

Technical Update – Feed Markets

Information correct as at 10:00am on 06.11.2020

- Political and COVID uncertainty are driving the short-term market.
- Fundamentals have improved with rain arriving in US and Russia.
- Short-term prices are at odds with long-term fundamentals
- If you do not have to go into the market, then do not, our advice from CRM is that price falls are more likely than rises

Cereals

Uncertainties abound over COVID development in the UK and around the world, the Brexit outcome, the US election outcome, their effect on currencies and as usual the weather!

On the political front, at the time of writing the final results of the US election look like they may not be known for some time, with threats of legal action. A good Brexit deal for the UK is still possible and this should strengthen the £, causing imported goods prices to fall.

US Managed Funds remain at record highs for wheat, maize and soya, but the feeling is they have peaked and will soon start to come back which will take pressure off prices.

Rains have finally arrived in central and southern Russia, with more forecast, which will improve germination and establishment of their wheat crop which is now around 98% planted – so we could still see an 80MT+ Russian crop in 2021. They are also seeing more rain in key US wheat growing areas, improving prospects there too.

A big wheat crop is on its way from Canada and Australia in the coming months. After many years of drought there is now a danger of too much rain in Australia at harvest, but this should only affect milling quality so there will be plenty of feed grain.

In the EU and UK wheat plantings are generally going well and significantly better than last year so again the outlook for the 2021 crop is more positive (the November 2021 future price is around £158/t vs £188/t for November 2020). Ex farm UK wheat spot price is around £186/t vs barley around £138/t, so still a massive differential of around £40/t. Ground maize now up to around £220/t ex-port.

The US maize harvest is progressing well and is now 82% complete, whilst on the demand side Chinese purchases slowing.

BUT

It is still very dry in Argentina, so the current wheat crop forecast has fallen from around 21MT to 17MT and the forthcoming maize crop is only rated 36% good/excellent. More rain in Brazil is allowing soya plantings and crop development to improve but the delays will affect the following maize crop which will reduce the exportable surplus next year.

Although the fundamentals around the world are improving for cereal price prospects, the uncertainty surrounding global politics and COVID mean it is impossible to be certain which way things will go. Barley is now even more the preferred option for feeding cereals.

Oilseeds

US managed funds are still at record long positions for soya but have now stabilised.



In the US, the soya harvest is progressing well and now 87% complete. Plantings in Brazil are catching up as more rain arrives, now 24% planted vs 5year average of 34% and still heading for a record crop area, but it is still very dry in Argentina as La Nina persists.

Soya sales to China are slowing and demand for crude oil is falling as new measures to control COVID are introduced in Europe and around the world. In Argentina export taxes have been reduced so more soya and soyameal will be coming onto world markets from there.

UK soyameal prices ex-port are still around £380/t in the short term falling to £340/t for May – October 2021 as a large Brazilian crop is anticipated.

Some straights are difficult to find and prices generally are still well up on 2 months ago. As outlined in last week’s note on rapemeal, some traders have called force majeure on some orders. Rapeseed oil demand is lower due to low crude oil prices plus low demand for biodiesel with further lockdowns across Europe.

The outlook for rapeseed as a break crop is in doubt in UK but the alternatives are limited. However, France has a 3-year derogation on the ban on nicotinamides, so that is alright!

Erith is still not back up to capacity, so the outlook continues to be very tight for rapemeal supply. Merchants are working on “Price on Application” for spot supplies but Feb - July 2021 is dropping to around £226 and Aug – Oct 2021 £199/t.

There is some imported rapemeal available and supplies are still coming from the Liverpool crushing plant plus Novapro is still available. Spot non-Erith rapemeal is around £270/t.

With all the uncertainties around some traders have “frontloaded” their orders to avoid potential problems in supply which has pushed the prices of many straights up. Ex-port spot prices for US maize distillers are around £240/t, EU wheat distillers around £250/t and maize gluten around £220/t.

The message is the same as it was before – wait before buying any more if you can and do what you must do to keep going if you cannot!

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