Technical Update – Feed Markets

Information correct as at 09:00am on 09.09.2022

- Oil prices ease, but gas prices still very strong
- Markets still volatile, but within a smaller range
- Barley is looking good value for short-term
- Prospects for oilseeds better with good crops harvested/forecast across the globe

General:

The war in Ukraine continues to drive energy and to an extent agricultural markets to high levels. Brent Crude oil has fallen back from the peaks of $125/barrel earlier in the summer to around $90/barrel, largely due to reduced demand caused by Chinese lockdowns and the looming global recession.

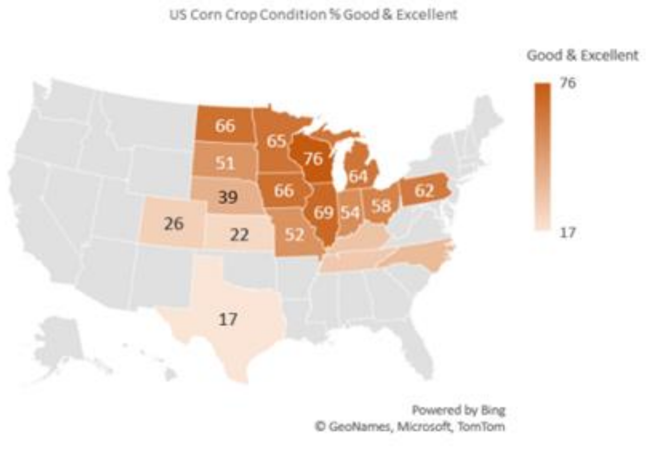
It is the price of gas that is really causing problems as Russia has effectively cut off supplies to Europe. UK Natural gas has eased back to around 400p/therm from recent peaks of up to 650p/therm but is very volatile and well above historic levels.

The £ has weakened further against the US$ from mid-1.30s before the war in Ukraine to around 1.15 now as a result of extraordinary energy costs, the looming global recession and high interest rates in the US. The Euro is also very weak against the US$ at a 20 year low of parity or just below.

Cereals:

All the above factors are supporting historically high agricultural commodity prices.

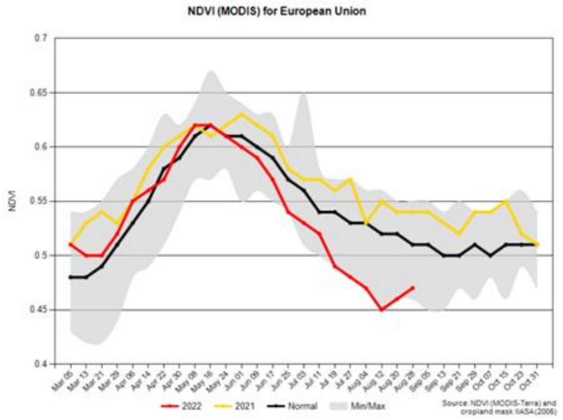
The annual US Pro Farmer Tour (which gives a snapshot but is not statistically robust) has been reporting lower forecast yields for maize than the USDA estimates, causing prices to firm and funds to go back to longer positions. The good/excellent rating has fallen back to 54% overall but as can be seen in the map below the range between states is from 17-76%. Overall NDVI scores are good so there is uncertainty over what the crop will finally produce

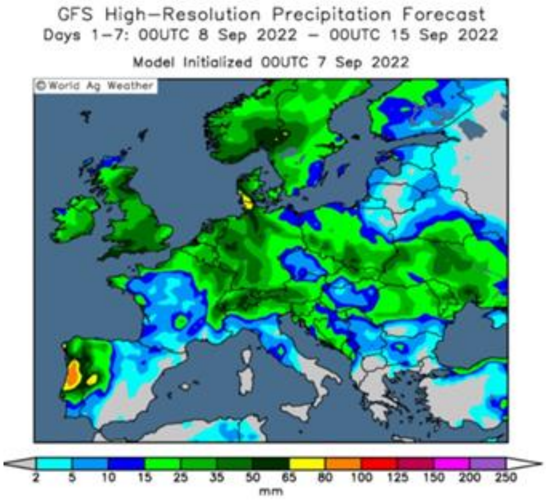


There is also uncertainty over the sales of maize from the US as the USDA has changed its reporting methodology and a number of anomalies have been seen. Limited daily export data suggests there have been no major sales to China recently.

The US demand for ethanol production is falling, the suggestion being that this is due to the forthcoming recession, but this needs monitoring. If the weaker demand for ethanol continues and weak sales to China are confirmed then this should cause maize prices to weaken, which will knock on to other cereal prices

In Europe, the effects of the very dry weather are still being seen in NDVI scores, although the most recent satellite imagery shows a pickup from earlier very poor levels (below left). This follows some very welcome rain in some parts, with more forecast in the next week





The rain has come too late to prevent the forecast significant reduction in maize yields throughout France, Germany and other key producing countries, but will help with this autumn's planting for 2023 crops.

