Technical Update – Feed Markets

Information correct as at 09:00am on 15.07.2022

- Macroeconomic factors are affecting commodity prices as well as supply and demand balances.
- Prospects of some Black Sea ship movements are improving
- EU wheat and maize prospects are poorer due to the drought and heatwave, production elsewhere is better.

Overview

Fears of a looming global recession and a subsequent significant slow-down in demand are continuing to put downward pressure on commodity markets generally. Brent Crude oil has fallen back from the recent peaks of $125/barrel to under $100/barrel this week.

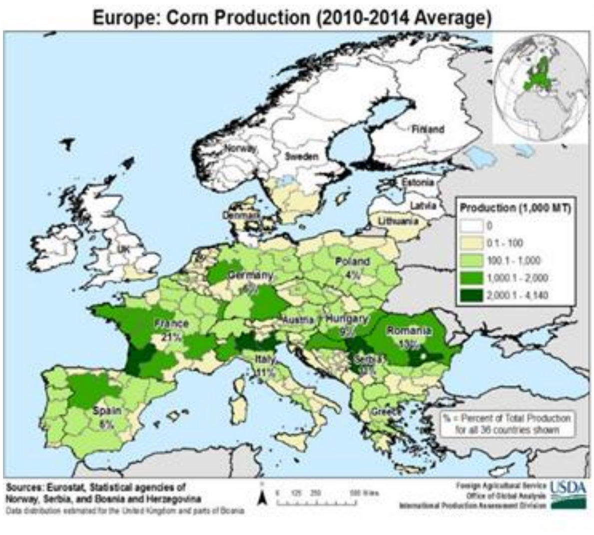
The macroeconomic outlook is also affecting currency, with the Euro and the £ falling against the US$, which is seen as a safe haven. This means higher prices for imported goods.

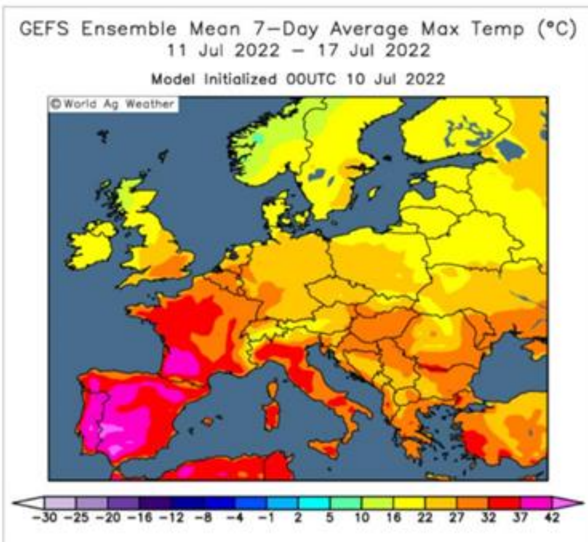
Cereals

The effects of the war in Ukraine on grain and energy supplies and extreme weather events around the world are continuing to cause volatility.

The July USDA World Supply and Demand Estimates (WASDE) report was published on 12th July. Overall, the report was slightly bearish for cereals with production estimates up in North America, but down in Europe, coupled with estimates for lower demand.

Southern France, Spain, Italy and some areas of Poland and Germany have been experiencing extreme heat, with temperatures into the 40s C. The map below left shows where most of the French maize crops are grown (this accounts for around 27% of the total EU crop) and the extreme heat will reduce yields.





The latest forecast is that the EU maize/corn production will fall from the original total of 68MT to around 62-65MT, depending on how severe the weather is and for how long it persists.

With continuing uncertainty over the levels of production and exports from the Ukraine this will make the EU and UK maize/corn supply very tight and will put more pressure on wheat in particular.

There are some exports still being delivered from the Ukraine, but not in the quantities seen before the war started. It remains to be seen if the "safe corridors" for Black Sea grain come to fruition, but prospects are looking more positive than they were, with reports of some ships coming into Black Sea ports. The hope is that exports will continue at a steady low-level supply rather than the usual peak in the autumn.

The other interesting change in the outlook for maize supply is that Brazil and China have reached an agreement for Brazil to be able to export their crop to China. This will substitute for US maize but as most of the UK maize imports come from Brazil this will again tighten supply.

The US winter wheat harvest is now almost complete. Production is down, but yields are not as bad as first expected. To counter this Canadian and northern US spring wheat crops are looking good.

