Technical Update - Feed Markets

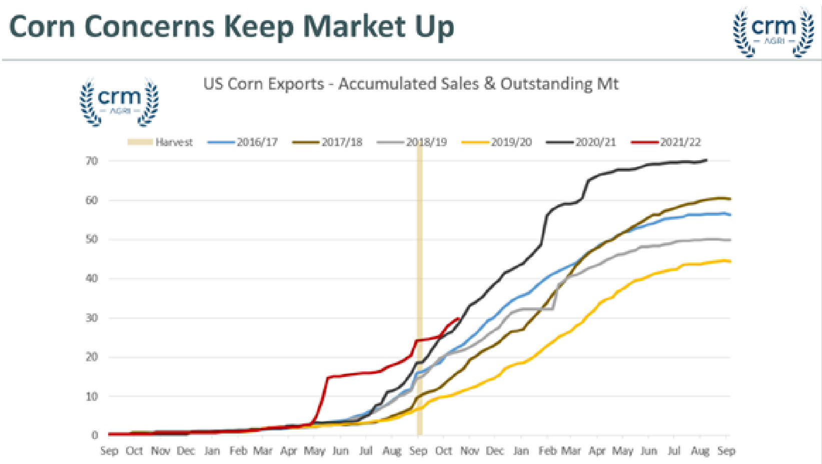
Information correct as at 09:00am on 19.11.2021

- Prices continue to track upwards
- Forward prospects until next harvest showing no respite
- Soya crops could be very big next year
- Cereal supply is still causing concern

Cereals

In the US wheat continues to trade at a record premium of around $60/t over maize, due to low wheat production in northern US/Canada this year, tight stocks and strong demand.

This is despite a high price for US Maize of around $575/t, driven by high domestic demand for bioethanol (over one million barrels produced for the sixth consecutive week) and record exports, as shown below.



The concern is that apart from the strong peak in May, China has been buying little maize, but with the excessive rainfall in their key growing areas (up to 400% of average), crop quality is now generally thought to be poorer than expected and they may well start buying again into Q1 2022 which would put upward pressure on markets.

Unfortunately, the current US winter wheat crop is in generally poor condition, which is causing concern, but it is still early days. On a more positive note, UK/EU winter cereal crops are looking very good.

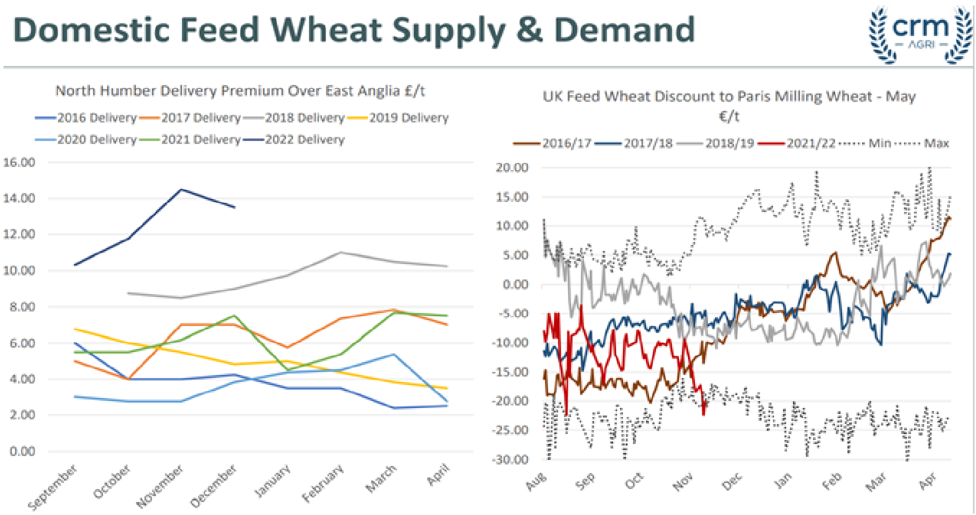
The Russian wheat planted area has about caught up with expectations, although late drilling makes the crop more vulnerable to winter kill. However, they are now proposing new export taxes to start in January to limit exports due to high domestic prices.

