Technical Update – Feed Markets

Information correct as at 09:00am on 26.07.2024

- Northern hemisphere harvests progressing and causing harvest price pressure.
- UK and North-West European prospects are still poor.
- Overall closing stocks for wheat still forecast to be low, but maize stocks better.
- The prospect of La Nina impacting this autumn/winter has increased back to 80%.

Summary:

Northern hemisphere wheat and barley harvests are well underway with a very mixed picture depending on which country is viewed. Production and quality are lower in many areas, with tight ending stocks forecast. Wheat and barley prices are under harvest pressure at present but that could reduce sooner if reports of poor harvests across Europe, including Ukraine, continue.

UK November wheat futures price is currently around £193-194/t, with barley at around a £25/t discount and whole maize at £200/t ex-port through the autumn and winter.

The latest forecast for the La Nina weather pattern probability has been increased again and is back to around 80% for September to February (up from 55%) which threatens to bring dry weather to North and South America plus Australia during critical crop growing periods.

The US Managed Funds are at or near record net short positions for wheat, maize and soyabeans, so any shock to these systems, including drought from La Nina, could mean a rapid turnaround for prices if the Funds reverse their positions.

Global maize supplies and ending stocks are forecast to be good and prices have fallen back to levels last seen in 2020.

Eventually harvest pressure will disappear and with tight stocks, strong demand and a strong La Nina potentially affecting crops in North and South America cereal prices will inevitably rise and possibly by a considerable amount. If further cover is needed into 2025 it is worth taking the opportunity of increasing it with wheat prices below £200/t and considering barley and maize as well.

There is still no firm news on the implementation of the EU De-forestation rules but the feeling is that the longer the longer the state of limbo continues the more likely implementation in the UK will be pushed back into 2025. US soyameal prices are low and at long term support levels. UK prices have continued to fall over recent weeks and are now £345-350/t for September-December and £355/t for January to April.

Rapemeal has also eased back a little and is available from Liverpool for August-October at £245/t, rising to £273/t for November-January and £285/t for February-April

Maize distillers look good value at £230/t for August-October and £240/t for November-April.

Soya hulls have risen back to £160-165/t for November-December but sugar beet pulp has fallen back to around £205/t for November-April, well down from its previous price of around £250/t and worth looking at if/when soya hulls are unavailable.

General:

Markets seem to have reacted well to the new Labour Government, which says it will be supportive of business and encourage inward investment. The FTSE and Bond markets hardly moved, in contrast to European markets following recent elections there.

Global economic activity indicators have been climbing into positive territory since October 2023 but slowed in June, partly due to weaker demand from China.

Despite continuing attempts by OPEC+ to raise oil prices by cutting production Brent Crude continues to trade in the $80-85/barrel range, more recently at the lower end with more hope of a peace deal in the Israel/Palestine/Hamas conflict.

The US $ has weakened against most currencies, resulting in the $: £ rate rising to 1.29 – 1.30 over recent weeks, helping with the prices of imported goods. The £ is also doing well against the Euro at around 1.19.

Cereals: The Detail

The US corn maize rating has been reduced by 1% to 67% good/excellent due to continuing hot and dry conditions in some areas but with higher-than-expected plantings there should an excellent total production. 61% of the US crop is at the critical silking stage vs 5 yr average of 56%.

The Brazilian Zafrina maize crop harvest is now 83% complete compared with a 5-year average of 47%. The USDA still have the crop forecast at 122MT but locally CONAB have it as low as 106MT.

Eastern Europe, including Ukraine, have had very hot and dry conditions and maize crops there are struggling whilst northern and western areas have been too dull and wet, also reducing crop prospects. The latest European yield forecast has fallen to around 7 t/ha. The USDA are still forecasting the Ukrainian crop to be 27MT but again local forecasters have it around 24.5MT, which would be the lowest in 7 years. Either way it is well below the 5-year average of 33MT.

World ending maize stocks for 2024/25 are currently forecast at 5-year highs but the increased risks from the developing La Nina weather pattern threatens US and South American crops later in the year and into 2025 could impact these.

