Technical Update - Feed Markets

Information correct as at 09:00am on 10.09.2021

- Bearish market signals have seen wheat prices drop back over the last 2 weeks, so watch for buying opportunities over coming weeks
- All eyes on the US harvest now and prospects looking reasonably good
- South America is very dry as we approach the planting season and there is an increasing prospect of a La Nina event through the main growing season which would affect production

General

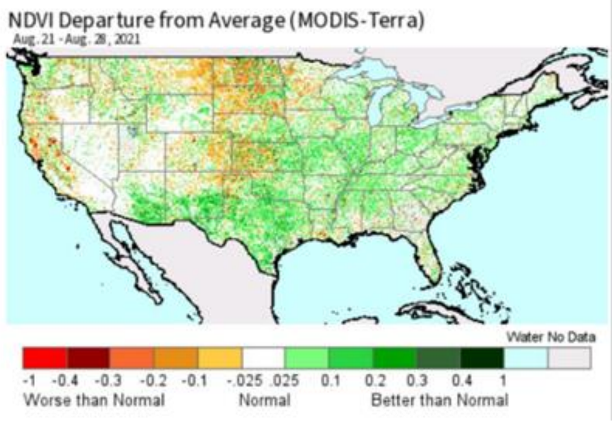
It has been a bearish week for markets overall and this was given extra impetus yesterday with new information from the US and Canada. The USDA accidentally released updated area estimates, set to be released today (Friday). Corn area estimates were increased to 91.22M acres, up from 90.31M acres in August, while the soybean area was increased to 86.18M acres, up from 85.29M acres in August. The wheat area was also increased to 49.32M acres, up from 48.81M acres last month. The surprise release pressured markets, but potentially reducing some of the potentially bearish factors from today's WASDE report.

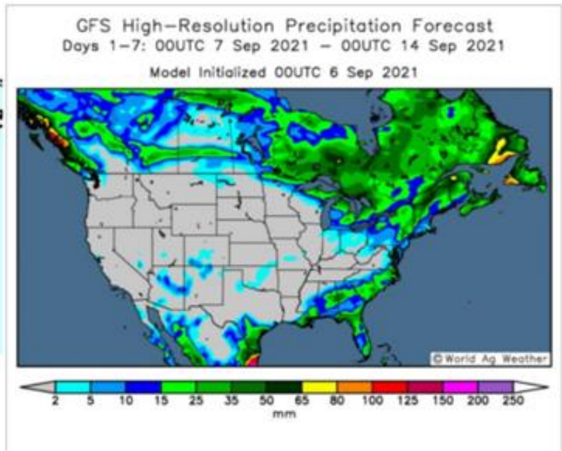
Providing additional pressure for both grains and oilseeds yesterday was the release of the July 1st Canadian stocks report. Statistics Canada estimated far larger stocks for both Canola and wheat than the current USDA levels. Canola stocks for the 1st of July were estimated at 1.77Mt, compared to the 1.1Mt USDA estimate whilst for wheat stocks were estimated at 5.7Mt, again far higher than the 3.8Mt USDA figure.

Managed funds have pulled back from their long positions as the prospects for good supply and weaker demand are confirmed.

Cereals

US crop conditions, as indicated by satellite imagery giving NDVI data, continue to look promising with the good/excellent crop ratings of around 60% holding at around the 10-year average. The weather forecast through the main corn belt is more mixed, but the prospects for a big US maize crop remain good.



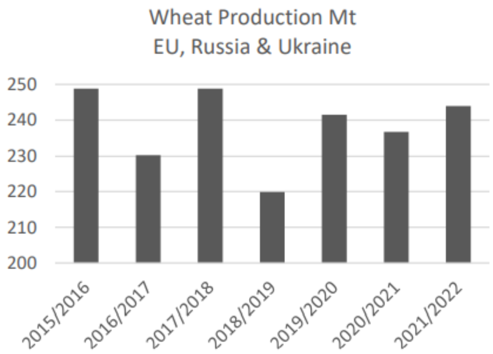


There has been some disruption to US exports due to the after-effects of hurricane Ida, but on the whole maize exports have been weak, with China very quiet at this stage and the current feeling is that they are unlikely to buy anywhere near the 26MT of last year.

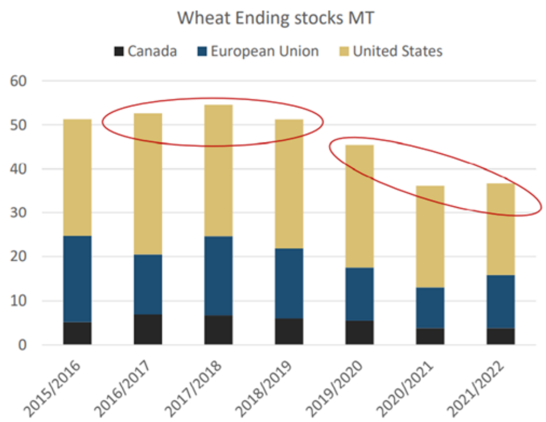
Ukraine is on course for a record 36MT maize crop, much of which will find its way into EU/UK markets.

Looking forward to the next Brazilian maize crop there are increasing concerns over the continued drought in the main growing areas where planting is about to start. In addition, the prospect of another La Nina event ha increased to around 70% probability during the main growing period of Nov/Dec/Jan.

The Russian wheat crop forecast at around 72-75MT is well below the earlier estimates of around 83-85MT. However, the EU, Ukrainian and Romanian crops are looking good and with some milling wheat coming into feed markets due to poor quality this is more than compensating for the lower Russian crop.



The latest Australian crop forecast is for another big wheat crop of around 33MT next spring, but this is still an early season prediction and there is a long way to go to harvest. With continued good demand for wheat, ending stocks are forecast to be tighter than previously which will keep some pressure on prices.



With the northern hemisphere wheat crops now largely in the barn and overall fairly reasonable, plus the good prospects for the US maize crop, the feeling is that forward prices should ease back from their recent highs of around £195/t over the next few weeks.

The view is to hold off if possible and wait for forward prices to ease further. November wheat has now slipped back to around £182/t and could easily fall further to £180/t or below. However, the outlook for 2022 pre harvest is that physical supplies could be tight in Q2 so it would be good to book well forward into next year when the expected price falls occur over the next few weeks.

Oilseeds

The vegetable oil markets are up around 40% in price year on year, although they are starting to ease back now. Much of this is due to the demand for oil and meals have not been driving the price increases.

As with maize the prospects for the US soyabean crop are good and this could reduce soya oil prices further as the harvest comes in. In the US soya meal prices have fallen back around 20% from the peaks of around $425/t in May to around $340/t now.

As with maize there are concerns over the effects of the continuing dry weather in Brazil and the increasing probability of another La Nina weather episode on the next soya crop.

Canada has lost around 5MT or 25% of the canola (OSR) crop due to the continuing drought, making it the smallest harvest since 2012. However, the Ukrainian crop is looking good and Australia is expecting the recent high prices to stimulate a 24% increase in the planted area and a crop of around 5MT next spring.

The outlook for rapemeal is that supplies will continue to be tight, so the advice is to keep taking forward cover well into 2022 as pricing opportunities arise. Non-Erith prices have followed soyameal down a little recently to around £245-255/t for Nov/Apr and £235-245/t for May/Oct 2022.

UK soyameal prices have also fallen to around £348/t for Nov/Apr and £325-330/t for May-Oct 2022

Other Feeds

Soya hulls are either unavailable or expensive (at around £200/t forward) partly due to low river levels in Argentina and the cost of shipping.

As the price of cereals has fallen back so has the price of maize gluten and maize distillers.

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