Technical Update – Feed Markets

Information correct as at 09:00am on 22.03.2024

- Prices have increased across most commodities over the last couple of weeks.
- It is very dry in parts of the US and Canada, in complete contrast to Northern Europe.
- La Nina is forecast to return later this year bringing dry weather to the US and Argentina.
- There are still some reasonable prices to be had for forward orders.

Summary:

Geopolitics and weather continue to have a big effect on raw material prices.

Confirmation that 2023 was the hottest year on record and that this trend is continuing will continue to cause more disruptive weather events around the world.

There are green shoots of recovery in the UK economy with growth of 0.2% in January and inflation falling to 3.4% in February. Although the BoE left base rates unchanged this week there are stronger hints of a reduction in coming months.

The outlook for maize is still for very high yields and stocks this year but planting delays and dry soils in Brazil are causing a reduction of forecasts. The very dry weather in the US and Canada is threatening their spring sown maize, soya, wheat and canola.

US Managed Funds are still close to record short positions and any shock to the system could see price recoveries boosted by the Funds buying back these.

Russia still dominates the wheat markets and with Ukraine continues to hold down prices. UK wheat futures for May have risen on the back of global prices to around £165/t and to £189/t for November. The carry figure has increased reflecting the poor outlook for this year's harvest and is encouraging farmers to hold onto stocks if they can. Barley continues to trade at a significant discount and offers an opportunity for some.

The upside risks remain and the very short position of the funds means that any upsurge in prices could be magnified and sustained. The message is as before to continue to take forward cover for wheat/barley at these prices, aiming for 85% for Q2, 40% for Q3, 30% for Q4 and 205 for Q1 2025.

La Nina conditions are forecast to quickly replace El Nino conditions during the summer. This generally brings dry weather to the US and Argentina and wet weather to Australia.

UK soyameal supplies are tight in the short term at around £370-3750/t for April before falling to £350-355/t for May – October. Rapemeal supply remains tight in the short term and POA. Prices for May – July have increased by around £20/t in recent weeks to around £280/t for non-Erith supplies and by a similar amount for new crops with August – October to around £260/t.

Wheat distillers are available from Hull for May – October at around £255/t, compared with maize distillers at around £235/t from May onwards. Maize gluten has fallen back further from its recent peak of around £280/t to a very good value of around £190/t for May – October.

Soya hulls availability has improved and prices have eased back a little to around £145/t for May – October and still better value than sugar beet pulp as a fibre source at around £225/t for the same period.

Potential upsides are significant. Given the risks from the conflicts in the Black and Red Seas and the weather as we enter the northern hemisphere spring plus the looming La Nina for the southern hemisphere it is still worthwhile taking some forward cover through next winter and into spring 2025, as necessary.

General:

The inevitable "landslide victory" for President Putin in the recent "sham" Russian elections guarantee him another term in office and a mandate for him to continue with his "special military operations" in Ukraine.

This has sparked a further upsurge in actions from both sides in the conflict, with fifteen oil refineries in Russia hit by Ukrainian drones and further missile attacks by Russia on the port of Odessa. This, plus ongoing events in the Red Sea and increasing demand from China, has contributed to Brent Crude oil rising to around $86/barrel, 15% above the level at the start of the year.

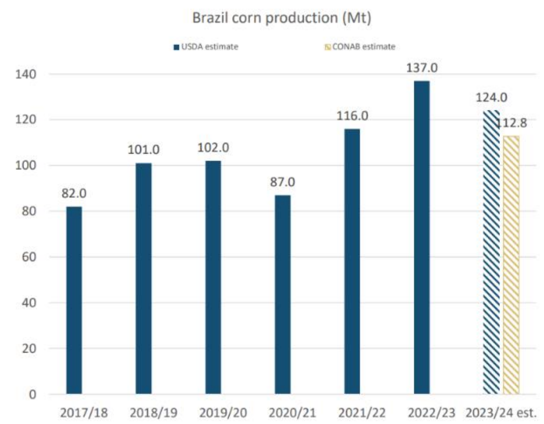
The UK economy grew by 0.2% in January and the UK inflation rate in the 12 months to February (as measured by the Consumer Price Index) fell to 3.4%, the lowest for over 2 years.

