Technical Update – Feed Markets

Information correct as at 09:00am on 10.01.2025

- All eyes are on the US and what policies President Elect Trump will implement.
- Pound weakens against $US making imports more expensive.
- Wheat supplies will tighten as Russian exports quotas are imposed in February.
- Dry weather is affecting parts of South America, but La Nina forecast to weaken by spring.

Summary:

The December USDA WASDE report tightened the forward estimate for maize ending stocks and prices have risen since early December.

Russia increased its export tax on grains in December from $10 to 41/t and has announced an export limit of 11MT from Mid-February until harvest. The main Russian winter wheat area remains very dry and there are mounting concerns over the outlook for the 2025/26 year, with potentially much reduced exports.

With the much lower outlook for exports from the Black Sea over the next few months and the risk of La Nina in North and South America wheat prices are forecast to rise from current levels of around £190/t for May wheat.

The advice remains to take forward cover for wheat as necessary at current prices to harvest 2025 at least and consider barley which still trades at a discount of £25/t.

Record soya crops in North and South America should result in ample supplies in the year to come. The weak £ and concerns over current dry weather in Argentina has resulted in UK soya meal prices rising recently to £325/t for May – October.

Rape meal has stayed fairly steady at around £250/t through to next harvest when it falls to around £238/t

Maize distillers have increased in price recently to around £230/t for Feb-Apr before falling to £225/t for May-Oct and represent good value where they can be used.

Soya hulls have eased slightly to £153/t for May-Oct and remain the fibre source of choice.

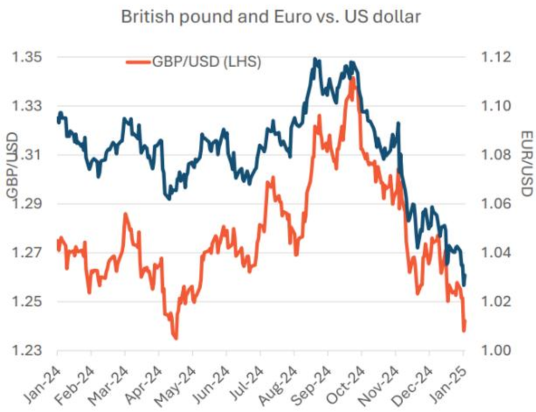
Hopefully most have taken previous advice and covered well forward at or around recent price lows but if not, many commodities still look good value at current levels.

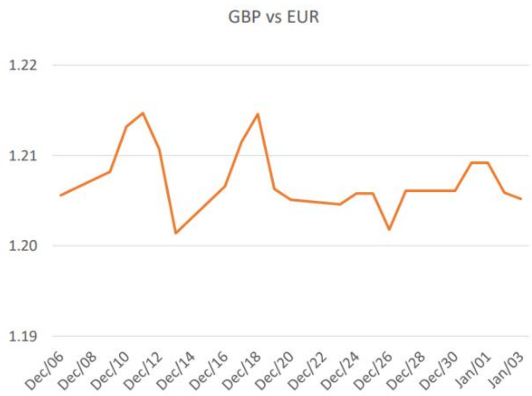
General:

With President Elect Trump only a few days away from taking control of the US we are still uncertain exactly what his policies will be and what effect they will have on economies and geopolitics around the world. The US $ has gained strength against a basket of currencies as a safe haven in uncertain times and also in anticipation of the "Trump effect" on the US economy, but who knows what he will do once in power. The markets now feel that the US Federal Reserve will keep interest rates higher for longer, which is likely to mean that the US$ will also stay stronger for longer.

The £ has slipped back to 1.23 against the US$ compared with recent highs of around 1.33, partly due to the stronger $ effect but also the high Government borrowing costs and gloomy outlook for the UK economy. It has, however, stayed stable against the Euro at around 1.19-1.20.

This has obvious consequences for the cost of imports.





