Technical Update – Feed Markets

Information correct as at 09:00am on 30.06.2023

- US weather issues are front and centre of market movements.
- Rain in the forecast has started to ease prices back.
- Markets showed little reaction to last weekend's events in Russia.
- Factory shutdowns affecting short-term rapemeal markets.

General

Weather around the world is dominating markets and market sentiment, resulting in volatility in prices and a big upside risk. The drought in the US corn belt is the worst since 2012/13 and crop ratings continue to fall with maize the lowest at this stage of the season in nearly 30 years. However, rain is now forecast and so the rapidly rising prices have eased a little in the last few days.

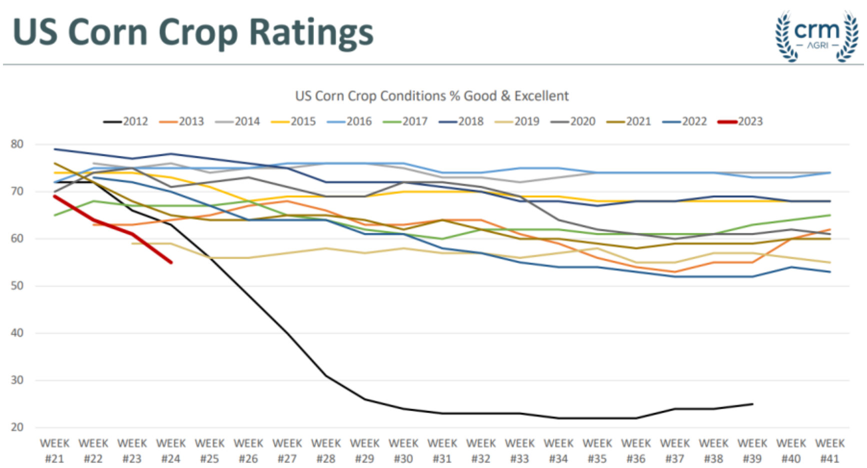
The £:$ remains steady at around 1.27 following the 0.5% UK base rate rise and no further rises in the US. Brent crude oil also remains steady at around $72-74/barrel, despite the production cuts announced by OPEC+ members.

The extraordinary events in Russia last weekend eventually amounted to very little action and did not have any lasting effect on prices, although they are thought to have weakened Putin's position.

The Black Sea export corridor deal is due for renewal on July 15th and at this stage the Russians are taking a bullish stance, indicating that no deal will be done unless there is a substantial reduction of sanctions. Although little is being exported at present, this would have a marked effect on Ukraine's ability to export over the coming months as this year's harvest gets underway and would put upward pressure on prices.

Cereals:

The drought in the US corn belt is worsening with good/excellent crop ratings falling rapidly to the lowest levels at this time of year since 1995 and are well below 2012 levels when the US experienced its last big drought. The chart below shows this trend and in the last few days the good/excellent ratings have fallen even lower to 50%.



However, the latest weather forecast is for some rain in the main growing areas, but a substantial amount will be needed before the end of July (the critical time for pollination) if reasonable yields are to be achieved. US managed funds have been coming out of their short positions and into long positions with December 2023 Chicago prices increasing from around $5/bushel to over $5.50/bushel in recent weeks.

This needs to be watched closely over the next few weeks. Whether it rains enough or not will have a major effect on the direction of prices as global stock:use ratios are low and need a good US crop.

Although most European winter sown crops are looking good, dry weather in many areas of Europe has caused the latest yield forecasts to be reduced, especially for spring sown crops.

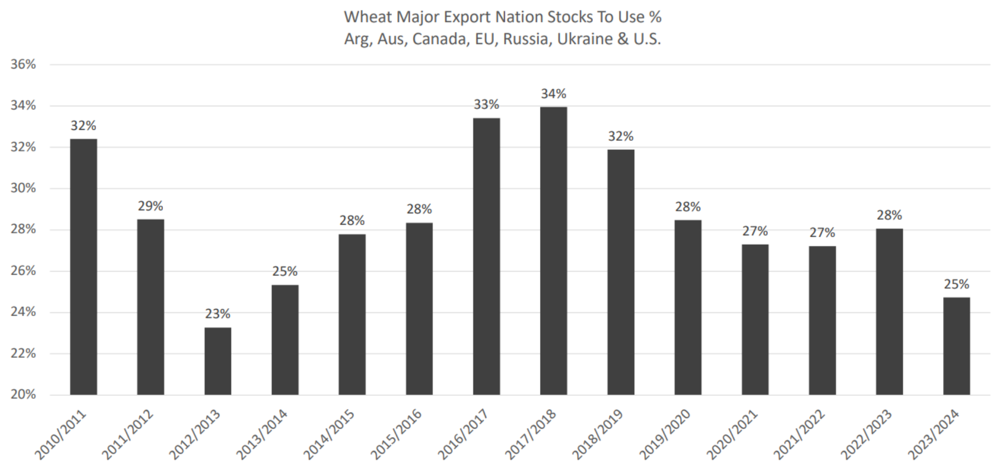
The US winter wheat crop has long been known to be very poor due to drought and is now being harvested whilst the good/excellent ratings for their spring wheat crop are also falling and are currently only around 50%, with rain needed soon to ensure reasonable yields. The Canadian and Argentinian wheat crop areas are also very dry.

