

Kite Feed Market Strategy

Feed markets update from the Kite Feed Strategy Group.

All prices quoted in this report correct as of 4th February 2021

Strategy Summary

The main action points from this report are as follows:

- Buying opportunity for rapemeal from August – clients are advised to take some cover.
- If covered on feed until April – hold for the close-up period.
- From April onwards buy hand to mouth through to the summer and take advantage of any market corrections to take bigger 'chunks' of cover if they materialise.
- Clients feeding soyabean meal are advised to consider rapemeal based alternatives, unless cover taken at very competitive prices.
- Rapemeal and feed-grade-urea based diets look cost effective.
- Consider taking some cover on new crop cereals (30%).
- Soya Hulls look more favourable from May onwards – so some cover could be worth considering.

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Market Headlines

Markets Up (Bullish Factors)

- USDA downgrade US end stock estimates of both soya and maize.
- USDA production estimates reduced for soya and maize.
- Big surge in demand for soya and maize from China.
- Managed fund positions still long (holding on to stock).

Markets Down (Bearish Factors)

- Weather in South America good to fair with recent rains
- Brazilian soya harvest commences (but pace at a 10-year low) – will start to ease supply pressure.
- Argentinian soya harvest will not be too far behind
- Soya: Maize price ratio (2.5) – favours planting soya over maize.

Other Intelligence (Neutral)

- Monsanto seed sales will be available next week – this gives a good indication on US crop drilling areas.
- All prices quoted in this document are shipper's prices (ex-port) – so generally add £8-£12/t to give an indication of an on-farm delivered price.



Soyabean Meal

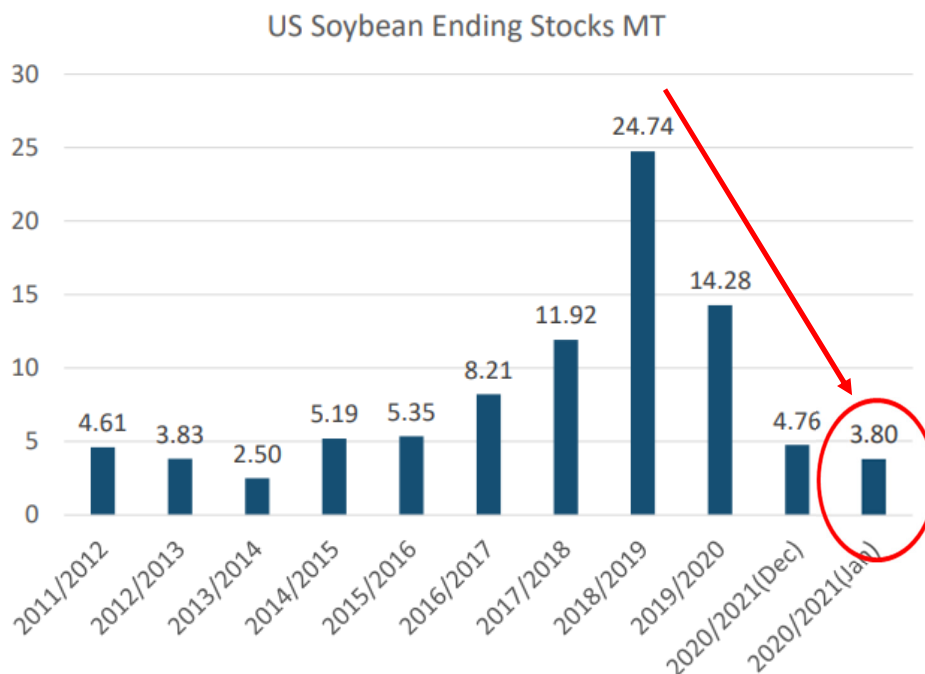
Kite's position on feeding soya:

World demand for soya beans is rising year on year. Kite does not recommend feeding soya as a primary source of protein for dairy cows and ruminants as we believe there are other options, particularly rapemeal. However, if farmers wish to feed soya then the RTRS scheme (Round Table on Responsible Soya Association) or the Cargill Triple S scheme are a positive step forward from just feeding soya. Rapeseed meal is low carbon, nutritionally superior (owing to its higher methionine to lysine ratio) and is more cost effective. If you would like further information or a copy of our technical note or ethics statement on feeding soya please contact your Kite Consultant.

