Technical Update - Feed Markets

Information correct as at 10.00am on 31.07.2020

- Global cereal harvests are looking on course for big crops and ending stocks
- Big soya harvest on the cards
- Currency influencing markets with £ weakening against Euro but strengthening against $

Cereals

The £ has weakened against the Euro, but has reached a 4 ½ month high against the weakening US $ at around $1.30.

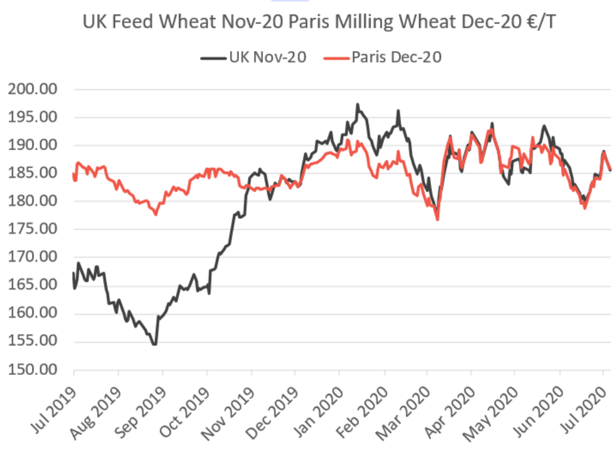
As cereal harvest progresses further throughout the US, Black Sea and Europe production forecasts are becoming more accurate. In the US, the winter wheat harvest is now about 75% complete, spring wheat has now largely headed and is looking good with favourable weather forecasts. In Russia wheat yields are around 5-10% below average so far, but latest estimates put the final crop at around 75-76MT, still the 2nd largest on record. Some rain is forecast in the main spring wheat growing regions which should help yields.

In Europe, the French wheat harvest is around 71% complete and the maize crop is rated at 81% Good/Excellent, well above the same time last year. Australian weather conditions remain favourable and an extra 10MT will come onto world markets as they have the biggest wheat crop for several years.

Globally wheat is still on track for record production and ending stocks, mainly due to lower demand because of the COVID pandemic.

BUT as COVID 19 develops at different rates in different areas of the world its effect on demand estimates are less clear.

UK wheat is still relatively expensive. Historically the difference between UK feed wheat and French milling wheat has been significant (see graph below), but is virtual at parity now, partly due to the lower value of the £ vs Euro.



Source: USDA, CRM AgriCommodities

The UK winter barley planted area and early harvest yields are down, but the large area of spring barley should be good with recent rains coming in time to boost grain fill. Ex farm East of England barley still around £125/t and around £40/t cheaper than ex farm wheat.

US maize ending stocks will be lower than first expected but still at record levels with good production and lower demand. Ethanol production is around 13% lower than last year, so there is still downward pressure on prices.

The FAO 10-year outlook shows cereals demand will be lowered for several years due to COVID effects whilst yields will keep increasing. Provided we do not have disruptive global weather events this should mean downward price pressure for the medium term.

Proteins

The US soya crop is rated 72% Good/Excellent and well ahead of the 5-year average. This could result in record production if current good weather continues.

China has been buying a lot of US soya as South American product becomes less available and they try to reach short term US trade targets. The African Swine Fever outbreak in China is also said to be diminishing, which will increase demand.

UK soyameal prices have eased back on currency to around £300/t for supplies through to April 2021

Argentina has reduced soya crushing so soya hulls are less readily available, with recent price increases to around £152/t to October and £157/t for November to April 2021.

The EU oilseed rape crop is much reduced and a larger than average deficit will have to be made up by imports from Ukraine and Australia plus more sunflower production, particularly from the Ukraine.

Demand for rape oil still relatively weak on lower demand for biodiesel and rapemeal production is forecast to be around 12% lower than recent years. Erith has yet to announce a reopening date following the fire at the plant.

Problems with Palm Oil harvest in SE Asia due to labour shortages because of COVID 19, the consequent lack of supply is helping to keep all vegetable oil prices up.

There is little change for most other straights with the stronger £ helping to keep import prices lower.

For further discussion or to help with any questions that you may have, please contact Consultant Support on consultantsupport@kiteconsulting.com or 01902 851007 / 07542 403225