Technical Update – Feed Market

Information correct as at 09:00am on 23.02.2024

- Prices for most commodities continue to ease.
- Rapemeal supplies could become tighter as the year progresses.
- Shippers unwilling to quote for soya in 2025 due to new legislation.
- Traders are holding record short positions meaning prices could increase rapidly.

Summary:

US Managed Funds continue to hold near record high short positions for maize, soyabeans and soyameal. Historically this indicates a significant risk to prices as a weather or geopolitical shock to the system could trigger a rapid turnaround.

UK wheat prices for May 2024 are around £163/t and for November 2024 £182/t. This £19/t spread is large and at some point, the prices will converge. With the upside risks and the fund positions as they are this is seen as a further opportunity to take forward cover, so the advice from CRM is to increase cover for Q2 to 85-90%, for Q3 to 40-50%, for Q4 to 30% and Q1 2025 to 20%.

Barley continues to trade around £14/t below wheat so also remains a good opportunity to buy forward. Although with prices well below the average cost of production farmers are reluctant sellers unless they have to.

The oilseed rape outlook contains many risks from weather issues in key growing areas around the world (EU/UK, Canada, Australia and Ukraine) but at present supply, including previous stocks, is plentiful and the crush is strong.

Old crop non – Erith rapemeal is POA in some areas in the short term and around £270/t for April from southern ports. May/June/July prices have gone up a bit to around £255-260/t but new crop prices for Aug/Sept/Oct are holding steady at around £250/t ex dock. With the big risks around for rapeseed supplies later in the year further forward cover is advisable and into Q1/Q2 2025.

Soyameal prices have bounced back up a little in the short term due to delays to ships from north and south America but are holding steady at around £350/t for May – October. With good soya crops forecast from the US and south America as the year goes on, plus lower global demand, prices are likely to stay weak. The potential cloud on the horizon here is the return to a La Nina drought in Argentina later in the year.

In addition, shippers are still not offering any supply of soyameal beyond 1st January 2025 due to continuing uncertainty over the regulations regarding the traceability of soya back to the field of production.

US maize distillers is still difficult to find in the short term but more attractive for May onwards at around £245-250/t. Maize gluten is around £50/t cheaper for May – October than currently having fallen to £228/t. Wheat gluten is even cheaper at £200/t for the same period. Soya hulls have eased back a little at around £165-170/t for May – October and are still much better value as a fibre source than sugar beet pulp at around £245/t.

With raw material prices where they are and the threat of upside risks it is thought to be a good time to cover at least 50% of compound feed requirements for the summer/autumn period.

General:

The UK has slipped into a "technical recession" following the publication of figures by the ONS showing that GDP shrank by 0.3% in the final quarter after a 0.1% reduction in the third quarter. The EU narrowly avoided a recession.

Inflation rates in both the US and UK have not fallen as much as expected recently meaning that interest rates are likely to stay higher for longer.

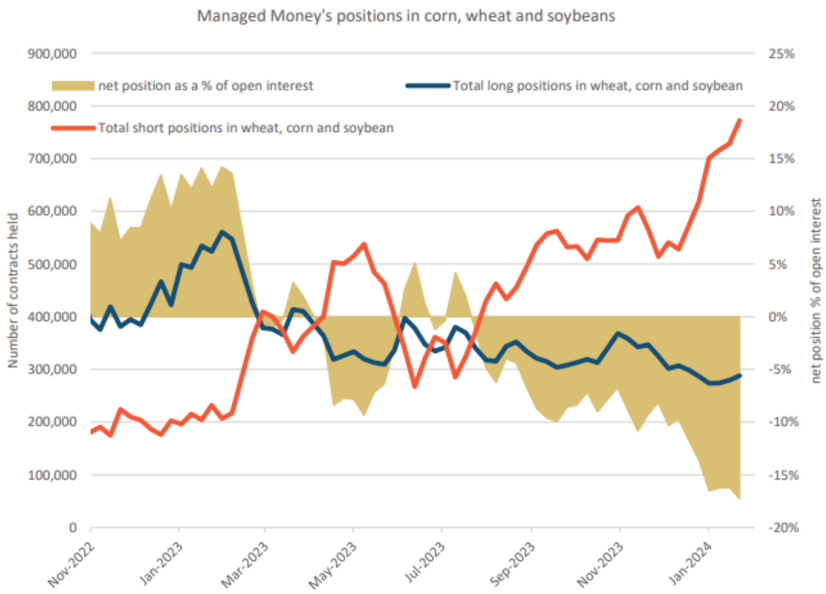
The £: $ rate remains at around 1.27. The £ has increased relative to the Euro over recent months but has eased back slightly to around 1.17 following weaker economic results.

