Technical Update – Feed Markets

Information correct as at 09:00am on 20.05.2022

- All markets saw a drop on Wednesday this week
- Production news from Ukraine is slightly more positive, but logistics will be a big issue for exports
- This week's WASDE report put soya and maize stocks slightly higher than previously, but wheat lost further ground
- Oil prices appear to have found some stability at around $110/barrel
- The weakening of sterling against the dollar is also causing prices to increase

Overall:

Volatility and uncertainty continue. After several weeks of rapidly rising prices following a series of bullish stories, Wednesday 18th May saw a fall with UK November wheat back £11/t from a record high of over £350/t, with a further £9 decrease yesterday. The drop occurred across the world and included soyabeans and rapeseed, with crude oil also falling back, although oil and soyabeans increased slightly on Thursday.

Daily market movements

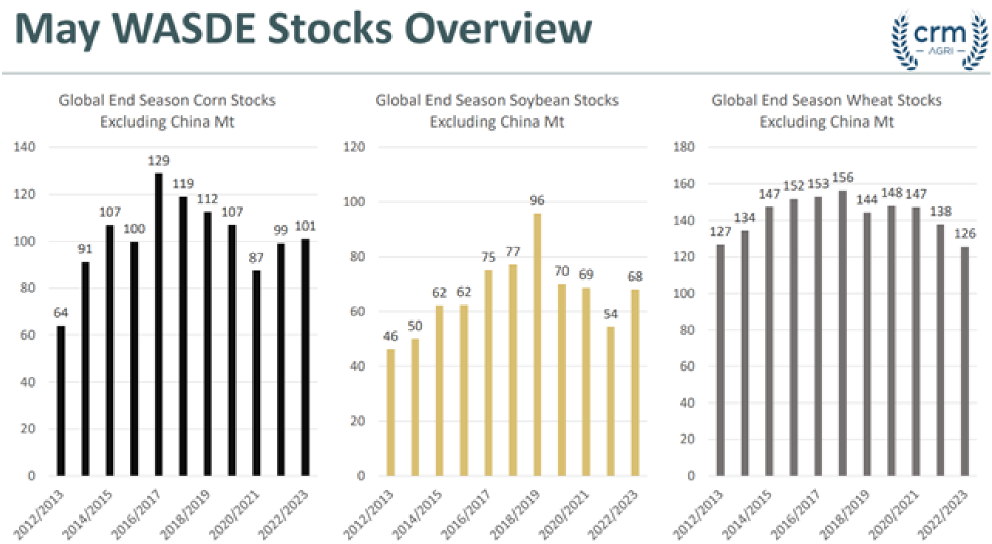
Key Markets		Expiry	Last price	Change	% Change	20 Day Chart
Feed Wheat		Nov-22	330.80	-9.30	-2.7%	
Milling Wheat		Dec-22	416.25	-8.00	-1.9%	
Wheat SRW		Dec-22	1204.50	-29.75	-2.4%	
Corn		Dec-22	734.25	-6.00	-0.8%	
Rapeseed		Nov-22	811.50	-8.25	-1.0%	
Soybeans		Nov-22	1513.75	14.25	1.0%	
WTI Crude Oil		Jul-22	108.25	1.21	1.1%	
GBP EUR		£1 = €	1.18	0.000	0.0%	
USD EUR		$1 = €	0.94	-0.011	-1.2%	

Cereals:

The USDA have published their latest World Supply and Demand Estimate (WASDE) report in the last few days. The May report is the first to give outlook figures for the 2022-2023 year. Although a lot of uncertainties remain, they have firmed up their views on the likely output of wheat, sunflower and maize from Ukraine with 21.5MT, 11MT and 19MT crops forecast respectively.

Although these are well down on previous years they are not as bad as the USDA and others once thought they might be. However, the severe problems with logistics and physically exporting these products remain and will significantly slow down and reduce the amount coming through to markets. The UN estimate that there are currently around 25MT of grains stuck in storage in Ukraine, with some grain stores being destroyed by Russian missiles.

