Technical Update – Feed Markets

Information correct as at 09:00am on 24.02.2023

- Global economic news is generally more positive than recently.
- Despite Russian sabre-rattling, renewal of the Black Sea corridor is expected in March.
- Big 2nd crop of maize from Brazil and bigger US planted area means cereals should drop.
- Less optimism about rape supplies into 2024, but there could be more soya available.

General

The first anniversary of the Russian invasion of Ukraine is upon us and the ending of the current deal on the export corridor through the Black Sea is due on 18th March. Depending on Russian actions both events could result in increased volatility in agricultural commodity markets. Sabre rattling by Russia is expected but in the end, they need their grain exports to continue so the feeling is that the export corridor deal is likely to be renewed. However, with Putin's unpredictability there is always a risk that it will not happen and in the short term this is the biggest threat to world markets and agricultural commodity prices.

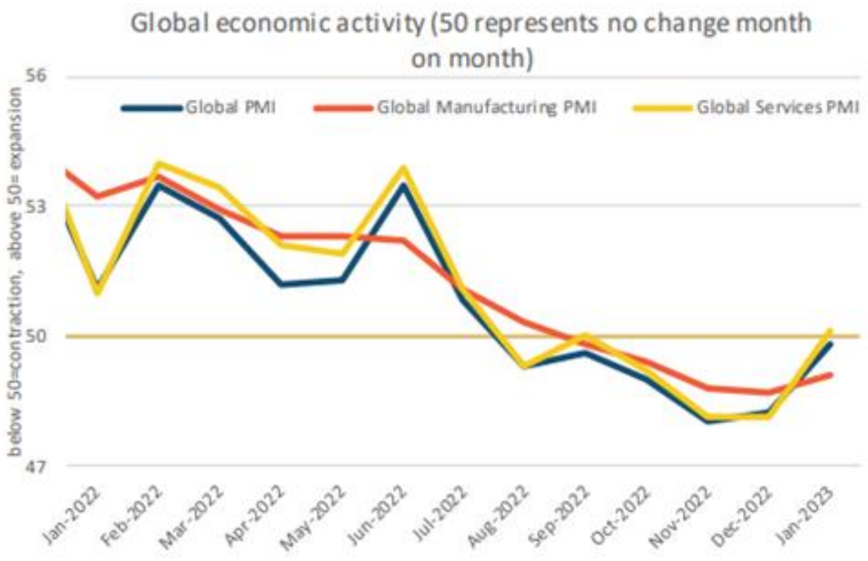
Apart from this threat cereal prices are generally back to predicted levels with weaker demand and lower priced supplies for grains coming from Russia and Ukraine exports putting downward pressure on prices.

The weather in south America is the other risk factor with dry and cold weather having returned to Argentina, affecting the outlook for their maize and soya crops.

The Chinese manufacturing sector is showing stronger signs of recovery after months of decline and with record savings built up during the lockdowns in China a spending bounce back is forecast.

The cost of shipping, as indicated by the Baltic Dry Index has fallen back to levels last seen in spring 2020 and with Brent crude oil back to around $80/barrel we are seeing downward pressure on vegetable oil prices.

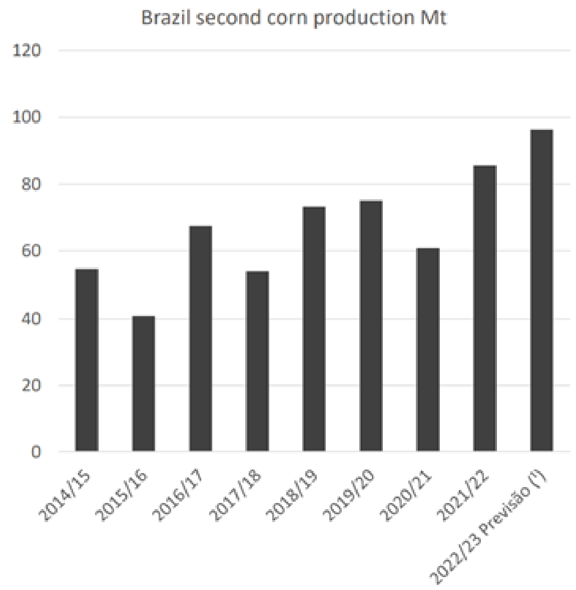
The chart below indicates that global economic activity may have turned a corner in January and the latest figures, just released, show the PMI indicator of economic growth at a better than expected 53 meaning the global economy is growing again.

