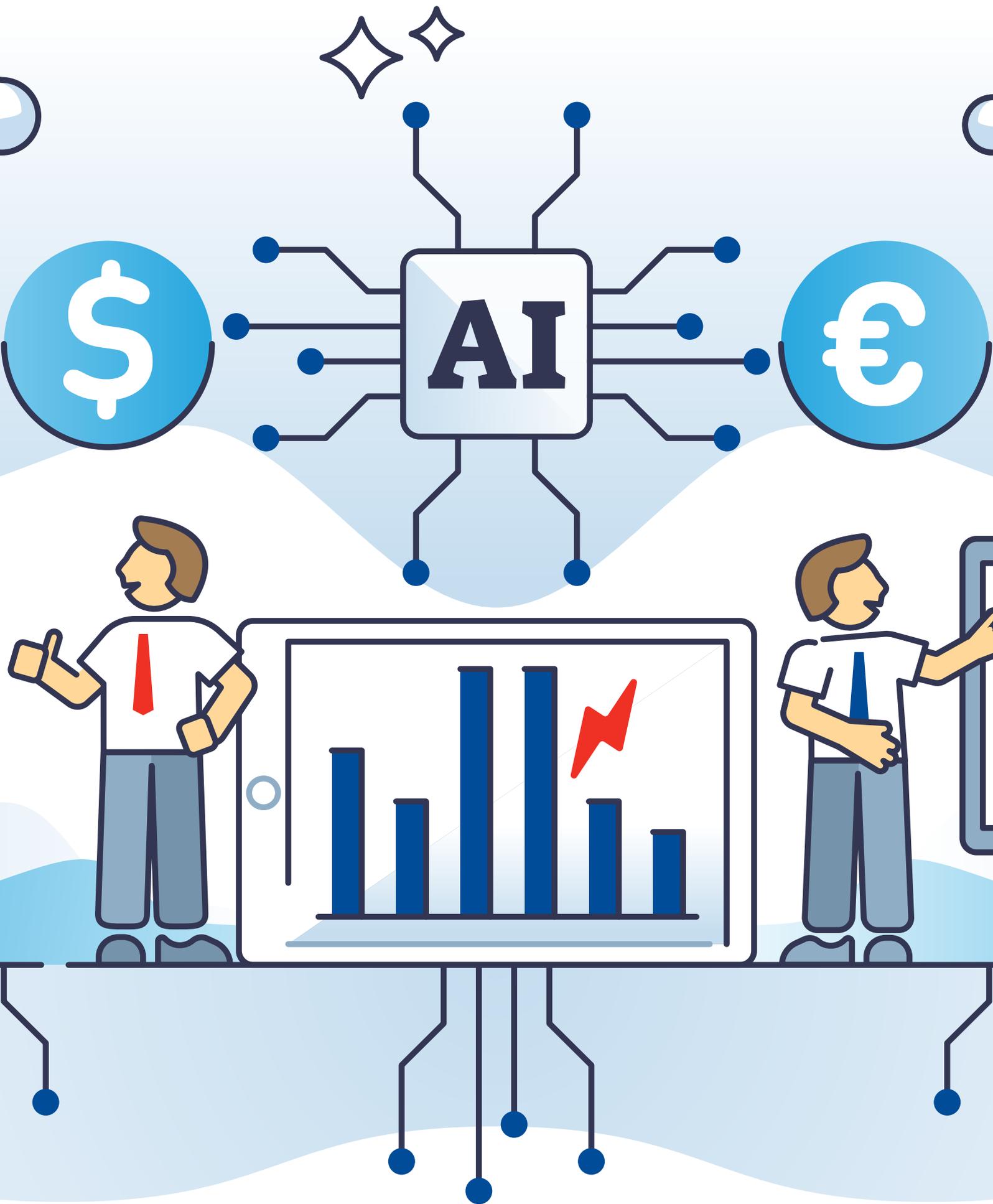
BRITTLENESS IS THE HIDDEN RISK

As AI programmes expand, another risk tends to develop. Infrastructure that looks advanced on the surface can become fragile underneath.

Brittleness rarely stems from a single poor choice, tending to grow through a series of sensible short term decisions. Whether that's a POC being pushed into production with minimal redesign, or a model becoming tightly coupled to a specific data feed. Validation is layered on afterwards. Governance is attached rather than engineered.

Gradually, they end up with systems that function well only while conditions remain stable and integrating new data sources becomes costly. Changing tools feels hazardous, and improving models threatens downstream processes that were never designed to rely on them.

In a field where markets and technology both evolve quickly, this creates a difficult paradox. AI is introduced to increase agility, yet the organisation becomes less able to adapt.





“

*GLOBAL
PRODUCTION IS
FORECAST TO EXCEED
GLOBAL CONSUMPTION
FOR THE 2025/26
MARKETING YEAR.*

”

SUGAR SEARCHING FOR A LOW?

World sugar prices have declined by **51%** over the past two years, with the nearby price falling from a 12-year high of **28.14** in November 2023 to **13.67** by February 2026.

Global production recovered after drought and extreme heat caused problems in certain growing areas in 2023. A key driver in the selloff has been a global production surplus this marketing year. After falling to deficit in 2024/25, global production is forecast to exceed global consumption for the 2025/26 marketing year, which runs from October through September.



As prices have declined, funds have accumulated a record net short position. This leaves fewer sellers waiting in the wings and leaves the market vulnerable to a short covering rally if market perceptions change. As of February 17, 2026, managed money traders were net short 241,777 contracts in the ICE Sugar No. 11 contract, the largest on record.

The Global Surplus is likely to shrink in 2026/27.

Early forecasts are calling for a surplus of 156,000 to 4.4 million metric tons, which would be down from 1.2 to 6.7 million currently estimated for 2025/26. Analysts are expecting low prices to spark disinvestment in cane production, fewer beet plantings, and a movement towards more ethanol production in cane crushing activity in the next growing season. Early forecasts have EU beet planting dropping 4% to 7% this year.

Excessive rainfall has reduced expectations for India's 2025/26 output.

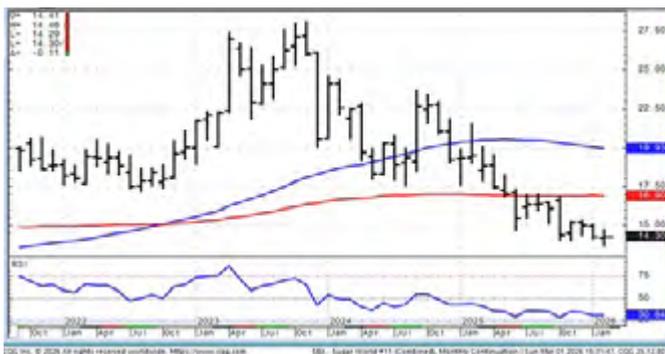
In late February, the Indian Sugar & Bio-Energy Manufacturers Association (ISMA) put their forecast at 29.3 million tons, down from a forecast of 30.95 million previously but up from 26-28 million in 2024/25. Cane yields are down across all the main producing states, from Maharashtra and Karnataka to Uttar Pradesh and Gujarat.

Reduced rainfall from the 2023/24 El Niño event damaged India's 2024/25 crop. That was one of the five strongest El Niño events on record and it ushered in extreme heat as well as reduced rainfall in India. India's 2023 monsoon rainfall was below normal, and that August was the driest and warmest since 1901. 2024 was the hottest year on record for India as well.

Climate forecasters expected El Niño to return in 2026, but not until late summer or fall.

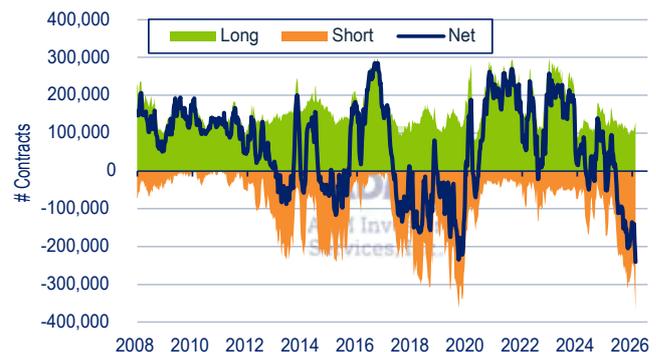
As of February 2026, the current La Niña event was transitioning to an ENSO-neutral phase. The US Climate Prediction Center has put the likelihood for neutral conditions to continue through the Northern Hemisphere summer at 56%. This leaves a better than even chance that El Niño will not interfere with India's monsoon. However, it is