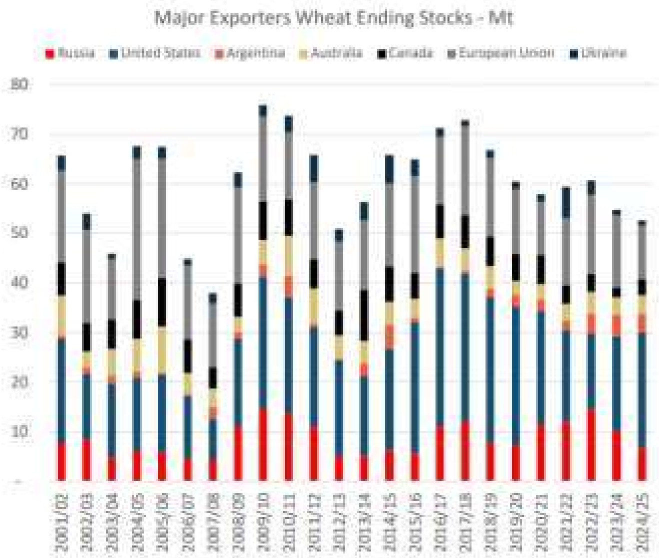
Prices are generally at their lowest since 2020 but Brazilian prices are higher than Argentinian or US prices. The reason is not clear but is thought to be due to supplies being limited and priority being given to soyabean exports.

The US winter wheat harvest is now 71% complete compared with a 5-year average of 62% and is looking like it will be better than originally forecast. Canadian spring wheat got off to an excellent start but conditions have now changed to hot and dry so there are increasing concerns over final yields there.

The Russian wheat crop forecast has been revised back up by 1MT to 83MT by IKAR, the Russian agency, on the back of better-than-expected initial yield reports, but it will still be well below the 90MT plus yields of the last few years. The Ukrainian crop has also suffered badly with the continuing drought and all grain and oilseed crops are suffering. In addition, there are reports of Russia burning hundreds of hectares of crops in the field with incendiary devices.

Northern and western Europe is still suffering from the extremely wet winter and spring, with further rain now hampering harvest in some areas. Initial French winter barley yield reports are poor and the French wheat crop rating has been reduced again to 52% good/excellent compared with 80% last year and the crop could come in under 30MT, which would be only the third time this century that production has failed to reach this threshold.

In the July WASDE report the USDA increased their forecast for world wheat production by 5.4MT, largely down to improved prospects for the US and Canadian crops. Despite this, with strong demand, they forecast that world ending stocks for 2024/25 would fall by 4MT. This leaves world ending stocks at a very low level and with the Funds at near record short net positions again leaves prices vulnerable to volatility.



Prices are still well below their recent May highs and this has created strong demand from the main importers, including Algeria, Egypt and Morocco. Russia and Ukraine are still the cheapest suppliers with Russian FOB prices around $200/t.

Proteins and qualities are generally low, increasing the premium for milling wheat to around £60/t which is twice the 10-year average for this time of year.

Proteins- The detail:

The US soyabean crop is rated 68% good/excellent vs 60% on average and 65% is at the critical blooming stage. The latest production forecast is for an excellent 121MT crop. However, the weather forecast for many key soya growing states is turning increasingly hot and dry for the crucial end of July and August period, threatening yields, with a stronger La Nina weather pattern to follow.

Soyabean and soyameal prices have been falling to low levels but have risen recently with weather concerns and Biden stepping down. Although Trump is still favourite to win the election in November the risk of a Trump trade war with China is seen as less likely.

US forward soyabean sales remain very weak at around 2MT for the 2024/25 year, with low Chinese demand being a key factor. The latest WASDE report had the Brazil crop estimate at 153MT and Argentina 49.5MT, but local forecasts are lower.

The wet winter and spring in Europe have damaged OSR crop prospects with early harvested yields generally poor and a sub 18MT total likely. The UK crop is in the early stages of harvest and there is currently a wide range of yields reported, from 2.5t/ha, which would be poor, to 3.5t/ha, which would be pretty good. The likelihood is for the final result to be somewhere between the two.

Ukraine has suffered from the continuing drought and the latest yield estimate is well down at only 2.2t/ha. The USDA has already forecast the Australian canola crop at a multi-year low of 5.5MT and the strengthening La Nina weather pattern could cause this to go lower by the time the crop is harvested.

The Canadian canola crop got off to an excellent start and is currently rated 84% good/excellent, the best in the last 8 years. Production forecasts have been increased from 18MT to 20-21MT, but the hot dry weather now forecast may reduce this by harvest.

The Paris rapeseed price has risen to around 500 Euros/t and is currently around $45/t above Canadian prices, which will attract imports once available.