Soya Market Drivers

- Low US ending stocks (Source USDA).
- Low production forecasts (Source USDA WASDE).
- Long fund positions (there is no incentive for the funds to sell as price is stable to rising).
- Demand from China is at an all-time high.
- Will demand for soya fall? – for the last 12-15 years it has just risen year on year.
- AgRural estimate that the Brazilian soyabean harvest progress at 1.9% is the slowest in 10 years.
- In Brazil there is currently 9.4mmt of shipping in ports waiting for soyabeans with only 52kmt loaded in Jan.

US Soyabean Ending Stocks (Source CRM)



Long Term Soya Price – Is a market correction looming?

- Based on long term data a price correction is looming but needs 'good news'.
- Supply pressure will start to ease with Brazilian harvest commencing.
- We need favourable weather and rainfall reports in the main soya regions.
- We also need favourable production and planting reports from the USDA.
- All the above factors would start to give funds a reason to sell their long positions.
- Over the last 8-9 years soya markets have risen at this time of year, then corrected when the Brazilian harvest starts and new crop enters the market (harvest pressure) – see graph below – the green arrows indicate when the market has historically corrected.

Long Term Soya Prices (Source CRM)



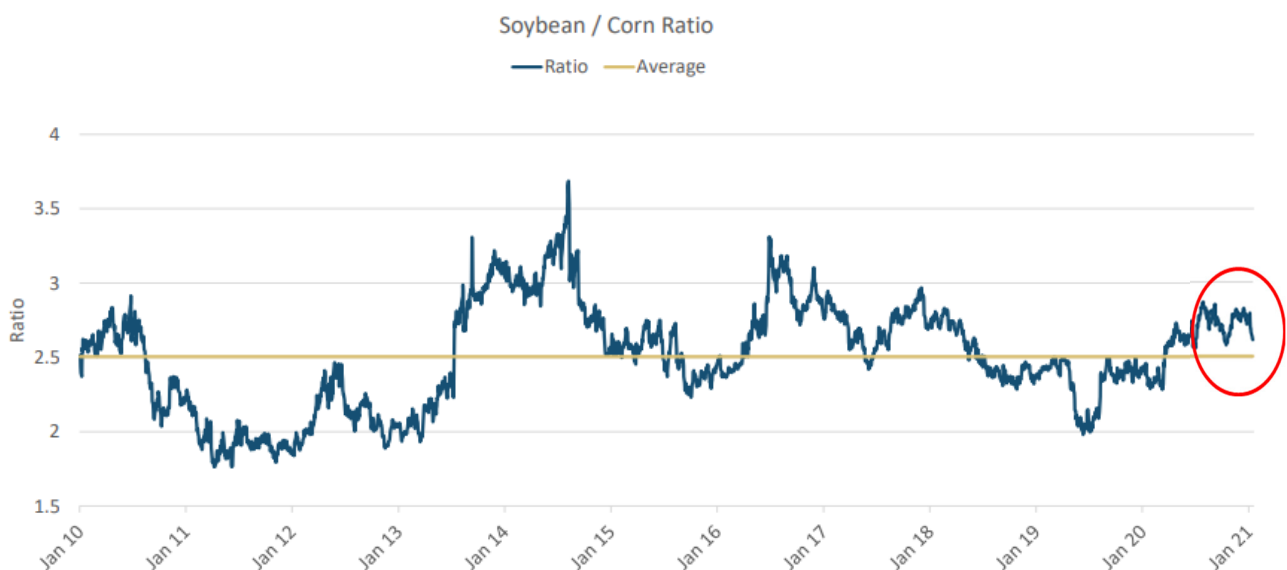
Key:

Red arrows indicate market prices firming (bullish)

Green arrows indicate market prices falling (bearish)

Corn / Soya Price Ratio (Source CRM)

- As an indicator of crop planting preferences, farmers in the US will look at the maize to soya price ratio – if above the yellow line (2.5) the market favours planting soya. Seed sales returns then confirm the exact position.
- A favourable increase in crop planted area in the US could ease the supply issue and give funds a reason to sell.



The China Crisis

- For those of a certain age we are not talking about the pop group!
- There has been a massive surge in demand for soya from China.
- This is due in the main to the rebounding pig sector (following African Swine Fever) and demand for poultry feed.
- GAIN forecast 2020/21 soyabean imports to China will top 95mmt.
- Between May & June last year China purchased 30.6mmt
- China's domestic production is in the region of 30.6mmt
- China reports a very 'limited effect' of a recent (new) ASF outbreak – how reliable this is remains to be seen.

