Technical Update – Feed Markets

Information correct as at 09:00am on 13.01.2023

- A mixed USDA WASDE report yesterday
- Cereals have dropped significantly over recent weeks giving an opportunity for further cover
- Conditions in Brazil are generally good for maize and soya- Argentina still very dry
- Ukrainian export corridor continues to operate successfully

General

The January USDA World Agricultural Supply and Demand Estimates (WASDE) report was published on 12th January. It was a mixed bag with a surprising 11% y-o-y increase in US winter wheat planting but cuts in maize and soya production forecasts for the US and south America.

The generally gloomy outlook for economies around the world has been depressing all commodities, but in the last week Brent Crude has increased in price by around 7.5% to $84.5/barrel mainly as more optimism returns to the outlook for the Chinese economy.

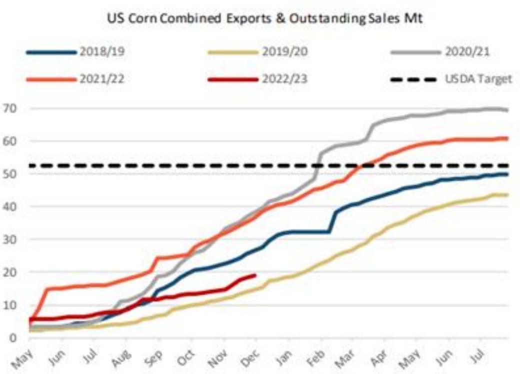
In data just released for December the US consumer price index has fallen by 0.1%. Although marginal it is the first fall since May 2020 and may mean that pressure for further US interest rate rises will be reduced. This will tend to cause the value of the $ to fall and a relative strengthening of the £.

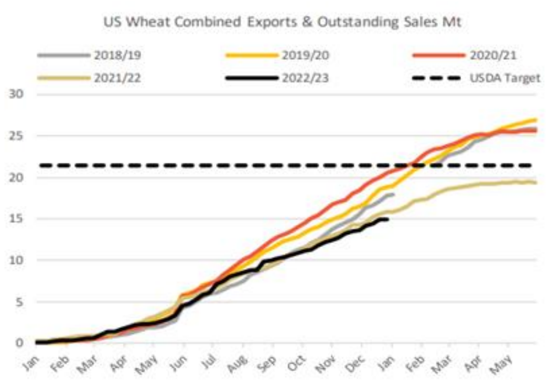
The Ukraine export corridor continues to operate successfully and has exceeded early expectations for all commodities.

Cereals:

The January WASDE report unexpectedly cut the US maize production forecast by 5MT to 349MT. The Argentinian and Brazilian maize forecasts were also cut by 3MT and 1MT respectively.

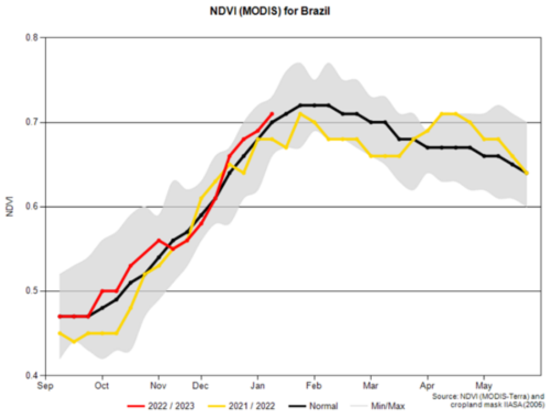
At the same time US export forecasts were also reduced by around 4MT to 48.9MT as it becomes clearer that the original target shown below will not be achieved. Exports continue to be very slow at around 20MT, as shown by the red line on the chart below left. With the continued success of the Black Sea export corridor the Ukrainian maize export forecast was increased by 3MT to 20.5MT. US wheat exports are also very poor, as shown by the black line on the chart below right. In the week to December 29th, they were at their lowest level since 1983. A lack of demand from China is the main reason for the poor maize exports and now that China can import from Brazil the USDA have finally cut their export target.

