Technical Update - Feed Markets

Information correct as at 09:00am on 21.05.2021

- The markets remain extremely volatile, but welcome rain has seen prospects improve for the 2021 harvest
- Old season prices are still high, so only take cover on what you need at this stage
- Discuss options for new season buying strategies with your consultant
- Be aware of extended delivery times due to haulage bottlenecks

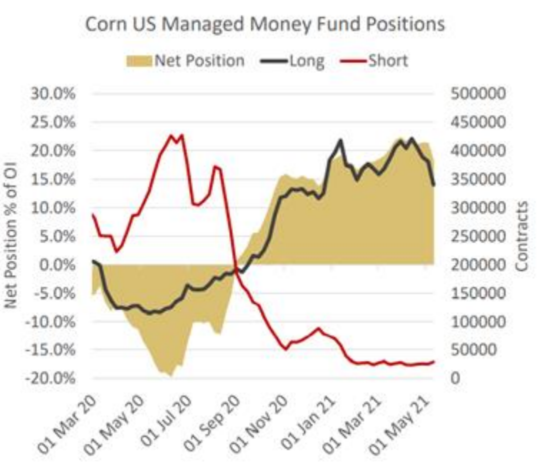
Cereals

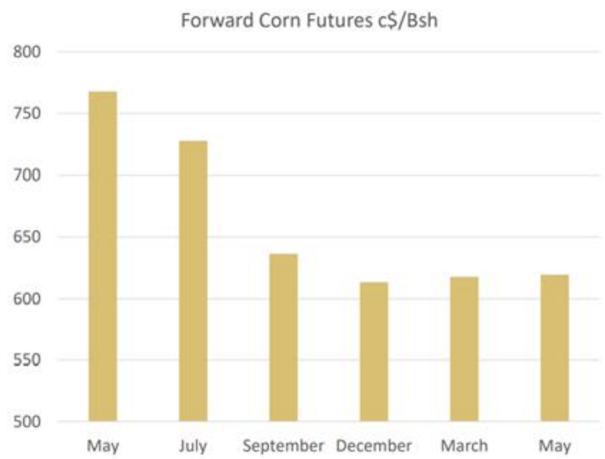
The latest USDA WASDE report was published last week. Improving weather and new season crop confidence in most key Northern Hemisphere growing areas have generally produced a less bullish outlook.

The rains in the US and Canada have come in time to create good prospects for spring wheat, maize and soya. US maize is now 80% planted vs the 5-year average of 69%. This is on top of continuing excellent conditions in Russia/Ukraine and has caused prices to fall in the last week or so which has extended to most markets.

With the better weather, the latest forecast for the US maize crop is around 380MT, which would be the 2nd largest ever, but continuing Chinese demand means stocks are not high. There has also been some rain in Brazil, but not enough to prevent a significant reduction in their Safrina maize crop tonnage. Local estimates reduce this by around 20MT, but the USDA May estimate was only for a 7MT reduction.

However, overall, after a long period of upward movements, the US funds now seem to be coming out of their long positions e.g. for maize below left and forward maize prices are falling.

