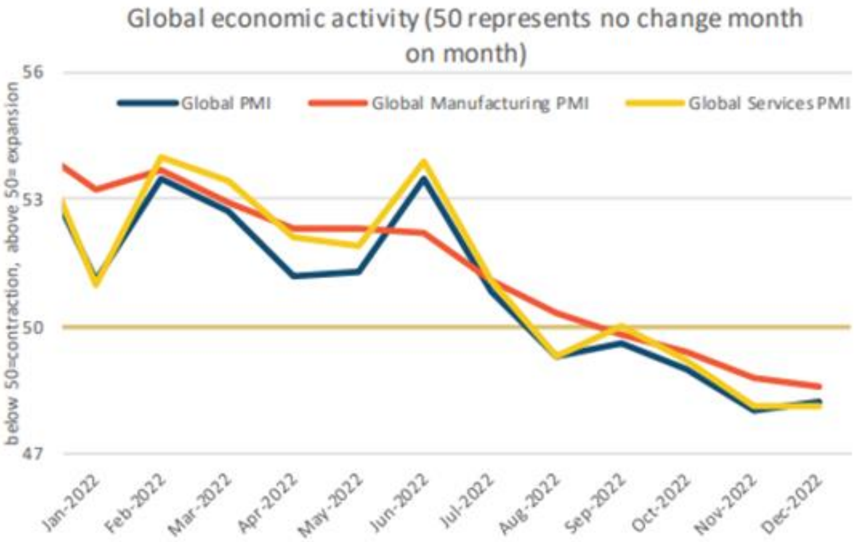
Technical Update – Feed Markets

Information correct as at 09:00am on 27.01.2023

- Market volatility still significant due to weather and geopolitical issues
- Global economic signals showing signs of declines levelling off
- Some useful rain in Argentina, but more still needed
- Wheat prices drop to lowest level for months before staging a recovery

General:

The latest global economic activity figures for December show that manufacturing continued to decline but Services and PMI (Global Purchasing Managers Index), indicating the overall health of the economy seemed to level off.



Recent data from the US, China and the EU also seem to indicate that the decline in the global economy is slowing, with US figures published yesterday being better than forecast. The feeling is now that any forthcoming recession may be less severe and shorter lived than recently feared. If all this results in inflation falling and economic activity picking up, then this should mean fewer and less severe interest rate rises to come.

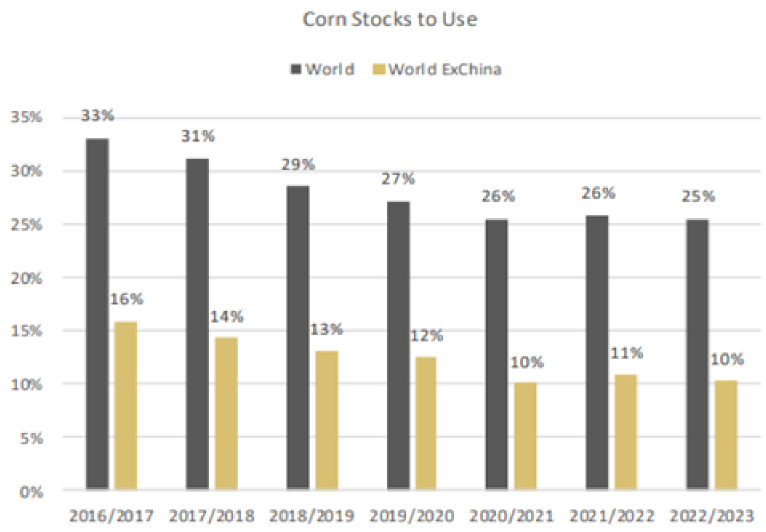
As the outlook for inflation falls and the Chinese economy picks up crude oil prices are strengthening but remain volatile. Brent Crude prices are back up to c.$86/barrel. The £ has remained at around 1.23-1.24 to the US$.

We are now in the traditional "weather market" period of the year when changes in the weather, particularly in south America, can cause major swings in market sentiment as their cereal and soya crops reach critical stages of harvest and planting.

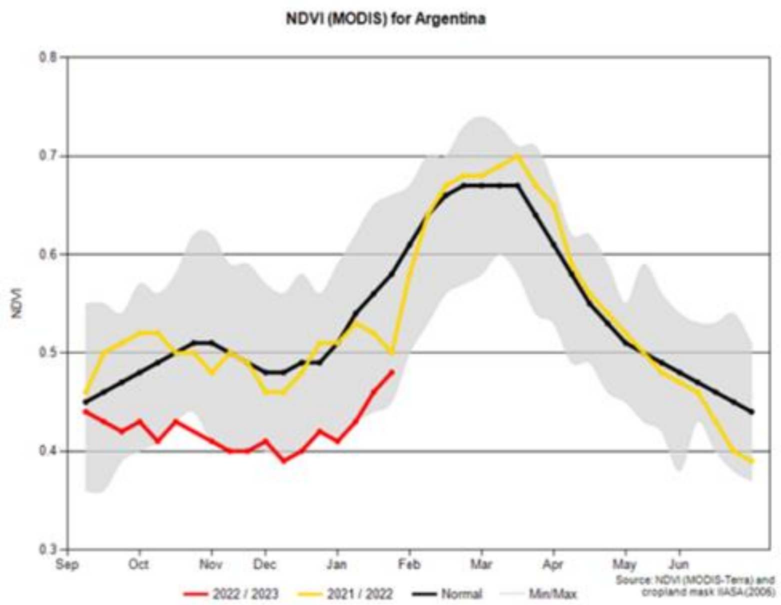
Cereals:

The export corridor from the Ukraine remains open and is working very well at present. Rapeseed exports have all but finished for the season, but maize and wheat continue. To date we have seen approximately 8MT of maize, 5MT of wheat and IMT of rapeseed travel through the Black Sea.