Monthly Nearby Sugar #11



Source: CQG

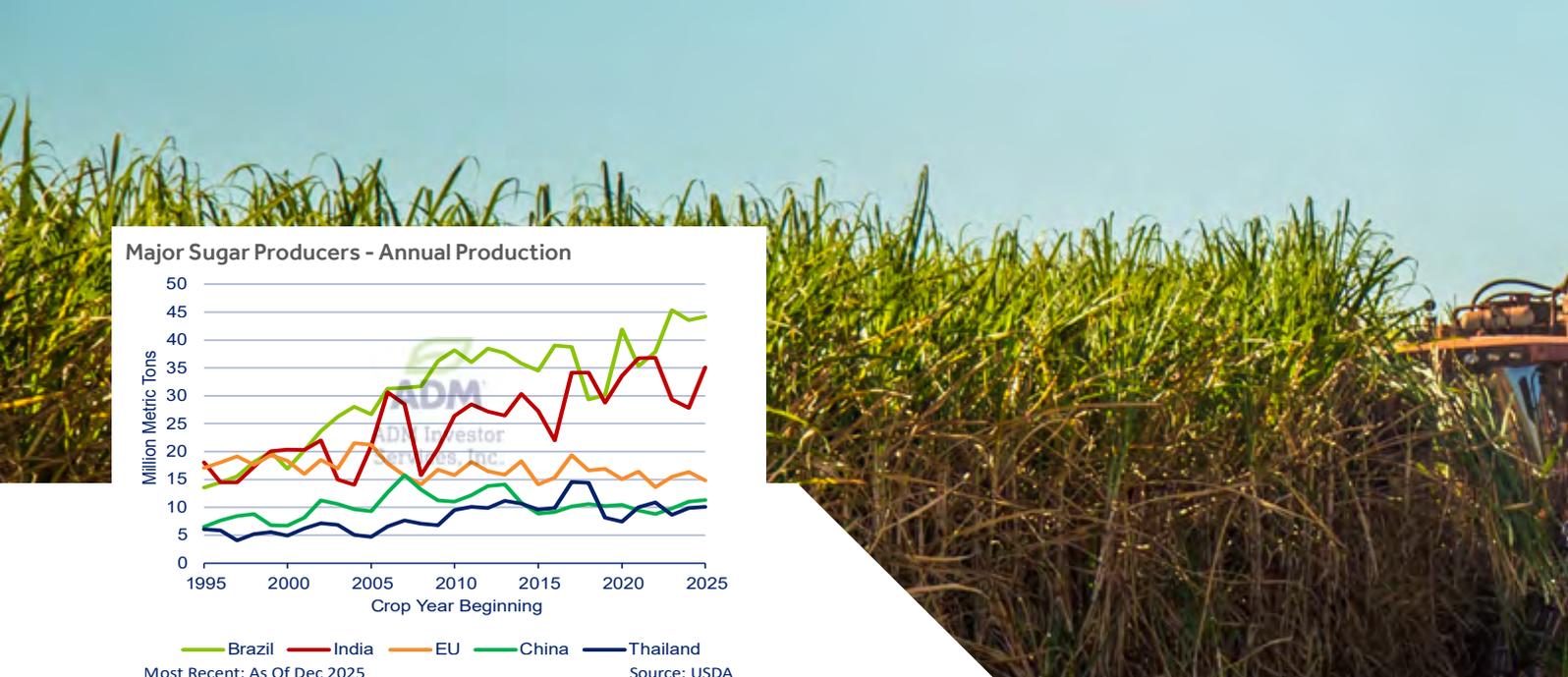
ICE Sugar #11 - Managed Money Position



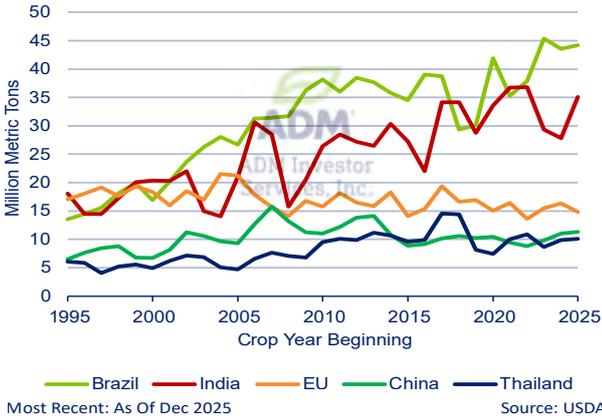
Most Recent: -241,063 as of Feb 24, 2026

Source: CFTC





Major Sugar Producers - Annual Production



still early enough in the season for that forecast to change. There has been no suggestion yet that this event would be a severe one.

Recently the India Meteorological Department (IMD) stated that India is set to experience a hotter-than-normal summer (March-May) in 2026, with heatwave days expected to exceed the seasonal average. This could leave the nation less prepared for El Niño.

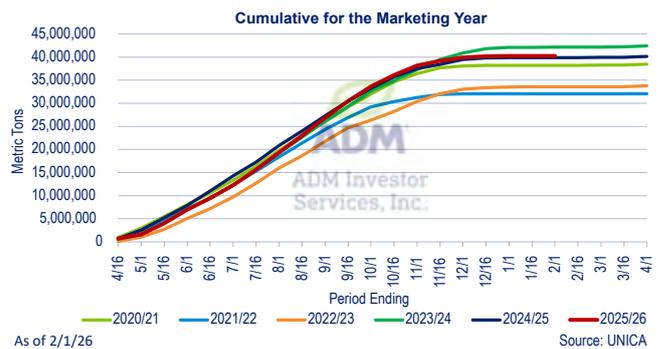
India recently raised its export quota for 2025/26 to 2.0 million metric tons from 1.5 million, but traders are skeptical that their exports will reach that level. The Indian government reported that around 197,000 tons had shipped of January 31 and that there were contracts for an additional 272,000. The recent 1.65 million-ton drop in India's production forecast could eat into available product for export.

BRAZIL

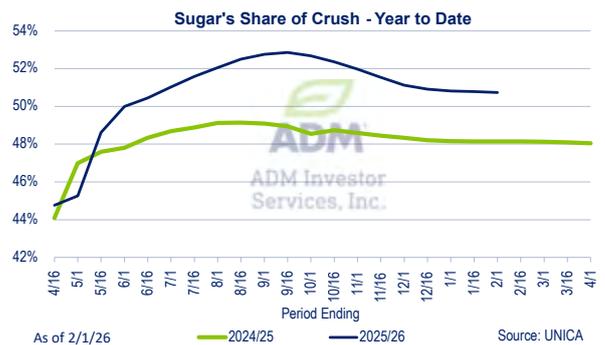
Brazil is the largest producer in the world, and it looks like it will have its second largest production season on record in 2025/26. As of February 1, Unica, the Brazilian Sugarcane and Bioenergy Industry Association, estimated Brazil's cumulative production from the Center-South region (their main production area) at 40.2 million metric tons. Recent forecasts from various sources put the total for the entire season at 40.5-40.8 million. This would be down from the record 42.4 million in 2023/24. Early forecasts for 2026/27 are around 40.5-41.0 million. Brazil's marketing year officially begins April 1. Analysts expect Brazilian processors to devote more of their crushing activity for ethanol production at the expense of sugar.



Brazil Center South Sugar Production



Brazil Center South





We have already seen evidence of lower crushing for sugar in Brazil. Sugar's share of the cane crush has averaged 50.7% so far for the 2025/26 marketing year, up from 48% for 2024/25. However, the share has dropped sharply since its peak at 55% during the first half of August 2025. By the second half of January 2026, that percentage had fallen to 6.6%. This has had little practical effect so far, as that nation is at the tail end of its production season and the volumes are not large enough to make much of a difference. Production tends to peak in July-August, and sugar's share of crush tends to decline into the second half of the season. However, the trend is noticeable. At this point, analysts are calling for sugar's share to average 48% to 49% in 2026/27.

GLOBAL SUGAR DEMAND

Global sugar demand is close to, if not at, record levels.

This has kept the stocks-to-use ratio historically tight despite the global production surplus this year. However, the trajectory of demand growth has leveled off. The industry is concerned that the popularity of GLP-1 weight loss drugs is eating into sugar consumption, particularly in developed countries. As the drugs' patents expire and cheaper generic versions become available, the lower demand trend could spread into the developing world.

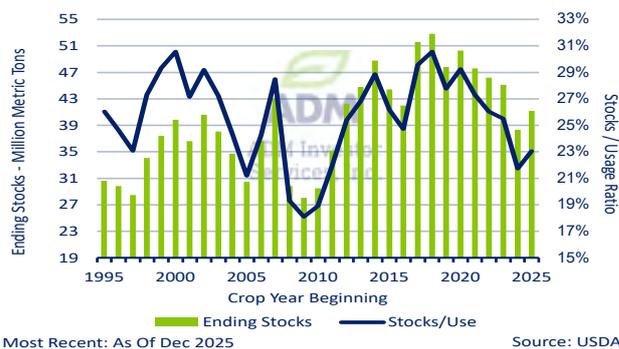
Market conditions do not suggest a massive reversal.

But low prices may spark lower production and support demand. Add the extremely oversold condition from the funds and on the charts, and the market could be vulnerable to a short covering rally. Any weather problems that may develop this year could leave the market ready for something more substantial.

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World Sugar Ending Stocks vs. Stocks/Usage Ratio



Most Recent: As Of Dec 2025 Source: USDA

World Sugar Usage Ratio



Most Recent: 178.59 As Of Dec 2025 Source: USDA

“THE INDUSTRY IS CONCERNED THAT THE POPULARITY OF GLP-1 WEIGHT LOSS DRUGS IS EATING INTO SUGAR CONSUMPTION, PARTICULARLY IN DEVELOPED COUNTRIES.”



LOSING THE LAND...THE QUIET CRISIS IN FARMING!

The days of feasting...are over!

This whole article, was prompted by one piece that crossed my desk, the comprehensive...but rather boringly titled **'2025 Agricultural Lender Survey Results'**, a joint survey conducted by the American Bankers Association and the Federal Agricultural Mortgage Corporation, commonly called Farmer Mac. In this survey, the key feature that jumped off the pages, were how most of the 450 plus agricultural lenders in the U.S., expected around 52% of farms to remain profitable in 2025...but for 2026, half of all farms would be unprofitable, the lowest share since 2020. Their concerns were credit quality & agricultural loan deterioration with lender competition & interest rate volatility the next overall concerns. To combat this, many lenders expect to tighten underwriting standards and terms for agricultural credit, not an ideal solution in the face of such mounting fears for farmers. However, they do expect agricultural loan application approval rates to climb from 84% to 88%.

93% of lenders expect farm debt to increase in the coming year as tighter working capital and increased use of credit take hold. The key sectors in driving lending worries are Grain & Cotton farms with some 70% indicating they are very worried about Grain profitability, up from only 15% two years ago. The Livestock sector fares better, with much less concern about Beef & Poultry farms in the coming year, despite the emergence of avian diseases, threat of swine flu, New World Screwworm & the heavy decline in U.S. Dairy prices. Interestingly, as income from farming has declined, a greater proportion of income has come from supplemental sources, such as money from leasing to wind, solar, hunting licenses, etc... and also from Government payments. About 53% of lenders noted income from these sources, particularly from the Government. Additionally, USDA projections show Government payments made up more than a quarter of net farm incomes.

