Technical Update - Feed Markets

Information correct as at 09:00am on 08.10.2021

- Markets still volatile and prices are high
- Reduction in global closing stocks stopped the fall in prices in its tracks
- Wheat and rape prices pushing upwards and no respite in sight
- Soya and maize stable with a potential for reduction

Overall View

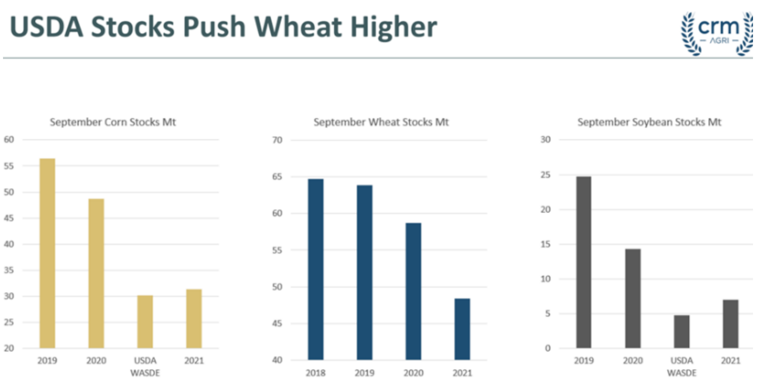
Markets are still very volatile and sensitive with upward pressure on wheat and rape and some potential downward pressure on maize and soya. Although we have today heard that Cargill have withdrawn soya whilst they review the economics.

Cereals

The short-term reduction in cereal prices expected in the last report did not occur, partly due to the latest USDA stocks report, partly to the weakening of the £ and partly to increasing concerns over drought in Russia and South America.

The latest USDA stocks report pushed the US wheat ending stocks down lower than expected to around 47MT (a 14-year low) from 58MT last year. US maize/corn ending stocks were 36% down from 2020 at around 31MT, but this was slightly higher than the previous report.

Ending stocks could improve over the coming months if the Chinese continue to hold off purchasing more US maize, as seems likely given the continuing positive outlook for their maize crop.



Although the US harvest is making good progress, yield forecasts have been reduced. The markets are also nervous about the increasing probability of a La Nina weather event in South America during the main maize growing season of November to January. This is now around 80% likely and would have a significant effect on maize and soya production if it occurs as predicted.

In addition, the outlook for the Russian wheat crop for 2022 is causing increasing concern as the very dry conditions continue and there is no rain in the next 2 week forecast. This has been reflected in delayed plantings as shown below – the longer this goes on the smaller/weaker the plants will be and therefore the less they will be able to withstand very low winter temperatures.

The prospect of a reduced 2022 crop coupled with lower yields and stocks from this year's harvest has prompted the Russian Government into plans to restrict wheat exports with quotas which will reduce exports from 37.6MT to 31.5MT.

European markets have reacted to the continuing supply of bullish news by raising prices further. The chart below shows the price trends over the last month.

Monthly market movements

European Markets	Expiry	Last price £/T	Last price €/T	Month Change	Month % Change	Month
UK Feed Wheat Futures	Nov-21	202.20	236.75	13.95	7%	
Paris Milling Wheat Futures	Dec-21	226.97	265.75	23.25	9.6%	
Euronext Maize Futures	Nov-21	203.27	238.00	22.50	10.4%	
Euronext Rapeseed	Nov-21	554.93	649.75	75.50	13.2%	

Although the UK wheat crop is approaching 15MT there is strong demand and E10 in petrol is likely to add a further 500-800KT to this over the next year.

With tight stocks, strong demand, the Russian quota/drought/planting/germination position plus a likely La Nina event in South America prices could go much higher so CRM advice is to take at least 50% forward cover until the 2022 harvest.

Oilseeds

In the US weather conditions for soya have been very good and around 34% of the crop has now been harvested – 8% ahead of the 5-year average

The USDA stocks report showed ending stocks 51% down on 2020 but around 2MT up on the previous forecast at around 7MT. In Chicago forward prices for December 2021 soyameal continue to fall and are now at almost 12-month lows of $325/t compared with the peaks of $425/t in February.

Although China has been buying soyabeans recently there is uncertainty over the outlook as some Chinese factories, including soyabean crushers, are having to shut down due to the energy crisis.

As with maize, the biggest concern for soya going forward is the La Nina weather pattern forecast for South America this winter, which could devastate yields and cause continuing problems with river levels for shipping.

OSR crops throughout the EU and Ukraine are looking to be around average as expected. The biggest issue here is the c.7MT shortfall in the Canadian canola crop which will continue to cause problems through to at least Q3 of 2022. Paris rapeseed has continued to increase in price with supply and demand issues and is now at a record 670 Euros/t.

The main reason for this is world OSR ending stocks at nearly record lows for 2021, before falling further for 2021/22. Although the Australian crop is looking good, it will not be big enough to correct the shortfall.

The longer-term outlook suggests that high prices will incentivise increased plantings and it is unlikely Canada will have another disastrous crop in 2022 but we have to get through the next 12 months before that will ease the situation.

UK soyameal prices have fallen further, with Nov – Apr 2022 at around £345/t ex port and May – Oct 2022 at around £325/t ex port. Non-Erith Rapemeal on the other hand has increased further to around £288/t ex port for Nov – April and £270/t for May-July before falling to around £230/t for Aug – Oct 2022.

Although soya is an inferior protein source for ruminants and comes with sustainability issues, the price differential between rape and soya has now closed to a level where it is competitively priced and there is availability.

Ethanol production in the US has started to increase, which should improve supplies of maize distillers, currently around £265/t for Nov – April and £275/t for May – Oct 2022

The advice is to keep looking for opportunities to buy forward where prices are often much lower than spot/short term prices. This is particularly true for rapemeal and as we get further into 2022 physical supplies are likely to be very tight.

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