Technical Update – Feed Market

Information correct as at 09:00am on 04.11.2022

- Grain corridor or no grain corridor? Policies and prices changing by the day
- Global maize closing stocks similar to last year, but EU and US wheat stocks down
- Potential for big Brazilian soya crop next spring
- Coupled with better rape supplies could put pressure on proteins next spring
- Pound loses ground against US$ on Thursday

General:

Just when you think things cannot get any stranger, we have a week where what was correct on Saturday was different on Monday and had changed again by Wednesday!

On Saturday 29th October Russia announced that it was pulling out of the Ukraine grain corridor deal, causing prices for wheat and maize in particular to jump. However, following a pause on Saturday, on Sunday 12 ships left Ukrainian ports as normal and a further 16 ships left on Monday. On Wednesday 2nd November, Turkey's President Erdogan confirmed that Turkey and the UN are still backing the current deal and Russia has now also agreed to continue, at least for the moment, on the basis that Ukraine will not use the grain corridor for military operations against Russia. An extension to the deal which ends on 18th November has still to be confirmed. The initial jump in prices has now unwound and we are pretty much back to where we were last week.

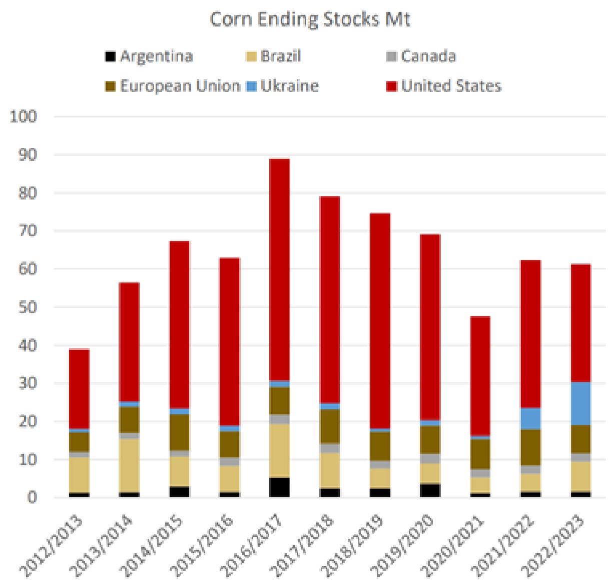
The £:US$ ratio had continued to recover and was back to around 1.15, although still well below 1.35 where it was at the start of the year, but has dropped quickly on Thursday to around 1.11.

Gas prices have fallen back from the peaks earlier in the year of around 600p/therm to around 300p/therm but these are still very volatile and well above the pre-war levels of under 100p/therm. Even though the price has fallen back it is unlikely that the UK fertiliser plants which have closed recently will reopen with peak gas demand throughout Europe to come over the winter.

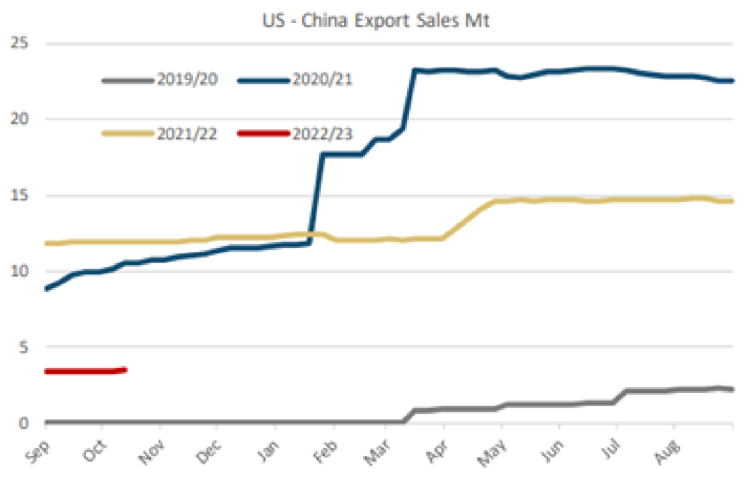
Cereals:

Although things would appear to be back to where they were for cereal prices volatility and unpredictability remain and the shipping insurers are more nervous than they were.

