Technical Update – Feed Markets

Information correct as at 09:00am on 06.10.2023

- Strong exports of wheat from Black Sea countries are weighing on wheat and barley prices.
- But with a restricted ability to use ships Ukraine is only able to export about half the quantity it did last year
- Crude oil prices increased from around \$75 to \$95/barrel in the 3 months from June to the end of September but have recently fallen back to around \$84/barrel.
- Very dry weather has taken hold in Australia and continues in Argentina and central Brazil. This has already reduced the wheat forecasts and could affect soya and subsequent maize/corn crops if it persists.

Overview:

The US economy is improving and the US\$ continues to be strong against many currencies – the £ has weakened against the US\$ from around 1.28 to the current 1.22 over the last 2 months, with implications for imported goods prices.

The OPEC+ cuts in crude oil production plus a generally recovering global demand has meant that crude oil prices have risen over recent months from c.\$75/barrel towards \$100/barrel

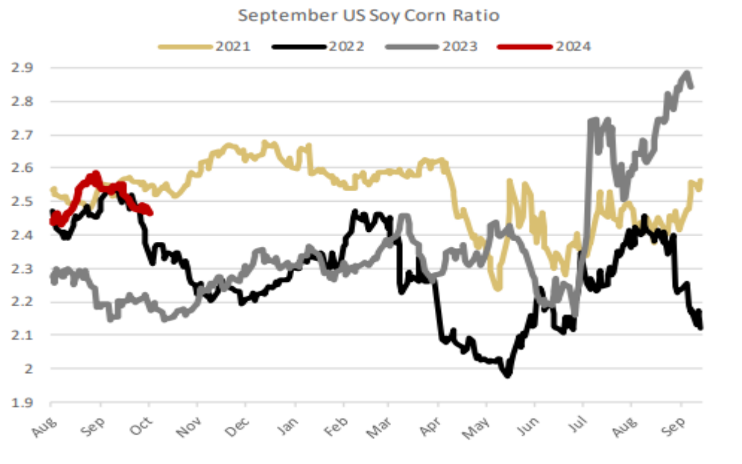
But volatility continues with the price falling back in the last few days to around \$84/barrel following comments from the US Federal Reserve suggesting that high interest rates would be a feature for a considerable time to come.

Ukraine has been struggling to match last years strong export pace since the ending of the export corridor deal in July but now says there are 12 ships heading to Ukrainian ports through the "humanitarian corridor" it is trying to establish.

Cereals:

The ratio of soya:corn price is now c.2.5:1 and towards the upper end of the normal scale (see red line on the chart below) – this means that there is a bigger incentive for farmers to plant soyabeans rather than corn where possible

This could affect plantings in some areas of south America this autumn and in the US next spring which would tend towards higher soya production and lower maize/corn in the medium term.



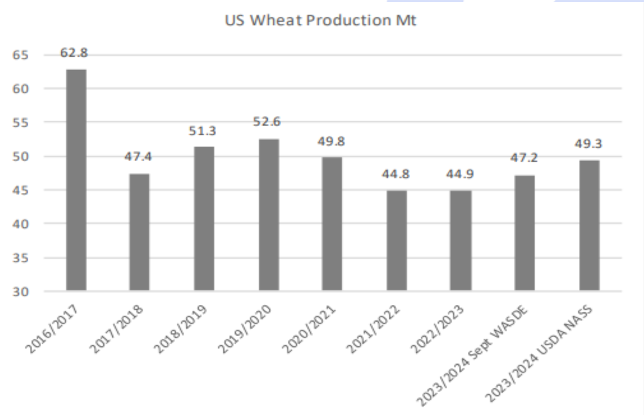
In Brazil, partly due to currency issues, the current prices for maize/corn are below the cost of production. This, plus the very hot and dry weather in many areas has resulted in reduced local estimates for 2023/24 production to around 120MT compared with the record crop of 137MT in 2022/23 (although there are still several months to go).

