Technical Update – Feed Markets

Information correct as at 09:00am on 09.03.2023

All eyes are on the renegotiation of the Black Sea Export Corridor agreement
Mixed weather in S America sees Brazil set for big crops whilst Argentina returns to drought
Prospect of bigger US maize crop as fertiliser prices drop
View is that energy feed prices for next season will continue to ease

General

The latest USDA World Supply and Demand Estimate (WASDE) report was published on 8th March. The main changes were reductions in the Argentinian crop and export forecasts due to their continuing drought, the worst in 60 years.

The US Federal Reserve has indicated that as a result of the latest US economic data interest rates will continue to increase and may reach 5.5% by the end of the year, up from 4.75% currently. This caused the $ to strengthen against many other currencies, including the £, which fell 3 cents to 1.18 and will affect the price of imported raw materials.

The single most important factor which could affect global agricultural commodity prices in the short term is the renewal or otherwise of the Black Sea export corridor deal, due to be complete on March 18th. Currently, when there are encouraging noises prices fall, but when these appear more confrontational prices rise.

Ukraine is asking for a 12-month extension, more ports to be included and inspections to be speeded up from 4.5 ships/day to 45 ships/day. It is still felt that the deal will be renewed in one form or another as Russia needs to keep exporting its massive 2022 grain crop to generate revenue to keep its faltering economy going.

The other big factor affecting market sentiment and prices is the weather, particularly in South America, where, after a brief respite the very dry weather in Argentina has returned and this is having a significant effect on the outlook for their soya and maize crops.

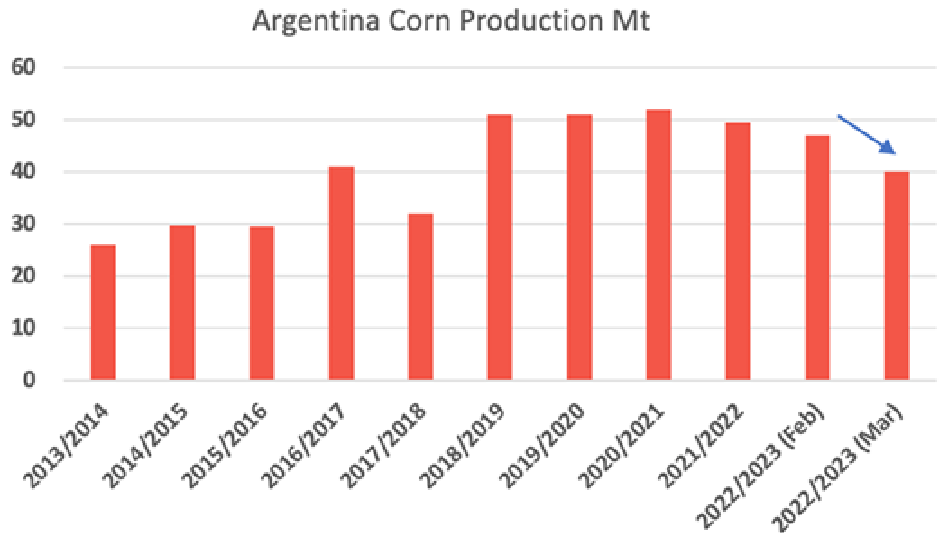
Cereals:

US maize exports continue to be weak, a combination of much lower Chinese demand and the fact that Brazil is now being able to satisfy some of this demand by exporting direct to China. As a results, the WASDE report reduced US exports and increased ending stocks.

The big unknown on the demand side is how much more maize China will need in the remainder of the season. If the amount is significant prices will increase, but at present they are easing back on weaker demand.