Despite these anticipated problems, farmland values in the U.S. rose in 2025 for a 4th straight year, propped up by limited supply & increased entry from private equity firms into farming, the



“*...FOR 2026, HALF OF ALL FARMS WOULD BE UNPROFITABLE...*”

latter being '...ill-suited for an industry that already relies on debt and fluctuating inputs and profit margins.'⁽¹⁾ However, there is a demographic hit that will severely affect U.S. farming in the next few years that was identified over two years ago. You see, 58 is the median age of farmers, the oldest workforce in America. You are more likely to meet a farmer over 65 than under 44. Of those over 65, which accounts for some 39% of U.S. farmers⁽²⁾, 40% of the U.S. farmland is owned by them and as these farmers retire over the next 20 years. Thus, it is expected that around 350 million acres of farmland will change hands⁽³⁾.

Yet in the meantime, farm bankruptcies, what are called Chapter 12 in the U.S., have increased by 46%⁽⁴⁾ and a recent discussion piece on the current grain farm financial position in a longer-term perspective in Illinois notes that '...2024 was the lowest income year since the 1990s.'⁽⁵⁾

This phenomenon is not solely confined to the U.S. as those who follow the popular Harry's Farm YouTube channel will know. Harry Metcalfe owns & runs a mixed farm in the Cotswolds in England and he made a video⁽⁶⁾ on how the costs this year in Wheat farming not only did not make any money...but ended up costing him.

So...what can be done to remediate this situation. Well, in early February 2026 in the U.S., a bipartisan group of former leaders of major agricultural commodity associations, biofuel organisations, farmer leaders & former senior USDA officials sent Congressional Ag leaders a letter warning about the deteriorating state of the farm economy, stating there is a risk of '...widespread collapse of American agriculture.'⁽⁷⁾. In this letter, it also laid out a 9 Point Plan to improve the agriculture economy, including:

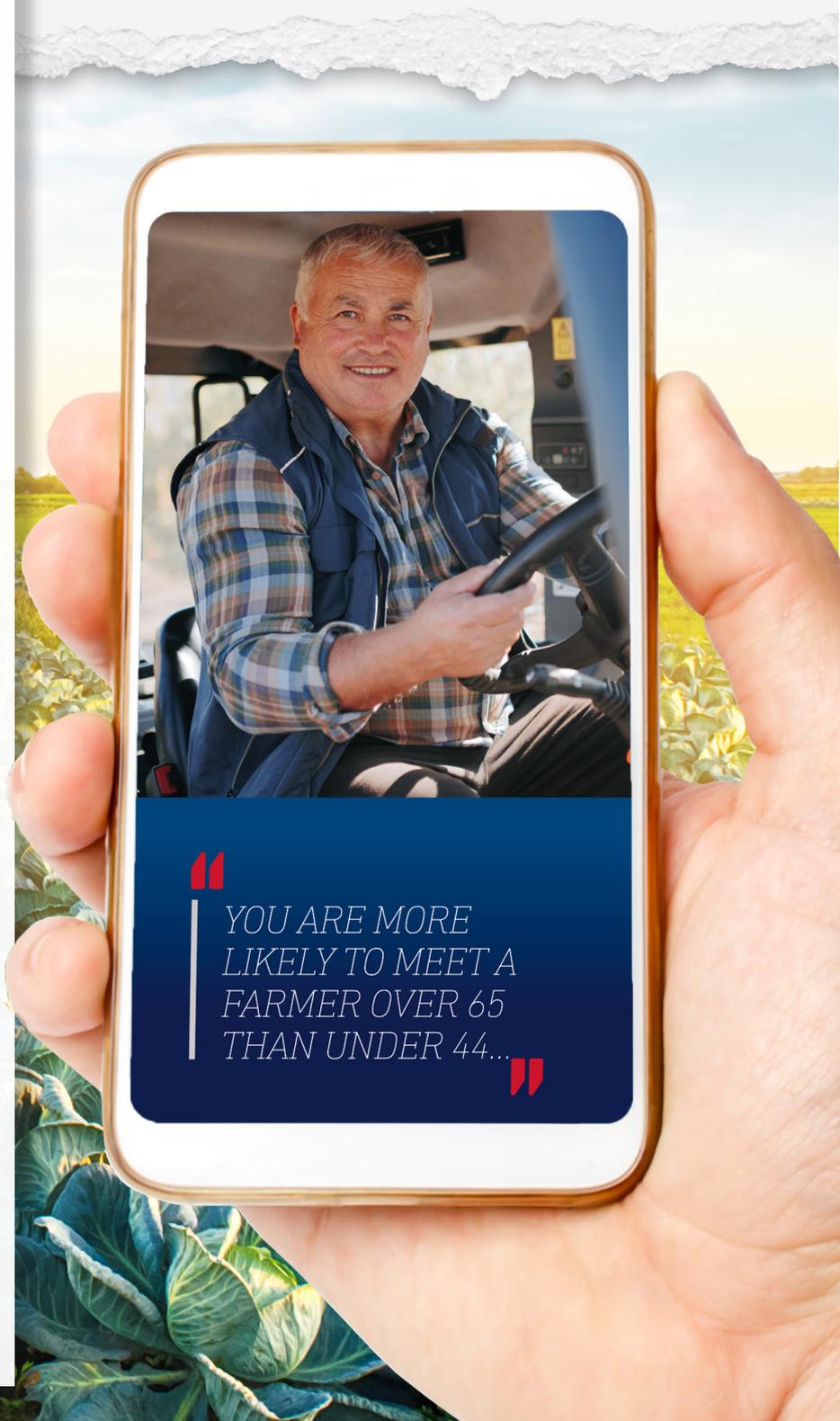
1. Immediately exempt all farm inputs from tariffs.
2. Repeal tariffs that are disrupting agriculture export markets.
3. Pass Trade Promotion Authority to enable the administration to pursue and secure meaningful, enforceable, free trade agreements that can be passed by Congress and have the full force and effect of law.
4. Direct the administration to prioritise the negotiation of binding trade agreements with countries that need U.S. agricultural products and that can help offset other market disruptions.
5. Encourage the administration to expeditiously complete the review of the U.S.-Mexico-Canada Agreements, favourably resolve the pending dairy dispute settlement case with Canada and ensure the USMCA is extended for the next 16 years.
6. Pass legislation to enable nationwide E15, year-round ethanol and SAF to boost domestic markets for U.S. corn & soybeans.
7. Pass a new Farm Bill.
8. Pass Farm Labour Reform including reform to the H-2A Programme.
9. Restore funding for land-grant agriculture research, critical USDA staffing and domestic & international food aid programmes.

The letter concluded with 'We can only hope rural America will survive the current tumult long enough for the administration, Congress and leaders of both parties to recognise the threat and find the temerity to work together on real solutions'.

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1. Betting the Farm: Private Equity Buyouts in US Agriculture – Private Equity Stakeholder Project – March 2025
2. 2025 Agricultural Lender Survey Results - a joint survey conducted by the American Bankers Association and the Federal Agricultural Mortgage Corporation - U.S. Senate Committee on Aging – Feeding the Future – October 2023
3. Farm Policy News – Feb 2026
4. Farmdoc Daily – December 2025
5. <https://www.youtube.com/@harrysfarmvids>
6. Farm Policy News – Feb 2026



“YOU ARE MORE LIKELY TO MEET A FARMER OVER 65 THAN UNDER 44...”



GLOBAL DAIRY MARKETS IN 2026: SUPPLY EXPANSION, PROTEIN DEMAND, AND FUNCTIONAL DAIRY GROWTH



Global dairy markets in 2026 are being shaped by three key forces spanning across supply, demand, and consumer behaviour:

- strong rebound in global milk production,
- a structural rise in protein demand, and
- a shift toward functional and nutrient dense dairy formats such as kefir.

These trends interplay in ways that matter for producers, processors, physical traders and even derivatives risk managers who must navigate both abundant supply and increasingly segmented demand.

RISING MILK PRODUCTION AND RENEWED SUPPLY PRESSURE

Milk output across major exporting regions is expanding again after two years of weather driven volatility and contraction from higher costs/lower margins. The US is adding volume as feed markets stabilise, Europe has regained production momentum after regulatory and environmental constraints slowed growth, and New Zealand's pasture conditions have improved from the lows of the previous season. The result is a coordinated supply upswing at a time when inventories in powders and fats are already (gradually) rebuilding.

This matters because dairy markets are highly sensitive to marginal changes in exportable surplus. Whole milk powder (WMP) and skim milk powder (SMP) prices tend to respond quickly when production rises faster than demand,

and forward curves in several markets are already reflecting expectations of more comfortable supply. However, the secondary risk beyond simply lower prices is the re emergence of regional imbalances. The U.S. and EU may expand more quickly than Oceania, creating spreads that traders can exploit but simultaneously complicating hedging strategies for processors and buyers exposed to multiple origins.

Producers face a familiar challenge: farmgate prices often soften before input costs fall, squeezing margins even as volumes rise. Processors, by contrast, may benefit from cheaper milkfat and protein inputs, provided demand remains resilient. The broader question for the industry is whether the supply recovery will be met by sufficient demand growth to prevent a return to the oversupply cycles seen earlier in the decade.



RIISING GLOBAL PROTEIN DEMAND AND THE PUSH FOR NUTRIENT DENSITY

One of the most important counterweights to rising supply is the strong structural increase in global protein demand. Population growth, urbanisation, and rising incomes in South and Southeast Asia continue to pull in dairy ingredients, particularly SMP, whey, and permeate. These ingredients are increasingly used in fortified foods, ready to drink beverages, and affordable nutrition programs.