Soyabean Meal Prices (Shippers prices ex-port)

Hipro Soya

Port	Spot	Mar	Apr	May	May-Oct
Humber	417.7	415/410	402	398	382
Liverpool	POA	410/411	400	396	381
Ipswich	418.5	420/415	403	399	383
Teignmouth	422.5	413/415	407	403	386
Portbury	416	413/408	400	396	382
Glasgow	420	414	402	398	382

Brazilian/Paraguay Soya

Port	Spot	Mar	Apr	May
Sutton Bridge	433	431	425	393
Humber	431	429	423	392
Portbury	437	435	428	392
Liverpool	437	435	428	392

Kite Client Strategy – Soyabean Meal

- Investigate strategies to avoid feeding soyabean meal – contact your Kite Consultant.
- Consider using alternatives (rapemeal, rapemeal expeller or Novapro) – ask your Kite Consultant for details if you are unsure.
- If feeding soya and have already taken cover until the end of April – Hold.
- If exposed currently buy spot (hand to mouth) and wait for market to correct.
- Keep a close eye on the markets as they are volatile.
- NB: There is no guarantee that the market will correct itself.

Rapemeal

- Rapemeal supply is tight with high demand.
- Slight supply hangover from issues at Erith although production now back up to speed.
- Spot (close to) prices high but forward prices represent good value for money.
- Buying opportunity from August onwards to spring 2022.
- Rapemeal prices traditionally track soya prices, but if soyameal markets show a correction, rapemeal markets may not follow (due to low stocks and production forecasts).
- 3.7mmt Australian crop expected to ease supply issues.
- UK/EU crop estimated at 18.2mmt (1mt higher than previous forecasts but 1mt below the 5-year average).

Rapemeal prices (Shippers prices ex-Port)

Port	Spot	Mar/Apr	May/Jul	Aug/Oct	Nov/Apr
Teignmouth	NQ	317	275	223	238
Glasgow	NQ	NQ	NQ	240	246
Erith	286	282	249	205	208

Kite Client Strategy - Rapemeal

- **Action Required:** As indicated above the August-April prices represent good value for money and a buying opportunity.
- Prices last year were generally sub £200/t delivered for many that booked early. This year with the demand issues for other proteins will we see sub £200/t for rapemeal or is £210-£220 the new buying point?
- If covered in the close-up (spot) period to the end of April – our strategy is to buy hand to mouth forward from April through to the summer and see if the expected soyabean meal market correction softens rapemeal prices.
- If the market correction occurs and prices ease, then take further medium-term cover through to August.
- NB: You will need to add £8-£12/t to the above prices to give an indication of an on-farm delivered price.

Mid Proteins

- Mid proteins include wheat and maize distillers.
- UK wheat distillers supply is extremely tight at present.
- Maize distillers supply is also tight.
- This is basically due to them being used as a replacement for rapemeal in blends and compounds when Erith had supply issues back in December-January.
- Overall distillers supply is poor at present due to uncertain bioethanol prices so production from facilities such as Ensus has been sporadic.
- In terms of ethanol prices China has committed to purchase 200m gallons of ethanol from the US (Source: Archie Daniels Midlands-ADM)
- This could swing ethanol prices back into recovery for 2021 – although 45% supply tariffs are still currently in place for exports to China (may change under Biden).
- Demand for ethanol has also risen due to demand for use in hand sanitisers to help combat Covid19 and fuel.
- Maize gluten prices have also tracked upwards following other proteins.

Ethanol Prices (Source: myFT)



Wheat Distillers prices (Shippers prices ex-Port)

Port	Spot	Mar	Apr	May/Jul	Aug/Oct
New Holland	POA	NQ	NQ	NQ	288
Ipswich	POA	NQ	NQ	NQ	288
Teignmouth	POA	NQ	NQ	NQ	288
Montrose	POA	NQ	NQ	NQ	288
Glasgow	POA	NQ	NQ	NQ	288

Maize Distillers prices (Shippers prices ex-Port)

Port	Spot	Mar	Apr	May/Jul	Aug/Oct
Liverpool	305	305	305	278	282
Portbury	POA	POA	303	278	282
Glasgow	POA	POA	303	278	282
Teignmouth	305	NQ	NQ	NQ	NQ
New Holland	POA	POA	POA	288	292

Maize Gluten prices (Shippers prices ex-Port)