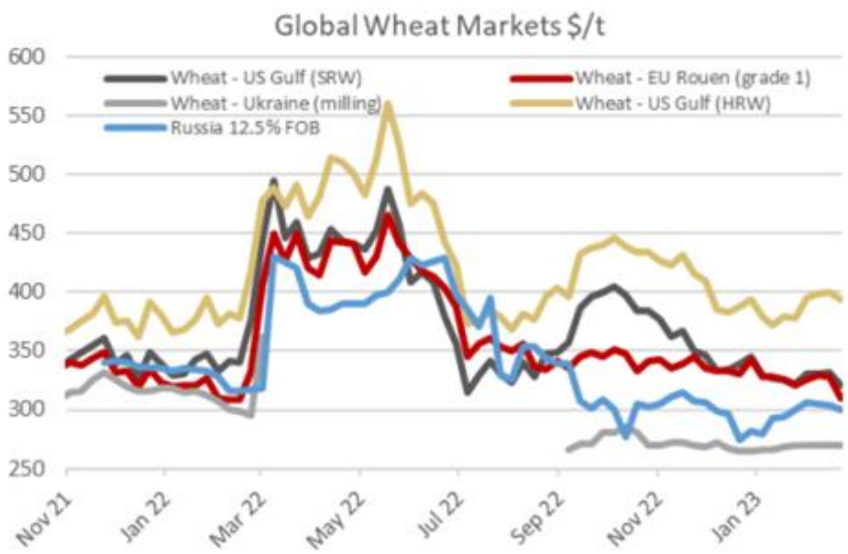
The first indications of the likely US spring maize crop area are looking encouraging at around 91M acres, up from 88M acres in 2022. This is being driven by much lower US fertiliser costs due to cheap North American gas prices.

Prospects for the 2nd Brazilian maize crop are still looking good, with plantings catching up following the delays to the soya harvest due to wet weather. NDVI crop condition scores are very good and a record 96MT crop should be achieved. To counter this the Argentinian maize crop is suffering further downgrades as the drought affecting many areas continues. The good/excellent crop rating fell 3 points in the last week to 6%, compared to 22% last year. The March WASDE report reduced the Argentinian production forecast by 8MT from the February report to 40 MT, with local forecasts coming in below this level.



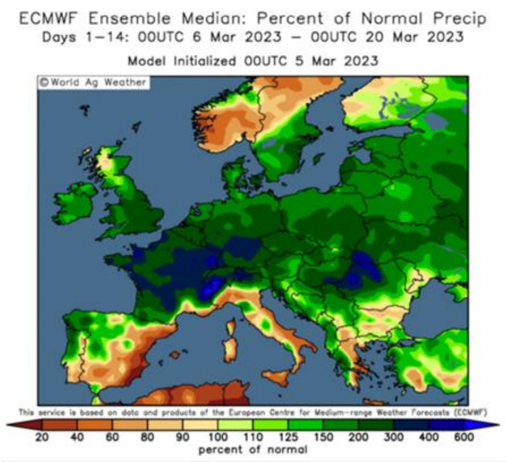
EU maize prices have now recovered and are only around 10 Euros/t below wheat compared with around 30 Euros/t a few months ago. In general prices are easing and the risk of an upturn is thought to be low, leading to a bearish outlook at present.

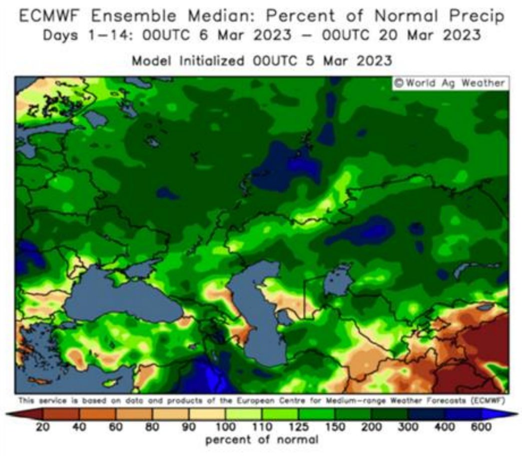
For wheat, the better-than-expected Ukrainian exports and the very large Russian crop are putting downward pressure on wheat prices which are back to around pre-invasion levels



Apart from the threat of the Black Sea export corridor extension not being renewed the other threat to markets is the very short positions held by the US managed funds. If they start to sell any swings in price will be magnified. The current market sentiment is that the export corridor deal will be renewed by 18th March and prices are reflecting this (BUT, if for some reason it is not renewed then a spike in prices is expected).

The Australian wheat crop has just been revised upwards by a further 2.6MT to a record 39MT and this is also helping to keep pressure on wheat prices. Despite concerns over lack of rain during the winter the latest charts showing % of normal precipitation indicate an encouraging picture across Europe and the Black Sea. Winter kill figures are unknown but are thought to be about average





The latest forecast for Ukrainian wheat production for 2023/24 is down to around 16-18MT, from 33MT in 2021/22 because of the war. Russia is forecast to produce around 85MT this year, down from around 100MT in 2022.

