Technical Update – Feed Markets

Information correct as at 09:00am on 14.06.2024

- This week's WASDE report largely neutral.
- Dry weather in Russia and Ukraine is damaging wheat prospects.
- Closing wheat stocks forecast to be low, but better supplies of maize are predicted.
- North American prospects look good, but there is a way to go until harvest.

Summary

The USDA produced its latest WASDE Report on 12th June. There were a few slight changes but overall, it was fairly neutral for wheat, maize and soyabeans.

Politics and the weather are having the greatest effect on the markets and are creating a great deal of price volatility. Turkey, the 5th largest wheat importer in the world at around 10MT/year, has imposed a 4-month ban on imports to protect domestic prices, which has helped to ease wheat prices. Brazil has brought in tax changes which has reduced the competitiveness of their exports, resulting in some firming of maize and soya prices.

Some rain is forecast for southern Russia, western Ukraine and Romania, where conditions in many areas remain in "severe drought," but it is unlikely this will be enough or in time to make much difference. North American weather is favourable for all crops, including US maize and soya plus Canadian spring wheat and canola.

UK wheat prices for November fell back to £204/t at the end of last week on the back of the Turkey import ban, some harvest pressure and a forecast for rain in the Black Sea area, then rose to £212/t before falling back to £204/t again. Barley is still trading at a significant £20/t discount to wheat and so is worth considering, as is maize. Maize grain is currently available at around £210/t for November - April (+£10/t grinding).

Hopefully, everyone has heeded previous advice and taken cover forward for 2024 and into Q2 2025 at previous lower prices. With plenty of risks in the outlook period from weather, politics and geopolitics the advice is to continue to take further cover up to harvest 2025, using dips in price as opportunities to buy plus looking at barley and maize where appropriate. CRM are now advising cover of 75-80% for Q3, 70% for Q4 and 60-65% for Q1 and Q2 2025.

The uncertainty over the outlook for soyameal supply beyond December 2024 continues and this is increasing demand for rapemeal into 2025. Hi pro soya is in tight supply in the short term and then remains around £380-385/t through to December. Rapemeal is also tight in the short term but has fallen back to around £265-270/t for August–October rising to £275-280/t for January-April with no soyameal available.

Maize distillers at £245/t for November-April look good value where they can be used. Soya hulls remain the best value fibre feed at £150-155/t until December.

General:

Despite OPEC+ extending their 2.2 million barrels of oil/day cuts until the end of September Brent Crude continues to trade around $80-85/barrel.

The ECB is the first of the major Central Banks to cut interest rates with a 0.25% drop. The Bank of England is expected to follow suit in the next few months but the US is likely to delay their cuts until later in the year. Lower interest rates would tend to be supportive for commodity prices.

Having risen 0.7% between January and March UK GDP was flat for April, partly down to the cold, very wet weather.

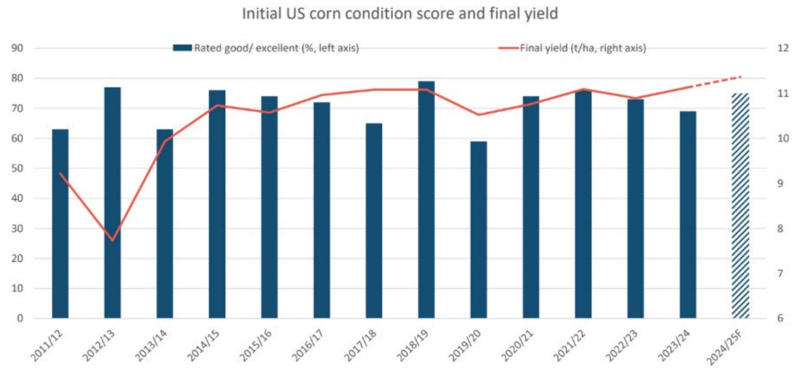
France has called a snap general election following severe losses to the far right in recent European Parliamentary elections, causing the Euro to weaken to around 1.19 to the Pound.

