Technical Update – Feed Markets

Information correct as at 09:00am on 02.06.2023

- Global economy becoming more jittery as manufacturing output stalls.
- Black Sea corridor extension is not seeing large volumes of commodities move.
- Markets have dropped in May, but yesterday saw a rally in most commodities.
- Northern hemisphere “weather markets” are in full swing.

General

Although the global economy is still showing signs of recovery overall and for services in particular, manufacturing is still struggling and was little changed for April. Figures just out for May show that Chinese manufacturing activity slowed further and this has increased concerns for the outlook of the global economy.

Brent Crude oil had fallen back to around $73/barrel before rallying on Thursday and commodities, including agricultural, copper, platinum, etc also showed similar trends. The Bloomberg commodities index fell to an 18-month low recently.

An initial deal on the US debt ceiling has been agreed but still has a way to go before being finalised and concerns over this have also helped crude oil prices to fall. Stubbornly high UK inflation and jobs figures in the US mean that further interest rate increases are now more likely, with up to 5.5% forecast for the Bank of England rate later in the year by some economists.

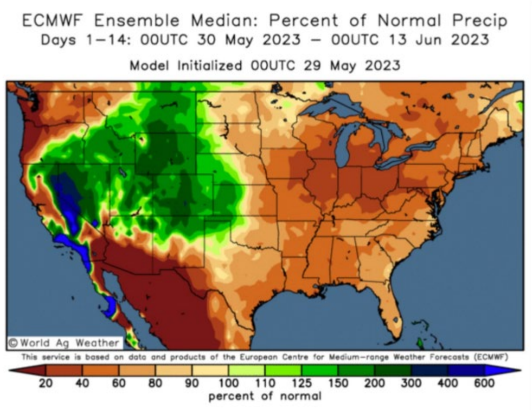
Although the Black Sea export corridor extension was agreed on May 18th, in reality the Russians have scuppered the deal by blockading one port and slowing down the rate of inspections at others so that only a few ships have left in the last 2 weeks.

We are now at that time of the year when the weather in the northern hemisphere becomes a major focus. Currently dry weather in the US corn belt, northern Europe and southern Russia is causing some concern.

Cereals:

The 2nd maize crop in Brazil (Zafrina) looks set to achieve a record yield of over 100MT and this is contributing to falling maize prices with US levels now around $5.2/bushel. A large US crop is being planted at a good pace and early indications are that germination has been good so far with a 5-year average 70% good/excellent rating expected when the first ratings are published.

The concern is that the weather in the corn belt south of the Great Lakes, which has been good so far, is now turning very dry and the forecast is for a “rapid onset of drought” (see below).

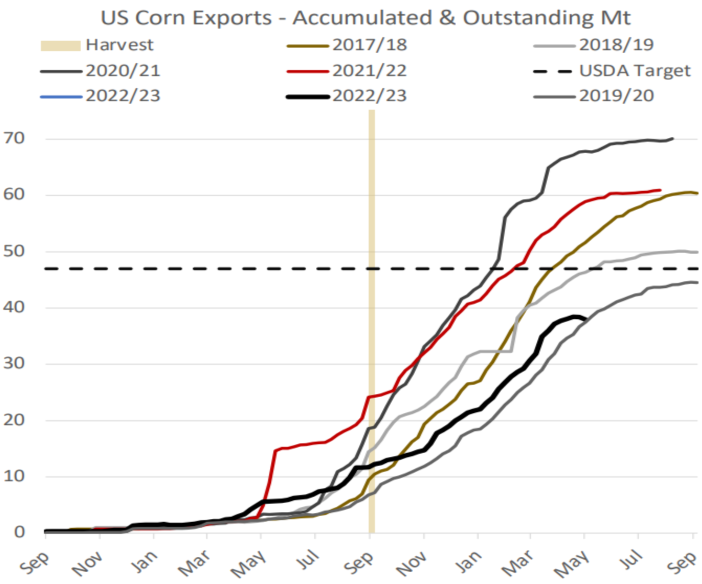


If this comes about and continues through June and into July, then yields will be impacted but weather forecasts can change quickly so continuing volatility is expected over the coming months.

With the increasing strength of the El Nino weather pattern the Argentinian maize crop is forecast to bounce back from 37MT in 2022/23 to 54MT in 2023/24. EU maize production is also forecast to improve this year with the French crop currently rated at 94% good/excellent.

With the war continuing in Ukraine production there is forecast to fall to 22MT from 27MT in 2022/23 and 42MT in 2021/22.

China has cancelled more imports from the US and it now looks as though exports will be the lowest for a long time and the USDA export target of 48MT will not be reached.



