# Technical Update – Feed Markets

Information correct as at 09:00am on 11.08.2023

- Bombing of Ukrainian export infrastructure hampers exports.
- Markets have fallen after initial surge when bombing commenced.
- Stakes raised further with sea drone retaliation.
- Better weather in US eases pressure on maize and soya crops.
- Difficult harvest so far for UK and much of Northern Europe.

## General:

The ending of the Ukrainian grain export deal and continuing Russian attacks on grain storage and handling facilities along the Black Sea coast and up the Danube have virtually stopped Ukraine's ability to export by sea. However, the EU is promoting "solidarity lanes" to provide alternative routes via road, rail and river for Ukraine to export products through the EU. How effective these will be is yet to be seen given the need to load and unload for river or rail transport (due to the different gauge of rail lines in the EU and Ukraine).

Recent Ukrainian retaliations with sea drone attacks on Russian warships and military oil tankers in the Black Sea have increased concerns over Russian grain supplies being able to make up for any shortfall from the Ukraine.

This activity in the Black Sea plus another month of production cuts by Saudi Arabia have contributed to an increase in crude oil prices with Brent Crude around $87/barrel, an increase of around 18% since June. The increase in crude oil prices plus strong demand for soya and rapeoil for biofuels has driven vegetable oil prices higher in the last few weeks, but higher vegetable oil prices usually mean lower meal prices so that is not all bad news.

The £ has weakened against the $ to around 1.27 compared with 1.31 a few weeks ago, thus increasing the cost of imported goods.

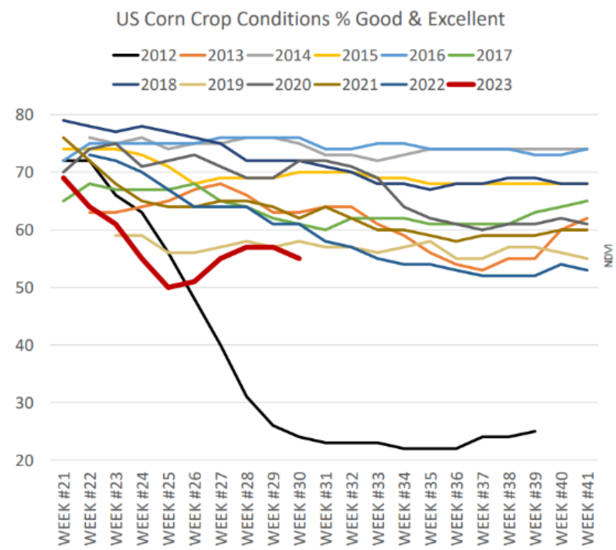
Many maize, wheat, rapeseed and soya crops in the northern hemisphere are at critical points in terms of development or harvest so weather over the next few weeks will be crucial for yields, qualities and overall output.

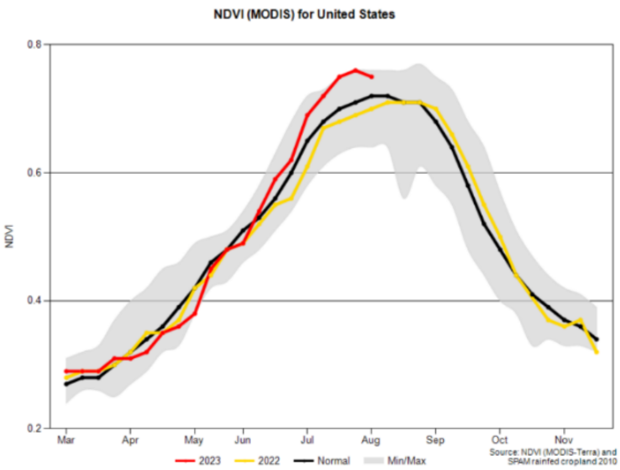
## Cereals:

Brazil is now about halfway through harvesting its record Zafrina (2nd maize) crop and with lower prices global importers are focusing on supplies from here, leaving US forward sales short. Sales of maize in Argentina in July reached 6.4MT, the highest in 7 years, with the introduction of a "corn dollar" window, allowing framers to sell at a preferential exchange rate.