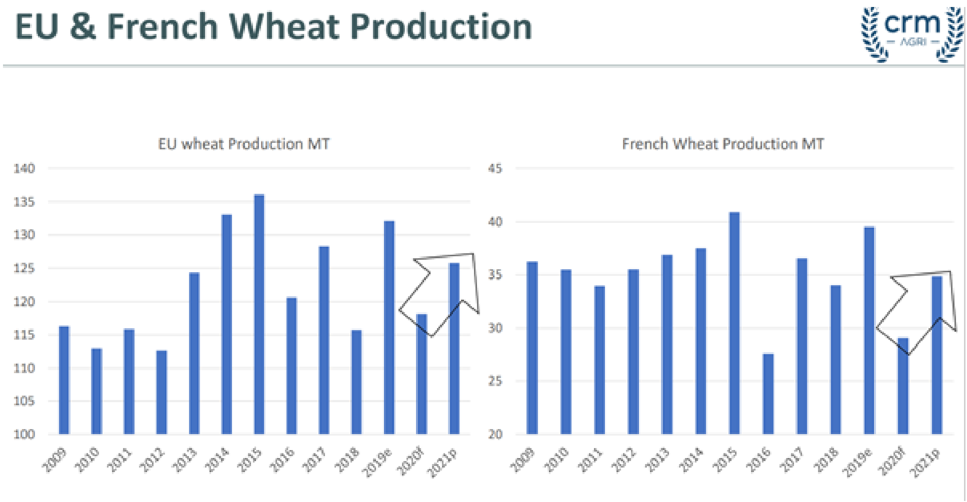




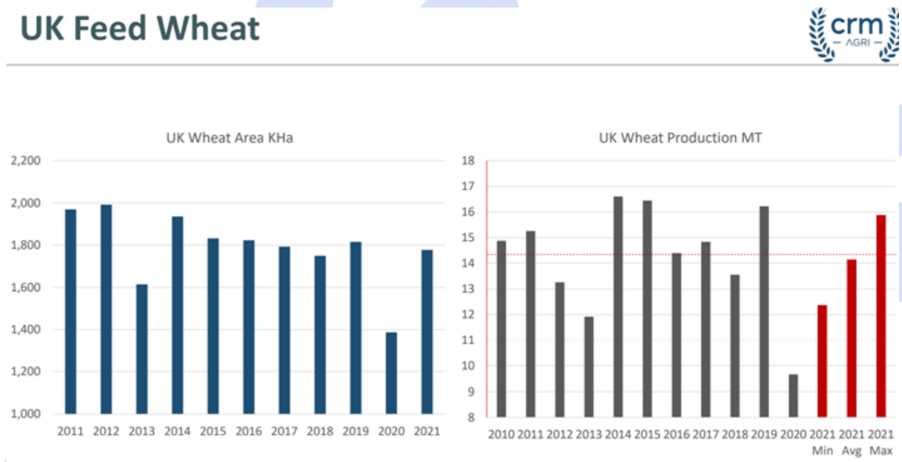
Source: CME & CMDTYView

Chinese maize imports have historically been below 5MT/year but last year they jumped to around 26MT and the latest WASDE forecast is for a similar amount for 2021/22. It is thought that a large area of Chinese crops was lost due to a major typhoon last year and provided they avoid another this season, Chinese demand could be a lot lower BUT this is the big unknown factor in the world equation.

The USDA WASDE report for wheat is again quite optimistic with most northern hemisphere areas seeing good or improving weather conditions. The forecast for the Russian 2021 crop is now around 85MT (though local forecasters are lower, accounting for some winter kill). Conditions in the Ukraine are also very good for their wheat, maize and OSR crops. The latest WASDE report indicated a significant bounce back for French and overall EU wheat production for 2021 and it is thought that with the recent rains this forecast will be increased further in the coming months but ending stocks will still be quite tight.



For the UK, the much larger planted area this year and the current weather conditions indicate a significant increase in production for 2021 compared with 2020. The chart below right shows the minimum, average and maximum production estimates, depending on how the crop performs between now and harvest. If we have an average crop, we would be net importers (just), but if better than this we could be net exporters. If the latter looks to be the case as we approach harvest, then wheat and barley prices are likely to fall further.

