Technical Update – Feed Markets

Information correct as at 09:00am on 19.04.2024

- Middle East situation getting more precarious with aggression between Israel and Iran.
- Black See issues continue to rumble on.
- Weather becoming more of a factor as Northern Hemisphere cropping year gets going.
- Prices of commodities continue to increase.

Summary:

The conflict in the Middle East has the world on tenterhooks and events could develop either way but currently, despite many countries urging caution, it looks like the Israelis will not back down and the fallout of last night's attacks on Iran are yet to be seen.

Although at this stage oil and agricultural commodity prices have not reacted hugely, if the conflict escalates it has the potential to push them up significantly and could de-rail the more positive current global and UK economic trends. Inflation fell to 3.2% in the year to March and looks likely to reach the target of 2% shortly, which could encourage the Bank of England to reduce interest rates in the next few months.

On the surface the global outlook for maize looks good. However, forecasts lower than those of the USDA by local bodies in south America, lower planting intentions and drought in the US, and the change to La Nina to come later in the year are starting to raise question marks.

The extremely wet winter weather in northwest Europe, including the UK, has severely damaged the cereal and oilseed rape production outlook with the UK wheat and oilseed rape crop forecasts at only 11MT and 1MT, respectively.

Concerns are increasing over the ongoing drought in Canada as they prepare to plant their spring wheat and canola crops. The outlook is also for dry weather to continue in Russia and Ukraine which could cause problems if it continues into May.

With wheat and barley prices where they are and given all the geopolitical and weather risks the advice is to continue to take forward cover into 2025.

Despite local forecasters coming in with lower figures than the USDA for the Brazilian soya harvest, with the Argentinian crop on track to be double the 2023/24 one at around 50MT the combined south American crop should be a new record close to 200MT. The outlook for the major oilseed rape exporters – Ukraine, Canada and Australia – is for production and exports for 2024/25 to be similar to 2023/24 but the global stocks:use ratio is tight at around 9%.

Protein straights prices have risen above their recent lows and hopefully all clients will be well covered in the short to medium term.

General:

The Iranian retaliation against Israel last weekend was less damaging than it could have been and is being seen as more of a show of strength by Iran rather than to cause maximum damage.

Despite many countries encouraging restraint, Israel has launched another attack overnight, the further ramifications of which are yet to play out. The increasing tensions in the Middle East risk escalating into a war involving numerous countries. This would probably result in rising commodity prices, including oil and agricultural products and would damage the economic global and UK recovery.

Geopolitical events in the Black Sea continue with further strikes by both Russia and Ukraine on key targets, so the risks here remain but grain and other exports continue.

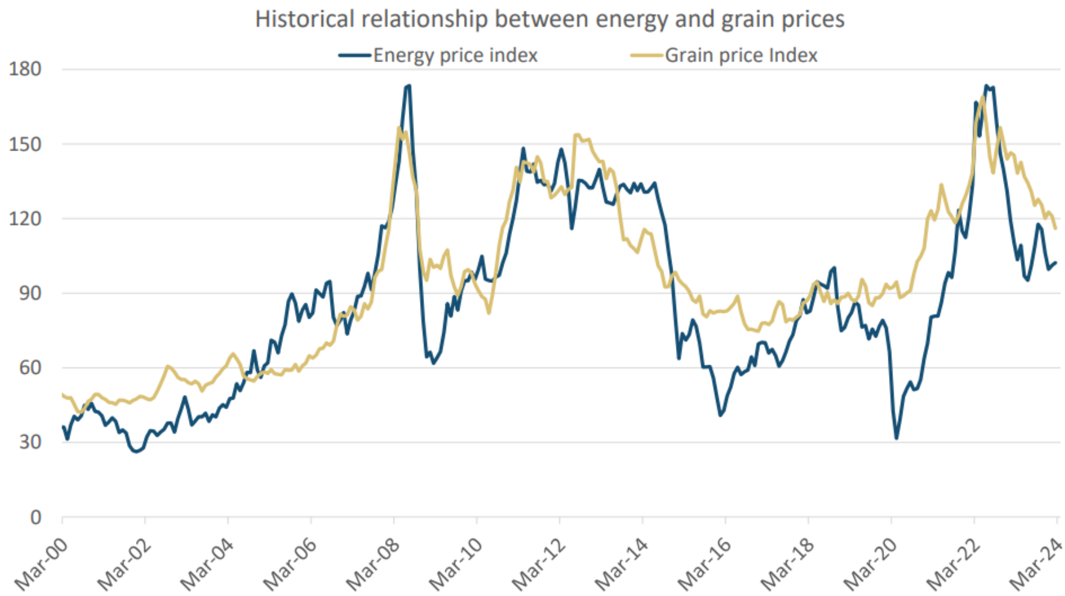
Brent Crude oil prices rose after the Iranian attack but have eased back to around $88/barrel. They remain volatile, driven by events in the Middle East and Saudi Arabia confirming further production cuts.

