Technical Update - Feed Markets

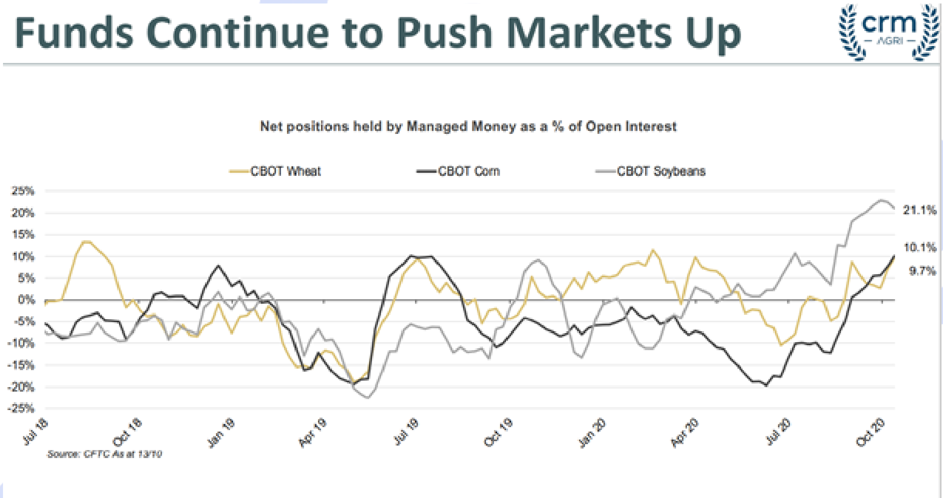
Information correct as at 10:00am on 23.10.2020

- Markets continue to strengthen as fund managers invest in "safe" agricultural commodities
- There are also weather concerns for the next wheat and soya crops
- However, fundamentals remain strong and markets are expected to dip as we head into 2021

Cereals

Managed funds positions in the US are at historic high long positions for wheat, maize and soya and this is helping to drive prices higher. The feeling is that cheap money is being used to invest in agricultural commodities as a safe haven and an inflation hedge.

Fund managers tend to look at the headlines and make their decisions on that basis rather than looking too deeply at the fundamentals and there have been enough concerning stories to keep them interested. The chart below shows the net positions held by managed funds for the 3 main agricultural commodities as a percentage of the total market.



The positive factors which are feeding these positions and high prices are:

The Black Sea area and southern Russia in particular are very dry. This is affecting the germination of this year's wheat crop and there is very little rain is showing on the forecast for the next few weeks in the region. The US plains are also very dry, which is causing concern for the US wheat crop. Although a little rain/snow is forecast in the next few weeks here, it may not be enough to make a difference.

China has continued to buy a lot of maize and soya from the US and has recently bought high quality wheat from France (24% of their exportable surplus has now been sold vs 17% last year). Buyers are generally taking a cautious approach and "frontloading" their purchases to reduce the risk of supply disruption due to COVID or Brexit issues in the supply chain, so demand has been high.

Maize planting in Brazil has been delayed due to the weather with only 47% planted vs 59% at the same time in 2019, but rain is on the way now and with a record crop predicted this should soon turnaround.

Factors with potential to reduce prices going forward:

There are still plenty of cereals available around the world with excellent crops coming onto the markets from the 2020 crops from Russia, Canada and Australia. The feeling is that it will not take too many of the currently bullish stories to change or become less important for the managed funds to start selling. The likelihood is that they will change their positions over the next few months and prices will start to fall back.

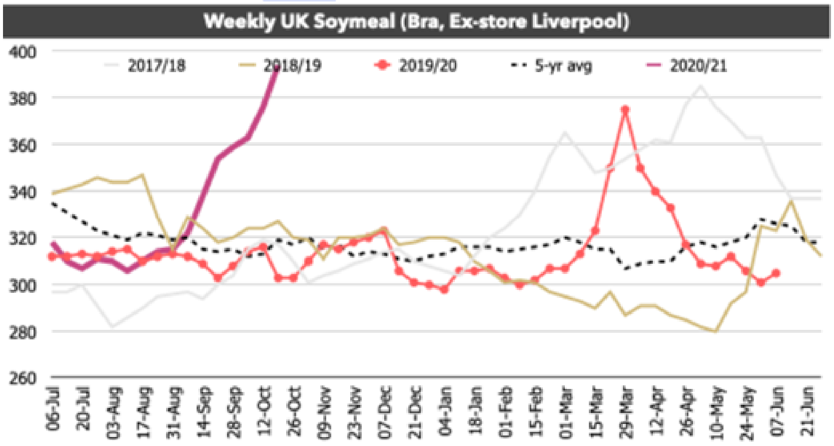
Current LIFFE wheat for November 2020 is £189/t (but for November 2021 is only £161/t on the anticipation of large plantings and good crops. Ex farm wheat prices are around £180/t with barley around £135/t. Both have gone up around £10-15/t over the last 2 months, but barley remains the best value by far.

Oilseeds

As can be seen from the chart on page 1, US funds have record high long positions in the soya market which is pushing prices up. On top of this the US has had record sales, mainly to China, and has reached export levels of around 50MT almost twice as quickly this year compared with last. For the 2021 crop, Brazil is only 6% planted compared with 19.5% at the same stage last year. Some rain is now forecast so plantings should now increase.

In Argentina, the Peso is very weak and export taxes are in place, so farmers have been reluctant sellers and crush levels remain low. The feeling is that they will have to start selling soon.

All of this has meant a tighter supply of soya meal and soya hulls, so UK ex-port spot prices have continued to increase towards £390/t and £180/t respectively.



The weak £ is believed to account for around £10-15/t of this so a deal with the EU and a strengthening of the £ could help to reduce prices.

Looking forward, the US soya harvest is now 75% complete so “harvest pressure” will start to take effect. Also, once the Brazilian plantings catch up and assuming the rains come as forecast there is a record planted area and crop to come there.

Again, the feeling is that buyers have been front loading their purchasers due to COVID and other uncertainties so demand should start to ease shortly. The funds are likely to come out of the markets to an extent at some point in the next few months and with demand slowing prices should come back in the medium term.

Rapemeal prices have increased further partly due to the rapid rise in soyameal price but also due to short supply as Erith has still not fully reopened and rapeseed crushing generally has been low throughout Europe. Prices now around £265/t spot and £235/t for May-October 2021.

Reduced demand for ethanol plus high freight rates and some issues with low river levels delaying supplies on top of the higher prices generally have pushed up both maize and wheat distillers’ grains to around £245-250/t.

The overall feeling is that prices should peak soon and start to come back into 2021, so sit tight if you can and if not then hope for a good deal with the EU and look for dips in the market to extend cover.