Technical Update – Feed Markets

Information correct as at 09:00am on 20.10.2023

- Geopolitical situation further complicated by developments in Israel/Middle East.
- This has unsettled markets and seen prices increase.
- Dry weather dominating South America and Australia.
- Downgrades to both some cereals and soya crops is tightening supplies.

General

The ongoing Saudi Arabia/Russian oil production cuts plus a gradually recovering global economy caused Brent Crude oil prices to rise from around $75/barrel in late summer to around $85/barrel in early October. The recent events in the Middle East have added to concerns over oil and gas supply and Brent Crude has increased further to around $90-92/barrel. This could go either way from here depending on events.

The historic association between energy and grain prices is quite close, so higher energy prices generally equal higher grain prices. If the conflict develops further then the higher industrial fuel/gas prices will put upward pressure on inflation around the world and will mean interest rates are likely to stay higher for longer.

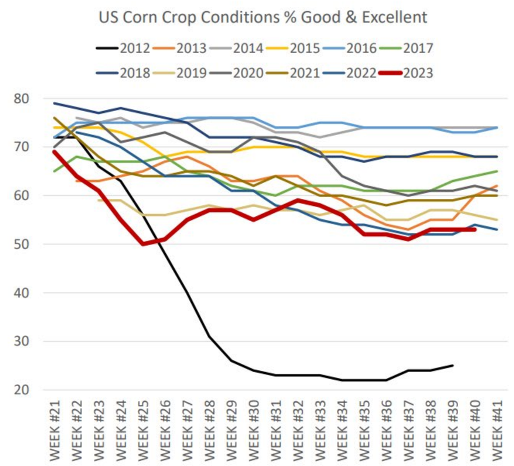
The Baltic Dry Index of freight costs, which is an indicator of global economic activity, has just reached the highest point in 12 months so this needs to be watched over the coming months.

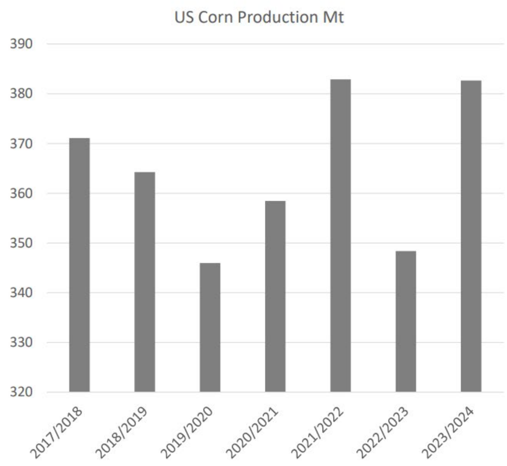
The US$ remains strong as it is seen as a safe haven and the £ has weakened to around $1.21. Again, if the conflict in the Middle East develops further, this may push the US$ higher/£ weaker, thus increasing imported goods costs.

Ukraine has attempted to get ships into its Black Sea ports to allow exports to proceed at previous levels, but so far this has failed, so despite some good crops Ukraine may not be able to get these out onto EU/world markets.

Cereals

With harvest well underway the US maize crop is still rated only 52% "good/excellent" but the USDA forecast has only been downgraded a little, meaning a very good crop is still expected at around 382MT.



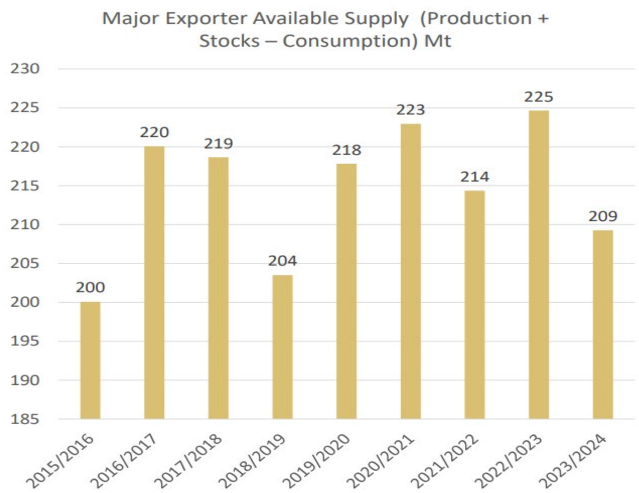


Exports from the US have been slow generally as Brazil has been a major source for China so far, but US domestic demand has been very strong for biofuel production due to US Government mandates for inclusion in fuel. The US is currently producing at the top end of the normal range at around 1 million barrels/day. Despite this December 2023 Chicago prices are under $5/bushel, the lowest in 2 years.

River levels on the Mississippi have fallen to similar levels to last year, around 10 feet below average which is limiting the export of goods including cereals and distillers' grains.

The hot, dry weather in large parts of Brazil continues and this is delaying soya planting and will delay the subsequent maize crop. The forecast is already down to 120MT for 2023/24compared with 137MT in 2022/23 and could fall further. The same dry weather patterns in large parts of Argentina continue and their wheat, soya and maize crop forecasts are also being scaled back.

