Technical Update – Feed Markets

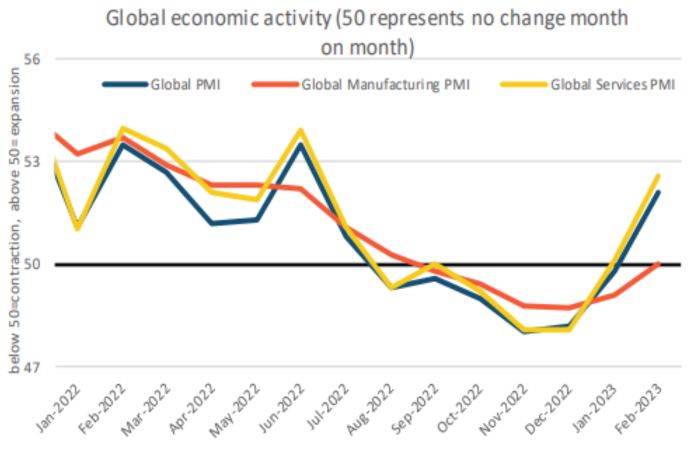
Information correct as at 09:00am on 24.03.2023

- Black Sea export corridor deal extended, but duration of extension is a little unclear
- Global economic signals continue to improve
- Interest rates increase a further 0.25% in UK and US
- Global maize production predicted to reach 1.2BT in 2023
- Record soya crop coming from Brazil

General:

The Black Sea export deal, which was due to end on March 19th, has been extended, by 60 days according to Russia and 120 days according to Ukraine. The markets have welcomed this and with the removal of the risk of the deal not being extended prices have been under significant downward pressure as exports of cheap grain from Russia and Ukraine can continue.

There have been further signs of the global economy recovery, with global indicators all showing a further uptick above 50, showing that the global economy is expanding again. Also showing an uptick is the Baltic Dry Index, indicating that demand for bulk shipping is increasing again



There has been much turmoil in the banking and financial sectors recently, but the large bailouts and acquisitions for Credit Suisse and SVB bank seems to have calmed the markets and stopped any further contagion for the moment.

Despite this the US Federal Reserve has continued its upward trend in interest rates, adding a further 0.25% to 5% as the battle to reduce inflation continues. The unexpected rise in the UK inflation rate to 10.4% for February has meant that the Bank of England has also followed suit with rates rising to 4.25%. The governor of the Bank of England has also stated that he is “more hopeful” of the UK avoiding recession.

The £:US$ rate has increased from around 1.18 to 1.23 in the last week, which will help with the cost of imported goods.

May 2023 Brent Crude oil futures fell on the banking sector concerns and their possible effect on economic recovery, back to around $70/barrel, the lowest since December 2021, but they have since recovered to around $76/barrel.

Cereals:

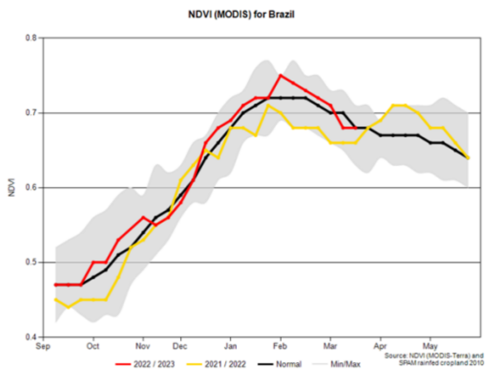
The extension of the Black Sea export deal on March 19th was a major relief to the markets and is part of the reason for further falls in grain prices recently, though there is still uncertainty over whether the extension is for 60 or 120 days. In addition to the downward pressure from the banking sector issues, further pressure on wheat prices came from the more optimistic forecasts for maize production for 2023, which caused wheat prices to fall as well.

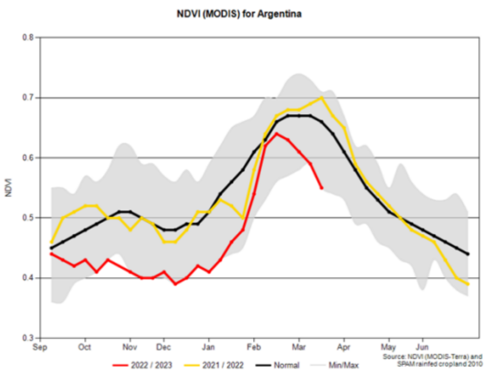
Following the bumper 2022 crop UK feed wheat is priced towards the lower end of the range compared with Paris milling wheat at around 20-25 Euros/t lower and this makes it attractive for export.

