Technical Update – Feed Markets

Information correct as at 09:00am on 18.10.2024

- Wheat futures prices looking reasonable at present but big upside risks in the outlook
- Maize/soya crop harvests in the US going well. Good global stocks forecast for 2024/25
- Black Sea and South America plantings delayed due to drought
- Protein raw material prices have fallen recently so worth reviewing forward bookings

Summary

Despite the ongoing escalating conflicts in the Black Sea and Middle East Brent crude oil prices have stayed around $74/barrel.

The October USDA WASDE Report contained no major surprises with the outlook for maize/corn and soya comfortable but wheat forecast ending stocks in a very tight position.

The US maize/corn harvest is progressing very well and is nearly 50% complete but the French harvest is very slow due to continuing wet weather which is also causing concern over aflatoxins/mycotoxins.

The ongoing drought in Southern Russia and the Ukraine is delaying wheat plantings and with time running out before winter there are serious concerns over the 2025 crops.

UK wheat futures are c.£186/t for November rising to £205/t for July 2025. Ending stocks are forecast to be very tight and the outlook has many upside risks so it is recommended to ensure good cover through to harvest 2025. Barley at c.£25-30/t less is also worth a look.

The US soya harvest is c.70% complete and with a strong crush Chicago soyameal prices have fallen back to long term support levels, last seen in 2020. The only worry for soya is the very dry weather in South America.

It looks increasingly likely that the EU will delay the implementation of the Deforestation Regulations until the end of 2025, with a final decision by the EU Parliament likely in November.

UK Hipro soya prices have also fallen back to c.£330/t through the winter and c.£325/t for next summer.

Major exporter rapeseed ending stocks for 2024/25 are very tight at only 3.2MT with the stocks:world use ratio of under 4%.

UK rapemeal prices have eased back over the last few weeks, to c.£260/t for November and c.£270/t for May-July 2025. With reduced supply in the outlook period and tight stocks further cover well into 2025 should be taken.

Maize distillers are looking good value at around £220/t where they can be used. Soya hulls remain the fibre source of choice at c.£175 for the winter and c.£165-170/t for next summer.

General

Volatility continues in the markets, partly driven by changing sentiment as the on going conflict in the Middle East develops. Crude oil prices have eased back to c.$74/barrel this week with no new major developments in the Middle East and weak demand, especially from China. In the worst case scenario of the conflict spreading to other countries in the area and a closure of the Iranian controlled Strait of Hormuz crude oil prices could rise significantly. Russia has hit more vessels carrying Ukrainian grain in the Black Sea as well as the port infrastructure in Odessa with missiles. This has caused insurance costs to rise – now around $125k/voyage for a fully laden ship.

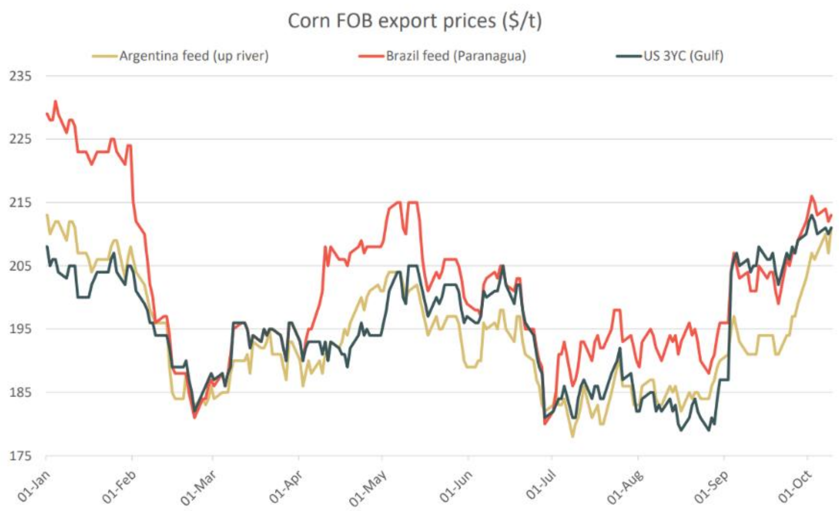
The US$ is seen as a safe haven in times of uncertainty so with the geopolitical scene as it is plus better economic data and hints the Bank of England may cut interest rates the £ has weakened against the US$ to 1.30-1.31. UK GDP rose in August by 0.2% and inflation in the year to September fell to 1.7%, the lowest in 3.5 yrs. There has also been a small fall in the unemployment rate and pay growth is slowing, all of which may help encourage a further interest rate cut when the Bank of England meets in November.

US Managed Funds have finally reversed their net short positions and are now net long for the first time since September 2023. The USDA World Agricultural Supply and Demand Estimate (WASDE) report for October had few surprises and the figures were little changed from September.

The probability of a strong La Nina weather pattern is reducing but could still happen by the end of November. South America has been very dry recently as expected with La Nina but rains are forecast for the next few weeks.

Cereals – the detail

The October USDA WASDE report left major maize/corn exporters forecast ending stocks for 2024/25 little changed at a comfortable level. US corn prices have recovered from seasonal lows recently but have eased back in recent days.