US Managed Funds have been reducing their heavy long positions in both wheat and maize.

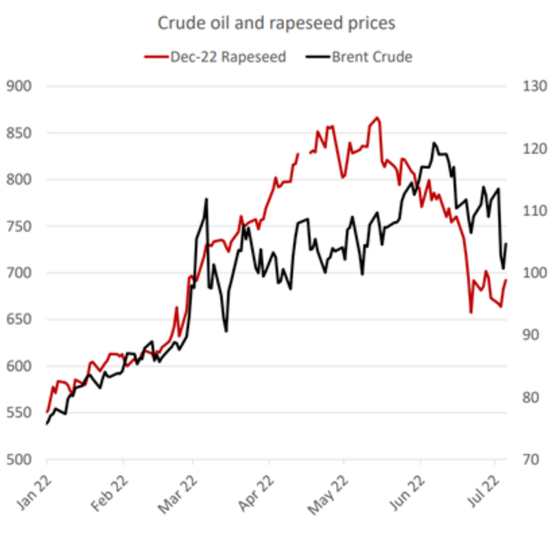
UK feed wheat has come back into line with EU milling wheat over the last few weeks and the gap is now only between 5-10 Euros/t compared to 30 Euros/t last month.

Harvest pressure has added to the fears of recession and brought November wheat down from the record £350/t prices of a few weeks ago to £260s/t last week, although this week it has crept back up to around £275-280/t.

Taking everything into account the latest forecasts are for forward wheat prices to ease back to around £235/t into Q2 2023. Again, the view is to keep a close eye on prices and buy when dips occur, e.g. now, still targeting around 70-75% cover through the winter.

Oilseeds

There is a strong link between crude oil and vegetable oil prices, so the recent fall in Brent Crude from $125 to around $100/barrel will put further downward pressure on oilseed prices.

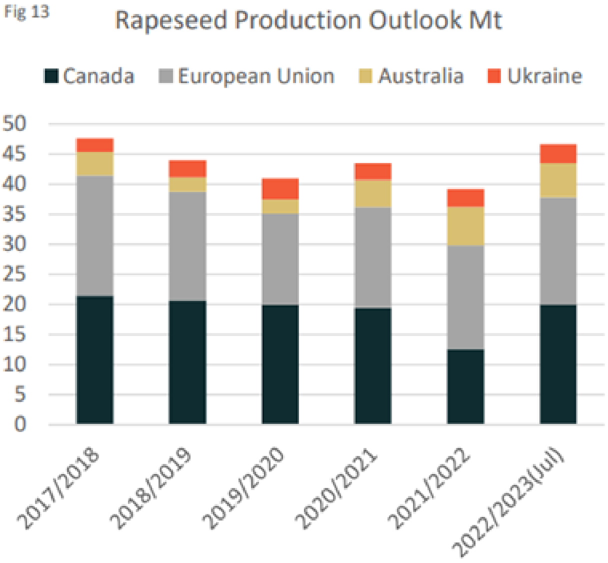


Following the 4% fall in US soya planted area the latest WASDE report shows a reduction in estimated US soyabean production of around 4MT to 122MT. However, Chinese import demand forecasts have also been reduced, so the overall result is fairly neutral. Brazil is predicted to increase production from around 126MT this year to 149MT at their spring 2023 harvest, so tight supplies should ease into Q2 2023.

Uncertainty continues as to how much of the Ukrainian rapeseed and sunflower will be harvested and exported, although there are some more encouraging signs on the horizon with the small number of ships accessing Black Sea ports.

The spring sown Canadian canola crop is looking good and should be back nearer the normal level of around 20MT, so overall global production should be back around or even above the long term average

Fig 13



The falling value of the £ vs US$ is having an effect on import prices. Soyameal prices have increased by around £10-15/t in the last week, so Nov-April prices are now around £450-460/t. Rapemeal prices have also bounced back with non-Erith prices around £285-295/t for Aug-Oct and £305-310/t for Nov -April

Soya hulls have stayed at just over £300/t but still a lot better value than SBP at £335-340/t.

With a good US soya crop to come plus a potentially record-breaking Brazilian crop next spring, much better Canadian and Australian OSR crops plus a reduction in demand due to the global recession the feeling is that supply pressures on oilseeds should ease into spring/summer 2023.