Technical Update – Feed Markets

Information correct as at 09:00am on 16.12.2022

- Global economic factors have increased strength of GBP v US$
- US WASDE report showed tight stocks of cereal being offset by lower demand
- Good weather in Brazil will mean big crops here, but Argentina still very dry
- Black Sea export corridor allowing significant movement of commodities, but position fragile
- Opportunity to take some further cover for winter and also next spring/summer

General Situation

US inflation in the year to November grew by 7.1% compared with 7.7% in October suggesting that the US and with UK data showing a similar trend, possibly global inflation may have peaked.

This means the US Federal Reserve could ease off the strong interest rate rises they have introduced as we go into 2023, although there may be some more but smaller increases in the pipeline.

In turn this means that the US$ will weaken and the £ and the Euro will be stronger. which will help with the cost of imported goods. Prices for US$ traded commodities such as oil, wheat and corn have pushed higher on the news but the benefit from the exchange rate means that UK wheat has hardly changed.

The Bank of England announced a further 0.5% increase in UK rates on Thursday and indicated that there were further increases to come. The £ had continued its rally against the US$ and despite a dip when interest rate changes were announced yesterday, is now around 1.22.

Brent crude oil had fallen back from highs during the summer of over $100/barrel to the mid $70's but since the US inflation data came out it has increased to around $82/barrel. The fall in oil price is despite the OPEC+ groups recent decision to reduce output by 2 Million barrels/day as some countries are not able to meet their targets, but they could still try to manage prices upwards with further production cuts.

The latest USDA World Agricultural Supply & Demand Estimate (WASDE) report, published on 9th December, made relatively few major changes but confirmed tight stocks and weak demand for cereals.

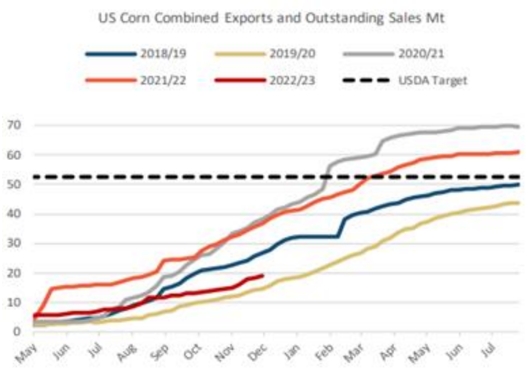
Exports from Ukraine continue and now total around 14MT since the shipping corridor opened with optimism that this will continue to grow. However, recent Russian strikes on electrical infrastructure around the Black Sea port of Odessa means that there remains a threat that exports could be disrupted which could cause a sudden rise in prices.

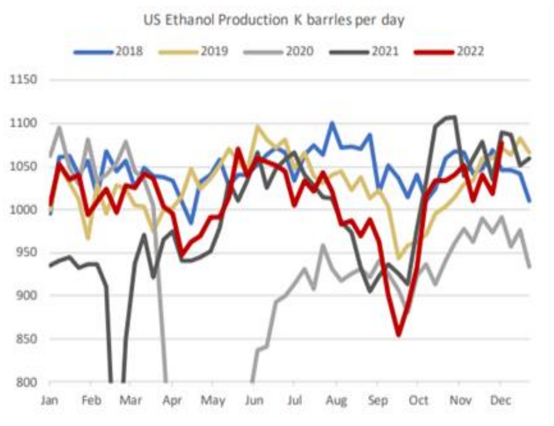
Cereals:

With the northern hemisphere harvest done the latest WASDE report produced only minor adjustments to the supply side with some further weakening in demand.

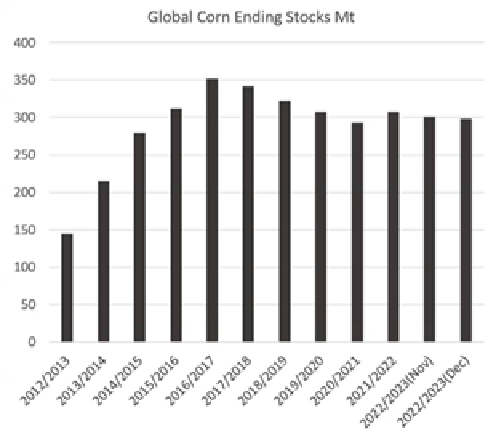
US maize exports remain poor, amounting to around 19MT (as shown by the red line below left) and unlikely to reach either the original USDA forecast of around 54.6MT or the latest revised December forecast of 52.7MT. China would normally be a strong importer but it has confirmed a record domestic crop of around 277MT so they have little need to import and also can source from Brazil for the first time this year.