A newer and more powerful driver is the growing emphasis on nutrient density. As consumers become more health conscious—and as governments and institutions focus on food security—dairy proteins are gaining prominence because they deliver complete amino acid profiles, micronutrients, and bioavailability that many alternatives struggle to match. This shift is also being influenced by the rapid uptake of GLP 1 weight

“*THE BROADER QUESTION FOR THE INDUSTRY IS WHETHER THE SUPPLY RECOVERY WILL BE MET BY SUFFICIENT DEMAND GROWTH TO PREVENT A RETURN TO THE OVERSUPPLY CYCLES SEEN EARLIER IN THE DECADE.*”

management drugs, which suppress appetite and reduce overall calorie intake. With people consuming less, the nutritional value of each calorie matters more. High protein, nutrient dense foods—yogurts, dairy beverages, whey based products—speak to this need exceptionally well.

This trend is not theoretical; it is actively shaping governmental policy and procurement. A live example is the U.S. school whole milk program, reinstated in several states and supported at the federal level, which reflects a broader realisation that full fat dairy provides satiety, protein, and micronutrients in a form children will actually consume. Similar initiatives are emerging in parts of Asia and the Middle East, where dairy proteins are being prominently included in school feeding programs and public health nutrition strategies.

For commodity markets, rising protein demand shifts the balance of value within the dairy complex. SMP and whey markets, although historically less volatile than fats, are becoming more central to global trade flows. This has implications for hedging behaviour: more participants are using SMP/whey futures to manage exposure, and correlations between fat and protein markets are becoming less predictable as utilisation patterns evolve.



FUNCTIONAL DAIRY FORMATS AND THE RISE OF KEFIR, CULTURED DRINKS, AND HIGH PROTEIN PRODUCTS

While supply and protein demand shape the upstream fundamentals, consumer behaviour is also shifting in ways that influence product mix and distribution of value across the chain. One of the clearest trends is the surging preference for functional dairy formats—kefir, cultured beverages, high protein yogurts, and fermented dairy drinks. These products sit at the intersection of gut health, immune support, convenience, and natural nutrition.

The appeal of functional dairy is strengthened by the same forces driving nutrient dense protein demand. Consumers using GLP 1 drugs often seek foods that deliver more nutrition per serving, and fermented dairy products offer protein, probiotics, and satiety in a compact format. Younger consumers, meanwhile, are gravitating toward products that combine health benefits with clean label formulations and minimal processing.

For processors, functional dairy formats create opportunities to capture more value per litre of milk, even in a market where commodity prices may be under pressure. They also shift milk utilisation patterns. More milkfat may be pulled into premium cultured products, tightening butter stocks relative to SMP. More protein



may be directed into high protein yogurts and beverages, influencing the balance between whey, casein, and powder markets. These utilisation shifts also indirectly influence derivatives markets where they affect spreads, relative value, and the timing of stock builds.

A MARKET DEFINED BY ABUNDANCE, SEGMENTATION, AND STRATEGIC OPPORTUNITY

A top-down view of how these three trends converges presents a dairy market that is expanding in volume, diversifying in demand, and fragmenting in consumer preferences. Rising milk production ensures that supply will not be the limiting factor in 2026. Universally increasing protein demand—driven by

nutrient density, public health priorities and GLP 1 related consumption changes—provides a structural floor for dairy ingredients. The growth of functional dairy formats creates value pools that are less sensitive to commodity cycles, to the benefit of FMCG players and large supermarkets that seek to premium-ise these trends and tap value.

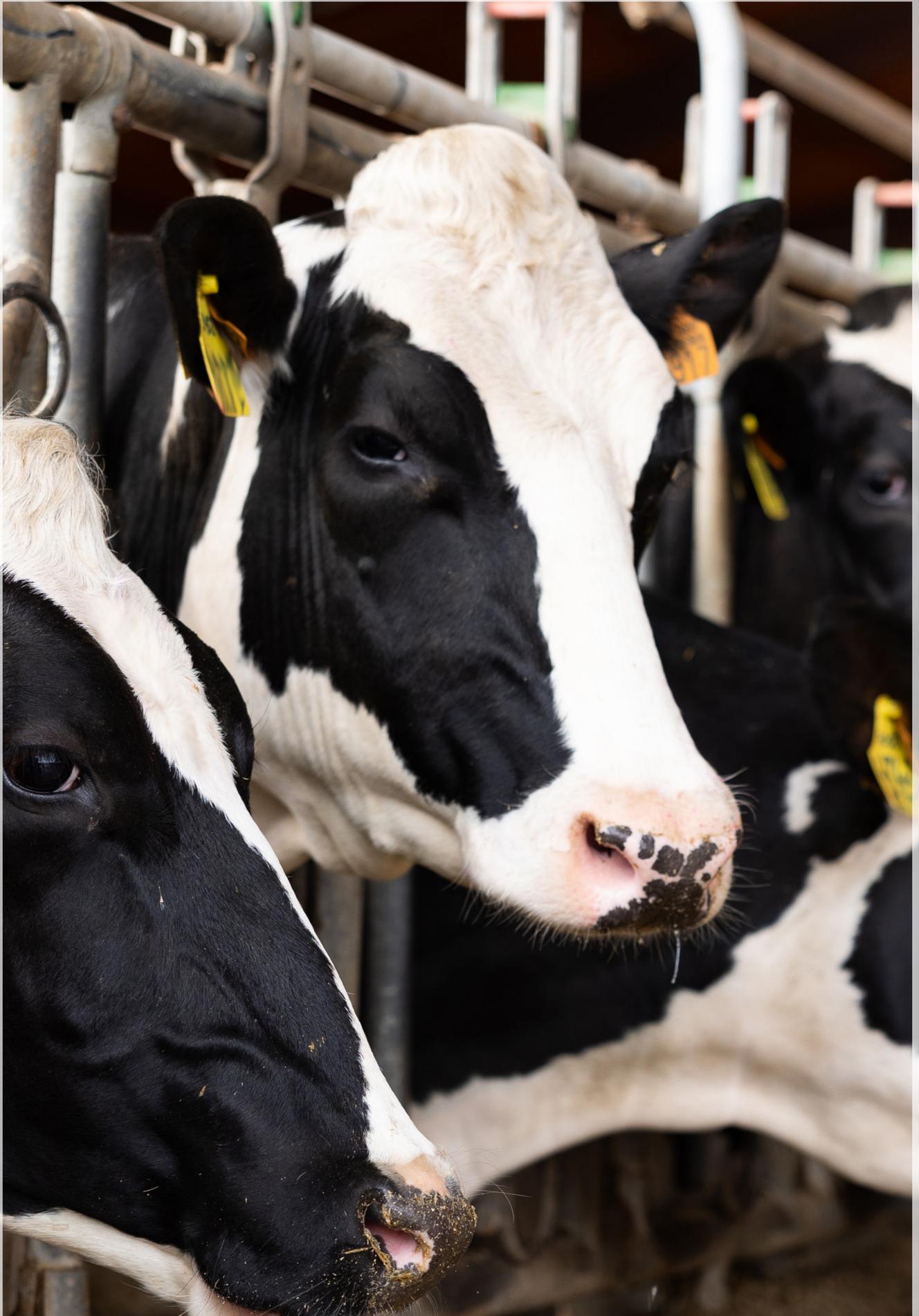
The interplay between these forces will shape not only short- & medium term price direction but also the strategic decisions of all value chain participants.

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“
MORE MILKFAT
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RELATIVE TO
SMP.
”





SUSTAINABLE AVIATION FUEL AND WHAT IT MEANS FOR AIRLINES

Aviation is a strategic pillar of the UK economy, contributing around £160 billion to GDP (about 4–5% of national output) and supporting roughly 1.6 million jobs through direct, indirect and tourism-related activity. It underpins UK trade, investment and regional growth by connecting businesses and tourists worldwide, supporting high-value exports and sustaining jobs in sectors from manufacturing and aerospace to hospitality and retail.

The airline industry is moving rapidly to incorporate sustainable aviation fuel (SAF) as a core part of its decarbonisation strategy, and airlines operating to and from the UK are at the sharp end of this transition because of an emerging web of UK and EU mandates. For airlines, this is not just an environmental story, it directly affects fuel cost, capital allocation, and long-term competitiveness.

WHY SAF IS RISING UP THE AGENDA

SAF is a drop-in fuel that can be blended with conventional jet and used in existing aircraft and fuel infrastructure, delivering significant lifecycle CO₂ equivalent reductions compared to fossil kerosene. It is one of the few scalable options likely available this decade to cut emissions from medium and long haul flying where battery electric solutions are not viable.

Regulation has turned SAF from a voluntary initiative into an obligation. The UK Government's SAF Mandate requires SAF to make up at least 2% (assuming a 70% GHG reduction % versus a fossil comparator of 89 gCO₂e/MJ) of total UK jet fuel volumetric demand from 2025, rising on a linear trajectory to 10% in 2030 and 22% in 2040, remaining at 22% thereafter pending review. In parallel, the EU's ReFuelEU Aviation regime imposes its own SAF percentages at EU airports, creating overlapping compliance requirements for most European carriers.

These mandates sit alongside airlines' own net zero targets and growing pressure from investors and corporate customers to address Scope 3 emissions from flying. The result is a structural, policy backed demand signal for SAF that is reshaping strategic planning across the sector.

HOW AIRLINES ARE EMBRACING SAF

Long-term offtake deals and partnerships

International Airlines Group (IAG), parent of British Airways, has committed to power 10% of all its airline's flights with SAF by 2030, equivalent to around one million tonnes of SAF per year. IAG has already signed multiple offtake deals, including with projects such as Infinium, Twelve and LanzaJet in the US, to secure long-term supply. In 2023, IAG's airlines used about 12% of the world's total supply of SAF, and the group states it has secured roughly one-third of the SAF it needs to meet its 2030 goal.