US managed funds have been selling out of their short positions recently, which has been part of the reason for rising prices.

Reports from Ukraine indicate that they have managed to plant over 4 Mha of maize, which is above expectations, but the export deal will need to be renewed if they are to be able to export significant quantities and at this stage this is questionable (around 50% of exports were by sea in 2022/23). The spring wheat growing area of Russia (representing around 35% of production) has also become very dry and yield forecasts are expected to start to fall unless significant rains come soon. The good news is that these are now in the forecast.

The chart below shows the current forecast for Russian wheat exports still increasing for 2023/24 and interestingly also how they have increased from around 8% of global exports to over 20% in the last 10 years.

The stock:use ratio of the 7 major exporting nations is currently forecast to fall to 25% for 2023/24 and unless rains come soon in key growing areas this is likely to fall to at least the 23% low of 2012/13



The latest forecast is for another very good UK wheat crop of 15.5MT. The UK winter wheats are generally looking good with 76% good/excellent. Spring barley, however, has fallen to 53% good/excellent from 74% on 30th May.

US, EU and UK prices have increased steadily over the last 4-5 weeks by 15-20% as the dry weather around the world takes hold, but with rains forecast in several key areas this is changing.

UK November forward prices had increased from around £180/t to £209/t in the last 4 weeks or so but have fallen back to £197/t in recent days. GB average ex farm price is £178/t with barley £162/t.

As we are still in the heart of the "weather market" prices could go either way depending on the global weather and geopolitics. Hopefully most have followed previous advice and have 100% cover through to harvest and at least 20-30% through next winter.

Prices could go either way as the events described unfold so the current view is that the risk averse may want to increase their winter cover to around 50%.

Proteins:

As with maize, around 50% of the US soyabean crop is now suffering from drought conditions and the good/excellent ratings have also been falling. The latest figures, just released, show this is now down to 51% compared with the 5-year average of 65%.

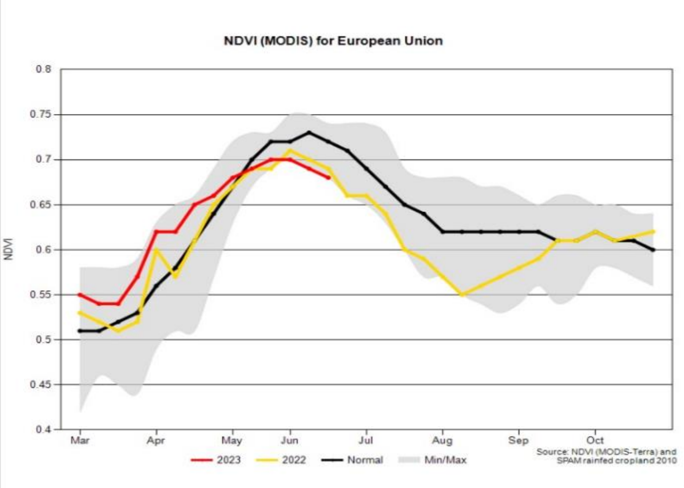
The critical time for US soyabeans is August when pod setting occurs, so it is still early days and the soya crop is more resilient than the maize crop. In the meantime, the record Brazilian crop is fulfilling the needs of the major importers. Exports in May reached a record 15.6MT, up 45% yr on yr, and are forecast to be 13.1MT for June, up 32% year-on-year with the majority going to China.

Chicago soyabean prices had been rising steadily over the last 2-3 months but have eased back in the last few days to below $13/bushel on the back of rain in the recent weather forecasts. The US has announced a lower than expected advanced biofuel blending mandate for soya oil inclusion in fuels sold in the US over the next 3 years which will influence demand as around 45% of US soya oil goes into biodiesel.

Weaker demand means that Brent crude oil remains around $72-74/barrel, helping vegetable oil prices to remain stable.

The Canadian canola crop is also being affected by hot and dry conditions, but rain is also forecast for the main growing areas. Palm oil production in southeast Asia is being held back by dry conditions and with El Nino increasing this is likely to continue.

The UK winter oilseed rape crop is stable at around 63% good/excellent, little changed in the last month. The European crop is also still expected to be good despite the dry conditions in some areas. NDVI scores from satellite imagery show that conditions have fallen below the 5-year average in the last month.



UK soyameal prices jumped around £30/t last week with concerns over the US crop condition but with the rain now forecast they have fallen back by a similar amount this week to around £405-410/t for July–April 2024.

Rapemeal has followed a similar trend with new crop non-Erith prices around £275-280/t but supply is extremely limited until the new crop, made worse by a shutdown of the Erith plant so spot prices are POA. There is also a planned maintenance shutdown at the Liverpool plant scheduled before the new season.

US maize distillers also fell back this week to around £290/t for July – October and £270/t for November – April on the back of forecast rains in the US corn belt. As with cereals all eyes are on the weather forecasts in key growing areas of the world. I significant rains come then market sentiment will be weak and prices should come back, but the opposite also applies.

With prices having fallen back significantly from a week ago then the degree of cover through to spring 2024 should be reviewed. If the rain does not come or are less than expected over the next few weeks there could be another price rally so if more cover is needed it should be taken through to spring 2024.