Technical Update – Feed Markets

Information correct as at 09:00am on 26.02.2021

- Currency continues to strengthen helping to reduce the cost of imports
- Good global stocks of wheat not enough to counter corn concerns before new season
- Soya prices should drop as South American supplies come onto market
- Book rapemeal for next autumn/winter
- Take cover on soya hulls over summer if you need fibre feeds

Currency:

The £ has strengthened significantly in recent weeks to around 1.17 Euros/£ (increase of over 8%), with a similar movement against the US dollar – up to around 1.41 US$/£. This is largely due to the removal of the Brexit block, the success of the vaccine rollout, the road map out of lockdown and the more optimistic view of economic recovery in the UK. Unless there is a major shock in the system it is felt that this upward trend should continue for some time, helping to reduce import prices.

Managed Funds and Price Trends:

The charts below show the development of the dramatic price trends for the major commodities since September 2020 (US/Chicago prices). These seem to have peaked now for all 3 major commodities but remain volatile.

They show the funds positions in the brown blocks where wheat remains fairly static and neutral. Current concerns include US winter wheat kill and uncertainty over the effects of the Russian export taxes on the forthcoming spring wheat planted area, but with good world stocks.

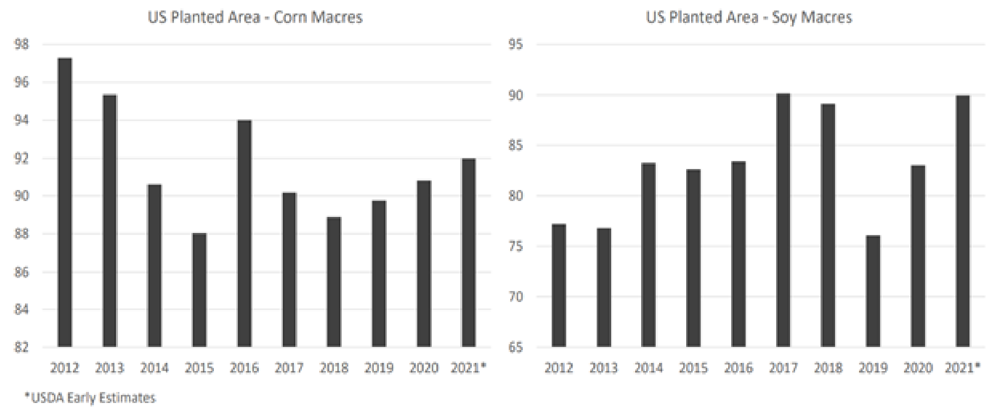
Maize/corn has plateaued, but at a much higher level of long positions. Factors at work here are the exceptionally strong Chinese buying leading to tight stocks. Although we have a generally improving South American weather situation there are concerns about continuing dry conditions in Argentina and very wet conditions in key parts of Brazil, which are now hampering harvest.

Soya has fallen back with generally improving prospects in South America – but with the same weather concerns as above.

Cereals:

Brazil and Argentina have reduced their maize crop yield estimates, but not by as much as had been feared a few months ago – Brazil to around 105MT, a new record, and Argentina to around 46MT. Prices remain firm but are expected to fall with harvest pressure over the next few months. Although the very dry conditions in large parts of Argentina are continuing, the crop vegetation index does not look too bad, but as harvest is not until March – May some uncertainty remains.

The first unofficial USDA Outlook Conference estimates for 2021 US maize and soya plantings have just been published, showing a marked increase of 8% for soya due to better returns, but positive increases for both crops, further improving the longer-term outlook for supplies.



In the US, an exceptionally cold period continues with 30-year low temperatures in many areas and significant snowfall even a long way south. The fund managers have picked up on this resulting in a firming of prices recently, but the coldest areas are not the main wheat growing areas and there is some snow cover so this should not fundamentally affect overall production at harvest.

There are some winter kill concerns in Russia as well, but the situation is not thought to be anything out of the ordinary, with around 7-10% winter kill expected. The biggest concern in Russia is whether the export taxes recently announced will reduce the incentive to plant spring wheat, which represents 25-30% of their total output. This needs to be watched closely.

