Technical Update – Feed Markets

Information correct as at 09:00am on 23.09.2022

- Wednesday's announcements from Russia have shocked markets again
- Reduced supply across the globe is generally being matched by reduced demand
- Currency continues to weaken making imports expensive
- Unless you need short-term cover sit sight on forward buying

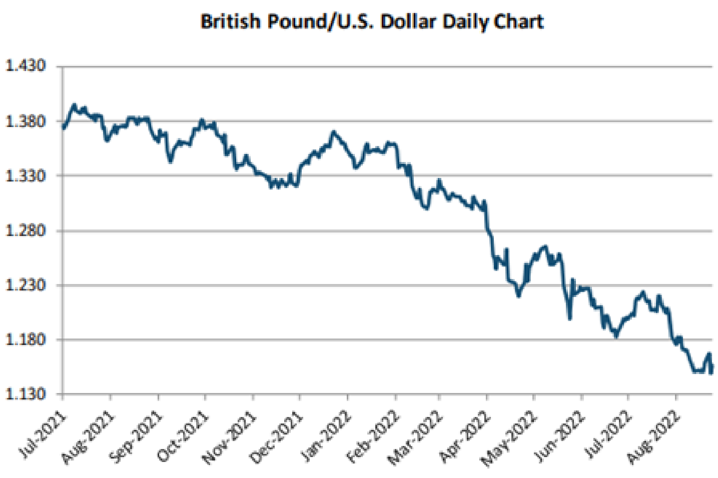
General

The recent announcements by Mr Putin of "referendums" in eastern Ukrainian states to join Russia, mobilisation of 300,000 reservists and the threat of the use of nuclear weapons, has caused the markets to jump in the last few days.

Exports of agricultural products from the Ukraine have been increasing as the ports open up and should soon reach around 4-5MT a month in total, which is far better than even recently hoped for. However, there is still a large threat hanging over them from Mr Putin who could act to stop or disrupt the bulk shipping transporting them at any time.

World economic growth is slowing and the risk of a prolonged global recession remains. Over the last few months China has partially or fully locked down large areas, now affecting over 300 million people with consequent effects on their economy and potentially on their demand for agricultural products. The only good news here is that as a result oil has fallen back to around $90/barrel.

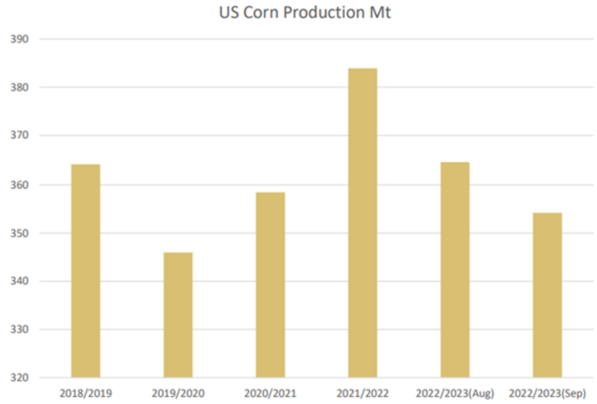
The Euro and GB£ have continued to weaken against the US$ as the energy crisis affects European industries more severely. Interest rates are also lower than in the US which is seen as a safer haven in these troubled times. The £ is now worth around 20% less than it was a year ago at around 1.13 to the $, which obviously has serious effects on the prices of imported goods

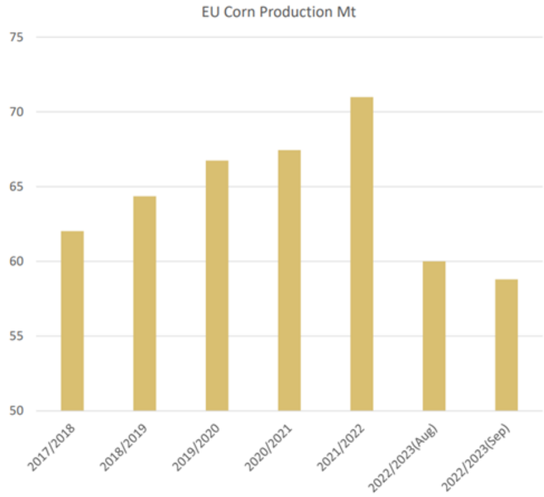


Cereals:

The September USDA World Agricultural Supply and Demand Estimates (WASDE) report was published on 12th September. The latest forecasts for US maize production, below left, showed a further 10 MT reduction on August estimates to around 354MT due to continuing drought in some states. This would be 30MT below last year's final US production.

