Technical Update – Feed Market

Information correct as at 09:00am on 26.01.2024

- Red Sea issues have caused container prices to increase rapidly.
- Crude oil has increased slightly.
- Argentinian weather is excellent in contrast to last year.
- Rape supplies will tighten over the year as all major exporters forecasting lower harvests.
- Some late drilling has been done in UK/EU, but crop yields will be compromised.

General

Despite the continuing attacks on shipping in the Red Sea, the ongoing war in Ukraine and the efforts of OPEC+ to increase prices the cost of oil has remained fairly steady at around $80/barrel for Brent Crude.

The cost of forty-foot shipping containers has gone up exponentially in the last few weeks from around $1400 at the end of December to around $4000 now due to the attacks by Houthi Rebels on shipping in the Red Sea.

The Baltic Dry Index, indicating the cost of bulk shipping, has come back from the recent peaks of 3600 to around 2200 with better water levels in the Panama Canal. However, this is still well above where it was for most of last year, thus adding extra cost.

The UK Consumer Price Index increased to 4% in December, up from 3.9% in November. A similar trend was seen in the US. This reduces the chances of interest rates coming down sooner rather than later.

This has caused the US$ to strengthen against a basket of currencies but the £: $ rate has remained around 1.27.

Many economies around the world continue to struggle with inflation and low or no growth. The second largest economy in the world, China, has a number of problems (which knock on to the global economy). One of which is the falling population, which is following a downward trend in recent years and fell by around two million in 2023.

Summary:

Geopolitical and weather events around the world continue to dominate commodity markets.

There are growing concerns over the final outcome of the second maize crop in Brazil which is likely to be around 10MT below initial predictions due to delays in plantings and a reluctance for farmers to plant with prices below the COP. On the other hand, Argentina has had almost perfect weather and their maize is looking like it will be double last year's drought affected crop at around 60MT.

However, the El Nino weather pattern which has brought better conditions to Argentina looks to be in decline with a return to La Nina forecast later this year.

Wheat prices continue to weaken with strong supplies from Russia continuing and weaker demand. UK forward prices for May are around £182/t and for November around £199/t. The £16/t differential reflects higher storage costs and a poorer 2024 crop following planting delays and damage caused by the very wet winter. These prices continue to represent an opportunity to cover forward requirements with barley, at a £20-25/t discount, also representing an opportunity to save costs.

The Brazilian soya harvest is around 13% complete but early reports on yields are disappointing. Forecasts vary with some local sources suggesting a crop of around 130MT and the USDA current forecast of 158MT. Around 150MT the likely outcome at this stage.

The very good conditions in Argentina are encouraging a forecast of around 52MT for their crop, which is around double that of last year.

Chinese demand for soyabeans is weaker but US domestic demand for soyaoil is strong, resulting in a record crush. Soyabean and soya meal prices are weak.

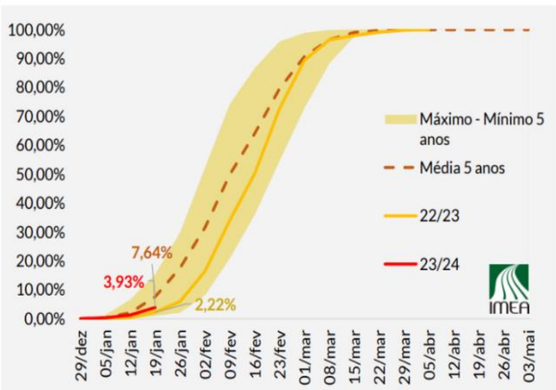
There has also been a record oilseed rape crush in the EU28 of around 20MT in 2023. The outlook for oilseed rape/canola production in many areas for the 2024 crops is concerning and supply could be tight, with diminishing global stocks of around 6.5MT forecast. The advice continues to keep taking cover forward for the essential raw materials required for each farm with rapemeal, maize distillers and soya hulls representing good value for protein/fibre sources at present.

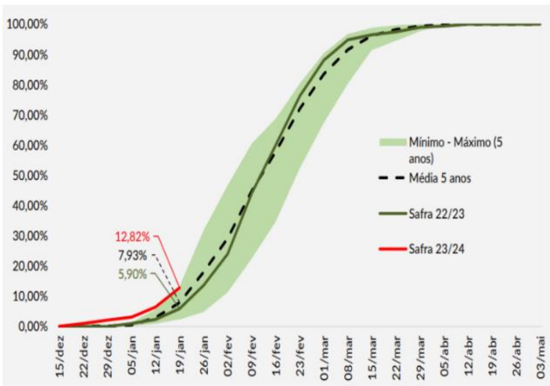
Questions have been raised over the impact of the EU changes to import requirements for soyameal from January 2025, so the recommendation is to make sure there is extra cover for rapemeal into 2025. Some forward cover should also be taken for compound feeds through the summer/autumn at current prices.

