Technical Update – Feed Market

Information correct as at 09:00am on 16.06.2023

- Wheat and rapemeal have both firmed in the last two weeks.
- Weather forecasts and actual rainfall causing volatility in classic "weather market".
- Concerns over dry weather in maize/soya areas of US.
- Very few ships now coming through the Black Sea corridor.

General:

The latest USDA World Agricultural Supply and Demand Estimates (WASDE) report, published on 9th June, was bearish for wheat but neutral for maize and soyabeans, with only slight implications for prices.

The cuts to oil production announced by OPEC+ and more recently unilaterally from Saudi Arabia has firmed Brent Crude oil to around $74-75/barrel but demand for oil remains weak, particularly from China.

The £ continues to perform well against the US$ and is currently around 1.26 £:$, partly down to likely further interest rate rises in the UK, while in the US the Federal Reserve has not made a further increase at this stage and the latest jobless figures have come in higher than forecast.

Exports from Ukraine are at seasonal lows whilst the Russians continue block and slow any attempts to move goods. Recent comments by Russia about the future of the export corridor deal, such as "no prospects for renewal", are causing concern and the Ukrainian offensive into areas occupied by Russia will not help the Russian mood.

These concerns and weather issues in key growing areas of the world had caused an increase in agricultural commodity prices generally over the last 2-3 weeks. However, on 14th June rain was forecast for the US corn/soya growing areas, Russia spring wheat area and France and reversed this trend, but by 15th the rain prospects were downgraded in the US and prices rose again indicating the volatility caused by the weather at this time of year.

Daily market movements

Key Markets	Expiry	Last price	Change	% Change	20 Day Chart
Feed Wheat	Nov-23	199.00	2.55	1.3%	
Milling Wheat	Dec-23	240.50	1.50	0.6%	
Wheat SRW	Dec-23	670.50	13.50	2.1%	
Corn	Dec-23	564.75	15.50	2.8%	
Rapeseed	Nov-23	447.75	6.25	1.4%	
Soybeans	Nov-23	1276.75	36.75	3.0%	
WTI Crude Oil	Jul-23	70.26	1.99	2.9%	
GBP EUR	£1 = €	1.28	0.0104	0.8%	
USD EUR	$1 = €	0.91	-0.0090	-1.0%	

Cereals:

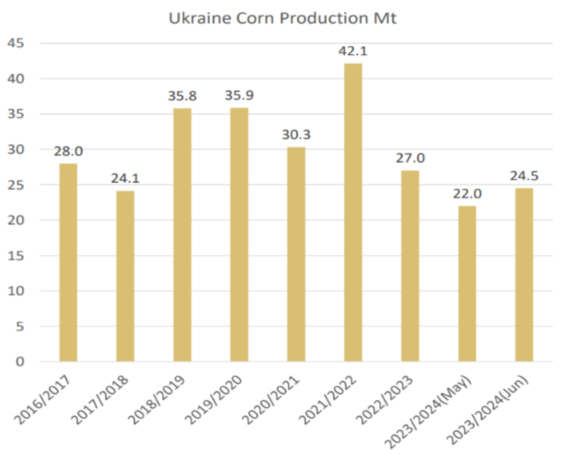
The June WASDE report estimated US maize production to increase by around 40MT for 2023/24 compared to 2022/23, with ending stocks increasing by around 20MT. The US crop is now 93% emerged compared with a 5-year average of 87% but the good/excellent rating has fallen by 4% in the last week to only 61% due to the continuing very dry weather. The latest weekly USDA drought monitor showed nearly 49% of the Mid-West in drought, a very high level for this time of year.