British Airways continues to sign new multi-year agreements, such as its deal with EcoCeres to receive SAF from waste-based biomass feedstock, expected to avoid around 400,000 tonnes of lifecycle CO₂ emissions. These arrangements typically combine physical volumes with associated emissions reduction claims, which are important for ESG reporting and corporate customer engagement.

AVIATION: CONNECTING THE WORLD AND DRIVING UK ECONOMIC GROWTH

Aviation plays a crucial role in the UK's economic landscape, supporting significant employment and economic output while facilitating international trade and tourism.



PASSENGER NUMBERS

240.9M

passengers traveled internationally to or from UK airports in 2023



AIR FREIGHT

In 2024, the market size for freight air transport was estimated to be around

£947.3M

air freight accounts for about



25% of the UK's international goods movements by value



FLIGHT NUMBERS

The UK recorded an average of

5,488

daily flights in 2024, which is a 4% increase from 2023

In 2023, there were approximately

1,931,000

flights in total (including domestic and international) from UK airports



EMPLOYMENT

As of 2023, UK-registered airlines employed approximately

88,587

Staff

The aviation industry in the UK supports over

536,000

jobs across various sectors, including airlines, airports, and aerospace



Ryanair, Europe's largest short-haul carrier with a significant UK footprint, aims to use 12.5% SAF by 2030. It has extended an MoU with OMV allowing it to purchase up to 160,000 tonnes of SAF by 2030 and has made early purchases that have already cut emissions on specific routes. Management explicitly frames these deals as a way to "be there to pick up the supply" when mandates tighten, leveraging Ryanair's scale to secure access in what remains a constrained market.

Virgin Atlantic operated the world's first transatlantic flight powered entirely by 100% sustainable aviation fuel (SAF) in November 2023, marking a major milestone in the industry's drive toward net-zero aviation.

easyJet has signed a memorandum of understanding with partners including Renavia and World Fuel Services to secure up to 150,000 tonnes of SAF (including up to 75,000 tonnes of e-SAF) from 2030, covering operations in both Europe and the UK. This sits within a broader roadmap to net zero by 2050, underpinned by an interim target to cut carbon emissions intensity by 35% by 2035 validated by the Science Based Targets initiative.

PORTFOLIO OF TECHNOLOGIES AND GEOGRAPHIES

Airlines are also diversifying technology exposure. Early SAF supply is dominated by HEFA (waste oils and fats), but UK and EU policy explicitly promotes advanced, second generation biofuels, including those through converting waste organic matter into alcohol and then into jet fuel and power-to-liquid (PtL) e-SAF from green hydrogen and captured CO₂. For example, upcoming mandates include sub-targets for synthetic SAF (PtL) starting in the late 2020s, pushing producers and airlines to engage with higher-cost but higher-impact pathways.

UK-exposed carriers are participating in domestic projects to align with government industrial strategy. IAG highlights that, with the right policy support, up to 14 SAF plants could be built in the UK, creating around 6,500 jobs and avoiding 3.6 million tonnes of CO₂ annually. Subject to the costs of the fuel, this local production is attractive for airlines seeking both supply security and alignment with UK decarbonisation policy.

AVIATION IS DRIVING GROWTH IN THE UK



DIRECT CONTRIBUTION:

The UK aviation industry contributes **£3.26 billion directly to GDP**, primarily through air transport services.



TOTAL ECONOMIC CONTRIBUTION:

The aviation sector, including airlines and their supply chains, contributes approximately **£86 billion to the UK economy annually**.



JOB CREATION:

UK-based airlines support over **1 million jobs**, both directly and indirectly, through their operations and the economic activity they generate.



FUTURE GROWTH:

By 2050, the economic benefits of UK airlines are expected to grow significantly, potentially generating **£111 billion in output and £41 billion in Gross Value Added (GVA)**.



WHAT THIS MEANS FOR AIRLINES

Cost base and pricing power

SAF currently carries a significant price premium over fossil jet fuel. While exact spreads vary by feedstock and location, UK policy documents and mandate impact assessments assume much higher unit costs for SAF than for conventional jet fuel and provide a buy out mechanism to prevent excessive SAF prices being passed on to the end consumer. In a parallel policy workstream, a “guaranteed strike price” style revenue certainty scheme has been passed into law to help with advanced SAF projects’ bankability. As mandated SAF blends ratchet up from 2% in 2025 to 10% by 2030 and 22% by 2040 in the UK, blended fuel costs will tend to rise unless technology and scale bring down SAF prices dramatically.

For airlines, the strategic question is how much of this cost can be passed through into fares. Given competition is fierce and global this is a challenge especially for network carriers that operate over different hubs with different mandate requirements.. Ultra-low-cost carriers such as Ryanair and easyJet may have less room to dilute their cost advantage but may benefit from higher aircraft utilisation, newer fleets and disciplined capacity growth, which partly offset higher fuel bills.

SUPPLY RISK AND COMPETITIVE POSITIONING

In the near term, although there is a relatively good supply of HEFA, first generation SAF, advanced SAF is yet to be produced at scale and is unlikely to be available before mandates kick in - “virtually unobtainable” at scale, according to Ryanair’s leadership has repeatedly remarked. This makes early, sizeable offtake agreements and strategic partnerships a source of competitive advantage: airlines that secure long-term volumes are better placed to comply with mandates and to market lower-carbon flying to corporates.

Carriers that move slowly may find themselves forced into buying small spot volumes at high prices or paying mandate buy-out penalties, with limited ability to make credible emissions reduction claims. Over time, a bifurcation is likely between airlines with robust SAF strategies, secured supply, clear targets, transparent emissions accounting and laggards who face higher regulatory and reputational risk.

CAPITAL ALLOCATION AND BALANCE SHEET IMPACT

The shift to SAF is also changing how airlines think about capital allocation. Long term offtake deals resemble power purchase agreements, they create visibility on future costs but add long dated contractual commitments that investors need to understand. Some carriers and groups are going further, considering equity stakes or JV structures in SAF plants to capture more of the margin and secure priority volumes, effectively moving up the value chain.

These investments sit alongside other decarbonisation capex including new generation aircraft, retrofits, digital efficiency tools. This means trade-offs between fleet renewal and fuel innovation will be an important part of the investment story. For UK facing airlines, alignment with the UK’s SAF industrial strategy may also influence access to government support, R&D partnerships and favourable financing.

INVESTOR TAKEAWAYS

For equity investors in airlines serving the UK market, SAF should now be treated as a core driver of medium term earnings quality and risk, not just a CSR line item. Key diligence questions include the scale and tenor of each airline’s SAF offtake commitments, the extent to which these are fixed price or indexed, how management expects to pass through costs, and how SAF plans integrate with fleet and network strategy.

For infrastructure and private-capital investors, SAF production, logistics and feedstock value chains are emerging as investable themes underpinned by legally binding mandates and UK revenue certainty mechanisms. However, technology risk, feedstock sustainability, and policy stability over multi decade time horizons remain critical variables.

The direction of travel is clear: for airlines operating to and from the UK, meaningful exposure to SAF is becoming a licence to operate issue. Those that move early to secure supply, optimise cost pass through and communicate a credible net zero pathway are likely to be better positioned with regulators, customers and capital markets alike.

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THE FUTURE OF CREDIT RISK: LEADING WITH DATA... POWERED BY PEOPLE

“ WE DESIGN BOTH TO WORK TOGETHER. AUTOMATION FOR SCALE AND CONSISTENCY, AI FOR FORESIGHT AND HUMANS FOR JUDGMENT. ”

In 2020, my family and I decided to travel to Dubai for Christmas, right in the middle of the Covid chaos. It was a full adventure on its own.

While we were trying to find our hotel, hoping we wouldn't catch Covid, stressed, tired, and confused, our navigation suddenly told us, right in the middle of the highway, that we had "arrived at the hotel" and should park immediately. For a moment, we all panicked... and then burst into laughter. Finally, we gave up on the smart tools, pulled out an old school paper map, and found the hotel the traditional way.

But it also reminded me of something important: technology can be impressive, but it still needs humans to guide it. Honestly, that idea fits perfectly with the future of credit risk.

Today, credit risk management in large, global companies has become more complex than ever. We manage thousands of customers across many regions, industries, and regulatory environments. Markets shift daily...customer behaviour changes with economic cycles and supply chains disrupt payment patterns. No human team can manually monitor every signal at this scale and that is exactly where AI and automation bring real, measurable value.

Many global companies adopt different automation tools based on their operational priorities: **GETPAID**; an accounts receivable and collections management tool owned by FIS; is widely chosen for its strong collections module tells teams which customers to prioritize. It can be implemented faster than many other systems which help companies see improvements much quicker; **SAP FSCM**; credit management module within SAP that centralizes credit checks and risk evaluation; is preferred by companies that already use SAP because its credit management and real time checks are built directly into the SAP system, making daily processes easier to control and coordinate, while companies choose **HighRadius**; an AI driven order to cash automation platform that improves cash forecasting and reduces manual finance work; is chosen because it helps companies predict cash flow more accurately, spot problems earlier, and automate tasks more intelligently than standard ERP systems can. **At the end of the day, no matter which platform they choose, all companies are ultimately chasing the same goals: minimum risk, maximum productivity and maximum cash flow.**

Automated credit tools offered by global fintech providers now go far beyond simple scoring. They combine AI driven collections prioritization, real time cash at risk visibility, predictive analytics that can identify delinquency **30–60 days in advance and fully automated cash application workflows**. These systems automate large parts of the credit to cash cycle ; from onboarding and credit reviews to collections and dispute handling; helping companies reduce DSO (Daily Sales Outstanding); the average number of days it takes a company to collect payment after issuing an invoice; improve working capital, and operate more efficiently with fewer manual tasks.