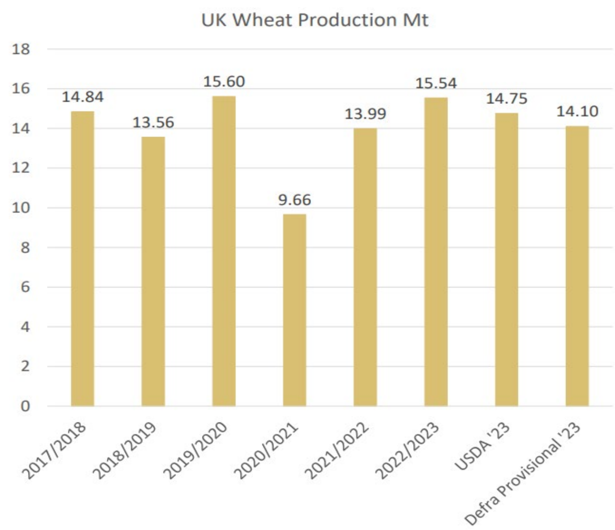
Global wheat production from the major exporters is forecast to be down to 376MT in 2023/24 from 396MT in 2022/23 with tight stocks:use ratios. Taking stocks and forecast consumption into account the chart below shows the net available wheat tonnage position at a relatively low level.



With the northern hemisphere harvest now done we are at peak supply with Russia in particular exporting at a very strong pace, but at some stage in the next few months this is expected to slow. Ukraine is struggling to export around 2MT/month in total compared with around 7MT/month at this time last year, thus further tightening physical supplies.

Australia is in the grip of an El Nino inspired drought and the wheat forecast has been reduced to 26MT for 2023/24 compared with 40MT for 2022/23.

In the UK wheat production is down from the 15.5MT last year to around 14MT this year according to the latest figures from DEFRA, but with more feed wheat due to quality problems with milling wheat as a result of the weather.



At the same time UK consumption is forecast to increase for all sectors- human, industrial and feed leaving a tight position and meaning imports are likely to be needed later in the season.

Current November forward wheat prices are around £188/t with a large increase for May 2024 to over £200/t, compared with £2/t increase between the dates a year ago, reflecting this tightness going forward.

The forecast for barley is that lower consumption will follow lower production. Barley is still trading at a discount to wheat of around £20/t.

Considering all this and the uncertainties in the world the CRM view is to continue to take full cover on cereals through until Q2 2024 at current prices and then some cover until 2024 harvest, with less cover for the risk takers and more cover for the risk averse.

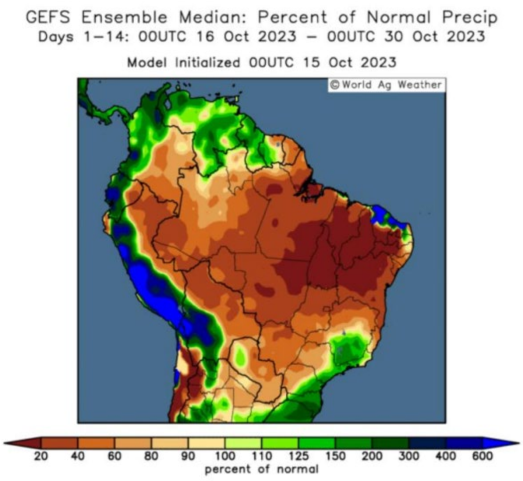
Proteins

The US soya harvest is well underway but following a lower-than-expected planted area in the spring and several periods of very hot dry weather during the summer the crop will finish well short of the original forecast at around 113MT.

The soya:maize price ratio has eased back to around 2.4:1, so still favouring soya but not by as much as it was a few weeks ago.

Brazil has become the main exporter of soyabeans, mainly to China, and US exports have been slow so far. The Brazilian soya planting is being slowed by very hot and dry weather over much of the country and the forecast map below suggests little will change up to the end of October.

The longer this delay continues the more the yield forecasts will fall and the more the subsequent 2nd Zafrina corn crop will be delayed. Argentina has the greatest soil moisture deficit for 30 years at this stage ,which is affecting all crops, including soya.



The Canadian canola crop has been downgraded from and initial 19MT to around 17.5MT with the next Australian crop forecast to be well down with the drought now gripping the country. Although the Ukrainian rapeseed crop was good the problems of being able to export it continue so the outlook for EU supplies is for them to get tighter into 2024.

Palm oil production is currently strong with good conditions in Indonesia and Malaysia. EU vegetable oil prices remain low but with rape oil regaining its slight premium.

UK soya meal prices have jumped by around £30/t through to April 2024 in the last week due to issues around the US and south American crops, so now at around £450/t. They then fall c.£50/t to around £400/t for May – October on the back of expectations of a decent US crop followed by the large anticipated south American crop, but there is a considerable weather risk to this.

UK rape meal prices also jumped on the back of soya in the last week by around £15-20/t to £275-280/t for non-Erith supplies through to the 2024 harvest.

Hopefully most clients will have built up enough cover on soya and rape meal into 2024 at previous prices to hold off taking any more at present.

The problems with the Canadian and Australian crops and the difficulties Ukraine is having with exports is likely to cause the supply to tighten into spring/summer 2024.

A lot of US Maize Distillers is being produced as a by-product of the US bioethanol production but is being held up by the low river levels. Prices are similar to last week and so are now below rape meal at c.£ 260/t through to October 2024.

Although there have been good sugar beet crops prices for dried beet pulp have not altered much and are around £250 -260/t, making soya hulls a better fibre source at around £220/t through until May 2024.

Minerals, Blends, DCABs & Yeasts

We have seen the raw material prices used to manufacture minerals, DCA's and yeasts ease back and stabilise recently. However, with increases in crude oil and energy costs, we anticipate these prices could start to increase again. You can currently book forward to March 2024 at current prices through Advance.