Technical Update – Feed Markets

Information correct as at 09:00am on 01.12.2023

- UK May wheat futures are holding below £200/t, but there are some upsides risks.
- Rapemeal is expensive on spot market but looks good value later in 2024.
- Opportunities to take some cover at these levels.
- Some rain in S America, but parts of Brazil are still dry.
- Northern European 2024 harvests will be down due to the very wet autumn.

General:

The US$ has weakened against most currencies, including the £, due to comments in the US that inflation is coming under control, so interest rate rises may have ended and could come down earlier than expected. The current rate is 1.27 and is helping with the price of imported goods.

Brent Crude oil has edged back up to around $84/barrel with further production cuts possible at the OPEC+ meeting on 30th November.

Summary:

UK wheat futures are holding steady at around £190-195/t for May 2024 due to strong, cheap Black Sea supplies, weak global demand, China deferring the purchase of 2-2.5MT of wheat from France and the stronger £. However, upside risks are still present, with poor weather in key cereal growing areas, particularly Northern Europe, Brazil and Australia, tight global stocks, ongoing geopolitical risks and US Managed Funds holding near record short positions.

Barley still represents a great opportunity at around a £20-25/t discount to wheat, with low demand domestically and for export. Average ex farm prices are currently around £183/t for wheat and £160/t for barley.

Although it is early days the very wet UK autumn means that the 2024 crop is forecast to be much lower than this year and could end up around 12-13MT. Similar weather across much of northern Europe is likely to produce similar results.

The US maize harvest is all but done and strong production coupled with weak exports has seen prices have fall. Ending stocks are forecast to increase from around 34MT in 2022/23 to around 54MT in 2023/24

100% cover for wheat/barley has been recommended for some time into Q1/Q2 2024 with at least 50% cover through to Q3.

The very hot and dry weather in Central and Northern Brazil has delayed soya plantings and some crops have failed, to be replaced by cotton in some cases. The delays will impact on the 2nd Zafrina maize crop, to be planted in spring 2024.

The Argentinian soya crop is looking much better than last year, with good and persistent rains. Any reduction in the Brazilian 2024 crop from delayed and failed plantings should be compensated by this improved Argentinian crop.

Soyameal prices remain strong, with good demand, especially from China, and tight ending stocks. UK prices have eased back over recent weeks to around £460-465/t for Dec – April and £400/t for May – October.

Ukraine has been exporting strongly to the EU rapeseed markets but this supply is about to start its seasonal decline and this year the Australian and Canadian crops will not be there to replace it so supplies could get tight into Q2/Q3 2024.

Non-Erith UK rapemeal supply is very tight in the short-term and POA, before easing to around £275/t for May – July and £260/t for August – October.

100% cover for rapemeal has been recommended for some time through to 2024 Q1/2 to get the best prices and avoid supply disruption. Further cover is recommended for new crop 2024 at current prices.

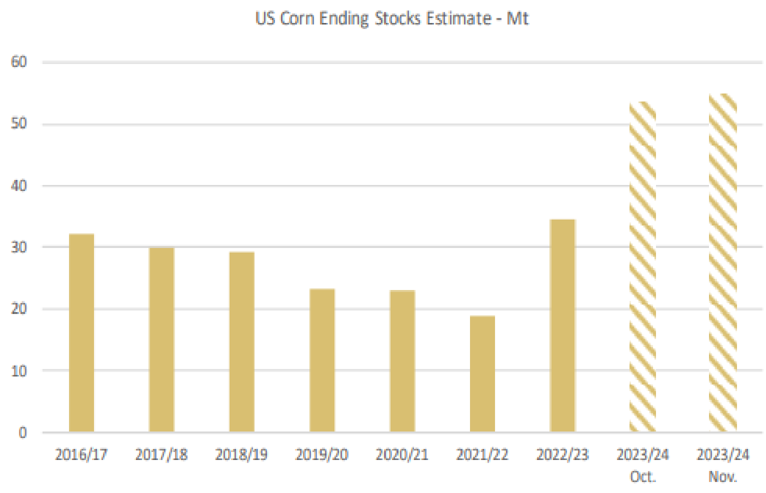
US maize distillers' grains at £280/t are good value in the short term, but not in the medium/longer term vs rapemeal. Wheat distillers' grains supply has reduced recently and prices at around £300/t are no longer such good value.

