Technical Update – Feed Markets

Information correct as at 09:00am on 08.03.2024

- Oil prices are up, historically commodity prices would follow.
- The fund managers think not with record short positions.
- Weather and/or geopolitical issues could cause knee jerk reactions.
- Forward prices still looking attractive.

Summary:

US Managed Funds are at the shortest they have been for over 20 years on maize, soya and wheat as they foresee weak prices continuing, but significant geopolitical or weather events could see that change quickly.

Brent crude oil prices are around 10% higher than 3 months ago as the OPEC+ group continues its cut in production and issues around shipping in the Red Sea continue. It is currently around $83/barrel.

The downward pressure on wheat prices, mainly from cheap Black Sea exports, is keeping UK forward prices for wheat down at around £160/t for May. Prices are around £180/t for November with the carry reflecting the pessimistic outlook for the 2024 UK harvest.

Given the upside risks from weather, geopolitics and Fund positions, the advice is to continue to take more cover at these prices – 85% for Q2 2024, 40% for Q3, 30% for Q4 and 20% for Q1 2025.

The EU has imported a lot of barley from Ukraine and UK exports have been poor, thus putting further downward pressure on barley prices, which are around £25/t below wheat and continue to represent an opportunity for buyers.

The UK soyameal supply has been hit by bad weather delaying some shipments, meaning the short term is tight but better supplies from May onwards mean prices easing back by around £45/t to £345/t for May to October.

Despite the very high crush levels, rapemeal demand is also strong so in the short-term supplies are very tight or non-existent but the outlook is better with prices around £260 - 265/t for non-Erith supplies for May – July and £240 - 250/t for August– October. With the outlook for EU and UK OSR crops not looking good plus the risks to the Canadian and Australian crops from adverse weather forward cover for rapemeal is recommended into 2025.

Wheat distillers are available again from Ensus and Vivergo at around £238/t from Hull through to October. Maize distillers are tight in the short-term but available from May to October at around £230-235/t.

Maize gluten has been falling back from the recent highs of the £280s/t and is now £226/t for April and £215/t for May – October. Wheat gluten stays in the mid £190s/t for the same period.

Demand for soya hulls is low and prices have eased back to around £150/t for May to October. Sugar beet pulp has come back in price but is still not competitive against soya hulls as a fibre source at around £225/t for April and £235/t for May to October

General:

The OPEC+ group of major oil producers has announced an extension to their production cuts for a further 3 months to try and push up prices. The latest Brent Crude price is around $83/barrel, up from the recent lows of around $75/barrel 3 months ago. Oil prices are being supported by the ongoing issues around shipping in the Red Sea and some signs of increasing demand, though this is generally weak at this stage.

Energy and grain prices are typically closely related so any significant increases in energy prices will be a factor which could see upward pressure on grain prices. However, US Managed Funds are at the shortest they have been for over 20 years on maize, soya and wheat as they see weak prices continuing. The situation is fragile as too wet or too dry weather conditions in key growing areas around the world or further geopolitical developments could see this change very quickly, so upside risks remain and are significant.

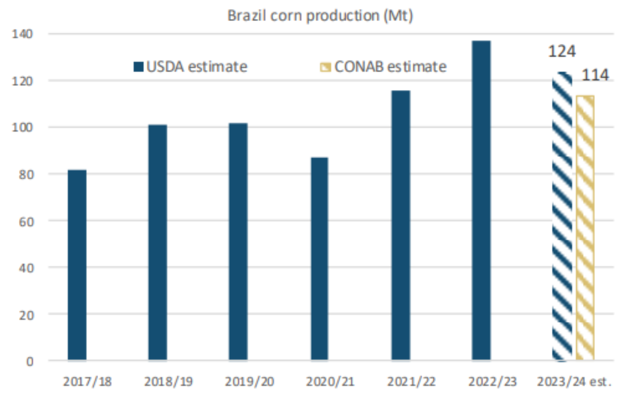
Inflation in the US, UK and many other countries is not falling as fast as once hoped and this is delaying reductions in interest rates. The £:$ rate has increased to around 1.28 with the £:Euro remaining at around 1.17.

The next USDA WASDE report is due out late today (Friday 8th March).