What makes these tools even more powerful is the statistical impact they have on business outcomes. Research shows⁽¹⁾ that companies using AR (Accounts Receivable) and credit automation tools experience a **10–15% reduction in bad debt write offs and an additional 15% reduction** when invoicing processes are automated. They also see DSO reductions of **up to 22%**, meaning faster payments and fewer overdue invoices. Efficiency gains are equally compelling: AI supported AR systems can increase team productivity by **up to 40%**. **95% of companies** using these tools report significant operational efficiency improvements.

It is true that AI and automation are transforming credit risk by helping teams identify warning signs earlier, predict customer behaviour more accurately and manage large portfolios with far greater speed and consistency than manual processes ever could.

Still, despite these advantages, I strongly believe that human judgment remains essential. A strong risk analyst and a good collector needs more than data — they need emotional intelligence and the ability to read situations.

Sometimes you walk into a customer's office, meet their team, and instantly feel they are reliable. And sometimes you encounter what looks like a "...desk company...", with one laptop and little substance behind the façade. No AI system can interpret the subtle, cultural, credibility based signals in these moments. A machine cannot sense hesitation, confidence or maturity — but humans can.

This is why we must understand the roles of AI, automation and human judgment in the credit to cash process:

Automated credit tools are the systems that run our end to end credit to cash process; AI is the intelligence inside them that predicts risk, prioritizes actions, and improves outcomes. We design both to work together: automation for scale and consistency, AI for foresight and humans for judgment.

Even so, large companies rarely adopt these systems instantly. They often start cautiously with pilots and isolated use cases. According to enterprise AI



studies⁽²⁾, **two thirds of organizations are still in pilot or experimental phases**, mainly due to integration, data and governance challenges. However, the trend is unmistakable: adoption is accelerating fast. **AI production use cases doubled in 2025** and Fortune 500 companies are dramatically increasing investment, especially as they see proven results : lower bad debt, reduced DSO, and large efficiency gains.

Even Mel Robbins, the author & podcaster captures this reality with humor. In her podcast, she says that most people panic about AI without even knowing the basics, yet we are already living with it every day, whether we notice it or not. It is funny...but also very true: fear often comes from misunderstanding, not from the technology itself.

As we move forward, my role; and our role as credit leaders; is not to choose between humans and AI...but to orchestrate the best of both. AI gives us unprecedented visibility, speed, and predictive power; our teams bring context, experience and sound judgment. When we combine them, we build credit organizations that are not only more resilient...but also more strategic, scalable and future ready. And that is exactly where our focus must be: shaping a credit function that protects cash, strengthens relationships and positions the business for long term success in an increasingly data driven world.

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- (1) Resolve: 17 statistics linking AR automation to lower bad debt write offs(June 12, 2025).
EY: AI driven productivity is fueling reinvestment (Dec 2025)
Accenture: Companies with AI led processes outperform peers(Oct 10, 2024)
- (2) McKinsey: State of AI: Global Survey 2025 (Nov 5, 2025)
Deloitte: State of AI in the Enterprise 2026.
ISG: State of Enterprise AI Adoption 2025.



SUGAR LEAVES A SOUR TASTE ON PRODUCERS' BALANCE SHEETS

In the world of commodities, sugar is often described as one of the more freely traded agricultural products, with relatively limited government interference compared with grains or dairy.

Yet despite its openness and global liquidity, the sugar market is currently delivering disappointing financial returns for many producers.

For growers, the economics of sugar production are fundamentally long term. Once planted, sugarcane is expected to generate returns over a cycle of three to seven years, depending on ratoon management and agronomic conditions. Sugar beet operates on a shorter cycle, but the capital intensity of milling infrastructure remains the same. A mill built next to cane or beet fields is not a seasonal investment – it is a multi decade commitment that requires stable and attractive average margins over time. When prices trade below the cost of

production, the entire value chain feels the strain.

A MARKET FOCUSED ON SURPLUS – AND IGNORING WEATHER RISK

The projected global surplus for 2025/26 – estimated at 2 to 3 million metric tonnes – and expectations for another surplus in 2026/27 in the range of 2 to 4 million tonnes have kept international sugar prices under persistent pressure. The market appears complacent, pricing in comfortable supply without assigning meaningful risk premiums for potential weather disruptions.

History suggests this may be risky. A severe frost or drought in Brazil, or a disappointing monsoon in India,

could rapidly shift the global balance sheet. Sugar markets are notoriously reactive to weather events, particularly in key producing regions.

BRAZIL: TIGHTER STOCKS AND ETHANOL ECONOMICS

Brazil's 2025/26 Centre South cane harvest concluded with approximately 606 million tonnes of cane and 40.4 million tonnes of sugar – slightly lower cane volumes and broadly similar sugar output compared with the previous crop. The North/Northeast region remains in progress but is expected to produce roughly 500,000 tonnes less sugar, as mills favour ethanol amid stronger fuel margins.

The new Centre South harvest will begin around mid March, with sugar and ethanol stocks projected to be extremely tight – potentially near zero by the end of March. This raises a critical question: will weather conditions permit a smooth and rapid start to crushing?

Current economics favour ethanol. Domestic ethanol prices are running roughly 20% above sugar parity, incentivising mills to maximise ethanol output at the start of the campaign. This decision directly influences global sugar availability.

Brazil's ethanol story is increasingly shaped by corn. Corn based ethanol





A SEVERE FROST OR DROUGHT IN BRAZIL, OR A DISAPPOINTING MONSOON IN INDIA, COULD RAPIDLY SHIFT THE GLOBAL BALANCE SHEET

production is expected to reach approximately 9.3 billion litres this year – about 1 billion litres more than last year – and could climb to 10.2 billion litres in 2026/27, representing roughly 27% of total ethanol production. This would require around 24 million tonnes of corn.

With Brazil forecast to produce 135–138 million tonnes of corn in 2026 and domestic consumption near 65 million tonnes, ample supply remains available for both ethanol expansion and exports. However, cane based ethanol production in 2025/26 fell 1.8 billion litres short of the previous crop, and starting stocks were already lower. As a result, carryover inventories into March 2026 are expected to be minimal.

Looking ahead, Brazil's 2026/27 Centre South cane crop is projected between 620 and 640 million tonnes – potentially 14 to 34 million tonnes higher year on year. Sugar output could increase by 500,000 to 2 million tonnes, depending on ATR levels and the sugar mix.

DEVELOPMENTS OUTSIDE BRAZIL

In Australia and South Africa, harvests have concluded broadly in line with the previous year. Central America remains active, with the region potentially adding around 300,000 tonnes of additional sugar.

The European Union and the UK have completed their campaigns, with production reportedly down by approximately 1.4 million tonnes. The upcoming crop could decline by

another 1 to 2 million tonnes, reflecting structural and agronomic pressures.

The CIS region delivered a solid harvest comparable to last year, generating an estimated 1.3 million tonnes of surplus for export to neighbouring markets.

India's monsoon season (June–September 2025) brought excessive rainfall, particularly in Maharashtra, tempering earlier optimism. Production for 2025/26 is now expected to reach around 29 million tonnes – up from 26 million tonnes in 2024/25 but below initial projections of 30–31 million tonnes.

New Delhi authorised exports of 1.5 million tonnes, yet less than 300,000 tonnes appear to have been sold. An additional 500,000 tonnes were later approved. With global prices unattractive, India may opt to retain inventories domestically rather than export at low margins.

Meanwhile, Thailand's harvest is trailing last year's pace but may extend longer. Cane production could reach 95–100 million tonnes, up from 92 million tonnes previously. The resulting 500,000 to 1 million tonnes of additional sugar will likely target export markets, although shipment pace remains slower than desired, potentially pressuring regional prices.

THE WEIGHT OF SPECULATIVE SELLING

Against this fundamental backdrop, speculative positioning has amplified downward pressure. Since late December 2023, funds and speculative accounts have built

increasingly bearish positions.

According to the latest Commodity Futures Trading Commission report (20 February 2026), funds and speculators held a net short position of 266,000 lots – equivalent to roughly 13.5 million tonnes of sugar. Gross short exposure reached a record 17.7 million tonnes, while combined fund/speculative positions totalled 22.6 million tonnes. Index funds hold a net long position of 10.6 million tonnes, now smaller than the net speculative short.

This imbalance creates latent volatility. When markets trade below the cost of production while carrying record speculative shorts, periodic short covering rallies become increasingly likely.

CONCLUSION: PRESSURE TODAY, VOLATILITY TOMORROW

Sugar prices are currently weighed down by modest surpluses and heavy speculative selling. Yet the market's structural sensitivity to weather, ethanol economics, and policy intervention remains intact. Producers may be facing difficult balance sheets today, but the combination of tight stocks, biofuel linkages, and extreme positioning suggests that relief rallies – even if temporary – are likely to emerge.

In sugar, complacency rarely lasts long.

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DRY BULK FREIGHT PRICE FORMATION AND WHY FREIGHT BASIS IS SO VOLATILE

Freight prices are the next trading frontier





In recent years, freight have turned from a cost to a trading opportunity for many commodity traders . A trader can have the right view on wheat, soy, coal, or fertiliser, and still lose the trade because the freight input arrives too late, or arrives in a form that is not comparable across options. This is why commodity traders consistently demand freight rates immediately, across many routes and parcel sizes, and why speed becomes a competitive parameter inside trading houses.

Dry bulk freight prices are formed by fundamentals, but what market participants observe and record as “the price” is shaped by institutions, benchmarks, and conventions. Basis, the difference between a real exposure and its reference, is therefore the key variable to understand, measure, and manage if you work with a Value at Risk framework like most large scale traders do these days.

FREIGHT ECONOMICS 101

Freight is the price of moving cargo through space, and sometimes through time, but it is not a storable good. There are no inventories of transport to release when demand jumps. When demand for sea transport rises quickly, or when effective supply falls because ships are tied up, the adjustment happens through price and price alone.

