Technical Update – Feed Markets

Information correct as at 09:00am on 17.11.2023

- Inflation falls on both sides of the Atlantic reducing the risk of further interest rate rises.
- US soya and maize harvests almost complete.
- Adverse weather in Brazil is affecting soya planting which will affect 2nd maize crop.
- Pound strengthens against US$ reducing cost of imports.

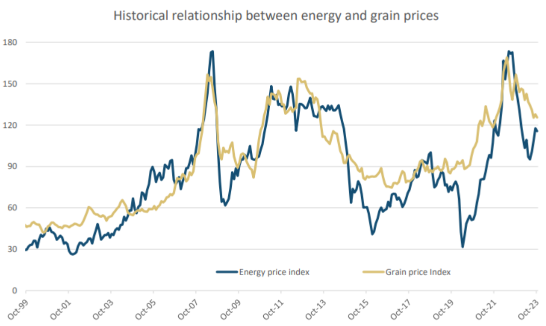
General:

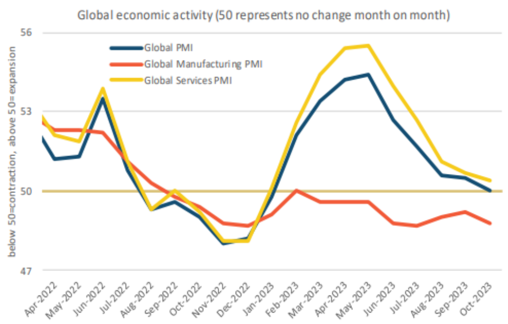
UK inflation fell to 4.6% in October, from 6.7% in September, the largest fall in a single month since 1992! This means that further interest rate rises are more unlikely and if this is maintained could result in earlier rate falls.

US inflation also fell back and the $ weakened against most currencies, including the £ which increased to 1.24:$, helping to ease the price of imported goods.

The events in Gaza have not spilled over into neighbouring countries as feared (yet) and so Brent Crude prices have fallen back to around $78/barrel, down from c.$92 in September/early October and the lowest since July. The relationship of oil prices to grain prices is shown below left, so any escalation into the wider region would almost certainly mean higher oil prices and with that higher grain prices.

Global economic activity is pretty static at around an index of 50, as indicated by the chart below right.





Summary:

The November USDA WASDE report was released on 9th November. It raised the estimated global yields and stocks for maize/corn and wheat, leaving a fairly bearish sentiment, but lowering those for soya, leaving neutral sentiment there. Despite this, markets have taken a bullish turn with worries over the very hot and dry weather in many key regions of Brazil, plus strong Chinese and Managed Fund buying causing soyabeans and meal prices to rise over recent days.

The delayed Brazilian soya crop plantings, with large areas having to be redrilled, will ultimately delay the following 2nd (Zafrina) Brazilian maize crop and yield forecasts are already being reduced, with maize prices rising as a result.

The very wet weather across much of northwestern Europe is hampering winter crop plantings and crop conditions. Very dry weather in Southern Russia and parts of eastern Europe are also causing concerns.

Managed Funds are very short for cereals and wheat in particular so any geopolitical or major weather shocks could see prices spike and this would be amplified if the funds sold out of their short positions.

With all the upside risks around the world at present the risk averse should be well covered for wheat (or barley, which is still at a significant discount) into 2024 and should increase their cover to 50% through to harvest 2024.

Rapemeal supply is tight in the short term but hopefully most clients have enough cover into Q1/Q2 2024. New crop 2024 non-Erith prices are back to around £275/t and some cover would be worthwhile at this price.

Cereals:

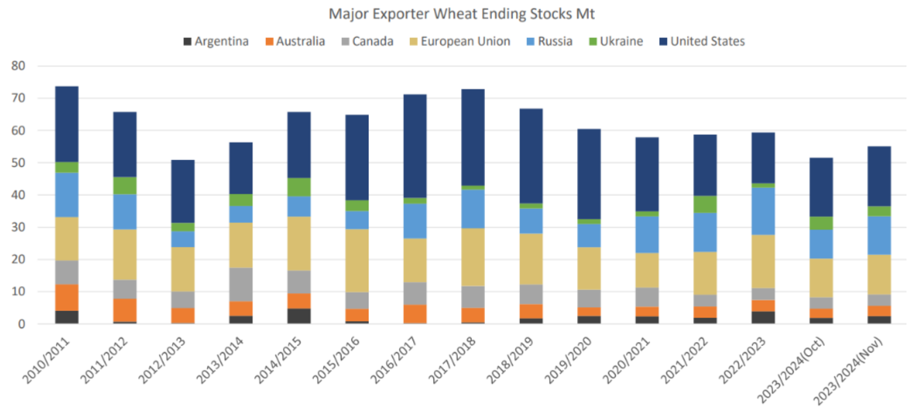
The US maize harvest is now over 90% complete and the USDA have increased their forecasts for yields to record levels of around 386MT. Coupled with easing oil prices the US maize price had fallen back to c.$4.60/bushel but has risen in recent days to $4.80 on stronger exports and increasing concerns over the weather situation in Brazil.
The biggest risk to world supply of maize in the next 12 months is the weather in Brazil, which is very wet in the south and very hot/dry in central and northern areas (though there are some signs of possible rains to come soon). This is delaying current soya planting, with some areas having to be redrilled, and this will knock on and reduce the following 2nd Zafrina maize crop, accounting for around 75% of Brazil's production, sown in February/March 2024, if it continues. Local organisations are already reducing their yield estimates for the forthcoming maize crop to around 120MT and could well go lower in time unless significant rains come soon.