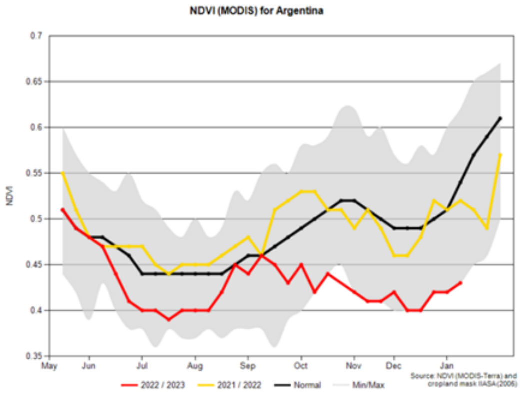




The weather in south America is a key part of the outlook for maize and soya markets. At present it is still looking good in most parts of Brazil but continues to be very poor in Argentina although there has been some rain recently.

NDVI scores from satellite imagery indicate above average crop conditions for Brazil but very poor crop conditions for Argentina as the worst drought in over 40 years continues.



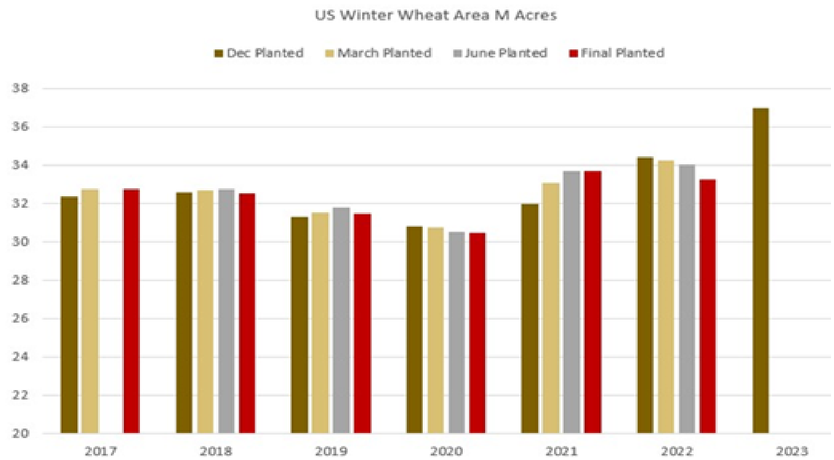


Around 70% of the Argentinian maize crop has been planted compared with the 5-year average of 85%, but it is thought that 40% of the early sown crops have been lost. Some further rain is forecast, but it may be too little too late. The Brazilian 1st maize crop has been downgraded a little due to dry weather in the far south of the country, but with La Nina easing over the next few months there is optimism that the 2nd crop will be very large.

EU maize stocks are tight following the very dry year across many key growing regions, but this has been made up by increased imports from Ukraine since the export corridor was opened.

US managed funds are still bullish towards maize, but it is thought that if the 2nd Brazilian crop is successful then prices should ease when this is harvested in June/July.

Surprisingly, the January WASDE report increased the US winter wheat acreage for the 2023 crop to 37M acres, up 11% on the 2022 acreage, but is only rated only 34% good/excellent at this stage. This condition may get worse if it is found that winter kill has increased from the recent extreme cold period. Despite this it is thought that the extra acres sown should produce a larger crop in 2023



The record Russian 100MT+ 2022 wheat crop is now being exported strongly onto world markets and putting pressure on prices. They were around £12/t cheaper than other sources in a recent Egyptian tender. The record-breaking Australian crop, which is now thought to be around 42MT, up from the original estimate of 36MT, is also now coming onto world markets. This, plus the current mild weather in Europe, which is giving confidence of a good EU 2023 crop, is putting further downward pressure on prices.

Compared to Paris milling wheat both May and November 2023 UK feed wheat prices indicate the biggest differential in 10 years and CRM's view is that wheat is currently undervalued.

While there is strong supply and weaker demand globally the UK compound feed demand is also weaker with avian flu and high costs the main causes.

East Anglia ex farm wheat is currently around £221/t and barley £204/t. UK May feed wheat is currently £233/t and well down from around £290/t in October. These prices will encourage more wheat into bioethanol and for export, so it is possible that the UK could be tight on supply before next harvest.

A recent forecast suggests that the breakeven price for UK feed wheat for the forthcoming season will be around £230/t, so it looks like there is little opportunity for much further downside.

