

Technical Update – Feed Markets



Information correct as at 09:00am on 15.12.2023

- Oil prices fall despite cuts in production and Middle East situation.
- Wet weather in Northern Europe has affected 2024 harvest prospects.
- Wheat ending stocks are very tight but maize is similar to last year.
- Current soya crop and following Zafrina maize crop affected by dry weather in Brazil.

Summary:

Despite further cuts in production by OPEC+ recently the price of Brent Crude oil has fallen around 20% from the recent peaks of \$92/barrel in October to around \$75/barrel now. Demand for oil and many other commodities remains weak with most economies struggling with stubborn inflation, high interest rates and low growth.

The USDA December WASDE report on 8th December produced only very slight adjustments to supply and demand for the major commodities and had a negligible effect on prices. Strong exports of grain from the Black Sea and weak demand have kept cereal prices under pressure.

Although some rain has come to central and northern Brazil the soya crop there has been delayed and damaged with forecast yields being downgraded and the following 2nd Zafrina maize crop also likely to be delayed and reduced.

With a new President elected, Argentina has temporarily suspended all export licenses for grains and oilseeds and devalued the Peso from 365:US\$ to 800:US\$ plus other significant measures with more to come.

The extremely wet weather throughout much of northern Europe, including the UK, has delayed and damaged cereal and oilseed rape crops. The true extent is unknown but is thought to be significant, maybe up to a 10-15% reduction.

Forward wheat prices remain around £195/t for May and £208/t for November. The advice continues to be to have 100% cover through to spring 2024, then 50% cover through to harvest and beyond.

Barley is available at a significant discount and continues to offer an opportunity.

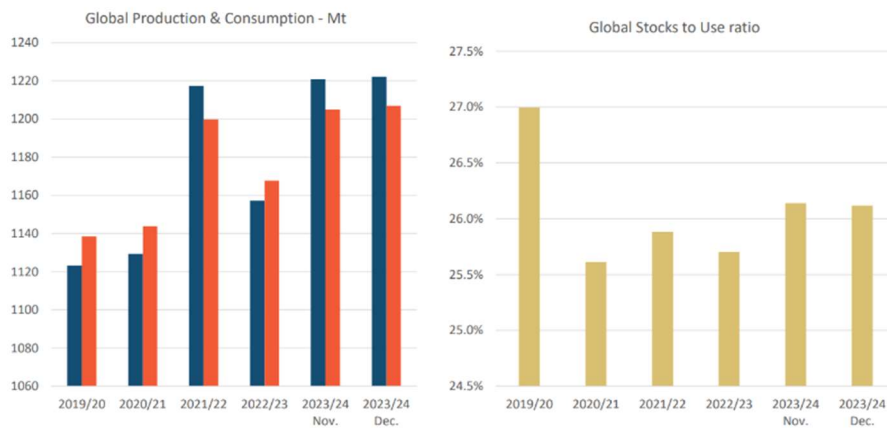
Soyameal has dropped back significantly from recent levels and is below £400/t for next May – October.

Rapemeal availability is very tight in the short term but forward prices are attractive with August – October 2024 back down to recent low levels around £260/t for non-Erith supply, so well worth continuing to take cover at these levels.

Soya hulls are still around £215/t forward between January and April and £205/t for May – October, again well worth covering some requirements. They remain a much better value fibre feed than sugar beet pulp at around £250/t.

