Technical Update – Feed Market

Information correct as at 15:00 on 12.08.2022

- Hot, dry weather is affecting Europe and the US putting pressure on cereal yields
- The oil price has eased and this has taken vegetable oil prices down with it
- Some commodities are now moving out of Ukraine by sea, but not massive tonnages yet
- The strong dollar is causing imported prices to be inflated in UK and EU

General:

The £ continues to be under pressure compared to the US$, trading at or around 1.20 with the Euro at around parity with the dollar. Predominantly this is due to high US interest rates and the currency being seen as a safe haven in troubled times.

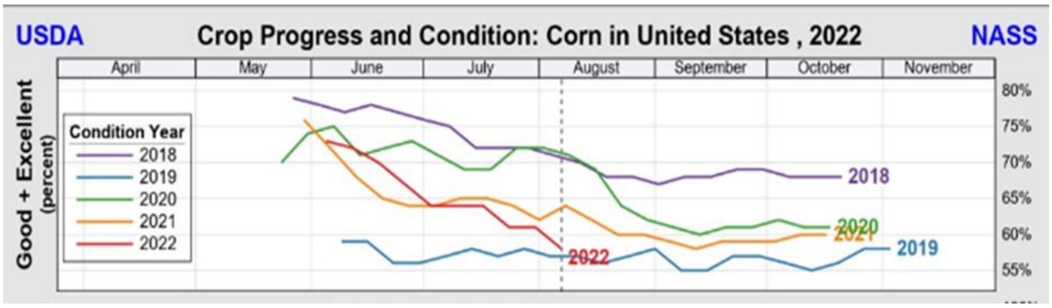
This is adding considerably to the cost of imported raw materials (around £40/t for wheat and £65/t for soyameal). In global price terms many commodities have now fallen back to pre-Russian invasion levels outside the UK/EU.

12 ships have so far sailed from 3 ports in Ukraine carrying around 370,000t of a mix of maize, sunflower meal/oil and soyabeans. The "capacity" for Ukrainian exports is now reported to be around 3MT/month but it is early days and the ships which have sailed were the ones stuck in port at the beginning of the invasion with few new ships in sight.

Cereals:

Apart from the above general factors affecting markets, weather is the other major player in the US and Europe. In the US conditions have been very hot and dry in large areas but there has been some rain in the corn belt and northern states, although there is very little in the forecast at present.

NDVI scores, reflecting plant health from satellite imagery, show that crops are still looking OK, but more rain is needed. Maize good/excellent ratings have fallen quickly and are now around 58%, so lower than average but with still a way to go before harvest.



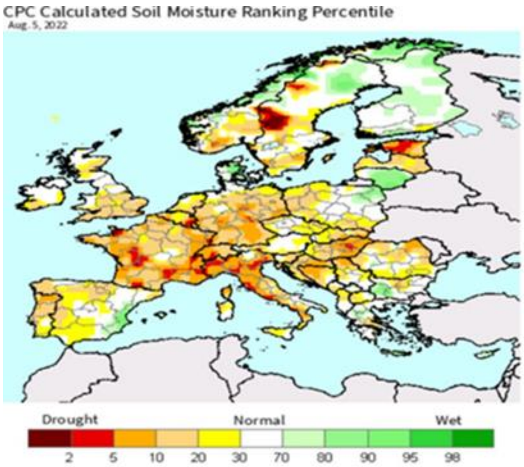
US maize export sales have been sluggish and with the tensions over Taiwan it is possible that China will buy more direct from Brazil and less from the US, a situation to be watched carefully.

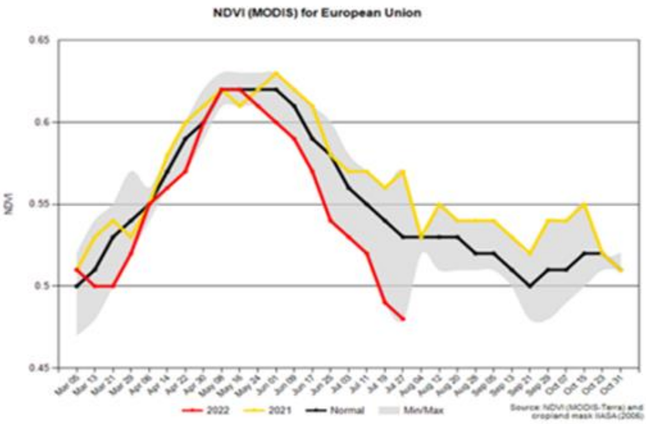
Drought continues to plague large parts of Europe and many areas are well below average for soil moisture. There is widespread rain forecast for the UK and Europe next week, but its arrival will be too late for many crops.

95% of French wheat (mainly winter sown) is now harvested. The latest production estimate is a reduction of only 4.4% compared with 2021 at around 34MT and there have been reports of some very good yields from winter cereals in parts of the UK.

In the EU, Strategie Grains have cut their maize production estimate by 10Mt to 55.4Mt. leading to potentially the smallest maize harvest in 15years. The latest estimate for French production is 12.7MT which would be around 18% down compared to 2021 and that is likely to get worse.

The chart below right shows the latest NDVI scores for maize in the EU. These continue to decline and are well below the normal minimums at this time of year and easily the lowest levels since these records began in 2006.