The US inflation rate increased in March for the third successive month to 3.5%. The markets saw this as a sign that the US Federal Reserve was likely to postpone any rate cut until later in the year, which in turn encouraged the $ to strengthen. The pound has fallen back from March highs of 1.28 to 1.24 today, making dollar traded goods effectively more expensive, but against the Euro it has stayed at around 1.17.

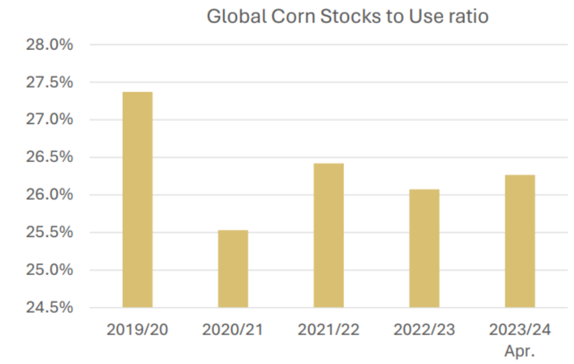
UK inflation to March has fallen back to 3.2%, a 2.5 year low, and looks to be on track to reach the target of 2% in the next few months, encouraging thoughts that the Bank of England will cut interest rates in the next few months and possibly sooner than the US.

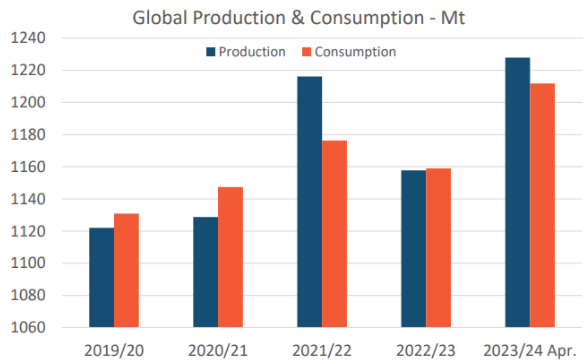
Cereals – The detail

Historically oil prices have been closely linked to cereal as well as vegetable oil prices, so an escalation of events in the Middle East which results in a significant oil price rise would have consequences for grain prices.



The latest USDA figures for global maize production show a record output. Even with higher consumption also forecast, they are suggesting a higher stocks:use ratio of around 27%. At first sight this all looks fine, but weather events and disease are the biggest risk to this outlook, with a rapid change from El Nino to La Nina forecast from mid-2024 and a sudden and significant outbreak of disease in the Argentinian crop.





The US is already very dry or in drought through much of the main corn belt and a La Nina weather pattern usually means dry weather there, so although we are at the very early stages of the 2024 crop there are big question marks over the outlook here. In addition, the USDA March sowing intentions figures the US showed a reduction in planted acres from around 95M acres in 2023/24 to 90M acres in 2024/25 due to poor margins for maize at current prices.

