Technical Update – Feed Markets

Information correct as at 09:00am on 02.12.2022

- Prices ease as economic conditions worsen across the globe and exchange rate improves
- Northern hemisphere harvests now complete and majority of 2023 winter crops drilled
- Better weather in South America, particularly Brazil
- Opportunities to take some cover for next summer

General:

The deal allowing Ukraine to export agricultural commodities has been extended by a further 4 months. So far this has allowed around 12MT of wheat, maize and oilseeds to be exported which has improved supplies and pressured prices.

At the same time demand continues to weaken as many countries enter recession. China continues with its lockdowns and zero covid policy which are causing huge damage to the economy and reducing demand for commodities.

The exchange rate continues to strengthen as pressure for further interest rate rises in the US weakens and the UK economy stabilizes and is now around 1.20 £:$ which helps to reduce the cost of imported goods.

Brent crude oil has fallen back to around $85/barrel, well down from the near $100/barrel at the beginning of November, again with weaker demand. This has had a negative effect on oilseed and grain prices.

Finally, the weather in Brazil and to a lesser extent Argentina is looking better, with more rain forecast, which augers well for the critical South American maize and soya crops to be grown over the coming months.

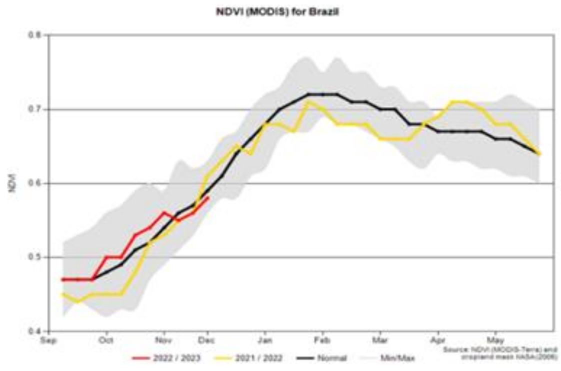
Cereals:

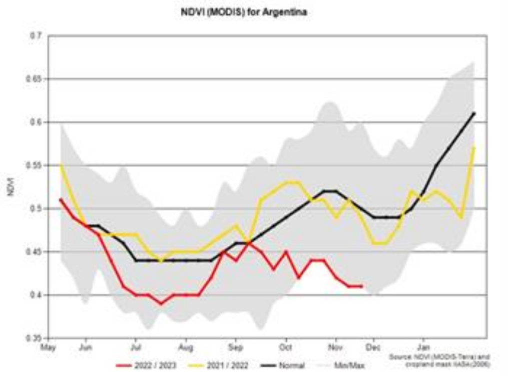
The US maize harvest is now complete and Chicago prices have stabilised over the last few weeks at around $6.60/bushel. US maize export sales have picked up a bit recently, mainly due to Mexico buying more, but are still only around half of what they have been in the last 2 years.

Bioethanol production in the US is increasing and is now close to 100,000 barrels/day, but still below the pre-pandemic levels.

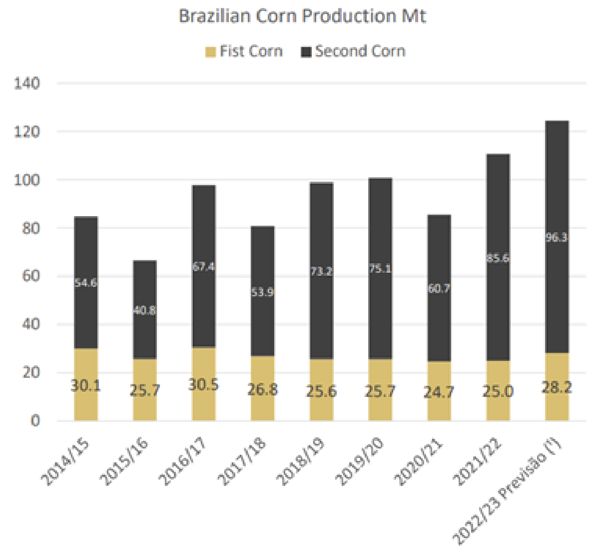
China is still only buying very small amounts of maize due to lower demand because of their Covid situation and large domestic crop.

