Technical Update – Feed Markets

Information correct as at 11.00am on 21.05.2020

- Threat of drought increasing across EU and Black Sea as we enter the critical growth phase
- Forward rapemeal good value
- Barley becoming even better value than before relative to wheat

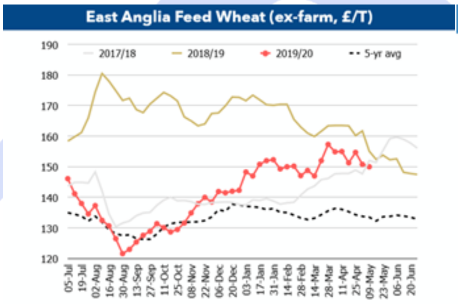
Energy

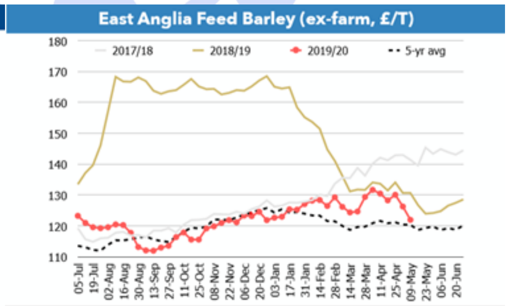
The latest comprehensive USDA report gives an overall bearish outlook for cereal prices. Record wheat and maize production is forecast for 2020/21 harvest with high year ending stocks (US maize ending stocks at a 33 year high with the lack of demand for ethanol), BUT China has a large proportion of world stocks, so excluding these the global stock: use ratio is much tighter.

There is the promise of good yields from Australia and South America and more barley is coming onto world markets from Australia after China imposed an 80% tariff (thought to be in retaliation for Australia demanding a full independent inquiry into COVID 19 pandemic)

The USDA forecasts on reduced demand following the Coronavirus downturn are thought to be conservative, so the likelihood is that the outlook will be for even more downward pressure on cereal prices.

The main factor which could temper any price downturn is the current very dry weather outlook at least into the first week in June at this critical time for crops in Northern/Western Europe and Black Sea. The latest ex farm spot feed wheat prices are around £150/t and feed barley is around £120/t.





The barley price at harvest 2020 is now c.£37/t below wheat and still c.£35/t below for November compared to the 10-year average spread of £15/t. Whereas there is little increase in barley prices into the new cropping year, wheat prices are around £11/t higher and some farmers will carry over this year's wheat into next year where they can.

The view is that assuming you have enough short-term forward cover to sit tight and wait for further opportunities in the months leading up to harvest.

Proteins

Crude oil prices are showing some recovery but are still relatively low with Brent Crude at around $35/barrel.

The USDA report indicated further increases in world soya production and reduced demand going forward. The CRM view is that USDA are again being too optimistic on demand recovery and further reductions will be made going forward.

The UK current demand for protein meals and distillers' grains has eased due to milk price pressure, so spot and short-term availability have increased and prices have eased.

The current very dry weather in Europe and the Black Sea is making the prospect of even lower yields of Oilseed Rape than previously forecast more likely and the global supply is forecast to be lower this year. However, demand for biodiesel is going to be much lower. Forward prices, particularly for new crop rapemeal, are looking very attractive at around £190/t ex Erith and £210/t other ports so the view is to keep buying rapemeal forward if more is still needed.

Below is the relative feed value for key straights both for spot and November forward prices.

These are based on a comparison with ex farm rolled wheat and non-Erith rapemeal:

	Spot £/t	**RFV**	**November £/t**	**RFV**
Rolled Wheat	162		172	
Rapeseed Meal	223		211	
Rolled Barley	**133**	**157**	**135**	**167**
Ground maize	**185**	**155**	**172**	**168**
Soya Hulls	**155**	**147**	**159**	**156**
Sugar Beet Pulp	**183**	**146**	**167**	**156**
Maize Gluten	**200**	**181**	**192**	**184**
Hipro Soya	**305**	**287**	**303**	**262**
Maize Distillers	**215**	**216**	**191**	**215**
Wheat Distillers	**233**	**227**	**221**	**218**

As can be seen, Rolled Barley is exceptionally good value both now and forward for winter and ground maize looks more attractive for winter.

Hipro soya is still expensive but maize distillers look good value going forward.

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