

# Technical Update – Feed Markets



Information correct as at 09:00am on 17.05.2024

- Last Friday's WASDE report was an important first marker for the season.
- Cereal supplies have come under pressure.
- Proteins look more promising.
- Russian weather is featuring heavily on wheat markets.

## Summary

The May USDA WASDE report was published on 10th May and gave the first proper global estimates for the 2024/25 harvest year. This report proved to be bullish for the global grains outlook and bearish for soybeans. The outcome of the report plus increasing concerns over weather events in key growing regions, particularly southern Russia, caused cereal prices to rise considerably and they remain volatile. US managed funds have contributed to this picture as they have reduced their short positions across wheat, maize and soybeans.

UK November wheat futures are now around £216/t and the weather over the next 4-6 weeks will be critical. Hopefully most have heeded previous advice and have good levels of cover through to Q1/Q2 2025 at previous prices. Given the upside risks it is worth increasing this further and consider barley and/or maize as well.

The bearish outlook for soybeans and soyameal means that providing the weather does not provide a major shock then prices should come back. Rapemeal is still the preferred protein option and hopefully everyone has again heeded earlier advice and taken plenty of cover well forward into 2025 at previous lower prices.

If not then rape expellers, maize distillers and wheat distillers are worth considering where they can be fitted into rations. Wheat gluten and maize gluten are also still good value for money.

## General:

Despite the ongoing tensions in the Middle East and Russia/Ukraine oil prices have settled back to around \$80-83/barrel for Brent Crude.

The outlook for the UK economy is improving with inflation likely to fall further in the coming months towards the Bank of England target of 2%. GDP increased by 0.6% during the January to March period so we are out of "recession" now. However, higher unemployment figures and average wage growth of over 6% may delay the expected reduction in interest rates.

## Cereals- the detail:

The USDA WASDE report estimated global maize production for the 2024/25 year at 1220MT which is close to estimated consumption but stocks are forecast to fall by around 8MT to 313MT, which was seen as slightly bullish. The major exporters' production is estimated to fall by around 12MT, with stocks little changed but leaving the stocks:world use ratio at only 4.9% (below left). US managed funds have reversed their very large short positions very quickly (below right) and this has contributed to the recent increases in grain prices.

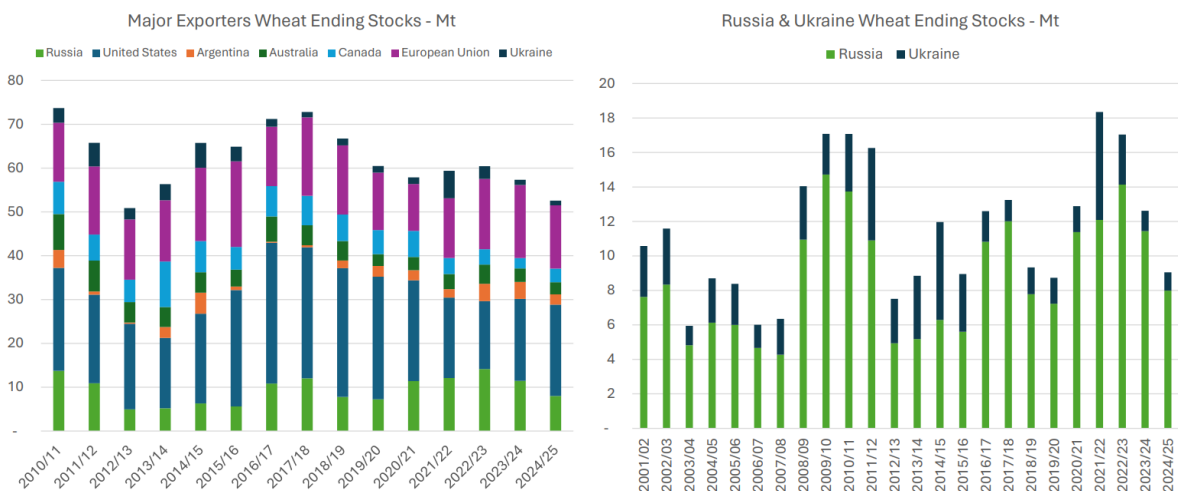


The report still has the 2023/24 Brazilian crop at around 122MT but local forecasts put this nearer to 112MT due to flooding in southern Brazil. The return of dry weather to central Brazil earlier than usual could cause problems as pollination of the Zafrina crop starts and the crop estimate could be reduced further.

The report reduced the Argentinian crop estimate by 3MT to around 53MT but local forecasts, taking fuller account of the crop stunt disease, have reduced their forecasts by around 10MT to only 46-47MT.

The area planted in the US this spring is reduced from previous years largely due to the soya:maize price ratio of around 2.5:1. Planting is around 50% complete and some rain has arrived in the US corn belt. The outlook could change depending on how the weather and disease affect the outcomes in these key growing areas.

