Technical Update – Feed Markets

Information correct as at 09:00am on 18.11.2022

- Grain corridor deal extended by four months
- Sterling gains against the dollar
- Looming global recession influencing demand
- Oil drops below $90/barrel
- Prices drop across the board since last report

General:

The USDA produced their latest World Agricultural Supply and Demand Estimate (WASDE) report on 10th November. This was generally bearish with falling demand and slightly better production figures, particularly for cereals.

The short/medium term global economic outlook remains gloomy with a recession coming for most western countries and Covid cases still rising in China, thus reducing demand for agricultural products.

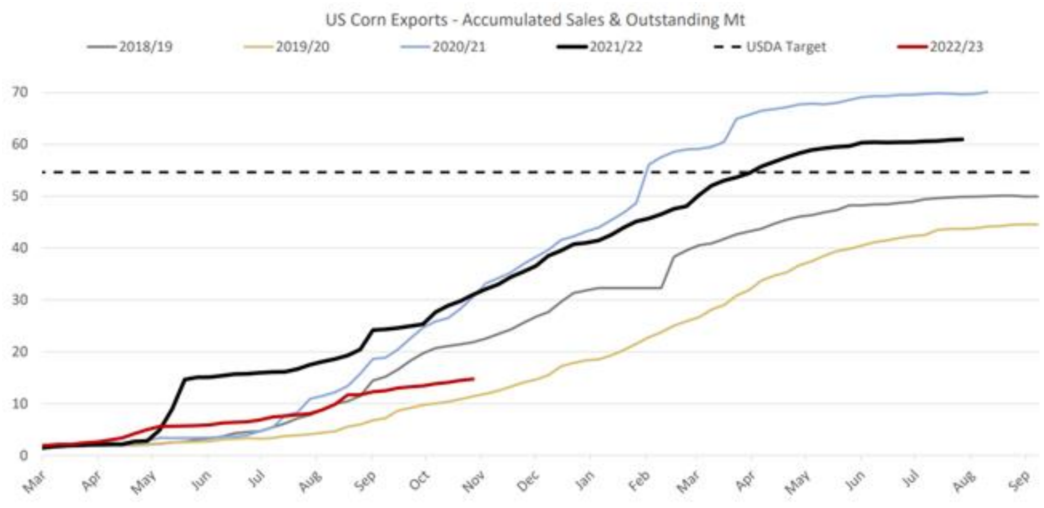
US inflation figures for October showed a slight fall, which means the pressure for further interest rises is reduced and if maintained in the next few months this would be the first sign of an improving medium term economic outlook. The US news, plus calmer UK financial markets, helped the £ to recover to around 1.19 vs the US$ (up around 15% from the lowest point immediately following the disastrous "mini budget"), but again this has come under pressure following this week's bearish economic news and has slipped back under the fear of the magnitude of the recession in the UK.

After Russia backed off on their threat to stop the Ukrainian export corridor through the Black Sea exports have continued and this is putting pressure on prices. A four-month extension to the deal was announced on Thursday so this will no doubt continue to add to bearish sentiments.

Cereals:

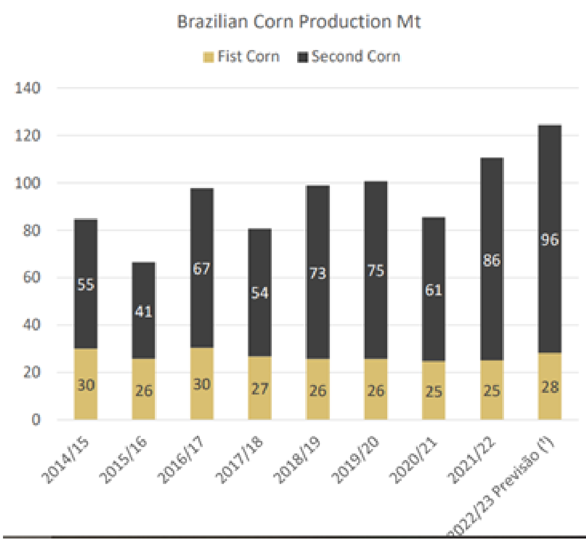
The November WASDE report increased US maize production by just under 1MT to 354MT. US exports continue to lag well behind target and are around half what they were at this time last year.

