Technical Update – Feed Markets

Information correct as at 09:00am on 09.02.2024

- Prices have been easing for the last month or so.
- Thursday's USDA report did nothing to inspire markets.
- Weather and geopolitics mean potential upsides from current prices.
- Disruption to shipping in Red Sea will increase lead times and costs.

Summary:

The USDA WASDE February report published yesterday produced few surprises, adjusting world ending stocks for soyabeans slightly upwards, maize down and slightly down for wheat, bringing stocks here to an 8-year low.

The local Brazilian CONAB February report reduced their forecasts for the 2023/24 soyabean crop by 6MT compared to January's report to 149.4MT and the maize crop by 4MT vs January to 113.7MT due to previous unfavourable weather.

Geopolitical events (particularly in the Black and Red Seas) and weather (particularly in south America, Australia and northern Europe) continue to be the major sources of upside risks.

UK wheat futures continue to drift slightly lower, with May now around £169/t and November around £187/t, the £18/t carry due to lower production forecasts for 2024 harvest and higher costs for storage. Barley continues to trade at a significant discount of around £25-30/t to wheat and is seen as an opportunity for buyers.

Our recommendations for cereals remain to be 100% covered for Q1, 75% covered for Q2 and 25-30% covered for Q3. With big upside risks from geopolitics and weather the risk averse may want to take some cover for Q4 2024 and Q1 2025.

UK prices for soyameal have eased back slightly again to around £360/t for May – October with weaker demand and strong supply. Prices are quoted around £380/t for Nov-Dec with no quotes beyond that due to the uncertainties over regulations after 1st Jan 2025.

Rapemeal prices are around £260-265/t for non-Erith supplies for May/June/July before falling to £250-255/t for Aug/Sept/Oct, with only slightly higher prices for Nov–April 2025. Given the risks to supply from weather and geopolitical events plus the uncertainty over soyameal supply from January 2025 it is well worth taking some cover through into Q1/Q2 2025.

US maize distillers' availability is still tight until April, then prices are around £255/t for May–Oct. Soya hulls are still around £175-180/t for May–Oct and remain much better value as a fibre source than sugar beet pulp at around £240-250/t.

The overall trend for feed raw materials is down, but with big upside risks it would be prudent to cover at least 50% of summer/autumn compound feed requirements.

General:

The latest USDA WASDE report was published on 8th February. It produced no major shocks and is more likely to result in further price decreases than to cause increases. However, the ending stock figures for Brazilian maize and soya are still well above the local CONAB figures so it is probable that the USDA estimates will be downgraded again in the future, resulting in lower production and tighter ending stock forecasts.

The US $ has strengthened against most currencies following better US economic data, leaving the £ at around 1.25-1.26 compared with 1.27 recently. The £ has strengthened against the Euro with the ratio now around 1.17 compared with 1.14 in November.

Despite all the efforts by OPEC+ to increase oil prices and the disruption to shipping in the Red Sea, crude oil prices have not changed much. Brent Crude May futures are around $80/barrel, but there is still a big upside risk.

Disruption to shipping through the Red Sea is delaying the arrival of many products and will push prices up if the problems continue.

UK interest rates are expected to start to fall during the spring/summer, but if rising costs cause inflation to increase again, they will remain higher for longer.

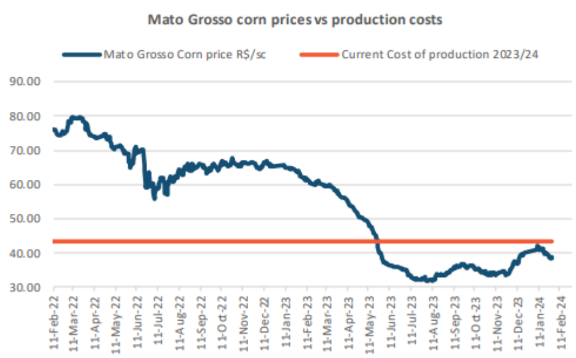
The Chinese economy continues to struggle with the collapse of the property developer Evergrande, which owes over $300 billion, the latest crisis. Demand for all commodities, including agricultural, remains weak.