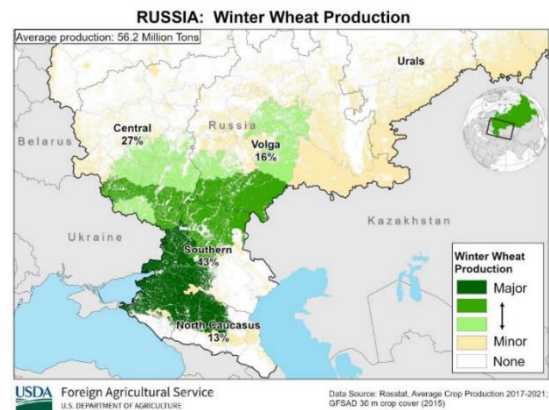
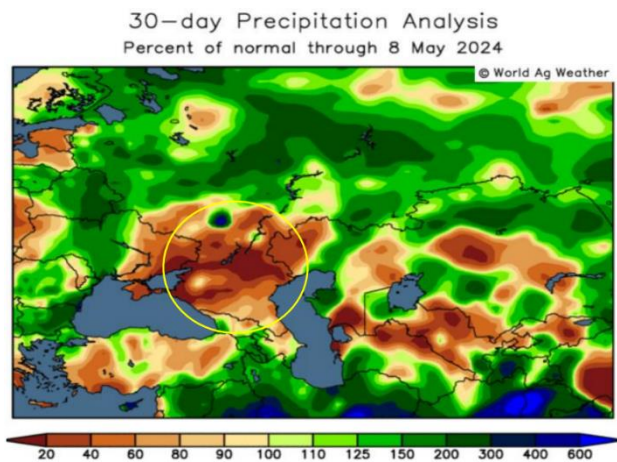
The report was bullish for wheat, with global stocks at a 9-year low of around 253MT and the world's major exporters ending stocks at 12-year lows of only 52MT (below left). The 2024/25 ending stocks for Russia and Ukraine are forecast much lower than recent years, with production difficulties increasing in Ukraine and their stocks significantly reduced since 2021/22 (below right).



The next 4-6 weeks are critical for northern hemisphere wheat crop development, so these estimates could change depending on how everything evolves.

The very dry weather in southern Russia and the surrounding areas continues. This covers the main winter wheat production districts, representing around 70% of total Russian wheat output (see below). The weather forecast for the next 2 weeks is for some rain but will it be enough? In addition, frosts have done further damage to the crop, although this risk now appears to be receding.

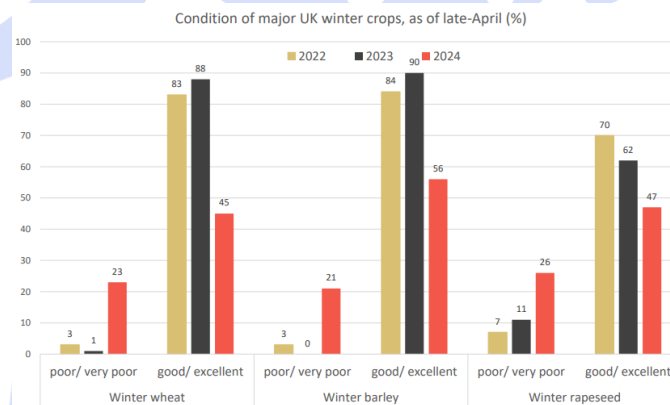
The USDA have the Russian crop at around 88MT but if the adverse conditions persist this could reduce to around 80MT.



The WASDE report put the 2024/25 EU wheat harvest at 132MT, down from 134MT in 2023/24, but this could fall towards 125MT as the effects of the very wet northern European winter become fully known.

The US wheat crop is still rated 50% good/excellent but rain is needed soon if it is not to fall from there. The good news is that the rain has finally come to the primary areas for wheat and canola production in Canada, giving a much brighter outlook for production.

Closer to home, the chart below shows the poor/very poor and good/excellent ratings for the UK winter wheat, barley and rape crops for the last 3 years. CRM estimate the 2024/25 UK wheat crop to be well down at only 11MT.



Wheat prices around the world are volatile and have increased significantly as a result of the recent developing weather issues and the funds change of direction.

Strong demand for bioethanol drove UK wheat consumption to over 100kt in March, the highest in data going back to 1990. But Ensus is reportedly changing back to maize now as it is better value.

UK May wheat is around £186/t, which is £25/t up in the last month or so, and November wheat is up to £216/t, with the carry reflecting the poor state of the 2024 crop. Prices have eased slightly in recent days but remain volatile. Barley remains at a significant discount to wheat and represents an opportunity for some and Imported maize is also once again competitive with wheat through the winter at around £215/t plus £10/t grinding.

The concern is that if the weather continues to reduce wheat crop potential, with low stocks prices could rise further over the coming months.

