Technical Update – Feed Markets

Information correct as at 09:00am on 05.05.2023

- Global economy remains fragile with some sectors showing signs of slowing down again.
- The extension to the Black Sea corridor is now the main uncertainty in the commodity market.
- Ending stocks to use ratios are forecast to remain similar for maize and wheat.
- Prospects for 2023 soya harvest are good, but a long way to go for the US crop.
- Opportunities to take further cover for the coming winter.

Overview:

Volatility in the markets continues. The general weakening trend in commodities over the last few weeks was reversed by the drone strikes in Moscow and Odessa on 3rd May, but it remains to be seen what the true effect of this will be.

A further 0.25% rise in interest rates in the US to 5%, continuing concerns over the stability of some banks and the "standoff" between the Republicans and the Democrats over how much money the US can borrow resulted in fears for the future of the world's biggest economy and raised concerns over whether they would have enough money to repay debts. This contributed to a rapid fall in some commodities, including oil, with Brent Crude falling to the low $70s/barrel.

The current Black Sea corridor export deal ends on 19th May and it is still uncertain whether it will be renewed and if so for how long. The drone strikes only add to the uncertainty. The Russians are demanding concessions to some of the sanctions imposed upon them and it is the possibility of a non-renewal of this deal that is the biggest upside risk to prices at present.

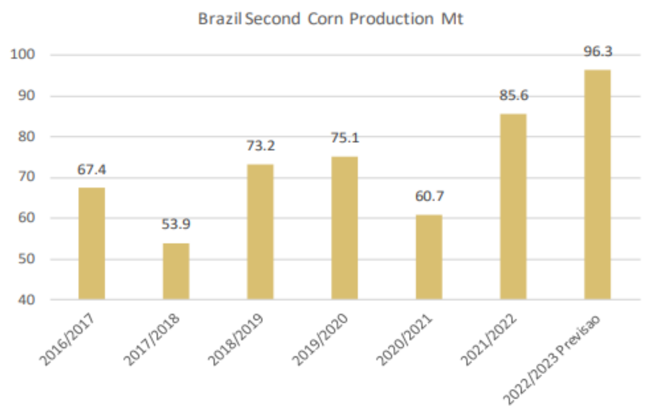
The global economy and the service sector in particular continues to recover, but the improvement remains fragile and the progress in manufacturing seems to have faltered.

The latest figures from China for April indicate that their manufacturing activity fell back below 50, indicating a contraction. This also contributed to a fall in oil prices with Brent Crude falling to the lowest it has been since before the Russian invasion of Ukraine, despite the production cuts imposed by OPEC+ recently.

The £:$ ratio continues to be stronger than it was at around 1.25-1.26, which is helping with the cost of imports.

Cereals:

The Brazilian 2nd maize crop is still on track to achieve a record level of over 96MT, well up on previous years, when it comes to market from June/July.



The Argentinian crop forecast has been reduced further from the initial 50MT and is now expected to be nearer to 30MT. The 2023 EU crop looks likely to recover from the drought stressed levels of around 52MT in 2022 to a forecast around 70MT, although the very dry weather which has been experienced in Spain is now spreading to southern France.

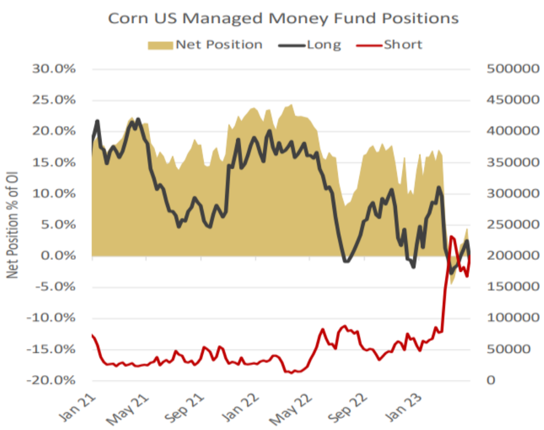
The large 2023 US maize crop (intentions indicate 91M Acres) is currently being planted and is at around 26% complete with favourable weather conditions in most areas encouraging expectations of a large crop to come in the autumn.