Oil prices are still volatile, with Brent Crude stronger than it has been recently at around $82-84/barrel. The markets shift their focus between the risks emanating from the conflicts in the Black and Red Seas and weaker global demand. Despite these issues the Baltic Dry Index, indicating the cost of transporting bulk commodities has fallen back from its recent peak of 3,300 in December to around 1,676 now.

Cereals – the detail:

US Managed Funds have been significantly increasing their net short positions over the last 15 months and have reached near record levels for maize and soyabeans/soyameal in particular.

Any major weather or geopolitical shock to the system could change this picture rapidly as has been seen in some previous years during the February to April period.

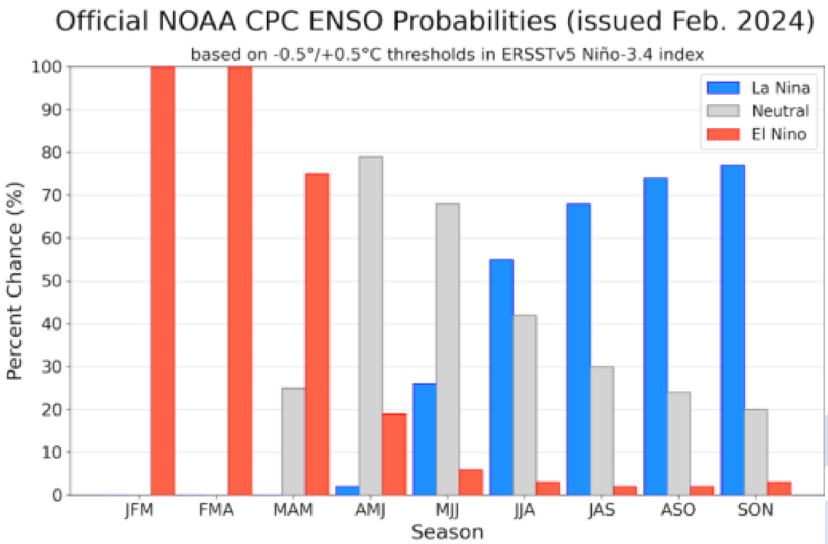


The Biden Administration has announced that E15 fuel will come in all year round from 2025. Currently around 40% of US corn goes into biofuel production and this suggests it should increase further. Otherwise demand for maize is generally weak, particularly from China.

Planting of the second maize crop (Zafrina) in Brazil is catching up and is now 65% complete despite prices being well below the cost of production. The optimum deadline for planting is viewed as the end of February.

The recent USDA Outlook Forum has forecast maize plantings in the US to be down this spring by around 1.5MHa but with very good yields also forecast the overall outlook for production is 382MT for 2024/25 compared with 388MT for 2023/24.

The reduced planted area is likely to happen with the soya:corn ratio still being around 2.5:1. However, with the El Nino weather pattern weakening over the next few months and the La Nina weather pattern strengthening there are already doubts over the yield forecasts.



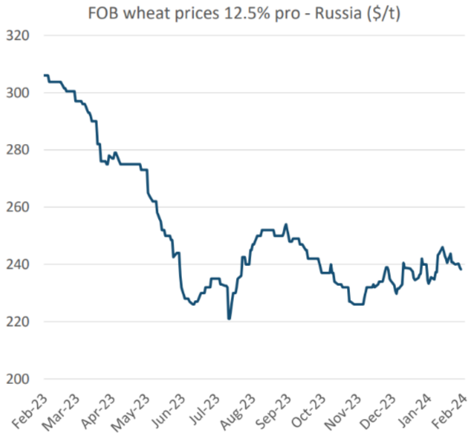
Ukraine is continuing to defy the attempts by Russia to disrupt grain exports, but life is becoming more difficult for farming. A recent survey suggested a near 10% reduction in maize area planted for 2024.