Hopefully, everyone has heeded previous advice and has 100% cover through to the end of June, with 60% cover for Q3, 50% cover for Q4 and 40% cover for Q1 2025 at previously low prices. It would be prudent at this stage to add a further 10% to the Q3, Q4 and Q1/Q2 2025 coverages at today's prices due to the upside risks outlined above and the risk averse may consider increasing this cover further.

## Proteins- the detail:

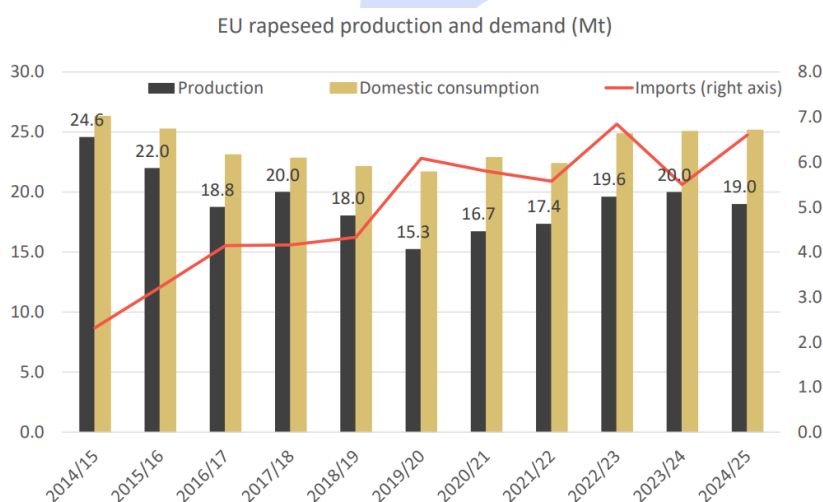
The May WASDE report increased the global estimate for soyabean production by 25MT to 422MT, partly due to a greater planted area, with soyabeans being more profitable generally than maize.

Global consumption estimates were increased slightly but China is not predicted to import as much in the 2024/25 year, with lower pig production forecast. US soyabean exports are the slowest in over 20 years at this point, partly due to China's switch to Brazil for supply.

WASDE global soyabean ending stocks estimate was increased to a record 128MT, which was seen as bearish. This outlook extended to soyameal production which is estimated to increase by 12MT to a record 271MT for 2024/25, with ending stocks increasing to a record 16MT.

As a result, the US funds reduced their net short positions dramatically and soyabean and soyameal prices eased back.

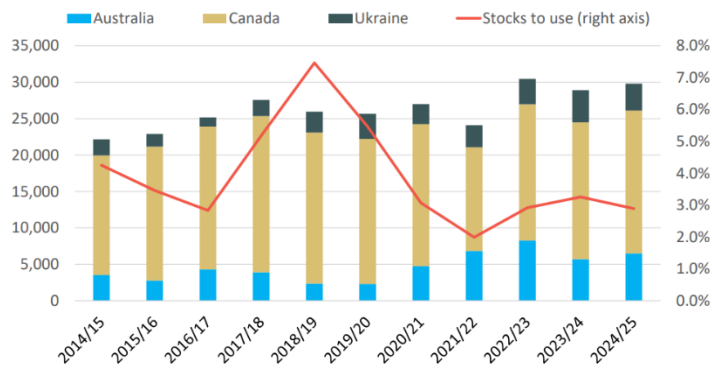
The report put EU rapeseed production for 2024/25 at around 19MT and estimated consumption at around 25MT, meaning an import requirement of 6-7MT.



CRM estimates that EU production will be lower than this at around 17-18MT due to the adverse weather for much of northern Europe. This has also done a lot of damage to the UK crop, which is thought likely to be only around 1MT.

With rain returning to the main Canadian canola growing areas the outlook here has improved, but more wheat is likely to be planted. Australian weather is also looking better but the west of the country remains very dry. With Ukraine also optimistic for a good rapeseed crop the outlook for the major exporters is looking OK but stocks:world use ratio is only 2.9% so any major weather event could change everything very quickly.

Major rapeseed exporter production (Mt), stocks to world use (%)



Widespread strikes in Argentina have disrupted crushing plants and ports, which has slowed the supply of soyameal to the UK in the short term. The outlook for the period beyond 1st January 2025 is still unclear for supply as discussions around the implementation of the deforestation regulations in the UK continue.

For now, it will pay to make sure there is enough cover on alternative protein sources. Rapemeal is still the preferred option but supplies are very tight in the short term and prices have shot up in the medium term.

Hopefully, everyone has heeded earlier advice and taken plenty of cover well into 2025 at previous lower prices. If not then Maize distillers at c.£255/t through to April looks very good value given the issues with protein straights into 2025.

Maize and wheat gluten at around £215/t through to April 2-25 also still represent good value for money where they can fit into rations. Soya hulls are still the best value fibre feed.

For further discussion or to help with any questions that you may have, please contact Consultant Support on [consultantsupport@kiteconsulting.com](mailto:consultantsupport@kiteconsulting.com) or 01902 851007 / 07542 403225

