# Technical Update – Feed Markets

Information correct as at 09:00am on 21.04.2023

- Russia demanding reduction in sanctions as condition to renew export corridor.
- US wheat still in poor condition, but some rain in the forecast.
- Harvest of bumper Brazilian soya crop now nearly complete.
- Argentina still suffering from worst drought in 60 years.
- EU and UK crops looking good.
- Opportunities to take further cover for summer and next winter.

## General:

The April USDA WASDE report was published last week with no major changes, but an increase in forecast ending stocks of around 1MT for wheat in both the US and EU due to lower feed demand and higher exports from the Black Sea.

The war in Ukraine and the future of the Black Sea export deal continue to have major effects on the outlook for agricultural commodities. The current deal is due to end in mid-May. In return for it being renewed Russia is demanding a reduction in sanctions, including those affecting the export of grains and fertiliser, the import of agricultural machinery/parts and access to the international SWIFT payment system.

This is causing uncertainty and volatility in the short-term, with a push by Ukraine to export as much as possible just in case the deal is not renewed, which is putting pressure on cereal prices in particular, but at the same time there is upward pressure when it looks like the deal may not be renewed.

The latest UK inflation figures for March indicate that it remains above 10%, meaning further interest rate rises are more likely. The £: $ exchange rate remains stable at around 1.24.

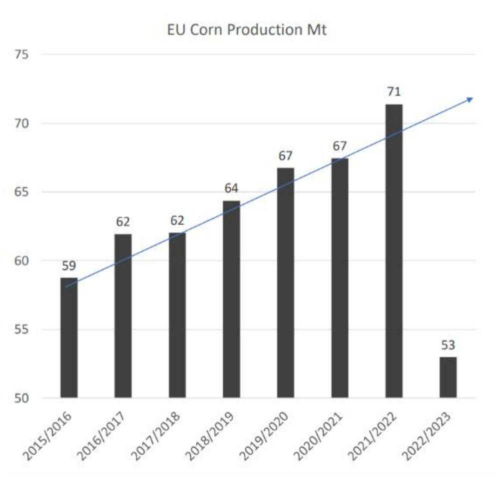
Following the recent OPEC+ announcement of further cuts to production May Brent Crude oil rose to around $87/barrel but has now slipped back to around $82/barrel.

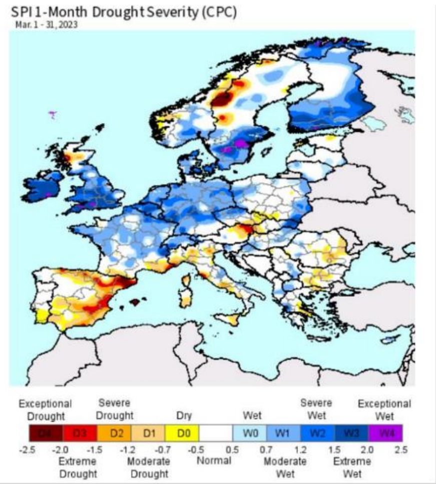
## Cereals:

With no alternative until the 2nd Brazilian maize crop comes to market from June/July China has continued to buy US maize at a rapid pace recently. Total US exports are close to the USDA target of 48MT and if China continues to buy then the already tight ending stocks will get tighter, so there is an upside risk there.

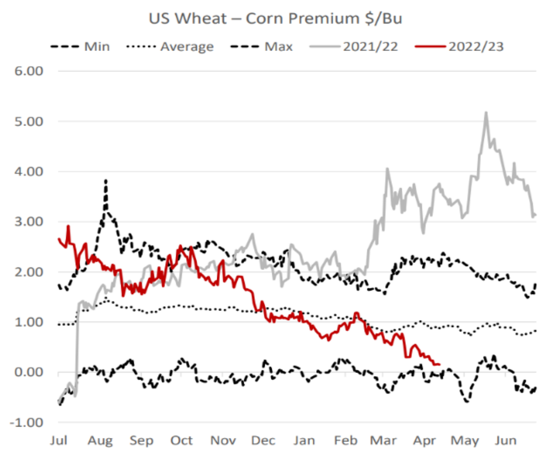
The US intended planted area for 2023 is higher than expected, with cheaper fertiliser available, so the upside risk is only really a factor until July. After that good Brazilian, EU and US crops should produce a plentiful supply and prices should ease. The combination of good crops from these areas is expected to more than cover the shortfalls from Argentina and Ukraine.

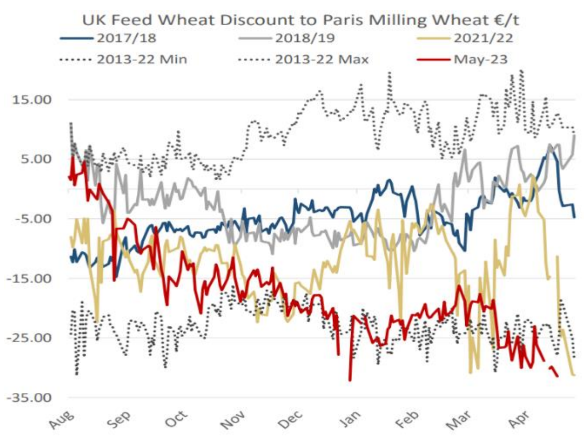
The outlook for EU maize production is brighter this year and should return to the long-term trend line with around 70MT produced following the severe drought of 2022 which reduced production to 53MT.