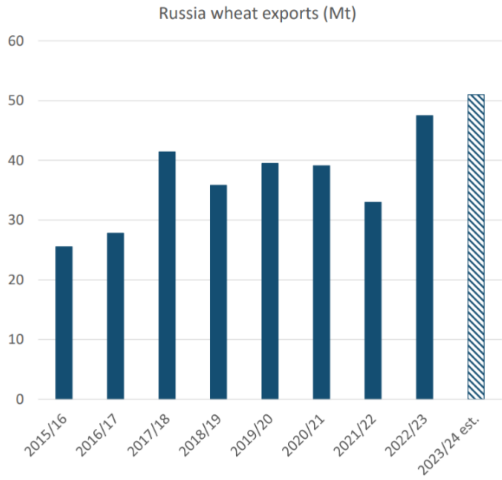
The continuing wet weather in the UK and much of northern Europe is having a detrimental effect on the outlook for wheat/barley production. The French authorities indicate that in addition to the reduced area sown (down nearly 8%) the poor growing conditions mean that the winter wheat crop is rated only 68% good/excellent compared with 93% last year and the second lowest rating in the last 10 years at this stage.

Spring barley would normally be expected to replace some of the lost area but the French also report that planting is only 20% complete compared with 54% last year. A similar picture is expected in the UK and other northern European countries when figures are published. Frontier are forecasting a UK crop of around 12.8MT and CRM are forecasting 12.1MT. This compares with a demand of around 14.5-15MT.

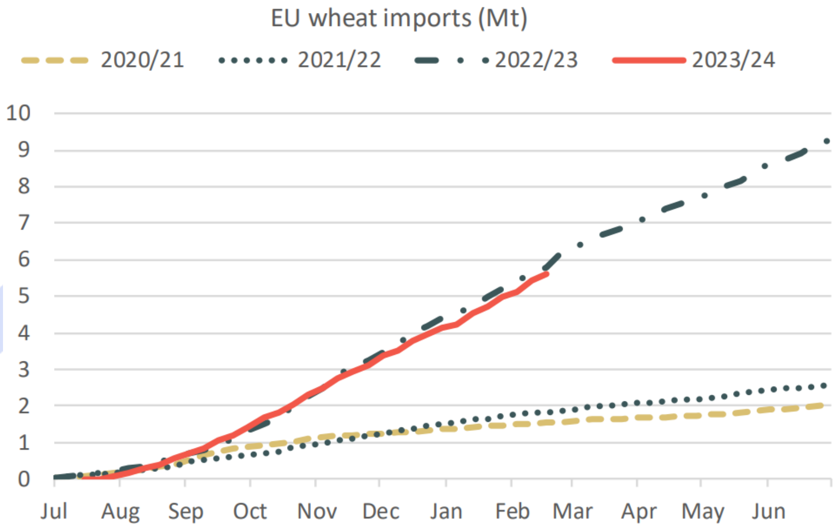
The US is also reporting a reduction in planted wheat area but with good yields they are forecasting a 5-year high production of around 52MT.

The weather across Eastern Europe has generally been very good so far this winter, with another near record Russian crop of around 93MT forecast. This would result in another year of very strong exports (see below right). Russia has recently reduced its export restrictions and cut their export floor price so prices for Russian wheat are still driving all markets lower and look set now to do so for longer than anticipated (below left).





Since the war in Ukraine started the EU has taken substantial amounts of cheap grain from there and this also has increasingly put downward pressure on prices. The graph below indicates a similar position for EU imports from Ukraine for this year and last year, much higher than previously and this is one of the reasons for protests by Eastern European farmers.



Ukraine has also been exporting large quantities of barley to the EU and Spain in particular. This has reduced UK exports to around 406,000t so far this crop year, around half of last year.

