Technical Update – Feed Markets

Information correct as at 09:00am on 04.10.2024

- Unfolding events in the Middle East are dominating market sentiment.
- Prices of most commodities have jumped this week
- Big maize and soya crops currently being harvested in the US.
- Dry weather in S America and the Black Sea are putting 2025 harvests in jeopardy.

Summary:

Strong exports of cheap wheat from Russia and Ukraine are holding global prices back but they cannot continue at the current levels indefinitely, so wheat prices are likely to rise through the end of 2024 and into 2025.

In other areas the EU wheat harvest forecast has been reduced again to the lowest since 2012. Australian output has also been downgraded, but the Canadian crop is looking good. There is no end in sight to the drought in the main wheat growing areas of Russia and Ukraine so the prospects for the 2025 harvest are worsening as time goes on and plantings are delayed.

Although UK wheat prices have jumped from around £180/t for November futures to £190/t in recent days the upside risks from war, geopolitics and weather are significant so it is still worth taking further forward cover if needed.

Despite an excellent US maize crop currently being harvested maize prices have jumped recently due to a combination of other events. With soya, despite an excellent US crop coming in now soyabean and soya meal prices have also jumped up in recent weeks. US Managed Funds have significantly reduced their net short positions for maize and soya.

The continuing very dry conditions in South America are causing increased concerns over the future of their soya and maize crops.

The EU rapeseed crop has been further downgraded as has Ukraine output, but the Canadian canola crop is looking good.

We will have to wait to see if the EU Commission proposal to delay the EUDR for 12 months is approved and then if the UK government will follow.

Hi pro soya meal prices have increased slightly in the last few weeks to around £350-360/t for November to April.

The fire at the Erith plant has caused major short term supply issues for rape meal supply. Although the plant is running again production is slow with prices in the medium term rising in line with soya meal.

Prices have edged up, following soya, so now around £275-280/t for November to April and £285-290/t for May to July 2025.

Soya hulls remain the best value for money fibre source at £175-180/t for November to April 2025. Sugar beet pulp remains expensive in comparison.

Maize distillers' prices have also firmed slightly to around £225-230/t for November to April and £238/t for May to October 2025 from Liverpool but still represent good value for money where they can be used.

General:

The world watches and waits to see how the conflict in the Middle East will unfold. Commodity markets are more nervous than ever so prices could increase significantly in the worst-case scenario. Heightened military activity over recent days and the threat of all-out war has increased prices and volatility in all commodity markets, with some stockpiling in fear of supply chain disruption.

Brent Crude oil prices had been falling back to levels under $70/barrel as demand continued to be weak and Saudi Arabia had given up on its quest to increase prices to $100/barrel by restricting production from OPEC+. The situation in the Middle East has caused prices to jump back up to over $78/barrel. Where it goes from here depends on how the conflict unfolds but volatility is likely to continue.

The S&P Global Purchasing Managers Index (PMI) continued to fall in September to 48.8 from 49.6 in August (50 representing neutral). The UK fared better than many, with a PMI score of 51.5, but there are indications of a slump in confidence going forward with gloomy messaging about the economy from the new Chancellor and worries over the budget.

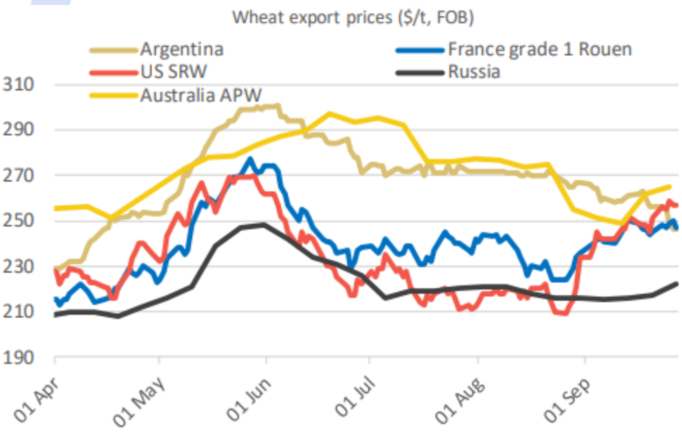
The US$ has strengthened on the back of the Middle East conflict and better economic news, causing the £ to drop back to 1.31. It remains around 1.19-1.20 against the Euro.

