Technical Update – Feed Markets

Information correct as at 09:00am on 12.07.2024

- Crop prospects for much of the world look reasonable.
- Europe is the exception with yields forecast to be well down.
- The La Nina threat is diminishing and with it the negative impact of drought.
- Global wheat supplies are still going to be tight.

Summary:

The weather in various parts of the world, US Managed Fund activity and geopolitics continue to produce volatility in the markets.

Early Russian winter wheat harvest yields are better than expected and some crop forecasts are rising back up to around 84MT, but continuing drought across much of the Black Sea area is affecting spring sown wheat and maize. Russian wheat prices are low and helping to drive other wheat prices down. This is creating demand from North African and Middle Eastern countries who see prices as being reasonable with future prices likely to be higher.

The US winter wheat harvest is around 63% complete and looking good. Exports are also higher than usual for the time of year, despite the fairly strong US$.

The extremely wet weather which has dogged northern European winter sown crops continues with smaller crops of poorer quality inevitable. UK November wheat futures are volatile but currently around £196/t, having risen yesterday. The CRM forecast for wheat price in Q3 is £210/t.

The feeling is that with the upside risks around and harvest pressure for the next 6 - 8 weeks any dips in price below £200/t represent an opportunity to increase forward cover through to 2025 harvest. Barley is still trading at around £20/t lower than wheat and imported maize is available ex-port at £200-205/t, so these could be included as part of the mix if appropriate.

Maize crops at various stages in the US, Brazil and Argentina are looking good and world ending stocks are forecast to be a healthy 324MT for 2024/25. The outlook is also improving into next year for maize and soyabean crops as the probability of a strong La Nina weather pattern later in the year is diminishing.

Vegetable oil prices have surged in recent weeks, with rapeseed in particular benefiting due to its high oil content. Paris rapeseed prices have been over 500 Euros/t for the first time in a while. Rapeseed crops in the EU are predicted to be well down due to the weather being too wet in some areas and too dry in others.

The Canadian canola crop is looking good with benign weather and higher than expected plantings. The Australian crop should also benefit from a weaker La Nina.

At the end of last week UK soyameal prices continued to edge down to around £355/t for November and December. Soya derivatives are still not available after December apart from some US sourced material which is traceable to meet the new regulations, though we still await clarity on these and how they are going to be implemented.

Non-Erith rapemeal prices rise from around £260/t for August – October to £285-290/t for January to April as it is the main alternative to soyameal.

Maize distillers look good value at around £235/t for August (but ASA) and £245/t for November (also ASA). Flooding in the Mississippi is causing logistical problems at present. Wheat distillers are also available at £245/t ex Hull for November – April.

Soya hulls at around £155/t for November – December from southern ports remain the fibre source of choice.

General:

Tensions are rising in Russia and Ukraine following the massive Russian air strikes on Ukrainian cities and the power network. This adds to upside risk and volatility in the agricultural commodity markets.

Brent crude oil continues to trade at around $85/barrel with the £:$ around 1.28 and 1.18 against the Euro.

UK inflation hit 2% in May but there are concerns that it might go higher again. This plus the tight jobs market producing concerns over wage inflation means that interest rate cuts may be delayed.

The latest forecast for La Nina indicates it will come later in the year than originally predicted and will be weaker which will help southern hemisphere crops.

As yet there is little clear indication as to how the new Government in the UK will view agriculture.