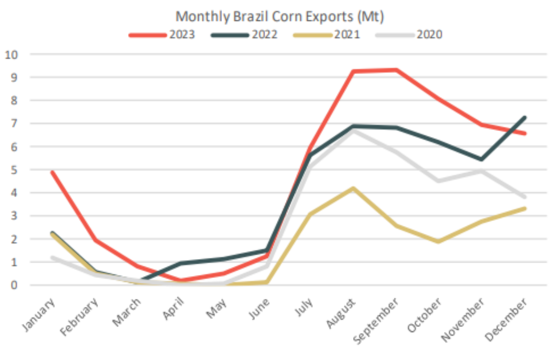
Cereals:

The latest USDA WASDE report on 8th February increased the forecast for US 2023/24 maize ending stocks slightly but reduced global stocks by around 3MT to 322MT. Their forecast for Brazil was for a fall in ending stocks of 3MT to 124MT, compared with 132MT in 2022/23.

The latest Brazilian CONAB report also published yesterday reduced the forecast production of maize by around 4MT from the January report to 113.7MT. It is likely that the USDA will reduce its forecasts further in coming months. Planting of the Zafrina maize crop in Brazil is now accelerating after a slow start and is now around 28% of expected total compared with the 5-year average of 31%. The key weather window for planting remains until the end of February.

Prices continue to be below the cost of production (see below left) so we are waiting to see what the total area planted will be. The low prices and the change in policy in China this year (to allow imports of maize/corn direct from Brazil) their export levels have been very high and more than double what they were in 2021 for the July to December period – see below right.

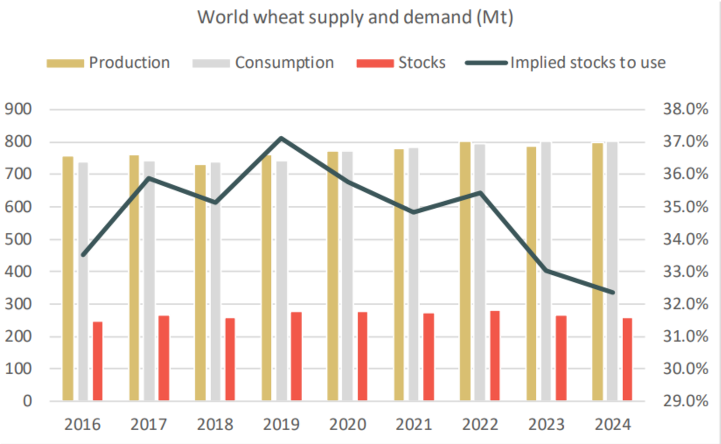




The Argentinian crop is still rated 89% good/excellent, despite a recent hot and dry period, and is expected to exceed 60MT, more than double last year's severely drought affected crop. This should compensate for the Brazilian shortfall. This strong supply from south America on top of the very good 2023 US crop means that there is plenty of maize in the system, with prices remaining under pressure.

US exports have been affected by the strong Brazilian exports but as the Brazilian supplies fade, they are picking up and should reach the USDA target of 53MT for the year. US domestic demand for ethanol is strong and up around.4% y-o-y.

The February USDA WASDE report estimated global wheat ending stocks for the 2023/24 year to be down around 700Kt to 259MT, the lowest for 8 years. The International Grain Council has also updated its forecast for wheat supply/demand and stocks for 2024, showing similar stocks and a further fall in the stocks:use ratio to just over 32%, again the lowest for a long time.