On the other hand, Argentina has had some useful rains and although this is too late for their wheat crops it should be helpful for their maize and soya crops which should recover this year following the drought of 2022/23.

France has increased its estimate for maize production to around 12.2MT but the very wet weather has been hampering harvest. Ukraine has also had a very good maize crop but the ongoing difficulties around exporting mean that little is getting out of the country. There are moves to overcome the insurance problems for ships so this may improve in the near future.

The recent Russian shelling of a ship in port has reduced the already slow rate of exports by sea. Also, border crossings into Poland are being blocked by striking lorry drivers who object to the access being given to Ukraine to EU markets.

The most recent USDA WASDE report of 9th November increased the major wheat exporting countries ending stocks slightly from the October report, but they are still the lowest since 2012/13.



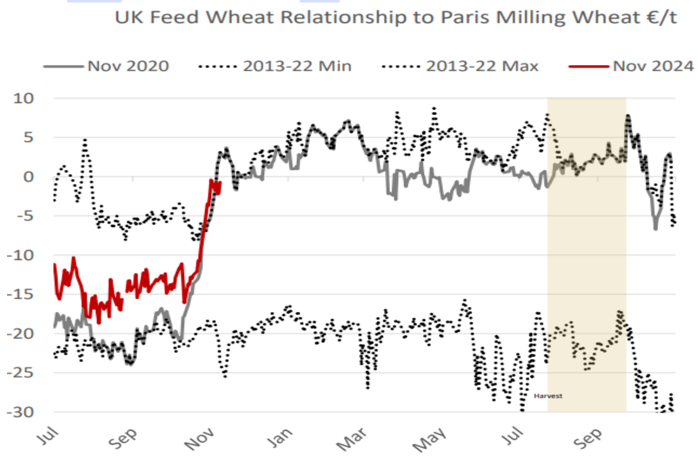
With US CBOT wheat prices slipping back the Managed Funds are maintaining their short positions. If a geopolitical or weather shock were to occur, they could get out of these positions and this would amplify the rise in prices, so there is a large upside risk.

Russia is still exporting at a strong rate and holding prices down, but these exports are starting to slow seasonally. Again, Ukraine has had a good wheat crop but is struggling to export it.

The very dry weather in Argentina and Australia has reduced their wheat crop forecasts to 25MT and 13.5MT respectively. The very wet weather in northern Europe and very dry conditions in parts of eastern Europe and southern Russia are causing increasing concern.

It is too early to be certain of the consequences, but it seems likely that 2024 wheat production will be reduced because of late drilling, waterlogged conditions and a switch to spring planting. Early estimates for the 2024 UK harvest are that it could be around 10 - 15% yield loss overall and this could bring the crop size down to around 12MT from 14-15MT.

This would make the UK a net importer and this is reflected in the rapid rise in UK November 2024 prices compared with Paris milling wheat. The difference for UK feed wheat futures between November 2023 and May 2024 is back up to c.£14-16/t, with May 2024 at £202/t (November 2024 forward prices are around £210, a difference of £24/t compared to current prices).

