Technical Update – Feed Markets

Information correct as at 09:00am on 05.04.24

- Geopolitical issues are causing prices to start to rise.
- Weather becoming a bigger factor in feed markets across the globe.
- Still a lot of exports coming from the Black Sea.
- Oil prices on the up.
- General inflation is falling which may bring forward interest rate reductions.

Summary

Geopolitical events in the Black Sea area and the Middle East plus weather in key growing regions around the world continue to pose large upside risks.

The extremely wet weather continues in the UK and northern Europe, but there is a glimmer of hope in that some forecasters are suggesting these areas could turn drier and warmer from the middle of April and through May. However, the damage has already been done with CRM forecasting the UK wheat crop at only around 11MT and the UK rape crop at around 1MT. Similar falls in output are predicted across much of northern Europe.

Current UK wheat futures prices have recovered around £10/t in recent weeks and are around £171/t for May and £193/t for November, but strong exports from the Black Sea are still holding prices back. The large £22/t carry reflects the poor prospects for the 2024 harvest and is encouraging farmers to hold onto their stocks if possible.

CRM currently forecast wheat to average £188/t for Q2 2024, so, with the upside risks that are around the advice is to increase cover to 100% for Q2 now and also increase cover to 50% for Q3, 40% for Q4 and 30% for Q1 2025. Barley is still around £25/t below wheat and so continues to represent an opportunity for buyers.

The recent USDA Plantings Intentions report put the maize area slightly lower and soya slightly higher than market expectations for the US this spring.

The Brazilian soyabean harvest is now around 80% complete. Local forecasts are still well below the USDA forecast of 155MT due to low soil moisture levels. US soyameal prices are at 2.5-year lows.

UK soyameal for May – October fell back from highs of £425/t in November 2023 to around £345-350/t during March/April, so still worth buying forward if needed.

UK rapemeal availability is tight in the short term with prices POA. Non – Erith May/June/July prices fell back from c.£290/t in November 2023 to lows of c.£260/t in March but have now increased back to around £285/t. New crop prices have also increased from lows of around £240/t in early March to £255-260/t now. So, having advised continuing to take forward cover as prices slid the feeling now is to sit tight if enough cover is in place. If not, then slightly cheaper rape expellers may represent an opportunity.

Maize distillers represents an opportunity, where this product can fit into a diet, with prices from May to April 2025 at around£238/t. Maize and wheat gluten at £185 and £182/t respectively for May – October and also represent good value for money where they fit.

Soya hulls are still the best value fibre feed at £140/t for May – October and £145-150/t for November – December but as with soyameal no prices are being offered beyond December due to uncertainty over the de-forestation regulations.

General:

Oil prices have continued to increase steadily from their recent lows with Brent Crude futures up from around $75/barrel in January to $88-90/barrel now due to the continuing conflicts in the Black and Red Sea areas and further OPEC+ cuts in production. This is seen as being supportive for agricultural commodity prices but also a potential threat to future falls in inflation.

At the same time, the £ has weakened against the US $, falling from 1.29 a month ago to 1.26 currently, which contributes to higher imported goods prices.

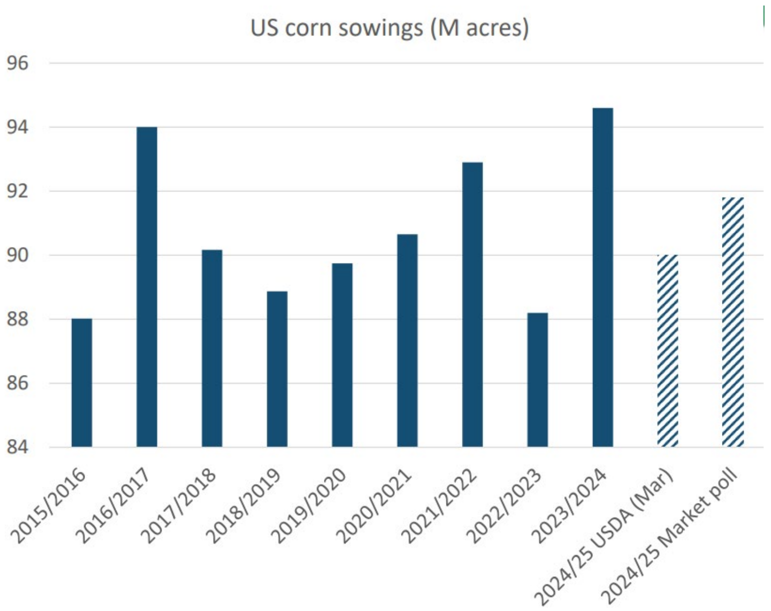
Although the official UK March inflation figures will not be released until mid-April the British Retail Consortium have reported that prices in shops rose by only 1.3% in March compared with a year ago, the lowest since December 2021. This, plus the reduction in the energy price cap from 1st April, should help to push inflation down and may encourage earlier UK interest rate cuts than previously thought, providing the effect of increased oil prices does not counterbalance this.

