Technical Update – Feed Markets

Information correct as at 09:00am on 20/09/2024.

- Wheat prices under pressure due to strong Black Sea exports and harvest pressure.
- Big maize and soya crops coming from US.
- Dry weather affecting Black Sea region, South America and parts of US.
- Economic slowdown is weakening demand for commodities, especially oil.

Summary:

The September USDA WASDE report was pretty neutral for most agricultural commodities, though rapeseed stocks were increased significantly due to changes in Canadian stock levels. Despite a record US crop forecast, maize prices have increased due to higher demand, a dry outlook for North and South American crops, tighter than expected major exporters stocks and smaller stocks:world use ratio.

Wheat prices remain low with harvest pressure and high volumes of cheap exports from Russia and Ukraine, but continuing drought around the Black Sea has reduced crop sizes and exportable tonnages. With harvest pressure reducing over the next month or so, tight stocks and the lowest stocks:use ratio since 2007 forecast upward price pressure should follow.

November UK wheat prices are currently in the low £180s/t so this still represents an opportunity to take further forward cover into 2025 if needed. The barley discount has reduced to around £20-25/t and is also still an opportunity.

The latest WASDE report was bearish for soyabeans with comfortable stocks and a stocks:world use ratio of 19.4%. The US crop is still in excellent condition generally and on track for record production. However, there are threats to prices in the medium to long term from recent strong Chinese demand and concerns over the very dry weather in South America with the La Nina weather pattern increasing in intensity.

UK Hipro soya prices have levelled at around £340-345 through the winter and into next spring with a growing feeling that there will be a period of grace after the introduction of the EUDR regulations on 1st January.

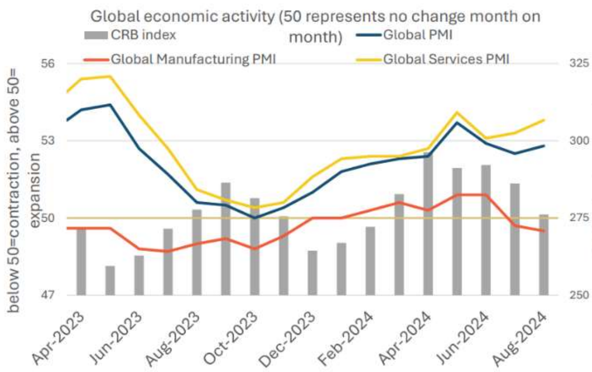
Rapeseed supplies are being hampered by poor EU and Ukraine harvests but Canadian and Australian crops are looking good. Demand is still strong despite the falling crude oil price. Rapemeal prices have firmed recently, partly due to increased demand as an alternative to soya in ruminant diets and also supply pressure as some plants switch to soya crushing, leaving prices at £275-280/t for Nov – April.

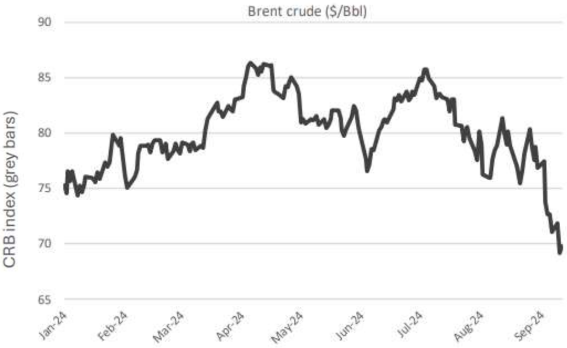
US maize and UK wheat distillers are well worth considering for part of the ration where possible and represent good value for money at around £220-225/t and £225-230/t (from Hull) respectively.

General:

Global economic activity showed signs of further improvement in August, but the manufacturing index fell slightly further, indicating weaker demand for commodities in general.

Demand for oil in particular has fallen over recent months with Brent Crude prices around 15% lower than July peaks. OPEC have downgraded their forecasts for global oil demand (especially from China).





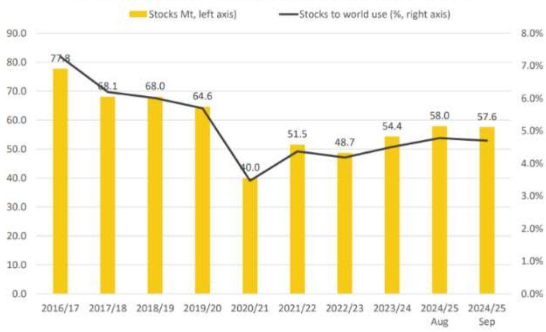
Geopolitical events in the Middle East and Black Sea areas in particular continue to cause volatility in the markets and add to upside risks.

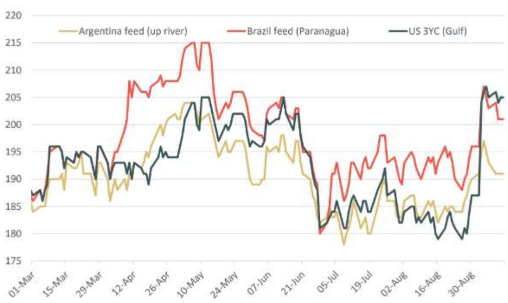
In the US, the Federal Reserve Bank cut interest rates by 0.5% on 18th September with the suggestion that more cuts will follow later this year. This is likely to weaken the US$ and effectively strengthen currencies such as the GB£, which would help with import prices. Over time a weaker US$ will tend to be supportive of commodity prices.

In the UK, inflation for August remained steady at 2.2% but job vacancies fell by 3% as factory output reduced for the first time in 4 years. There is also concern over further rises in inflation over the coming months, meaning that the Bank of England has held interest rates at 5% but has hinted at cuts later in the year.

