Technical Update – Feed Markets

Information correct as at 09:00am on 22.09.2023.

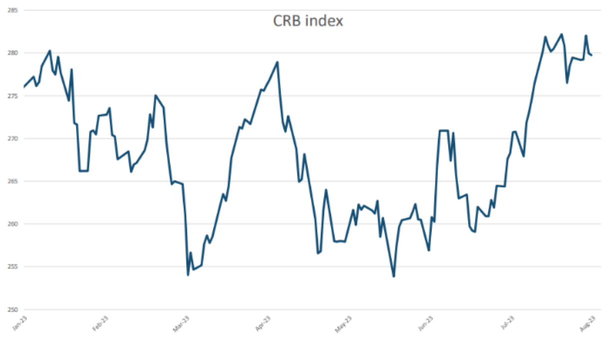
- UK inflation continues to fall and interest rates are held steady.
- North American soya and maize harvests begin with crop ratings falling.
- South America and Australia seeing dry conditions.
- Stocks:Use ratios remain tight.

General:

UK inflation unexpectedly fell from 6.8% to 6.7% in August when a small rise had been predicted. This may well have influenced the Bank of England's decision to hold interest rates yesterday which in turn led to a weakening of the pound to around $1.23 resulting in higher prices for imported goods.

Brent crude oil has increased by around 30% in the last 2 months to c.$93/barrel following the continuing production cuts by OPEC+ (in particular Saudi Arabia), causing petrol and diesel prices to rise. If maintained this will add to inflationary pressures over the coming months and make it likely that interest rates will remain high for longer.

The CRB Index, reflecting global commodity markets, including oil, agricultural commodities and metals, has continued to climb over the last 2 months to its highest level this year, indicating an improving global economy.



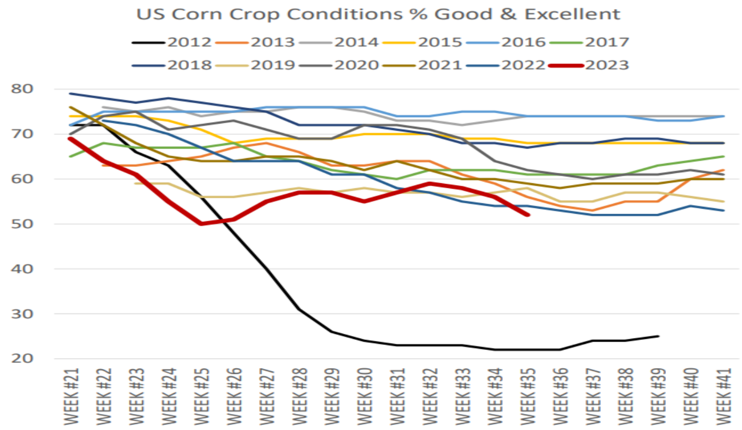
Cereals:

Chinese demand for US maize has been low as they have been buying cheaper Brazilian product but domestic US demand for maize for biofuel production has been high with the governments E15 mandate on fuel coming in this year.

US Managed Funds have increased their short positions recently in anticipation of lower prices to come but there is a tight global stock:use ratio and questions remain over the US and South American crops.

The US maize crop good/excellent condition rating has fallen again to around 50% following several months of improvements as the rain has given way to further dry weather. The crop is now starting to be harvested but with mixed reports for yields so far it is too early to forecast the outcome.