This non storability explains why freight time series have repeated boom and bust nature. When the market is loose, a cargo can be covered by many open ships and the marginal bargaining power is limited. When the market is tight, the marginal ship must be found, this can mean paying for a ballast cost from a far leading to a large increase in freight costs.

A simple way to think about the spot freight rate is as the market clearing price for transport capacity. Demand is derived from commodity trade, it rises when more cargo needs to move, when haul lengths increase, or when traders switch origins and routes as price spreads change. In the short run, supply cannot respond much because the fleet positioning is largely fixed based on the last trip done with many ships are already committed, so the relevant constraint is not total fleet size but usable capacity, meaning how many ship days are actually available. Usable capacity falls when ships sail slower, when ports are congested and waiting times rise, when routing choices lengthen voyages because of canal limits, risk, or weather, and when ships need more time to reposition empty to the next loading area. This is why two periods that look similar in fleet size can produce very different freight rates.

“
*A SIMPLE WAY
TO THINK ABOUT
THE SPOT
FREIGHT RATE IS
AS THE MARKET
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”



“THERE IS NO SINGLE “FREIGHT PRICE” WITHOUT STATING WHICH OBJECT IS BEING PRICED.”

UNITS MATTER: USD/MT VS. USD/DAY

Shipping and freight markets are quoted in multiple units. Voyage charters are often priced in USD/MT, while time charters are priced in USD/DAY. A voyage quote is all costs divided by cargo size. A time charter rate is the daily hire for renting a vessel – on top of that comes the costs for e.g. fuel, carbon, ports, etc.

Comparisons across contract types therefore require explicit conversions. Small differences in assumptions about speed, weather risk, port time, and bunker prices can change the implied time charter equivalent or voyage rate materially. Buying and selling freight is an over the counter bargaining process. Fixtures are private contracts with negotiated clauses, not screen traded standard products.

A voyage or time charter fixture includes multiple dimensions that can change the economics of the deal:

1. **Market access:** vessel position and next employment outlook
2. **Route definition:** load and discharge options.
3. **Vessel specification:** size, speed, consumption, draft, etc
4. **Laycan timing:** optionality and risk.
5. **Cost:** who pays what, and which delays are penalised.

This is the comparability problem. Two parties can both be right while quoting different economics. Many freight prices coexist. There is no single “freight price” without stating which object is being priced. Benchmark route assessments and indices are the institutional response. They define a standard reference



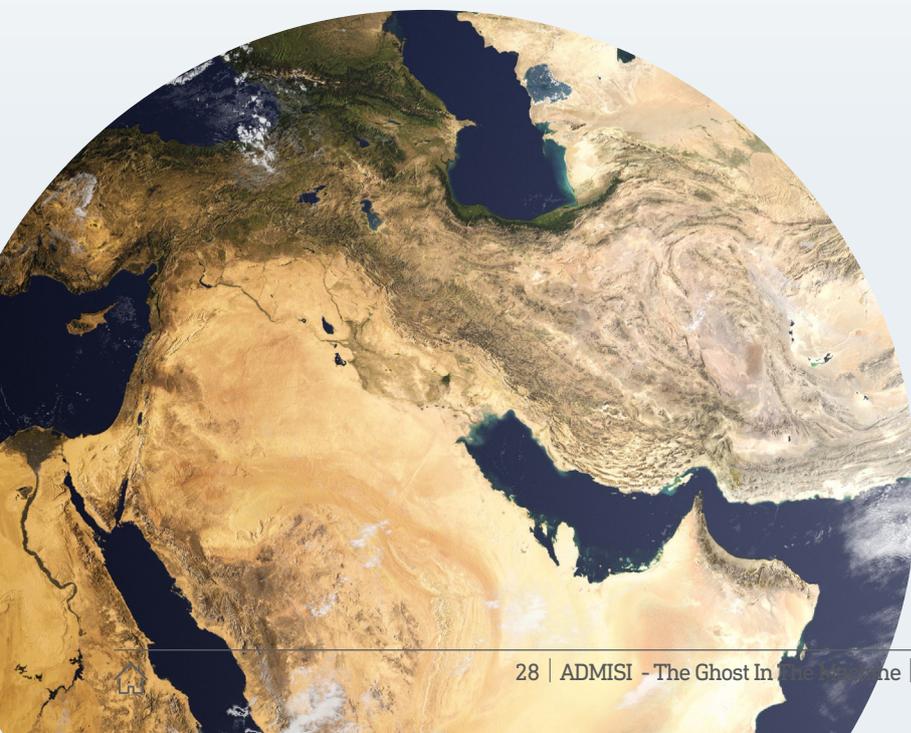
object so that market participants can talk about approximately the same thing, even when real fixtures remain bespoke.

FREIGHT BASIS VOLATILITY

Basis is the gap between the price of a specific physical fixture and the benchmark used to value or hedge it, e.g. an Ultramax fixture versus an FFA that settles against a Baltic Exchange index. Basis mismatch is larger as in freight the reference is an index basket combining several standard routes into one number, so the hedge tracks an average exposure rather than the exact voyage being fixed. Basis volatility in freight is a signal that the reference object (Baltic Index) is not identical to the traded object (the fixture). Basis reflects real economic differences:

1. **Route mismatch:** when route names sound similar.
2. **Timing mismatch:** laycan and settlement averaging windows.
3. **Clause mismatch:** who bears costs, and which delays are penalised.
4. **Operational constraints:** draft, congestion, routing choices, and ballast.
5. **Optionality:** the value of flexibility embedded in the physical contract

This is also where false positives arise in benchmarking and comparisons. A trader might compute an implied freight by taking CFR minus FOB or compare against an informal broker indication. Internal experience with freight calculations shows that many disputes disappear once all details are aligned, and the remaining differences can be traced to specific assumptions such as premiums, terms, port costs, or draft.



Freight basis as EUR/PMT from EU to Spain (30.000 mts) vs Handysize Index



Figure 1: USD/MT basis volatility over time for selected routes – source: www.cmnavigator.com

The chart at the top of the page shows an example of the 2025 freight price for 30,000 mts of wheat to Spain, expressed in EUR per metric tonne. Both the EU to Spain route and a comparison calculation based on the Baltic Handysize TC Index have been converted into EUR per metric tonne and plotted as a basis, calculated as EU to Spain minus the Baltic Index.

CONCLUSION

In grains and oilseeds, the economic purpose of value chains is simple, they move goods from where they are produced to where they are consumed. Prices coordinate that movement, and freight is the cost wedge that links an origin price to a delivered price. A trader buying/selling FOB or CFR trader is not interested in freight for its own sake, the trader is buying the ability to move a cargo at the right time, under the right terms, with acceptable operational risk. The question is therefore not "what is the freight rate", it is which origin becomes the marginal supplier into a destination once freight, currency, and quality are counted, and which execution choice delivers the best risk adjusted outcome.

For traders the first discipline is to state what "freight price" is being observed. A voyage quote, a time charter hire, a route assessment, an index basket, and an FFA settlement are different economic objects. They can all be informative, but they are not interchangeable.

For practitioners, the remedy is to treat freight pricing as a system rather than a set of snapshots. The system needs a clear price object for each decision, transparent assumptions and conversions, a basis framework so deviations from benchmarks are explained rather than debated, and automation so the same view is shared across desks fast. Volatility will remain, ships cannot be built overnight and transport cannot be stored. The practical opportunity is to stop wasting that volatility through slow workflows, and instead turn it into faster, more consistent execution decisions.

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 FOR TRADERS
 THE FIRST
 DISCIPLINE
 IS TO STATE
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 OBSERVED.
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JAPAN'S HIGH-WIRE ECONOMIC CHALLENGE

PM Sanae Takaichi's record landslide victory in the February 8 lower house elections has restored political stability following a protracted period of instability since the resignation of Shinzo Abe in 2020.

Having secured a two-thirds majority in the lower house, Takaichi also has a free rein to implement her policy agenda, though, like her predecessors (and most other current G7 leaders), she will have to contend with enormous fiscal constraints. Takaichi has told parliament that her government would "break away from years of excessive fiscal austerity and a prolonged pattern of underinvestment in the future," but would not pursue "reckless fiscal policies that could undermine market confidence." Converting this rhetoric into legislative action will be a high-wire challenge. Indeed, a look at the history of Japan's numerous stimulus packages and government spending trends over the past three decades does not offer a lot of grounds for confidence, even if Koizumi's 2006 Japan Post reforms and the 1980s Japan National Railway privatisations did help to deliver innovations in public and financial services.

Japan's government debt-to-GDP ratio, at around 236% of GDP, is frequently cited as the largest constraint, but it often appears to be cited to allow other G7 and Eurozone governments to put the proverbial 'lipstick on a pig' of their own debt piles. However, Japan has been the world's largest creditor for more than three decades, with a NIIP (Net International Investment Position) in late 2025 of ca. USD 3.66 trillion. As such, it has a net debt-to-GDP ratio of around 120%, similar to France and the USA, better than Italy (ca. 137%), though worse than the UK (92%), Germany (62%), and Canada (52%). But it is

worth noting that, in USD terms, its NIIP position peaked in 2012, easing through the rest of the decade before returning to its prior peaks in 2021 and 2024, primarily thanks to bouts of JPY weakness. The initial peak in 2012 and drop thereafter were largely due to a sharp rise in energy imports following the 2011 Fukushima disaster, which resulted in energy imports as a percentage of energy use jump from ca. 80% to 96.1% in 2012, and then easing to ca. 87% currently.

