Technical Update – Feed Market

Information correct as at 09:00am on 31.05.2024

- Lack of rain in Russian and Ukraine has caused markets to spike lately.
- US maize and soya planting is going well.
- Rain in Canada and Australia is boosting potential rape supplies for the next harvest.
- Wheat remains very tight, but maize supplies are better.

Summary

Wheat prices have risen significantly in the last 2 months, initially due to the poor outlook for EU and UK crops following prolonged wet weather and tight global stocks. More latterly Russian weather has deteriorated and it has been either too dry, too frosty and too wet in different areas, so their 2024 crop has been downgraded from around 93MT to around 81MT and prices have risen further. However, yesterday's forecasts suggested more widespread rain and the markets dropped again.

Ukraine has also had weather issues and their wheat crop forecast has been reduced by around 15% to 19MT in the last month. The prospects for the US, Canadian and Australian crops are much better, but this is not thought to be enough to compensate for the shortfalls from elsewhere, given low global ending stocks.

The outlook for maize and barley output is better and if forward cover on wheat has not already been taken at previous decent prices, then these alternatives should be considered.

On the protein side there have been issues with the Brazilian and Argentinian soya crops but they should still come in at a satisfactory level. The US soya crop is now being planted, in the main under good conditions so, although there is a long way to go the outlook for soya is looking optimistic at this stage.

Conditions for the Canadian and Australian canola crops have improved considerably over recent months as rain has arrived. The EU OSR crop is forecast to be around 10% down on last year at around 18MT and the UK crop will be the lowest in 40 years at around 900kt.

The longer-term outlook for soyameal in the UK and EU remains uncertain as everyone waits for the new deforestation regulations to be finalised so nothing is available after December.

UK soyameal supplies in the short-term are very tight and prices are well up on where they were 2 months ago at around £395 - 400/t through to December. Rapemeal supply is also very tight in the short-term and expensive if available. Prices are now around £290/t for November/December and £295-305/t for January – April.

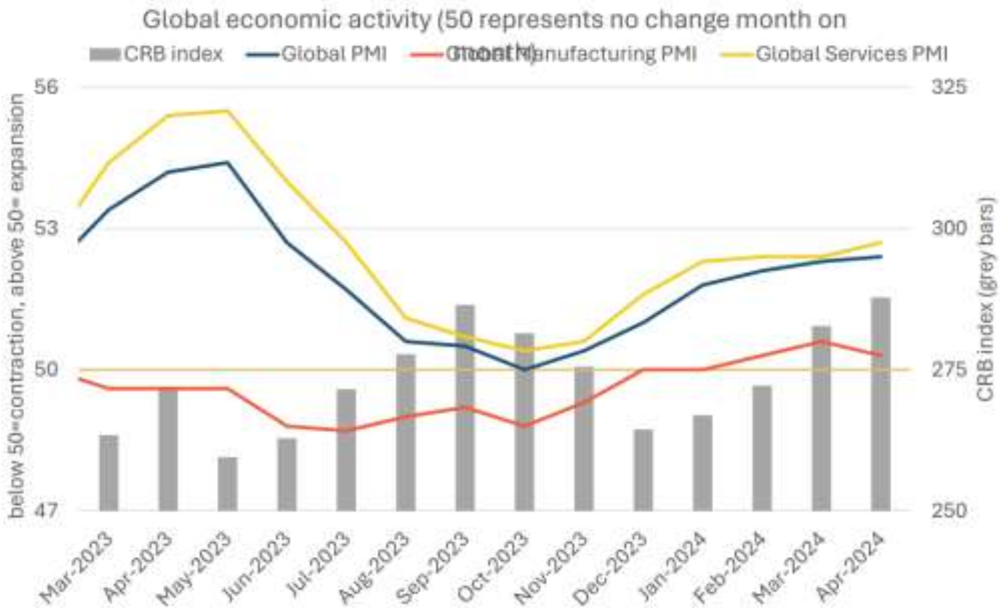
Hopefully most have followed previous advice and taken plenty of cover on rapemeal well into 2025. If more is needed then topping up at these prices may still be worthwhile with the overall price still averaging out at reasonable levels.

Maize distillers are also in short supply in the shorter term but could be an alternative for part of the ration with the November – April price at £255/t. Maize and wheat gluten are around £220/t for the same period.