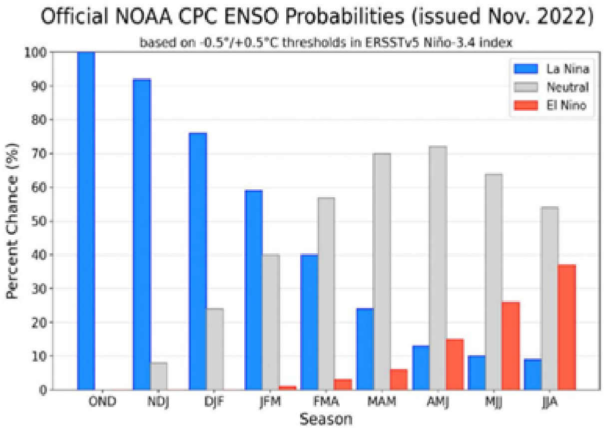
The red line in the charts below show this year's NDVI scores, indicating maize crop conditions from satellite imagery, showing that Brazil is about normal (below left), but Argentina is way below normal (below right) with implications for lower crop yields to come. Rain is forecast in the near-term, but it is felt that the damage has already been done.





The Brazilian first and second maize crops are forecast to be another record and they will be critical to world market supplies and all cereal prices (below left). The weather conditions need to be watched carefully. The La Nina weather pattern is weakening as we go into 2023 (below right) which should help crop yields.





US winter wheat planting is now complete, but the good/excellent ratings are still very poor at around 32%. The French crop is also fully planted but here, with almost perfect weather over the last few months, the good/excellent rating is 99%. The Russian weather has been less kind and winter wheat planting has been reduced, but there is still an opportunity for spring planting to compensate for this. The current forecast for the 2023 Russian crop is 80-85MT vs around 100MT this year.

Wheat prices have fallen back recently around the world and US Managed Funds are now the shortest they have been since May 2019. The premium of US wheat over maize is now below the 5-year average at around $20/t compared to the peak of $170/t in February.

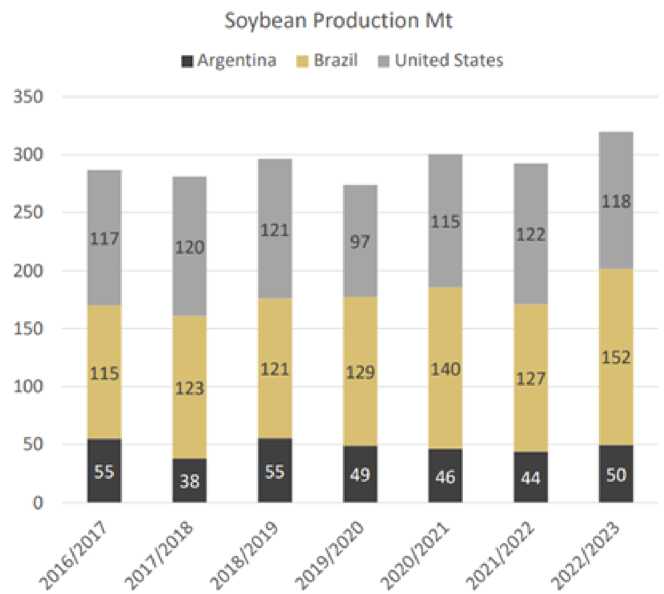
Forecast wheat ending stocks for the EU and the US are at very low levels, but with weaker demand as the global recession bites further this situation should ease. With limited supplies of maize from Ukraine and the EU the demand for wheat for bioethanol is stronger, as indicted by price premiums for North Humber over East Anglia increasing to around £15/t.

The 2022 UK wheat crop has been confirmed at 15.7MT and there have also been higher “carry in” stocks which has produced an exportable surplus. The danger here is that supplies could get tight in spring 2023 which could push prices up. The current average ex farm spot wheat price is around £245/t with May 2023 future price at £254/t. The UK barley crop has been confirmed at 7.2MT. The latest ex farm spot price is around £225/t.