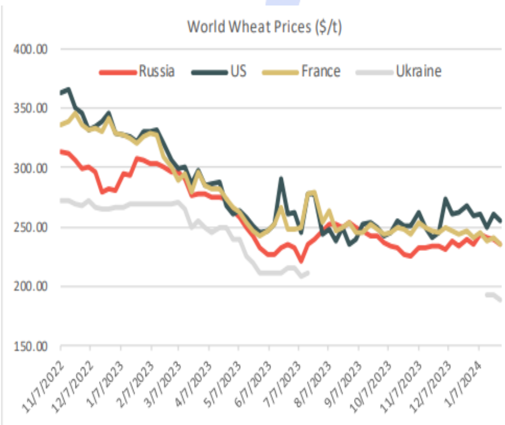


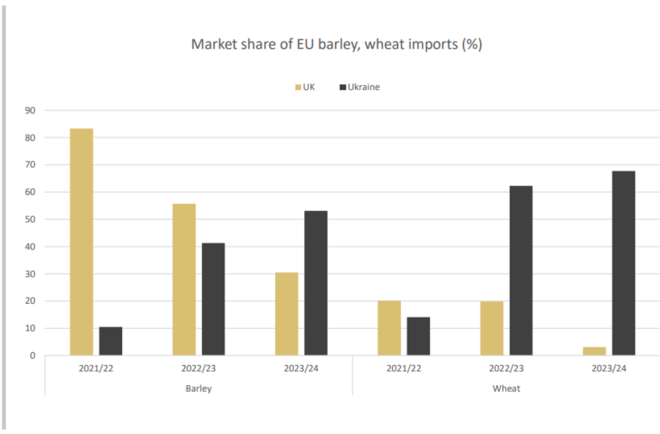
Source: International Grains Council

Strong supplies of cheap Russian and to some extent Ukrainian wheat continue to keep prices low. As these supplies are beginning to wane EU/French wheat is becoming more competitive and winning more tenders.

The chart below left shows trends in world wheat prices over the last 18 months, with Ukrainian wheat well below the others and Russian wheat lower than US and French wheat.

Ukrainian grain exports are expected to fall sharply in January from 6.1MT in December to 3.8MTdue to reducing supplies, the ongoing issues in the Red Sea and their change in Christmas holiday dates. The chart below right shows a comparison of how the market share of barley (left 6 columns) and wheat (right 6 columns) imports to the EU have changed for the UK and Ukraine over the last 3 years.





Cheap Ukraine grain has caused protests by farmers across many EU countries and has contributed to the UK barley surplus and continuing large discount to wheat as Spain in particular has switched from UK to Ukrainian supply.

Damage has been done to many crops across northern Europe by the extremely wet autumn/winter. We have yet to see what effect this will have on final yields or how much will be replanted with late winter/spring crops. With prices for cereals close to COP for many and with difficulties around oilseed rape production, the SFI option in the UK could mean some land with failed crops is not re-planted but goes into an environmental scheme.

UK wheat futures continue to drift slightly lower, with May futures around £169/t and November futures around £187/t, providing further opportunities to buy if necessary.

Barley continues to trade at a significant discount of around £25-30/t to wheat and is also seen as an opportunity for buyers who can use this feed.

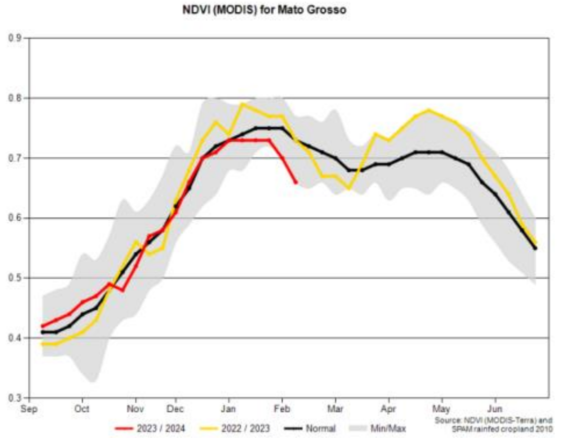
Our recommendations remain to be 100% covered for Q1, 75% covered for Q2 and 25-30% covered for Q3. With big upside risks from geopolitics and weather the risk averse may want to take some cover for Q4 2024 and Q1 2025.