US maize export sales have been poor all season and well below target, but in the last few weeks China has suddenly started to buy again with over 2MT sold last week. Purchasing from Brazil is an option for China this year, but they will not have much available for export until June/July so any further demand from China will have to come from the US as the availability from Ukraine is now limited.

The March USDA Intentions Report had the US maize acreage for 2023 at around 91M acres, which would be 2M acres above the 2022 level, partly due the rapid fall in fertiliser prices in the US due to cheaper gas

NDVI crop condition scores from satellite imagery still shows Brazil looking good and overall plantings have been catching up after a delayed start despite too much rain in places. Argentina had some rains during January, which caused NDVI scores to improve, but the dry weather since then means NDVI scores have fallen back to poor levels. The latest crop forecast is around 35MT, 25MT below the original forecast



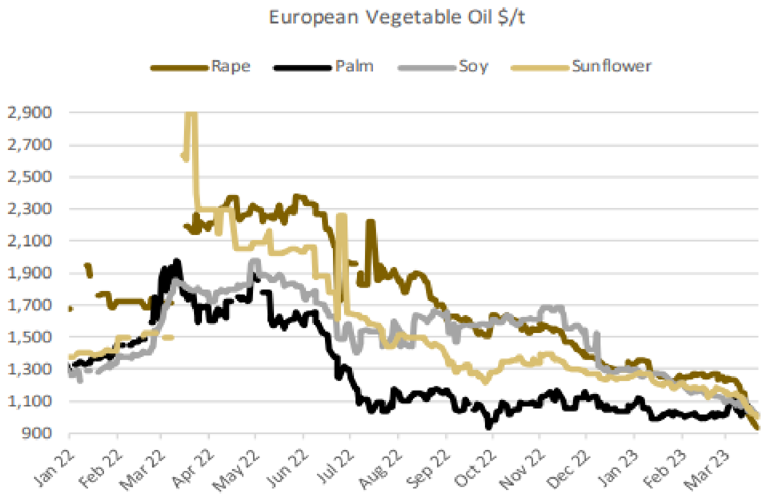


Despite the smaller Argentinian and Ukraine crops due in 2023, with the larger Brazilian and US crops to come, the latest forecast from the International Grain Council shows a 52MT increase in world production over 2022 to 1.2BT. This results in a more bearish outlook and adds to the general downward pressure on all cereal prices.

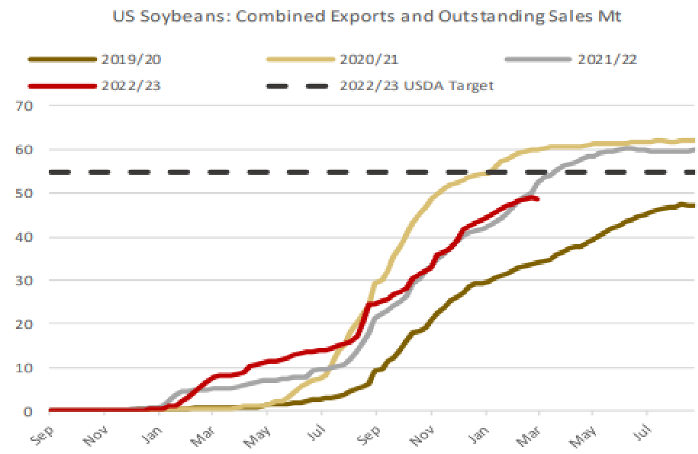
A lot of rain has fallen across Europe recently, alleviating the fears for winter crops with French wheat and barley still well above 90% good/excellent. UK May wheat prices have fallen back to around £194/t and represent another opportunity to take further forward cover if needed until harvest but at present the feeling is not to take too much cover beyond with November 2023 at £212/t.

Proteins:

Harvest pressure from the start of the record Brazilian soya harvest of 152MT and dramatic falls in oil and other commodities in the last few weeks has caused vegetable oils to fall further.