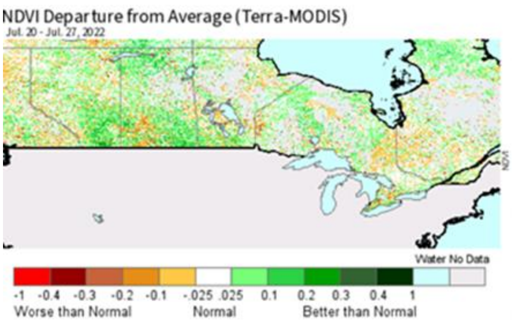


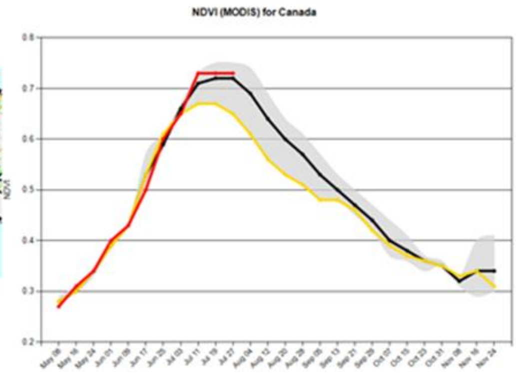


Data on forage production across Europe is not easy to come by, but the conclusion must be that there will be some severe shortages coming which will increase costs of production and potentially reduce milk output. However, in 2018 when forage was short milk production increased as cows' dietary inputs were more closely monitored.

The other issue caused by the continuing very dry weather/drought is the risk of delayed drilling/good establishment for next year's crops.

Russia has had very good conditions and has again increased the forecast for their wheat crop to a massive 95MT. The Canadian wheat crop is also looking very good, with excellent NDVI scores and should produce very good yields.





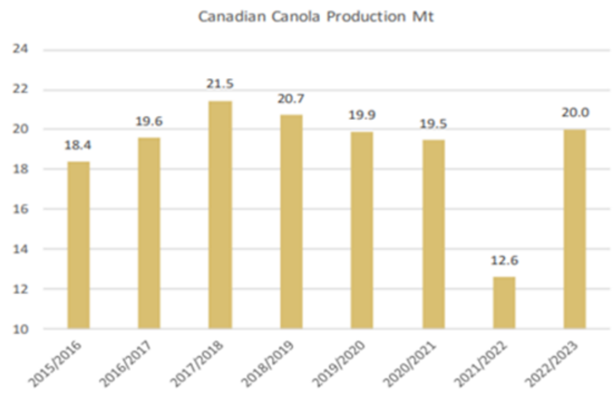
US spring wheat is maturing quickly and is around 35% harvested compared with an average of 19%. Good/Excellent ratings have fallen by 6% in the last week to 64%.

UK November wheat price has crept up to around £269/t in the last 2 weeks. With all the political and weather-related uncertainties around the world the view is to continue to take further forward cover for cereals. It is thought that there is little further downside but there is a potentially bigger risk of upside if weather continues to worsen in key growing areas and/or exports from the Ukraine remain very slow or are disrupted. The advice is to increase cover for cereals to around 80-85% for the winter 2022/spring 2023.

Oilseeds:

Crude oil remains well below the peaks of 2 months ago and has been trading around $96/barrel for Brent Crude until this week when it has rallied somewhat to nearer $100/barrel before losing ground again earlier today to around $97/barrel. As expected, Paris Oilseed Rape prices have followed crude oil and have fallen from their peaks of around 850 Euros/t to around 650 Euros/t currently.

The latest French OSR crop forecast has been increased slightly to 4.3MT and the overall EU crop forecast is for a total crop of 18MT, up 1MT from 2021. The Canadian canola crop is looking good, with excellent NDVI scores and is on track to get back to around its recent levels of 20MT vs 12.6MT for 2021.



Although early days the Australian OSR crop looks set to be on target for a near record tonnage of 5.6MT and Brazil is expecting a record soya crop next spring of around 149MT vs 125MT in 2021.

Vegetable oil prices have all eased back, but there is a large range between rape oil at around $1800/t and palm oil at around $1100/t.

It is yet to be seen how much of the sunflower crop in Ukraine will be harvested. It is also uncertain how much will be processed before being exported as oil and meal. If it has to be exported as sunflower seed, there is not much spare capacity in Europe to process this crop.

The US soya crop is developing ahead of schedule due to the long spell of hot weather with pod set at 70% and good/excellent ratings at 59%, down 1% on the week. More rain is needed to maintain the optimistic outlook but there is not much showing in the forecast at present.

COVID lockdowns in China continue to put a question mark over likely demand levels - the USDA currently has this at 98MT, up from 90MT in 2021 but this seems unlikely to be achieved.

Overall, the outlook for oilseed supply is getting better and the outlook for demand less certain. If things continue in this way then the supply/demand situation should be much better from spring 2023 onwards.

UK rapemeal prices have increased recently, partly due to the fire at a major German crushing plant and partly due to the very low river levels on the Rhine which is slowing rapeseed moving in and rapemeal moving out of the country.

Erith rape prices are around £314/t for Nov/April, around £20/t lower than supplies from other ports. Soyameal prices have increased by around £8-10/t for the winter to around £460/t.

Most other straights have stayed at similar levels over the last few weeks. The advice is to continue to take cover for protein straights at least until spring 2023.

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