Port	Spot	Mar	Apr	May/Jul	Aug/Oct
Liverpool	241	241	241	228	232
Portbury	241	241	241	228	232
Glasgow	241	241	241	228	232
Okehampton	241	NQ	NQ	NQ	NQ

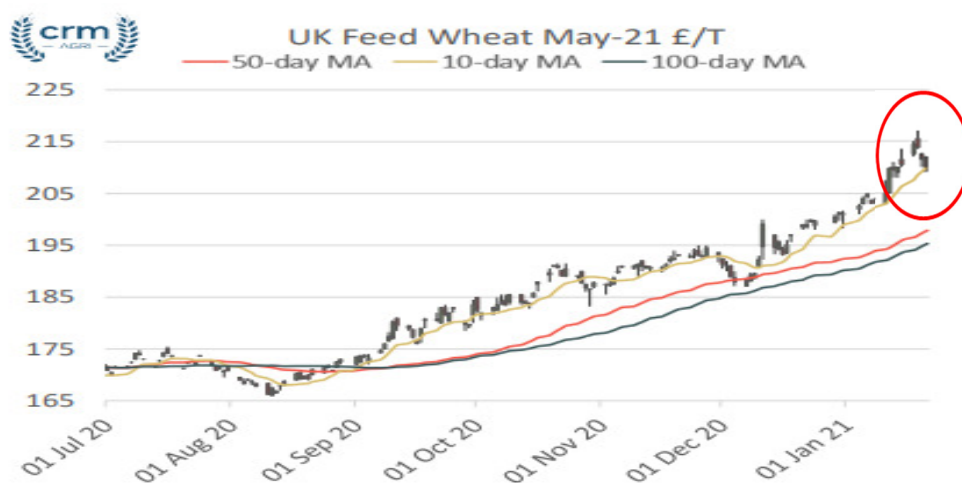
Kite Client Strategy – Mid Proteins

- If you are covered to the end of April – Hold and wait for Brazilian soyabean harvest pressure to hopefully cause a price correction for proteins.
- If exposed buy hand-to-mouth topping up as we move forward to summer.

Cereals

- Global wheat prices have rallied to a 6-year high.
- Low cereal stockpiles in the UK and EU.
- Russia is deploying protectionist tariff measures to curb domestic food inflation at the behest of Vladimir Putin.
- Top shippers have already imposed stricter than expected tariffs.
- The pre-export tariffs will be introduced this month (February)
- They will then increase from March-June.
- Russia then plans permanent tariffs from July onwards.
- Some countries have cancelled or reduced cereals orders from Russia (Egypt, Turkey, Bangladesh)
- They will have to buy from somewhere – EU will be 1st choice - France has been the favourite so far.
- This will further increase demand for US and Canadian cereals
- Close-up cargoes for Australian wheat are all but booked up.
- Prices may ease slightly with maize/corn harvest pressure from Brazil and Argentina.
- UK May LIFFE Wheat - £205/t (Spot £210/t)
- UK Nov LIFFE Wheat - £165/t

UK Feed Wheat Prices (May-Liffe)



Client Strategy - Cereals

- New crop prices (Nov LIFFE) look better value so prudent to take some cover.
- Barley prices, although rising towards wheat, are more favourable so could be a suitable alternative.
- Cereals markets may experience a correction if the maize/corn harvest pressure materialises.
- Taking some cover may be prudent, up to 20% at this stage.