Cereals-the detail:

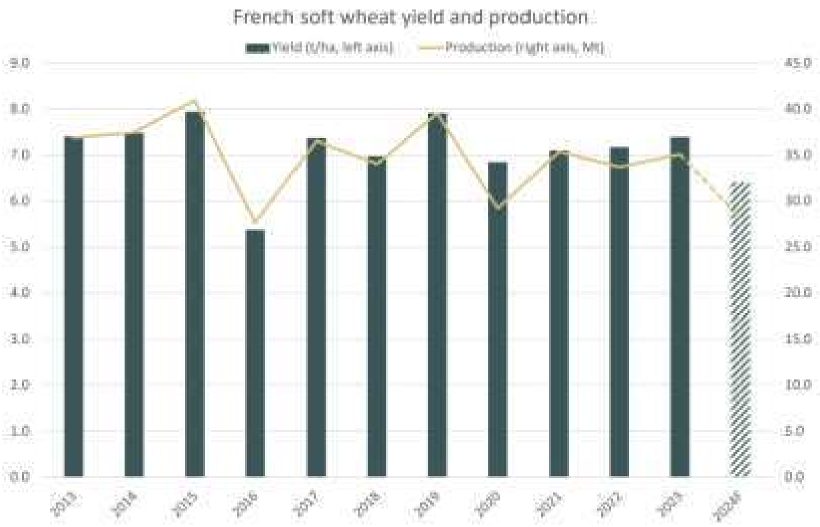
Early winter wheat harvest yields in Russia have been better than expected with one Russian agency increasing their forecast by 3MT to around 84MT. Well down on early forecasts of 90MT but better than recent ones of sub 80MT. However, the drought is continuing across large areas of the Black Sea countries and is likely to be having an adverse effect on spring sown wheat and maize crops.

The price of Russian wheat on the international markets is still very low at around $216/t FOB, which is weakening prices elsewhere. These low prices are causing an increase in demand from North African and Middle Eastern countries who see current prices as reasonable and fear price rises into the future.

The latest forecast is for Russia to export around 42MT in 2024/25 vs 54MT in 2023/24. There are also rumours that Turkey may remove their recently announced import ban earlier than October, which would add back to the demand side.

The US winter wheat harvest is around 63% complete. Exports are strong, with 7MT (around 32% of full season USDA target) already committed. This is despite a strong US$, which indicates the tightness of world wheat stocks. These are forecast to be at a 10 year low, which is adding to the upside risk for prices.

The extremely wet weather which has dogged the winter sown crops across much of northern Europe is continuing and is now affecting quality as well as quantity. The latest estimate for French wheat production is for a yield of 6.4T/Ha, which would produce an estimated crop of only 32MT based on the planted area, the lowest since 2016.



Argentinian and Australian crops are looking good and a weakening La Nina should help reduce the drought risk here.

US Managed Funds still hold strong short positions, which, once the harvest pressure effect eases could be unwound, which would put further upward pressure on prices.

The AHDB UK planting survey showed winter wheat area down 9% YOY, winter barley down 11%, winter OSR down 21% but spring barley up 18%. This gave the lowest planted area overall in 20 years. We await the yield reports from early harvested crops but yields and qualities in the UK and across much of Europe will be down.

November wheat futures are volatile but currently around £196/t, well down from the recent highs of around £220/t – see below. CRM forecast for wheat price in Q3 is £210/t.

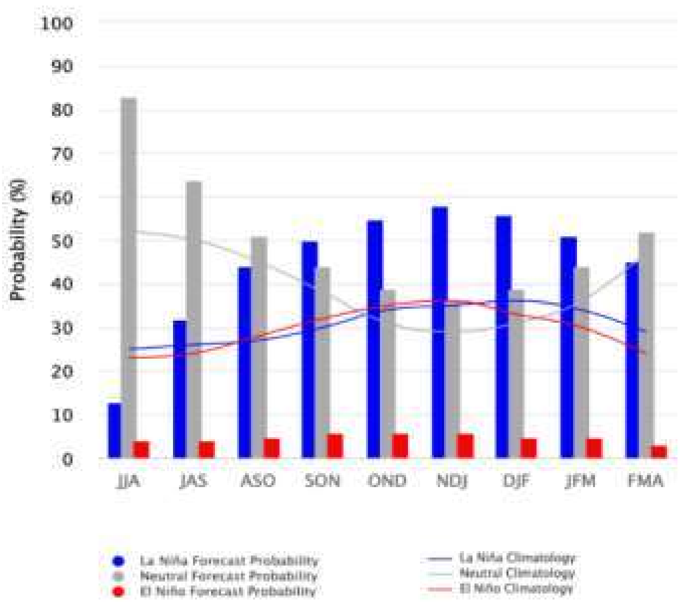
The latest USDA data show US maize plantings at 91.5M acres, which is 1.5M acres higher than the March intentions, see below. The weather is favourable at present but around 7% of the area is now in "drought". The latest good/excellent US crop ratings are encouraging at 68% vs 55% last year. This is very good but not enough to support the USDA position that this year will be a yield record, producing a record crop of 320MT.

