Technical Update – Feed Markets

Information correct as at 09:00am on 06.04.2023

- Oil price jumps and pound strengthens against the dollar.
- Markets remain volatile, but trend has been generally downward.
- Big crops forecast from Brazil for maize and soya helping shortfalls in Argentina.
- UK and EU crops looking good for 2023 harvest so far.
- Rapemeal prices have dropped below £300 for new season deliveries.

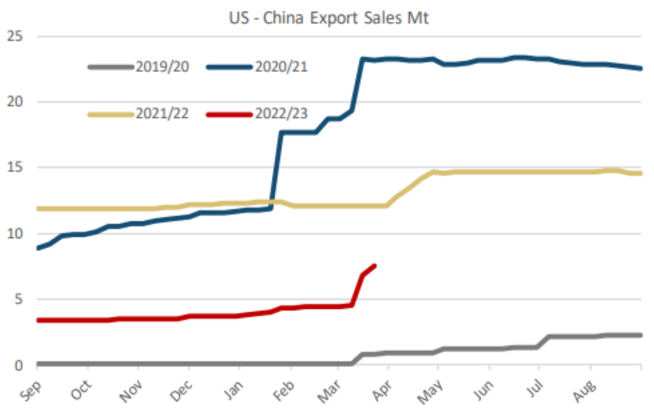
General:

The recent announcement by OPEC+ of a 1.15M Barrels/day cut in oil production took everyone by surprise and caused Brent Crude prices to increase from around $75to $85/barrel overnight.

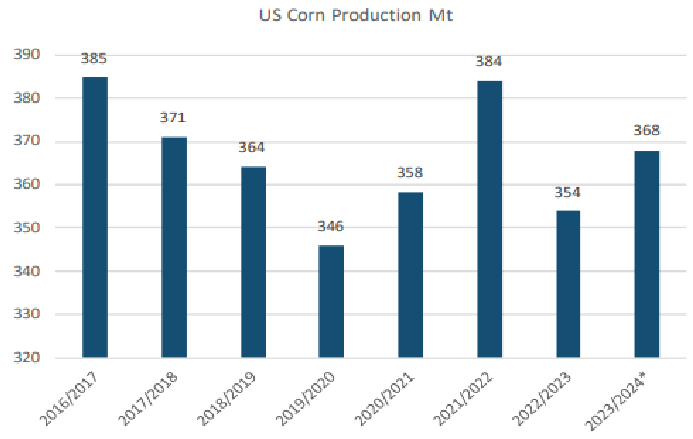
This was expected to put upward pressure on cereal and oilseed prices due to their links with biofuel production, but after an initial jump they have largely returned to previous levels due to other factors in the markets. Weaker jobs, construction and manufacturing data in the US means that interest rates there may not rise much more. This, combined with more optimism about the UK economy, resulted in the US$ weakening and the £ strengthening, back up to a 10-month high of 1.25 compared to 1.18 a few weeks ago. This will have a beneficial effect on the price of imports.

Cereals:

With Ukraine virtually sold out of maize and Brazilian grain from the 2nd maize crop not yet available China has come back to the US and has bought around 3MT in the last 2 weeks to almost double the amount bought up to March. This reflects the pattern of 2020/21 but at a much lower level. Nobody knows where it will go from here, but it is thought unlikely to get to the levels of the last 2 years.



The US plantings intentions report published on 31st March showed a higher-than-expected maize area of 92M acres which would be up 4% on last year due to better profitability with cheaper fertiliser costs. On the basis that the intended plantings take place and the crop achieves average yields US production would be back up to 368MT.



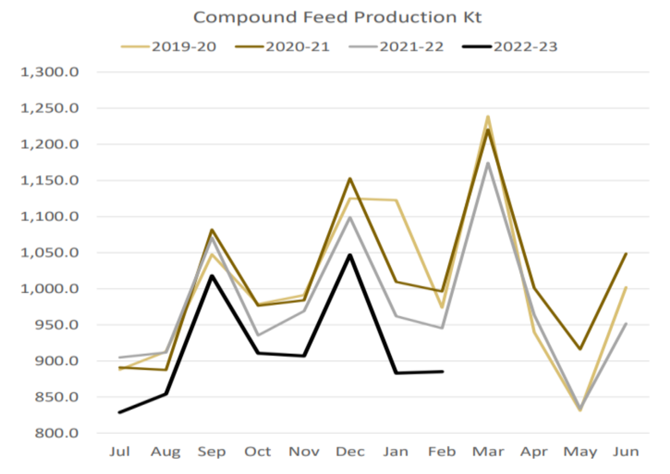
Prospects for the EU maize crop are also looking better for this year after the drought of 2022, but the ultimate result will be determined by the unpredictable weather.

In Brazil the weather is still looking good for the 2nd maize crop and with good NDVI scores a record crop of around 96MT is still more than likely which will become available from June/July onwards. Argentina has had some more rain over the last 2 weeks, but it is likely to be too little and too late to make a difference to their maize crop which has been downgraded by local organisations to somewhere around 35MT compared to 49MT in 2021/22.

Following a risk period over the next few months, once the big Brazilian crop comes to global markets in late summer and assuming the EU and US crops are good in the autumn/winter then the outlook for maize is bearish.

Russia still has a massive surplus of wheat for export and this is keeping global wheat prices down. UK May wheat is still around £200/t, despite the cut in global oil production which caused an initial increase in price.

Demand for compound feed production in the UK has remained low all year and the gap to previous years is getting wider with pigs and poultry seeing the biggest reductions.