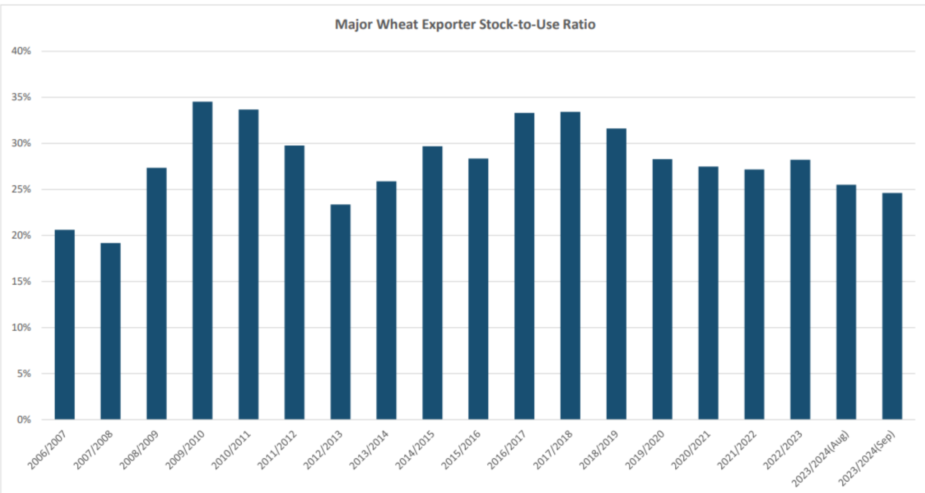
Even if yields end up being lower than originally predicted the extra area sown should result in a good crop overall, with the latest USDA estimate for a crop around 384MT vs 348MT in 2022/23.



In South America adverse weather in Brazil is delaying soya planting, which will have a knock-on effect and delay maize planting later next year. Despite the increasing strength of the El Nino weather pattern Argentina is still very dry and this means that their forecast recovery from 28MT in 2022/23 to 48MT in 2023/24 is in doubt.

Wheat crop forecasts for Canada have been downgraded from around 33MT to 29.5MT by Stats Canada due to the prolonged drought in key growing areas and this may fall further. El Nino is now biting in Australia after wetter than expected conditions earlier in the year so wheat crop forecasts there are falling.

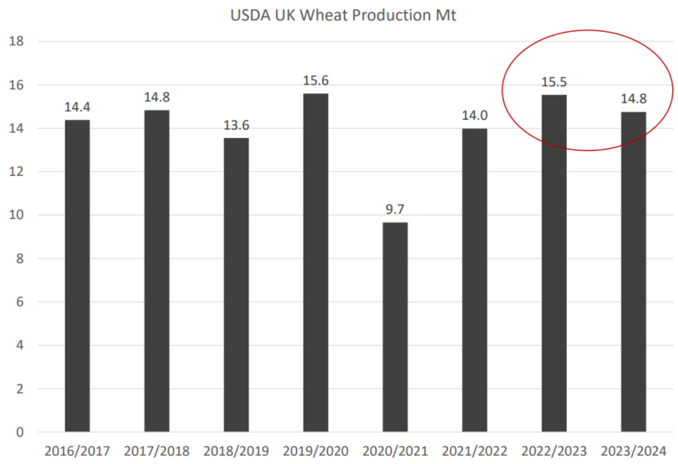
The USDA reduced the stocks:use forecast for the major wheat producing nations in September to below 25%



Russia is expected to have a similar sized crop to last year at around 92MT. They are currently exporting at a rapid pace and holding prices down despite repeated attacks on their grain exporting infrastructure by Ukraine. However, in recent tenders some French and Romanian wheat has been priced below Russian material which has been trying to hold above $270/t.

Ukraine is trying various ways to get grain exports out by sea but without a renewal of the export corridor they are unlikeley to be able to export the 30MT they managed last year.

The forecast for the EU wheat harvest is now back to the 5-year average level and the UK crop is now thought to be around 14.75MT. Quality problems caused by the wet weather at harvest across many countries means increased feed wheat supply at the expense of premium grain.



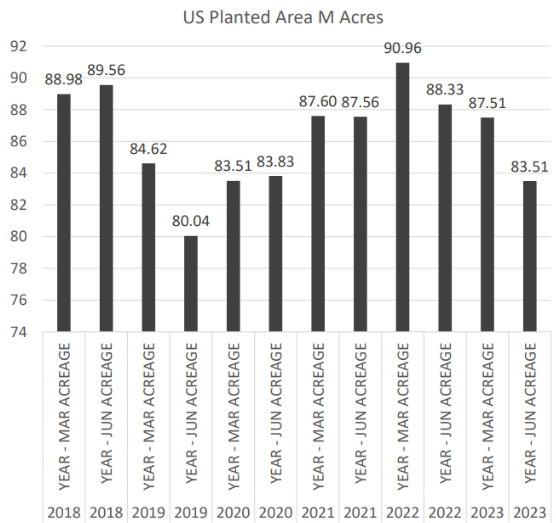
The UK barley discount to wheat has reduced from around £30/t to c.£18/t as supply tightens globally and demand picks up.