Cereals the detail:

The USDA September WASDE report reduced the major exporters maize stocks estimate to 57.6MT and stocks: world use ratio to 4.7%. Therefore, despite a very large crop to come from the US plus those anticipated from South America later, with strong demand the picture remains fairly tight – below left. Prices have jumped from previous lows through July and August as demand has increased and concerns have grown over the dry outlook for South American crops – below right.





US Managed Funds have reduced their short positions but remain 'net short' compared with the 10-year average position at this time of year, of slightly net long. With harvest just starting the US maize crop condition remains very good for this time of year at 65% good/excellent, up 1% on last week, despite drought conditions spreading in many southern corn belt growing areas.

Surprisingly, the French crop is also looking very good, with sowings at a 4 year high of 1.5Mha, following the wet winter/spring, and currently a 79% good/excellent rating, well above the 10-year average.

The Ukrainian crop on the other hand has suffered from the continuing drought. The USDA has reduced the estimate for 2024/25 to 27 MT (compared with the 2023/24 crop of 31MT) with local estimates as low as 20MT. Other Eastern European countries such as Romania and Bulgaria are also struggling with drought conditions and may be down as much as 20% year on year.

For wheat, the September WASDE report maintained a tight picture with global stocks:use ratio the lowest since 2007. The latest estimate is that Russia will have only 47MT to export this year, down from 54.7MT last year and Ukraine will have only 15MT of wheat for export this year, down from 18.5MT last year. The continuing drought is now causing concerns over the effect it might have on the 2025 winter crops.

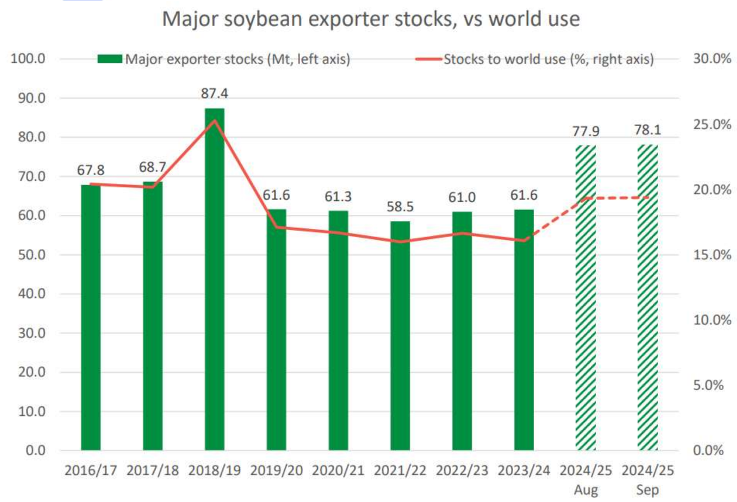
Exports from Ukraine and Russia have got off to a flying start with their low prices holding down prices in general, but with drought reduced crops this cannot be maintained indefinitely.

The USDA has further downgraded the 2024 EU wheat crop estimate to around 124MT compared with 135MT last year but the Canadian and Australian wheat crops are looking good.

With strong front-loaded exports of wheat from the Black Sea and northern hemisphere harvest pressure prices have remained low but have increased slightly in recent weeks.

Proteins the detail:

The latest WASDE report continued with the bearish outlook for soya with world major exporter stocks at 78MT and stocks:world use ratio around 19.4%.



The US crop is still rated at 64% good/excellent, the best at this time of the year since 2018, so with a high planted area a record crop is still on the cards despite the drought in some of the key growing states. However, there is mounting concern over the very dry conditions in Brazil, Paraguay and Argentina, where the next crops are due to be planted soon. The probability of the

La Nina weather pattern increases over the winter and this usually means a continuing dry outlook.

China has been ramping up its imports, with a new record of 12MT imported in August, partly because of concerns over a possible Trump re-election in November and a return to a trade war.

Although on the surface everything has a bearish look for soya this could all change in the medium term unless significant rains come to the key South American growing countries.

For rapeseed/canola the September WASDE report increased the estimate for major exporter stocks by 1.1MT to 3.4MT mainly due to changes in Canadian figures. The EU production estimate was downgraded further in the report to 17.7MT, down from 20MT in the 2023/24 year, and local forecasters predict it may be lower than this. EU imports have been slow so far, but it is estimated that around 7MT will be needed to meet demand.

Chinas' "anti-dumping" spat with Canada continues. China has been Canada's biggest export market recently with around 5MT exported in 2023/24, so that may end this year. With limited global supplies the likelihood is that China will buy elsewhere and Canada will supply other markets, so all will balance out in the end.

The outlook for oilseed rape crops in the EU and UK for 2025 does not look good at this stage with pest damage, poor yields and profitability recently meaning farmers are looking at alternative crops.

There is still no conclusion on the implementation of the EUDR regulations in the UK from 1st Jan 2025 but many buyers are assuming that there will be a period of grace when it will still be possible to feed soyameal as now.

Rapeseed crush margins in the EU/UK are low and some plants have been switching to soya recently which has been contributing to tight nearby rapemeal supplies. Along with increased demand for rapemeal as an alternative to soya this has contributed to rapemeal prices jumping recently to around £275-280/t for November – April.

Ethanol margins in the US have been good recently, leading to a strong supply of maize distillers at attractive prices, around £220-225/t through to summer 2025, so worth using where possible. Wheat distillers from Hull are about 70% sold for the winter and at around £225-230/t this also looks to be worth a look.

Soya hulls are still the best value fibre product at around £175 - 180/t through to spring/summer 2025. Sugar Beet pulp is around £225/t for November to April from southern ports and £200/t from Liverpool.