Technical Update – Feed Markets

Information correct as at 09:00am on 29.07.2022

- Northern hemisphere harvests are now underway, results are variable depending on rain received
- Doubts remain about the success of the grain corridors out of Ukrainian ports
- The strength of the US$ is having a significant impact on commodity prices
- Fears of a global recession are impacting oil prices and hence vegetable oils

Overview:

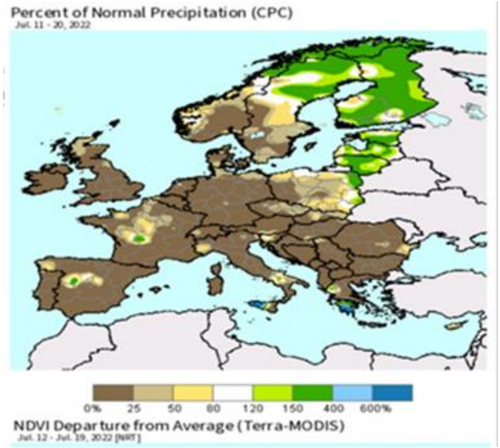
The much-anticipated UN initiated agreement for Ukrainian agricultural product exports was signed last Friday but was immediately called into question when Russia bombed the port of Odessa on Saturday.

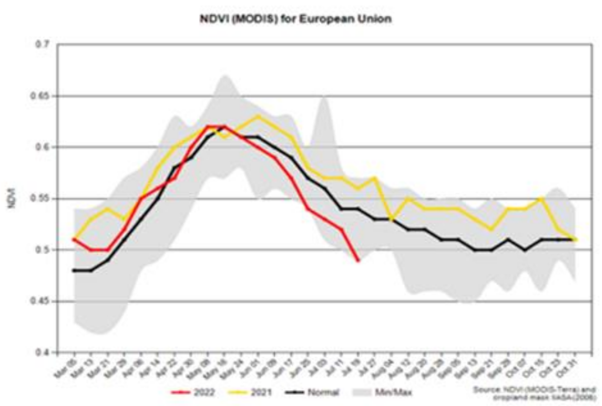
Depending on how the Russians behave going forward the likelihood is that some grain exports will take place but will be slow paced and with a more level profile rather than the usual large autumn peak of supply. Lloyds have now stated that they will provide insurance for ships, which is also positive news.

The US $ is very strong relative to the £ and the Euro with higher US interest rates and the US $ being seen as a safe haven in times of uncertainty. The position will be reinforced by this week's further 0.75% increase in US interest rates bringing them up to 2.5%. The Euro is particularly weak and virtually at parity with the $, which is a 20-year low point due to major issues with EU economies. As a result, UK wheat is around £40/t more expensive than it would have been with the £/$ rate at the previous 1.4 compared with the current 1.2.

Cereals:

The severe drought affecting many parts of Europe (see below left) continues with NDVI scores from satellite imagery (below right) falling well below average. Winter sown crops are being harvested much earlier than usual with generally lower yields. The latest EU crop production estimates are falling back by around 8-10% for spring sown crops which are now well below the 5-year average.

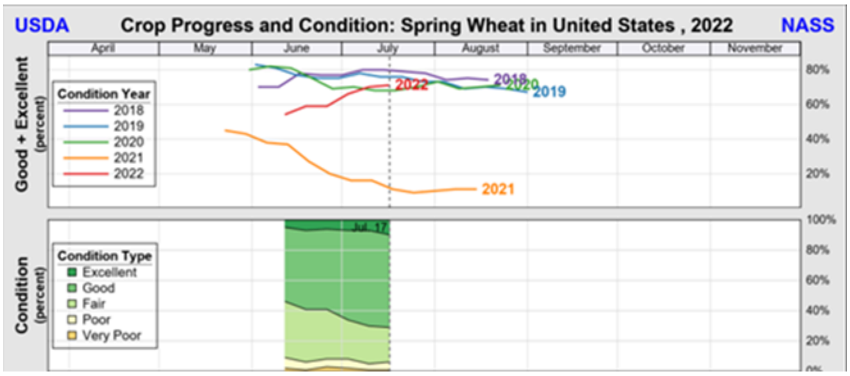




The reduction in EU maize supply on top of the likely low levels of Ukrainian maize this autumn will put upward pressure on cereal prices. However, the Russian wheat crop is looking very good and set for a record of up to 85MT on top of larger carryover stocks due to restrictions in exports over recent months.

