Technical Update – Feed Markets

Information correct as at 09:00am on 03.05.2024

- We now appear to be past the bottom of the market.
- All commodities have risen over the last few weeks.
- Views of the global weather are driving market sentiment.
- This is exacerbated by volatile macroeconomic conditions.

Summary

The feed markets are in a typical “weather market” where they are very volatile and do not seem to know which way to go, and this is exacerbated by a number of other factors at the moment.

Global wheat stocks are at their tightest for nine years as old crop stocks dwindle and although the fund managers have reduced their short holding positions, they are still bearish given the outlook. Potential shortages will be increased by the shrinking wheat area going into harvest 2024 with the US maize area lower and Northern Europe affected by the wet winter. It is expected that the UK harvest will be down 14-15%, although markets have largely priced this in for the winter. There are mixed views on the size of the South American maize and soya crop and whether they will reach market expectations.

We have the ongoing conflicts in Ukraine and the Middle East having an impact. The Suez Canal sees 14% of the global trade of grains and oilseeds moving through it annually as well as the more obvious impacts on the oil price. Historically increased crude oil prices have tended to push up the price of cereals and oilseeds as so much is now used for bioethanol and other plant-based biofuels.

The Global Purchasing and Manufacturing Index (PMI) measures confidence in the manufacturing and service sectors. This has hit a 20-month high, suggesting the current demand for products and feed is going to continue to increase. This will make the US $ stronger. There is an inflationary risk in the US which could result in the US Federal Reserve keeping interest rates where they are which will also keep the US $ stronger and maintain soya, maize, and wheat prices from the USA.

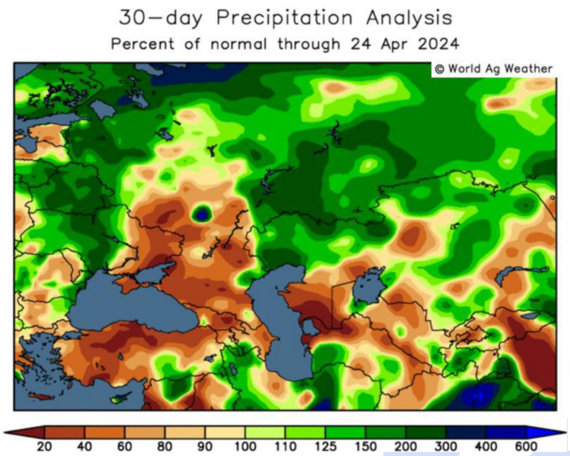
Not to be outdone the weather is causing mischief across the globe with the arrival of La Nina looking more likely, dryness in the Corn Belt and the Russian Caucasus whilst much of Europe remains wet. It will only take a further weather shock in one of these areas to potentially set the markets running upwards.

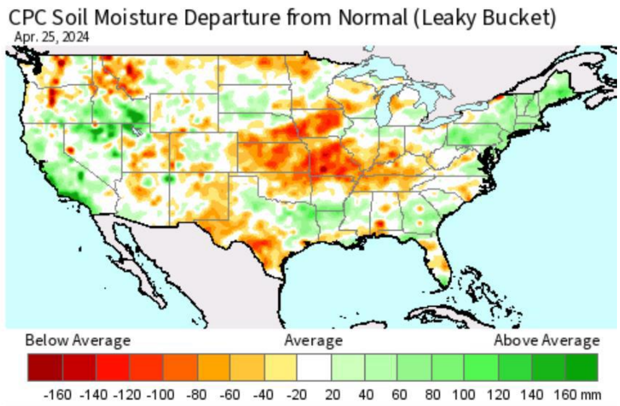
It is the kind of market prices could take off quickly, therefore consider the level of cover you have and if short then take further cover, particularly for wheat and rapeseed meal as world crops for these are smaller than previous years and stock to use ratios are particularly tight.

The European Weather forecasters (ECMWF) predict that dry weather will return in the second week of May and that the jet stream which has brought the wet weather is poised to move north. The dry spell is expected to last through the rest of the month before early June brings a wetter spell. June overall is expected to be drier than usual before July and August bring rain levels close to average, but we will have to see about that!