Soya hulls are the best value fibre product at around £205/t for May – Oct 2024 vs sugar beet pulp at around £250/t and with the poor 2023 Argentinian crop and low crushing **plenty of cover should continue to be taken into 2024.**

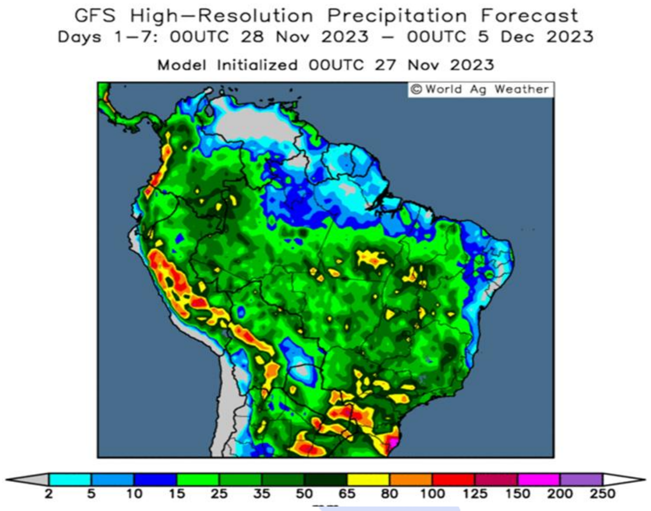
Cereals detail:

The rains in the US corn belt came just in time this summer to produce a very good maize crop. Combined with weak exports, partly due to strong supplies of cheap maize grain from Brazil, prices have eased to near 3-year lows at around 475c/bushel.

Chinese demand has so far been satisfied with cheap Brazilian maize but some exports are starting to be seen from the US as their harvest is completed and supplies from Brazil slow. Along with weak exports domestic demand for bioethanol has also weakened with the result that US ending stocks are forecast to rise to around 54MT this year.



The main concern in the outlook for maize is the very hot and dry weather experienced by the northern and central regions of Brazil. This has delayed soya planting, which in turn will delay the 2nd Zafrina maize crop planting in Feb/March 2024. Rain has finally come to the region but the soil is still very dry and more moisture is needed. Some early drilled crops have been re-drilled or planted with cotton.

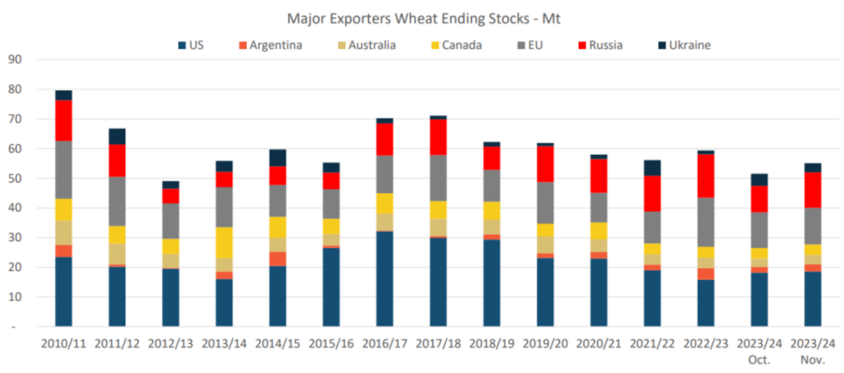


Plentiful supplies of cheap Black Sea wheat have kept feed wheat prices under pressure so far, but Russian supplies are now slowing and their domestic prices have risen $5/t in the last week to $235/t.

Ukraine is still struggling to export anywhere near what it was doing last year but October did see a small increase in export tonnage. Violent storms in the Black Sea area in November, however, have further disrupted exports recently. Western insurers are trying to get a deal to encourage more exports via shipping, which is badly needed with blockades by farmers and lorry drivers (unhappy about the supplies of cheap wheat leaving Ukraine) at many crossings into Poland and Slovakia.

EU exports have generally been slow with the strong Black Sea supplies and French wheat prices have now hit the lowest since February 2022 with delays to 2-2.5MT sales to China now put back from December to next March.

Although the latest forecast for ending stocks for the 7 major wheat exporters for 2023/24 has risen slightly ending stocks are still only just above the lows of 2022/12. With the US Funds holding record short positions any significant weather or geopolitical shock could send prices spiraling upwards.



The very wet autumn across large parts of northern Europe has reduced the forecasts for harvest 2024 production due to delayed plantings and damaged crops. It is early days but estimates are for losses of between 10 and 20% in many areas. Drier winter weather and a good spring could well claw back some of these losses so we need to wait and see.