Cereals – the detail:

US maize exports are increasing as the Brazilian supply diminishes seasonally. Domestic demand for bioethanol in the US is also strong with supplies up 6% so far this year compared with last. US Managed Funds have moved increasingly to short positions over the last 12 months on expectations of a strong supply.

There are ongoing concerns over the Brazilian 2nd (Zafrina) maize crop. Firstly, from the delays in previous soya crop caused by the drought in central and northern Brazil and secondly by the slow start in planting. The chart shows that the soya harvest is now 12.8% complete and ahead of the 5-year average (below right) but the maize plantings (below left) are only 3.9% complete and behind the 5-year average, although similar to last year

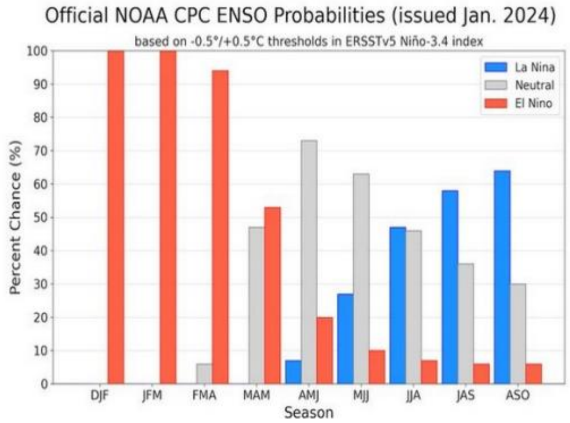




It still remains to be seen how things progress from here, but there is a lot of talk of farmers reluctance to commit to planting maize which has been priced below the cost of production for some time. Local forecasters are predicting a 10MT shortfall in the Brazilian crop compared with the latest USDA forecast.

The ideal weather in Argentina has led to further increases to forecasts for their 2024 crop, which is now thought to exceed 60MT, well up on last year's La Nina induced drought affected crop.

However, the latest forecast is for the favourable (for Argentina) El Nino weather pattern to decline over the coming months with the La Nina weather pattern re-establishing itself later in the year. This would indicate a return to dry weather.



Season	La Niña	Neutral	El Niño
DJF	0	0	100
JFM	0	0	100
FMA	0	6	94
MAM	0	47	53
AMJ	7	73	20
MJJ	27	63	10
JJA	47	46	7
JAS	58	36	6
ASO	64	30	6

Strong supplies and weak demand have caused wheat prices to fall back over the last few months, but these lower prices are stimulating demand from Middle Eastern and Asian countries in particular for milling wheat.

Russian prices have dropped and are currently stable at around $235-240/t FOB, making EU and US wheat more attractive. Russia has been experiencing some severely cold weather this winter, but good snow cover looks like it will limit any damage and provide early moisture with the latest forecast for the 2024 crop up 1% at almost 88MT.

Ukraine is predicting that their grain exports will fall back significantly in January due in part to issues in the Black and Red Seas and in part to the change in the date for their Christmas celebrations.

The recent drier weather in the UK and EU has allowed some winter wheat to be drilled but there will be a yield penalty on these later sown crops and the overall the productive area will be down on previous years giving a lower overall output forecast. The International Grain Council is forecasting lower production in the US as well as Europe, resulting in a 6-year low and a further drawdown of already tight stocks to meet strong demand.

UK forward prices for May have eased back slightly recently to around £182/t and with prices of £199 for November a further divergence of around £16/t has emerged due to higher storage costs and a poorer 2024 crop forecast.

Our recommendation remains to have 100% cover for Q1 2024, 75% for Q2 and 25-30% for Q3. Q4/Q1 2025 are a long way off and a lot could change but the risk averse may want to extend cover into this period as well.

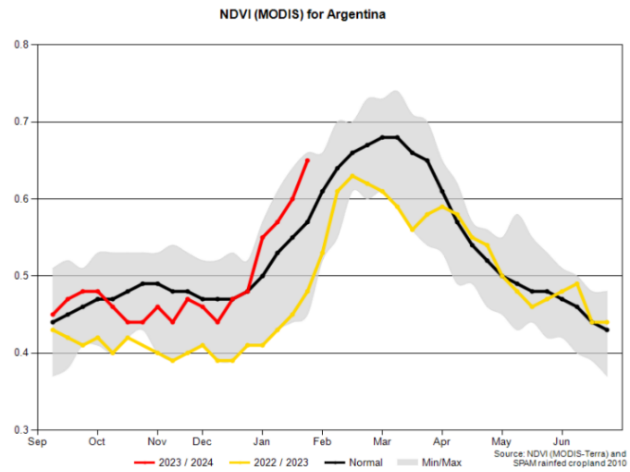
Feed barley continues to trade at a substantial discount to wheat of around £20-25/t and also continues to represent an opportunity. However, world barley production is forecast to be down on last year (but close to the 5-year average) and with lower ending stocks. The very wet UK autumn means more spring barley will be planted and output is likely to be higher.