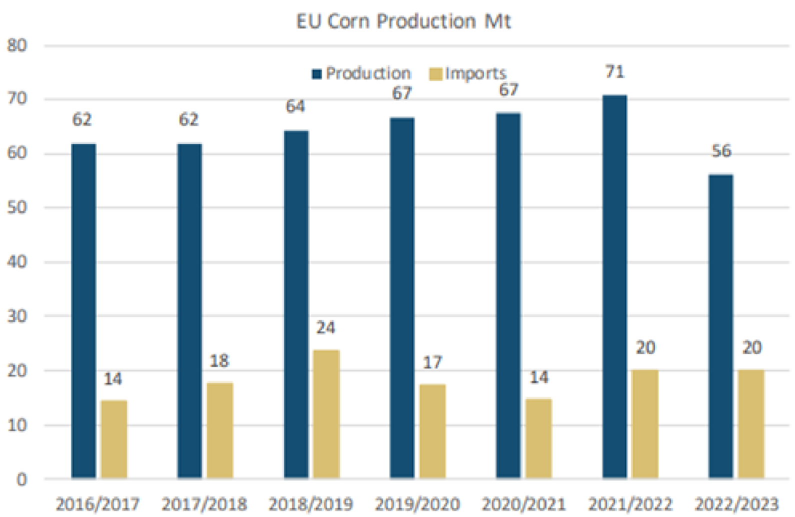
The latest estimates for maize ending stocks for the major world producers for the current season are shown in the chart below and indicate a similar level to last year with The US maize harvest now around 80% complete compared to the 5-year average of 65%



China has, so far, been very slow to import US maize. They have a very large domestic crop of around 274MT this year, they have also been buying direct from Brazil for the first time and the strong US$ is making the US source relatively expensive



Although there has been some rain recently Argentina remains very dry, reducing wheat crop forecasts from around 18MT to 13-14MT and delaying planting of maize and soya. Australia, on the other hand, has had too much rain with some crop losses but also creating issues with quality if the current wet weather continues. EU maize production has been confirmed as being the lowest for some considerable time at 56MT due to the drought across many areas.

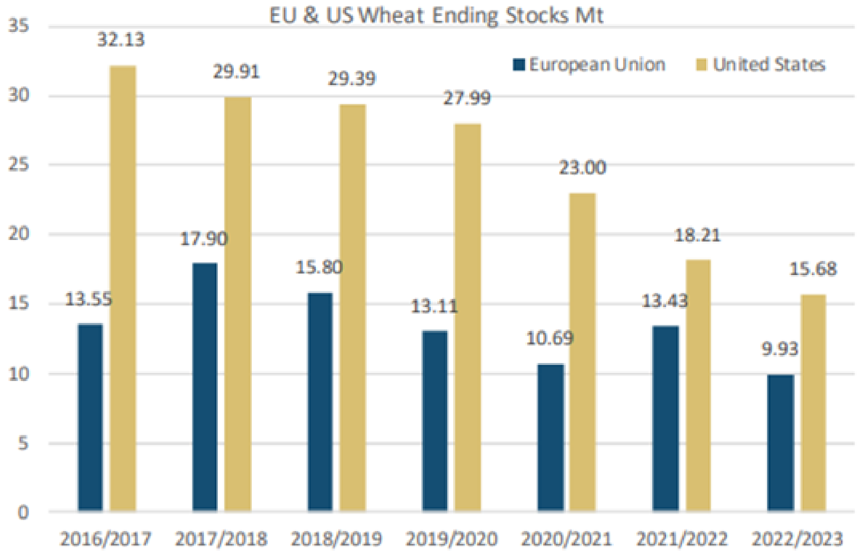


With some uncertainty over the level of imports of maize from the Ukraine, the discount for barley vs wheat could reduce over time from around £20-25/t to £10-15/t as demand for barley increases.

The US winter wheat harvest is now around 80% complete whilst the next US winter wheat crop is being drilled as the drought across many areas continues. The first crop condition report has been released, showing only 28% good/excellent compared with the average figure of 45% at this time. Ratings for "adequate soil moisture" in the US are only 36% compared with the long-term average of 71%, although some rain has arrived, and more is forecast in some areas.

EU and US wheat ending stocks are forecast to fall to low levels (see chart below) and if the situation in the Ukraine worsens and exports are reduced then this will put more pressure on these stocks.