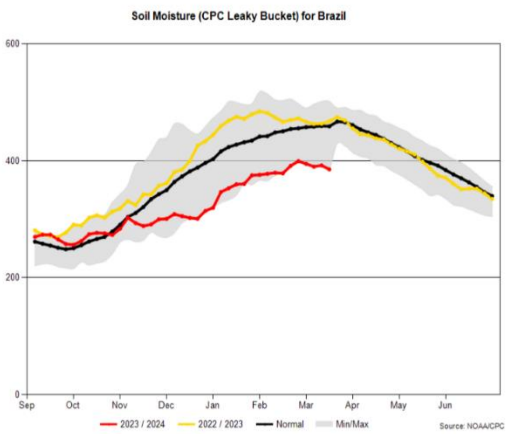
The UN World Meteorological Organisation has just reported that 2023 was the hottest year since records began with average temperatures 1.45C above pre-industrial levels with the highest levels of glacier and sea ice melt, greenhouse gas emissions, etc.

Attention is turning increasingly to the outlook for crops to be harvested in the 2024/25 year and the weather in key growing areas around the world is being watched closely. The US Managed Funds have bought back some of their record short positions but are still overall strongly short across agricultural commodities.

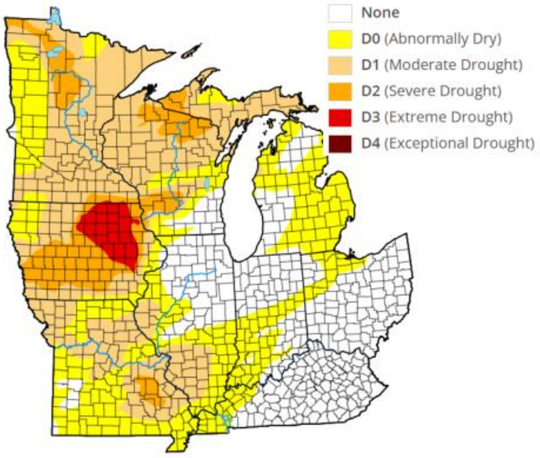
Cereals- the detail:

The second (Zafrina) maize crop has now been planted in Brazil. Despite ongoing rains and good NDVIs, from satellite imagery, the soil moisture levels are very low this year compared with last year and the 5-year average – see chart below right. Local forecasts for the 2024 output have been reduced due to delays in planting and ongoing weather concerns to around 113MT compared with the USDA forecast of 124MT and last year's record crop of 137MT.





The US Mid-West also continues to be very dry. Large areas are struggling with varying degrees of drought (a record position at the middle of March), but some rain is forecast in the next 2 weeks as planting is due to get underway.

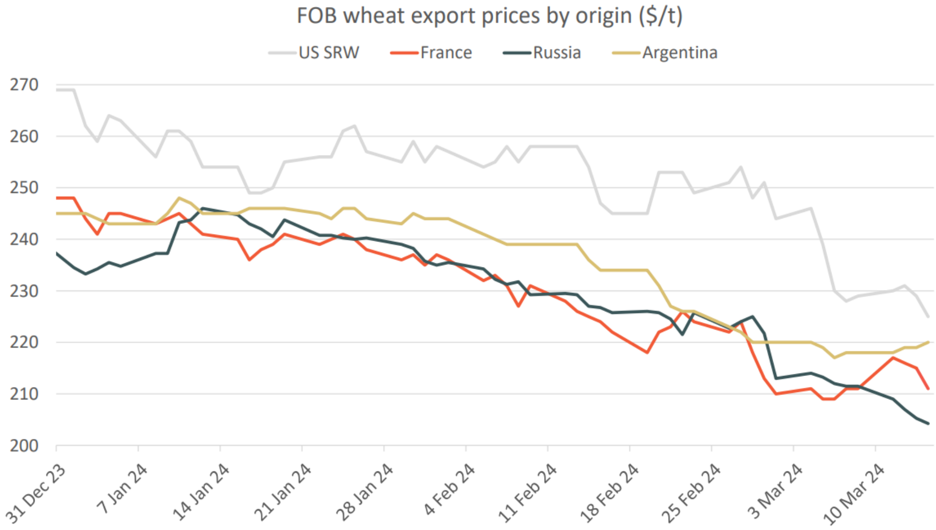


Global maize prices remain under pressure, partly due to the record Brazilian crop from last year coming to market and partly due to weaker demand, particularly from China. Low prices mean that most parts of the world are looking at producing the next crop at below the cost of production and with the soya:maize prices ratio still at around 2.5:1 more soya and less maize will probably be sown in the US this spring.

Despite all this the USDA forecast is for a record 382MT crop in the US (with a slightly smaller planted area but record high yields), which would leave US ending stocks at a 37-year record high. The USDA will produce its first sowing forecast at the end of March.

Global stocks:use ratio is around 27% but take out China and it falls to only 12%. European maize prices have also been falling steadily over the last year, in line with US prices, but these are even lower due to cheap imports from Ukraine.

Russia continues to drive global wheat prices lower and is on track for a record 51MT of exports for the 2023/24 season. Their FOB prices have dipped below $200/t at times recently, so with transport and insurance costs plus export taxes totaling around $80-90/t this also results in below COP prices.



