Technical Update – Feed Markets

Information correct as at 09:00am on 19.05.2023

- Black Sea export corridor extended for another 60 days.
- Demand for animal feed down in UK and Europe.
- Forecast stocks to use ratio steady for wheat, but lowest for 10 years for maize.
- Soya ending stocks forecast to increase.
- Markets still very "fragile" so continued cover on "£ cost averaging" makes sense.

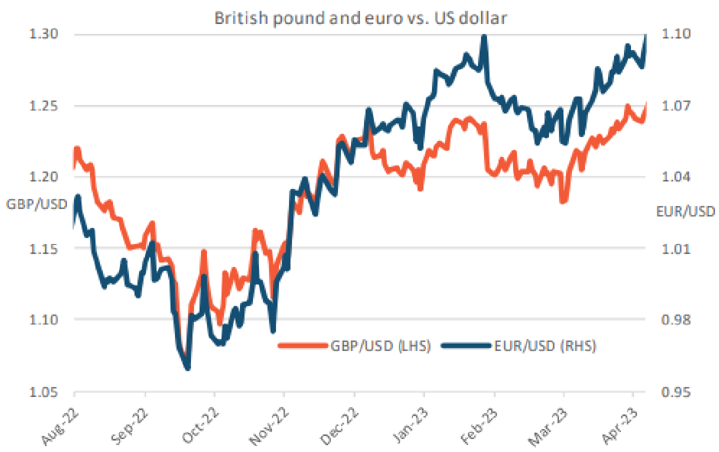
General

The Black Sea export corridor deal, which was due to expire on 18th May, has been renewed for a further 2 months at the "11th hour". With so much uncertainty over the future of the deal no ships had entered the corridor for some time, so export levels have slowed down, but the market sentiment has shifted to relief and prices have fallen.

The other major news in the last week was the release of the May USDA World Agricultural Supply and Demand Estimate (WASDE) report which gave the first supply and demand estimates for the 2023/24 year. This turned out to be bullish for wheat and bearish for maize and for soyabeans.

Demand for animal feed continues to be weak, with the latest figures for the UK for March 2023 vs March 2022 showing -14% for pig feed, -12% for sheep feed and -7% for poultry.

The £:$ rate continues to be stronger than it has been at around 1.25, which is also helping to reduce the price of imported goods.

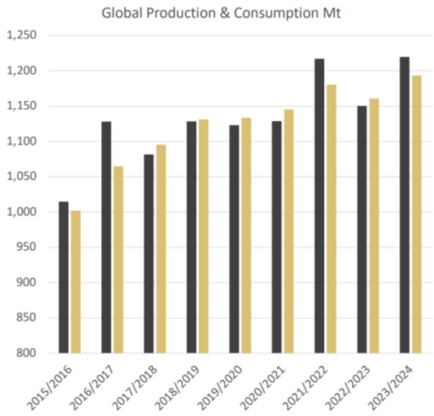


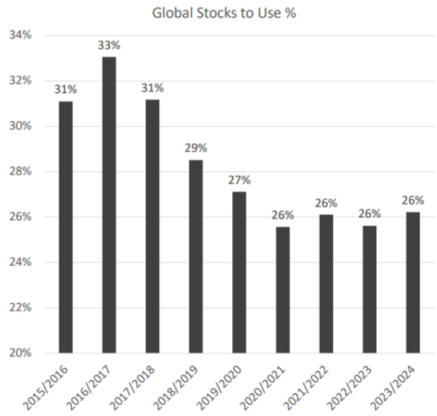
Cereals:

The May WASDE report suggests that global maize production is forecast to increase by 6% y-o-y to 1.22 billion tonnes in 2023/24. Ending stocks are forecast to increase by 15.5MT to 313MT, but the stocks:use ratio is forecast to remain at around 26%.

The main contributors to the increased forecast are the US, Argentina and the EU which more than compensate for the reduced production expected from Ukraine.

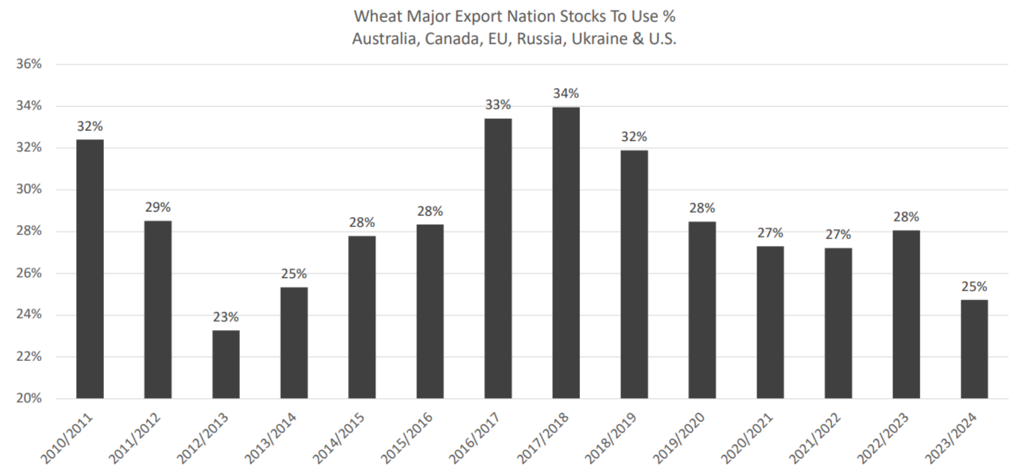
Following the WASDE report plus the Black Sea deal extension and further cancellations of US corn imports by China, Chicago prices fell back to under $5/Bu for July, the lowest for around 12 months.





