Technical Update - Feed Markets

Information correct as at 10:00am on 28.08.2020

- Currency continues to fluctuate – stronger against the dollar weaker against the Euro
- Storms in the US and droughts in France and Ukraine have put some pressure on the cereal market, although Russian and Australian crops look big.
- Prospect of La Nina developing is increasing which could affect Southern Hemisphere weather
- UK sugar beet crop hit by virus yellows which could affect beet pulp supplies

Currency

The £ continues to strengthen against the $ (partly due to $ weakness) and at around $:£ 1.31 is back up to pre COVID levels. Against the Euro it is around 5% weaker than pre COVID at around 1.11.

Ongoing difficulties over trade negotiations with the EU are likely to continue to create uncertainty and volatility for the rest of the year.

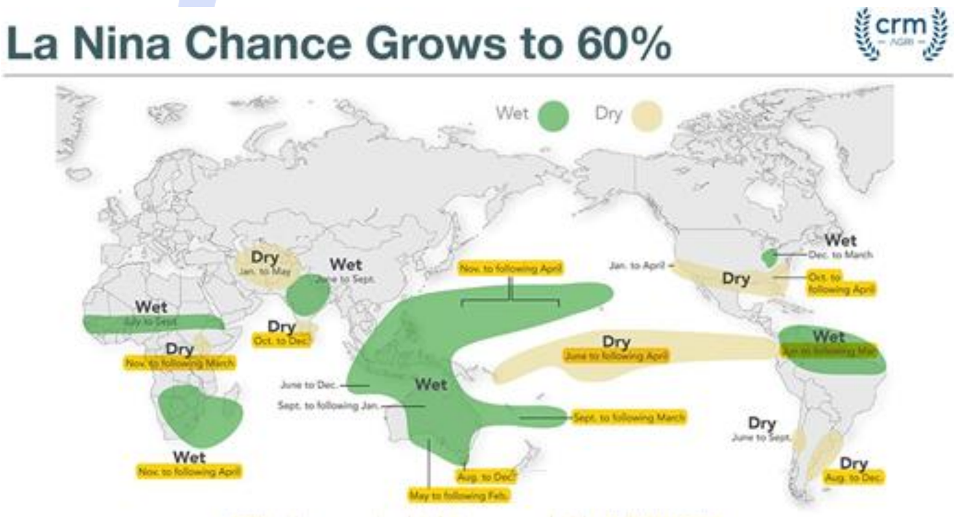
Cereals

Storms in parts of the US have hit the maize crop and reduced the good/excellent rating from 69% to 64% in a week, though this is still above the 5 year average of 56% and production should still be at near record levels. Prices in the US have risen slightly to around $3.40/bushel because of the storm damage, but this should ease back, with better weather forecast and if some damaged crops can be salvaged. Demand for US ethanol is still weak at around 8% below pre COVID levels.

Very dry weather in France has caused the good/excellent maize crop rating to continue to fall from 84% around 6 weeks ago to 51% now. The other major European maize supplier, Ukraine, has also suffered from very hot and dry conditions, with the crop there forecast to be around 35MT, down c.4MT in the last month.

The Russian wheat harvest is now around 65% complete and latest estimates have been revised upwards to around 81MT, which is the 2nd largest crop on record. Russia is the major wheat exporter to the world market and their prices are around $10-20/t cheaper than anyone else at present, so this will continue to keep pressure on all wheat prices.

Wetter weather in Australia makes their production forecast of 26-27MT more likely (compared with just 15MT for 2019). This is thought to be due, in part, to developing La Nina conditions in the southern hemisphere, giving wetter weather in Australia and Brazil and drier weather in Argentina. If this continues to develop it could affect future South American soya and maize crops.



The EU wheat crop is estimated to be down around 13% from last year, but demand is also lower.

In the UK wheat harvest is progressing slowly with weather interruptions. Yields are ranging between 5 and 9t/ha, so the overall total forecast is still around 9-10MT.

Prices are volatile as conditions and other factors change. Ex farm prices still around £162/t for spot wheat and through to November with barley around £124 spot to £127/t for November. The poor growing conditions also mean less straw, so prices are currently on average around £11/t higher than last year at around £55/t for big square barley straw bales and £44/t for wheat ex farm. Prices for straw delivered to farm in the livestock areas has increased even more.

Overall the world is still on track for very large cereal crops and demand is generally weaker, so the outlook is still bearish, but not as much as in the recent past as nervousness and uncertainty over weather, currency, COVID, etc take effect

Proteins

The US storms have affected soya crops as well as maize in some areas, so the overall good/excellent rating is down slightly at 74%, but still well above 5-year average of 64% and 2019 rating at this stage of 54%.

There are continuing tensions between the US and China, but strong sales are continuing. The US has sold 20.5MT of soya bean this season with 60% going to China so far. The EU demand for vegetable oils is still quite weak with the lower demand for biodiesel continuing. The plant at Erith is now working, but at a lower level than normal for a few more weeks, thus limiting rapemeal supply and increasing prices in the short term.

Palm oil harvest is getting back to normal as labour shortages in SE Asia diminish and Malaysia and Indonesia have increased mandates for biofuels in their countries which is increasing demand.

General

The UK sugar beet crop has been affected by virus yellows in some areas which could mean higher pulp prices when they are announced shortly.

In general straights have increased between last winter and this winter, with the big movers being wheat and biscuit meal up £27/tonne, molasses up £19/tonne and palm kernel up £17/tonne. There have also been some drops, but not as significant with soya and maize grain down £8/tonne and other commodities are very similar to last year with rape and soya hulls up £2/tonne. Therefore, the outlook is for higher feed costs generally, though with careful choices and prudent forward buying straights users in particular should be able to mitigate some of the price increases.

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