For wheat, the US managed funds are still very short, which means that any shocks to the system e.g., Russia blocking the renewal of the export corridor, could mean that they unwind their positions, thus amplifying any increase in prices. This increases the upside risk for wheat in the short-term. In the US wheat has fallen to the 10-year average minimum premium to maize (red line below left). In the UK, the price of feed wheat is also at a record discount to Paris Milling wheat at around 30 Euros/t and below the 10-year average minimum level (red line below right).




US winter wheat is still in very poor condition, with only 27% rated good/excellent overall, although some rain is forecast for the drier areas of the southern plains which is helping to soften prices. Spring wheat planting in the US and Canada is being slowed by cold and wet weather, so is only 3% planted in the US compared with 7% on average, but it is still early days.

The outlook for the 2023 Russian crop is improving, but there are concerns about getting the harvest done as spare parts for machinery are hard to source with the current sanctions in place.

EU crops, including the UK, are looking in very good condition, with plenty of moisture apart from Spain which is suffering from a drought. French wheat is at record NDVI scores and is rated around 95% good/excellent.

Barley is still trading at a £12-15/t discount to wheat and so represents an opportunity for this year, but with the very dry weather in Spain demand from there is likely to be strong for next year so not much discount is expected for new crop.

UK feed wheat for May 2023 rose from the lows of £190-195/t over the last few weeks to around £203/t but has now eased back to £195/t. Although the concerns about the extension of the export corridor have diminished a little, there is still a big upside risk if the unpredictable Russians try to put pressure on to get their demands met by delaying the renewal. The rain forecast for the US grain belt and lower than expected weekly export figures added to the pressure, but the US crops are in very poor condition so will need significant rainfall to make a difference.

Any change in market sentiment due to either this or the Black Sea situation could be magnified if the US funds get out of their short positions.

There is still a lot of wheat in the UK following the 15.4MT 2022 crop with weaker demand for animal feed and bioethanol, so wheat is seen as being cheap and it seems unlikely to go much lower in the short-term. Providing the Brazilian, US and EU maize crops meet expectations and the Russian and EU wheat crops do well then prices should ease later in the year (depending on what happens in Ukraine).

The advice is to continue to cover requirements up until this year's harvest and increase this to at least 90% at current prices, if not already done. For next year, the advice is to cover around 30-40% of requirements as opportunities arise with prices in the low £200s/t.

## Proteins:

The Brazilian soyabean crop is now around 90% harvested and still looks to be on track to achieve a new record 154MT total. This is well above last year's crop and should more than compensate for the drought stricken Argentinian crop, which the USDA forecasts to be 27MT but locally is now forecast to be only around 23MT, with large areas abandoned. The Argentinian SOY/dollar incentive scheme seems to be having little success so far in getting farmers to sell more beans.

With the La Nina weather pattern changing to El Nino (which should bring wetter weather to Argentina) in the outlook period the early forecast for the 2024 Argentinian crop is for a recovery to around 50MT. Based on a 23.9MT Argentinian crop the country is likely to import over 11MT from Brazil and Paraguay to make up the shortfall and if the crop is only 23MT this will increase further

US soyabean exports have levelled off at around 50MT and could now struggle to reach the USDA target of around 55MT which would take pressure off the currently tight ending stocks. Intended soya plantings for the US for 2023 are similar to 2022 and an encouraging start has been made to drilling in many areas.

The recovery in crude oil prices has pushed up vegetable oil prices and oilseed prices. US soyabeans are back over $15/bushel and as imports are also slowing EU rapeseed is also back to around 470 Euros/t.

Although rapeseed exports from the Ukraine for the 2022 crop are coming to an end some reports suggest that the 2023 crop may be better than once expected at around 2.7-3MT. EU rape crops are generally looking good with plenty of moisture and good growing conditions, but the planting of the Canadian canola crop is likely to be delayed due to the very wet and cold conditions.

With El Nino weather returning to Australia their rapeseed crop is likely to be well down from the 7.8MT record 2022 crop. The latest forecast has increased the probability of El Nino from 36% to 62% for May to July and to 80% later in the year. The last time they had full El Nino weather they only produced around 2.4MT

UK soyameal prices are still around £470/t for southern ports for May–October but have jumped to around £480/t for the same period from Liverpool. Nov–April prices are around £470/t.

For rapemeal supply remains very tight in the short term and prices have risen to around £315-320/t for non-Erith supply for May/June/July and £290-295/t for Aug/Sept/Oct and £300/t for Nov–Apr.

Given the potentially tight supply of rapeseed over next winter, assuming the Australian crop is well down, and with concerns over the Ukrainian and Canadian crops the advice is to continue taking cover through until Q2 of 2024.

US maize distillers supplies are still tight in the short term due to logistics issues in the US plus high domestic demand and plant maintenance. Spot prices are around £360/t from southern ports and £340/t from Liverpool.

The markets assume that the big maize crops from Brazil and the US will come into play later in the year and increase supplies of US maize distillers so prices for May–October fall to around £330/t and £306/t for Nov–April.

Soya hulls supply has improved for the next few months and prices have eased to £240-250/t depending on port for May–Oct and £250-255/t for Nov–April.

With the risks to supply from Argentina it is worth continuing to take forward cover for soya hulls which still represent better value for money than sugar beet pulp, although prices for this have also fallen to £306/t for May–Oct and £273/t for Nov–April.