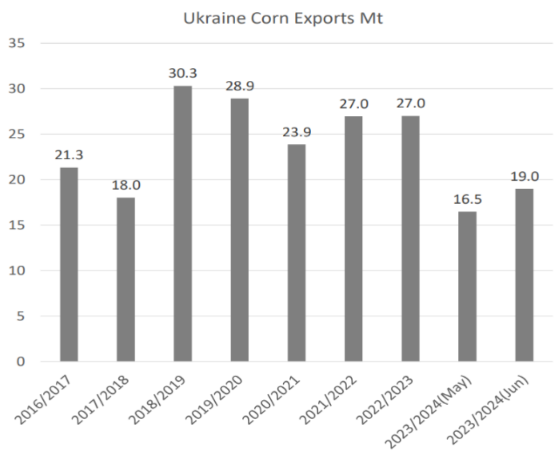
This should change if the forecast rains arrive and in theory the strengthening El Nino should bring wetter weather to the US maize and soya growing areas.

China has continued to cancel previously booked orders from the US in favour of cheaper imports from Brazil. However, US domestic demand has increased as the recent E15 mandate comes into effect which forces 15% bioethanol into fuels, up from the current 10%. Chicago maize prices have continued to increase from around $5/bushel a month ago to around $5.5/bushel now.

The June WASDE report held the Brazilian maize crop for 2023/24 at just over 130MT, similar to 2022/23, but increased the Argentinian forecast from 37MT in 2022/23 to 54MT in 2023/24 due to El Nino benefits. The forecast for the EU maize production was also increased from 53MT in 2022/23 to 64MT in 2023/24

Production from the Ukraine was also forecast to increase slightly, but that was before the Khakhovka dam was blown up with around 580,000ha flooded and irrigation systems destroyed.

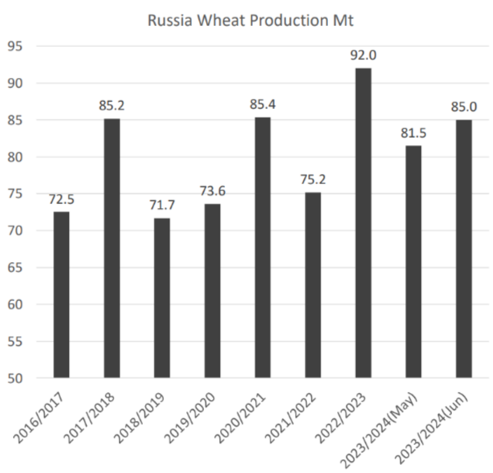


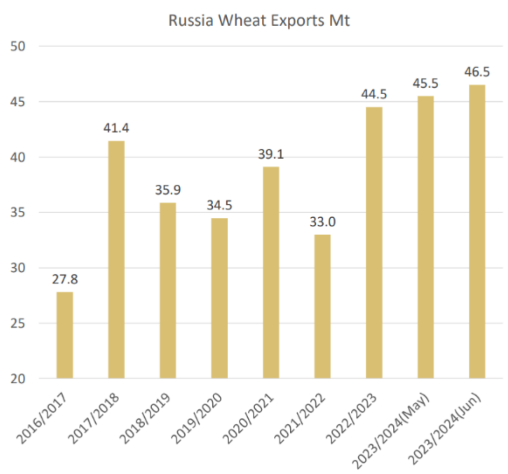


Market sentiment in relation to maize will continue to fluctuate over the coming months with volatility in prices as weather and geopolitical events unfold.

The June WASDE report was generally bearish for wheat, with strong production forecast for Russia, the EU and India in particular. It did not cut the forecast production estimates for Australia where dry weather due to El Nino is expected to have an effect and wet weather in China is causing concern so the outlook may change in future reports.

The US winter wheat good/excellent rating has finally improved to around 38% as rains have arrived on the plains in the last month, but much of the damage has already been done. The weather in Russia has been favourable so far for winter wheat but hot dry weather has affected much of the spring growing areas, although rains are now forecast.





The recent dry weather in many areas of the EU has caused a reduction in the COCERAL total wheat forecast production from 303MT to 297MT.

The ongoing conflict in the Ukraine continues to cause concerns in the markets for wheat and all other agricultural crops. Virtually no exports are coming from Ukraine now as Russia blocks ship movements. There are also doubts over whether they will agree to an extension of the deal when it runs out in July unless concessions are made over sanctions against them.