Although some rain has come to Argentina and Australia recently the damage has been done to their wheat crops, which it is estimated will reduce their exports by around 50%. Heavy rains in SE Australia are now causing problems with harvest and quality.

UK wheat prices are running around £183/t ex farm, £195/t for May 2024 and £206/t for November 2024, in anticipation of the fact that even with a good spring the UK harvest could be down to 12-13MT and we will be net importers again.

Barley is still running at a £20-25/t discount with weak demand for domestic use and exports so still represents an opportunity to buy.

Proteins detail:

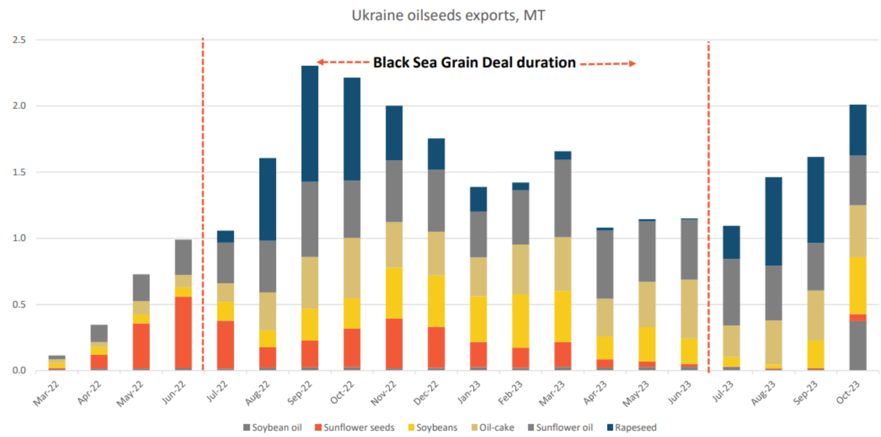
The effect of the very wet weather in southern Brazil and the very dry weather in northern and central Brazil on the soya crop currently being drilled is uncertain, but with delays and lost crops it could be that the next harvest is down from 165MT to 155-160MT.

Rain has now arrived where it was needed but we will have to wait and see if they are enough to make a significant difference. Only 74% of the crop has been planted, some early crops are having to be replanted and some of the area being switched to cotton.

After a very dry period in the run up to this year's planting, Argentina has now had good, persistent rain and the crop there is looking well and hopefully will compensate for the Brazilian shortfall. The newly elected Argentinian President promises more free trade, less government interference and to be more pro US$. If this comes about then more soya and other crops for export could be planted but we need to see if he can achieve all this in practice. In the meantime, Argentinian farmers are reluctant sellers and the supply of beans is poor due to their earlier drought, so supplies of soyameal and hulls are limited.

The US soyabean crop is now harvested and prices have picked up on the back of stronger domestic and Chinese demand. Chicago soyameal is also much stronger with the increasing Chinese demand, tight stocks and concerns over the issues in Brazil. The soyabean:maize price ratio for next March is now around 2.8:1 which, if maintained, would encourage more soyabeans to be planted at the expense of maize in the US.

Ukraine has had another very good rapeseed crop this year and has had more success exporting oilseeds than grains, resulting in exports being not far behind the position last year. Cheap rape and other oilseeds from Ukraine have helped to keep pressure on EU oilseed prices, with Paris OSR around 450 Euros/t. However, unlike last year, there will not be the canola imports from Australia/Canada so supplies should tighten through Q2/Q3.



The very wet autumn throughout much of northern Europe has also damaged the prospects for the 2024 OSR crop. Estimates for the UK are that it could be down by around 15% due to the weather and flea beetle damage.

Rapemeal remains in very tight supply in the short term with POA for spot and remaining high into Q1 2024 before easing further forward to £280-290/t for Feb – April and £260/t for Aug – Oct, so well worth booking some more at these prices, given the uncertainty over supply later next year.

Soyameal remains volatile but prices have eased back over the last few weeks to around £455-460/t for Dec – April and around £400t for May – Oct.

US Maize distillers looks better value than rapemeal in the short term at around £280-285/t where rapemeal is expensive but not such good value into Q2/Q3 2024.

For wheat distillers, the Strathclyde distillery has shut down for 3 months, reducing supply. Ethanol margins have dropped back and there are questions over the ability for UK producers to export ethanol to the EU from January.

Despite the slowdown in crushing in Argentina soya hulls are still available at around £215-220/t through to April 2024 before falling to c.£205/t for May – October. This is far better value than sugar beet pulp at c.£245 – 250/t and should be covered at these prices.