This is seen as an opportunity to cover any further requirements in the short term and also to take some cover on forward prices for the 2023 spring/summer period – up to 25-30% of requirements

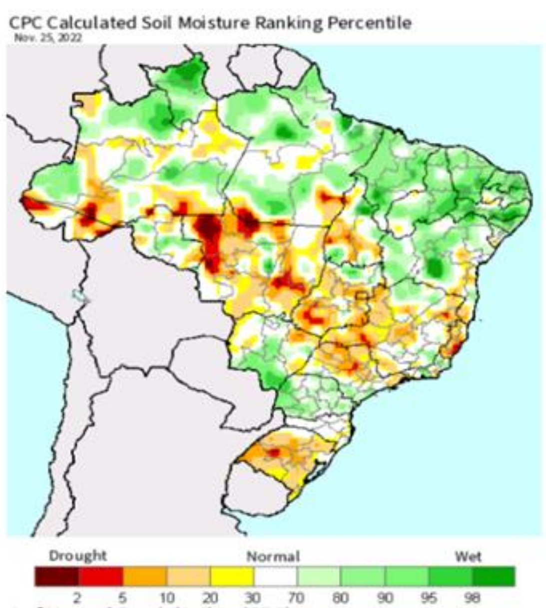
Proteins:

The 2022 US soyabean harvest is now complete at just over 120MT. Despite drought affecting the 2021/22 Brazilian crop world production has been good with ending stocks forecast to be around 102MT which is above the 5-year average. The latest forecast for the 2022/23 year is for a record but this relies on the Brazilian and Argentinian crops achieving the levels shown below.



Although it is still early days there is optimism that the Brazilian crop will make target but there are concerns that the Argentinian crop will not, due to the severe drought they have been experiencing. Weather over the next few months will be critical.

The latest soil moisture map for Brazil shows that the drought in the south and west of the country is easing with good rains across most key growing areas



US exports continue to be strong and are now around 37MT out of a total forecast of 57MT and despite their economic problems China has been buying significant quantities. The strong US exports have been putting upward pressure on prices for soyabeans, which have risen to around $1500/t in the last 2 weeks. In Argentina farmers have been reluctant to sell their beans so the Government have been incentivising sales which should help bring supply to the markets.

The outlook into 2023 is more bearish, assuming the Brazilian crop is good

Despite the reduction in oil production levels announced by OPEC+ recently Brent crude has fallen back by over $10/barrel in November to around $85/barrel, which is having a negative effect on oilseed and vegetable oil prices. Paris oilseed rape prices have fallen back to around 600 Euros/t and are forecast to fall further into 2023.The Ukrainian exports of oilseed rape are now nearly finished for this year, but Canadian and Australian supplies should start to come into the EU over the next few months.

The exchange rate is obviously having a beneficial effect on all imported raw material prices, including protein meals and other feed raw materials and there is a reduced demand for feedstuffs due to avian flu and high costs.

UK soyameal supply is tight with some ports sold out for the winter. Where available prices have eased back a little recently at around £450-460/t through to April before falling to £430 – 435/t for the May – October period. There is a similar picture for rapemeal with several ports sold out until February. Where available non-Erith supplies are around £340/t through to April, falling to around £300-305/t for May – July and £285 – 295/t for August – October.

With US ethanol production increasing and river levels around the Mississippi rising the supply of US Maize Distillers is increasing, but with strong domestic demand there is little change in the tight supplies to the UK or to UK prices.

Soya hull supply is looking better with more crushing in Argentina and again prices have eased back to around £285-295/t for May – October 2023. Sugar beet pulp is very expensive in comparison with soya hulls and again POA in most ports

With further falls in prices, as with cereals there is an opportunity to take some/further cover for the spring/summer of 2023 for protein straights. As prices have been falling across both cereals and proteins there is also a case for looking to cover up to 25% of next summer's concentrate requirements as well.