The maize crop in the US is at a crucial stage in its development as it turns from pollination to grain fill. 56% of the corn belt remains in "drought" and although the good/excellent ratings improved as rain arrived during July they have now fallen again – overleaf left. However, the rain which has come has held NDVIs at good levels – overleaf right.

With more rain in the forecast the current outlook for the crop is good but what happens now with the weather is critical. As confidence grows US prices for December 2023 have fallen back from $6/bushel to below $5/bushel currently.




It remains to be seen how much maize will be produced and exported from Ukraine but there is a bit more optimism now with the EU "solidarity lanes" initiative, if it works!

The wet weather across much of northern and eastern Europe as well as in Russia has slowed the wheat and barley harvest and is causing concerns over yields and qualities. The EU has again reduced its yield forecast. The weather forecast for the next few weeks across these areas is showing a drier outlook so hopefully the picture should improve.

The spring wheat growing areas of Canada have been hot and dry and some rain is needed here soon if yields are not to be affected, only 35% is now rated as good/excellent compared with 50% a month ago. Although Australia is heading towards a dry outlook with El Nino taking hold, they have had some rain recently so conditions here are not as bad as expected.

There is a lot of uncertainty in the markets over what happens next in the Black Sea and with Ukraine's ability to export. Add in the unsettled weather and this is complicated further.

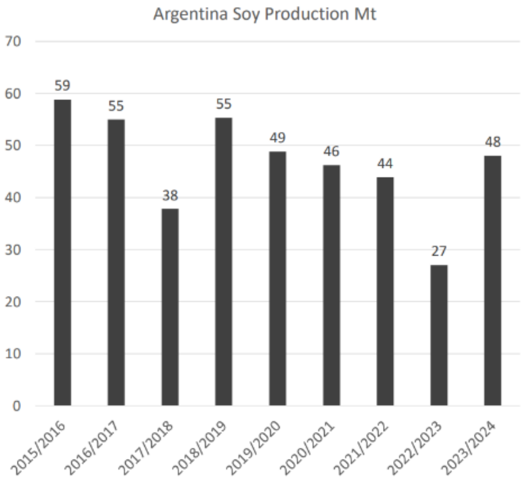
UK feed wheat prices are still around 15Euros/t below Paris milling wheat and are still considered to be cheap. AHDB wheat planting estimates showed fewer acres planted than originally thought, which would mean a slightly smaller crop. However, this is based on only 600 responses compared with the 3000 obtained historically so the data may be subject to change.

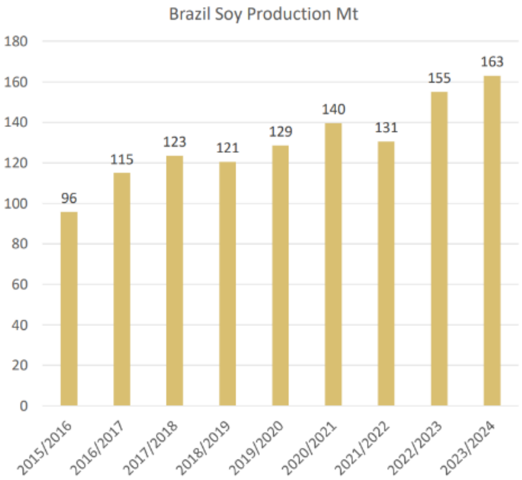
The large upside risks mean that the current prices of around £200/t for November are seen as a further opportunity to take more cover through the autumn and winter if needed, up to around 75% or more for the risk averse.

As new crop barley starts to come through, the differential between this and wheat has widened to around £30/t ex farm and this will also be an opportunity for some at around £156/t.