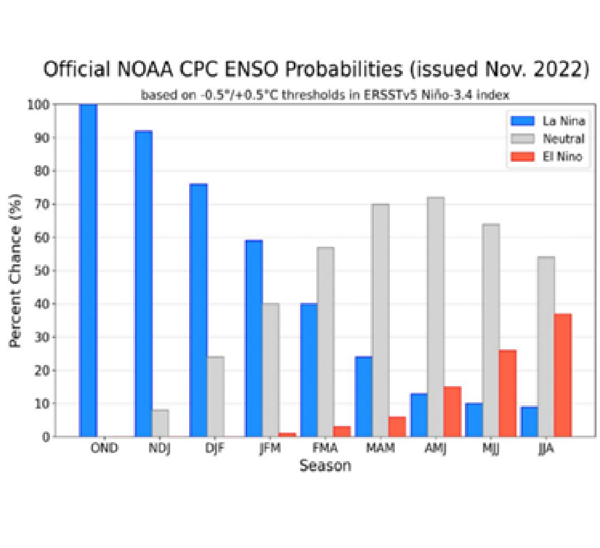
The WASDE report maintained the original target of 54MT, but it is looking increasingly unlikely that this will be met with exports to China in particular very slow due to their poor economic position and large domestic crop.



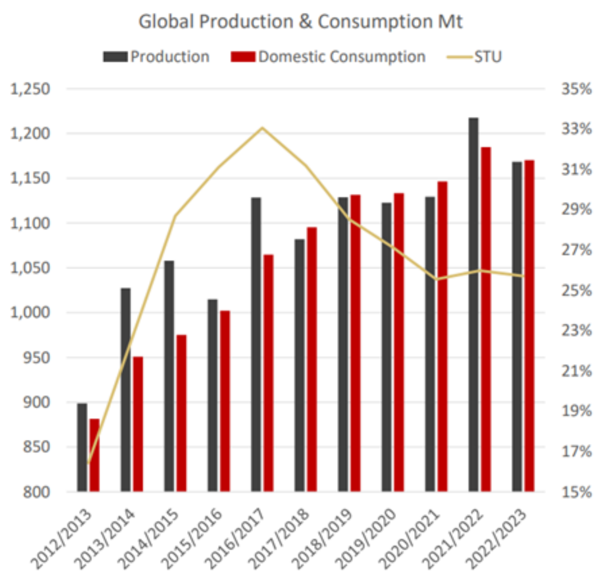
EU and Ukrainian maize production are confirmed at much lower levels than in recent years, but the forecast for Brazilian production (see below left) shows a new record which, if achieved, would balance world supply and demand. However, the weather in Brazil will be critical in the next few months for this production to be achieved in spring 2023.

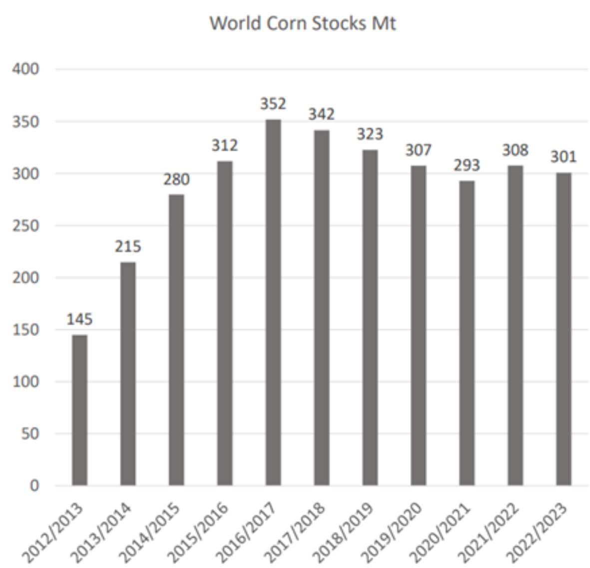
The latest La Nina weather forecast (below right) shows it remains strong to the end of the year before weakening into 2023 which should be beneficial for the larger 2nd Brazilian crop.