UK feed wheat is still trading at a discount of around 20 Euros/t compared to Paris milling wheat and following the 15.4MT UK 2022 crop exports have been strong. If they continue at current rates there could be a shortage of UK wheat before the 2023 harvest. UK May 2023 wheat prices have eased back because of various factors outlined above and is now around £220/t, with November 2023 price of £225/t

The view is that this is another opportunity to take further cover up to the 2023 harvest, increasing to around 75-80% cover. The differential between UK wheat and barley prices had closed to around £7/t in February but has increased again to around £20/t currently.

Like wheat, barley crops are generally looking good across Europe and with high OSR losses in some regions more spring barley may be planted. On the back of the currently expected global outlook for maize and wheat CRM are still forecasting wheat prices in Q4 of £205/t

Proteins:

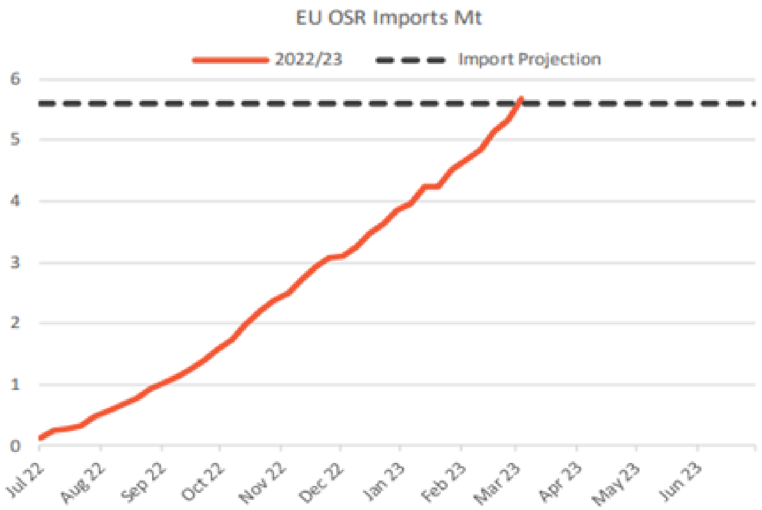
The Brazilian soya harvest is now around 45% complete and continues to be on track for the record 153MT predicted, up from 130MT last year. Despite a brief period of rain a few weeks ago the worst drought in 60 years continues to affect the Argentinian soya crop, with only 2% good/excellent compared with 27% last year and 67% poor/very poor, compared with 27% last year.

The weather forecast for the next few weeks is for higher temperatures and the drought continuing. The original forecast of 48MT has been downgraded progressively to a 14 year low of around 33MT in the March WASDE report. As Argentina is the biggest global supplier of soyameal and soya hulls this is significant, but they could import some soyabeans from Brazil as they have done in the past to make up some of the shortfall.

US exports are now tailing off now as attention focusses on Brazil

Soyameal prices have remained well supported with concern over the Argentinian crop but it is thought that as the Brazilian crop comes to market later in the year this will bring prices back.

The Ukrainian export of rapeseed is almost finished for this year and has been much better than originally expected. The Australian rapeseed crop has been upgraded again by around 1MT to 8.3MT and much of this is coming to Europe. Total imports to Europe have already met the target for the season and look like continuing, but there are issues with the crush and margins are low so the supply of rapemeal in the EU going forward is limited



The outlook for the 2023/24 year is of more concern, with Ukraine well down on previous years as the war continues and with Australia's weather changing from La Nina to El Nino a much drier time is expected, with associated lower yields.

Having risen to around $87/barrel in the last 2 weeks Brent Crude oil has slipped back to around $82/barrel and this has helped to reduce prices for vegetable oil and oilseeds. Palm oil prices have followed the trend, with India considering import restrictions and supplies from Malaysia and Indonesia both lower due to very wet weather and export restrictions respectively.

The concerns over the Argentinian soya crop and currency have caused UK soyameal prices to jump £20/t in the last week to c. £550/t for April and c.£520/t for May-October 2023. The advice is to hold off and wait for the record Brazilian crop to come to market if possible.

Rapemeal prices have not followed suit, with a £5/t reduction to £360/t for April and only a £3/t increase for May/June/July to £330/t for Southern Ports and a £6/t increase for Aug/Sept/Oct to £314/t.

Prices should ease back as more Australian rape comes in and the soya crop hits the markets later in the summer

Soya hulls are under threat from the Argentinian drought also and at £275-280/t for May – October are well worth considering, compared with sugar beet pulp at £355-360/t for the same period.