In the US, the Federal Reserve has said that stubborn inflation and strong economic growth there may force them to delay interest rate cuts so the outlook for future rates is very much a mixed picture.

Cereals- the detail:

Weather is becoming increasingly important to the outlook for crops in the northern hemisphere at the start of the growing season. We have the very wet weather in northwest Europe/UK and it is very dry in the US Mid-West and Canada.

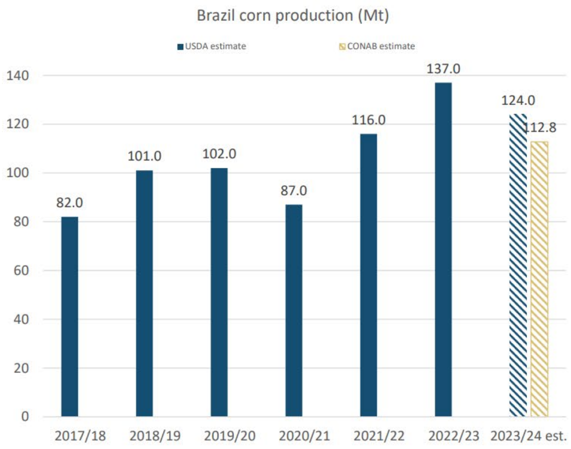
The first estimates of US maize plantings were issued by the USDA on 28th March (see below). These were well below market expectations at 90 million acres and reflect the lack of farmer confidence with low prices, production costs below the cost of production and a soya:maize ratio of 2.5:1, encouraging more soya and less maize.

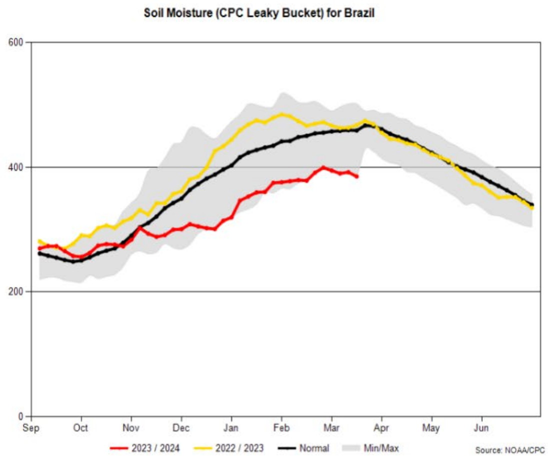


If this reduced area proves to be accurate then with drought in large areas of the corn belt already plus the return of the La Nina weather pattern in the summer, which usually brings dry weather to the US mid-west, then the outlook will not be so good. The USDA have not yet factored any of these risks into their equations and at this stage are still forecasting the highest US maize ending stocks since 1987 of 382MT.

US Managed Funds have bought back some of the extreme short positions but are still close to record shorts. This is unusual at this time of year, given the risks in the outlook period.

Brazil overall remains dry, with soil moisture levels very low (see below right). Although the USDA still forecast a crop of around 124MT local forecasts have this as low as 112MT (see below left).

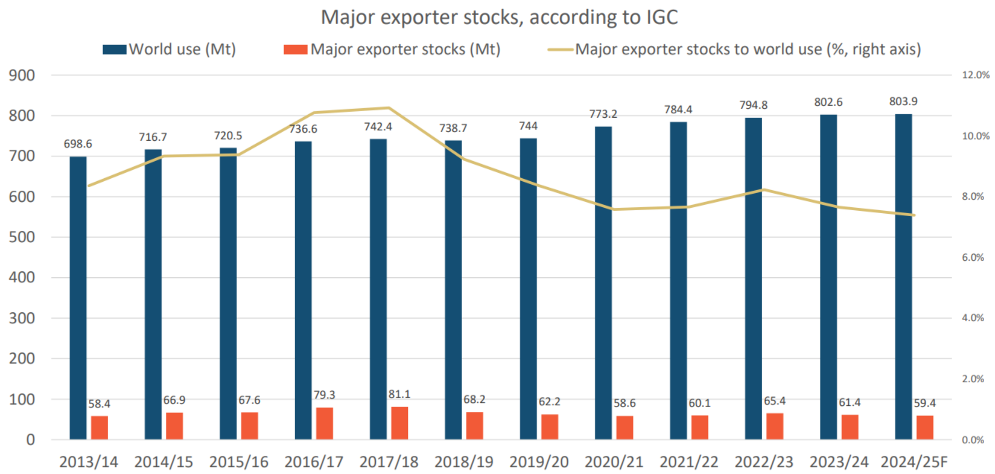




The Argentinian maize crop should reach 56MT this year, up by over 50% on last year. The concern here is that the re-occurrence of the La Nina weather pattern later this year will bring back the very dry weather and damage prospects for next year's crops.