Strong exports from the Black Sea have continued for longer than expected and prices are being driven lower, in many cases now well below the cost of production. Smaller areas drilled and crop damage are likely to result in much lower harvests across northern Europe and the UK which will result in a significant shortfall of supply compared with demand.

UK wheat prices for May 2024 are around £164/t and for November 2024 £183/t. This £19/t carry is large and reflects the outlook for the 2024 harvest. This position is seen as a continuing opportunity to take forward cover as the upside risks from weather and geopolitics, plus the dangerously short position of the Funds could cause this picture to change very quickly.

The advice is to increase cover for Q2 2024 to 85-90%, for Q3 to 40-50%, for Q4 to 30% and Q1 2025 to 20%. Barley continues to trade around £14/t below wheat so also remains a good opportunity to buy.

Proteins – the detail:

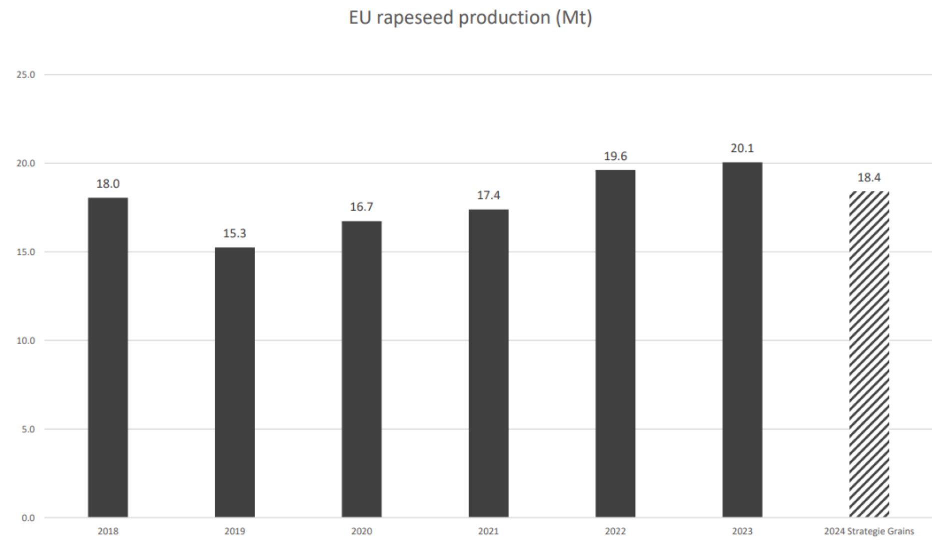
The soyabean harvest in Brazil is now around 65% complete compared with the 5-year average of 60% but yields in some areas are continuing to prove disappointing. Local forecasts are as low as 145MT compared with the latest USDA figure of 156MT.

The weather in Argentina continues to be favourable for their harvest and the forecast is still for a crop of around 50MT, almost double that of 2023. However, the change to the La Nina weather pattern later this year does not bode well for next year's crop.

The USDA Outlook Forum has produced the first forecast for their 2024 crop year and with the 2.5:1 soya:corn ratio indicates an increase in plantings of around 1.6MHa. This would produce a forecast crop of 122MT increasing ending stocks to around 12MT, but still very early days as the crop is not even in the ground yet!

US soyameal prices have fallen back to 2-year lows on the back of weak demand and good prospects for south and north American production overall.

The latest forecast for EU rapeseed production is for a fall from 20.1MT in 2023 to 18.4MT in 2024. The feeling is that not all the damage from the extremely wet winter has been factored in and this forecast could fall further.



Reports from Ukraine suggest that winter OSR sowings are down on previous years. Canada is also likely to be down on sown area plus the soil moisture conditions are very dry at present. The outlook for the next Australian crop is unknown as it will depend on what effect the change from El Nino to La Nina will have later this year. The 2024 crop is well down on last year's and exports are being delayed by having to avoid the Red Sea.

The EU crush has been at record levels for some time as last year's large, imported stocks are used up. This year's imports are generally well down.

Rapeseed oil is now trading at a discount to palm oil due to supply/production problems in Malaysia and a lot more being used in Indonesia for biofuel production to meet government mandates.

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