Technical Update - Feed Markets

Information correct as at 09:00am on 09.10.2020

- Cereal and protein markets continue to firm
- Ending stocks of energy feeds have been downgraded, but fundamentals are still strong
- Outcome of trade deal negotiations with EU will affect currency which will be a future price driver
- Be aware of disclaimers on forward orders due to trade negotiation uncertainty

Cereals

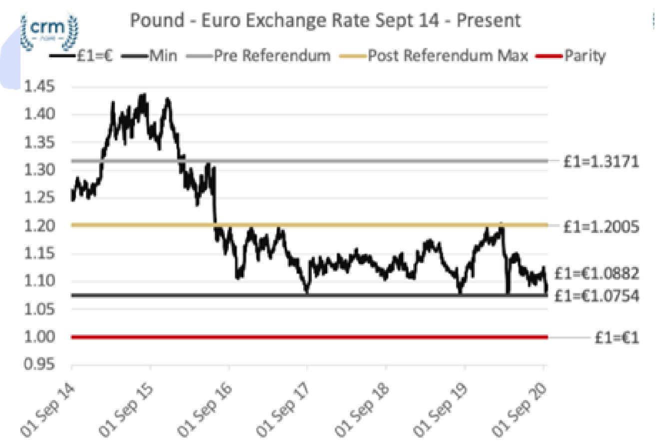
UK wheat prices continue to firm, with LIFFE November 2020 wheat price now around £185/t. This is due to several reasons:

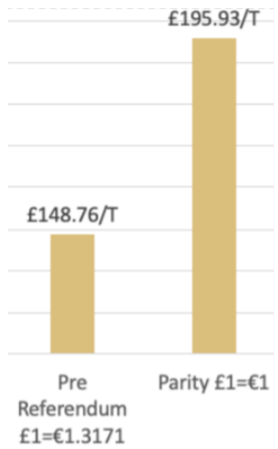
The UK crop is much smaller than usual, at around 10MT, due to major weather issues throughout the last crop year, so domestic supply is tighter than usual. Compounding this, out of the blue DEFRA have reduced their estimate of 2020 year ending wheat stocks from 3.4MT to 2.4MT, so further tightening supply. Tight supplies and rising prices understandably make arable farmers reluctant sellers, so supply has been further restricted.

Conditions for planting next year's crop in Ukraine/Russia/Black Sea area are extremely dry and rain is needed urgently to get the crops growing and there are also rumours that Russia could put restrictions on grain exports in a few months, which would push prices up further.

The chart below left shows that the £ is still relatively weak at around 1.1 Euro compared with 1.3-1.4 before the Brexit referendum. If a "good" deal is done with the EU the £ should strengthen, which could reduce prices significantly, but if a "bad" deal is the outcome then the opposite could happen.

The chart below right shows what effect currency could have depending on which way this goes.





Barley supply is plentiful and with exports to traditionally strong importers such as Spain much lower this year the large differential to wheat remains with ex farm spot prices still around £135/t compared with around £179/t for wheat.

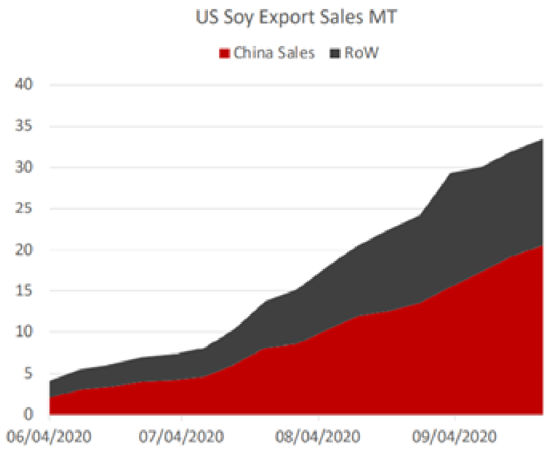
Further afield, the USDA quarterly report released last week also unexpectedly cut US ending stocks. This plus continuing strong Chinese demand and further support from US managed funds has continued put upward pressure on prices in the US and around the world.

On the other hand, the wheat crops of 2 leading exporters, Russia and Australia, continue to be upgraded – to around 83MT and 29MT respectively. Canada also has a big crop coming through and the outlook for maize production in Brazil looks good providing La Nina does not have too big an effect. Although this is likely to be more of an issue for dry weather in Argentina.

CRM quote of the week: "the bulls need feeding and the food is running out" i.e. there have been more bullish factors at play recently, but most are now factored in and unless more unforeseen factors come out then prices should ease back.

Proteins

The US soya harvest is progressing well and ahead of the 5-year average for this time of year, but last week's USDA reduction in stocks shocked the markets. Argentinian soya at Rotterdam is now $450/t vs $350/t in May. Chinese demand for soya beans is still strong and US funds are now extremely "net long" so upward pressure on bean and meal prices continues.



In Argentina, the weather is dry and cold and as they are major exporters of soya beans and hulls this is adding uncertainty to the outlook. Brazil is increasing the acreage of soya planted and should achieve a record crop next spring, but La Nina probability is now 80% so changes in weather could have an effect.

Ukrainian OSR plantings and germination have been delayed by very dry weather. Demand for rapeoil for biodiesel in EU is low and likely to continue that way with low crude oil prices, around $38/barrel and the daily commute a thing of the past for many.

The supply of rapemeal remains very tight, particularly in the short-term, but Erith should be back up to full capacity in the next few weeks and this combined with other factors has brought forward Erith rapemeal prices down to £210-215 for May-October 2021 vs c£235/t now

UK soyameal prices also up around £365/t at present but again falling back into next summer.

Lower demand for bioethanol in the US and EU is keeping supply of maize and wheat DDGs tight and here in the UK, Ensus is rumoured to be cutting back production soon.

If you are well covered through to next spring sit tight, if not, take advantage of any dips as they occur. A trade deal with the EU which strengthens the £ is the best hope for price reduction at the moment.

Finally, be aware that most suppliers are adding disclaimers to forward orders whereby any risks due to issues with the trade negotiations will be passed back to the end purchaser.

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