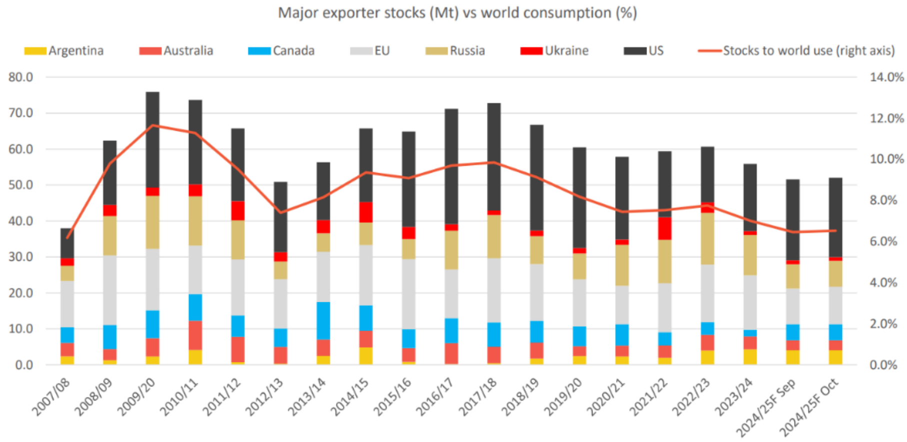


The US harvest is progressing well with generally very good weather and is now around 47% complete. The very dry weather in Brazil and Argentina has been holding back plantings for corn and soya but significant rains are now forecast for the next few weeks.

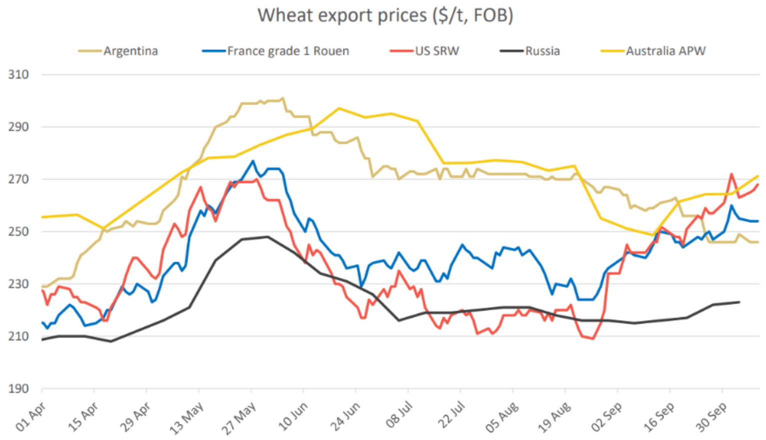
Argentina is forecast to grow less corn this year due to the corn stunt disease which severely affected the 2023/24 crop.

The French maize harvest has got off to the slowest start in 11 years due to the continuing wet weather – at around 6% complete compared with 50% at the same stage last year. There are increasing concerns over the final yields and also the quality, with a high risk of aflatoxins being present in the grain. The UK imports a lot of French maize grain so this is a concern for UK farmers.

The only slight surprise in the October WASDE Report was a small rise in major wheat exporters forecast ending stocks by c.0.5MT, which was c.1.5MT above trade expectations. This was despite a further reduction in the forecast for the EU, Russia and US wheat crops and was explained by the Ukraine crop forecast being raised and forecast demand being reduced. This still puts the ending stocks at the tightest level since 2012/13 and almost as low as 2007/8.



Wheat prices generally have increased in the last month for most of the major exporters – see below. Russian and Ukrainian prices have remained at the bottom of the range but there are rumours the Russian Government is looking at ways of limiting exports and increasing prices to £250/t by December. The pace of Ukrainian exports is such that if it continues their exportable surplus will be gone by January.



Forecasts for the current Australian wheat crop are falling due to dry weather, with some locally reducing their forecast to below 30MT.

The outlook for the 2024/25 year is causing some concern with delayed plantings due to the continuing drought in Ukraine and southern Russia (which is where most of the winter wheat is grown). Soil moisture levels are extremely low and although some rain is now forecast in the next few weeks time is running out before the winter weather comes in and planting ceases. This is in sharp contrast to France where soil moisture levels are at record highs and autumn plantings are again very slow, causing further concerns for the 2025 harvest.