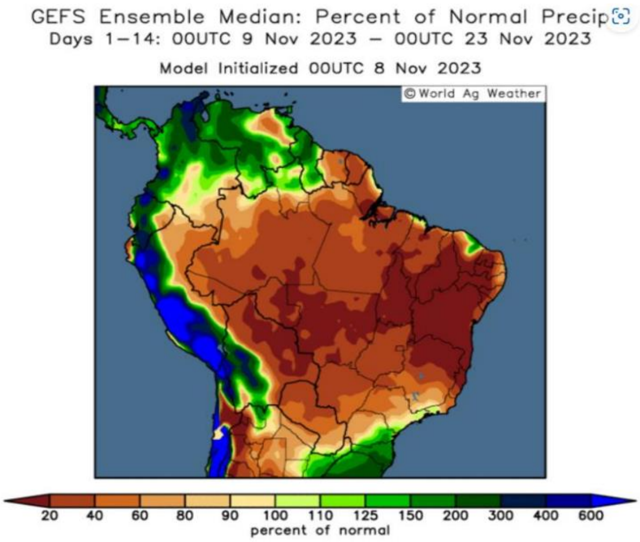


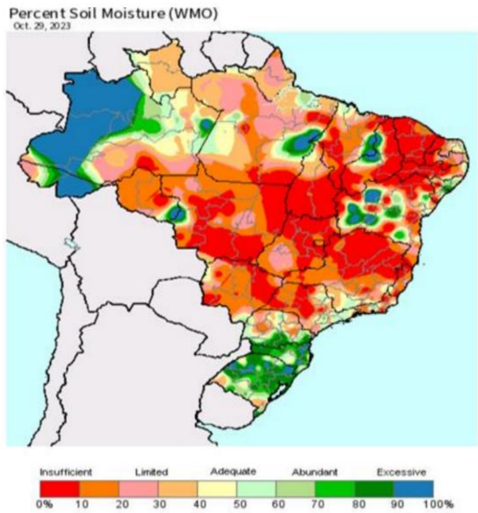
Strong demand for ethanol means good margins and strong demand for wheat from Vivergo and Ensus with a £14-16/t North Humber premium.

Current prices for wheat and barley at around £187/t and £163/t ex farm still look good and hopefully most clients have cover well into Q1/Q2 2024. Forward prices have jumped on the back of the conditions the weather has created in south America and Europe in particular and could go higher depending on where things go from here. With all the upside risks around in the outlook the risk averse should take further forward cover, up to 50%, until harvest 2024 at least.

Proteins:

The precipitation and soil moisture maps show the current picture for Brazil. Too wet in the south and too hot and dry in the rest of the country. There is some rain forecast from some sites for next week but then returning to hot/dry again later.





The Brazilian soya crop is around 65% planted, which is below average, and reports indicate that large areas will need to be redrilled. Local organisations are already reducing expectations by a few million tonnes and more could come if it does not rain soon. The bigger worry is the knock-on effect all these delays could have on the following maize crop, as stated above.

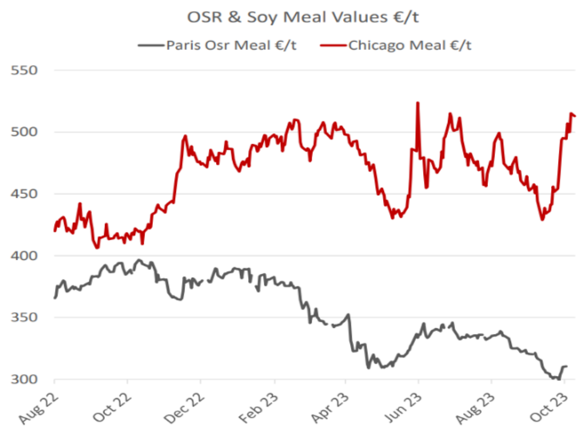
The US soya harvest is almost complete and with tight stocks, a record crush in October, good crush margins driven by domestic demand for biofuel and now strong export demand from China the prices of beans and meal have gone up recently.

Argentina has gone quiet with elections in the next week, but they are running out of beans following their poor 2023 harvest. A crush of only 40% and 30% of capacity in November and December is likely so there are concerns over availability in the short term. Good rains recently have improved the prospects for the next soya crop being drilled now.

Oil seed rape prices have increased recently on the back of soyabeans but exports from the Ukraine to the EU have been more successful than for most other commodities, so this has moderated price rises with Paris OSR prices are back up to around Euros 450/t.

The 2023 Canadian crop has been drought affected and poor. The forthcoming Australian canola crop will be much lower than last year due to the El Nino effect so supplies will get tight into spring 2024. A lot then will depend on what happens to Brazilian and Argentinian soya crops in 2024.

Whilst demand for soyameal has been relatively strong for the monogastric sector, demand for rapemeal for the ruminant sector has been weaker. The graph below shows the trends in US soyameal and Paris rapemeal prices with a difference of around Euros200/t, making rapemeal the meal of choice for the ruminant sector.



Latest UK prices for soyameal show further increases to over £500/t on the spot market, just under £500/t for Dec – April and falling to £420-430/t for May – Oct. Rapemeal supply is very tight on the spot and short-term markets with prices around £310-315/t from Southern Ports but easing into 2024, falling to around £290/t for May – July and £275/t for new crop 2024.

Hopefully, following previous advice, most clients will have enough forward cover into Q1/Q2 2024. The message is to keep taking some forward cover to avoid the risk of higher prices if supplies tighten.

The strong bioethanol market has resulted in a good supply of US maize distillers (with river levels also improving) but domestic demand in the US has also increased so prices have gone up a little to around £285/t through to summer 2024.

Despite Ensus and Vivergo running close to capacity wheat distillers' supply has become tighter and demand stronger, so prices have risen to around £280-290/t through to April 2024.

Soya Hulls have stayed at around £215 – 225/t through to April 2024 before falling to £205 – 215/t for May – Oct in anticipation of improving supplies from south America.

If these are needed in diets again it would be wise to keep taking forward cover in case supplies tighten. In comparison Sugar beet pulp remains too expensive at around £250/t.