US maize prices are hovering around $4/bushel with weaker prices attracting stronger demand.

The Zafrina maize harvest in Brazil is 65% complete, with some forecasting a higher than expected crop of around 100MT. Demand for the Brazilian crop, especially from China, is growing with 3.4MT committed for export in June following some issues with weather in China. The Argentinian crop is also around 65% harvested and heading for a crop of around 47MT, in line with expectations and well up on last year's drought-stricken yields.

World ending stocks are forecast to be a healthy 324MT and US Managed Funds have taken very strong net short positions.

The outlook for maize and soyabeans in the southern hemisphere will be heavily influenced by the development, or not, of the La Nina weather pattern. In April the probability was forecast to be 85% with Neutral around 20% from October through until January 2025. The latest forecast probability is only 58% with Neutral 35-40%. A weaker La Nina means less risk of damage from drought in Argentina, Australia, parts of Brazil and parts of the US with obvious implications for their crops.



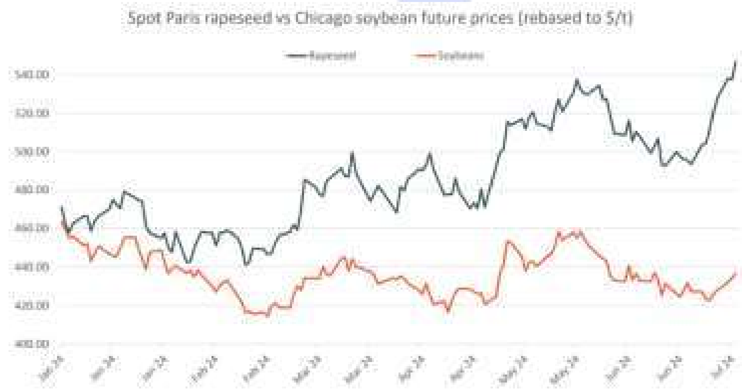
Proteins- the detail:

The USDA Plantings Report in June showed 86.1M acres of soyabeans actually planted vs 86.5M acres intended in March. Good/excellent ratings are high at around 68% vs 50% last year with a 121MT crop still forecast.

US biodiesel capacity has increased to 5Bn gallons as inclusion of biodiesel increases and the US driving/holiday season gets underway.

The soyabean harvest in Brazil is finished and almost finished in Argentina.

Vegetable oil prices have surged over recent weeks, which has benefited oil seed rape in particular due to its 40% oil content (vs 20% in soyabeans). This has increased the premium of Paris rapeseed over Chicago soyabean price to around $100/t.



This has partly been driven by the poor outlook for oilseed rape in Europe and the good outlook for soyabeans in the US and south America. Weather conditions have been too wet in much of northern and Central Europe and too dry in Romania, reducing the forecast for the EU crop to 18MT or less from 20Mt last year. It has also been driven by the US Managed Funds short covering soya oil.

The Ukraine rapeseed harvest is forecast to be 3.7MT this year compared with last year's record 4.8MT due to continuing difficulties caused by the Russian invasion. The Canadian canola crop is looking good with good rain and warmth now coming and actual plantings slightly higher than those intended in March.