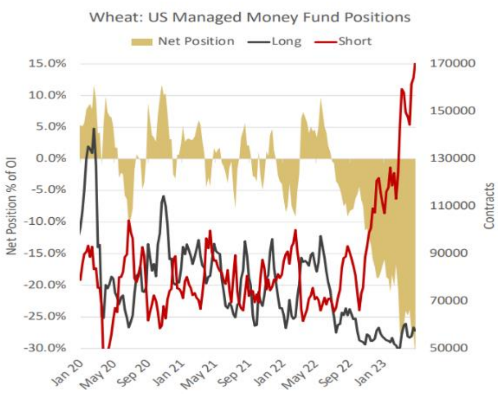
Accounting for a reduction in the Ukrainian crop the stocks to use ratio of the major exporters is expected to be unchanged for the 2022/23 year at a precariously low level of around 11%.

China has cancelled several US orders over the last few weeks, which has helped to add to the bearish sentiment in the market, but they could buy more at the anticipated lower prices when the Brazilian crop comes through.

The reduction in oil price has meant reduced ethanol production from maize in the US, although this could change as the US has just announced that the ethanol mandate for fuel will be increased from 10% to 15% during the summer.

The US Managed Funds have sold out of their net long positions and increased their short positions (below left) so are now fairly neutral overall for maize. For wheat, they have gone to a record short position during the last 6-8 months (below right)





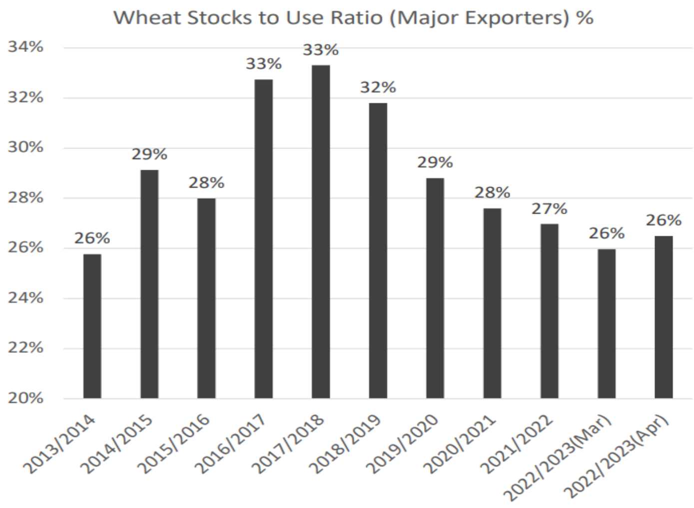
Prices for maize have fallen back recently but the view is that the outlook for 2023/24 is delicately balanced and with low stocks volatility is likely to remain as weather and other events occur during the year.

Strong wheat exports from the Black Sea continue to put downward pressure on prices and the EU has now agreed a deal to allow land exports to continue through some Eastern European countries. The significant fall in oil prices is adding to this negative pressure.

Although there has been some rain in the US plains the winter wheat overall good/excellent rating is still extremely poor at only 28%. The wet and cold conditions in the spring wheat growing areas of the US and Canada are causing delays to planting, with the US only 12% drilled compared with the average of 22% at this stage, but this can change quickly.

Canada has just released its forecast for crop areas and wheat plantings are up 1.6Mha over 2022 levels to 27Mha, the biggest area since 2001. The EU is also forecasting a large wheat crop to come with good conditions and plenty of moisture in most key areas.

The forecast stocks to use ratio for wheat is at a similar level to recent years for the major exporters and at a better level than for maize.



The graphs below show the trends in wheat pricing in the US and UK over the last 6 years, with prices now coming back onto the trend line following the distortions caused by the Russian invasion of Ukraine in February 2022.

UK feed wheat is still trading at a record discount to Paris milling wheat of over 30 Euros/t currently and over 15 Euros/t for November, so is seen as being cheap.

Although the outlook looks bearish in many ways, there is a long way to go and the upside risks from geopolitical and weather events plus the potential amplifying action of Managed Funds means that things could change very quickly.