JAPAN'S RELIANCE ON ENERGY AND RAW MATERIALS IMPORTS

Japan's reliance on energy and raw materials imports is, per se, a key vulnerability — above all in a fragmenting world where energy and supply chain security have become a, if not the, primary concern, and particularly given the likelihood of exponential power demand growth, paced by AI data centres. It is little wonder that Takaichi (like a good number of her recent predecessors as PM) is looking to restart many of Japan's idled nuclear power plants, even though public opinion still has many doubts about nuclear power plant safety, though grudgingly agree with successive governments' narrative that nuclear power is a necessity. But while nuclear power will help to meet increasing power demand, it is anything but a panacea for Japan's growth challenges, and, like most other developed countries, it also faces an acute and costly need to build out and upgrade its power grids.

Both the BoJ and the Ministry of Finance (MoF) see Japan's potential GDP rate in the region of 0.5%–0.7%. There are many structural obstacles to accelerating this, many of which are well documented, amongst others: an ageing demographic, low birth rate, low female participation in the labour force, near-zero productivity

“TAKAICHI HAS TOLD THAT HER GOVERNMENT WILL “BREAK AWAY FROM YEARS OF EXCESSIVE FISCAL AUSTERITY AND A PROLONGED PATTERN OF UNDERINVESTMENT IN THE SHORT TERM.”

growth in the services sector, very rigid hierarchical labour laws and regulations, and very slow adoption of digitalization. One can also argue that a cultural resistance to, or intolerance of, failure also serves to inhibit innovation. While Takaichi has touted AI deployment to fill labour shortages and labour skills gaps, this would implicitly either create an even greater reliance on China — which looks highly unlikely given rising tensions between the two countries — or pivot to a reliance on the US, which the latest trade deal implies, above all in terms of strategic investments. It also begs the question of how the evident resistance to digitalization, let alone encouraging widespread AI deployment, can and will be incentivized.

THE IMMEDIATE CHALLENGE IS HOW TO DEAL WITH ELEVATED INFLATION

But the immediate challenge is how to deal with elevated inflation after decades of deflation and ultra-easy monetary policy, and in no small part due to the protracted period of weakness of the JPY, which has, above all, contributed to food and energy inflation. While nearly all political parties have touted cutting the sales tax on food, there are, as yet, no credible and detailed plans on how to finance the fiscal 'hole' that this would create, which comes on top of having to deal with rising debt service payments on that mountain of government debt. Given that any sales tax cut would almost certainly have to be temporary, there is the additional challenge of finding an alternative after the suspension comes to an end, as Takaichi and Finance Minister Katayama have acknowledged with some sketchy proposals to replace it with some form of tax credits. While the landslide election victory does give them a 'honeymoon period' to come up with a fiscally viable plan, public concern about cost-of-living pressures will demand relatively rapid action, and not just rhetoric.

One solution to the fiscal challenges that both Takaichi and Katayama have touted is changing the way that Japan's vast FX reserves (USD 1.178 trillion) are used. Under the current rules, 70% of the profits from the special account that manages the FX reserves can be transferred to the general

government account. The surplus on that account was JPY 5.36 trillion (USD 34.5 billion) in the 2024 fiscal year, with 30% retained as protection against potential future losses, which could be very substantial. Aside from the obvious risk of relying on a potentially very volatile source of revenues, the fact is that even if 100% of the surplus (i.e., interest income) were transferred, it would not go very far, given that the current fiscal shortfall is estimated at JPY 5.0 trillion. One suggestion from opposition party Komeito is to fold the BoJ's QE ETF holdings and FX reserves into a sovereign wealth fund in order to generate higher returns, which could then be deployed for government spending. But this also implies substantial sales of US Treasuries, which would doubtless face fierce US opposition, given that Japan remains the largest holder of USTs — particularly if the proceeds were primarily (as seems likely) used for domestic spending rather than investments in the US. A more innovative solution might consider leveraging those holdings, though this also would not be without risk, and by effectively hypothecating some of its FX reserves, it would also reduce its capacity to defend the JPY.

What is clear is that just because political stability has returned to Japan, the serious fiscal and structural challenges that it faces require radical changes — made all the more difficult by an increasingly fragmented world. Per se, a very close eye needs to be kept on how Takaichi & Co deal with these.

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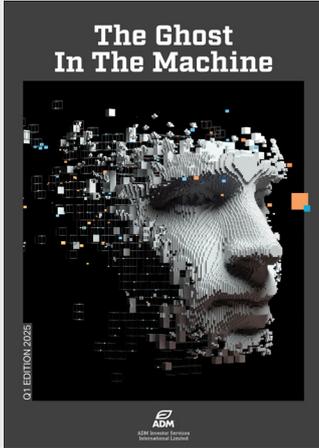
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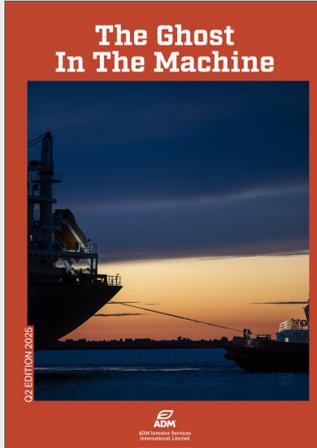


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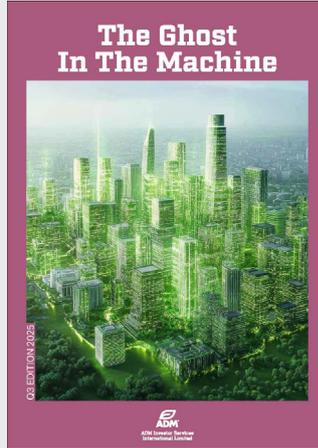
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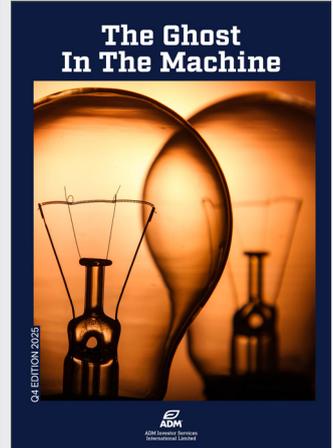
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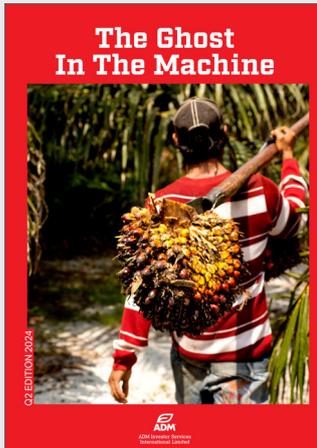


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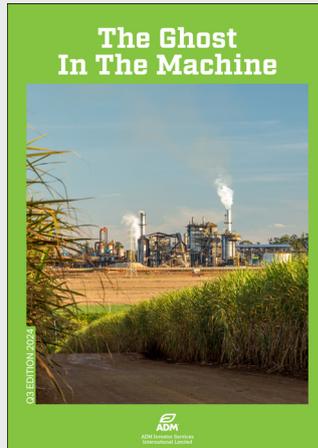
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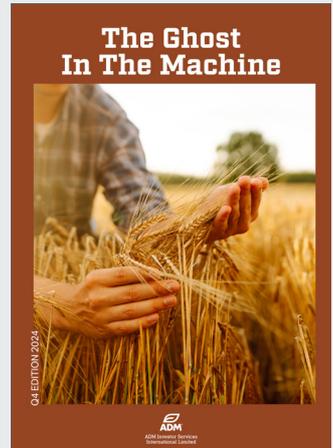
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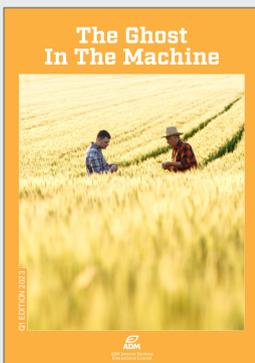


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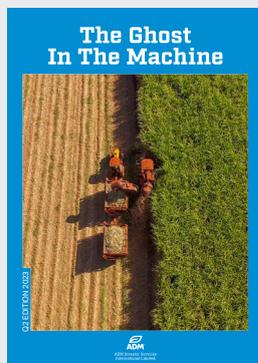


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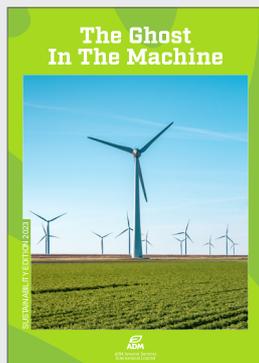
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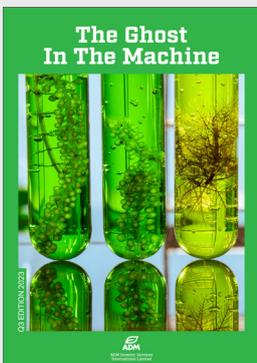
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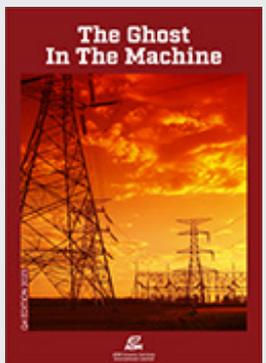
Q2



Sustainability Edition



Q3



Q4



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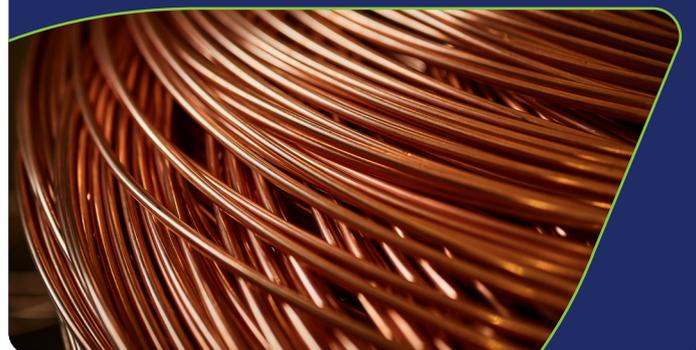
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The Ghost In The Machine

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