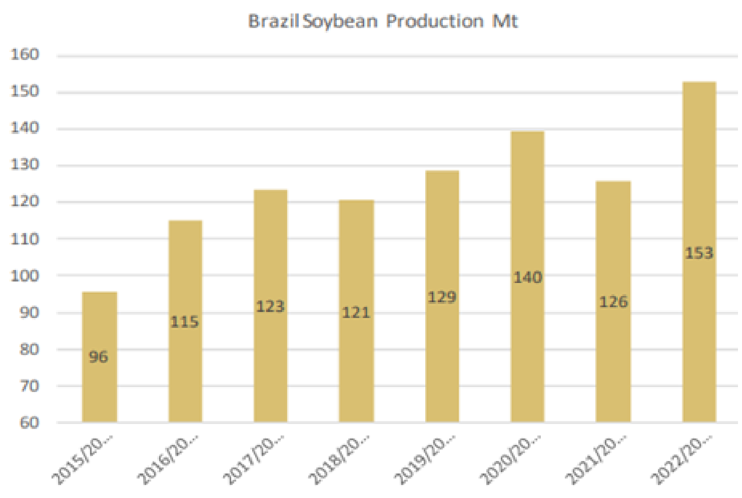
On the other hand, US managed Funds, which are very short on wheat, will need to buy themselves out of their positions at some point. Any shock from an extreme cold/hot/dry weather or other unknown event over the next few months would be amplified by this and could cause a significant spike in prices.

Wheat has come back a long way over the last month and is unlikely to go much further but there are upside risks which means it would be prudent to continue to take further cover now. Q1 should already be 100% covered but if not then worth doing more now. At these prices, the feeling is that Q2 should be covered up to at least 60% and Q3 up to at least 30%

Proteins:

The January WASDE report cut the US soya production forecast by 2MT to 116MT and the Argentinian forecast by 4MT to 46MT. US sales of soya beans have been strong again in 2022 and in particular sales to China have increased by around 16% compared with 2021. Total exports are around 42MT to date compared with the USDA target of 54MT. If this target is achieved this would leave US ending stocks at only around 5.7MT which is extremely tight so supplies need to come from south America from April/May onwards to alleviate this position.

As indicated by the NDVI scores shown for maize the conditions in Argentina for soya are also very poor. The scores for Brazil are generally very good, although very dry conditions have developed in the southern most states of Brazil where around 20% of the crop is grown and more rain is needed here soon. Despite this a new record crop of over 150MT is expected from April onwards with a forecast of 97MT for export compared with the 77MT in the past year. Once this starts coming to market during Q2 then buying will switch from the US to Brazil and ease the pressure



The La Nina weather pattern is forecast to weaken significantly over the next few months and this will help but may be too late to save much of the Argentinian crops. The other effect of this will be that the record Australian crops of wheat and oilseed rape over the last 2 years are likely to be much less with a return to dry weather and the OSR crop of around 7MT this year falling back to 4-5MT.

Following the much better 2022 canola crop from Canada, the Australian OSR crop coming onto world markets plus the better than expected exports from the Ukraine prices have cooled and the outlook more is bearish for this season. The outlook for production from Ukraine for 2023 and 2024 is poor unless an agreement can be reached with Russia to end the war. This plus a possibly much lower Australian crop next year means things could become more bullish later.

EU vegetable oil prices have eased back a bit further with recent falls in crude oil prices. OPEC+ are trying to hold prices up through production controls and with China reopening there does not seem to be much further downside for oils.

The strong rally in UK soyameal prices at the end of 2022 has slowed and eased back slightly this week so prices for May – October are around £484/t, up around £50/t from late November. Rapemeal prices for May – July 2023 are up around £20/t since late November at £330/t with prices for August – October around £315/t.

Soya hulls and maize distillers are up around £6/t since late November at around £300/t and £343/t for May – October respectively. Maize gluten is down around £8/t over the same period.

There are reports of production problems at the Vivergo plant which means supplies of wheat distillers grains are much reduced.

Sugar Beet Pulp at £360/t remains very expensive compared with soya hulls and with high energy costs plus the breakdown of old plants this does not look like it will change soon.

Hopefully, most are covered for protein straights and fibres through the rest of the winter and into spring with cover of up to 25% for the summer.

As the Australian OSR crop continues to come to markets and when the expected huge Brazilian soya crop comes in May, combined with a reduction in demand from turnout, then could be a good time to take further cover.

For further discussion or to help with any questions that you may have, please contact us on enquiries@kiteconsulting.com or 01902 851007