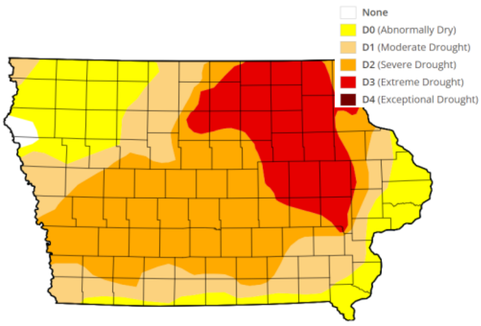
Cereals:

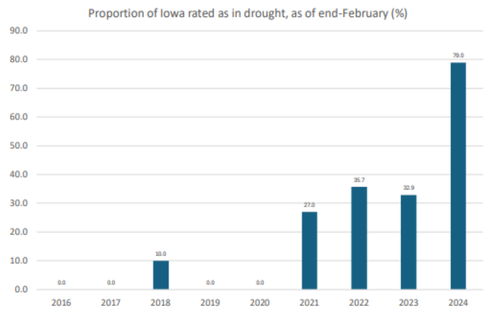
The latest forecasts for the 2024 US maize crop are for production of around 382MT, down from 396MT in 2023. With the levels of demand expected this would result in the biggest ending stocks in 35 years. Part of this picture is the switch of demand by China from the US to Ukraine and Brazil who are both offering cheaper grain.

The Brazilian 2nd corn crop has just been planted and the US crop has yet to go in so weather will play a large part the final outcome. The latest local (CONAB) forecast for the Brazilian crop is for it to be around 114MT, down from 138MT in 2023.



The concerns in the US centre around economics and the weather. The soya:maize price ratio is around 2.5:1, making soya more attractive than corn. Corn is also more expensive to grow with the latest estimated COP of around $5.20/bushel vs a price of around $4.30. Some of the main growing areas are also very dry e.g., Iowa where 79% is in drought condition, by far the highest at the end of February since records began.





The latest long range weather forecast indicates a growing prospect of El Nino declining rapidly and being replaced by La Nina during the summer. This should bring dry conditions to the US and Argentina in particular and potentially threaten their next crops.

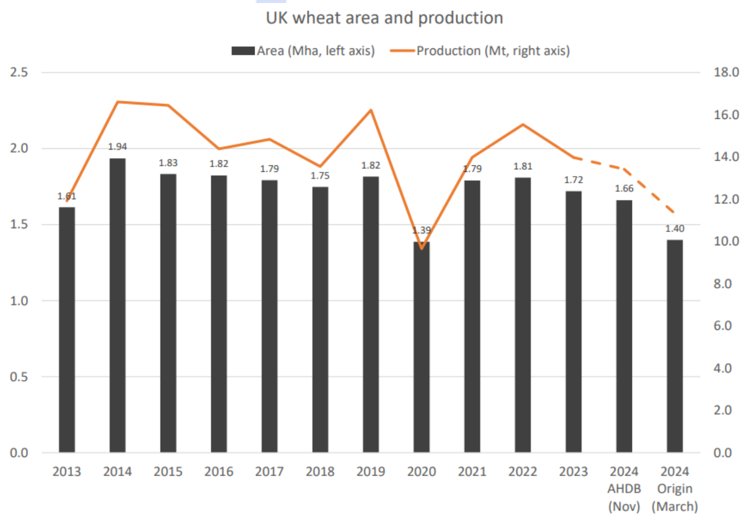
The fund managers are largely ignoring the possibility of any upside risks and continuing with their record short positions, but a shock to the system could see this change very quickly.

Record exports of wheat from Russia and continuing good levels of exports from Ukraine (2.5mt in February, the highest in 2 years) are continuing to pressurise wheat prices. Russian prices have fallen again recently to around $220/t FOB in February and reports in the last few days suggest they could be $210/t FOB or below in recent deals into North Africa. EU exports are struggling to compete at these levels.

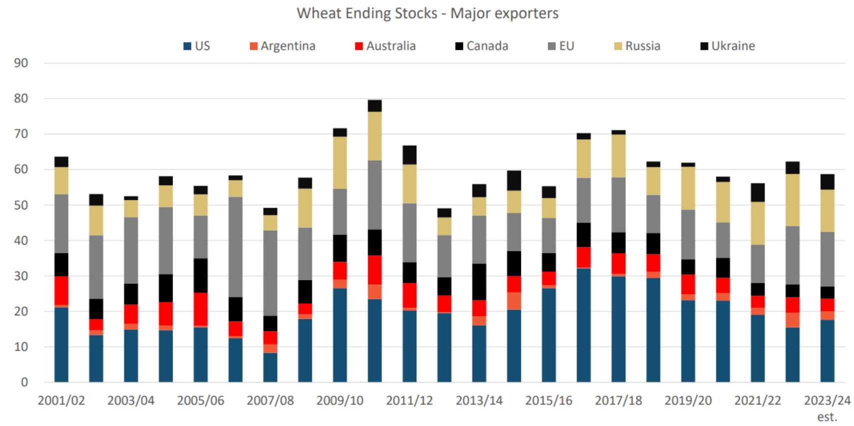
The winter in Russia and Ukraine has been favourable to wheat and further large crops are expected in 2024. The latest estimate for the Russian crop is for around 93MT, which would result in further strong exports next season. On the other hand, Canada remains very dry and cold, which could affect this year's spring wheat and canola crops unless the rain comes soon.