The forthcoming increase in the US mandate for bioethanol inclusion in fuels from 10% to 15% will increase domestic demand and should increase the supply of US maize distillers' grains.

The weather for wheat crops around the world is showing a mixed picture, but overall the prospects for wheat production are looking good. Some decent rains have fallen in parts of the US wheat growing areas and this will help some later crops achieve better yields than once feared. In Canada they had a slow start to drilling their spring wheat crop, but this has caught up rapidly and the weather is now warmer and wetter.

The EU is forecasting a big wheat crop of around 132MT and Russia may also have a larger crop than previously forecast, but dry weather in northern Europe/southern Russia is causing concerns for some spring sown crops.

The bumper UK 2022/23 crop and weaker demand for feedstuffs means UK wheat has been seen as cheap. It has been around 30 Euros/t lower than Paris milling wheat for nearby sales and around 10-15 Euros/t less for November futures for some time. Forward UK wheat prices have trended lower with the recent downturn in commodities and November 2023 wheat is now at around £184/t. Spot ex farm prices for East Anglia are in the low £170s/t, with barley around £150/t.

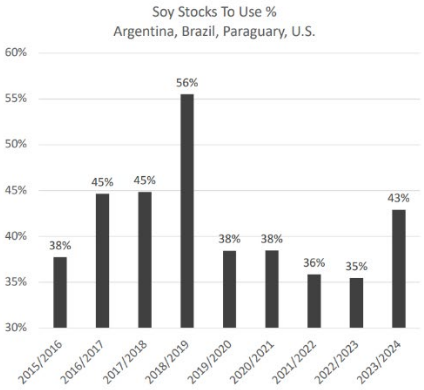
Although the outlook for wheat crops is generally good for the 2023/24 year there are still upside risks from the Russia/Ukraine war, weather for spring sown crops and the short positions of managed funds. The very tight global stocks, weather concerns plus the El Nino weather pattern, which is likely to significantly reduce the Australian crop could also lead to price increases.

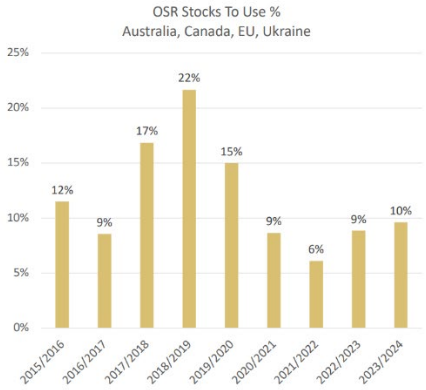
The advice is to take advantage of these prices and ensure good cover between now and harvest plus 20-30% cover for next autumn/winter/spring at this stage, then increase this to 60-70% if the usual harvest pressure comes in July/August but make this increase sooner if the upside risks start to kick in.

Proteins:

The record Brazilian soya crop of around 155MT is coming to markets and the prospects are for a much bigger Argentinian crop (47MT in 2023/24 vs around 22MT in 2022/23) plus a good US crop to come later in the year. The bumper Brazilian crop is now finding its way into Argentina to replace some of the lost production there. In addition, demand has fallen and the US now seems unlikely to reach the USDA export target of around 55MT.

This means that the stocks:use ratio for the major producers for 2023/24 is now forecast to recover from dangerously low levels in recent years to around 43% – see below left. The outlook for oilseed rape is less positive, with the stocks:use ratio for the major producers remaining tight in 2023/24 – see below right.





With Brent Crude oil falling back to below $75/barrel vegetable oils are coming under further pressure and US soyabeans are around $11.50/bushel.

The outlook for the Canadian canola crop is now more positive as the weather has improved and the EU crop is also looking good, but production from the Ukraine and Australia will fall due to the war and El Nino respectively.

Malaysian palm oil crops could also be adversely affected by El Nino with a reduction of up to 3MT forecast.

The stronger supplies and lower demand for soyameal has meant that prices have fallen again to around £410/t for June – October and £405/t for November – April. Tighter supplies, stronger demand and factory shutdowns have meant that rapemeal has not followed the same trend, with pre-harvest prices increasing to around £325/t and post-harvest prices to around £270/t.

The stronger supply of soyameal also means a stronger supply of soya hulls and they have fallen back to around £210/t for June – October.

Further falls in price for maize distillers for November – April to around £277/t has improved their competitiveness, as with wheat distillers' ex Hull at £279/t from now on.

Palm kernel prices have also fallen with weakening demand to around £184/t. Wheat feed pellets have followed a similar trend, with July 2023 prices falling under £160/t.

Although prices for most raw materials have fallen there are big upside risks from weather in all the key growing areas of the world so the advice is still to take advantage of these lower prices and ensure plenty of cover well into 2024.