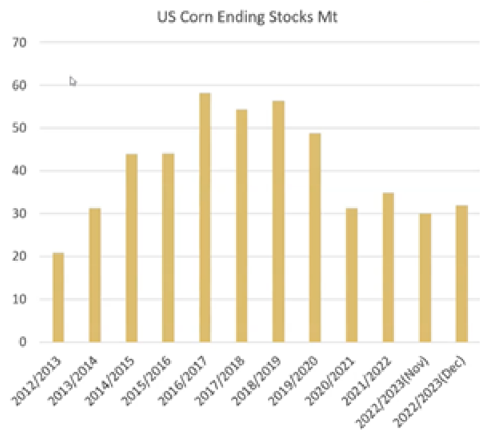
US demand for ethanol is now strong and close to record levels, as shown by the red line below right.





The reduction in the forecast for US exports has resulted in a slightly higher ending stocks position but it remains quite tight at 32MT. With that in mind it is expected that maize prices will remain fairly strong. US Managed Money is still net long (bullish) on maize but has pulled back over recent weeks.

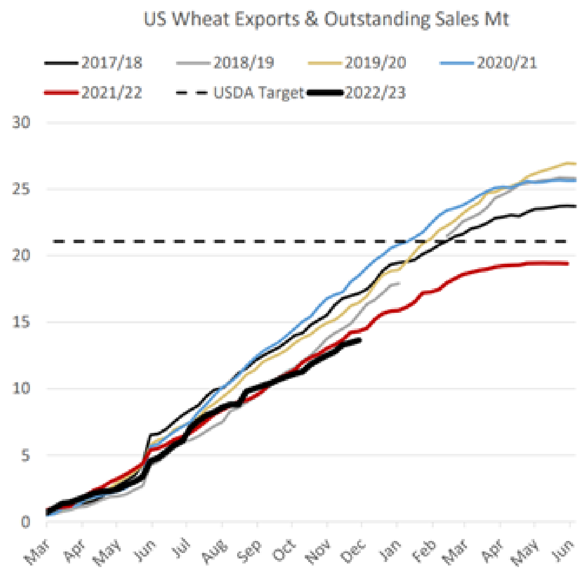


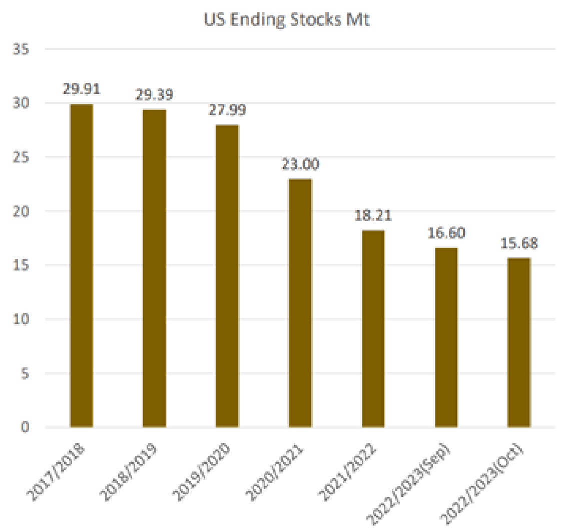


In the Ukraine only 66% of their maize crop has been harvested compared with being normally finished by now due to the war and the latest WASDE report reduced the forecast crop to 27MT from 31.5MT previously.

The focus is now on South America for their forthcoming cereal crops. Brazil has had very good rainfall and the NDVI scores from satellite imagery for their first maize crop are looking very good with a forecast of around 28MT. Argentina on the other hand remains in the grip of one of the worst droughts ever with record low NDVI scores. Only 33% of the expected maize area has been planted compared with 47% on average and the outlook is for a poor crop.

US Managed Money for wheat is at the shortest position since May 2019. The concern here is that if there is an upturn in prices the funds could quickly sell out and amplify the upswing. US wheat export sales are poor with weakening demand and are unlikely to reach the USDA forecast of 21MT. Ending stocks could improve if the wheat is not exported but would still be tight.





US wheat is at its lowest price for a year and with just a $20/t premium over maize is regarded as being cheap.

