Technical Update – Feed Markets

Information correct as at 09:00am on 10.02.2023

- Weather and politics continue to dominate markets
- South American weather improves crop conditions, but hampers harvest
- Black Sea corridor deal to be renegotiated in March amidst Russian sabre rattling
- Global economic outlook less downbeat that at the end of 2022

General

Following the latest economic data from the US suggesting that further interest rates still seem possible there the £ weakened against the US$. At the same time the Bank of England is indicating that there may not be any further UK interest rises to come. The £ is currently trading at around 1.21 to the US$, down from the recent high of 1.24, and making $ traded imports more expensive.

Brent crude oil has pushed back up recently to around $85/barrel. The latest OPEC+ announcement not to impose any further production cuts is having little effect as many countries are not producing to capacity anyway.

The latest USDA WASDE report published on 8th February only made a few modest changes to the supply and demand picture and will have little effect on prices.

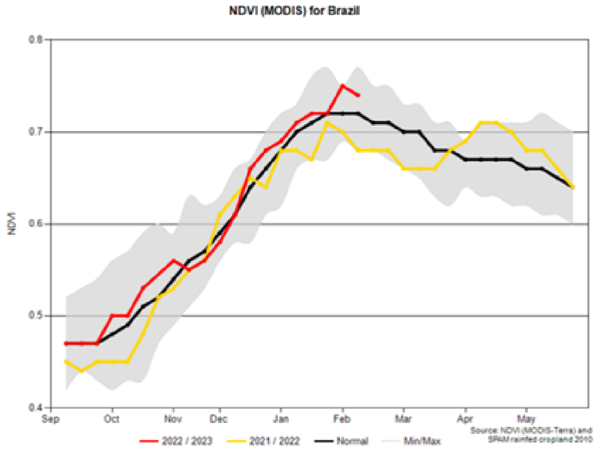
Cereals:

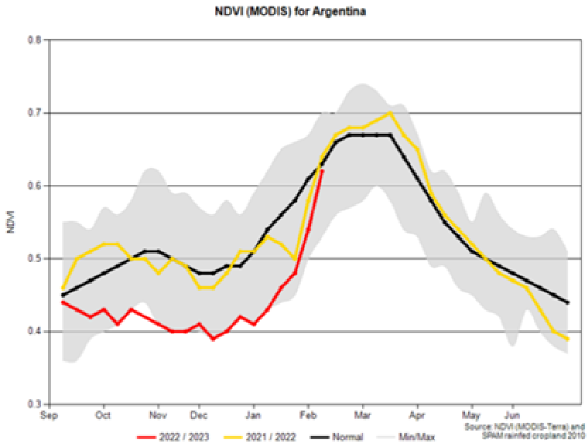
US maize exports continue to disappoint and still total less than 5MT. Chinese demand for US supplies is limited and they are now taking the first ever loads of maize direct from Brazil which could reach around 5MT this year. The USDA estimate Chinese demand will be around 18MT this season so there could still be further Chinese buying of US maize but as time goes on this looks less likely.

The Ukrainian grain export corridor continues to work well with around 9MT of maize and 5MT of wheat exported onto world markets so far. However, statements coming out of Russia in the last few days (that it has done little to help Russia and is "unsatisfactory") mean that there could be a threat to the renegotiation of the deal in March.

The weather in Brazil remains wet for large areas and the soya harvest is being delayed which means the 2nd maize crop planting is also delayed with only around 17% in the ground compared with 32% on average at this time. If the rains ease off soon then planting can still catch up to be within the ideal window but if not, the 2nd crop may be downgraded.

The rains in Brazil mean that crop conditions are generally excellent, as indicated by NDVI scores from satellite imagery. The recent rains in Argentina have caused a dramatic improvement in NDVI scores there. Improving from the worst on record to average in just 2-3 weeks, although this has arrived too late to allow the earlier drilled maize crops to recover.





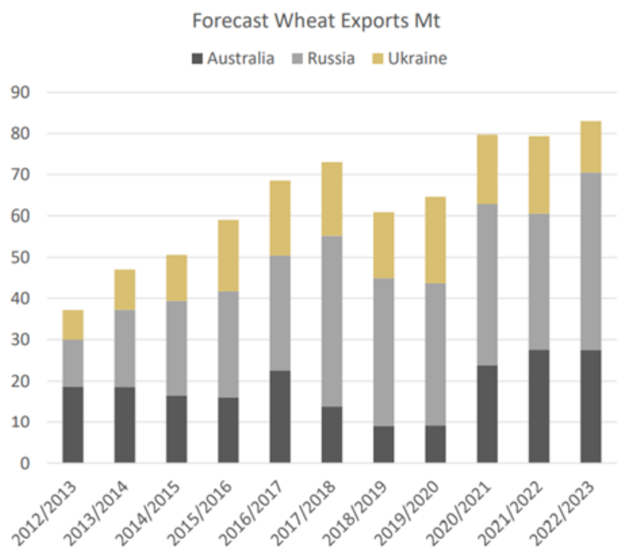
The La Nina weather pattern is now weaking fast and a return to the El Nino weather pattern is forecast to increase through 2024.

