Technical Update – Feed Markets

Information correct as at 09:00am on 07.10.2022

- Lots of political interference has been seen in the markets over recent weeks
- The pound is weak, OPEC+ have announced production cuts and further issues in Ukraine
- US maize production down, but good global wheat harvest
- Outlook for proteins is better for 2023
- For the time being if you can stay out of the market then do

General:

The new Chancellor's so called "mini budget" caused a dramatic fall in the value of the £, but following intervention from the Bank of England and a U turn on the 45p tax rate the value has recovered to previous levels of around £1.14/$

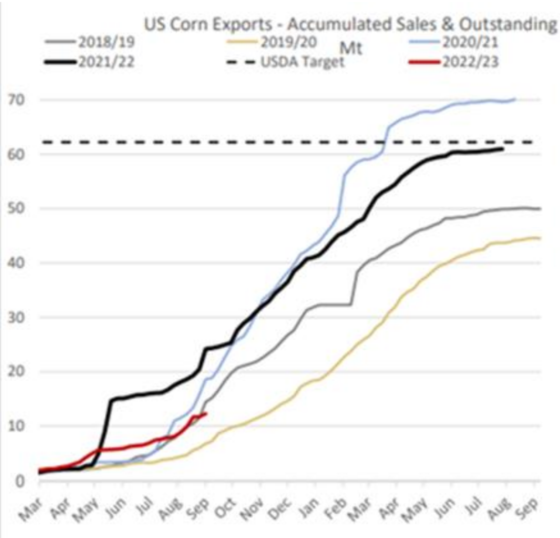
The decision by OPEC+ on October 6th to cut production by 2million barrels/day (around 7% of production) caused Brent crude oil prices to increase sharply to over $94/b from late September lows of around $83/b

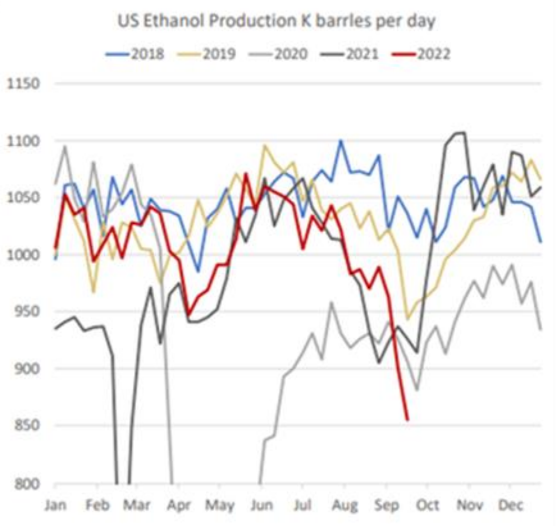
Mr Putin's "annexation" of large areas of Eastern Ukraine following sham referenda plus the increased threat of the use of nuclear weapons has further escalated the war in Ukraine.

The deal allowing the export of agricultural commodities from the Ukraine through the Black Sea has been very successful with around 7MT/month of agricultural commodities currently being exported. However, the deal runs out at the end of October and although the hope is that it will be extended, with Putin's unpredictability this is not guaranteed. At present the feeling is that an extension in one form or another will be agreed, as Russia would find it very difficult to export its own grain through the Black Sea if it became a war zone. If this doesn't happen another surge in prices is anticipated.

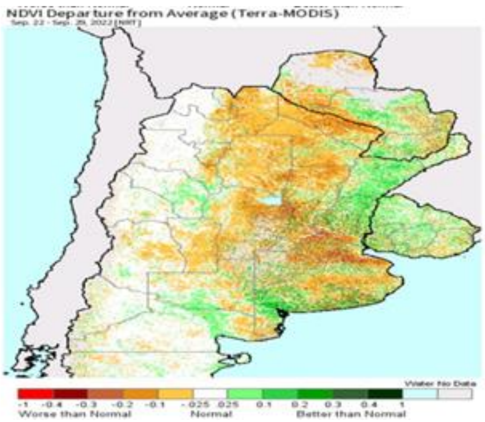
Cereals:

Despite the USDA September forecast reducing US maize production by 10MT to 354MT harvest pressure and weakening demand have caused US maize prices to fall back in recent weeks and the outlook is now less bullish. The chart below left shows that exports have been slow and this is largely due to lack of Chinese demand, partly due to their economic problems/reduced spending and partly due to their record 274MT domestic crop. The chart below right shows the additional recent decline in demand for maize for US ethanol production (40% of US maize goes into ethanol production)





Weather conditions in the US remain generally good and around 20% of their current crop has now been harvested. Brazil has had good rains which are helping planting and establishment of their new crops, with a record maize/corn crop of 126MT forecast (although early days) However, Argentina has continued to be very dry and NDVI scores from satellite imagery show that crop conditions across large areas are poor and plantings are being delayed



With generally good conditions for wheat production across most of the major exporting countries total production is heading towards a new world record of around 379MT for 2022/23. This includes a record Russian crop, estimated to be between 91MT (USDA) and 100MT (Russian Govt). The Ukrainian crop for this year is estimated at around 21MT, down from previous recent averages of between 25-30MT. Next year's Ukrainian crop is estimated to be around 15MT caused by increasing difficulties around finance and the availability of seed and fertiliser.

The UK wheat crop of around 15MT is slightly higher than the normally expected level of demand (around14.5MT), but without the normal levels of EU and Ukrainian maize imports demand for wheat is likely to be increased. UK ethanol plants are still buying wheat and commanding a local premium, but are not thought to be running at full capacity and they will need to rely more on wheat without the supply of maize.

