Technical Update – Feed Markets

Information correct as at 09:00am on 12.01.2024

- The geopolitical risks have increased with the Red Sea/Suez tensions.
- Oil prices currently stable, but it could all change rapidly if situation changes.
- South American weather has been beneficial to crops.
- US wheat prospects looking better than last year.
- Poor weather is hitting UK and Northern Europe crop forecasts.

General

Despite the efforts of Saudi Arabia and Russia to coordinate OPEC+ oil production cuts to bolster prices Iran, Angola and Nigeria have increased production and Saudi Arabia has now cut the price of oil to Asia. With strong production in the US as well this has caused Brent crude prices to be maintained at around $77/barrel, well down from the peaks of c.$90/barrel in October 2023.

This has helped to maintain downward pressure on prices for all agricultural commodities and raw materials. However, freight rates have increased as more vessels avoid the Red Sea/Suez Canal and this will impact on the costs across all goods and the Bank of England say may delay interest rate cuts.

The general trend for food costs is down with the FAO global food price index falling by 10% in December 2023 compared with a year ago.

Geopolitics, including key US and UK elections, military actions in Ukraine/Black Sea and the Middle East/Red Sea, interest rate trends and weather are the major factors in the outlook for 2024. Markets await with interest the next USDA WASDE report which is due out late on Friday 12th December.

Summary:

Maize stocks look set to rebuild in 2024 but the weather in south America and the US will be crucial. Also, with the soya:maize price ratio at around 2.4:1 less maize and more soya will be grown if there is an option.

For wheat, with tight major exporter stocks, the upside risks from weather and geopolitics are significant so the advice is to increase levels of cover forward for wheat and consider barley as an option, which should maintain a significant discount.

The rain in Brazil has come in time to limit any further reductions in soya crop size and with a good Argentinian crop to come plus a favourable soya:maize price ratio the outlook for soya production is good. The outlook for oil seed rape production is more bearish, with reductions in the areas grown in many countries plus the weather effect on EU and Australian crops, so supplies into the end of 2024 and into 2025 could be limited.

The major raw materials for ruminant feeds have fallen back significantly over the last year and the advice remains to keep taking cover at these more attractive prices with some cover into early 2025 if possible.

Cereals-the detail:

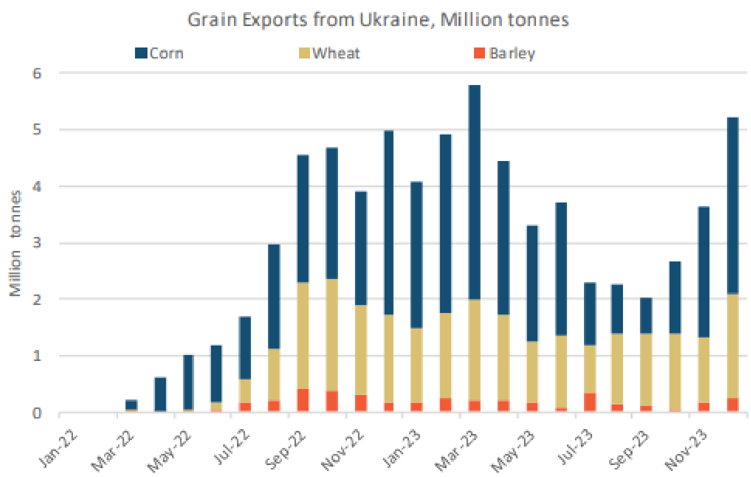
The world price of maize fell by around 30% over the course of 2023, largely as a result of record crops in Brazil and the US, volatile but lower crude oil prices and generally weaker demand. Managed funds in the US have gone from strong net long positions to strong net short over that period.

US exports have picked up recently but will still only get to around 53MT out of a crop of 387MT. Strong domestic demand for biofuel has helped to use up around 40% of this supply.

The very hot and dry weather which persisted throughout large areas of Brazil last autumn resulted in some failed crops. These were either replanted with more soya or cotton but the net result is that the 2nd Zafrina maize crop (representing around 75% of output) has been delayed and production forecasts have reduced from around 130MT to 120MT.

In addition, prices in Brazil have been well below the cost of production for the last 9 months and the soya:maize ratio is around 2.45:1, so reducing the attractiveness of maize (this could also influence US plantings this spring). On the other hand, the Argentinian crop is looking good, with excellent conditions following rains over the last 3 months and with further increases in local forecasts is targeted to achieve around 59MT compared with 34MT in 2023.