Chinese imports from the US are down around 70% this year as they have sourced more direct from Brazil.

The latest IGC figures forecast world use of wheat for 2024/25 slowly increasing, but major exporters stocks at only 59.4MT and major exporters stocks:world use at around only 7.5%.

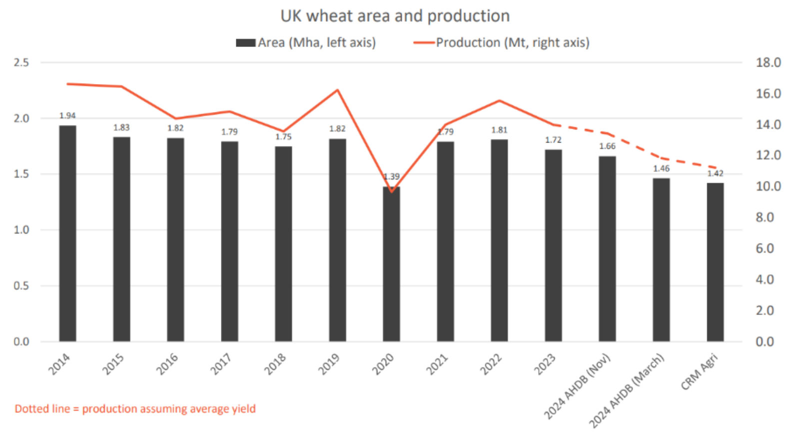


Canada remains very dry and the outlook for spring wheat is not good at present, although some rain is forecast for eastern areas. Australia has had rain in key areas so the outlook for their next wheat crop is improving. The US winter wheat good/excellent ratings are at 57%, which is about double what it was this time last year and one of the best in the last 20 years.
The threat to Black Sea exports and production from the ongoing conflict and increasing recent attacks by both sides remains but one way or another the exports keep coming. Russian and Ukrainian exports are still holding prices down with plenty of cheap wheat available, although Russian FOB prices have come up from the recent lows of c.$200/t to $210/t. Exports from both countries are expected to slow from now on.

Weather conditions across eastern Europe and the Black Sea have been benign so far this season but they are starting to get dry now which could become an issue if it continues.

Northwest Europe and the UK on the other hand continue to suffer from too much rain which has delayed or prevented plantings, damaged crops which have been planted and disrupted applications of fertiliser and sprays. The latest report from the European Centre for Medium Range Weather Forecasts shows the weather becoming drier and warmer from mid-April through May, although the Met Office models are not yet committing to much from later in the month.

The latest EU forecast for wheat production for the 2024/25 year is 120.7MT, down from 125.9MT in 2023/24, so the good stocks which are being carried forward will be needed to make up the shortfall. AHDB reduced their forecast UK wheat area in March to 1.46Mha from 1.66Mha in November. CRM think this is too optimistic and forecast 1.42Mha with an expected crop of around 11MT at average yields, well below the average consumption of around 14.5MT.



Proteins- the detail:

The Brazilian soyabean harvest is around 80% complete. The latest USDA forecast is for a harvest of around 155MT with local forecasts tending to be lower at around 147MT due to low soil moisture levels in many areas.

The Argentinian harvest is getting closer, with the forecasts still for around 48-50MT and well above the severely drought affected total for last year. As with maize, the return of La Nina weather conditions is the worry for next year's crop.

China has been buying heavily from Brazil this season where export totals have been high. This has been at the expense of the US where exports are around 20% down YOY.

The USDA Planting Intensions report of 28th March put US sowings at 33.8Mha, up on last year's 32.8Mha, encouraged by the favourable 2.5:1 price ratio of soya:maize, but this was below market expectations.

US soyameal prices have fallen back to November 2021 prices of around $325/t. US Managed Funds continue to hold very strong short positions. Crush margins are very low and at the bottom the cyclical range. The strong EU/UK rapeseed crush has continued into 2024. Imports to the EU are down from 6MT last year to 4MT this year so stocks are being used and some plants are now changing to crushing soyabeans.

The conflict in the Red Sea is slowing imports from Australia and making them more expensive this year. Rapeseed imports are down from 2.5MT last year to 1MT this year to date.

Rising oil prices are encouraging stronger vegetable oil prices with Paris OSR approaching 450 Euros/t. Palm oil futures are also up to one-year highs.

The Canadian prairies are still very dry and although the canola crop has yet to be planted this is a risk. Current forecasts are for an 8.7Mha crop, slightly down from last year. The current ratio of canola:wheat is 1.95:1.

The EU Commission has forecast an EU rapeseed crop of 19.5MT this year, down from 20.1MT last year. Given the significant issues with drilling and the damage done to many crops which were established by the extremely wet weather in some parts of the EU CRM have forecast a crop of only 17.75MT. AHDB has reduced their forecast for the UK to around 280Kha with just 1MT produced at average yields.