US soyabean exports have been strong all season but are now easing back to minimal levels and the USDA target may not now be reached

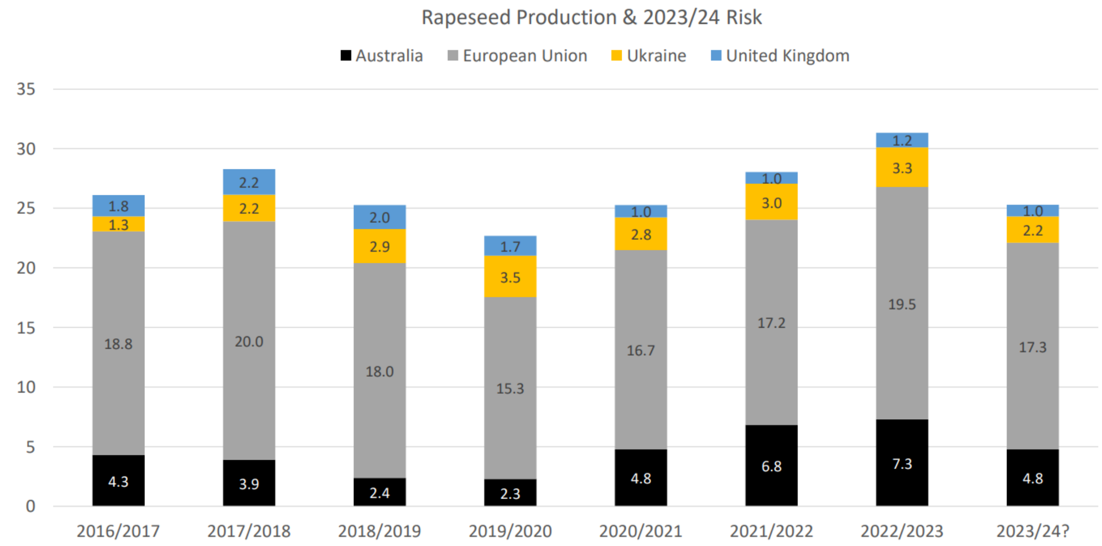


In contrast to the Brazilian harvest the Argentinian crop continues to be downgraded, with the latest forecast from local sources putting the crop as low as 25-27MT compared with the initial forecast of 45-50MT. The likelihood is that Argentina will have to import up to 10MT of beans from Brazil to keep its crushing industry going and this will add to costs and prices of meal and oil.

The managed funds are starting to get out of their long positions for beans and meal and this will add further pressure to price falls. The Brazilian and Argentinian situations are now "Known Knowns" so much will depend on the US spring plantings for soya supplies during the latter part of 2023.

Strong imports of oil seed rape into Europe from the Ukraine initially and now Australia, 2.4MT so far and up 76% year on year, have added to the pressure on EU rapeseed prices, with Paris rapeseed falling to 430 Euros/t. The latest forecast for 2023/24 for the major rapeseed producing countries (excluding Canada) is shown below, with reductions in every case. Canadian conditions have been dry and a move to an El Nino weather pattern could bring more dry weather through the growing season so at this stage the outlook is uncertain.

There is obviously a long way to go before any of this becomes a reality for any of these countries, but major weather events could change everything.



The sharp increase in UK soyameal prices in early March to £520/t for May – October has now been eroded and prices are back to around £475-480/t. Rapemeal prices have followed a similar trend and are now the lowest they have been for new season Aug/Sept/Oct with Erith at around £272/t and £276/t for November 2023 to April 2024.

Although the market is still falling at present, given the risks of weather and other factors affecting forecasts, then it is well worth taking some/further cover at these prices through until April 2024.

Soya hulls have also fallen to around £265-270/t and although sugar beet pulp prices have also fallen soya hulls are still the best value. With the issues in Argentina, it would be a good idea to keep taking forward cover.

If oil prices stay low then the price of ethanol will fall so not as much may be produced, thus lowering distillers' grains availability in the outlook. US distillers are around £335/t May – October and limited Vivergo wheat distillers £355/t

Maize Gluten has also fallen back from around £330/t for May – October in January to £308/t.