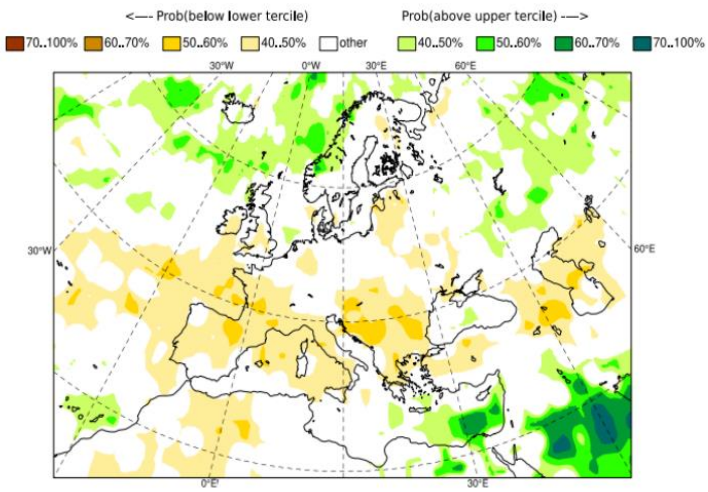
In Argentina, a sudden development of "corn stunt disease," spread by leaf hoppers, has caused local forecasters to reduce their forecasts by around 5-6MT to around 49MT, well below the USDA figure which has remained at 55MT. In Brazil, the USDA has again stayed with its previous forecast of around 124MT while local forecasters have reduced their forecasts to around 111MT due to low soil moisture levels across much of the country.

Funds still hold near record short positions so if on top of the deteriorating south American outlook the US crop shows signs of being significantly lower than current expectations, they could change direction quickly which could cause prices to rise.

Forecast global wheat stocks remain tight at a 9-year low and the major exporters stocks:use ratio is only around 7.5%. Russia and Ukraine exports continue to hold back wheat prices globally (despite everything Ukraine have now exported 38MT in the 2023/24 year to date).

The extreme wet weather in the UK (where rainfall between October 2022 and March 2024 was the highest since records began in 1836) and northwest Europe looks like it is changing but severe damage has been done to planted areas and crop are looking poor in many places.

Jet stream forecast to bring drier weather in May/ June



Elsewhere, although it is very early in the new crop year for the northern hemisphere, concerns are mounting over the dryness of weather conditions particularly in Ukraine/Russia and the US/Canada.

The CRM forecast for the 2024 UK wheat crop remains at around 11MT and well below average consumption of 14.5MT, leaving the UK as a net importer for the 2024/25 year. UK wheat prices have remained around £10/t above their recent lows at £172/t for May and c.£195/t for November with the £23/t carry reflecting the poor outlook for the 2024 crop.

The discount of barley to wheat has narrowed as the outlook for the UK barley crop has been lowered and is now trading around £17/t lower, but still representing an opportunity.

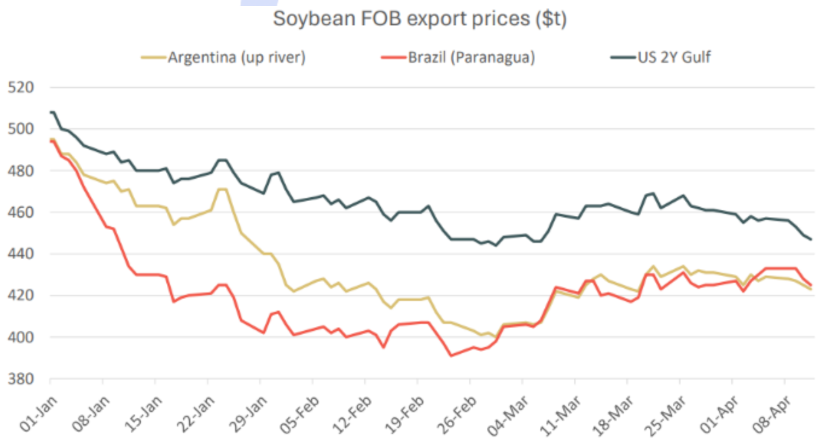
With all the upside risks from geopolitics and weather around at present and in the outlook, the advice remains to have 100% cover for Q2 to the end of June. The risk-averse may want to increase their cover for Q3 to at least 60%, for Q4 to at least 50% and for Q1 2025 to at least 40%.

Proteins – the detail

The March US Planting Intentions report increased the expected planted area of soya for 2024 to 33.8MHa, up around 1MHa on last year with producers encouraged by the soya:maize price ratio of around 2.5:1. Drilling is currently just 3% complete so it will be a while before we see what the actual area will be.