Ukrainian wheat prices are even lower and it is estimated that they have exported over 16MT this season so far and mainly to the EU, although it is thought that these exports are likely to ease off seasonally now. France has joined Poland and other eastern European countries in demanding further restrictions on imports from Ukraine but the EU Commission is trying to extend the current deal allowing them to continue exporting to the EU.

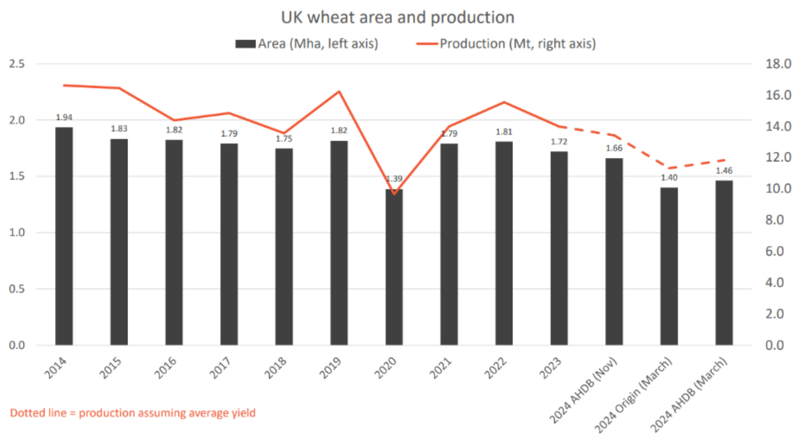
The latest IGC figures estimate global wheat ending stocks of around 260MT (down from around 280MT 2 years ago) but only 60MT is with the major exporters.

Thoughts are now turning more to the outlook for the 2024/25 harvest year. Russia has had a very benign winter and looks to be on track for another 90MT+ crop this year (although the latest forecasts show a dry period to come). Large parts of northern Europe have continued to have very wet weather which has delayed or prevented drilling, damaged some crops in the ground and meant that early fertiliser and spray applications have not gone on.

The hope is for a warm dry spring to allow crops to catch up and higher than normal spring drilling to compensate, but the current forecasts still show more wet weather to come.

The latest forecast from the EU is that the barley area will be up by around 3% this year but in France their spring barley plantings are only 39% complete compared with 95% in 2023.

The EU wheat harvest is forecast to be down to around 122MT for 2024/25 compared with 126MT for 2023/24 but the feeling is that not all of the effects of the adverse weather have been considered. In the UK, the latest forecasts for the 2024/25 harvest from AHDB show a reduction compared with their November forecast to around 1.46Mha planted (with Origin Enterprises still at 1.40Mha) so with average yields this would result in a crop of around10.5-11MT.



Canada remains very dry and there are increasing concerns over the outlook for their spring wheat and canola crops. However, Australia should benefit from the return of the La Nina weather pattern later this year.

Proteins – the detail:

Vegetable oil prices have recovered in the first part of this year following a downward trend in late 2023.

The latest estimates for the Brazilian soya crop range from 155MT from the USDA to as low as 144MT from some local forecasters due to effects of the weather. Brazil has been exporting strongly, especially to China, and that has been putting pressure on soyabean prices but they have recovered recently.

Argentina has had sufficient rain to keep their crop on track for 56MT, almost double that of last year. This will compensate for any shortfall in the Brazilian crop. The big concern for Argentina is the return of the La Nina weather pattern from the summer onwards which generally brings very dry weather.

The soya:maize ratio at around 2.5:1 favours soya planting over maize where there is a choice so it will be interesting to see the USDA Planting Intentions report in a few weeks time. Unless there is significant rain the drought in the Mid-West will also affect the soya crops to be sown shortly and the La Nina weather pattern is likely to bring dry weather later in the year.

Western Australia remains very dry but the outlook for canola and wheat production has improved for the country as a whole with the return of the La Nina weather pattern later in the year. Canadian canola production is threatened by the continuing drought across much of their wheat and canola growing areas. Northern Europe and the UK OSR crops have suffered from the exceptionally wet weather and many crops are in poor condition.

OSR prices have increased over the last few weeks alongside other commodities. The strong crush continues but with little product coming to the EU from Australia this year (0.75MT vs 2MT this time last year).

US soyameal prices have fallen back to near 2-year lows over the last few months but with crush margins falling to below $1/bushel the feeling is that they have reached their low point.

The carry for US soyameal between May and December prices has gone from a negative $10/t to a positive $10/t, reflecting in part the good Brazilian & Argentinian supply for this spring and the threat of La Nina for Argentina later this year/next year.

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