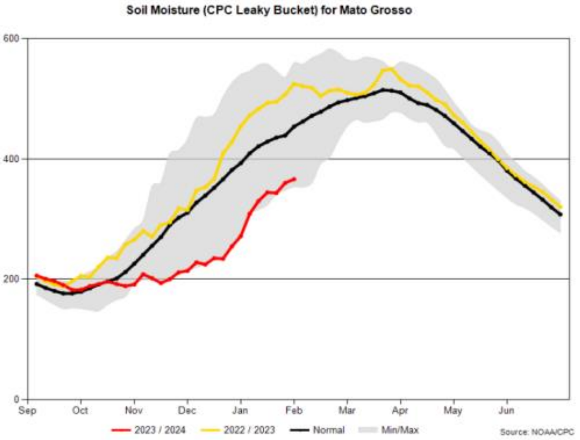
Proteins:

The February USDA WASDE report showed ending stocks for US soyabeans for 2023/24 increasing to 8.6MT and world stocks also increasing to 116MT. This was against market expectations, resulting in a slightly bearish outcome.

The report reduced the forecast for Brazil by 1MT to 156MT, whereas the Brazilian CONAB report for February reduced their forecast for the 2023/24 year by around 6MT from the January report to 149.4MT, so further cuts to the WASDE figures are likely.

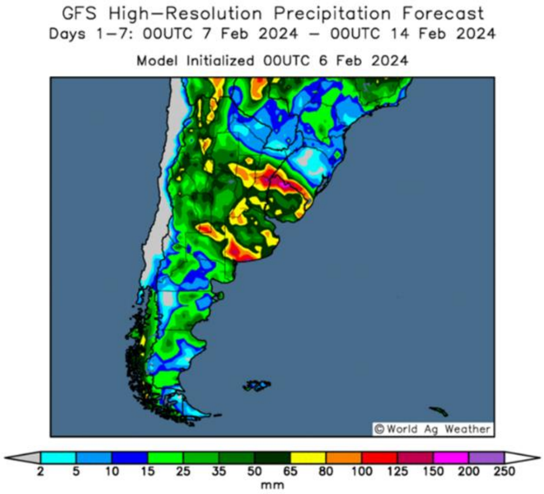
The soyabean harvest in Brazil is now 16% complete compared with a 5-year average of 8%. Many of the initial yield reports are not encouraging but early harvested crops are often the poorest so we need to wait and see. Although some rains have come to Brazil over recent months, the top growing Mato Grosso state has seen NDVI scores from satellite imagery falling in the last month and there is still a very low soil moisture level here and in many other areas (see below).

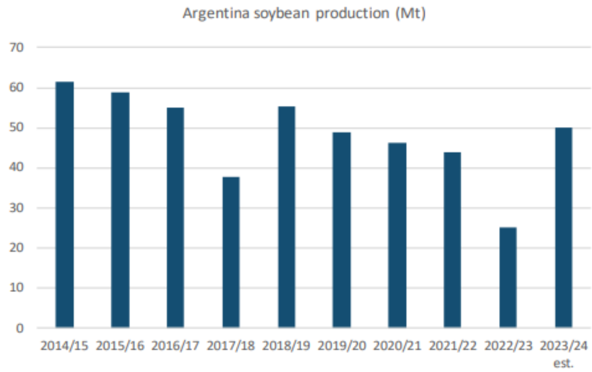




Taking this into account the February Brazilian CONAB report has reduced forecast soyabean production from 155.2MT in January to 149.4MT. This compares with the 2022/23 total production of 154MT, down but still a good crop.

The 2023/24 Argentinian soyabean crop has been looking good for some time, with very good NDVI scores. A recent hot and dry spell reduced good/excellent crop ratings by 8% last week but more rain is forecast (below left) so the outlook is still optimistic that the current crop will be about double that of the 2022/23 crop at around 50MT. Looking ahead though the forecast for a return of La Nina weather later this year would mean the 2024/25 crop could end up similar to the 2022/23 crop.





Overall, the outlook for global soyabean production is good with a big crop from south America still expected and with a soya:maize ratio of around 2.5 then plantings in the US should again be strong come the spring.