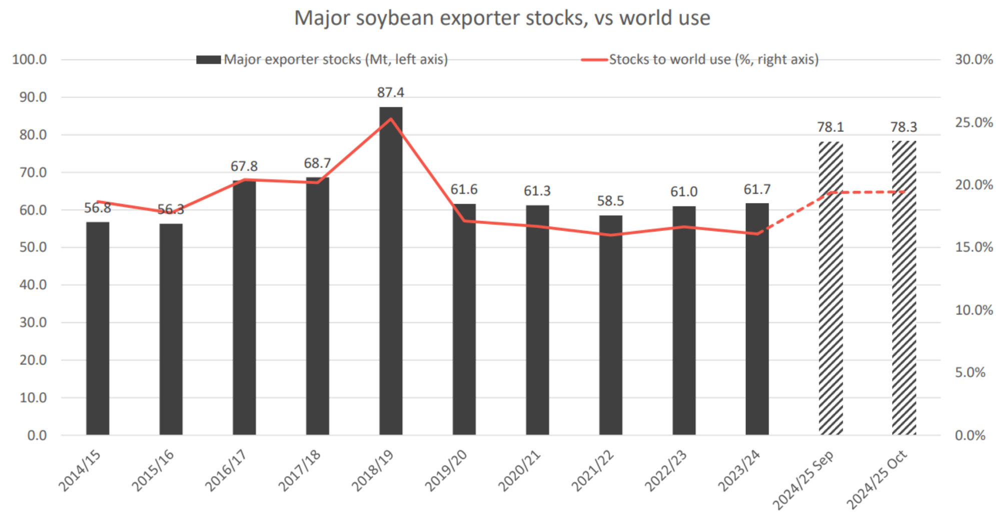
First official estimates for the 2024 UK wheat crop put it at 11.1MT, c.3MT below 2023 and 21% below the 5 year average, but better than it was once feared to be. UK November wheat futures prices have now fallen back to c.£185/t. May 2025 future price is £200/t and July 2025 is £205/t.

So with all the upside risks around in the outlook period there is a strong case to increase forward cover for wheat to 100% well into 2025 and probably right through until harvest.

The first official estimates for the UK barley crop put it at 7.2MT compared with the 2023 crop of 6.9MT but still below the 5 year average. Barley prices are still c.£25-30/t below wheat prices and still represent an opportunity. Imported maize grain is also worth a look at just over £200/t (+£10 for grinding) from November through to October 2025.

Proteins

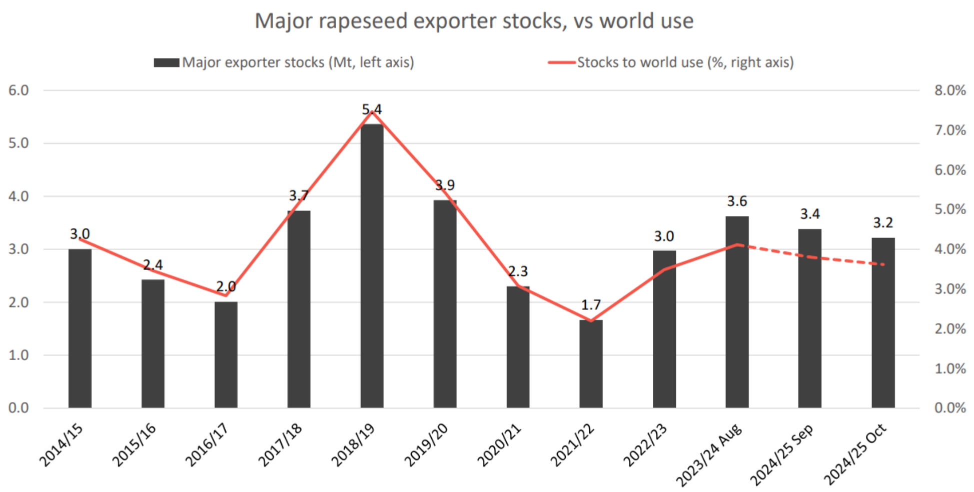
The October USDA WASDE report left global ending stock estimates for soyabeans for 2024/25 unchanged from September at 135MT. The latest estimate for the major exporters ending stocks for 2024/25 was also unchanged at just over 78MT, with a stocks to use ratio a comfortable c.23%, a 6 year high.



The US harvest is now 67% complete but there are delays to plantings in Brazil due to their ongoing drought with Matto Grosso only c.9% planted vs 24% 5 yr average but there is now some rain due in the forecast. Argentina is also likely to get some rain in the next few weeks to break their ongoing dry spell. More acres are likely to be sown to soya as farmers pull back on maize/corn planting due to the crop stunt disease problems.

The US soya oil crush margin has risen to record highs. There has been a strong crush level which has helped soya meal prices to fall back towards long term support levels in Chicago, last seen in July 2020.

The October WASDE Report slightly reduced the major rapeseed exporters ending stocks estimate to 3.2MT for 2024/25, with a stocks to use ratio of under 4%.



The WASDE Report reduced the EU 2024 rapeseed crop estimate further to 17.5MT so around 7MT of imports will be needed to meet expected demand. The Ukrainian production estimate was also reduced to 3.6MT with c.3.2MT for export. Ukrainian exports have been rapid with 60% of the exportable surplus exported in the first 25% of the season so imported supplies to the EU are likely to get tight into 2025, with Australia the main source.

The continuing wet weather in western Europe and dry weather in the Ukraine is hindering autumn rapeseed sowings again, as it did in 2023, and is already causing concerns over the 2025 crop.

The EU Commission has proposed a 12 month delay to the implementation of the EU Deforestation Regulations. This needs to be approved by the EU Parliament in November and would mean that soyameal and soya hulls from any origin would be able to be fed during 2025.