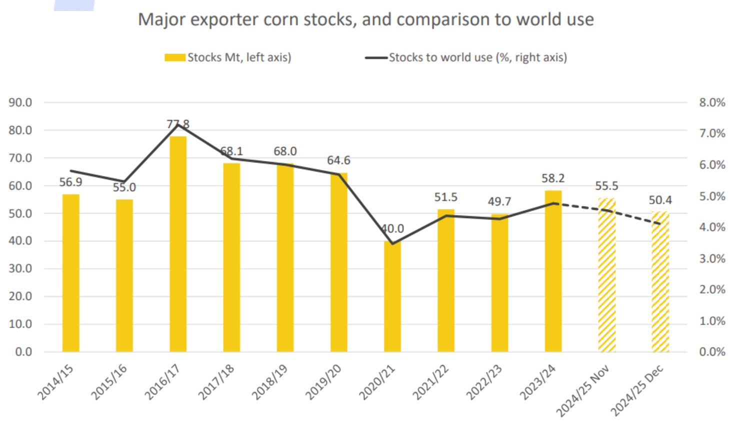
The UK Purchasing Managers Index, an economic indicator measuring the health of the manufacturing and construction sectors, fell back to 47 for December, indicating a contraction in these sectors.

Crude oil futures have rallied in the last month, with Brent crude back up to $76-78/barrel. Suggestions are that this has been caused by an improving outlook for the Chinese economy and possible US activity in the Middle East. Trump is likely to reverse the Biden ban on offshore oil drilling and increase the output of fossil fuels in the US. It remains to be seen what this does to the oil market.

Cereals- The Detail

The December USDA WASDE report surprised the markets by increasing the estimated use of corn for ethanol production and for US exports, leaving significantly lower ending stocks. US prices have increased since the report was published and Brazilian prices have remained high as their exports decline seasonally and domestic ethanol production increases.

The latest estimate for the major corn exporters indicates lower ending stocks of 50.4MT and stocks:world use ratio of 4%

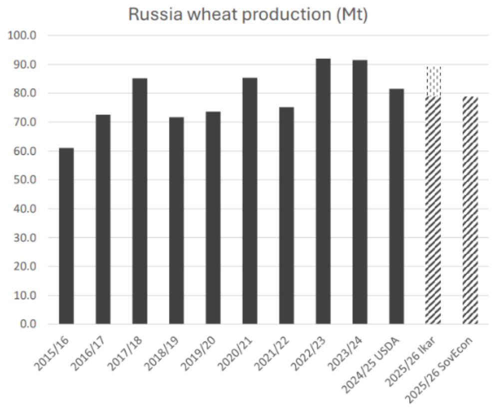


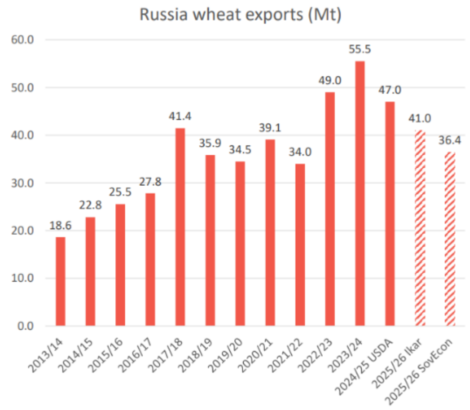
Argentina and southern Brazil are forecast to have hot and dry conditions for the next few weeks which could damage newly sown crops. The La Nina forecast remains fairly strong for the next 2 months.

Russia increased its wheat export tax from $10/t to $41/t in December in an attempt to reduce the pace of exports and protect their domestic situation. They have also announced an export quota of 11MT for the remainder of the season from mid-February. This compares with exports of around 28MT for the same period in 2023/24 and suggests very tight supplies to come.

The outlook for the 2025 crop is also poor with very dry weather persisting producing soil moisture levels below average and not far from the 10-year minimum figures. Ukraine is in a similar position, particularly in the East.

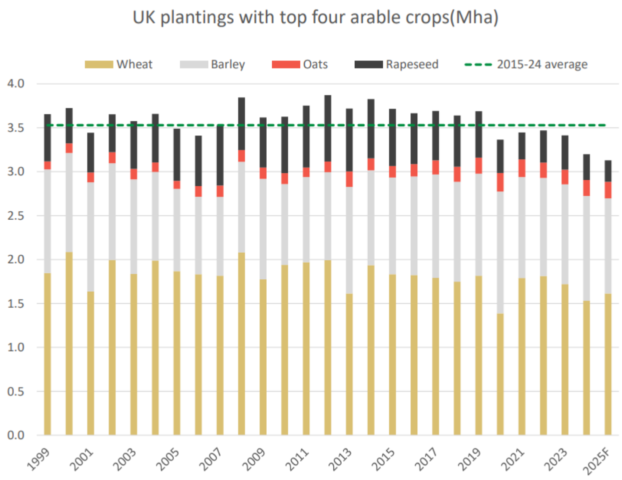
The latest forecasts for Russian production and exports for the 2025/26 period are shown below, with significantly less exports forecast compared with recent years





The latest EU forecast for the 2025 wheat harvest shows a recovery from last year with production of 126MT vs the 10-year average of 125MT. The IGC forecast for 2025 for the top northern hemisphere producers also shows production around the 10-year average

Initial estimates of UK plantings for wheat and other arable crops for the 2025 harvest show a general downward trend with “uncropped arable land” increasing to 923Kha. This is thought to be due to a combination of a lack of confidence, weather and the adoption of environmental schemes.