At present currency and the relative value of UK wheat vs Paris milling wheat make it attractive to export. This means that the UK may have to import supplies later in the season.

Currency is obviously a big factor in pricing and is adding to the value of wheat, currently around £50-60/t compared with the exchange rate of around $1.35 as it was at the start of the year. UK November wheat rose to over £290/t during the recent turmoil in the markets, but has now dropped back to around £285/t.

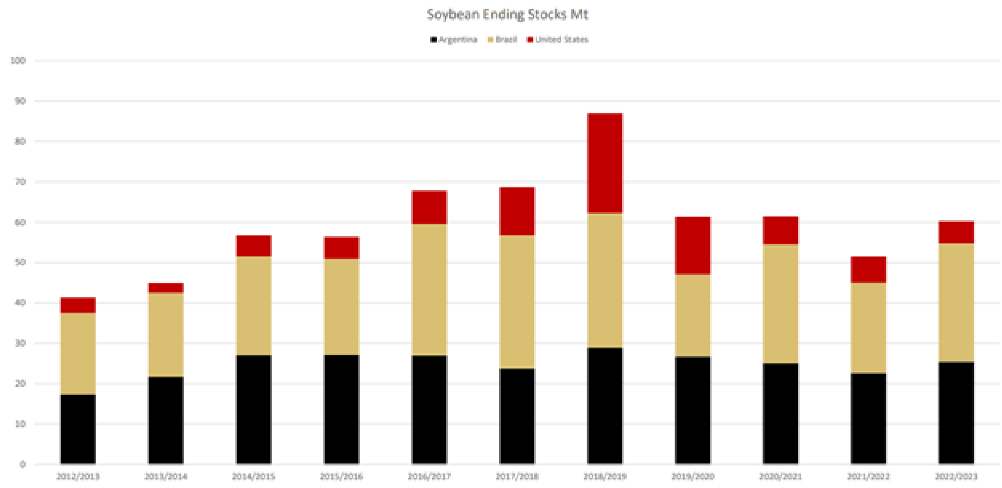
Barley is still trading at around a £20-25/t discount, see graph below, but this is not expected to last. So, the view is that if further cover is required in the short/medium term then barley should be sourced in the near future before the discount disappears.

The overall outlook depends to a degree on the future of the export corridor deal for Ukraine. If renewed then prices could fall, but if not then they could rise as this would also threaten supplies of Russian wheat through the Black Sea.

Proteins:

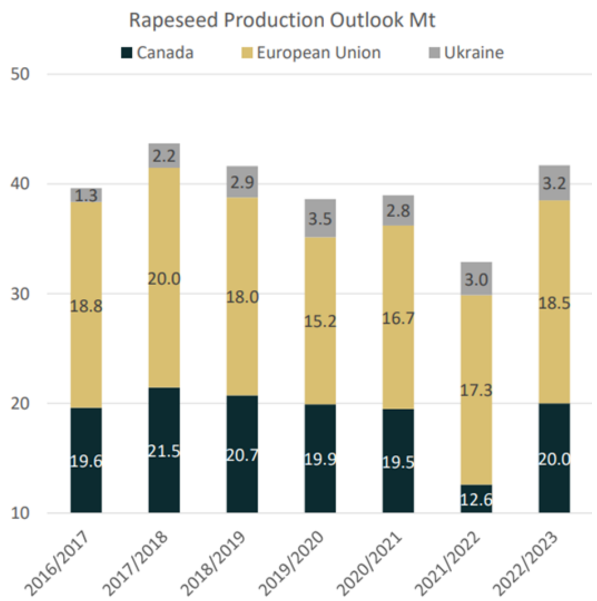
The September USDA WASDE report reduced the forecast for US soya production by 4MT to 119MT, but increased the Brazilian crop forecast to 149MT, up around 24MT on last year's drought ravaged crop.

Assuming good weather in South America as their crops are now being planted (at present Brazil is looking good but Argentina is looking dry) overall 2022/23 soya production could be good and similar to last year's total. This would leave ending stocks for the 3 main exporters in quite a healthy position at around 60MT for the 22/23 season



US exports started well but have slowed recently as demand weakens and China buys more from South America.

As previously reported the outlook for OSR is also good for the 2022/23 season. Canada has recovered from last year's drought to reach around 20MT and the EU is forecast to increase their output with a slightly larger area planted, although drilling has been delayed in some areas due to very dry conditions. There is still uncertainty over the Ukrainian crop due to the ongoing conflict but, although not yet planted, the Australian crop is looking good for Spring 2023 with a record 6.7MT forecast, an increase of 1.9MT on 2021/22



The overall outlook for oilseed production is promising with the latest forecasts indicating good supplies building, especially towards Q2/Q3 2023, providing weather conditions are not adverse.

Vegetable oil prices have been weakening with lower crude oil prices and weaker demand as the world heads towards a recession. It remains to be seen what effect the recent OPEC+ cut to production will have on crude and vegetable oil prices as crude supply tightens but demand also weakens.

The graph below shows rape and sunflower oil prices have been getting back towards where they were before the Russian invasion of Ukraine

UK soyameal has dropped back in the last week to around £480/t for Nov – April and £455-465/t for May – Oct 2023.

Non-Erith Rapemeal increased in price slightly to around £370/t for Nov – April and £340-350/t for May – July 2023.

Soya hulls remained stable at around £330/t for Nov – April and £310/t for May – October 2023 and still much better value than sugar beet pulp.

US Maize distillers fell slightly to around £365/t forward into 2023. Supply will be reduced following the decline in US ethanol production referred to above.

Hopefully most clients are well covered into spring 2023 at least so the advice is to hold off at present if possible and see how everything develops over the next few months.