Sugar beet has dropped back from £250/t to £205-210/t but soya hulls are still the fibre source of choice at around £155-165/t for November and December.

General:

Various indices suggest that the global economy is moving into positive territory.



A combination of higher-than-expected inflation and other issues in the US means that their interest rates are likely to stay higher until later this year, meaning the US$ will also stay stronger. The ECB is expected to be the first major central bank to cut interest rates in early June. The Bank of England is expected to follow later in the year.

Ukraine is struggling to hold back the latest Russian offensive in the east of the country and is in danger of losing a significant amount of territory. They have hit a major Russian grain export facility, accounting for around 30% of Russian exports, with US supplied missiles.

Despite the ongoing conflicts in Ukraine and the Middle East Brent Crude oil prices have stayed between $80-85/barrel.

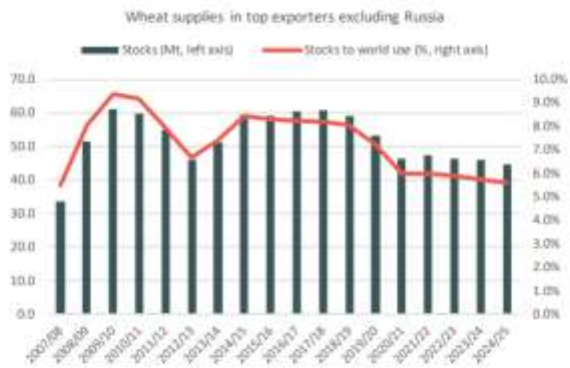
Cereals -the detail:

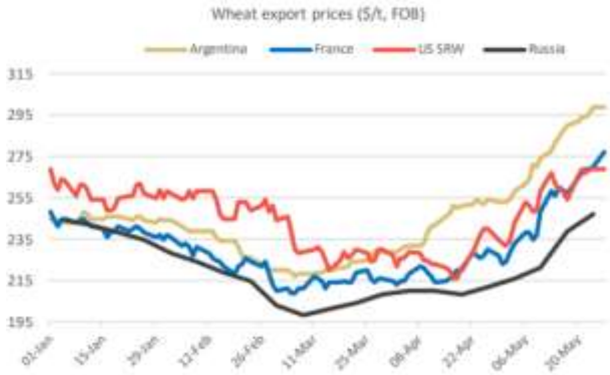
Russia has become the largest exporter of wheat on the world market over recent years, representing around 25% of all wheat traded. This year the crop has been hit by a perfect storm of weather events, with prolonged dryness in the winter wheat growing areas, late frosts in central areas and excessive rains in eastern spring wheat growing areas.

In the last month the Russian agencies have reduced their forecasts for the 2024 wheat crop from 93MT (with 52MT for export) to 81MT (with 44MT for export) and it could yet go into the 70s MT. Historically, when supplies get tight Russia tends to restrict exports via quotas or tariffs so the effect on global markets could be further exaggerated if this were to happen. There was some relief in the markets yesterday as rain appeared in forecasts for a bigger area. Ukraine has been hit by similar weather in some areas and they have reduced their initial wheat production forecast by around 3MT to around 19MT.

In the EU, the effects of the prolonged wet weather are still to be fully known but French wheat ratings are 63% good/excellent vs last year's 93% which does not bode well. Better weather in the US, Canada and Australia means that the prospects for their crops are looking much better.

The IGC have reduced their global production forecast for wheat to 795MT, with consumption around 800MT, but this is likely to go lower as the full effects of the situation in Russia and Ukraine becomes known. Global wheat ending stocks are estimated to be at a 9 year low of around 253MT for 2024/25 (below left) and stocks of the major exporters are not great enough to compensate for the production losses. As a result of all this wheat prices have increased significantly over the last 2 months (below right).





The UK wheat crop is forecast to be a disappointing 11MT although the better weather over the last 2 months has helped many crops recover somewhat, with improved NDVIs from satellite imagery. The UK barley crop is expected to be at a 4 year high of 7.5-8.0MT but with increased consumption as buyers turn to barley and maize for better value for money.

The outlook for maize is much better with the latest estimate for world ending stocks around 313MT, close to the 10-year average. Prices have increased over the last 2 months but not by as much as wheat, so the US wheat:corn premium has increased in the US to $2.40/bushel.