A strike by 45,000 dockworkers in the US affecting 36 ports across the east of the country and the gulf is causing significant trade and economic disruption with agricultural commodity exports affected.

The EU Commission has proposed delaying the EU Deforestation Regulations by 12 months but this needs to be agreed by the EU Parliament and member states first and then the UK needs to decide, but it is likely to follow suit.

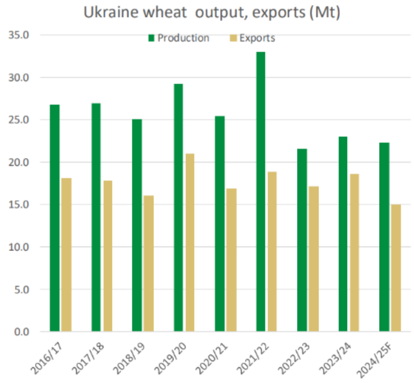
Cereals-the detail

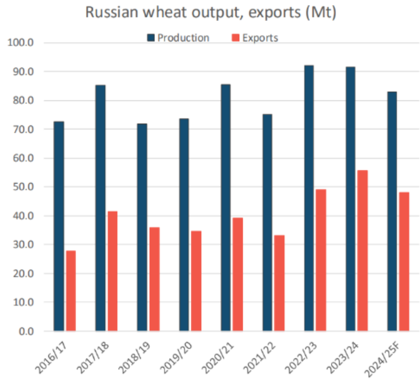
The strong pace of exports from Russia and Ukraine continues to hold wheat values back as their prices are well below the prices of other countries.



Ukraine exported around 6MT of wheat in the first 3 months of the 2024/25 crop year, almost double that of 2023/24. Russia shipped around 14MT in the same period, similar to last year. However, the harvests and exportable surpluses are well down in both countries this year due to the severe drought in the main winter wheat growing areas and very wet weather in the Russian spring wheat growing area.

It looks like these exports are being "front – loaded" to generate income to fight the war and to avoid potential Russian export taxes later, so these high levels of exports and low prices cannot be maintained.



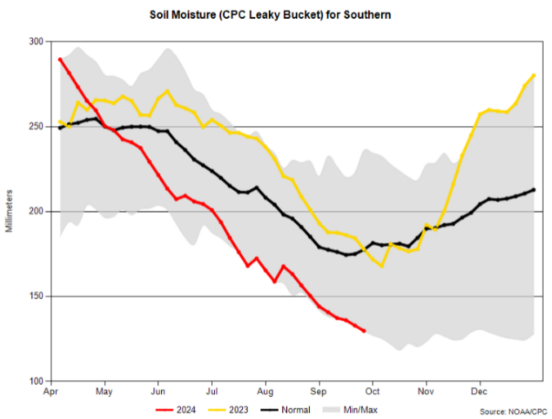


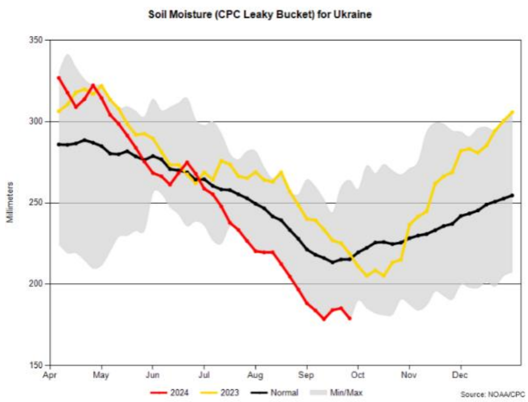
Forecasts for the EU wheat harvest have been downgraded by another 1.5MT to around 114MT vs 125MT last year with many quality issues in play. This will be the lowest output since 2012.

EU exports have been slow and well below the trajectory needed to reach the target of 30MT, but the UK has imported a lot of higher quality milling wheat from Germany recently.

The Canadian wheat crop is forecast to be around 4% up on last year at 34MT while the Australian wheat crop was forecast to be up around 9% on last year at 30MT but drought and frosts are likely to reduce this. These increases will not compensate for the lower Black Sea and EU crops and so with tight stocks prices will rise into 2025.