The Australian wheat crop is again looking very promising and should provide some respite to world markets in the spring, but it is unlikely to be enough to alter the fundamentals.

The chart below left shows that in physical terms other areas in the UK prices are higher than the base level of East Anglia due to haulage costs and demand for bioethanol. The red line in the chart below right shows that UK feed wheat May futures are currently trading at around 20 Euros/t discount to Paris milling wheat, which is a record. This is resulting in UK wheat being attractive for export, further depleting already low stocks.

The feeling is that forward UK wheat prices will have to move into line with Paris/EU prices into Q1/Q2 2022, particularly if we have to start importing in the New Year so are likely to go higher than the current c.£225/t and increase by another £15-20/t.

At that point, the discount of barley vs wheat could increase, making barley more attractive as it was for much of last season.



Gas prices had fallen back to around 75% of the recent peak prices, but issues with commissioning Nordstream 2 have seen prices surge back up again in the last few days. Gas price will become critical in the spring for fertiliser use for cropping around the world. If fertiliser prices remain high inputs in some countries could be lowered and less maize will be planted in the US (more soya) which, with strong demand, will put further upward pressure on cereal prices.

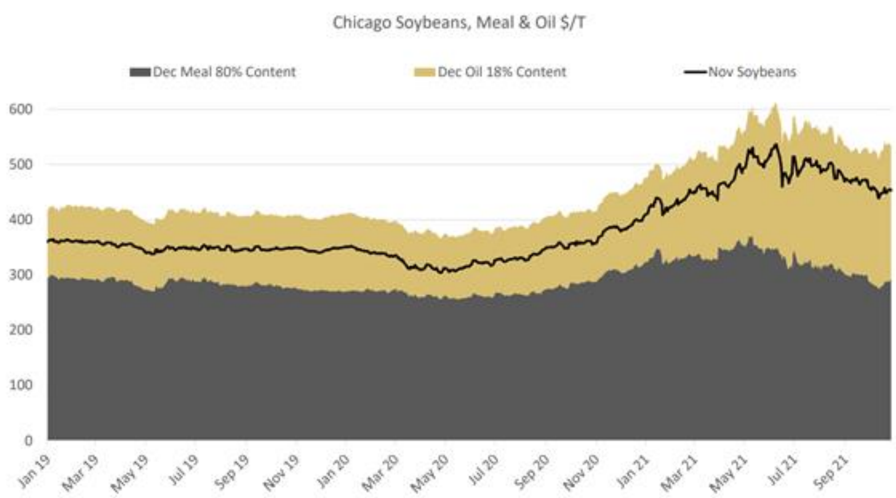
Oilseeds

The US soya harvest is progressing well and is now around 92% complete and with generally good yields.

Most parts of Brazil have had decent rains, the new crop plantings are off to a good start and the country could be on track for a record 144MT crop. La Nina is still a threat, but is not thought to be a serious as feared earlier in the season. Argentina has had some rains, but along with southern Brazil is still looking dry and river levels are still low which is affecting boat capacity.

Overall, therefore, the outlook for soya production is encouraging and the US funds have taken a bearish view, cutting their long positions and increasing their short positions.

Crude oil prices have eased back from around $85/barrel to around $80/barrel recently and vegetable oil markets have followed with prices for soya oil in particular easing.



As soya oil prices have fallen back soyameal prices have gone up recently as crushers try to maintain margins. This has been exacerbated in the last week as two crushing plants in the US have broken down and the £ has weakened against the $.

As a result, UK prices have gone up by around £20/t for May – October 2022 in the last week to £345-350/t.

Oilseed rape will be in short supply until next autumn due to the disastrous 2021 Canadian canola crop. EU imports of OSR are down around 1.5-2MT so far this year compared with the last 2 years.

Although it looks like there will be a decent Australian crop coming next spring that will not be enough to rebalance markets and physical availability will increasingly be an issue as we move through Q1/Q2 of 2022.

With increased planted areas forecast in the EU and a Canadian recovery, the situation will ease into Q3 2022. This is reflected in prices for Aug/Sept/Oct at around £220/t (Erith) to £240/t (non-Erith) compared with much higher prices before then.

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