The Detail-Cereals:

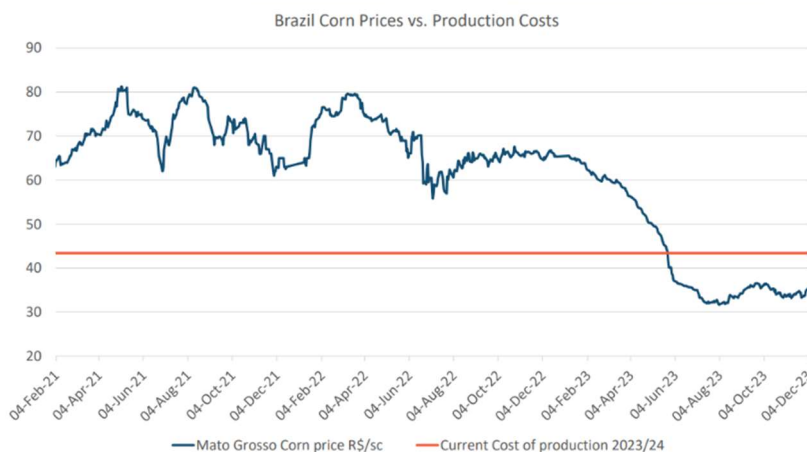
The December USDA WASDE report left global production and consumption forecasts for maize largely unchanged with ending stocks still at around 26%.



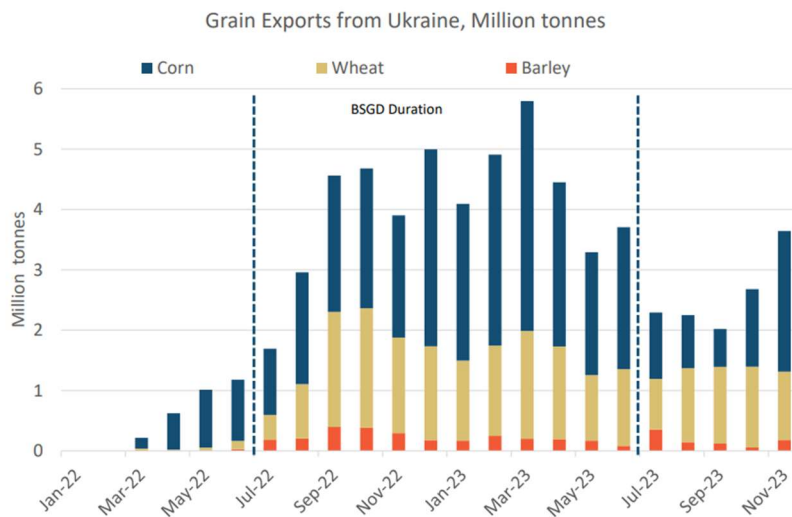
US exports have started to pick up with China and Mexico the main buyers, but shipments through the Panama Canal are being slowed down significantly by low water levels, which is adding to the cost.

Despite some rain in central and northern Brazil there are still major concerns for next spring's Brazilian Zafrina crop with the delays already in place to the soya crop plus ongoing hot (40+C) conditions. CONAB, the local forecasting agency, has reduced their forecast for the 2024 Brazilian maize crop to 118MT compared with the USDA forecast of 129MT, but we are still a long way off the 2nd Zafrina crop planting let alone harvest.

The soybean:maize ratio is still around 2.5:1, meaning that soya is more profitable and therefore more likely to be planted at the expense of maize, particularly in the US next spring. In addition, the price of corn in Brazil has been below the cost of production for several months, reducing the enthusiasm for planting if there is a more profitable alternative.



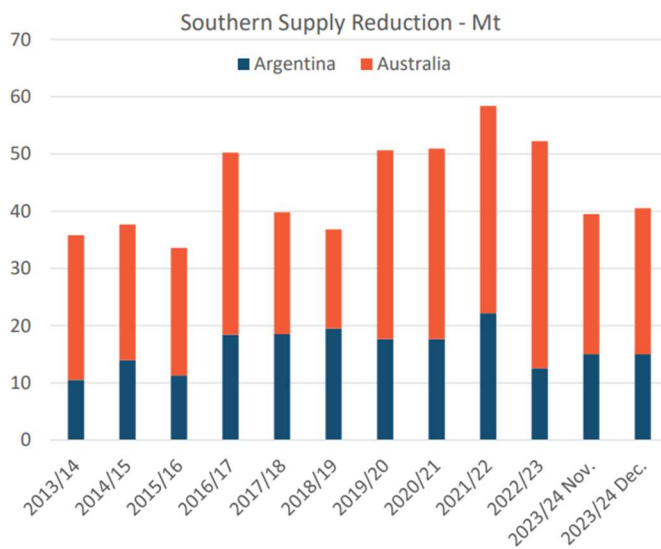
Despite ongoing attacks on the Danube ports exports of grain from Ukraine have increased again in November and are now approaching the levels of 2022 as maize becomes available. The very good 2023 maize crop has been upgraded by 1MT and is forecast to produce exports of around 21MT.