US maize drilling is now 65% complete compared with the 5-year average of 59%. Ground conditions and weather are good at present. However, this is still an early stage in the season and there are upside risks from the weather in various key growing areas around the world.

The May WASDE report was more bullish for wheat. Forecast production for 2023/24 is around 790MT and ending stocks around 264MT, down around 2MT on 2022/23. The stocks:use ratio for the 6 major exporters is forecast to fall to 25%, the lowest in 10 years.



US winter wheat condition remains at only 29% good/excellent following the extended drought in the main growing areas, despite some rains recently. The northern US states and Canada, where the spring wheat is grown, have had a slow start to drilling due to the late, cold and wet spring.

With the El Nino weather pattern strengthening there is concern that this will now bring dry weather to this area as well as to Australia, but it should have benefits elsewhere, particularly Argentina.

The Ukraine crop is forecast to fall back to 16.5MT for 2023/24 from 21MT last year and the Russian crop is forecast to fall to 82MT from this year's USDA figure of 92MT, but Russian exports should remain at a similar level.

EU and UK winter wheat crops are generally looking very good with the EU wheat crop forecast to increase from 134MT to 139Mt. Demand for feed wheat and other compound feed raw materials has been low for some time, which is putting downward pressure on prices.

UK feed wheat continues to trade at around 30Euros/t lower than Paris milling wheat on the spot market and at a discount of 15Euros/t for November so is seen as being cheap with large stocks on farms and strong exports continuing.

Current forward prices are around £180/t for July and £187/t for November 2023 with barley still around £10-15/t lower and representing an opportunity.

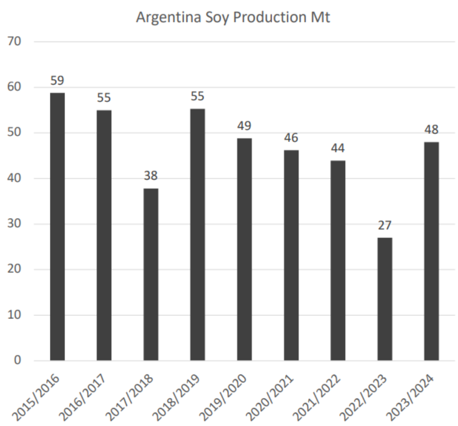
The initial reaction of the markets to the WASDE report was for wheat prices to increase, with November 2023 futures back up over £200/t. However, the last-minute renewal of the Black Sea export corridor deal has changed market sentiment, although the market fundamentals remain the same.

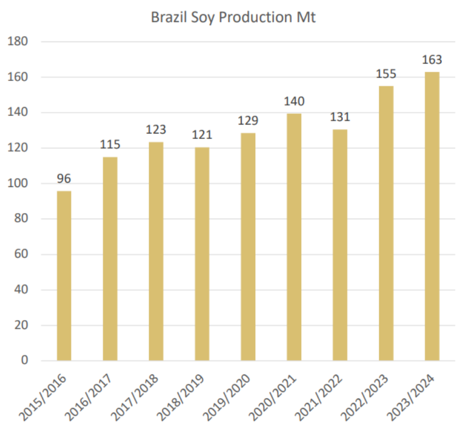
At this stage in the wheat and maize growing seasons, with the upside risks from potential weather events, the view is to err on the side of caution. Therefore the advice is to have full cover through to this year's harvest and for next autumn/winter the more risk averse should be aiming for around 30% cover now at current prices before increasing this to c. 60-70% when harvest starts and traditional "harvest pressure" usually lowers prices.

Proteins:

The May WASDE report was bearish for soyabeans, with "world less China" production forecast to increase globally by 11% between the 2022/23 and 2023/24 years from 350MT to 390MT. This is based on increased production from Brazil and the US plus an assumption that Argentina recovers from this year's severe and prolonged drought.

With Chinese imports slowing there is only a 6% increase in demand forecast so global ending stocks are forecast to increase by 21.5MT to 122.5MT for 2023/24





Crude oil is still under pressure, with Brent Crude around $75/barrel for July, which is keeping pressure on vegetable oils. With this in mind and following the publication of the WASDE report Chicago soyabean prices fell to less than $12/Bu, the lowest in 12 months, with November futures falling further.

US soya planting has now reached 49% complete with generally good conditions. Also in the US, the mandate for biofuel inclusion in the US increases from 10% to 15% for the summer so more ethanol and US maize distillers should be produced.

As far as oilseed rape is concerned, Canada is forecast to significantly increase production this year to 20.3MT, but this seems uncertain at this stage with the cold, wet spring and the forthcoming change to an El Nino weather pattern.

The WASDE report increased the forecast oilseed rape production for the EU in 2023/24 to around 30MT with good NDVI scores and favourable conditions prevailing in most areas. However, Ukrainian production is forecast to fall from 3.5MT to c.3.1MT and Australia is also forecast to be well down.

Again, this is the first estimate for the 2023/24 year and the weather to come in various parts of the world will have a major influence on forecasts as the year progresses.

Since the last report UK soyameal has stayed about the same for the period to October but has fallen around £15/t for the November to April 2024 period to around £423/t ex Liverpool. Non-Erith rapemeal is around £280-285/t for May/June/July, then falling to around £270/t for August/September/October and a few £s more for November to April.

Maize distillers are still not as good value as rapemeal with prices around £35-40/t higher through the summer and £15/t higher for November to April. The supply of soya hulls has further improved recently and with weaker demand prices have fallen back to around £230/t through to October and £235/t for November to April.

With these price falls and in a volatile market it is worthwhile keeping taking further forward cover to the order books on a "£ cost averaging" basis.