The strike in the Rosario Hub in Argentina, through which around 80% of the country's exports go, is over, which is a relief and should ensure exports can continue unabated.

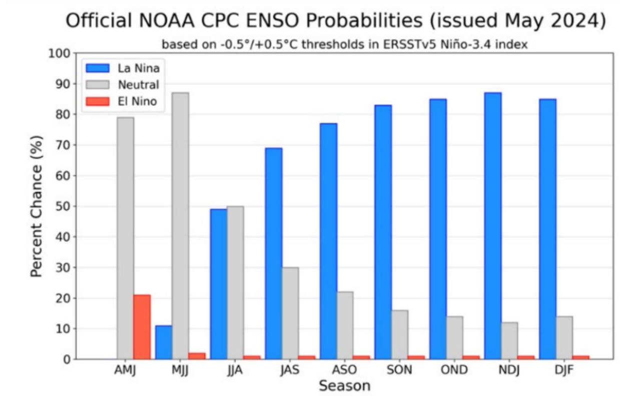
Cereals- the detail:

The June WASDE report left the outlook for maize virtually unchanged. The trade had expected a cut of several million tonnes to the output from Argentina but it remained at 53MT. Generally favourable weather in the US has resulted in good/excellent ratings for their maize crop at 75% vs 64% last year.

The relationship between initial good/excellent ratings and final yield is shown in the chart below and suggests the US could be on for a record yield of around11.5t/ha but we await the final tally of area planted before a full crop forecast can be made.



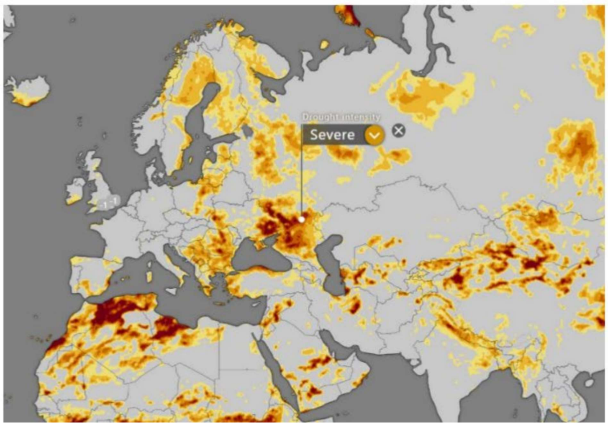
The only major threat to this crop is the developing La Nina weather pattern (see chart below), which could bring dry/very dry weather as the year progresses to the US and South America.

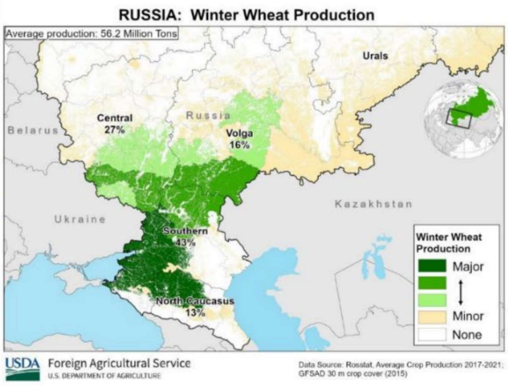


Downgrades to the Argentinian maize crop from the stunt disease have now stopped and local forecasters still have the crop at 46.5MT, with about 40% harvested. Surprisingly, the June WASDE report did not reduce the estimate from the previous 53MT. The Brazilian crop forecast is little changed at around 122MT according to the USDA but local forecasters have it around 114MT.

Ukraine exported 26MT maize grain in 2023/24 but expects to only export 21MT this year, partly due to logistical problems as a result of the war and partly due to the dry weather.
The June WASDE Report downgraded wheat stocks slightly with lower expectations for crops in Russia and Ukraine in particular. Many of the winter wheat growing areas in southern Russia remain very dry or in "severe drought" and their Agriculture Ministry has declared a "crop emergency" in 10 states. There has been some rain recently but with the earlier frosts as well the damage has already been done. Local forecasters have reduced their estimate of the Russian

wheat crop to 78-81MT, a fall of around 12% in the last month, and the crop could end up in the mid 70sMT.