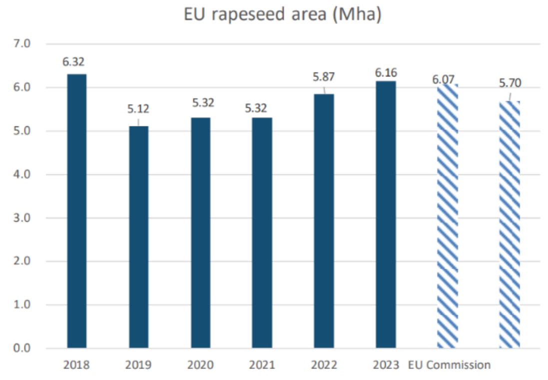
Chinese demand is weaker with a declining pig herd so although stocks are tight prices should continue to be lower than previously providing there are no significant shocks to the system.

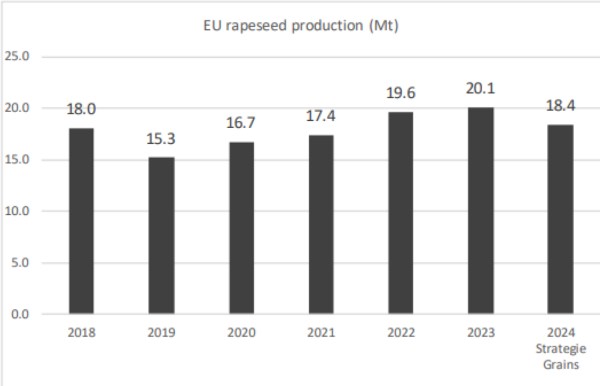
In the US, the challenge from lower priced Brazilian sourced beans has held exports and prices back. Although there has been volatility, US Managed Funds have gradually increased their short positions significantly over the last 12 months. US prices for soyameal have also declined and remain at around 2-year lows.

For oilseed rape, although imports to the EU have been significantly lower this year than last, with the stocks held over the EU+UK had a record oilseed rape crush in 2023. As well as the Australian harvest being much lower this year events in the Red Sea are slowing the imports that are coming so EU imports will be well down.

Canadian prices normally command a premium over EU prices, but for the 2023 crop they have now fallen to be the same as EU prices. This suggests that plantings could be lower this spring, with more wheat planted instead.

Many countries in northern Europe as well as the UK have suffered losses due to the extremely wet autumn/winter. The EU has revised their forecast for the 2024 rapeseed area to 5.7MHa in January vs 6.1MHa for 2023 and this could fall lower once the final outcome of the winter is fully known. The latest production forecast reflects the falling area and could get worse.





The UK rapeseed area was set to fall from 391KHa in 2023 to 317KHa in 2024 before the wet weather took its toll, so again this may well be revised lower later. Farmers with damaged crops may be tempted by the SFI scheme rather than replanting this spring.

There is also uncertainty over the effect the EU move towards fully traceable soyameal from non-de-forested areas will have on rapemeal prices from January 2025.

UK prices for soyameal have eased back slightly again with weaker demand and strong supply to around £360/t for May – October. Prices are quoted around £380/t for Nov-Dec with no quotes beyond due to the uncertainties after 1st Jan 2025.

Rapemeal prices are around £260-265/t for non-Erith supplies for May/June/July before falling to £250-255/t for Aug/Sept/Oct, with only slightly higher prices for Nov – April 2025.

These still represent a buying opportunity and given the risks to supply from weather and geopolitical events plus the uncertainty over soyameal supply from January 2025 it is well worth taking some cover through into Q1/Q2 2025.

US maize distillers' availability is still tight until April, then prices are around £255/t for May – Oct.

Soya hulls are still around £175-180/t for May – Oct and continue to represent better value as a fibre source than sugar beet pulp which remains around £240-250/t.

The overall trend for feed raw materials is slightly down, but with big upside risks it would be prudent to cover at least 50% of summer/autumn compound feed requirements.