Technical Update - Feed Markets

Information correct as at 07:00am on 05.11.2021

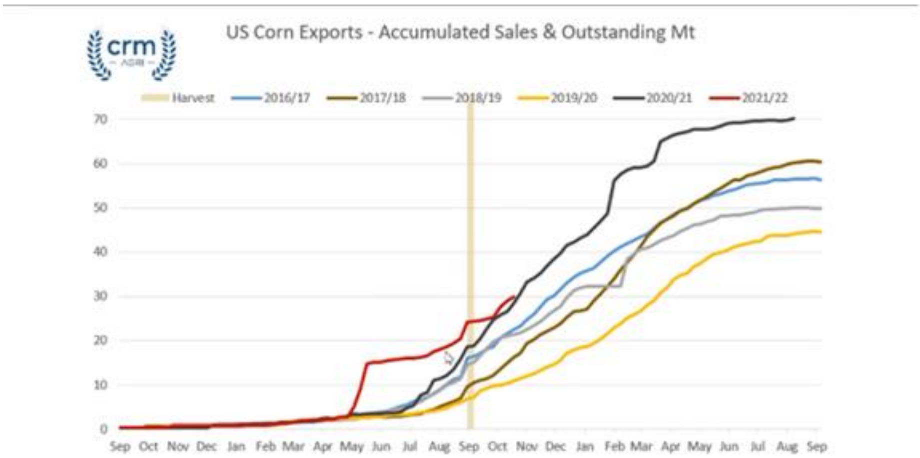
- Prices have continued to rise over recent weeks
- Despite the threat of La Nina, South American crops are off to a good start
- UK and EU cereals and oilseed rape have established well, potentially offering some respite for the 2022 harvest
- Soya supplies are abundant globally and prices relatively low, but maize is in demand

Cereals

The inexorable rise in prices for most agricultural commodities has continued for some time, but prices have fallen in the last day or so as oil prices have fallen. Brent Crude is back from $85/barrel to around $82. May 2022 feed wheat futures are now around £225, having been over £227 earlier in the week.

In the US the maize harvest is now 74% complete, which is 8% above the long-term average. Around 87% of the winter wheat area is now planted with 67% emerged. These figures are around the average, but, although it is at an early stage only 45% of the crop is rated good/excellent and 21% is rated poor or very poor, which is a record low at this stage. Low stocks and poor production last year have resulted in Chicago wheat being priced close to a record premium of $60/t above maize.

Although China has not bought much maize since May, other countries around the world have been active, leaving US exports overall at close to the record level of 2020-21 at this stage.



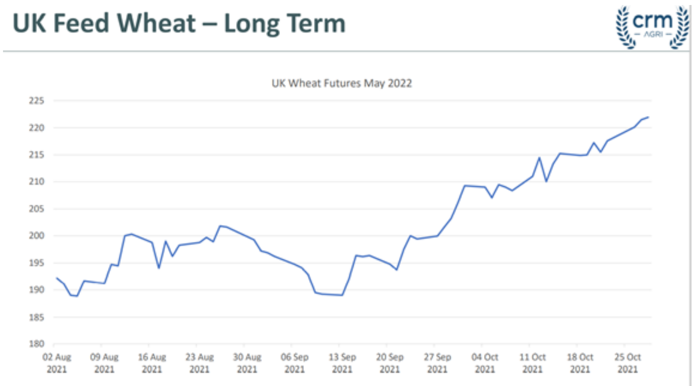
Domestically, China has had too much rain in many key growing areas in recent weeks and crop yield and quality are thought to have suffered, so their intentions remain unknown for the rest of the export season.

Ethanol production in the US has increased back to pre-pandemic levels of around 1100 K Barrels/day. Strong exports and domestic demand for maize have been pushing prices higher.

In South America, the probability of a La Nina weather event has increased to over 90% over the last 2 months. Planting of the first maize crop has been going well so far with some good rains and crops are looking good in Brazil and northern Argentina but it is still early days.

In the UK, although some wheat has been exported so far, the latest DEFRA estimate of 14MT means that the UK will be importing before next harvest with low starting stocks and strong domestic demand for feed and bioethanol.

The chart below shows the trend for May 2022 future prices to the end of October. Since then, UK feed wheat for May has increased further to around £225/t, close to the record prices of 2012.



The concern is that in previous years when the UK has been an importer, prices have continued to rise into Q1 and Q2 of the following calendar year. Current forward prices for wheat go to £240/t for Q1 and £250/t for Q2.

With a generally bullish outlook hopefully most clients will have covered well forward into 2022. If not, then despite the current high prices it would still make sense to do so.