In the US, although the corn belt has had a lot of hot weather, it has also had rain at just the right times, so although the good/excellent ratings have fallen there is optimism for a good maize crop providing the rain keeps coming. However, the latest forecast is for hot and dry weather across much of the maize and soya belt so this will increase price pressure.

The northern US states and Canada have also had very good weather and, following the slow start to the season, good/excellent ratings are around 70%, so again there is optimism for good spring wheat crops, particularly compared to last year.



Managed funds have significantly reducing their long positions over recent weeks for maize but interestingly they haven't replaced these with short contracts, which indicates the uncertain outlook.

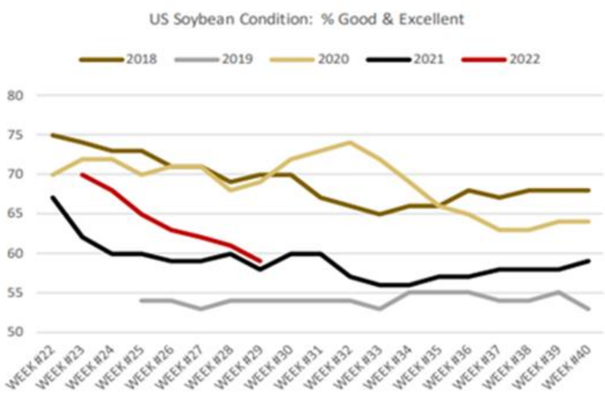
Chinese demand for maize has been relatively weak, so although US export sales got off to a good start for the season, they have been slow recently. The Chinese have also signed an agreement with Brazil to allow then to import maize from Brazil for the first time. This is where a lot of the UK and EU maize comes from so without much Ukrainian maize this could limit supplies if the Chinese buy large quantities.

Overall, the view is that with the big unknowns of Ukraine, weather and currency producers should continue to take advantage of price falls for cereals and to cover around 70-75% of requirements through to spring 2023.

Oilseeds

With inflation rising around the world and the prospects of a global recession increasing crude oil and vegetable oil prices have fallen back. Brent Crude oil has fallen from the recent peaks of around $125/barrel to around $105/barrel currently.

As with maize the US soya crop rating is falling back and is now only 59% good/excellent. The next 4-6 weeks are critical for flowering and pod fill and again more rain is needed if the crop is to fulfil its potential. However, conditions are currently hot and dry with little rain in the forecast, so prospects are similar to last year at this stage.



As with maize, Chinese demand for soya has been weaker recently. Although the US exports got off to a good start, they flatlined for a period, but still at a relatively high level for the time of year, until this week when rates have picked up again.

Argentina has a poor exchange rate and farmers have been slow to sell beans. With a poor crush margin this has meant the supply of soyameal has been limited. As with maize, managed money funds in the US have been selling out of their long positions but have not replaced with short positions, again indicating an uncertain outlook.

Doubt still exists over the outlook for Ukrainian rapeseed and sunflower seed. The latter has traditionally all been processed domestically so the exports have been oil and meal. The current situation in the Ukraine makes crushing/processing more difficult and there is very little capacity available in the EU to crush the seed even if it could be exported.

The EU oilseed rape harvest is underway with poor yields in the worst drought affected areas of Spain and southern France but good yields in other areas, including Germany – so overall an average yield of just over 3t/Ha is expected. Oilseed rape prices have continued to fall, with new crop May 2023 prices around 30% lower than their peak in May/June.

Rapemeal prices have only fallen back around 10% over this period and remain around £310-315/t ex-port for Nov-April for non – Erith supplies.

After remaining stable for several weeks, Soyameal prices have now increased by around £20-30/t to £470/t for Nov-April due to the weather threats to the US soya crop and the problems in Argentina.

Soya hulls remain at around £280/t for southern ports and still much better value than SBP at around £330/t for the Nov-April period.

With all the uncertainties around the world the view is to continue to take cover through to spring 2023 when a planned large soya crop in Brazil plus large Canadian and Australian rape crops come to the markets. These, plus weaker demand, should start to ease pressure at that stage.