Despite the strengthening El Nino weather pattern Argentina remains very dry. This is already affecting the wheat crop and if it continues will also affect the maize/corn and soya crops.

The US maize/corn harvest is underway but the crop is only rated 52% good/excellent which is low. Early reports of yields are mixed and things should become clearer over the next few weeks. In the US Stocks report for September US maize/corn stock estimates were reduced by 2.3MT to around 34.6MT which is being seen as supportive to prices in the short term.

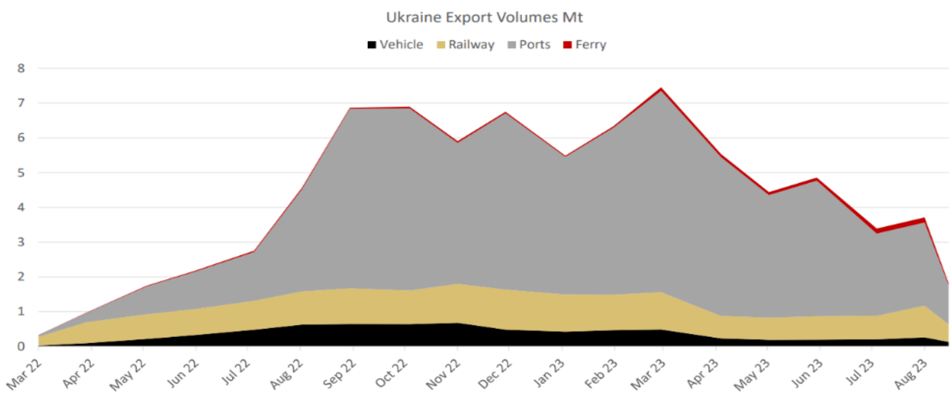
US Managed Funds have increased their short positions significantly over the last few months but could easily shift back if there is a supply shock over the next few months.

The latest USDA report in September raised the US wheat production estimate for 2023/24 by 2.1MT to 49.3MT.



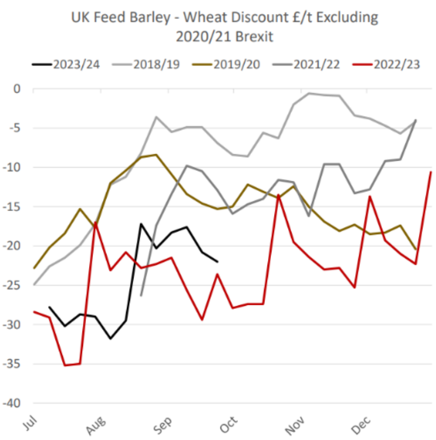
But at the same time the Australian crop estimate has also been downgraded by 2MT as the hot and dry weather from El Nino takes effect. In addition the Canadian and Argentinian wheat crops have also been downgraded by around 1.5MT and 4MT respectively recently, so the outlook for stocks:use ratio for the major exporters remains tight at around 25%.

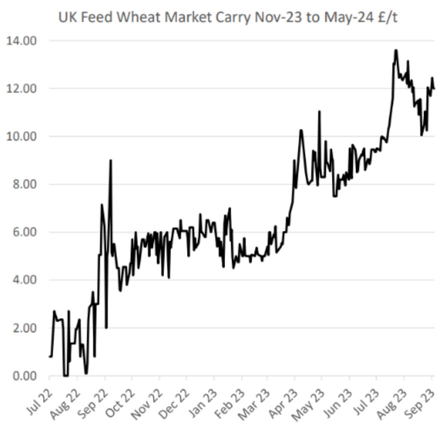
But strong Russian exports continue to put downward pressure on prices. The chart below shows how the Ukraine is struggling to export with restrictions on shipping and rail so is currently only managing to export around 3.5MT/month in total compared with around 7MT/month this time last year. We await to see what the effect of the recent Ukrainian initiative to get more ships into its ports will have on export levels



Some barley is coming into the EU from the Ukraine which is helping to plug the gap in Spain left by the very hot and dry weather they had during the growing season. These Ukrainian exports are contributing to the discount of UK barley to wheat which has increased again back to around £28/t and therefore still represents an opportunity for buyers – see below left.