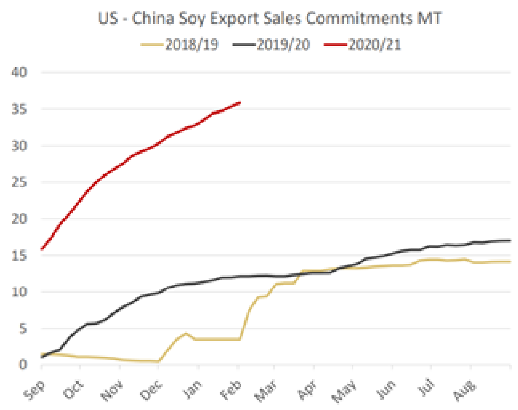
EU and UK wheat ending stocks are estimated to be around 10MT. UK May forward prices are around £205/t, down from a recent peak of £215/t, and November forward prices around £170/t. There is still plenty of barley available at prices still around £35-40/t below wheat.

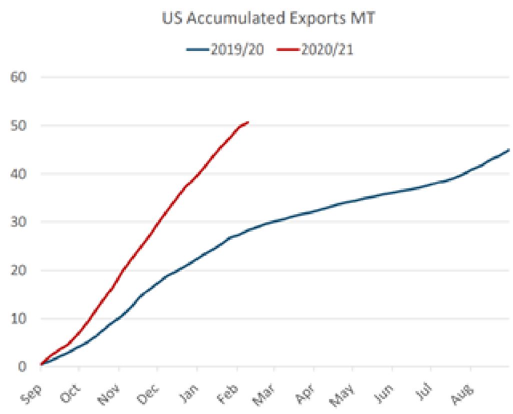
There is considerable uncertainty as to whether the 2021 UK crop will be big enough to allow exports or whether we will have to import wheat next winter. The way this balance swings between now and harvest will cause prices to move £10/t either way. News that the Vivergo bioethanol plant will reopen in the autumn will tighten wheat supplies in the UK, but will result in more wheat distillers being available.

The coming South American maize crop harvest pressure, a more positive outlook in the US plus reasonable spring wheat plantings in the Black Sea area could push cereal prices lower as the year progresses. However, there are several variables in there and the other big unknown will again be Chinese buying patterns.

Oilseeds:

The biggest story of the year has been the unprecedented Chinese buying of soyabeans which has caused very tight US stocks and high prices.





The Brazilian soyabean harvest has been delayed and is currently only around 15% complete compared with 31% at the same time last year and now with too much rain in some areas. Prices for beans and meal have eased back recently and although the delayed harvest is helping to keep prices up at present, when the full harvest pressure comes through in April/May prices are expected to fall.

With the expected higher US plantings in the spring and assuming no major weather shocks the outlook is for prices to ease further as the year progresses.

Supplies of OSR are very tight at present, but Australian OSR is now starting to come into Europe and this should help ease the tight supply and high prices of late. Forward OSR and rapemeal prices are showing significant falls at present, but a lot hinges on the Ukrainian crop and this will require very good spring weather to produce enough to meet EU demand.

With a small UK OSR crop, an average EU crop expected and a questionable Ukrainian crop to come plus potentially more demand if retailers continue to move towards reduced soyameal use the pressures on rapemeal supply in the 2021/22 year are significant.

Crude oil prices have increased significantly recently to over $66/barrel which has put upward pressure on vegetable oils, but OPEC are now discussing increasing production again so that should ease.

On the other hand, soyameal supply will improve from March/April onwards and prices should come back and the £ could get stronger which would all put downward pressure on import prices.

Although numerous factors involved are in the balance, it makes sense to book some rapemeal forward through next autumn/winter at around £215/t East/Erith and £225-230/t elsewhere.

Soya hulls also look better value May- October around £170/t especially compared with sugar beet pulp around £230/t and worth taking some cover.

Distillers grains are in short supply with relatively high prices and that is likely to continue for the foreseeable future. Most other mid energy and protein straights also look as though they will remain in short supply and at higher prices so the outlook for compound feeds is for strong prices through the summer months.