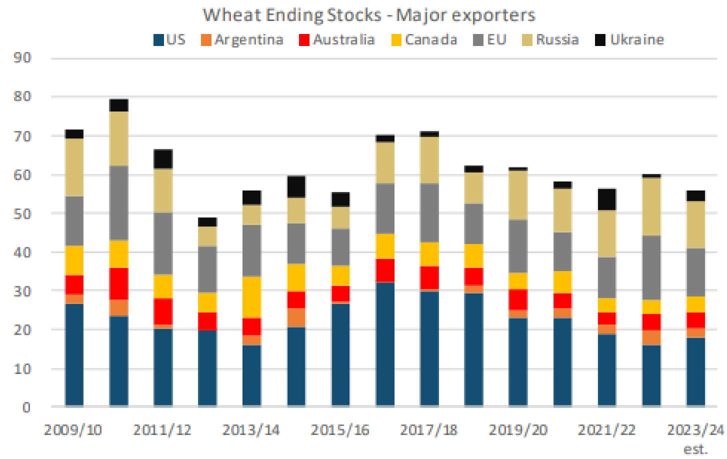
Exports of grains from Ukraine have done particularly well in December, despite the ongoing problems with Russia in the Black Sea and exceeded those of December 2022



Wheat prices fell by around 20% in 2023, largely driven by cheap wheat exports from Russia. These exports are now slowing and prices have firmed by around $20/t recently. The outlook at this stage is for another very good Russian harvest of around 88MT in 2024. Although the planted area was down US wheat crops are also looking good, with much better weather conditions this year so far, so production forecasts are for a good harvest at this stage.

China looks set to import around 12.5MT of wheat this year, well up on previous years, due to their very wet conditions.

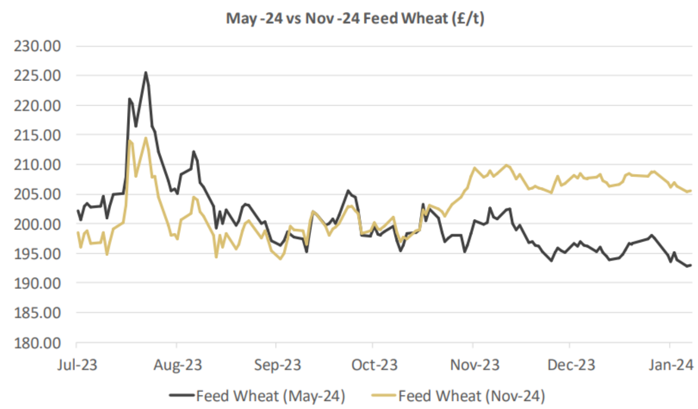
Overall, the forecast ending stocks of the seven major exporters are low – see below – and the stock:use ratio, including exports, is forecast to be around 14%, which is very low and leaving little margin for bad news.



The exceptionally wet weather in Northen Europe and the UK in recent months has had a negative effect on the outlook for 2024 harvest due to delays and losses. It is not possible to be sure what the final effect of this will be on autumn/winter sown crops but the UK total crop could end up at around 12MT, down from 15.5MT in 2022 and 14MT in 2023. The success or otherwise of the spring barley and other spring sown crops plus the reaction of arable farmers to SFI opportunities will play a major part in the final outcome.

The very wet conditions have resulted in the differential between November 2024 futures prices and May 2024 prices going from a £6/t discount in July 2023 to a £13/t premium. (May prices currently c.£193/t and November c.£206/t)

May-24 contract vs November-24 contract



Forward prices for May 2024 feed wheat have changed little in recent months but the significant upside risks remain and the advice is still to have 100% cover for Q1 with slightly more now for Q2 at 75% and 25-30% for Q3.

The outlook for EU/UK harvest is still very unclear so despite the higher November prices some cover should be considered for Q4 as a hedge.

Feed barley prices are still well below feed wheat, with good supplies which should continue into 2024 on the back of high spring plantings, providing the weather is kind, and so continue to represent an opportunity.

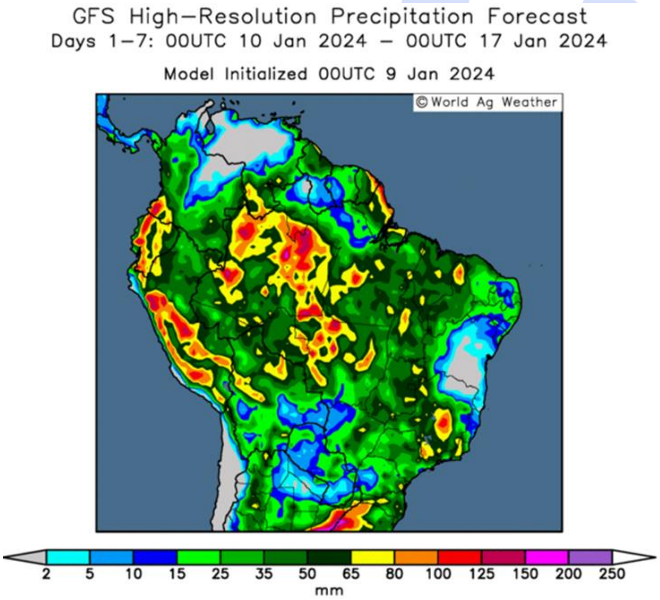
Proteins the detail:

Soyabean prices fell by around 15% during the course of 2023 and soyameal by around 20%. China bought a lot of soyabeans from Brazil for the first time which meant US exports were weak.