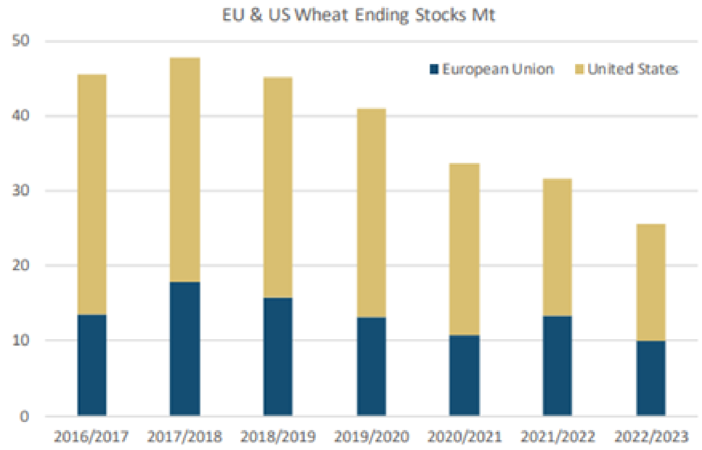
Based on the above, the latest forecast for global supply and demand for maize is shown below resulting in stable stock levels in 2022/3





The situation for maize will influence wheat prices, if it remains bearish then this should put further pressure on wheat prices and vice versa.

The latest forecast for EU and US wheat ending stocks for 2023 (below) shows that both are set to fall slightly. The outlook for wheat production in Ukraine is for it to fall further from the low levels of 2022/23 into 2023/24 as the area planted and inputs are reduced.



On the other hand, Russia has a record wheat crop of around 100MT and Australia is set for another big crop. The heavy rain and flooding in some parts is not thought to have had a significant effect on output yet, but is likely to give issues with quality so potentially there will be more feed wheat on the market.

Overall global wheat production is forecast to be 782MT and well above the 5-year average. Demand is also generally weakening as the global recession bites and this is helping to cause prices to ease back. The 20-day charts below show that following the blip in prices when Russia threatened to pull out of the Ukrainian export corridor deal prices for all the major agricultural commodities have gradually fallen.

Daily market movements

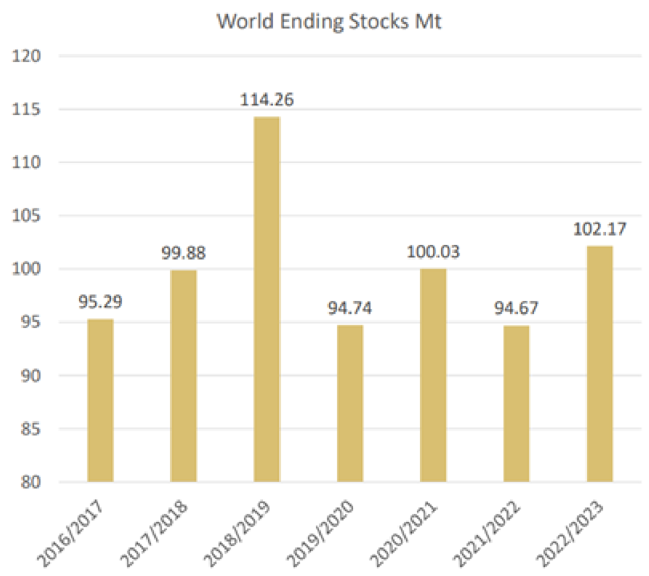
Key Markets	Expiry	Last price	Change	% Change	20 Day Chart
Feed Wheat	May-23	265.00	2.25	0.9%	
Milling Wheat	May-23	318.75	1.50	0.5%	
Wheat SRW	May-23	839.00	-8.25	-1.0%	
Corn	May-23	663.50	-2.75	-0.4%	
Rapeseed	May-23	599.25	-17.00	-2.8%	
Soybeans	May-23	1424.25	-16.50	-1.1%	
WTI Crude Oil	Dec-22	81.71	-3.88	-4.5%	
GBP EUR	£1 = €	1.14	-0.003	-0.3%	
USD EUR	$1 = €	0.97	0.004	0.4%	

UK May 2023 wheat is now back at £265/t, around £20/t down on the price 2 weeks ago and where it was in August with harvest pressure in play. The big upside risk is if the Brazilian maize crop is affected by drought over the winter or if the Ukrainian grain corridor is interrupted or closed. Without these and with the global recession becoming stronger into 2023 weakening demand, then further falls in forward prices could come through.