Supplies of wheat from the Black Sea are still plentiful and cheap with Russian prices stabilising at around \$230/t.

The December USDA WASDE report left the outlook for world ending stocks for wheat largely unchanged and the lowest for 8 years at around 258MT. China has started buying large quantities of wheat and if this continues will further tighten global ending stocks.

In the southern hemisphere the Australian crop has been upgraded by 1MT to 25MT, but still well down on the crops of recent years. Argentina is forecast to have a slightly larger crop than in 2022/23 with much improved weather.

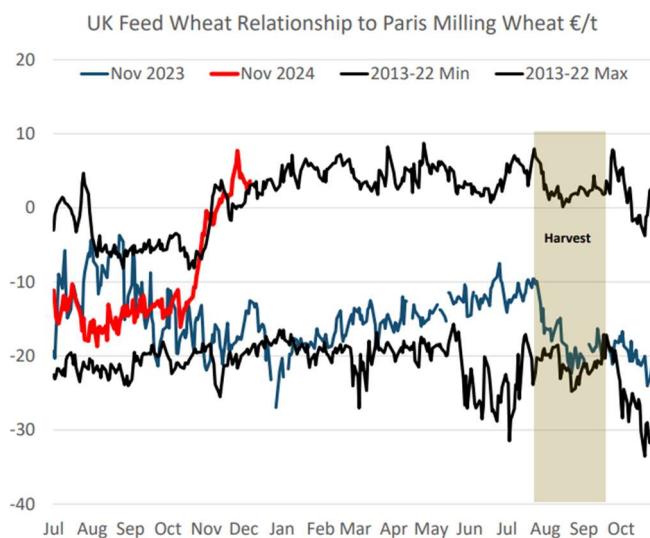


In the UK, the use of wheat for human and industrial use is at a 5-year high, largely due to the demand for bioethanol, whilst the demand for animal feed is at a 9-year low.

The outlook for many 2023/24 northern hemisphere wheat and barley crops is causing concern, with northern Europe struggling to get crops planted and many of those that are in the ground being damaged from excess rainfall. In the UK reports from arable farmers to CRM show a range of between 40-100% of crops planted with a lot suffering from waterlogging. The latest estimate of the 2024 crop is that it will be down to between 12-13MT.

France is only 89% planted and only 77% is categorised as good/excellent. The latest forecast is that around 4.5Mha will be grown, the second lowest in 20 years. Many other northern European countries are in a similar position so much will then depend on the spring conditions as to whether a good spring barley crop can compensate for some of these losses. Spring barley seed is now sold out across the UK and much of northern Europe.

As a result of all this UK feed wheat compared with Paris milling wheat has gone from the lower end of the price range in 2023 (with a good carry over from 2022 and a decent crop) to the top end of the range for November 2024



Ukraine is predicted to have the second smallest crop in 12 years for 2024 at around 20MT, whilst the Russian 2024 forecast is for a decent crop of around 89MT, but as always, a lot hinges on the weather regarding winter kill and for the spring wheat crops.

Current UK forward prices are still around £195/t for May 2024 and £208/t for November, with barley at a discount of around £20/t.

There are significant upside risks from weather and geopolitics so the advice remains to ensure 100% cover through Q1 2024 and at least 50% cover through Q2/Q3. The risk averse may wish to also take some cover into Q4 2024.