The further outlook for the 2022/23 harvest year is mixed at this stage, but generally better. The Russian wheat planted area has now caught up to average and the hope now is that there is a mild winter with low winter kill. There hopefully will not be another spring wheat failure in northern US/Canada and in the UK and EU planted areas are good, as is early emergence.

On the other hand, there are still low stocks in the world, strong global demand and risk of La Nina in South America. High fertiliser prices could reduce inputs generally and drive more soya and less maize to be planted in the US next spring and it is rumoured that Russia will limit exports of Nitrogen based fertiliser. We also have the great unknown, China, which could come back to start importing again.

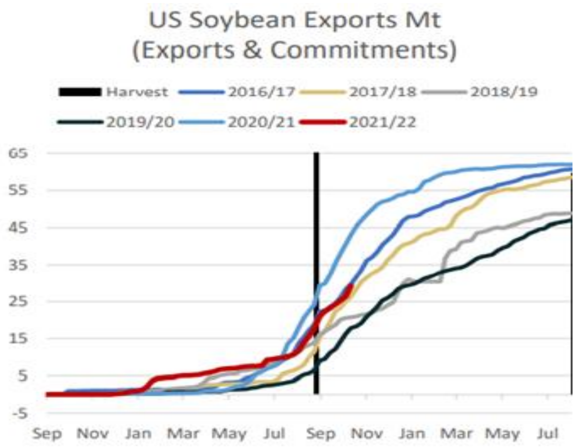
Oilseeds

Vegetable oil prices have continued at a high level but have eased back recently with increasing confidence in production of palm in Malaysia/Indonesia and soya in North and South America. If the recent crude oil price fall is maintained that downward trend should continue.

US funds have pulled back from their long positions and increased their short positions in anticipation of lower prices for soya. The US soya harvest is now around 80% complete and looking very good. Despite the threat from La Nina weather conditions in Brazil have been good for planting and germination with some useful rains.

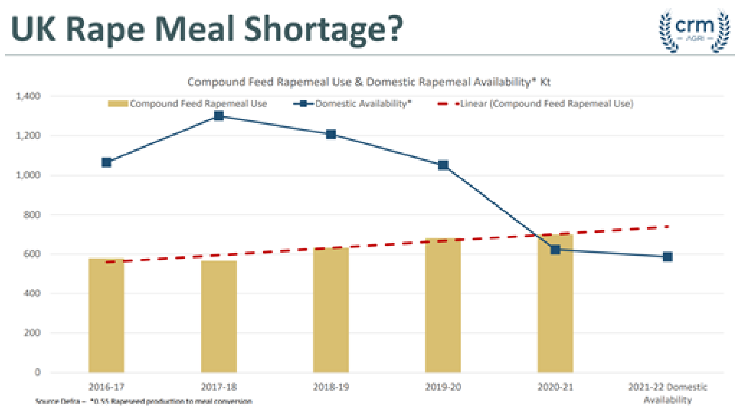
With potentially record crops in the US and Brazil an additional 10 MT of production could be possible between the two countries and if fertiliser prices remain very high more soya will be planted in the US in 2022 leading to a further boost in production.

There has been some Chinese buying but at this stage they have bought less than last season and overall US soya exports are lower than last year. As a result, Chicago soyameal prices are close to 12-month lows at around $350/t.



Although the weather in Australia so far has been favourable for their rapeseed crop, due to be harvested in spring 2022, the world will be short until the 2022 harvest and Paris rapeseed is now around 670 Euros/t.

The planted area in the EU is thought to be up around 10-15% and with a better Canadian crop next year a recovery is anticipated for the 2022/23 year, but we need to get there before there is much respite. The chart below shows the situation for domestic rapemeal as demand has increased and production has decreased over the last few years.



Current non-Erith rapemeal prices are around £300-305/t ex-port, falling to around £260-265/t in early summer. Erith prices for August – October are still around £215/t ex store. Soyameal prices are around £350/t ex-port currently, falling to around £320-330/t for May to October assuming a record South American crop.

Soya hulls similarly fall from current prices of around £225-230/t ex-port to £210/t for May – October 2022 and look much more attractive than SBP at around £260-270/t for next summer.

Hopefully, most clients have booked forward as far as possible at good prices. If not, it would still be good to do so to secure lower prices than current spot prices. This will also help to ensure physical availability before the 2022 harvest which could become an issue in Q2.

Things are even more difficult in the organic feed markets where there is strong global demand for organic raw materials, supplies are extremely limited for most of them and some are also shipped in containers which adds significantly to costs. There have also been some “certification issues” with imported raw materials from India and China with has further reduced supplies. This has resulted in organic soya, coming mainly from China, doubling in price from around £5-600/t to over £1100/t currently. This obviously knocks on to the rest of the protein feeds. Concentrate prices are up by around 25% year on year currently and this is set to increase further into 2022.

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