The USDA still has the Brazilian crop forecast at around 155MT in their latest WASDE report but local body, CONAB, has cuts its forecast to 146MT due to dry weather and ongoing low soil moisture levels. The USDA and local forecasters both have the Argentinian crop at 50MT, about double last years, so even though the Brazilian crop may be down on last year the Argentinian crop will compensate overall, with a record combined total of around 200MT. This is why US Managed Funds have been so bearish, but they have cut some of their short positions recently. Even so they are still close to a 4-year record short position so any sudden geopolitical or weather shock could see a rapid change.

Brazil has led soyabean prices down since the start of the year from around $500/t to lows of $395/t in February, with a lot being exported to China. Exports have now slowed and prices have increased to around $425/t.

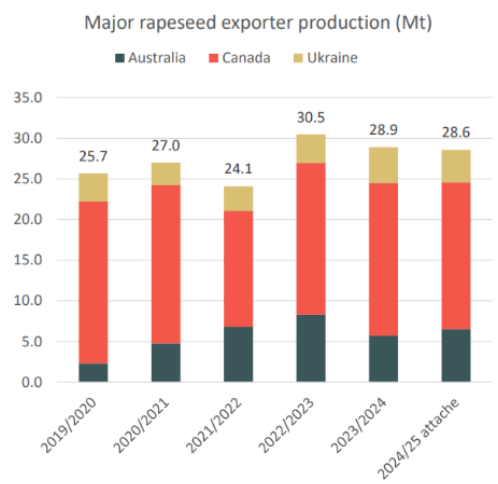


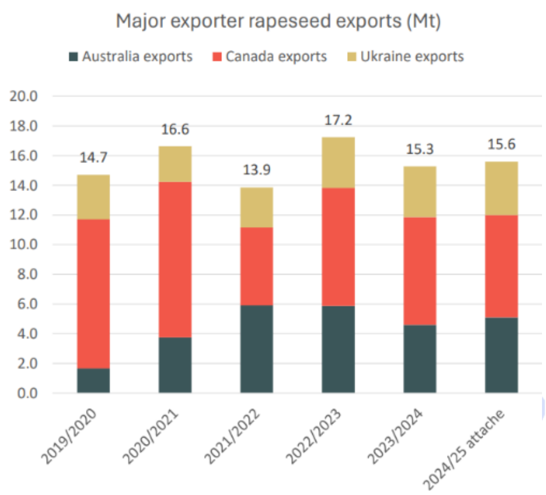
US Soyameal prices have followed a similar pattern, falling back but now higher and steady at around $340/t with improving crush margins.

The extreme wet weather in northwest Europe and the UK has taken its toll on oilseed rape crops in this area. CRM forecast EU production down to around 17.8MT compared with 2023 production of 20.1MT. The latest AHDB figures forecast UK production to be down to only 1.2MT from 1.7MT last year.

With continuing strong demand for rapeoil for biodiesel this means that demand for imports will remain significant. The latest forecast figures for the major exporters (Ukraine, Australia and Canada) show production and export figures for 2024/25 only slightly down on last year's amounts, but obviously with a long way to go. Global stocks:use ratio is tight at around 9%.

Canada remains very dry and the change to La Nina from the middle of the year will not help there, but it may be a better picture for Australia with more rain likely for the main growing areas.





UK soyameal prices have increased recently from the lows of £345/t for May – October in March to £355/t now. Nov – Dec prices are £5-8/t higher with no quotes available after 1st January due to the uncertainty over the deforestation rules.

Hopefully all clients have followed previous advice and are well covered for the short/medium term as rapemeal markets are very tight in the short term and POA, with seasonal plant shutdowns not helping.

Maize and wheat distillers are in short supply until mid/late summer but are competitive with rapemeal where they fit the diet. Maize and wheat gluten still represent good value for money, have fallen significantly from recent highs to around £185/t for the late summer period.

Soya hulls remain the bast value fibre product at c.£140-145/t through to December, when again they have the same issue as soya meal regarding the deforestation rules.