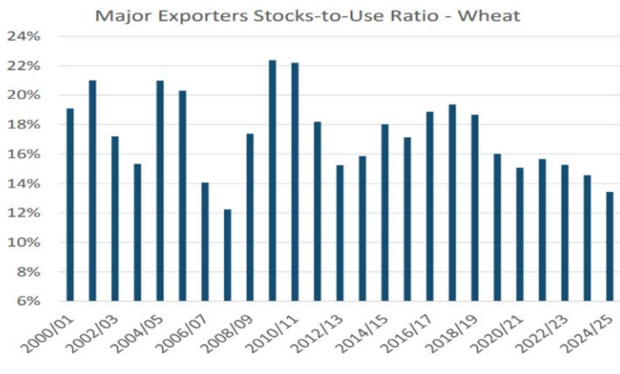




Harvest is underway in the EU but it is too early to tell the full effect of the very wet winter. Local forecasters have reduced their estimate to 122MT vs 123.5MT in 2023/24. Continuing rain in France is threatening the quality of their milling wheat crop, so this might mean more in feed pile.

The US winter wheat harvest is just starting, with around 12% cut so far. The good/excellent rating has fallen to 47%, down 2% on the week, reducing the confidence in the final crop yields. Turkey, the 5th largest importer of wheat at around 10MT and has just announced a 4 month ban on wheat imports in an attempt to support domestic prices. Much of their wheat comes from Russia and as the outlook for the Russian crop deteriorates further the chance of them introducing export bans or tariffs increases, so this could balance the Turkish import ban at least until October.

The major wheat exporters stocks:use ratio has fallen over recent years to a tight position and this is likely to fall further when the shortfalls in Russian and EU crops are fully factored in.



UK barley prospects are looking better, with a larger area planted, the latest forecast is for between 7.5 and 8MT, a 4 year high.

Proteins- the detail:

The June WASDE Report showed an improving outlook for soyabeans, especially from the US where the ending stocks estimate was increased to 12.4MT. It is thought that US soya plantings are above the area indicated in the March intentions survey and are now approximately 78% complete compared with the 5-year average of 73%. The USDA Acreage Report is due out on 28th June. The first US rating for the 2024 soya crop has just been published at 72% good/excellent and above the 10-year average of 68% so the outlook is very positive at this stage, but there is a long way to go.

The Argentinian crop harvest is now 96% complete with the output estimate unchanged at 50.5MT. The Brazilian crop forecast is also unchanged at 147MT according to local forecasters vs USDA at 153MT.

Chinese demand has been low for a while, with May imports down 15% year on year at 10MT with most of this is coming from Argentina and Brazil. US sales of soyabeans for 2023/24 are struggling to meet the USDA target of 46.3MT and US pre-season forward sales for 2024/25 remain around 1MT, the lowest in nearly 20 years.

Around 50% of US soya oil goes into biodiesel. US biodiesel margins leapt to $1/gallon in late May as the US summer drive season gets underway and the demand for fuel increases but soya oil prices remain low compared with rape oil.

Argentinian soyameal exports have recovered after last year's drought affected crop and are getting going as the harvest there proceeds and the strikes are ending.

The weaker than expected crude oil price has depressed all vegetable oil prices and Paris rapeseed remains below 470 Euros/t. EU rapeseed imports are down to only 5.1MT this year, a 30% fall compared with last year.

The EU estimate for the 2024 crop has been reduced again and is now around 19MT but some local forecasters have it only around 17.8MT following the damage done by the excessive rains last winter.

Very dry weather in Western Australia has reduced the Australian crop forecast to for 2024/25 to only 5.4MT with 4.4MT for export, a 4 year low. With the EU imposing import duties on oilseeds from Russia and Belarus the supply over the next year is going to get tighter.

The good news is that the rains in Canada are persisting in all the right areas and the initial rating of the crop in one of the main growing areas of Saskatchewan is 87% good/excellent, which bodes well for the final yield outlook.