UK wheat futures prices are now around £179/t for July and £199/t for November. They have increased by around £20/t in the last 2 weeks due to concerns over the Black Sea situation and weather events, fluctuating depending on the weather forecasts for key growing areas around the world.

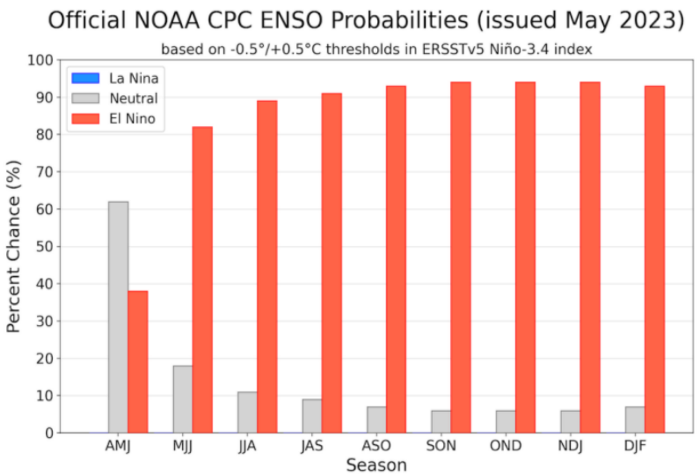
Despite the strong fundamentals for wheat overall the volatility is likely to continue as weather and geopolitical events unfold, but with harvest due to start shortly traditional seasonal pressure should help ease prices.

Hopefully most have followed previous advice and secured 100% cover to harvest and 20-30% cover for autumn/winter 2023/24 before increasing this when harvest pressure kicks in.

Proteins:

The June WASDE report increased the record Brazilian crop by 1MT to 156MT. This will compensate for the poor crop in Argentina which is now expected to import around 10MT of soya from Brazil.

The WASDE report increased the Argentinian soyabean forecast for 2023/24 to 48MT compared with 27MT for 2022/23 as the beneficial effects of a strong El Nino are expected to be felt. The table below showing 90+% chance of El Nino through to early next year.



The US soya crop has now reached 86% emergence, but the good/excellent rating has fallen back 3% to 59% in the last week with very dry weather in many growing areas and 40% of the cropping area officially in drought. As with maize, the recently forecast rains and the strengthening El Nino weather pattern should mean that conditions improve in time for the critical July/August period.

Chinese demand for soyabeans has been strong recently and is now 11% up year on year to May. Although mainly sourced from Brazil this is helping to keep upward pressure on prices across the board and allowing forecast US ending stocks to increase from around 6.2MT in 2022/23 to 9.5MT in 2023/24.

The June WASDE report cut the forecast for the Australian canola crop from 8.3MT in 2022/23 to 4.9MT in 2023/24 as El Nino takes effect. Hot, dry weather in parts of the canola growing areas of Canada is now causing concern for the outlook of their forecast 20.3MT crop. In the EU the OSR crop is still forecast to be around 21MT, despite recent dryness in many areas.

The ongoing conflict in the Ukraine means there are concerns over the size of their crop and the ability to export it, but the area affected by the recent dam damage is not a major rapeseed producing area.

As crude oil prices have recently firmed vegetable oil prices have followed. Demand for soya oil going into biodiesel has also increased recently.

Ex port UK soyameal prices continue to fall with July-April prices around £405-410/t – around £100/t down from where they were 3 months ago.

Rapemeal supplies remain tight in the short term with prices very high and POA. Erith and some other crushing plants are closing for maintenance during July, so July/August/Sept prices have been dragged up as well. New crop prices have also been brought up to around £280/t for southern ports for September/October and similar for November–April, a rise of around £10/t in the last few weeks.

Maize distillers are now cheaper than rapemeal, having fallen around £50/t in the last 3 months, back to around £277/t for July–October and £262/t for Nov–April.

Soya hulls remain around £200/t through to October before increasing to £210-220/t for November–April.

Hopefully most will have heeded earlier advice and be well covered for rapemeal through the summer and autumn and have enough cover through winter to wait for harvest pressure and crushing to resume. There are opportunities to be had for some of the other raw materials if they can be fitted into diets.