However, the Russian wheat harvest is still expected to be around 100MT and the Russians will want to keep their exports flowing through the Black Sea for much needed revenue, so it is likely exports will continue.



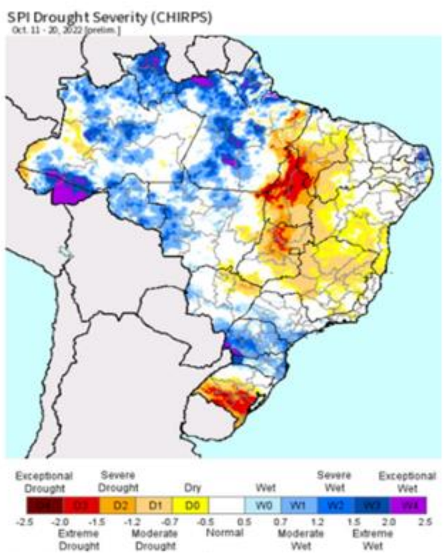
At the close of trading on 3rd November, UK November 2022 and May 2023 future wheat price were around £267 and £282/t respectively.

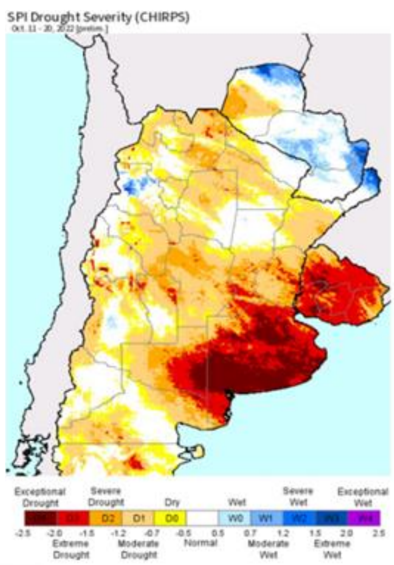
The advice is to keep a close eye on developments in the exports from the Ukraine and events in the Black Sea area. If the grain corridor deal holds/is extended and exports continue then the fundamentals suggest that prices should fall back, in which case further cover should be taken if needed (including barley where appropriate whilst the significant discount to wheat remains). If the deal does not hold prices could rise and stay high for a while, in which case sit tight.

Proteins:

The US soya harvest is now around 90% complete compared with the average of 78% at this time of year. Prices have increased with more Chinese demand recently and the demand for soya oil for biodiesel in the US has increased on the back of crude oil price increases

Brazil has had good rainfall across most areas with more in the forecast, which is helping establishment. Argentina on the other hand remains very dry overall with delayed plantings, although some patchy rain has fallen recently.





With the good weather in Brazil the optimism for a record crop of around 149 Mt continues, but we are at a very early stage as this crop will not be harvested until next March/April/May and a lot could change between now and then.

Although the Canadian canola harvest has been confirmed as showing a big recovery from last year's drought affected crop the Australian crop is now suffering from the heavy rain and floods in some areas so this will not be as good as first thought.

Rapeseed exports from the Ukraine have benefited hugely from the export corridor deal, with around 2.4MT of the total 2.8MT available for export being transported since July (over 70% of which has gone via ships). EU oilseed rape prices increased following the Russian move to pull out of the export corridor deal but again most of that price increase has now unwound.

Palm oil remains the cheapest of the vegetable oils, but issues with labour to harvest the crops continue.

The feeling is that oilseed markets will remain tight until the spring. Then, assuming the record Brazilian soya crop and a still reasonable Australian canola crop come to market coupled with the global recession supply should exceed demand.

UK soyameal prices have remained fairly steady in the last week at around £490/t for Dec-Apr 2023 and £450/t for May-Oct 2023.

Reflecting the general trends in oilseed markets Erith rapemeal prices fall from around £357/t for Dec 2022 to April 2023, to £306/t for May – Jul and £290/t for Aug – Oct. Liverpool prices are £15-20/t above these.

Although the outlook is bearish for Q2/Q3 2023 a lot can happen with unexpected weather events between now and then so some cover at these levels is worth considering.

US maize distillers prices have also fallen back by around £10/t to £370/t for Dec – Apr 2023

The supply of soya hulls is improving and prices have eased back to just over £300/t and still around £60/t cheaper than sugar beet pulp.