Technical Update - Feed Markets

Information correct as at 09:00am on 18.12.2020

- Ending stocks for wheat looking good, but other factors are keeping prices high
- Chinese buying rates have eased for maize and soya which should temper the market
- Brexit outcome and its effect on currency will be a big influence on short-term UK prices

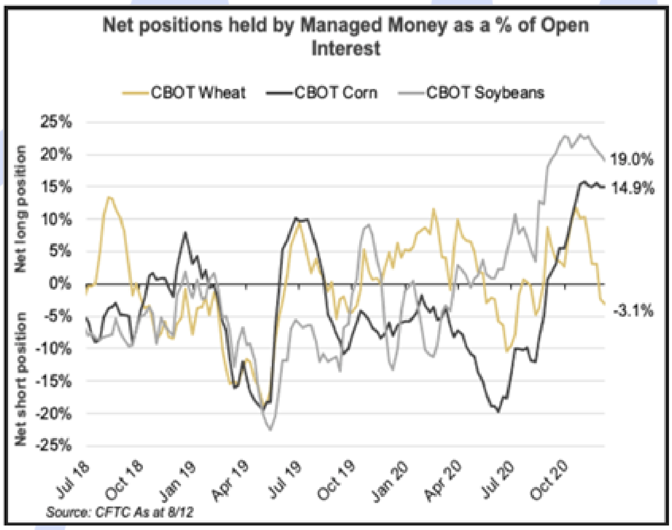
Cereals

Russia has recently announced a limit of 17.5MT on exports of wheat from February until the end of the season. This did not have much effect on the market, but there is now a rumour they could impose an export tax of $30/t as well, which is a bigger worry, and has caused a spike in forward wheat prices.

The £ is still volatile and goes up or down depending on the latest view of deal or no deal Brexit and this is translating into commodity price volatility.

The most recent USDA WASDE report showed little change for wheat outlook, with ending stocks forecasts still good and the big harvest from Australia coming. Russia has planted a record area for the 2021 crop of around 19 MHa, but very cold weather and no snow cover is increasing the risk of winter kill. France, the UK and the rest of Europe have had a much better planting season than last year, although France's planted area is slightly lower than the 5-year average at 4,750 Kha.

US Funds have backed off from their record long positions with wheat well down from where it was a month ago (see below). Maize and soyabeans have also levelled off/fallen back and this has helped the prices for maize, wheat and soya to ease back.



UK wheat prices bounced back up on the back of currency weakness caused by uncertainty over the Brexit outcome plus the possibility of the Russian export tax. Wheat now around £188/t ex farm spot and £194/t for March, compared with barley at around £140/t spot and £147/t for March.

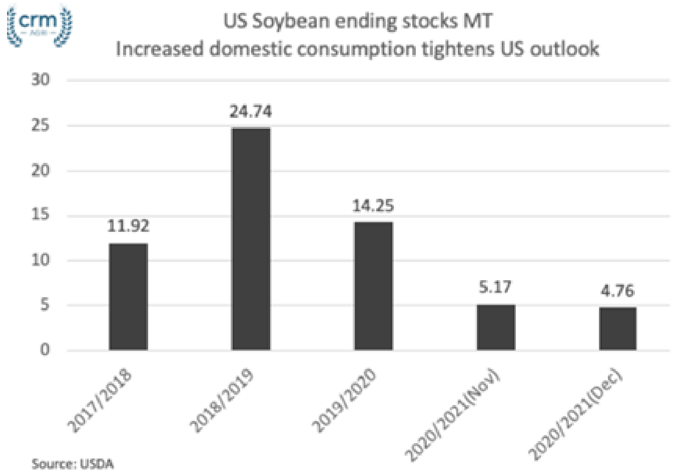
The UK wheat planted area is around 1,800 Kha and generally conditions have been good for establishment so prospects for 2021 harvest are much better. November 2021 LIFFE futures around £158/t. Barley exports are slow and although it is being used to the maximum in most diets there will still be a surplus at the end of the season, which helps to explain the still large gap compared to wheat which is being imported.

Not much has changed regarding maize but the outlook is becoming a bit less bullish with Chinese buying slowing, ethanol demand weaker and the Ukrainian final harvest tally better than once feared.

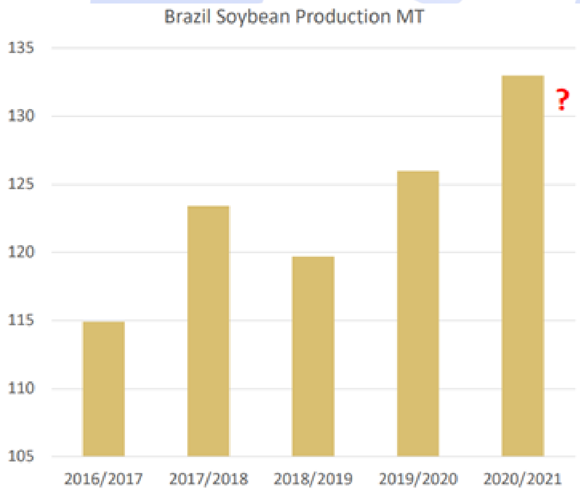
The South American weather is now critical for their maize crop. Good rains have arrived recently, but forecast is for dry weather returning.

Proteins

US sales to China are slowing and prices are easing back with funds coming out of long positions, but latest USDA ending stocks estimate remains historically tight at only around 4.8MT.



South American crops are the key going forward and the weather there is again critical. Brazil has planted a record area and therefore should be on track for a record crop, but although they have had some rain recently the forecast is for dry weather to return. La Nina conditions still prevail but should begin to weaken soon.



In Argentina inflation is rampant and the currency is weak with sales from farms remaining slow. In addition, there are strikes which could affect supply of soyabean meal and hulls in the short/medium term if not resolved. UK Soyameal prices have been fairly stable recently at around £385-390/t ex port and around £360/t for May -October 2021.

A big OSR crop is coming to world markets from Australia in a few months which should help supply. However, crushing remains limited and demand for vegetable oils is still relatively low. Rapeseed meal prices continue to be high in the short/medium term with poor supply as Erith continues to struggle to get up to capacity. POA at present but forward Erith prices for May-October around £214/t.

Maize and wheat distillers are both in short supply, with lower demand for ethanol continuing as most countries continue to suffer increased rates of COVID and impose further restrictions.

A good Brexit deal should strengthen Sterling and help ease prices back, which would create an opportunity to catch up with purchases for those who need to.