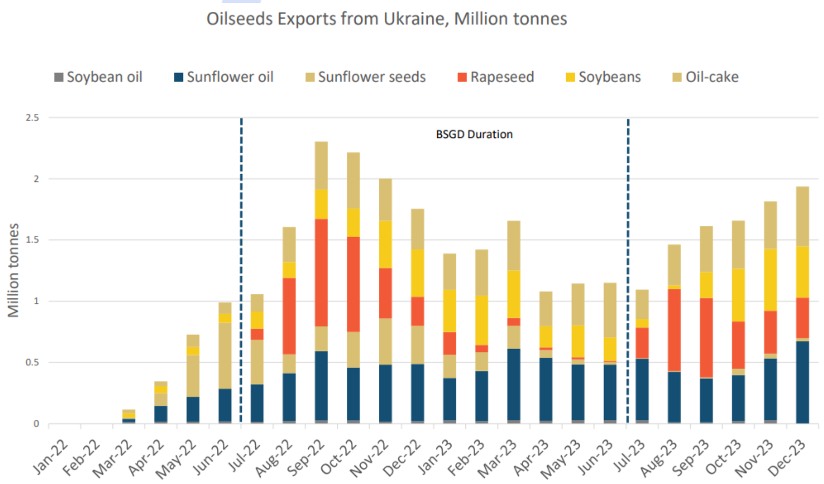
The recent rains in Brazil have limited any further downgrades by local forecasters, who have the crop around 153MT, down from the initial forecast of 163MT. The USDA still needs to come into line with this. The harvest there is just starting and, in some areas, there has been too much rain which is hampering progress.

The much better weather in Argentina has boosted prospects for their crop, with the latest local forecasts increasing to 52MT and this is expected to make up for any shortfall in the Brazilian supply.

US Managed Funds have been selling soyabeans and meal futures on the back of improving conditions in south America.



As with grains, exports of oilseeds from Ukraine have been better than expected with December 2023 exports higher than 2022 levels, following record harvests for oilseed rape in particular.

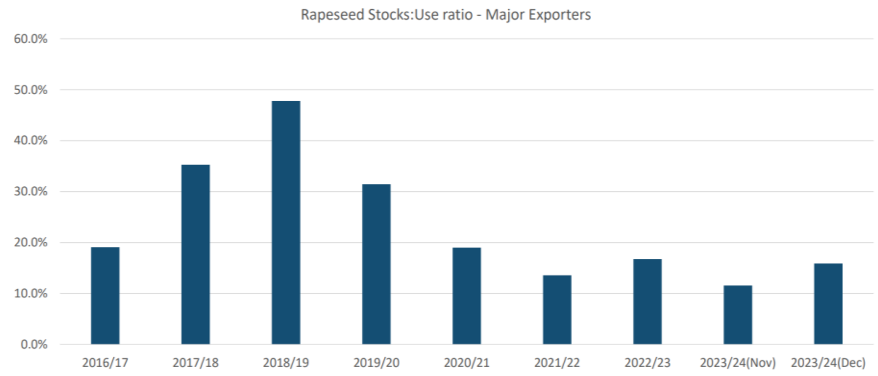


The ratio of soya:maize price will encourage more soya to be planted in 2024 so, despite tight stocks, the outlook is improving.

UK oilseed rape and rapemeal prices fell back by around 25% during the course of 2023. The Australian rape crop is looking better than previously expected at around 5.5MT, but still well down on the previous 8MT crop. China is importing much more rapeseed this year and is likely to end the year at around 5MT, which is three times the quantity imported in 2022.

The outlook for 2024 will depend a lot on the weather and prices relative to cereals. In Canada prices have fallen back to EU levels and this might encourage more spring wheat to be planted. The full extent of the damage caused by the exceptionally wet weather in the UK and northern Europe has yet to be seen but it will inevitably tighten supplies for 2024/25.

Ukraine is expected to plant less oilseed rape this year so another record crop looks unlikely. With tight stocks and stock:use ratios for the major exporters already low the outlook is uncertain and there is a real likelihood of tight supplies into late 2024/early 2025.



Soyameal prices have eased back further over recent weeks and are now around £415/t for Feb-April and £375/t for May – October.

Rapemeal availability has improved in the short term and prices have eased back a little going forward to £265 – 275/t for non-Erith supplies for May – July and £255 – 265/t for August – October. Again, the benefits of booking forward rather than relying on the spot markets have been shown recently so the advice is still to take forward cover at these prices and into winter 2024/25.

US maize distillers supply is still tight in the short term but prices from April onwards are around £255/t and so worth considering. Wheat distillers are still hard to find and POA only.

Soya hulls are steady at around £195 – 200/t for May – October and are still a much better value for money product than sugar beet pulp at around £250 – 255/t.