Corn / Maize

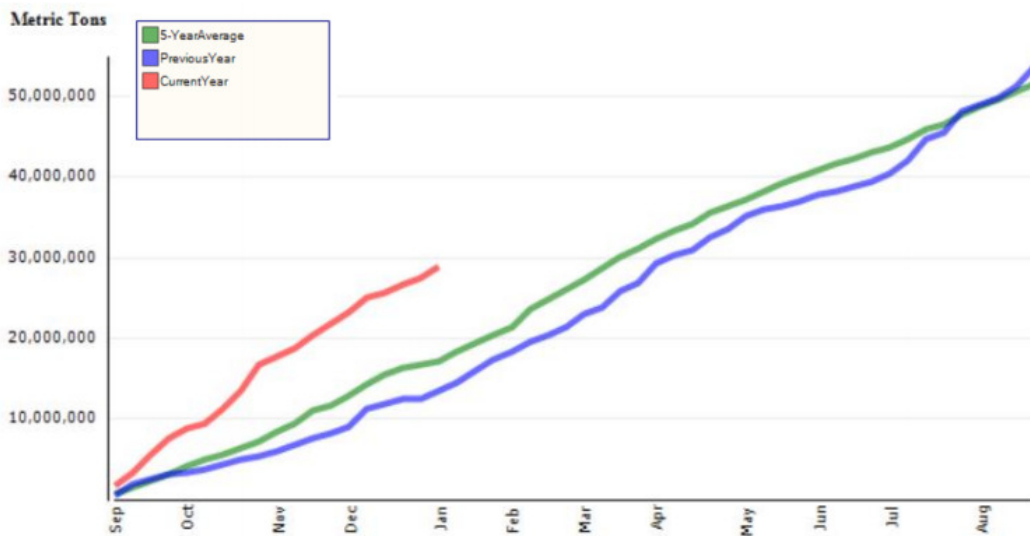
- Similar issues with global end stocks to soyabean meal.
- USDA lowered production estimates by 8.2mmt.
- Global feed consumption highest on record.
- Ukraine poised to limit corn exports.
- Russian tariffs apply to wheat, barley and corn.
- The market needs very favourable weather and production reports for prices to dip.
- Harvest pressure from Brazil and Argentina due Q2.
- Long term corn price showing similar pattern to soyabeans with price correction due.
- Corn futures prices have rocketed (see graph). This is similar, to soyabeans so is a price correction due when harvest pressure allows? (Similar to 2014).

Long Term Corn Prices (Source CRM)



Harvest End Stocks (Source CRM)

- Global end stocks (less China) down to 92.2mmt – Down 10.3mmt on last year.
- This is the lowest end stocks since 2013-2014 (futures trading at the highest since 2013)

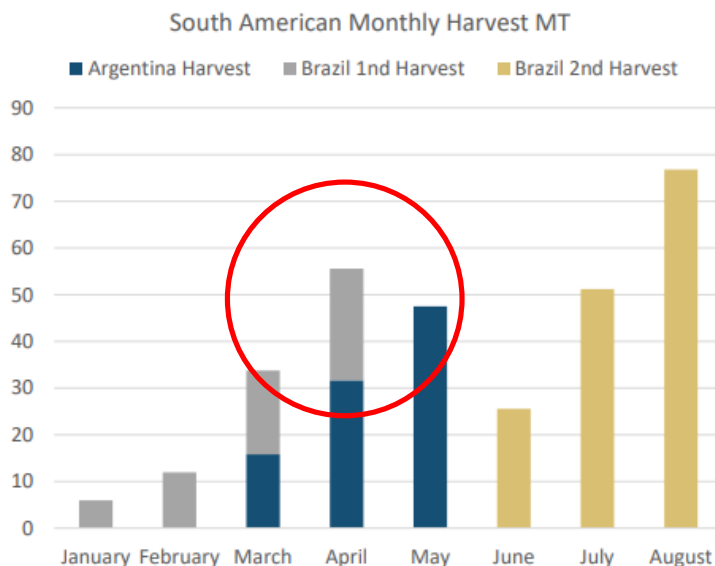


The China Crisis (again)

- China's corn demand has surged to a 7-year high (imports expected to reach 25mmt this season).
- Last week made 2 huge one-day purchases, the biggest since July 2020.
- ADM state demand could last a few years and global supply could take 18-24 months to recover.

Harvest Pressure – Corn (Source CRM)

- Harvest pressure for corn may reach us in Apr-May?
- Latest harvest estimates from USDA = 133.7mmt (a record crop).
- But only 0.9% of Brazilian crop harvested vs 4.8% this time last year.
- Q2 corn prices will hopefully ease with commencement of maize harvests in Argentina, although the second harvest in Brazil (Zafrinha) is the main exportable surplus.



Maize/Corn Prices (Shippers prices ex-Port) (+£10/Ground)

Port	Spot	Mar	Apr	May/Oct	Nov/Apr
Portbury	226	226	226	227	194
Liverpool	226	226	226	227	194
Glasgow	226	226	226	227	194
Humber	221	221	221	NQ	NQ
Ipswich	221	221	221	NQ	NQ

Client Strategy – Maize/Corn

- Some clients (where conditions allow) looking to make moist crimped maize on farm.
- If you are covered to the end of April – Hold and wait for Brazilian corn harvest pressure to hopefully cause a price correction for cereals/corn.
- If exposed buy hand-to-mouth topping up as we move forward to summer.