As is often the case the USDA production estimates are above local estimates for Argentina and Brazil. USDA estimates are 53MT and 122MT respectively vs local estimates of 46MT and 112MT. The Brazilian Zafrina crop harvest is just starting. There is better news from Argentina where cold weather has arrived which is preventing the crop stunt disease from spreading much further.

Planting is complete in Ukraine and the forecast for 2024 is 28MT vs 31MT in 2023. US plantings are now 85% complete, which is about the 5-year average, but it is too early to see any ratings on crop condition. Rain has, however, arrived in much of the main maize growing area, which will benefit germination as long as it is not excessive.

Chinese maize demand has been weak, with only 9MT imported from the US so far. Barley demand on the other hand has been strong with around 6MT imported from Australia, which has come back into favour.

Southern hemisphere crops are yet to be harvested and it is too early to tell much about the northern hemisphere crops but the outlook is reasonable. With average stocks the funds have been increasing their short positions.

With better availability of barley and maize many buyers are looking to switch to these from wheat, including some of the bioethanol plants. Ground maize ex-port in the UK is around £224/t for November to April.

November 2024 wheat futures price fell £5.40 yesterday to £216/t, rising to £224/t by May 2025. Hopefully, everyone has followed previous advice and has plenty of cover for wheat at previous good prices – up to 100% Q2, 70% Q3, 60% Q4 and 50% Q1/Q2 2025.

Harvest pressure may bring some relief to prices in time but further cover for energy feed using barley (still at a significant discount to wheat) or maize should be considered if required.

Proteins- the detail:

The USDA still has the current Brazilian soya crop at 153MT, but the local forecast is for 147MT. The forecast for the Argentinian crop remains unchanged at 50MT.

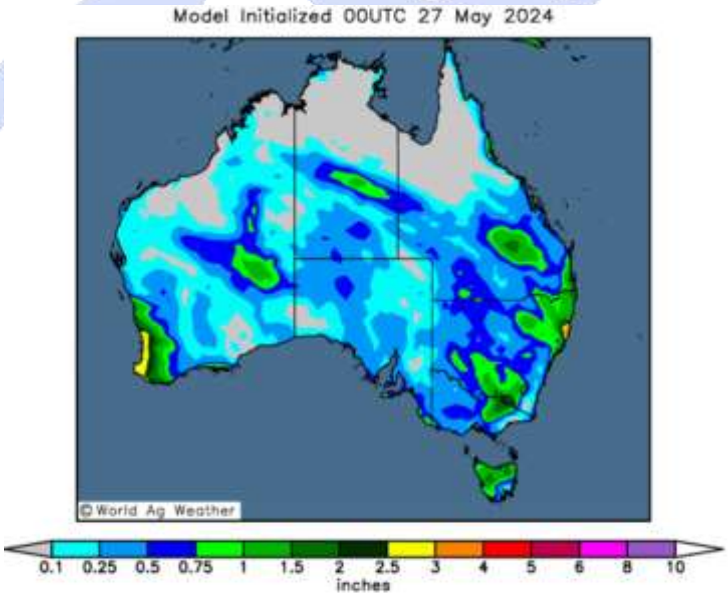
US soya planting is around 70% complete, 5% above the 5-year average with good signs of early germination. With the soya:corn price ratio at around 2.5:1 there are thoughts that more soya may have been planted. US soyabean exports have been very slow but have picked up recently as the previous Brazilian crop runs out and should reach the USDA target of 46MT.

The crush has been weak in the US for a while but again this has increased recently as soyameal prices have increased.

Contradictory stories are coming out of China regarding the outlook for their pig herd and therefore demand for soya, but so far exports booked to China from the US are only 1MT for 2024/25, the lowest in 20 years. Funds continue to buy back their short positions, suggesting they anticipate lower prices.

European vegetable oil prices continue to rise, with rapeoil regaining its premium. EU rapeseed imports remain slow, in part due to the low Australian production this year. The April crush hit a new record but is now in seasonal decline with a shortage of imported material and planned plant shutdowns. The latest forecast for the EU rapeseed crop for 2024 is 18.1MT, down 10% on last year. The UK forecast is for a crop of only 900kt, the lowest in 40 years.

Rain has finally arrived in western Australia, encouraging a better outlook for production for this year and good rain continues in the south and east. Forecast production ranges between 5.5MT and 6.5MT. Canada has also had plenty of rain following their long drought, which has resulted in a much-improved outlook for their canola crop this year, now at around 19MT.



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