Technical Update – Feed Markets

Information correct as at 09:00am on 03.11.2023

- Oil prices remain stable, but the market is very fragile and should the Middle East situation deteriorate prices could rocket.
- Argentina and Australia have had rain, parts of Brazil have had too much.
- Extreme weather in the UK is causing problems which could knock on to 2024 harvest.
- Significant amounts of maize and wheat going to biofuel around the globe.

General:

Oil prices have not increased any more since the Middle East conflict started (Brent Crude around $86-88/barrel) but have the potential to increase significantly if the conflict spreads across the region (World Bank say price could go to $120-150/barrel).

Russia is still exporting wheat at a rapid pace, but this is showing signs of slowing. Ukraine is struggling to export at any more than 1/2 the rates it achieved last year and this plus weather events around the globe is contributing to tight stocks.

Brazil is very wet in the south and very dry in mid/north, delaying soya planting/establishment, which could become critical unless things change in the next few weeks. This would also knock on into their following 2nd Zafrina maize crop.

Argentina is running out of soyabeans to crush which will tighten supply of meal and hulls over the next few months, but it has at last had good rain, so improving prospects for maize and soya crops, but more is needed.

US Soyameal prices have surged over the last 2 months due in part to buying by Managed Funds.

The biggest risk for proteins is weather in South America and oil prices rising if the Middle East conflict escalates.

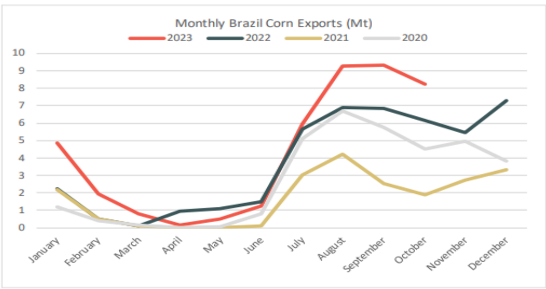
Cereals:

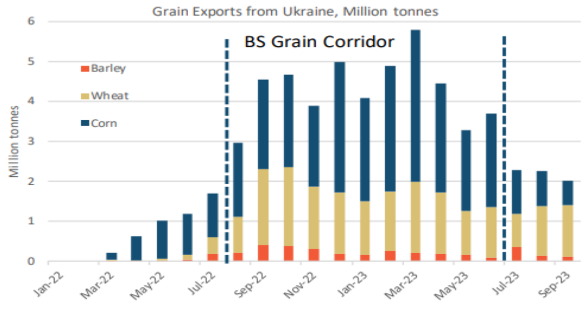
The US maize harvest is well underway and is causing harvest pressure on prices. US exports to date have been slow but with higher oil prices and the new US Government mandate for 15% ethanol inclusion in fuel demand for biofuel is strong with production at over 1 million barrels/day. If the situation in the Middle East spreads further across the region, then oil prices could increase significantly which will drive grain prices higher plus some countries could start to "stockpile."

Exports from Brazil, especially to China, have been strong, though these seem to have peaked now and are declining.

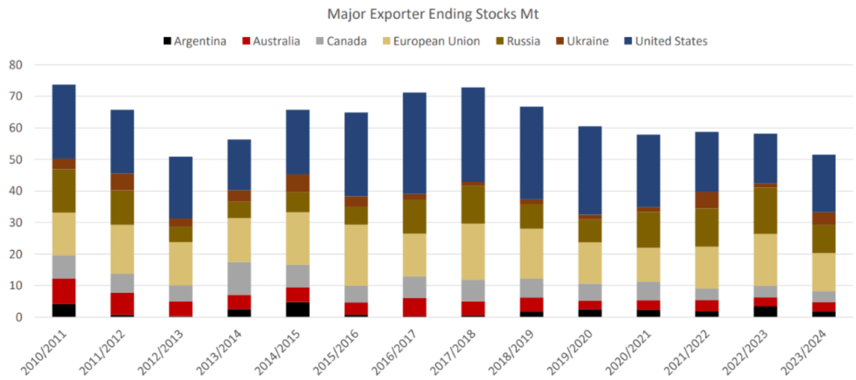
The very wet weather in southern Brazil and the very dry weather further north is delaying soya planting, which, if it continues will delay and reduce the soya crop and the very important 2nd Zafrina maize crop in early 2024. In addition, maize prices in Brazil are currently below the cost of production so some farmers may reduce the area they grow. Argentina has had good rain recently, with more forecast, and this is improving the prospects for this year's maize and soya crops.

Exports of grain from Ukraine are well below this time last year (especially for maize) when the export corridor was in place despite current attempts to develop the "humanitarian corridor" and increase the number of ships involved.





The latest forecast for maize global stocks:use ratio is around 26%, which is tight. For wheat, the major exporters ending stocks are forecast to be the lowest in a decade and so any major weather or geopolitical issue in any of the key countries could trigger a price rally. US Managed Funds are "very short" so the effect of any such issues would be amplified by the funds getting out of these positions.