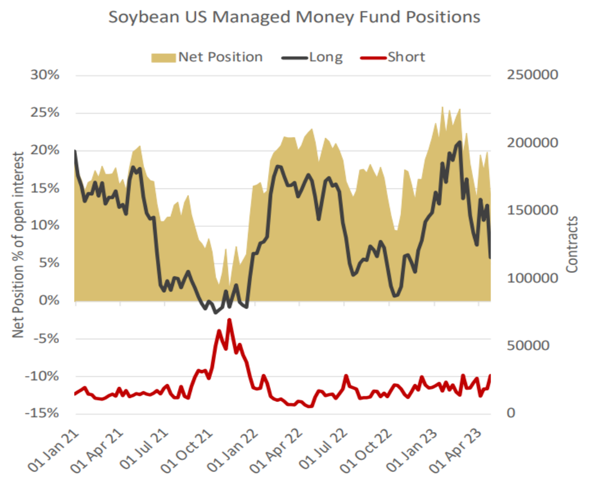
Aim to take 90% cover through to harvest and with current prices in the low £190s/t this is another opportunity to cover requirements if not already done. Take the final 10% if it looks like prices are starting to rise.

With the potential upside risks and prices well back from earlier in the year for November 2023, it is also worth considering covering 25-35% of requirements for the forthcoming autumn/winter.

Proteins:

The reduction in crude oil prices has weighed on vegetable oil prices, which have continued to fall. The other interesting feature of this is that the usual rape oil premium has disappeared and has now gone below the price of palm oil.

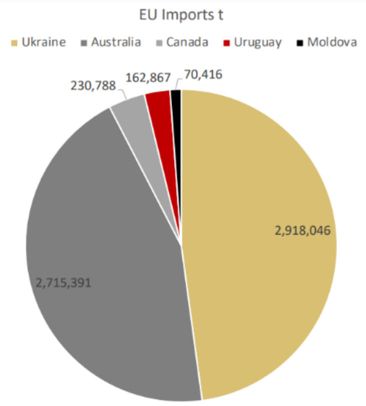
Unlike the cereals, US Managed Funds have maintained an overall long position on soyabeans, with very few short contracts. Depending on how the markets develop this could change quickly.

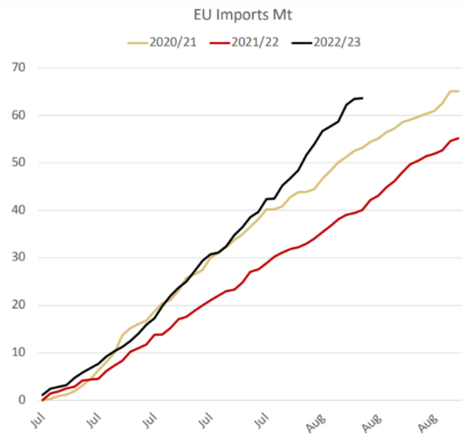


The Brazilian crop is still expected to be a record 154MT and although US stocks are tight, exports have been easing off over the last few months and it now looks likely that they will fail to reach the USDA export target of around 55MT. This would ease pressure on stocks and potentially prices.

The outlook for the US crop is good at this early stage, with a higher planted area predicted and good conditions for drilling and establishment, resulting in plantings of around 19% to date compared with the 5-year average of 11%. However, all the good news is balanced by Argentina's bad news due to the severe and continuing drought. The crop there is currently forecast to be around only 27MT by the USDA, but local forecasts are even more pessimistic and put it in the low 20MTs. To make up for the deficit they will take some of the surpluses from elsewhere, Brazil in particular, to make up their shortfall.

Imports of rapeseed to the EU have been particularly strong – initially from Ukraine and latterly from Australia.





The outlook for the 2023/24 crops from these two major exporters is different for 2023/24, with this year's Ukrainian crop reduced due to the ongoing war and the next Australian crop likely to be affected by the drier El Nino weather pattern. The cold and wet weather in Canada is also causing delays in the planting of their spring canola crop. At this early stage this should not have a significant effect but if it continues yields could be depressed. In the EU rapeseed crops are looking good so far and a large harvest is forecast.

Chicago soyabeans have fallen back to around 1264c/bushel and Paris rapeseed has fallen back to around 440 Euros/t on the back of falls in crude oil triggered by concerns over the outlook for the US and Chinese economies.

UK rapemeal prices continue to ease back, with August/September/October prices around £278/t and November to April around £284/t. Hipro soya has also fallen back to around £440/t for June to April 2024.

Given the upside risks from geo-political and weather events the view is that it is worth covering a proportion of requirements as far forward as spring/summer 2024. For those relying on soya hulls in rations then the same message applies, with prices currently around £245/t through to April 2024.