The good/excellent rating for the crop overall has fallen again to 52% as harvest gets underway, but the picture is very varied, from 17% in southern states to 78% in Wisconsin. EU maize is also well down on previous years at around 59MT, below right, again due to droughts across the main growing areas.



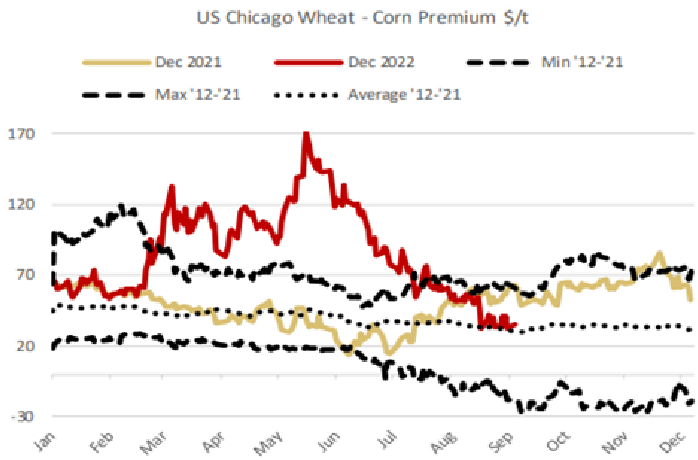


The supply side is generally lower, but demand is also weaker with US maize exports very slow and maize used for ethanol in the US falling back over recent weeks. It is now towards April levels as the price of oil has eased. Future Chinese demand is also uncertain with their forecast record domestic maize crop of around 274MT plus their slowing economy and further lockdowns.

In Europe Danish Crown, the largest pork producer in the EU, is reducing capacity as pig numbers decline, partly due to the very high energy and feed costs, which will further weaken demand for grains and proteins

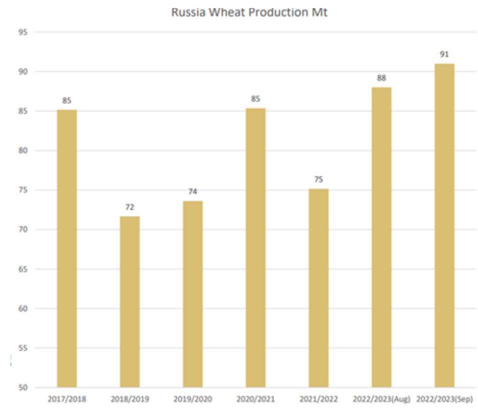
The forthcoming Brazilian maize crop will be critical. Their first crop is being planted now but with high input costs the area is likely to be less than hoped for. This first crop is forecast to be around 29MT and is mainly for domestic consumption. The 2nd crop is mainly for export and is forecast to be around 95MT. The La Nina weather pattern is still strong at present but is due to weaken over the next few months which will help production prospects as the winter progresses.

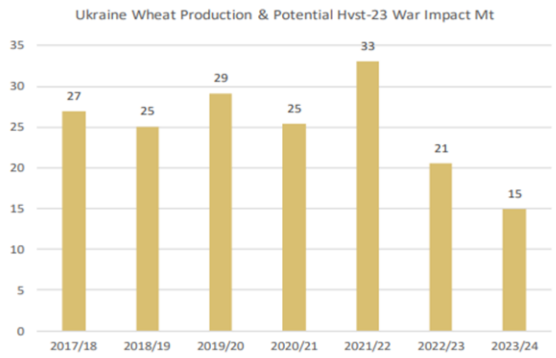
The premium of US wheat over maize/corn peaked at around $170/t in May but has now fallen back to around the 10-year average of c.$30-40/t



Russia is having a bumper year for wheat, with the latest USDA forecast increased again to around 91MT compared with the August forecast of 88MT and the 2021/22 actual production of

75MT (below left). With high input costs, lack of finance and the continuing war the latest forecast for the Ukrainian wheat crop for 2023/24 has been reduced to around 15MT, roughly half the average before the Russian invasion (below right).