US maize exports remain very slow but there has been a bit more interest, including from China, since the New Year. However, global stocks and stocks:use ratio (i.e. supply/demand) remain tight at only 10% excluding China. This means that any shock to the system could produce a significant price increase.



Argentina has had some very useful rain in the last few weeks and this has at long last boosted the NDVI scores, indicating improved crop health for maize and soya crops, but as can be seen below it is still well below normal.



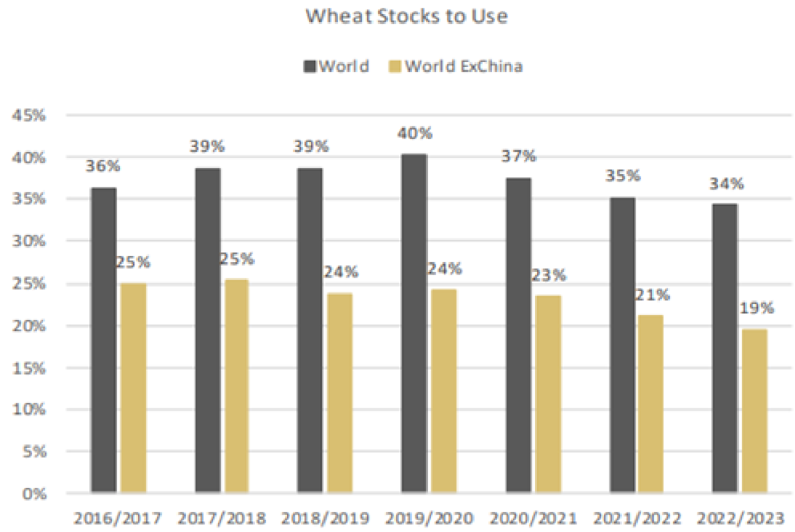
With the La Nina weather pattern (which has been causing their severe drought) weakening fast now it remains to be seen if more rain comes in time to save some crops from the damage which has been caused so far. The Argentinian authorities have recently reduced their forecast for the current maize crop by 5.5MT to 44.5MT.

The rain in Brazil has been heavier and more persistent in the last month which has slowed the soya harvest and delayed planting of the critical 2nd maize (Zafrina) crop. It is early days, but only around 2% has been planted compared with 10% this time last year. If this continues, then much of the crop will miss the ideal planting window and forecast yields could be reduced.

US bioethanol production from maize has been relatively low for several weeks but has recently picked up to around 1 million barrels/day.

On the wheat side the rain in Argentina is too late for the wheat crop which has now been downgraded to 12.5MT compared to 22MT in 2020/21. However, this is more than offset by Ukrainian and Russian grain which continues to drag prices down on global markets with Ukrainian wheat around $50/t below EU wheat at present. The massive Russian crop is now being exported quickly and is also putting downward pressure on wheat prices, although the USDA have cast doubt of the size of the 2022 harvest estimates. In addition, the very large Australian crop is also now coming onto world markets.

With US wheat ending stocks around 15MT and EU ending stocks around 11.5MT world stocks are low and stocks:use ratio is also low, so again any major shock to the system from weather or geopolitics could cause a significant increase in prices. Indeed, yesterday saw prices rally as the uncertainty in Ukraine increased with more shelling and the projected harvest there was downgraded to 16MT of wheat and 18MT of maize compared to USDA estimates for 2022 of 21MT and 27MT respectively.



US Managed Funds are very short on wheat which means they could opt to get out of these positions if there was an increase in price, and this would amplify the effect.

There has been some snow in the US which may help the large acreage of winter wheat which has been planted (protecting against winter kill and providing moisture when it melts), but it is still currently at very poor crop rating levels due to lack of moisture. Texas is now rated 11% good/excellent compared with 21% in late November due partly to the severe cold snap and partly to continuing dry weather.

In the UK the large 2022 wheat crop of around 15.4MT, with reduced demand for animal feed means around 2MT is now available for export. The premium of North Humber wheat over East Anglia remains at around £16/t, suggesting that Vivergo are still buying wheat. However, it is thought that with poor ethanol margins the plant is not running at anywhere near full capacity and they are having to buy in distillers' grains to meet their forward orders.

The UK barley discount to wheat has, as predicted, narrowed to around £10-15/t from around £30/t earlier in the season but is still worth looking at for inclusion in diets.