The tighter EU maize supplies on top of the well documented reduction in supplies from Ukraine means that demand for barley is likely to increase over the next few months to fill the gap. At present this is available at a discount to wheat of around £15-20/t with ex farm prices around £245/t for wheat and £225/t for barley. This is forecast to reduce to around £5/t by late autumn, so there is a buying opportunity now.

Conditions for the Russian wheat and Canadian spring wheat crops continue to be very good with high NDVI scores and prospects for the Australian harvest are further improved with the second highest wheat production on record now forecast.

Recent exports of all agricultural commodities from the Ukraine are now estimated to be around 2MT and the Ukrainian Agriculture Ministry state that this could increase to around 6MT by October. However, there is a lot of intense fighting close to Odessa and Putin has recently said that exports are not going to poorer countries as agreed, so it would not take much to see exports reduce or stop and this would cause cereal prices to spike upwards.

The outlook for wheat and other winter planted crops in the Ukraine is uncertain due to the direct effects of the war on the ground and also the indirect effect of input costs. The likelihood is that production in 2023 will be down by between 30-40% from the pre-war levels of 32MT.

If the Ukraine exports continue and if weak demand for US maize is confirmed there could be an easing of cereal prices over the next few months, BUT there is considerable upside risk from disruption to the exports from the Ukraine and the unknown of Chinese demand.

At present barley, at a £15-20/t discount to wheat, represents an opportunity to increase cover if needed in the short term. UK November wheat rose to around £271/t in the last few days following Putin's remarks, but has now eased back into the high £260s.

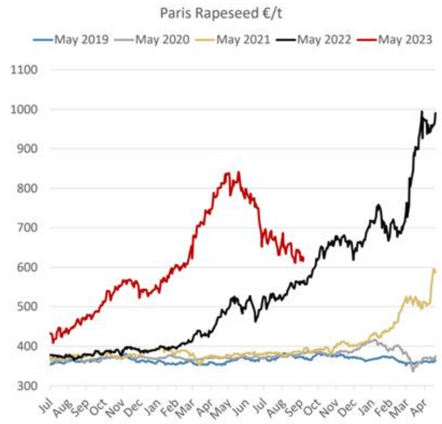
Proteins:

The Pro Farmer Tour in the US has produced similar yield forecasts to the USDA for soya and the good/excellent rating has stabilised at 57% so markets have generally been quiet. The current US forecast is for a near record crop of around 122MT.

As with maize, the USDA export figures are unreliable at the moment, but again indications are that no big new sales of soyabeans are thought to have taken place recently.

The Canadian canola crop is benefitting from the same favourable weather conditions as the spring wheat crop and with harvest around 20% complete is on target to get back to previous levels of around 20MT. The EU OSR crop has generally been good and should reach just under 19MT, up nearly 2MT on last year. Although early days the latest Australian forecast is for another very good OSR crop of around 6.6MT next spring.

With these improved forecasts and the fall back in crude oil price oilseed rape prices have fallen by around 25% compared to May prices and have stabilised at around 600-620 Euros/t recently.



Similarly, rapeoil and sunflower oil have fallen back to pre-Ukraine war levels, with palm oil staying steady at a much lower level.

Although it is early days (as planting is only just about to start), the prospects for the Brazilian crop to be harvested next spring is forecast to be another record at 144MT. The probability of another La Nina weather event is diminishing and increasingly “neutral” probabilities are forecast for this winter/spring.

Ukrainian exports and future production remain uncertain, depending on how the war progresses, but some sunflower meal is starting to come out. The other uncertainty is will crushers continue to operate at previous levels if energy costs are extremely high and demand is weaker and will they have the capacity to crush Ukrainian sunflowers which would normally be crushed at home?

Overall, given the generally better supply and poorer demand news, the outlook for oilseeds by Q2/Q3 2023 is looking better. Erith rapeseed meal for May-October 2023 is priced at around £20/t lower than the Nov – April prices at around £290/t.

Soyameal is lower for the May – October 2023 period at around £440/t compared with the Nov - April price of £455-465/t. On the other hand, US maize distillers on the other hand is around £6/t more for the May – October 2023 period than for Nov - April with the reduction in US ethanol production working through.

Although the supply of oilseeds is likely to improve next spring/summer, the uncertainties over the outcome of the Ukrainian situation, the likely continuing high energy prices and the impending global recession mean that the outlook for prices is uncertain.

Current advice is to keep levels of cover up for the winter 2022/23 period and to take some cover through the May – October 2023 period.

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