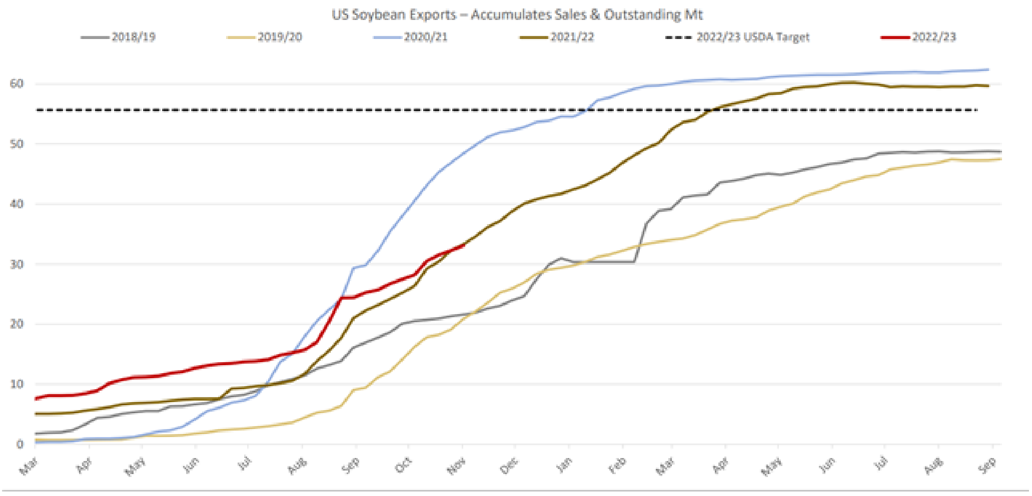
The feeling is that it is worth taking some cover now for the spring/summer 2023 period at these levels and then wait to see if prices fall further.

Proteins:

The WASDE report showed US soyabean ending stocks at a 7 year low of 6MT but assuming a record 152MT Brazilian crop (if there are no downgrades due to La Nina/weather) world ending stocks are forecast at a more comfortable 102MT



US exports have been steady and on track to achieve their target of around 54MT. China is still struggling with Covid and with weaker demand generally expected as the recession bites further US exports could slow down along with demand for vegetable oil in general.



The latest forecast for rapeseed production is for around 46MT for the major producers for 2022/23. This is well above last year's 36.2MT even though Ukraine is forecast to produce less than in the recent past.

The Malaysian Palm Board have cited tropical storms and labour shortages for slowing down the palm harvest and tightening supply. The overall outlook for soyabeans and rapeseed is bearish into 2023 with good supply coming and weakening demand.

Supplies of meal are tight during this winter, with some rapemeal offers sold out, but again they are looking better into Q2/Q3 2023 with an improved exchange rate also helping.

Soyameal prices have fallen back over the last few weeks from around £490/t and £450/t for Nov-Apr and May–Oct respectively to around £460/t and £430/t for the same periods.

Rapemeal prices for Liverpool supply have similarly fallen back from £360/t and £320/t for Nov–Apr and May–Jul respectively to £350/t and £305/t for the same periods and £293/t for Aug–Oct.

Soya hulls prices are back and to around £295/t for the May – Oct period, a fall of £10/t in the last few weeks. Although sugar beet pulp prices have also fallen significantly, they are still not as good value for money as soya hulls.

Overall, this looks like a time to be taking further cover through the spring and summer 2023 period for cereals, protein meals and concentrates to secure a proportion of requirements.

For the outlook a lot hinges on the situation in Russia/Ukraine and the weather in Brazil. If things go the right way, there could be further buying opportunities to come over the next few months.