The very large UK wheat crop harvested last year means that there is a large wheat surplus for export. Currently UK prices are attractive with the discount of UK feed wheat to Paris milling wheat at a record Euros 30/t.

The main short-term risk is that the Black Sea export corridor deal was only agreed for 60 days, so will run out in mid-May, giving the Russians an opportunity to increase prices by delaying a renewal. Cargill and Vittera are pulling out of their Black Seas operations and are likely to sell their loading equipment to the Russians so the picture will become less clear and Russia will be able to exert more pressure on exports from the Ukraine.

The dry conditions continue in the southern US plains and this means the US winter wheat crop is in poor condition but there is better weather in the mid-West. In the northern US states and Canada there is a lot of cold/snowy weather which is delaying the planting of spring wheat.

The Ukrainian wheat crop is likely to be well down on previous years because of the various disruptions caused by the war with Russia. The EU and UK winter wheat crops are generally looking good and should achieve decent yields but the Australian crop to follow next winter/spring is likely to be significantly lower due to the drier El Nino weather pattern starting to develop.

The advice is to continue to take cover for the summer period through to the 2023 harvest at current prices of £200/t or under to at least 80% of requirements. Barley continues to represent an opportunity and is still around £20/t cheaper than wheat.

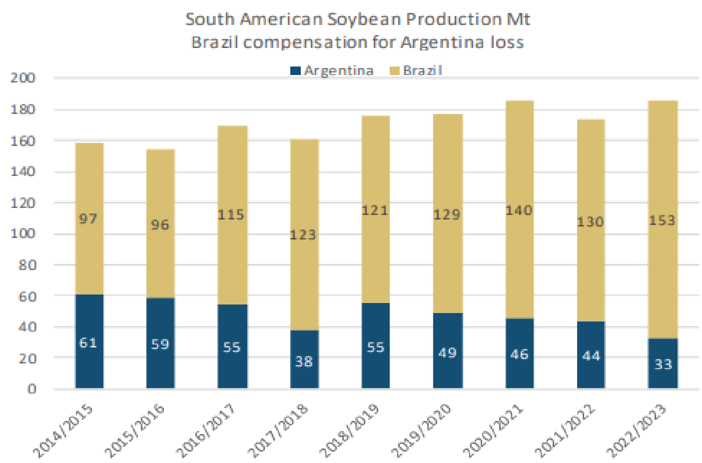
For the next crop year, keep a close eye on the various supply and demand factors (including the way the maize markets/prices develop in Brazil, the US and EU) and how they affect wheat prices and take opportunities as they arise.

Proteins:

The cut in OPEC+ crude oil production which caused oil prices to increase by 10-15% has resulted in higher vegetable oil and oilseed prices. Rape oil, in particular, has risen in value and is now above soya and palm oil again.

The US prospective plantings report indicated a US soya planted area of around 88M acres, which would be similar to last year but below market expectations and this also helped to increase US soya bean prices to around $15/Bu. US soya bean exports have slowed recently and should now come in at or below the USDA forecast of around 55MT.

Although there have been some rains in Argentina recently the severe drought has already caused the damage and the soya crop is forecast to be 33MT according to the USDA (but between 25-29MT according to domestic organisations). However, the record Brazilian crop will compensate for the Argentinian losses, as indicated below, so overall the output of the 2 countries combined should be similar to recent years.



The Argentinian government have introduced a US$ incentive scheme to encourage farmer selling by offering higher prices than the Government controlled currency rate, usually farmers are reluctant to sell as the crop is held as a hedge against inflation.

The EU has already imported around 6MT of rapeseed this year, mainly from the Ukraine and Australia. Looking forward, apart from the change to the drier El Nino weather in Australia, which would limit their crop production, the other concern is that China is in talks with Australia which could result in a renewal of trade for barley and rape.

The outlook for rapeseed output from the Ukraine is improving, with the latest EU Mars forecast showing around 2.7MT production in the Ukraine held territories, which is close to the maximum CRM forecast for 2023/24

Canada is continuing to experience very cold and snowy conditions and this risks delaying the planting of the Canadian canola crop, although it is early days yet.

As vegetable oil prices have risen so meal prices have eased, with the stronger £ helping. UK soyameal has slipped back another £10-15/t this week to around £460/t for May – October.

Although there are some short-term availability issues with rapemeal the forward prices have eased back to around £310-315/t for non-Erith rapemeal for May/June/July, £285-295/t for Aug/Sept/Oct, and £295/t for Nov – April 2024.

There have also been some short-term supply issues with maize distillers, but forward prices have also fallen – to £327/t for May – Oct and £307/t for Nov – April 2024. Wheat distillers are still running around £20/t higher than maize distillers for May – Oct but the gap has closed to only £10/t for Nov – April 2024.

Soya hulls have also eased to around £260/t for May through to April 2024 and still represent better value than sugar beet pulp, though prices for the latter have fallen significantly to £306/t for May – Oct and £299/t for Nov - April

The view is to keep taking forward cover through until next spring, particularly for rapemeal and soya hulls, both of which could be affected by supply issues into 2024.

The table below shows how typical ex-port prices for 6 months forward for key raw materials have changed over the last 12 months:-

	April 2022	July 2022	October 2022	January 2023	April 2023	Difference April 2022-2023
Soya meal	475	463	454	482	460	-15
Rape meal (non-Erith)	345	308	325	310	290	-55
Maize Distillers	368	334	385	343	327	-41
Maize Gluten	363	322	360	335	305	-58
Soya Hulls	290	306	315	295	260	-30
PK	284	238	234	210	191	-93

As can be seen volatility has existed throughout the period but some raw materials have seen a significant and sustained fall.