The Detail-Proteins:

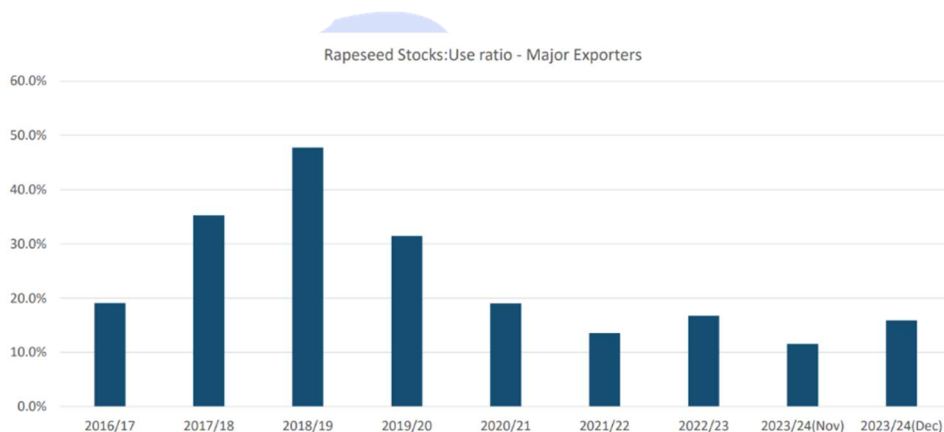
The USDA December WASDE report left the position for soyabeans largely unchanged and had little effect on prices. The rain in northern and central Brazil have helped to alleviate some of the problems created for their current soyabean crop by the very hot and dry weather. The excessive rain in southern Brazil is causing rust to establish in some crops there. It is yet to be seen what the final outcome of the damage will be, but local agencies are downgrading the soya crop from the 160MT initial forecast by the USDA to between 150-155MT and this could go lower as the picture becomes clearer.

The rain in Argentina is creating near perfect conditions for their crop, with NDVIs getting back to normal levels. The crop is now forecast to be around 50-52MT.

We have yet to see what effect the stopping of export licenses from Argentina (introduced by the new President ahead of a significant devaluation of the Peso) will have on prices for soya beans and meal.

The recent 20% fall in crude oil price is keeping soyabean and oilseed rape prices under downward pressure but demand for biofuel remains strong in the US and elsewhere.

The December WASDE report upgraded the Canadian and Australian canola crops which increased the major exporters ending stocks estimate slightly from 11 to 13%, but they remain very tight.



Ukraine has been exporting rapeseed strongly, in particular to the EU, plus other oilseeds/oils and in November these approached a similar overall level to November 2022

The outlook for oilseed rape crops in northern Europe for 2024 is, as for cereals, not looking good with problems getting crops drilled and many of those that are in the ground being waterlogged or damaged by flea beetles.

UK soyameal prices have fallen back recently from peaks around £500/t in early November to £430/t for Jan – April and £390/t for May - October

There continues to be issues with the supplies of rapemeal in the UK in the short term with ongoing problems with the plant at Erith. Prices are either unavailable or very expensive at well over £300/t if available.

Longer-term prices are looking good with May – July prices back to £275 – 280/t and new crop prices for August – October back around £260/t for non-Erith supplies.

Cover should continue to be taken well into 2024, especially given the outlook for 2024 OSR crops around Europe.

The strong production of bioethanol means that plenty of US maize distillers is being produced but domestic demand means that availability in the UK in the short term is limited but May – October prices are around £270/t. Wheat distillers supplies are virtually non-existent and POA due to earlier demand and problems with some processing plants plus the shutdown of the Strathclyde plant in Scotland.

Maize gluten prices have risen with problems at one of the big US plants and remain around £278/t.

Soya hulls remain the best fibre option at around £213/t until April, then £203/t for May – October compared with sugar beet pulp at around £240-250/t, so forward cover should continue to be taken at these prices.

Once again, the importance of forward booking as opportunities arise has been emphasised by the lack of spot or short-term options for a number of raw materials.

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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

