Technical Update – Feed Markets

Information correct as at 09:00am on 08.09.2023.

- Crude oil reaches highest price of 2023.
- Difficult wheat harvests across Northern Europe and US have affected yields and quality.
- Wheat ending stocks looking tight across the globe.
- Latest Mid-West weather forecasts slightly more favourable for maize and soya.

Summary

General:

Brent Crude oil has now reached its highest price during 2023 (close to £90/barrel), which is helping to lift vegetable oil prices and stimulating crushing plants to increase throughput of soya and rapeseed, making more meal available and putting downward pressure on meal prices.

The value of sterling has eased to just below $1.25, making exports more competitive, but imports dearer.

Cereals:

Wheat feed prices increased slightly this week to £187/tonne for November. Northern hemisphere harvests have been poor or below expectations across the globe, and stocks to use ratios are at the lowest levels for 11 years, with Russia controlling over 25% of exportable tonnage from the top seven exporters.

All the indications are that wheat is currently undervalued and prices are going to increase in the short to medium term, and then remain strong for the next 6-12 months.

Protein:

Crude and vegetable oil prices have increased in recent weeks, encouraging crushers to process more soya, rape and sunflower seed into meal. Soya and rapemeal prices have fallen because of this, but this looks like being unsustainable as rapeseed shortages are coming due to the poor European, UK and Canadian harvests. Canadian canola is $100 above European prices, so rapemeal prices could increase by £50+/tonne in the new year when we switch to imported rape from Canada.

It would be prudent to check what you have booked through to August 2024 and to book more while they are good value.

DETAIL

Cereals:

The UK harvest is now over 80% complete with the wheat crop has been revised down to 15MT from 15.5MT. The price gap between feed barley and wheat has closed to around £20/tonne.

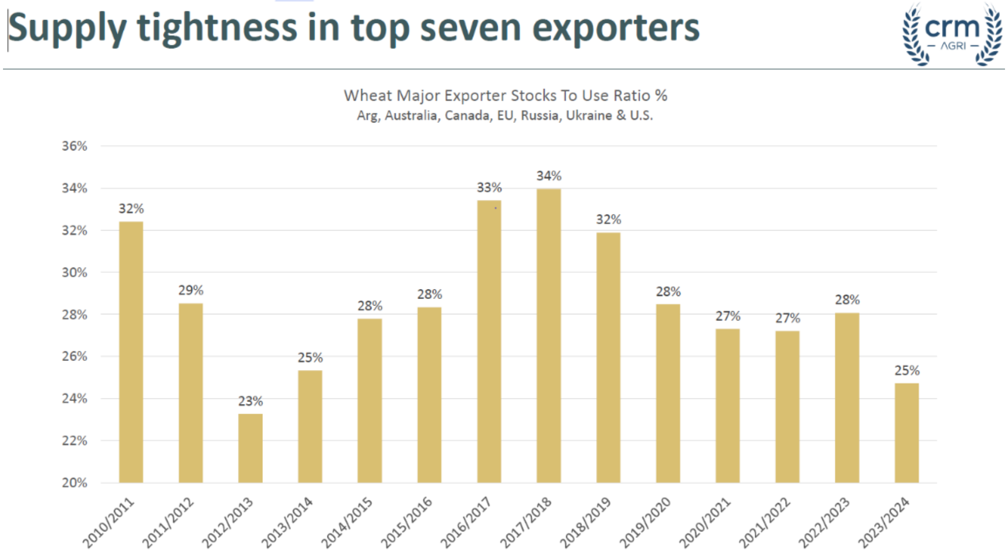
The European barley harvest is expected to be the worst for many years and EU wheat production forecasts at 134 MT are down from recent harvests of 138 and 140 MT and supplies are likely to be short.

Ukraine is now moving some wheat, having successfully moved two shipments via the temporary Black Sea grain corridor. However, Russia have been firing drones at the grain infrastructure and causing damage.

In North America, the US spring wheat crop was poor. Canadian production has suffered with the hot, dry weather and has now been downgraded from the USDA's August prediction of 33MT to 29MT.

Russian wheat production for 2023/24 is predicted to be 92MT, which equates to 28% of global stocks, versus 27% in 2022/23. The decline in the value of the Russian Ruble versus the U.S. Dollar, this means that Russian wheat is likely to be more competitive on the global market over the next 6-12 months. Russia is currently using wheat stocks for political power, with a lot of sales into Nigeria and Africa and prices are currently being artificially inflated by the government with an informal floor at $170/t.

Even though harvest has been poor across the globe, with a significant tonnage not reaching milling requirements and adding further tonnage into the feed wheat market overall global supplies are looking tight, with stocks to use ratio of the top seven major exporters sitting at 25%. This is not reflected in the current prices reinforcing the view towards further price rises over the next 6-12 months. UK wheat is bidding well for the export market up to November 2023, but is currently undervalued and trading at export level.



High crude oil prices are encouraging bioethanol production and this is likely to take more wheat away from the feed markets. The premium for wheat versus maize has now gone and wheat is deemed to be undervalued in the marketplace.

The US has seen a decline in maize sales to the lowest levels in five seasons as Chinese interest in US supply looks to have disappeared. However, the Chinese are predicted to have a net shortage of 23MT because of poor weather in the major domestic growing areas. In Brazil, the second maize harvest is still ongoing and is trading ahead of US product giving another explanation for the lack of sales.

Wheat and maize are both currently undervalued and prices are expected to rise in the short to medium term, particularly for wheat as there is significantly more upside risk than downside potential, therefore consider taking extra cover.

Oilseeds

Soya

Argentinian soya is still short, so the meal market is predicted to remain supported over the next 8 months as we reach the next harvest window.

US weather continues to be warm and dry which has been driving price increases, but the most recent forecasts are predicting a wetter outlook and there is some thought that the worst may be over for US yield expectations. We do need to remember the downgraded planting area from USDA of 4M acres, therefore there will be continued support for soya because of reduced supply.

Soya production is now incentivised by price versus maize production with soya currently sat at 2.6 times the return, so the longer-term outlook predicts a large planted area.

Rapeseed

Canadian OSR production forecast has been reduced from 19MT to 17.6MT and their rapeseed is trading at a premium over European prices of $100-150/t. Canada are typically a big exporter of rapeseed and Europe a big importer. There will be a large pricing risk if we are to rely on Canadian imports later in the season. The outlook for Ukraine remains uncertain, whilst Australia continues to have dry weather.

Rapeseed imports have been slow, but supply and demand could come into play, causing more upward price risk. Ukrainian crushers are now up and running again and exporting sunflower oil rather than seed.