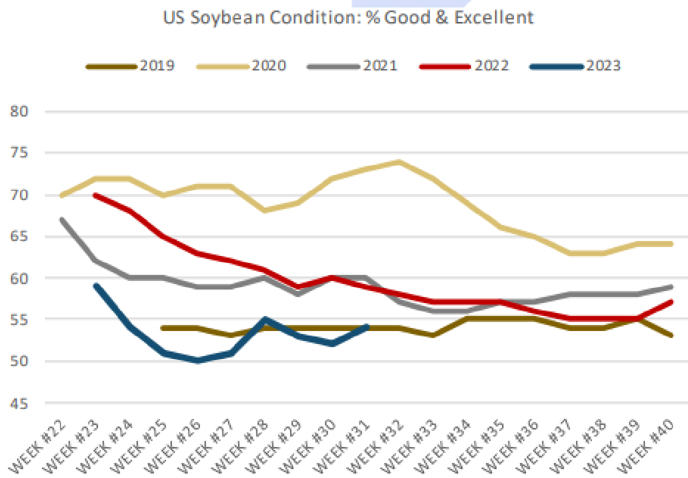
## Proteins:

The latest forecast for global soya production is for a record 405MT crop for 2023/24 but this relies on Argentina recovering from their very poor 2022/23 crop so supplies will remain tight until they harvest in spring 2024.

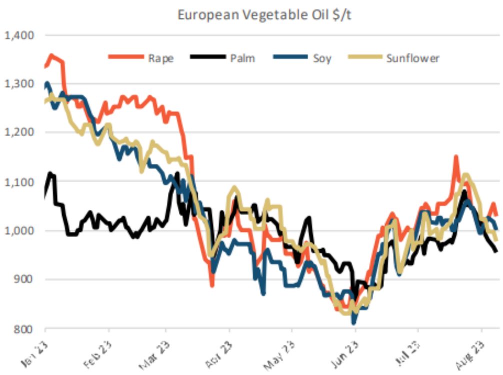



As with the US maize crop their soya crop is also reaching a critical stage with over 70% now blooming and moving towards pod setting. The latest USDA information shows 4 million acres less was planted than originally thought giving a new estimated area of 83.5MAcres. The early stages of crop development were affected by drought which resulted in relatively low good/excellent ratings, but the latest weather forecast is for it to get better in August. There is now increasing optimism for a good US crop in the autumn which will be key to the future direction of the market – the latest USDA WASDE report on Friday 11th August is awaited with interest.




A much smaller Argentinian soya crop in 2022/23 means their crush is down 23% and as they are the biggest exporter of soya meal this will help to keep prices up. The increasing crude oil price has contributed to rising vegetable oil prices across the board, with rape oil regaining some of its traditional premium. This could be good news for meals as they tend to be lower with higher oil prices.



As with the spring wheat crop the Canadian canola crop has had hot and dry conditions with the area of Saskatchewan in drought increasing by 30% to 87% in the last month. This is causing NDVIs and forecast yields to fall fast.

Some parts of Europe have been very dull and wet and some parts very dry, with some storm damage late on so forecast yields for oilseed rape have fallen with the EU now forecasting a crop of just over 19MT. Early results for the UK crop indicate poor yields at around 3t/ha, compared with the 5-year average of 3.3t/ha.

In Australia canola NDVI scores are so far holding up, but the latest forecast is for a 40% reduction in output compared with 2023 to around 4.9MT as El Nino takes effect.

As with wheat and maize there is much uncertainty over the ability of Ukraine to export their rape and sunflower crops which are looking on track to be good. Around 3.5MT of rapeseed could be available for export.

Palm NDVI scores have been good so far, but the El Nino weather pattern will bring dry conditions to many areas. In addition, labour shortages in Malaysia are slowing harvest.

Overall conditions for the US soya crop are improving, but there are big concerns over the final output and exports of rapeseed/canola crops in most of the key growing regions of the world.

The outcome will not be known until later in the season, but in the meantime, this creates a large upside risk. The feeling is that it is prudent to continue to take forward cover on protein raw materials at least until spring 2024.

UK soya meal prices have remained largely unchanged in the last 2 weeks at around £430/t in the short term and £420/t for November to April. UK rape meal supplies remain tight in the short term but with Erith and Liverpool now reopened further forward prices have again remained largely unchanged, with November to April at around £280/t for non – Erith supplies.

Maize distillers prices for November to April have fallen back to around £260/t so are better value than they have been for some time and are worth considering.

Soya hulls at around £210/t for November to April are still much better value than sugar beet pulp at around £263/t for the same period.