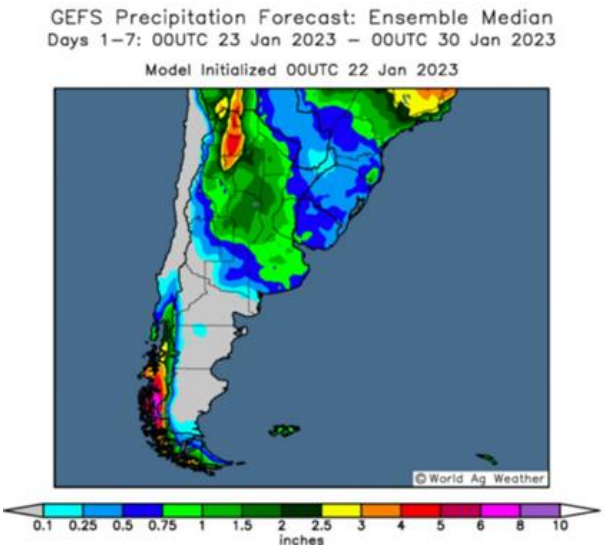
With the rain in Argentina pushing down maize prices and the continuing strong Black Sea exports UK wheat futures prices for May fell to £223/t early in the week before recovering to £231/t yesterday as buyers started to take cover.

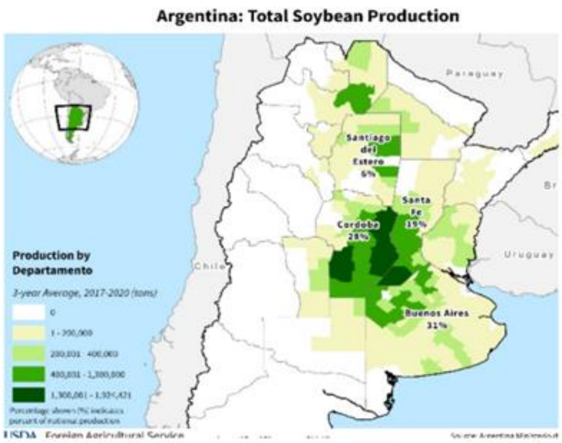
The latest CRM forecast is for these prices to continue to fall as the year progresses to £205/t in Q4 (despite some estimates for average cost of production for 2023 of around £230/t), BUT they also warn of the upside risks which are there from potential geopolitical and weather events around the world

The more risk averse may want to continue to take forward cover at current prices to average out at a sensible price overall whereas the "risk takers" may want to hold off and see if forecast price falls come to fruition before taking further cover.

Proteins:

The rains in Argentina have altered market sentiment towards a more bearish feeling and soyabean prices have fallen back, although the last assessment of the soya crop, now around 90% planted, showed only 4% good/excellent, 40% fair and 56% poor/very poor so more moisture will be needed to turn the crop around. The latest weather forecast to the 30th January, below, shows continuing good rain in the main soya growing areas so we will have to wait and see how this eventually affects the crop before harvesting between April and June. This is critical as around 40% of the world's soya exports come from Argentina





In Brazil the picture is still looking positive overall, but the most southern states are still very dry and there has been too much rain in some other areas recently which is delaying the freshly started harvest of their potentially record crop of 153MT. US soyabean exports continue at a rapid pace with China still a major buyer, but the recent rains in Argentina have been enough to cause prices for soyabeans to weaken over recent weeks.

US Managed funds have been very long for soyabeans quite some time, indicating that they saw prices remaining high, but if the prospects for the Argentinian crop improve significantly then they may well change their position. The recent strong rally for EU rapeseed has ended and prices have followed soya down and are now at around a 7-month low of around 530 Euros/t. Supply to the EU has improved with strong imports from the large Canadian canola crop and the record 6.7MT Australian crop now coming through.

A further reason for more negative market sentiment has been the suggestion from Germany that plant-based oils for biofuel, including rapeoil for biodiesel, should be stopped by 2030.

Rapeseed supplies for 2023/24 are causing concern, with the Ukrainian crop likely to be well down because of the continuing war with Russia and as the La Nina weather pattern changes to El Nino Australia is set to return to dry conditions and lower production.

Palm oil prices have fallen back from peaks of over $1400/t to around $910/t now and palm kernel is back at under £200/t in the UK ex-port. UK soyameal prices have fallen back in the last week to around £520/t for February – April and £474/t for May – October.

Although spot non-Erith rapemeal availability is patchy and prices are high at around £375/t, prices have fallen back to around £310/t for May – July and around £300/t for August to October.

Wheat distillers are in very short supply or unavailable following reduced production by Vivergo. US maize distillers are around £360/t for February – April and £334/t for May – October.

Soya hulls have also fallen back to around £275/t for May – October from southern ports and although sugar beet pulp prices have also fallen back, they are still around £65/t above soya hulls and not good value. Forward prices for soyameal and rapemeal have factored in the expected increasing supply through the summer and along with soya hulls look good value for this period and further cover should be considered if needed.

Along with the lower wheat and barley prices concentrate prices for the summer are looking more attractive and again, with the upside risks of volatility around, the more risk averse may want to take some cover for this period.