Looking at ex-farm wheat price trends since 2000, the 2024/25 year seems to have returned to the general trend of lowest prices around harvest rising through the winter and peaking in spring/summer.

The latest UK forward May 2025 prices for wheat are still at around £188/t, with barley at a £25/t discount.

The upside risks from a slowing of Ukraine supplies plus Russian export restrictions and weather events in the Black Sea area are significant and CRM have increased their forecasts for Q1 2025 to £200/t and Q2 to £210/t.

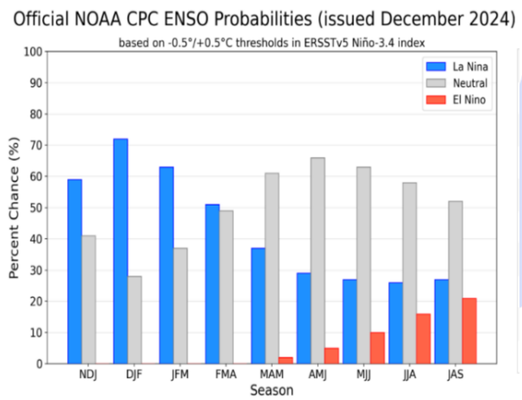
While we await the start of the Trump Presidency and what he will actually do with tariffs against China, Mexico and others, our advice remains to continue to take cover at current levels up to harvest 2025 as necessary. Also consider barley for some or all of the cereal elements of diets where feasible.

Proteins- The Detail

Following a record US soya harvest in late 2024, Brazil and Argentina are on track to produce record harvests in 2025 (Brazil around 170MT and Argentina around 52MT) so supplies are looking strong for this year, up 8% y-o-y to 425MT.

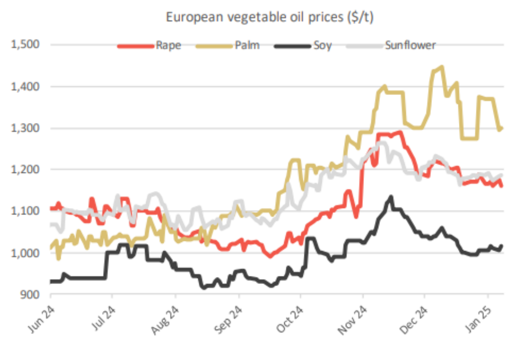
China is the biggest importer of soyabeans but if 65% tariffs are imposed, as threatened by Trump, overall demand could weaken even though China could turn to Brazil and Argentina for supplies. The global supply and demand situation means that soyabean prices have remained low, with Brazilian prices at around a 4 year low of $380/t.

The very dry weather in parts of North and South America are thought to be associated with the La Nina weather pattern, which is strong at present, but set to diminish over the next 2 months.



Argentina has seen good farmer selling recently and a strong crush, producing good amounts of soya meal for export, but current concerns over the very dry weather is driving soya meal prices higher at present.

Vegetable oil prices have eased back in the last 2 months. Palm oil still commands a premium at around $1,300/t, followed by rape oil and sunflower oil around $1,200/t and soya oil at $1,000/t.



Australian canola supplies are now coming onto the market. The EU crush has slowed slightly but more imports are required to meet demand. The latest estimate for EU rapeseed production for 2025 is 19MT compared with the 10-year average of 18.5MT but as indicated in the chart above the UK crop outlook is poor due to low acreage.

After falling during most of 2024 UK soya meal prices have jumped in the last few weeks. This is thought to be due to the weaker £ plus concerns over dry weather in Argentina and southern Brazil and Fund activity so is now £325/t May-Oct.

Hopefully most will have followed previous advice and booked well forward at or around recent lows. If not then even at £325/t it is still worth looking at and relatively good value against rape meal at current prices.