Soil moisture deficits across much of Southern Russia and Ukraine are at or near record levels – see below – and there is little prospect of significant rains in the forecast currently. Therefore, the outlook for the 2025 harvest in Russia and Ukraine is not good, with the severe drought continuing and delaying autumn sowings. Voronezh the 5th largest grain producing region has declared a state of emergency.





UK wheat futures prices for November have increased from around £180/t to £190/t in recent days due to the activities in the Middle East and could go either way from here depending on how things unfold.

May 2025 future prices have also increased to £205/t. With the upside risks around in the world from war/geopolitics/ weather it makes sense to continue to take a good proportion of forward cover through Q1 and Q2 2025.

Barley is still at a significant discount to wheat (£20-25/t) and so well worth a look to include in diets.

Despite the US maize crop still being rated 64% good/excellent and 21% harvested prices have jumped up significantly in recent weeks. This is due to a combination of factors, including lower than expected US stocks, hurricane damage, more downgrades to Ukrainian and Russian crops and strong demand in the US and Brazil for ethanol production.

In addition, the very dry weather in Brazil is causing concern over plantings there and Argentina are forecasting a reduced area to be sown for next year's crop due to bad experiences with "stunt disease" this year.

US Managed Funds have continued to reduce their net short positions on maize, indicating they are expecting higher prices.

With the EU maize crop harvest just starting forecasts have been reduced by a further 2.6MT to 60MT. There are also concerns over the levels of mycotoxins in French maize created by disease due to the wet summer with some maize being rejected.

Imported maize grain into the UK is around £200/t for November to April 2025.

Proteins:

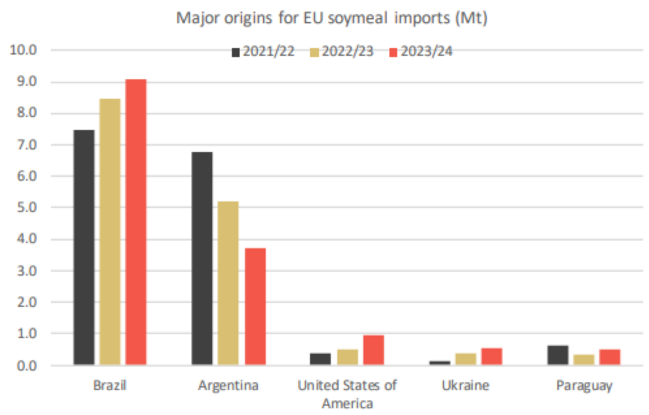
After 4-5 months of steady price decline through the summer soya bean prices have jumped recently in a similar way to maize. US Managed Funds have also recently reduced their net short positions for soya beans.

It is a similar story to the maize situation. The US crop is still rated 64% good/excellent and 26% harvested in very good weather conditions. Concern is mounting over the continuing drought in Brazil, where another very large 160MT crop is forecast for 2024/25. The planting window has just opened (with a slow start) but continues until early November. Although very dry at present, Argentina has rain is the forecast for the next 2 weeks.

Export bookings from the US for soyabeans for the 2024/25 year have continued to be low while exports from Brazil continue strongly with around 76% of their 70MT exported so far going to China in the last year.

Soya oil prices were sliding as crude oil prices fell, but now that crude oil prices are increasing vegetable oil prices will follow.

US CBOT soya meal prices have increased recently but that has not been noticed so much in the UK due to the strength of Sterling. Exports from Argentina, the main supplier, have been strong at the start of the 2024/25 year but the EU has imported a lot more Brazilian material this year.



The latest forecast for the EU rapeseed harvest is for production to fall to 17MT from 20MT last year, with some local forecasters saying it could be even lower. The Ukrainian rapeseed harvest has been badly affected by the ongoing drought and is forecast to be around 3.7MT, down around 1MT on last year. Even so exports have been strong so far. The Canadian canola crop remains on track to be around 19MT this year, but with carry-in stocks of around 3MT will result in 22MT being available.

Sunflower output has also been badly affected by the drought in Russia, Ukraine and Romania with rain now delaying the French harvest.

The effects of the Canadian governments "spat" with China over anti-dumping are still to be seen, but exports continued to be strong from Canada to China for August, the last month of data.