Proteins -the detail

The Brazilian soya harvest is around 13% complete and the early indications are that yields so far are poor, but it is still early days and the earliest harvested crops may not reflect the final outcome. Estimates for the current Brazilian crop range from 130MT (some local sources) to 158MT (USDA) and the likelihood is it will be somewhere in the low 150sMT, around 10MT down on the original forecast.

The Argentinian crop looks set to come in around 52MT, about double last year's drought affected crop so this should compensate for the shortfall from the Brazilian crop unless it is really poor.

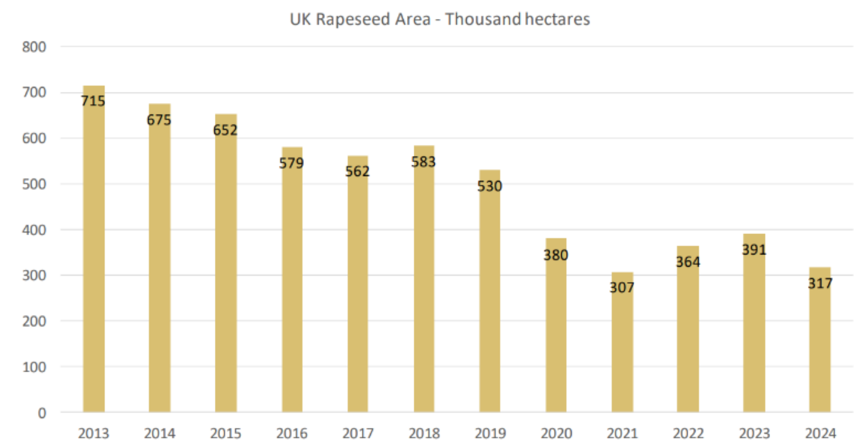
NDVIs from satellite imagery indicate that conditions in Argentina are at the top end of the range this year (red line) and well ahead of the very poor conditions of last year which were at the other extreme (yellow line).



On the back of the optimistic outlook for south American soyabean output and weaker demand, especially from China with its declining pig herd, US soyabean futures are trading at a 2-year low. Brazilian soyabean prices have fallen back by around $75/t in the last month as they try to shift their record large crop from the 2023 harvest into markets with weakening demand.

In the US, the soyabean crush hit a record in December at 195MBushels with big demand for biofuel. The strong production of soyameal has contributed to US meal prices falling to the lowest since 2021.

The EU winter oilseed rape cropping area has remained at around 6MHa but it is yet to be seen how much effect the very wet autumn/winter will have on crop yields. The UK winter oilseed rape cropping area has fallen back to 317,000 Ha, the second smallest area in 35 years, and with the possible effects of the wet autumn/winter here still to be seen, means the outlook for total production is poor.



Currently spring wheat is looking more profitable than canola in Canada so we will have to wait to see how the prospects for their 2024 crop develop. The Australian 2024 canola crop is forecast to be 33% down compared to 2023 at around 5.3MT. Exports are also being hindered by events in the Red Sea, with increased shipping costs and delays in shipments to Europe.

The latest USDA forecast shows global oilseed rape/canola output to be down around 5% for 2024, but that seems optimistic and forecasts are likely to get worse over coming months. Global demand is forecast to remain strong with good demand for rapeoil in general and for use in biofuel particularly with EU crushers hitting new records of around 20MT crushed in the EU28 in 2023.

The latest USDA forecast is that global ending stocks will fall by around 16% to only 6.5MT so although we have a long way to go before all the oilseed rape harvests for 2024 are complete there is a large upside risk.

There is also uncertainty as to how the EU rule changes for soyameal in January 2025 (with all imports having to be from non- deforested land and fully traceable back to the field) will affect soyameal imports in the UK.

For the moment soyameal prices have eased back to around £405-410/t for the period up to April and £365/t for May – October. Rapemeal supplies have improved and prices have also eased a little for the February – April period to around £275 – 280/t for non – Erith supplies, before falling to around £265/t for May – July and £255/t for July – October. Prices into next winter are around £265/t and well worth some cover, particularly given the potential poorer production in some areas and the questions over soyameal imports post January 2025.

Maize distillers supply is tight in the short term but more available from March onwards at £250/t for May – October, so back in the equation.

Soya hulls have also drifted a little lower at around £195/t for February – April and £187/t for May -October. This continues to make them much better value than sugar beet pulp at around £250/t.

Given the current trends and outlook some cover for compound feeds (up to 50%) through the summer/autumn period is recommended.

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