The December WASDE report reduced the Argentinian wheat crop by around 3MT to only 12.5MT and the Canadian crop by around 1MT but increased the Australian crop by 2MT (despite the heavy rainfall and flooding) so little changed overall. The record estimated 100MT Russian crop is being exported strongly now, with Iran, Turkey and Egypt being the major buyers. There are rumours that Russia might reduce their planted area next year to limit production to around 80-85MT.

The 2023 EU wheat crop has been off to a good start, with generally excellent weather conditions, but EU 2022 ending stocks are forecast to be around 9.5MT, the lowest for many years. UK May 2023 wheat has fallen back from £280-290/t during October/November to around £242/t. With the northern hemisphere harvest all done and the south American maize harvest a way off plus generally low stocks generally it seems unlikely that wheat prices will fall much more.

The upside risk is that an unexpected shock from disruption to the Black Sea export routes or bad weather in Brazil plus amplification from the US Managed Funds selling out of their short positions could see a sharp rise in prices.

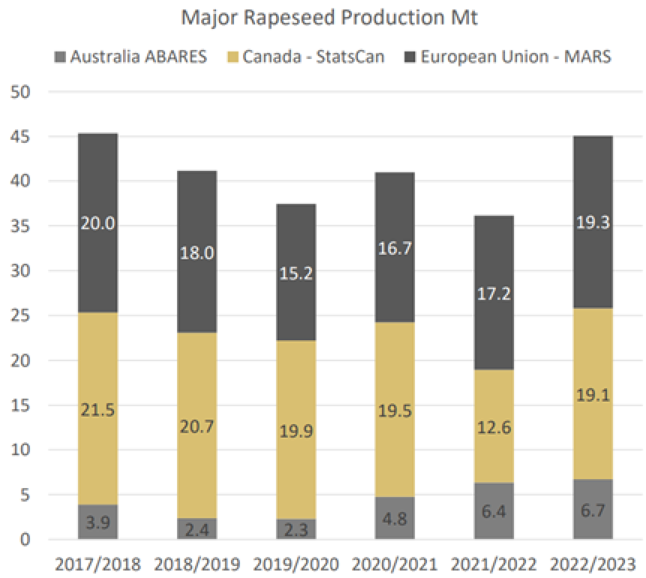
It makes sense to ensure there is at least 25-30% cover for spring/summer 2023 at current prices.

Proteins:

The WASDE report contained no major changes for soya but confirmed tight US ending stocks of only around 6MT and global stocks of around 102MT. Soyabean prices have been supported by strong US exports, especially to China. As China lifts Covid restrictions their economy should start growing more rapidly into 2023 which should stimulate further demand for all commodities. The position of US Managed Money for soya remains very long (bullish)

The Brazilian soya crop is now planted and the generally good rain and NDVI scores mean that the forecast record crop of around 153MT still looks feasible at this stage, although there is still a long way to go before harvest. As with maize the Argentinian outlook for soya is very poor with some of the worst NDVI scores recorded and a continuing drought. Only around 40% of the soya crop is planted compared with a 5-year average of 65%

With La Nina now set to continue for several more months further crop downgrades are to be expected. Whilst soya bean prices have held up over the last few months rapeseed prices have fallen. Paris prices having fallen from 670 Euros/t in early November to 560 Euros/t now. The latest forecast for global rapeseed production confirms a relatively good outlook for the major producers.



Latest forecasts from Australia are for an even larger crop than forecast by the USDA of around 7.3MT, but any weakening in La Nina would mean that the favourable weather of the last 2 seasons is likely to come to an end next year. Since August Ukraine has exported 2.7MT rapeseed, with 2.1MT coming to the EU. The outlook for future crops into 2023/4 is not so good assuming that the war with Russia continues.

Vegetable oil prices have been falling recently, largely tracking the falling crude oil prices, however, forward Chicago soyameal prices have risen recently from around $400/t to $460/t now

UK soyameal prices have stayed fairly stable for the last 2 months at around £490/t for January-April and £460/t for May – October. UK rapemeal prices have fallen back with Liverpool rapemeal now around £301/t for May-July and £290/t for August-October.

With the increase in US ethanol production maize distillers availability has improved with prices falling back to around £330/t for May-October.

Maize gluten into Southern Ports has fallen around £60/t in the last 2 months to around £309/t for May-October

Finally, Soya hulls remain around £285/t for May – October and continue to represent much better value than sugar beet pulp as a fibre source

Again, it makes sense to continue to cover forward requirements for proteins into spring/summer 2023 and also to look at covering 25% of concentrate requirements for the same period