The extremely wet winter in the UK and many parts of northern Europe has continued to reduce cereal planting and damage those crops which have been sown. As an indicator France has planted the second lowest area of wheat in the last 25 years and the crop is rated only 68% good/excellent compared with 95% for last year and 85% as the 5-year average.

The latest forecast for the UK from Origin Enterprises suggests a planted area of wheat as low as 1.4Mha, which is around 20% less than 2023. With average yields this would produce around 11.3MT, so with potential for damaged crops pushing this down this could be even lower.

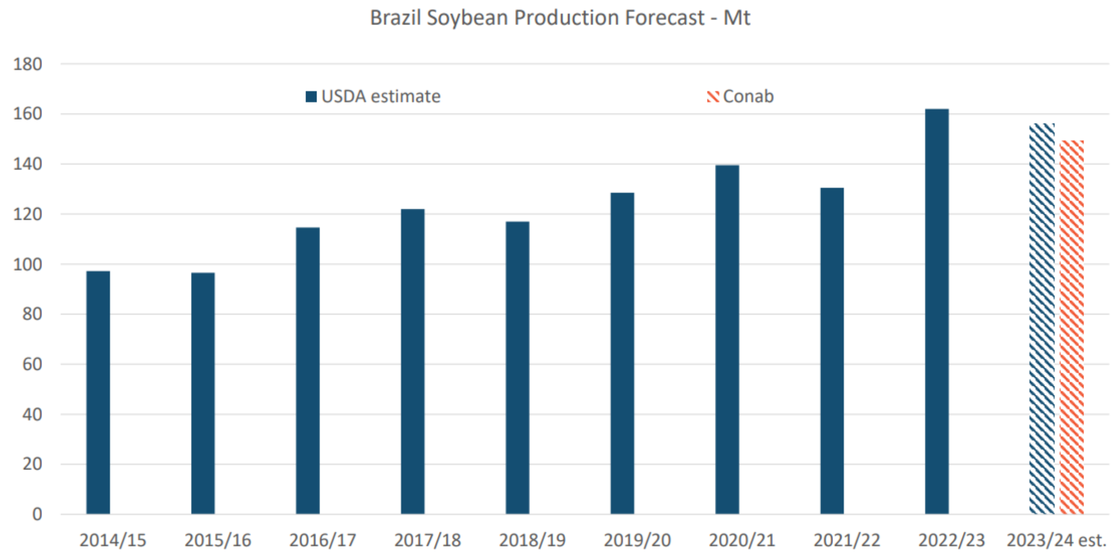


The IGC forecasts world wheat ending stocks of around 260MT. Although if only the major exporting countries are included this reduces to 60MT and that is before the full effect of recent weather issues is factored in.



Proteins:

The Brazilian soyabean crop is now around 50% harvested. The latest local CONAB forecast is for a crop of around 143MT compared with 160MT last year, so much lower but still a decent yield. The USDA is expected to revise their forecast downwards on Friday.



The latest local Argentinian forecast is for a crop of around 56MT, so almost double last year's drought-stricken yields and this should compensate for the lower Brazilian output to produce a good supply from South America overall.

The US 2024 soya crop planting season is a little way off but it is thought it will be another big one. Although, with the increasing strength of the La Nina weather pattern it could be subject to dry conditions as the year progresses.

China continues to purchase large quantities of cheaper beans, from Brazil in the main, though their prices remain below their COP so there is a question over how long this can continue.

Funds are in no doubt that soyabean and meal prices will stay low and have maintained record short positions here too, but again geopolitics and the weather could change that quickly.

The rapeseed crush in the EU and UK has continued at record levels into 2024. EU prices for rape, sunflower and palm oil have stabilised but soya oil has fallen below these prices.

The very dry weather which is continuing in Canada is a grave concern for their spring sown canola crop and the concern is reflected in a $15/t higher price for November futures compared with May futures. The Australian crop will also be down on last years by around 3MT at around 5.5MT but the change to La Nina later in the year should help next year's crop.

The EU rapeseed area for 2024 has fallen back to around 5.7Mha and the UK is also down to around 317Kha. Combined with the very wet weather, which is likely to have reduced yields, the outlook for the 2024 harvest is not great. With this in mind plus the risks to the Canadian and Australian crops from adverse weather forward cover for rapemeal is recommended into 2025.

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