Technical Update - Feed Markets

Information correct as at 09:00am on 11.02.22

- This week's WASDE report contained little change in estimated supplies
- Brazilian agency CONAB indicating soya more badly affected than USDA suggest
- Still little maize buying activity from China
- Canadian rape stocks at record lows
- CRM advice is to be covered until this harvest and take some cover for next winter

The latest USDA World Supply and Demand Estimates (WASDE) report was published on 9th February and contained no major shocks or surprises. However, yesterday CONAB (a Brazilian crop agency) produced soya figures at odds with the USDA.

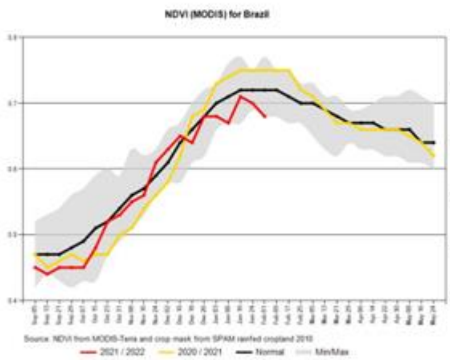
Cereals

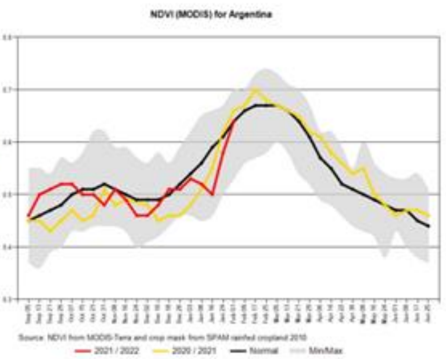
A combination of strong US export sales and dry weather in South America has kept a bullish flavour to the maize futures markets.

Until now it has been expected that China would enter the market again and buy large quantities as they did this time last year adding pressure to increase prices further. This has always been a big unknown and as time goes on without much activity the feeling is that it is less likely they will achieve the original 26MT USDA estimate. However, the latest WASDE report has stayed with this figure.

There has been some more rain in South America the lack of Chinese buying could start to turn things more bearish, but for now the US managed money funds are staying with their long positions and with a bullish outlook US prices are being maintained at a relatively high level.

The latest NDVI scores, indicating crop health, for Brazil (below left) shows that crop conditions overall are at record low levels, but the February WASDE report only reduced the production forecast by 1MT. For Argentina, the recent rains have done some good and crop condition has recovered (below right) with no change in the WASDE forecast.





The February WASDE report reduced wheat stock estimates in some countries slightly which could add to a slightly more bullish outlook for wheat as this is seen by the markets. CONAB's outlook for maize is broadly similar to the USDA, but with more detail indicating parts of the country suffering badly, but others experiencing near perfect conditions for the first crop.

Wheat markets in the UK have fallen back from the higher prices of late November/early December with May wheat down £25/t to around £220/t. Surprisingly the threat of disruption to supplies from Russia and Ukraine has stimulated more selling activity and this has contributed to the recent downward pressure on prices.

With strong demand for bioethanol production prices in the Northeast are around £20/t above East Anglian prices. This, combined with tight stocks, means that prices are unlikely to fall much further and are still likely to increase in the run up to harvest.

New season wheat is around £20/t lower than May indicating that there is still optimism that next year will see a better world supply, but weather events around the world in the next 6 months will be critical to this.

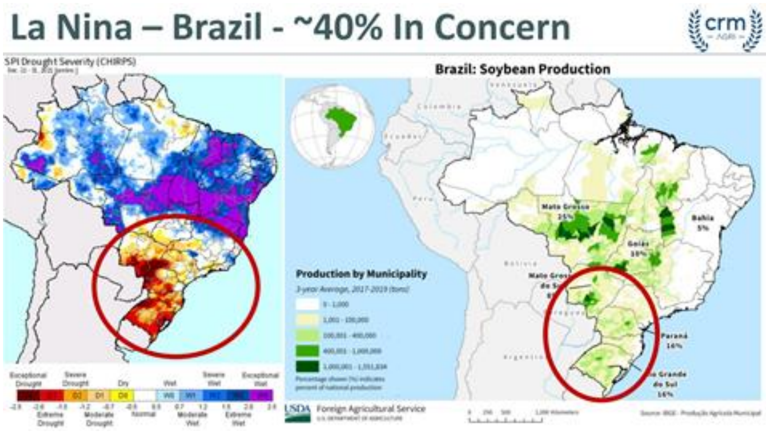
CRM's view is to take full cover to harvest and 20-30% cover for next winter

Oilseeds

Brent crude oil is now running consistently over $90/barrel, up from lows of $40/barrel during the first lockdowns and $70/barrel following the discovery of the omicron strain and this high price is supporting vegetable oil prices.

In addition, the weather in South America is still a cause for concern. In Brazil although there have been useful rains in the north, around 40% of the main soya growing region in the south remains very dry. This is causing NDVI scores to be at decade lows and production forecasts were cut by a further 5MT in the February WASDE report to 134MT. It is on the soya yields that CONAB differ significantly from the USDA position as their forecast was cut to 125MT yesterday.

Harvesting is just starting and early yields have generally been poor, but a full picture will not be seen until March/April.



The Argentinian crop was planted later and they have had useful rains recently causing NDVI scores to improve to around average levels at present. The latest WASDE report reduced the forecast by 1.5MT to 45MT.

In the US, the funds have changed direction and in the last 2 months and have gradually become more bullish, moving further into longer positions and out of short position The strong demand for soyameal has continued with US meal around $430/short T.

In the UK May – October 2022 prices have continued to increase and are now around £100/t up from lows of £325-335/t in late November to around £430/t currently.

EU rapeseed imports are much lower than in recent years at around 2.7MT. The Ukrainian tonnage is finished for this season and the Australian crop is now coming in, but the missing Canadian crop means that supply will be very tight until next harvest and high prices will persist. Following the severe drought there last year canola stocks to December 2021 are around 7.5MT t compared with 13.3MT in 2020 and 16.2MT in 2019 and are a key factor in the above trends. The forthcoming Canadian crop (planting March/April) will be critical for the 2022/23 year. If they have a good year and get back to more normal production levels, then there could be a downside to prices.

UK rapemeal has followed soyameal upwards to around £320/t for May/June/July for non-Erith supplies and around £260/t for new season August/September/October.

Hopefully most have already covered requirements through to August, but if not, maize distillers at around £280/t may be worth looking at for this period. It now looks as if Vivergo will not be drying as much of the distillers' grains due to high energy costs so there will be more moist grains available.

For next season, the view is to take around 30% cover on rapemeal at this stage and keep an eye on Canada through the spring.