Technical Update- Feed Markets

Information correct as at 09:00am on 20.11.2020

- USDA has downgraded estimated closing stocks for maize and soya
- Investment funds are still big players in the market
- China and other importers have front loaded demand
- Prospects for 2021 cereal harvest are looking better

Much has changed over the last 2-3 months which has caused prices of all raw materials to rise substantially: -

The USDA has kept revising forecasts for supply downwards and demand upwards resulting in much lower ending stocks, particularly for soya and maize. Investment funds have used “cheap money” to invest heavily in agricultural commodities as a safe haven in troubled times and their activity has been fuelled by perceived problems and shortages.

Weather systems in some key growing areas around the world have gone against new crop plantings and establishment.

China has bought wheat, maize and in particular soya very heavily and well ahead of expectations. Other countries have also “frontloaded” their purchases to make sure they have enough to cover for the uncertainties of COVID and to an extent the end of the Brexit transition agreement.

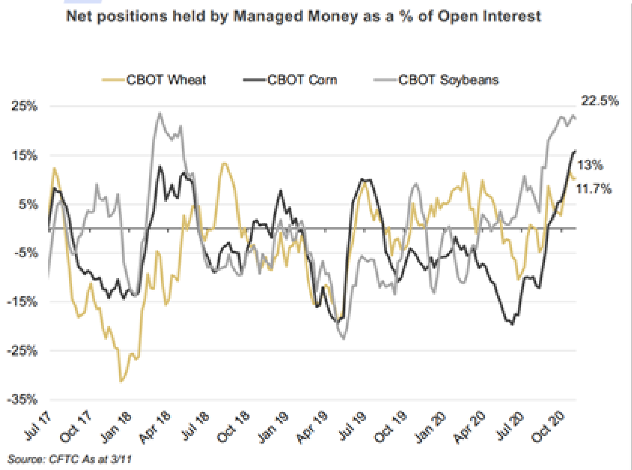
Supplies of some raw materials have been hit by reduced activity in some sectors e.g. ethanol and vegetable oils so the by-products of wheat/maize distillers and soya/rape meals and soya hulls have been affected.

The explosion and fire at Erith have caused an acute additional problem in the UK with lack of short-term rapemeal supply.

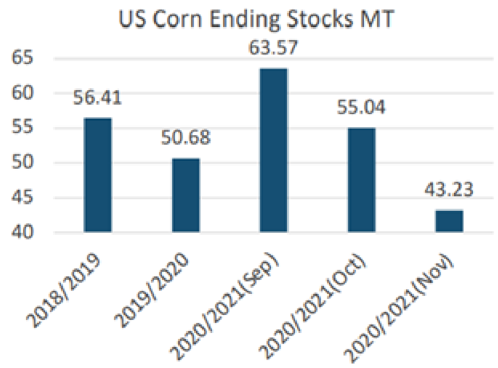
Recent positive vaccine news is seen as “bullish” in the markets.

Cereals

The recently released November USDA WASDE report has caused markets to remain firm and US managed funds are still at record long levels (although there are indications they are peaking now).



A further reduction of 5MT for US maize production estimates and high demand, from China in particular, has resulted in another large reduction in US forecast ending stocks (down 20MT since September) which shocked the markets. So far China has bought around 11MT against a USDA forecast of 13MT in total. Nobody knows whether they have just bought a lot early and will stop at the 13MT forecast or keep buying more going forward. There is a feeling that China and other countries are buying more cover earlier to secure their positions following the shock of COVID.



Continuing dry weather in Ukraine has resulted in a further reduction in their maize crop estimates for this year. La Nina is also causing dry weather in southern Brazil and Argentina which will reduce new crop maize yields there unless more rain arrives soon.

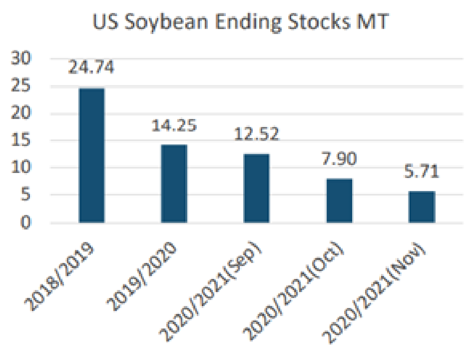
The wheat outlook was little changed in the WASDE report. Russia is exporting at high levels and a very large Australian wheat crop (now maybe around 30-31MT) is about to come onto the markets. The 2020/21 US wheat crop is 96% planted and rainfall in the main wheat growing areas has improved the good/excellent rating to 46% and so the outlook for the 2021 harvest is better. Russia has planted a record 19MHa of wheat and recent rains have improved prospects here too, but the weather forecast for Russia is for little rain or snow in the near future, so there are concerns over establishment and an increased risk of winter kill.

At present ex farm wheat is around £185/t and barley around £136/t, so now nearly a £50/t difference and keeping barley one of the few raw materials which still looks good value. Higher plantings in many wheat growing countries around the world make the prospects of a good 2021 harvest high providing the weather is favourable so LIFFE for November 2021 is around £30/t lower than May 2021 at £160/t.

In the UK, the £ remains around £1.32 and Euro 1.11. If a Brexit deal is done it should strengthen and that would help prices.

Proteins

Again the November USDA WASDE report showed a further fall in US soya ending stocks driven by a another cut of 3MT to the US production forecast and strong export sales, especially to China, where sales in the region of 100MT are forecast. The forecast ending stocks of 5.7MT would be the lowest for 7 years.



The outcome of the US election is still in dispute but assuming Biden gets in it will be interesting to see what his stance towards China will be. If it is less aggressive then there could be less incentive for China to buy.

The price of Brent crude oil has jumped to around $44/barrel on the back of positive vaccine news and vegetable oil crush margins have improved. A record 183 million bushels of soyabeans were crushed in the US in October (generally a strong month as new beans come in) but crushing in Argentina is still low, thus restricting supply of meal and hulls.

As the US maize and soya harvests are around 96% complete the spotlight is now falling on South America. The La Nina weather pattern is strong now, so Argentina and southern Brazil are generally dry. There has been rain in other parts of Brazil but the outlook is for more dry weather which will not help prospects for this autumn's maize and soya crops and this will knock on to next spring's 2nd maize crop, which tends to be mainly for export.

OSR prices have increased, partly on the back of increases in soyabeans, so UK ex farm price is now around £350/t, up around £30/t on last year. Although the demand for rapeoil for cooking and biodiesel has been muted by the pandemic Germany has increased the amount to go into biodiesel there. There are signs that Erith will be coming fully back on stream soon so that should help supply of UK rapemeal.

The view is that markets may have peaked and **<u>if</u>** weather improves in key areas of the world prices should ease back generally as we get into the spring of 2021.

Hopefully, many will have locked into straights at previous prices, otherwise discuss the options with your Consultant. Do what you must do to get through this period and keep an eye out for better prices going forward and book when opportunities arise.

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