The May WASDE report indicates that world ending stocks, excluding China, are forecast to be slightly better for maize/corn and soyabeans than previously thought but slightly worse for wheat.



Adding to the wheat is situation is the extreme heat being suffered in the main production areas in India and they have recently imposed an export ban, although it is not a complete ban and allows previously agreed sales to go ahead. India is not a major wheat exporter, and in some years has hardly any surplus, speculators and the media initially picked up on this as yet another bullish story.

Cool and wet conditions in the corn belt of the US means maize planting has been delayed with only 49% planted vs an average of 67% by this stage. Spring wheat is further behind with only 39% planted vs a previous average of 67%. Much of the US winter wheat crop is grown further west where a severe drought continues and ratings are still only 27% good/excellent.

The drought also continues to develop in Brazil, with dry weather also a feature in northern EU countries and affecting spring sown crops in particular.

On the back of all this news, wheat prices continued to rise sharply to unprecedented levels with the Chicago premium of wheat over maize/corn rising to a record $160/t until May 18th when a fall back occurred. In many ways this makes sense as the previous trend seemed unsustainable, with the latest overall world wheat production outlook at similar levels to previous years.

UK wheat has continued to follow these trends and reached a peak of over £350/t for November wheat but has now fallen back to around £330/t. The view from CRM was that these levels were unsustainable and that prices were likely to fall, particularly as harvest gets closer and farmers have to start selling. Their advice is to stick at the previously recommended 50-60% cover for next winter and into 2023 and wait for the likely reduction in prices over the next few months before taking any further cover.

Although the supply of maize from Ukraine will be limited/slow, other sources exist e.g. France and Brazil. Currently whole maize is quoted at around £340/t for November to April 2023 and with higher nutritional value, this may be worth considering. AHDB figures also indicate that barley is selling at around a £15-20/t discount to wheat and may also be worth considering.

Oilseeds:

The 2nd chart in these notes (above) shows that the latest WASDE report indicates that global soyabean ending stocks (excluding China) for 2022/23 will recover to 68MT in 2023 from 54MT this year. The US soya crop is forecast to be up to a record 123MT this year with a further 5% increase in planted area, but weather and soil conditions are slowing planting so only 30% has been completed so far compared to the usual average of 39%. However, with good conditions the rate of catch up can be very rapid.

Last year the drought in Canada reduced their canola/OSR crop significantly, to around 12.6MT, and the resulting shortage in global supply did much to fuel the extremely high OSR prices we have been seeing. The latest forecast is that although the Canadian planted area will be down around 7%, with the better weather conditions being seen compared to last year, the crop should be back up to around 18MT. With this factored in, the May WASDE report indicates that global OSR production should increase by around 9MT to 80MT.

After the extreme volatility following the Russian invasion of Ukraine, the price for crude oil price has stabilised for now at around $110/barrel for May Brent Crude, so this is settling vegetable oil prices to an extent. The Indonesian ban on palm oil exports has been keeping upward pressure on the market, but yesterday they announced that this would be lifted from Monday so it will be interesting to see market reaction to that announcement.

There is obviously considerable uncertainty over the production outlook for Ukrainian rapeseed and sunflower seed production this year and how much of that will be exported, but again the outlook is better than at one time feared.

A further factor driving prices of all $ traded raw materials imported into GB has been the recent 10-12% weakening of the £ vs the $ over the last 2-3 months as the $ strengthens with higher US interest rates.

The large gap between old crop and new crop rapeseed and rapemeal is narrowing with a difference of around £60-70/t. Non-Erith rapemeal for Nov – April 2023 is currently around £355-365/t.

Hopefully, most will have taken the advice we have been giving for some time and booked forward well into 2023 at previous prices. Even at current levels it still looks good value vs soyameal (at around £450/t for the same period) and other mid proteins e.g. USDDGs at £370/t.

For further discussion or to help with any questions that you may have, please contact Consultant Support on consultantsupport@kiteconsulting.com or 01902 851007