Also of interest is the graph below right, showing the increasing differential between UK November 2023 and May 2024 future wheat prices, now around £14/t, indicating a concern over potentially tighter future supplies.





UK feed wheat is still around 20 Euros/t lower than Paris Milling wheat and is generally seen as being cheap at around £186/t for November 2023. With tight global stocks and uncertainty over the outlook for cereal crops around the world the advice is still to cover requirements through to spring 2024 at these prices plus a proportion of Q2 and Q3 2024 requirements (and don't forget the barley option!).

Proteins:

The rising price of crude oil has bolstered vegetable oil prices, particularly for rape and soya oils which are widely used in biofuel production.

Soil moisture levels in much of Brazil and Argentina are very low and close to the long term minimum values (apart from the far south of Brazil which has had good rains). The forecast is for dry weather to continue in Argentina but some rains to come over the next 2 weeks in central areas of Brazil which, if they come in sufficient quantity, would allow soya sowings to catch up (only 4% planted so far). The slow pace of sowings not only risks reducing the soya crop – forecast to be another record 162MT – but also the following Zafrina maize crop sowings.

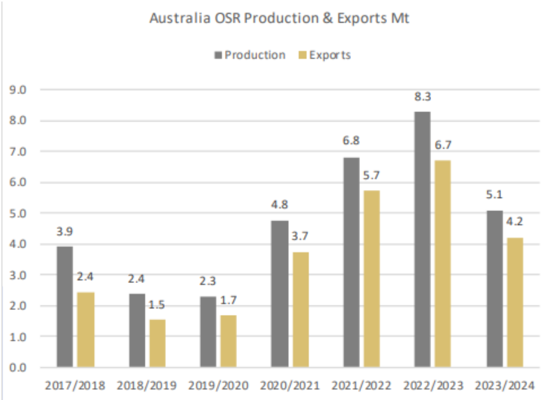
The latest USDA report showed forecast US soya ending stocks at 7.3MT, which is 0.5MT up on previous estimates but still very tight. The US soyabean harvest is underway with around 25% harvested to date but the crop is still only rated at 52% good/excellent so we await with interest more news on yields.

US soyabean exports have been slow to date as the record Brazilian spring harvested crop dominates the markets. Mississippi river levels are still very low which is slowing exports from the US.

As stated above the soya:corn price ratio is strongly in favour of soya at present so the chances are that more soya will be planted suggesting ample supplies going forward.

The EU is not importing as much rapeseed this year compared with last year despite a poorer than predicted EU crop (thought to be down from 21MT in 2022 to c.19MT in 2023) due to large carryover stocks. Last year the EU imported large quantities from Ukraine early and Australia later in the season. This year, although Ukraine has had a record crop, it is struggling to export.

Australia is in the grip of hot/dry conditions from El Nino, with the driest September since records began in 1900 – so the current forecast crop of 5.1MT is likely to reduce. This, combined with the lower than expected Canadian crop, means that there is likely to be a tightening of supply later this year and into 2024.



The Canadian canola crop is now around 60% harvested and the latest estimate by Canadian sources has reduced the forecast down to 17.3MT compared with the original estimate of 19MT. NDVI scores for palm oil plantations, from satellite imagery, are still holding up well but the strengthening El Nino pattern is likely to bring hot and dry weather to Indonesia and Malaysia which could slow supply later in the season.

Current prices for UK soyameal are around £430/t, falling to around £420/t for November – April and then a major fall to around £387/t for May – October 2024 with strong supplies expected.

Non Erith UK rapemeal prices remain around £265-270/t through to July 2024. With a likely tightening of supplies of rapeseed into 2024 it would be worth continuing to take cover well forward.

Soya hulls remain good value at around £215/t through to April 2024 compared with sugar beet pulp at £250-260/t