The very wet weather in China has damaged their wheat crop and it looks likely that they will import 12-13MT this year which will add pressure to ending stocks. Russia continues to export wheat at a rapid rate, but this looks like it will slow down over the next few months which could increase demand for EU wheat and increase prices.

The recent rains in Argentina and Australia are improving prospects for wheat production with the Australian crop forecast up from 24MT a while ago to around 27MT now, although this is still well below the last few years.

In the UK demand for animal feed, especially monogastrics, is weak but demand for bioethanol is strong with both Vivergo and Ensus using large quantities of wheat, causing a North Humber premium over East Anglia of around £12-15/t. AHDB figures show the barley discount to wheat is around £24/t now, so still providing an opportunity for inclusion in rations.

The carry for wheat from November to May 2024 is around £10-12/t with the forward price for May around £199/t.

Hopefully, all clients are now well covered for wheat into 2024 Q1. Beyond this time a lot depends on how the weather affects crops in key growing areas around the world and the situations in Russia/Ukraine and the Middle East.

It would be prudent for everyone to have some degree of cover into Q2 and Q3 2024 with the more risk averse having more forward cover whilst the risk takers might want to hold on and hope for prices to fall.

Proteins:

The US soyabean harvest is around 85% complete but harvest pressure has not been a factor with strong demand for soyabeans and soya meal (from US Funds) plus low river levels in the US and south America helping prices to rise recently.

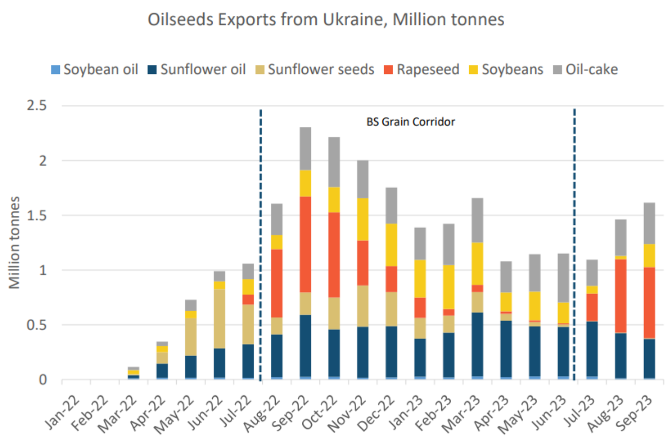
In addition, the latest reports indicate that Argentina, the largest global supplier of soya meal, will run out of beans for crushing by the end of November, causing a tightening of supply until the next south American crop in the spring.

The very dry weather in Mid Brazil and wet weather in some southern states is delaying soya plantings (now 70% complete) and starting to reduce forecasts. The next few weeks will be critical, but the latest forecast is still for a record.

The good recent rain in Argentina is improving prospects for future soya and maize crops but from a very dry base with much more needed. Australia remains largely dry apart from New South Wales, which is improving the prospects for canola production as well as wheat from there.

Much of the reduced 2023 Canadian canola crop is going to the US for biofuel production and it appears that more of this year's reduced Australian crop will go to China through next spring.

Exports of oilseeds/vegetable oil from Ukraine have improved and are now around 75% of last year. Rapeseed supply has been particularly strong and prices are relatively cheap, which is weighing on EU prices, though exports are likely to fall soon as this year's good crop exports come to an end and at that point supplies will become tight.



There are good crush margins from strong demand for rape oil but weak animal feed demand for rapemeal. At the same time there is a tight supply of soya meal and stronger demand in the short term. Erith rape meal at around £255 - 260/t is only just over half the cost of spot soya meal at around £480/t, though forward soya meal prices for May – October 2024 fall back to around £410/t. Once the Ukrainian rapeseed supply ends and with doubts over the Australian supply in the coming year volumes could get tight and if animal feed demand picks up then rape meal prices could rise.

US maize distillers supply is strong with a lot of maize going into bioethanol currently but US domestic demand is also strong and very low river levels are still causing issues with exports – UK prices remain similar to rape meal.

With more bioethanol being produced from Vivergo and Ensus wheat distillers' prices are looking more attractive, particularly from Hull at around £250/t (Southern Ports around £270/t) for Nov – April 2024.

Soya hulls supply will tighten as Argentina runs out of beans, so prices are higher at around £215-220/t ex Liverpool for Nov – April 2024, but still better value than sugar beet pulp at around £245/t. For May – October prices fall to c.£200/t.

The advice is still to keep taking forward cover if needed on rape meal, distillers' and soya hulls in particular when opportunities arise.

For further discussion or to help with any questions that you may have, please contact Consultant Support on consultantsupport@kiteconsulting.com or 01902 851007 / 07542 403225