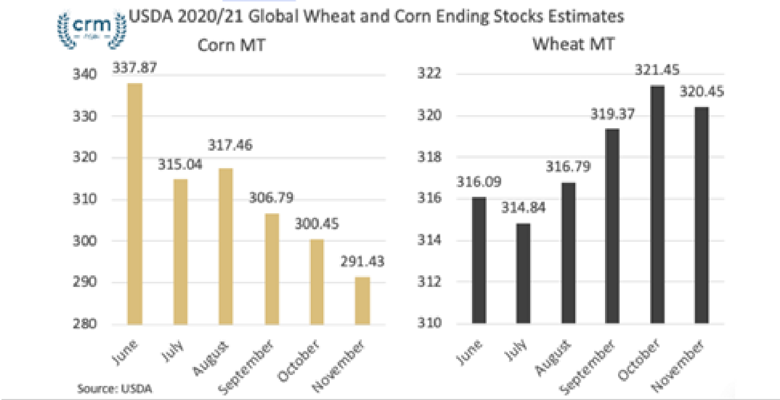
Technical Update - Feed Markets

Information correct as at 09:00am on 04.12.2020

- Cereal prices starting to ease with big Australian crops and timely rain in US and Black Sea
- South American crop potential still affected by La Nina
- Managed Funds starting to sell off positions
- Short-term prices still high, but forward quotes looking better

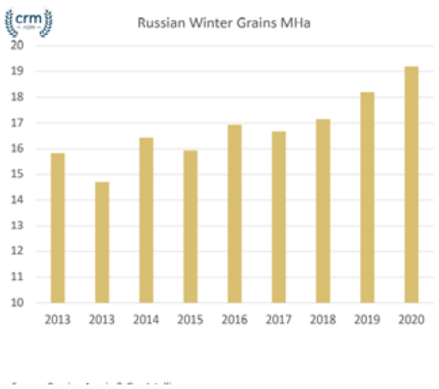
Cereals

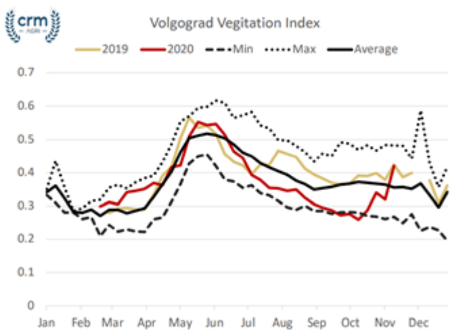
The outlook for wheat is more bearish now but prices are being underpinned by a more bullish outlook for maize as ending stock forecasts go in different directions.



Supplies of wheat and barley from Australia are now coming strongly onto export markets and conditions in key growing areas have improved in the last few weeks. This is part of the reason that US managed funds have significantly reduced their long positions for wheat.

The situation in Russia is also changing and as it is now a major player in world markets this is affecting sentiment. They have planted a record area and rains have now arrived causing the vegetation index (red line on graph) to change rapidly and it is now better than the 5-year average.





In the US wheat conditions have been relatively poor but again have improved recently (though both Russia and US are vulnerable to winter kill if there is no snow cover).

The French wheat area is back up to around 5,000 k Ha planted for 2021 from 4,300 k Ha last year and the UK has similarly increased the wheat area planted back up to around 1,800 k Ha, so close to average levels again with better planting/establishment conditions this year.

Barley demand for malting remains relatively low as COVID restrictions continue and off and most animal feed rations are up to the maximum they can be, so there is a UK surplus of around 2 MT for export. Ex farm prices continue to increase with wheat in England and Wales around £188/t and barley £142/t.

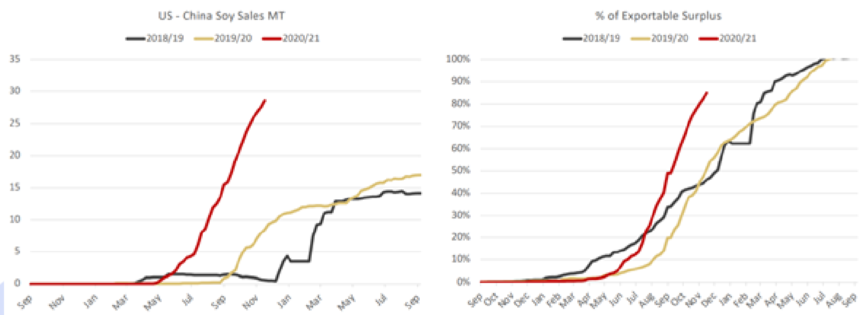
Despite the improvements in wheat/barley outlook, prices are being maintained by the weak maize/corn situation. Although US weekly maize sales are slowing, significantly reduced supply and tighter ending stocks are maintaining prices. Furthermore the 2020 Ukrainian maize crop has been downgraded again and there have been defaults on some contracts.

South America is now the main focus. La Nina weather patterns continue and although there has been some rain in Brazil more is needed. Brazilian maize is 94% planted now but currently only 35% good/excellent. Their 2nd "Safrina" maize crop next spring (mainly for export markets) will be delayed and maybe reduced in size. Argentina has had some rainfall recently but overall remains dry with reduced and delayed plantings.

Prospects for 2021 cereal crops are generally better, but we will have to get through to next summer to see the benefits of these in terms of prices and currency could still play a big part one way or the other, depending on whether a Brexit deal is done and how the vaccine affects the recovery of the UK economy.

Proteins

The graphs below show sales of US soyabeans to China have been at "unprecedented" levels and in rapid time which has been a major driver of prices.



Nobody really knows how much stock China has of any commodity, but the feeling is that it has front loaded its purchases and will now ease off.

The Brazilian soya crop is now 87% planted and could produce another record crop of around 130MT, BUT, although there is some rain around again much more is needed over the coming months. In Argentina the dry La Nina weather is causing delays to planting and establishment of the new soya crop and this is coupled with a continued lack of selling as it pays farmers to wait, but they will have to sell as we move into 2021 Q1 and Q2.

Rapeseed prices are falling back currently. Although Brent Crude oil has increased slightly to around $48/barrel it is still well down on where it has been previously. Demand for biodiesel is still relatively low in Europe but more rape oil is generally used in winter as it does not "wax".

Erith has reopened but is operating at reduced capacity so supplies remain tight. Non-Erith rapemeal spot around £280/t ex south coast port but Erith rapemeal is down to £215/t May-Oct 2021. Hipro soyameal prices have eased back a little recently to around £384/t ex-port in the near term falling to around £360/t for May-Oct 2021.

Reduced demand for ethanol has again kept the supply of wheat and maize distillers grains tight with prices around £274/t and £255/t respectively for the near term and maize gluten prices have risen recently to around £235/t ex-port for the near term as demand has increased.

The message is the same as for the last month or so – sit tight if you can and if not do what you have to do to get through to next spring/summer, taking advantage of any forward buying opportunities as they 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