US maize prices have remained steady for the last few months whereas UK prices have come back from around £320/t last October to £280/t now. If the Brazilian 2nd maize crop catches up and looks like being close to the record of 96MT originally forecast, then prices should ease back further.

US spring maize planting indications should be known later this month. As fertiliser costs in the US are much lower this will favour maize over soya. Again, if that happens prices should ease further over the next few months. At this stage nobody knows how all this will pan out but with US managed funds still very long the effect could be magnified if they start to sell out on their positions.

Russian and Ukrainian wheat exports are still strong and are keeping prices under pressure. The first anniversary of the Russian invasion of the Ukraine is 24th February and the Black Sea export corridor deal will need to be negotiated/agreed again in March so there is potential for disruption to the flow of grains through the Black Sea.

There are also reports that the very cold weather in Russia may have caused higher levels of winter kill which could reduce the 2023 harvest, although some of this could be made up by higher spring planting if the weather is favourable. Without any Black Sea disruption and with additional strong exports from Australia wheat prices are expected to ease back.



US wheat exports have been slow and EU wheat exports have also slowed recently with generally weaker demand and strong, cheap, Russian exports. UK feed wheat prices are still around 20-25 Euros /t below Paris milling wheat. May future prices had fallen back fairly steadily over the autumn/winter but jumped back up recently by around £15/t to reach over £240/t earlier in the week before easing back to around £239 on Thursday. Barley prices are still around £10-15/t below wheat

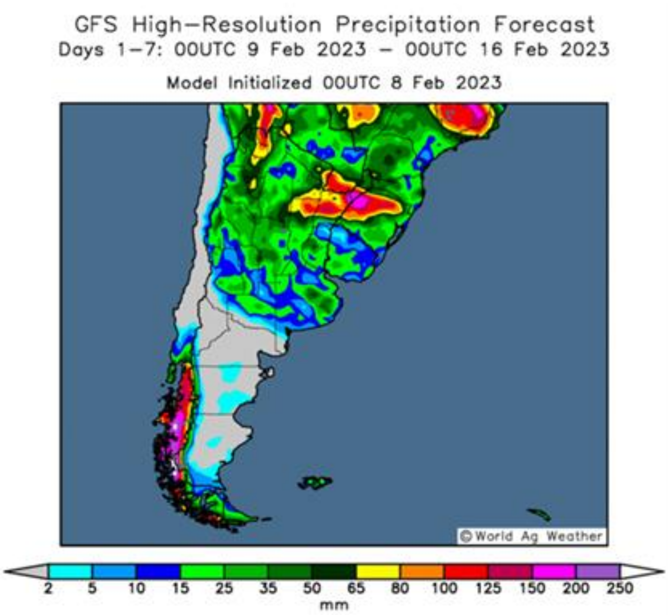
As ever, there a lot of variables in the market with the renewal of the Black Sea export deal in March, the outlook for maize with the south American crops and the US spring plantings. If all these are positive prices should fall back over the next few months. BUT there are still threats from the weather in south America and the Black Sea export corridor which could change everything.

The more risk averse may want to continue to make sure they have plenty of cover at current prices, whereas the less risk averse may want to wait a bit longer.

Proteins:

As shown in the NDVI charts above the rains in Argentina have done a lot of good to crop conditions. Later sown soya crops should benefit more than maize as they come later in the season, though the earlier drilled crops will still struggle.

Further rains are forecast for the next week, but Argentinian sources have already downgraded the soya crop from 45MT to 36MT based on the previous persistent very dry weather. This is less than the USDA forecast of 41MT.



This very dry weather has extended into the southern states of Brazil, so they have also been affected, but the majority of Brazil has had excellent growing conditions and is on track for a record crop although the rains are continuing to delay harvest with only 9% completed so far.

US soya exports have been strong but are showing signs of easing off now. Strong exports, tight stocks and Brent crude oil increasing back up to $85/barrel have meant that soya oil and meals have continued to increase in price. Soya meal prices in the US have increased from around $400/t in October/November to around $480/t now but forward prices are showing a steady reduction.

UK soyameal prices have also increased to around £550/t for Feb – April and £500/t for May – Oct, which is an increase of around £70/t since November. The feeling is that providing the rains in Brazil stop slowing harvest and supplies increase these prices should reduce so hold off at present.

Paris rapeseed for May has followed soya markets up from around Euros 520/t to Euros 550/t recently. Although Ukrainian imports to the EU have all but finished the large Australian crop is coming in fast and supplies are getting better.

The main concern for the outlook to 2023/24 is that the Ukrainian crop will be much smaller with the war continuing and the Australian crop will also be smaller as the La Nina weather pattern ends.

UK rapemeal prices have followed soyameal prices up with non-Erith prices now around £370/t for March/April and £326/t for May/June/July and £307/t for Aug/Sept/Oct. These are around £15/t and 10/t up respectively on January prices.

Again, with supplies of rapeseed to the EU increasing and a higher crush to come then rapemeal prices could ease back, so unless it is physically needed it would be better to hold off taking any further cover at this stage.

Soya hulls have hardly changed at around £270-280/t for May – Oct and are still by far the best value for money for fibres. With the poorer Argentinian soya crop and the delay to the Brazilian harvest it would be worth ensuring full cover on these going forward.