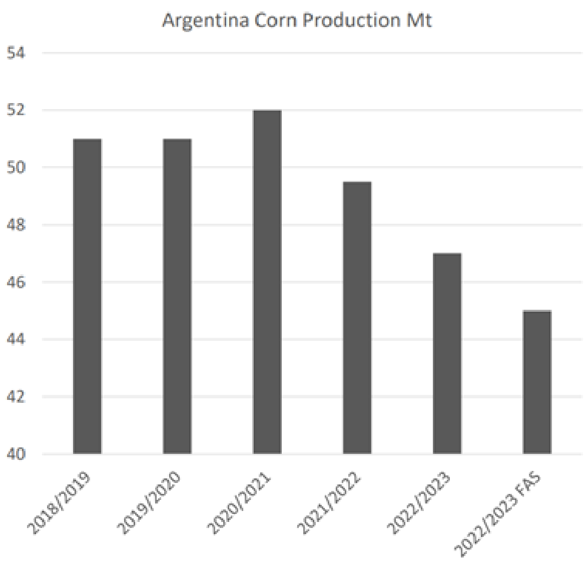


Cereals:

US maize exports continue to be very weak with only 13.7MT exported so far this year compared with 22MT by this stage last year. China has bought some maize from Brazil, but they will not have much more to export until the 2nd maize crop is harvested in June/July as they enter their seasonal period of rapidly reducing exports. A big unknown and therefore risk in the market is how much China will need to import over the next few months. If the amount is significant then they are likely to come back to the US and this could push prices up.

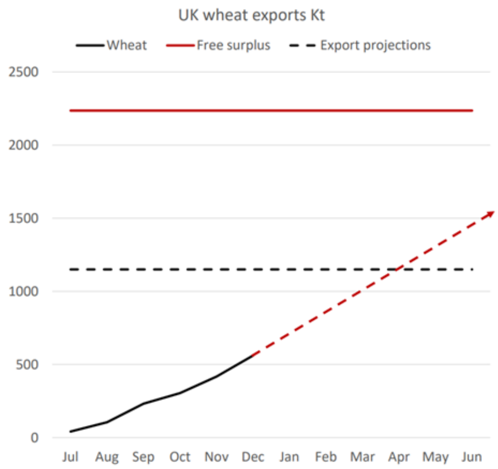
The wetter weather in most of Brazil has meant a slower soya harvest and therefore delays to 2nd maize crop planting, but in Matto Grosso, which is the largest maize producing state, 50% is now planted compared to the 63% average and catching up fast. This means that the forecast record 2nd maize crop of around 96MT is still on track. If achieved this will more than make up for the shortfall in production from the drought affected 2022/23 Argentinian crop. Recent rains have improved prospects for the later drilled crops there, but the weather there is now turning dry again.

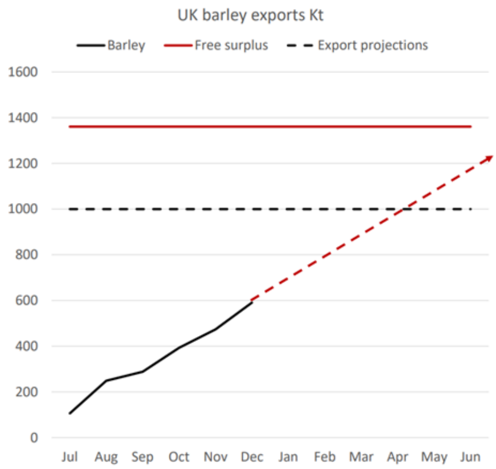




We should have an indication of US spring plantings shortly. The likelihood is that with the rapid fall in US fertiliser costs more maize will be planted than previously thought (maize requires around 5 times as much fertiliser than soya).

UK wheat and barley exports have been very good, with May 23 UK feed wheat prices around 15-20 Euros/t below Paris milling wheat and are likely to exceed export projections. Strong demand for barley from compounders and for export have reduced the discount to wheat to only around £10/t.





The outlook for EU wheat and barley crops for 2023 is very good at this stage with the first French crop rating of 2023 showing 92% good/excellent, which is the 2nd best in the last 10 years.

Large areas of the US wheat growing areas are very dry or still in drought and the extent of winter kill in Russia is still unknown, so there are concerns here.

Assuming that there is no spike in the short-term from unpredictable Russian actions in the Ukraine then the outlook for maize from June/July onwards is very positive, with a record Brazilian crop to come plus better than expected US spring plantings likely.