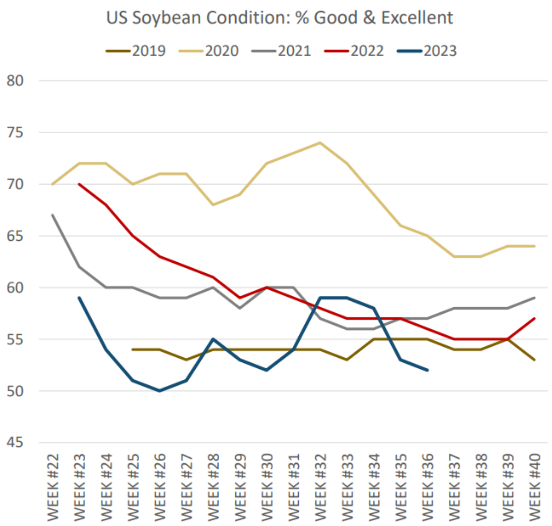
With harvest pressure and cheap Russian/Eastern European wheat still plentiful prices should remain under pressure for the foreseeable future. However, tight global stocks, uncertainty over geopolitical events and doubts over wheat and maize/corn crops in many parts of the world it seems unlikely that prices will fall much below current levels of around £185-190/t unless a lot of stars align.

If this does not happen then prices could easily increase over the next 6 months so for the risk averse the advice would be to continue to take cover through Q4 2023 and Q1 2024, up to 100% at current prices, with 1/3 cover for Q2 and 1/4 cover for Q2 2024.

Proteins:

The ratio of soyabean: maize price is currently very high at 2.8:1 compared with a long-term trend of around 1.8-2.2:1. If maintained this will encourage more soya and less maize to be planted.





The US soyabean crop harvest has just started, with good/excellent conditions having fallen back to around 50% from 60% in the last month as very dry conditions have returned (above right). The latest USDA WASDE report lowered yield forecasts and the planted area has been revised down from 87.5MAcres in March to 83.5 M Acres now so the outlook for final production is questionable.

Despite the development of the El Nino weather pattern in the southern hemisphere some parts of Argentina are still very dry and soya planting is being delayed. This puts into question their forecast recovery from 27MTlast year to 48MT in 2023/24.

Brazil has been very dry over the last 90 days and there is little rain in the forecast for the next 2 weeks. This is delaying soya plantings and if this continues it will push back the early 2024 harvest which, with lower supplies from the US and Argentina, could make for a period of tight supply during early 2024. The maize planting which follows close behind the soya harvest will also be delayed which would knock on to maize supply later.

Canadian canola crop forecasts are being reduced with the very dry weather over the growing season, reducing the crop forecast from the original 19-20MT to around 17MT. Meanwhile in Australia following rains earlier in the season, dry conditions from El Nino are now affecting the 2023/24 rape crop, which is forecast to be well down on 2022/23.

The EU crop has also been downgraded from around 20MT initially to around 19MT. The crop in Ukraine has been good but the problems with exporting it in sufficient quantities continue. The EU rapeseed import levels have been low at the start of the season and it remains to be seen whether last year's levels can be reached with issues around the main suppliers Ukraine and Australia.

Prices for most protein straights are little changed over the last week or so. The table below shows typical mid-month prices for 3-6 month forward bookings for a range of protein feeds for the last 6 months including the latest for September:

	April	May	June	July	August	September	Diff April-September
HP Soyameal	464	440	412	440	420	430	-34
Rapemeal	287	281	293	290	280	273	-14
Soya Hulls	259	228	203	211	215	220	-39
US Maize Distillers	327	308	281	277	262	270	-57
Maize Gluten	299	284	264	249	236	254	-45
Palm Kernel	191	185	185	191	189	202	+11

Although prices have been volatile over the period the general trend has been downward, particularly for maize distillers and maize gluten. Prices for most are still at or close to the lowest seen over this period so cover should still be taken if needed well into the first half of 2024.