Fibres

Beet Pulp Nuts

- UK sugar beet pulp stocks very low to non-existent (UK crop affected by virus yellows).
- Best value is 8mm US GM nuts.

Beet Pulp Prices (Shippers prices ex-Port)

Port	Spot	Mar	Apr	May/Oct	Nov/Apr
Humber 10mm	216	217.5	219	223	183
Liverpool 10mm	222	223.5	225	228	188
Glasgow 8mm	225	225	225	230	193
Avon 10mm	222	223.5	225	228	188
Teignmouth 10mm	Sold Out	POA	POA	POA	186

Soya Hulls

- Soya hulls look expensive – but still the cheapest fibre source available.
- Issues with Argentinian crushers causing supply issues (and haulage strikes).

Soya Hulls Prices (Shippers prices ex-port)

Port	Spot	Mar	Apr	May/Oct	Nov/Apr
Ipswich	215	215	216	185	185
Humberside	206	207	209	185	190
Portland	215	POA	POA	POA	NQ
Avonmouth	215	Sold Out	Sold Out	177	183
Liverpool	Sold Out	Sold Out	200	177	183
Teignmouth	Sold Out	Sold Out	Sold Out	POA	NQ
Glasgow	210	210	211	179	185

Client Strategy – Fibres

- Prices for soya hulls are much more favourable from May onwards and some cover should be considered at these prices.

Compound Feeds

- Compound feed prices have not been immune to the issues with soya, rapemeal and energy feed markets and unless cover has been taken recent price hikes have been quite dramatic – between £12 & £50/t.
- Some group compounds took early cover and can be more competitive.
- Kite have various groups operating on behalf of clients throughout the UK – if you are not currently in a compound feed buying group and wish to consider joining one – ask your Kite Consultant for details.

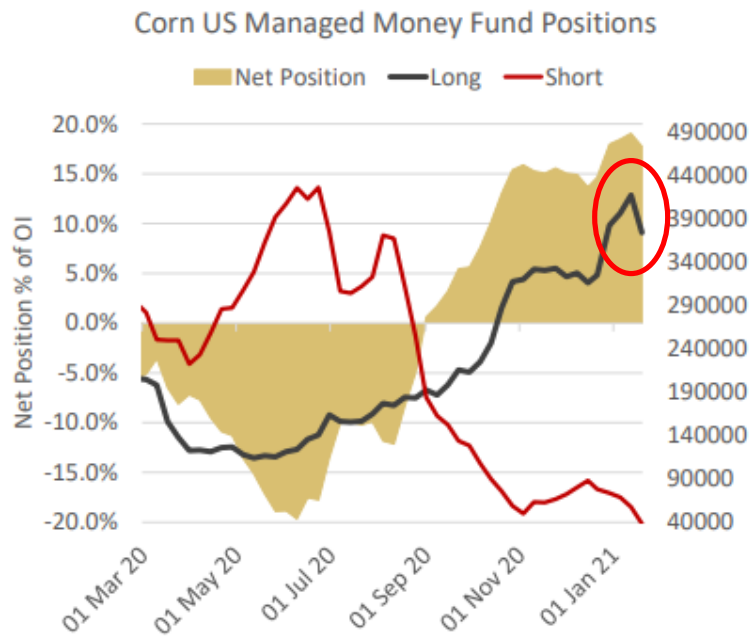
Compound Feed Comparisons

- Specifications will always vary between groups and compounders.
- The cheapest specification is not always the best value for money.
- The most expensive is not necessarily the best quality.
- Ask your Kite Consultant for more details.

Other Market Factors

Managed Money Funds

- Managed funds need reasons to sell from their long positions- these will include favourable weather and crop production reports.
- This halted slightly last week as some fund managers sold long positions.
- Money managers are betting on a continued rally (Source Bloomberg).