This will knock on into the wheat market. UK May 2023 wheat has fallen back to the lower end of the £230-240/t range and is unlikely to fall much further now. Current November 2023 forward prices are similar, but CRM forecasts suggest that the price by Q4 will be back to around £205/t, partly on the back of strong global maize production

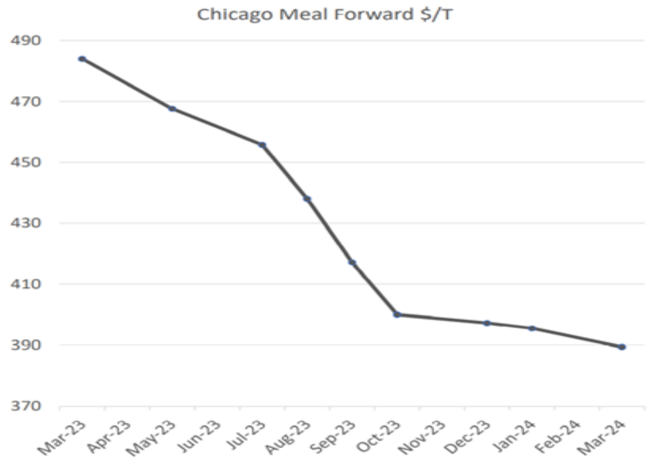
Although the renewal of the export corridor is thought to be likely if it does not occur the prices would surge, so again the risk averse should be taking further forward cover and those prepared to take more of a risk should wait for the expected easing of prices.

Proteins:

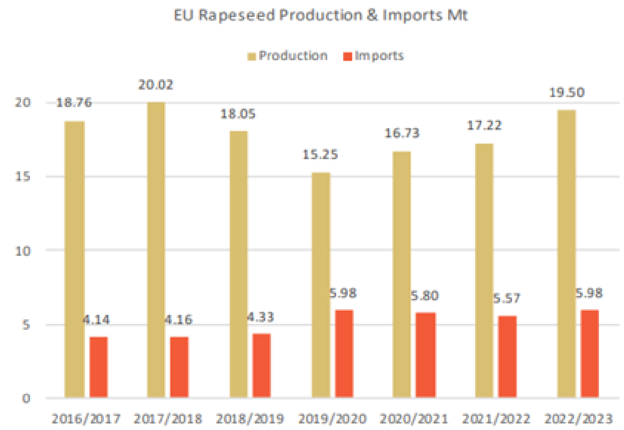
The Brazilian soya harvest is gathering pace despite the rain, with 21% now complete compared with 23% average. As the crop this year is forecast to be much larger than last year's (153MT vs 130MT) this means there are more tonnes harvested and in the pipeline. The outlook for the Argentinian crop is less certain. Recent rains improved NDVI scores significantly (and therefore later drilled crop prospects) but the weather forecasts have now turned drier, so uncertainty remains over the eventual outcome.

US soya exports are slowing down as they usually do at this time of year. With less US soya and soyameal coming onto the markets and with the prospects for Argentina, the major supplier of soyameal globally, looking poor the price of soyameal has stayed up at the high levels of the last few months. However, with the record Brazilian crop to come the outlook for soyameal is for prices to ease significantly as this year progresses. Some of this will depend on the corn vs soya acreage battle in the US this spring where the first "indications report" is due shortly.

The managed money funds are still long for soyabeans and soyameal so the likelihood is that they will have to get out of these positions sometime soon, which would magnify any price falls



There are mixed results for palm oil, with Indonesia imposing significant export restrictions to keep their domestic cooking oil prices down but Malaysia reporting exports up 28% month on month. The record Australian oilseed rape crop is being imported into the EU at a strong pace and industry data for December showed the highest EU crush since 2014.



Prospects for the 2023 oilseed rape harvest are mixed, with EU forecasts improving but production in the Ukraine will fall significantly due to the difficulties the ongoing war is creating. Estimates are that their production could be reduced by a third to around 2.4MT

With the La Nina weather pattern forecast to change to El Nino Australian production is also forecast to fall next season. Therefore, the outlook for rapeseed supply into 2024 is a cause for concern but being offset by strong soya production.

UK soyameal prices have stayed up over the last few weeks at around £500-510/t for May – October Rapemeal prices have eased back a little to around £330/t for May-July and £305/t for August – October for non-Erith supplies. This is still good value compared with maize distillers at around £330/t for May – October

Soya hulls are well down on prices of a few months ago at around £270-280/t for May – October. If the Argentinian soya crop forecast keeps being reduced the supply of soya hulls is likely to fall so worth keeping booking plenty of cover forward.