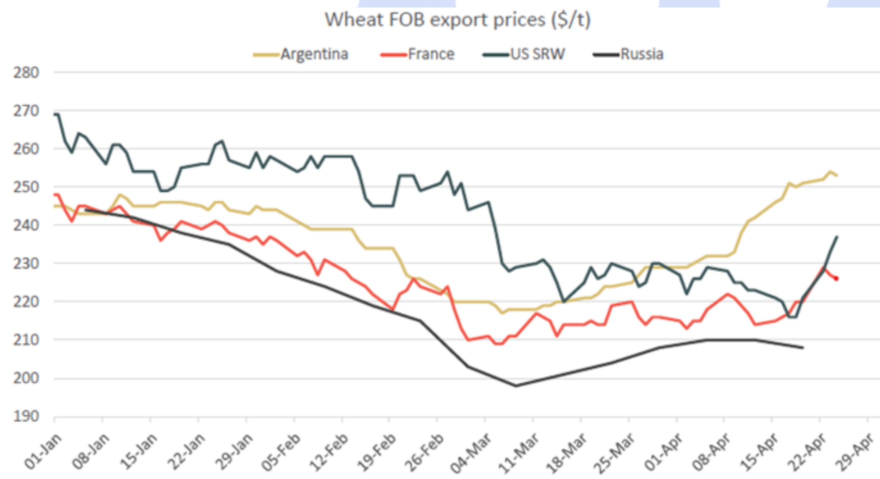
Cereals- the detail

Conditions are extremely dry in the wheat growing regions of southern Russia and in the east of Ukraine. US central plains of the mid-west are very dry, and ground moisture levels in Western Australia are very low.



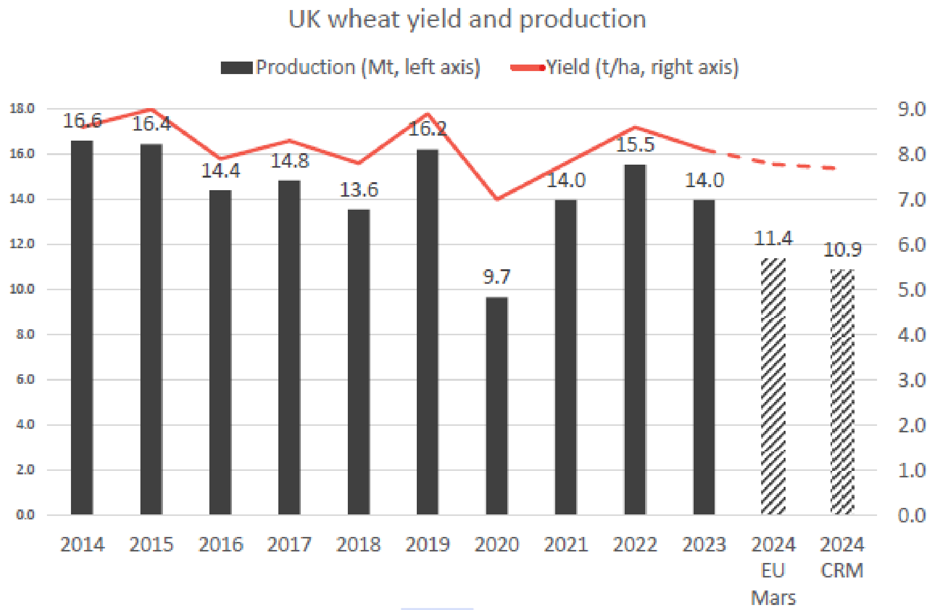


Wheat stocks and exports from the World's main wheat exporting nations are set to fall in 2024, just as demand is starting to pick up from Africa, India and China. Stock to use ratios are tightening, so wheat prices are increasing in Russia, Europe, and S America.



In the UK and Europe, wheat fields are looking more yellow than normal, and spring plantings have been thwarted by the weather. We are already looking at a £24 increase in November compared to May wheat prices, which is an unusually big spread as the market factors in where things are going for wheat production and carryover stocks. Consequently, arable farmers have become reluctant sellers of last year's crop if they have storage to carryover.

