



Straights market update

13th July 2017



Market overview

There is increasing uncertainty in the market, and concern about hot dry conditions around the globe, particularly the US. Rapeseed looks to be a reasonable buy at the moment and is probably as good as it is going to get. If you have not booked your rape for this winter then you should take action now.

Earlier in the week cereals were up £8 per tonne on the futures market compared to where they were two weeks ago, but fell £2 last night (12th July) following a USDA report which published better than expected crop estimates from around the world. In the current market, and depending on your attitude to risk, CRM's view is that you should book all your cereal requirements for August to October now, and then look at taking further cover for the rest of the winter in mid-September when harvest pressure normally brings about a dip in the wheat market.

Wheat

There is mounting concern about the state of the global wheat market. Over the last two weeks forward prices have gradually firmed by £8 per tonne because of hot weather causing crops to deteriorate in Eastern Europe, Western Australia and the central plains of the US across into south west Canada, and rain delays with the wheat harvest in Russia. In Europe, the heat wave and lack of rain has been particularly bad in France, Rumania and Bulgaria. The French and German wheat harvest is under way but French crop is likely to be three million tonnes (MT) below the 38 MT expected and quality is down. Western Europe has had some rain in the last few weeks but its arrival has been too late to affect yields. In the UK crops are looking good but because the UK is a net importer of wheat, we are affected by the global market.

Alternative cereals such as maize and barley are also being hit by the dry conditions. Late last week, wheat prices were going up because of harvest delays in Russia, and weather forecasters predicting that the scorching hot weather in the US is set to continue to the end of July in the central plains of the US, and across into south west Canada. Farmers in Eastern Europe, particularly Ukraine are also worried about dry weather affecting their maize crops. Any dent in global maize stocks will increase the demand for wheat, and push prices higher. Bioethanol plants in the UK and Europe are making good profits, so they will not be afraid to increase ethanol production and consume more wheat and maize, putting even more pressure on cereal prices. As wheat prices go up, alternative energy sources like bread, barley, biscuits, dried sugar beet pulp and wheat feed are also likely to follow.

For the first time in five years, global carry-over stocks of wheat and maize looked as if they could be down for next year, but yesterday the USDA surprised the market by releasing crop estimates two million tonnes above market expectations, triggering a small fall in price.

Harvest delays of two weeks in the healthy Russian wheat crop has added upward pressure on wheat prices, but when this harvest is set to get under way, and as the Russians start to export their wheat, CRM believe that wheat prices will fall, probably in mid September. Therefore if you have not already covered your cereal needs, their view is to book your requirements now through to October, and then wait to take advantage of the traditional market dip in September. If you delay till October, then new risks relating to next year's plantings will start to emerge sending prices up again.

Rapeseed

Prospects for the European rape crop have been improving with the harvest underway in France and Germany where yields are better than expected. Canada is still a concern as it is the biggest grower and exporter of rape, and their plantings were late going in and they are worried now about the dry conditions spreading up from the US, and the possibility that some of their crop will not be ready before the frosts arrive later in the year. Australia, which is also a key rape area is very dry and plantings are down, therefore once the European rape harvest is in, concern will build again.

Soya

There were big harvests in Brazil and Argentina earlier in the summer and the political unrest in Brazil has been encouraging farmers to sell, so increasing soya supplies to the market, which China have mopped up. Prospects for North American soya were good a few weeks ago, but the hot weather and forecasts for it to remain dry through July has changed this and fund buyers are now buying soya on the futures market and this is sending prices up. Yesterday's USDA report raised global stock estimates by over one million tonnes over June figures and the trade estimates for July, with world soya bean stocks estimated at 93.53MT for 17/18 compared to 94.78MT for 16/17. August is a key month for North American soya as this is when the pods are formed, therefore much depends on the weather, and if this is deleterious, then soya and rapeseed prices will go up.

Currency

Currency is another source of uncertainty. Since the election, the outlook for the UK pound (GBP) has become bleaker while other currencies like the Euro have been getting stronger. As Brexit negotiations proceed, political uncertainty is likely to weaken GBP, potentially increasing feed prices even more. The key now is to take cover on some cereals, and rapeseed meal.

For more information, please speak to your consultant.

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