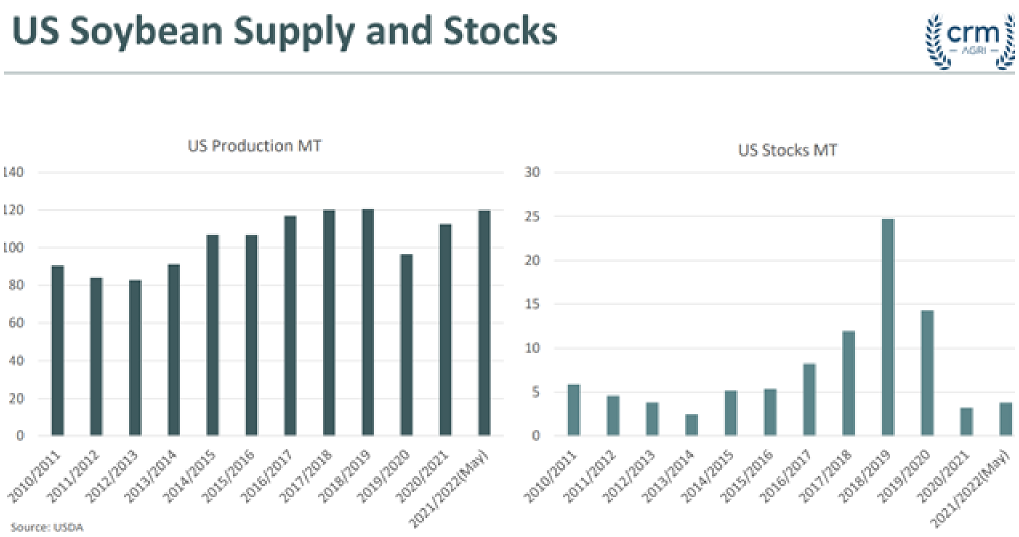


Latest UK wheat prices have fallen back to around £175/t for November. It is quite difficult to give generalised advice on buying strategies as things are so volatile due to changing weather effects, fund managers only looking at the headlines, speed of information flow, unpredictable Chinese buying, etc. It also depends on individual clients in terms of how much is already ordered and attitude to risk so you should discuss specific tactics with your consultant. However, with the generally improving weather and better prospects for new season crops in the northern hemisphere the message is to hold off taking any further cover on cereals unless really needed for the short term. CRM are suggesting the target to start taking some forward cover is around £165-170/t for November wheat.

Oilseeds

The record breaking 142MT Brazilian soya crop is coming through to the markets now. Good progress is also being made with the 52MT Argentinian crop with good crushing activity. The latest WASDE report indicated a levelling off in Chinese demand but again this is a big unknown.

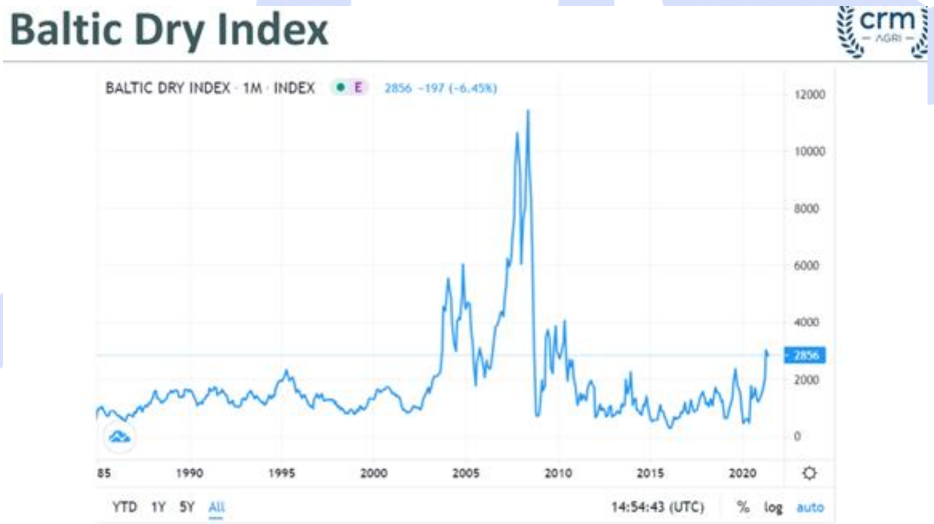
The US soya crop ss 61% planted vs the 5-year average of 37% and conditions have improved considerably with the arrival of the rains. On the back of this, latest WASDE forecast is for a close to record crop of around 120MT, but with strong demand even this will still leave ending stocks tight.



OSR old crop supply is very tight with prices at multi year highs, but prospects for new crop are improving. The EU crop is looking similar to last year and the Ukraine crop is looking much better.

UK Soyameal prices have fallen back around £30/t for May – Oct to around £360/t ex port. Rapemeal prices have also come back a little but are still relatively high for the May-July period before falling for new crop to around £235/t ex Erith for Aug – Jan and the usual additional £20-25/t elsewhere. Soya hulls are still good value compared to SBP at around £180/t May-Oct.

Global transport costs have increased for all bulk materials as measured by the Baltic Dry Index which, although not at the record levels of 2008/9, is still relatively high. On the other hand, the £ is relatively strong at US$1.41 which is helping.



With Covid-19 easing across most of the UK we have seen an improvement in the manufacturing of products, with production lead times now back to normal. However, we have started to experience haulage delays because of the increased volume of pallets moving through the networks coinciding with a general shortage of HGV drivers. The increased demand is mainly due to the re-opening of hospitality and retail sectors after the recent lockdowns. It would be prudent to order in good time and carry extra stock over the coming months until this pressure eases. Additionally, most suppliers have withdrawn their overnight delivery service temporarily.

High C16 fat products continue to increase in price due to the significant rise in worldwide shipping costs. Typically, we have seen increases on farm of £250-300/t since the beginning of the year. As a result, the volumes of fat products being imported into the UK have reduced, with availability of these products now very limited.