CRM Agri has trimmed its UK wheat production forecast to 10.9 million tonnes (MT). This is well short of the five-year average of 13.9 MT, but it is well above the 2020 figure of 9.7 MT, however it does mean that the UK will have to import wheat next winter and this is reflected in delivered wheat prices.

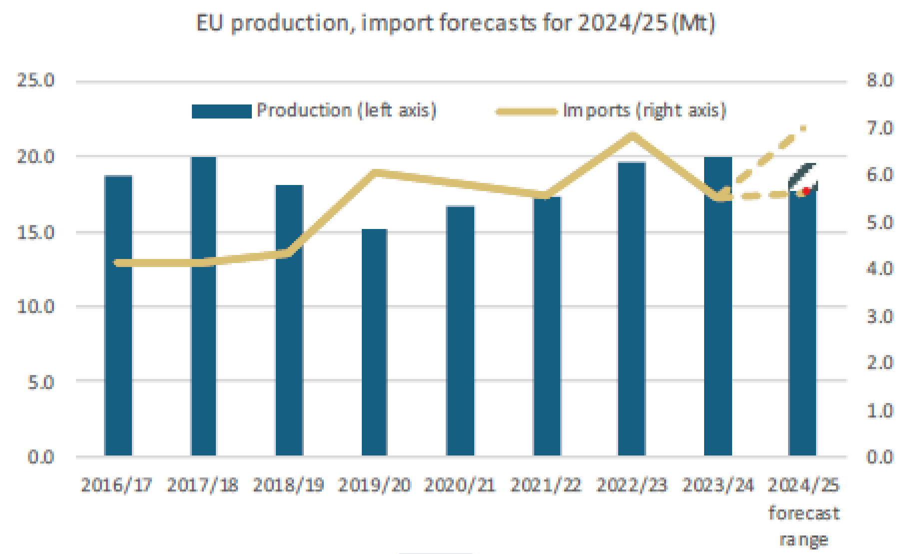


World stocks of maize are down a fraction but the markets are not as concerned about this. Consequently, prices are stable compared to those of wheat. Brazil is very wet in the north, but the central and southern regions are too dry. There are big questions about the size of the Brazilian maize crop, and the country is now pricing itself out of the export market, but US exports are going well. New crop sowings are likely to be down slightly in S. America, the US and Ukraine as prices are making oil seed crops more profitable to grow where soil conditions allow.

Proteins- the detail

The Brazilian soya harvest is coming to an end, but soya bean futures leapt by 2.2% yesterday, pushing rapeseed higher by 1.8%, amid concerns about heavy crop losses in the Brazil Grande do Sul region where they had big floods following 12-20 inches of rain in the last month. There is another 12 inches of rain predicted over the next 10 days, potentially putting 7MT of soya at risk. In addition, US soya exports last week were nearly double those of the week before, adding to the volatility in the market. The Argentinian harvest is underway, and the strong start to US soyabean plantings should reassure traders so soya bean meal prices should settle as the year progresses. That is provided there is no worsening in conditions in the US or Argentina, or a sudden upturn in demand for soya from China. There are suspicions of inaccuracies and under reporting of Chinese customs data for soya imports, which could turn to bite the market and push prices up.

Futures prices have been tracking sideways, but cold conditions in Europe during April have raised concerns about new crop pollination which might increase the significant fall already predicted for European production.



Canadian rape plantings are also down, and with the wheat rally, Canadian farmers are switching to planting more spring wheat. In addition, 99% of the Canadian rape (Canola) area is very dry, particularly in Alberta and Saskatchewan where 90% of the area is in drought.

In Australia they have enjoyed decent rain in New South Wales, but in South and Western Australia, conditions are very dry and only half of the canola acres have been planted.

All of this, with falling vegetable oil prices means that the crushings are slowing and crushers are increasing the price of the meal to sustain margins. Late season rape seed imports are also down 33% compared to last year due to the conditions in Canada and Australia. Consequently, rapemeal from Erith is now sold out until July, and shortages are starting. Some deliveries are now falling behind or short loads are being delivered even though they were already prebooked under contract.