Currency

- Strong £ vs weak \$ cheapens imports
- More due to weak \$ than strong £ - which may change with Biden
- Strong £ vs Euro with reasonable stability at 1.12-1.13

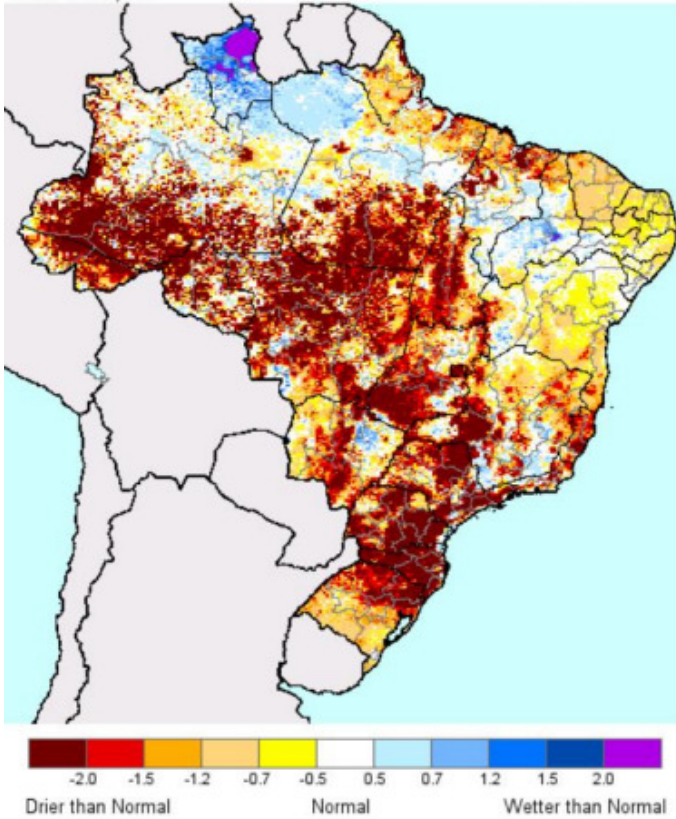
Weather Market Factors

- Main weather markets at present are Brazil and Argentina.
- La Nina weather pattern is weakening.
- Brazilian NDVI (Vegetation Index) looks reasonable.
- Recent good rains and more in the forecast.

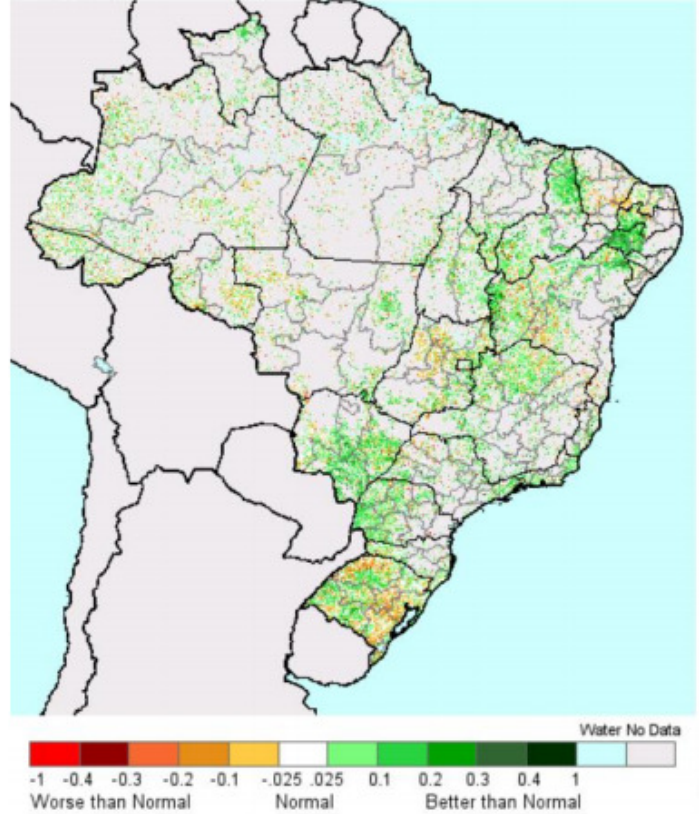
Soil Moisture & Vegetation Index (NDVI)

- Soil conditions are still very dry, but with recent rains they have improved
- This has improved the NDVI which now looks reasonable and with more rain in the forecast will hopefully result in better yield predictions which may affect fund positions.

Subsurface Soil Moisture Anomaly (SMAP)
Jan. 15 - Jan. 17, 2021



NDVI Departure from Average (MODIS-Terra)
Jan. 9 - Jan. 16, 2021



Glossary

- USDA – United States Department of Agriculture.
- WASDE – World Agricultural Supply & Demand Estimates.
- GAIN – Global Agricultural Information Network.
- ASF – African Swine Fever.
- ADM – Archie-Daniels Midland.
- NDVI – Normalised Difference Vegetation Index.
- La Nina – Weather event that cools ocean temperatures.
- LIFFE – London International Futures & Options Exchange.