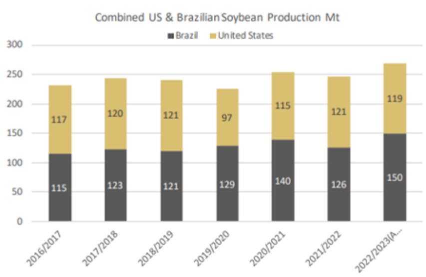
Overall, the reductions in demand are balancing the reductions in production and prices have been reasonably stable, but as we have seen in recent days it does not take much to generate more volatility. With all the issues around maize crops in the EU and US prices are too high to warrant inclusion in ruminant diets at present.

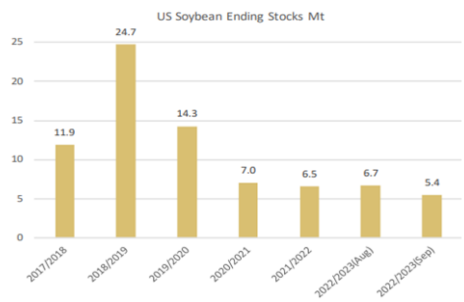
UK November wheat has increased from where it had settled at around £270-275/t to £283/t on 21st September. The outlook is uncertain at present, but it could go further depending on how everything pans out in Russai/Ukraine.

Although the barley discount is now weakening to around £15-20/t this is still worth looking at in the short term if more cover is needed, otherwise the advice is to hold for now at 80-85% cover for the winter period.

Proteins:

The September WASDE report reduced the US forecast soyabean crop from 123MT in August to 119MT, confirming the previous findings of the Farmer Tour. However, combined with the forecast for Brazilian soya production (which is predicted to recover from last year's drought affected yields) we are still heading towards another world record, but with US soya ending stocks further reduced in the September WASDE report, there is currently little buffer available here.





Argentina, however, has had virtually no rain in the last 4 months and is suffering from the worst drought in 30 years. This is having a significant effect on soya and grain production plus logistics.

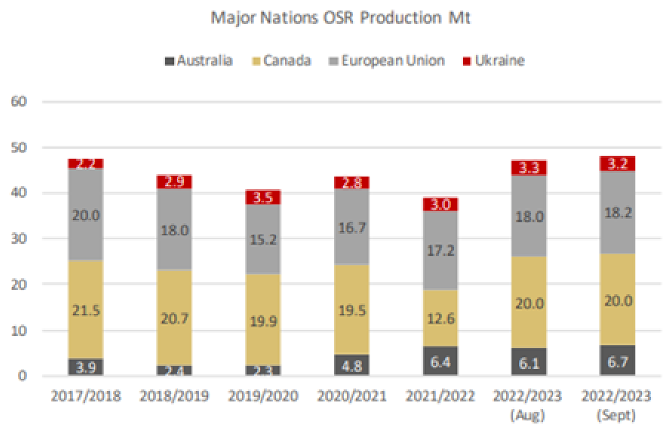
As stated previously, the La Nina weather pattern in South America is due to ease back from an 80% probability now to around 50% by December/January, so we need to keep fingers crossed that the weather is favourable over the next few months as soya is planted.

Soya and rape oil generally follow crude oil (around 40% of US soya oil ends up in biofuel due to government mandates). With Brent Crude back to around $90/barrel soyabeans and rapeseed have followed this downward trend with rapeseed falling back from peaks in May of around 850 Euros/t to around 550 Euros/t now.

The latest WASDE report reduced the amount of soya oil being used in biofuel in the US due to an anticipated reduction in fuel usage as a result of the economic downturn. The report also reduced the forecast amount of soya imported by China to around 18MT, much lower than previous years.

The downside to all this is that if demand for vegetable oils weakens into 2023, so too could the supply of oil seed meals.

As with soyabeans the outlook for the supply of oilseed rape is much stronger for 2022/23 as Canadian output gets back to more normal levels after last year's drought and Australia also increases production.



With this increasing confidence over supply and weaker demand the outlook for vegetable oils was bearish and rapeseed prices were forecast to continue to fall into 2023, but the recent announcements by Mr Putin have caused greater uncertainty and raw material prices have jumped.

According to the trade on 21st September soyameal has gone up around £30-40/t in the short term to c.£520-530/t and up to £470-480/t for the May-October 2023 period.

Non-Erith rapeseed meal has similarly increased by around £25-30/t to c.£360-365/t in the short term and £15-20/t for Q2 2023 to between £340-360/t depending on which port it is being sourced from. Most other raw material prices, including maize/wheat distillers and soya hulls have also jumped in price.

Assuming that previous advice has been taken and there is good cover through until spring 2023 then the advice at present is to hold off before taking any further forward cover for now.