Technical Update – Feed Markets

Information correct as at 09:00am on 24.01.2025

- The world waits to see what Donald Trump will do with the threatened tariffs.
- Global maize and soya stocks both reduced in latest WASDE report.
- Drier weather forecast for South America will affect crops in the ground.
- Wheat stocks tight as Black Sea supplies reduce.

Summary:

Following the January USDA WASDE report market sentiment towards maize and soyabeans has turned more bullish and prices have risen, though in reality soyabean ending stocks still look good.

The latest La Nina forecast is showing a stronger for longer picture which is having a negative effect on Argentinian maize and soya crops.

Wheat prices are expected to rise during the first half of 2025 as supplies tighten with Russian export restrictions coming into play.

Barley is still at a significant discount to wheat but as Ukrainian supplies to Europe dry up demand for UK material should increase.

If President Trump does impose 25% tariffs on Canadian goods as threatened a lot of canola will become available which could solve the EU rapeseed supply issue.

UK Hi pro soya and rape meal prices have stabilised over recent weeks. Some raw materials have become scarce in the short term for a variety of reasons.

General:

As the ancient Turkish proverb says: “When a clown moves into a palace, he does not become a king, the palace becomes a circus…!”

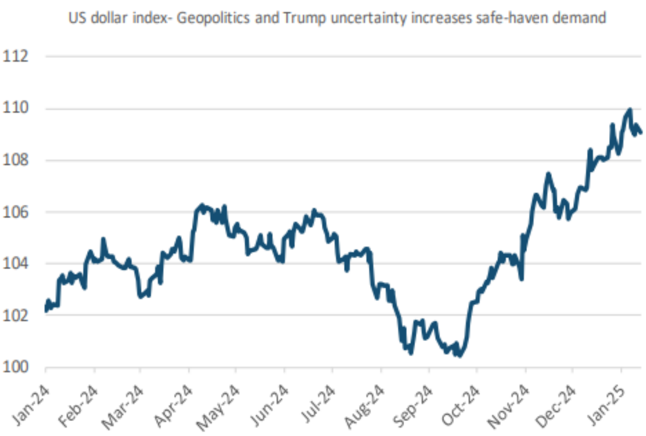
Donald Trump was inaugurated as US President on Monday 20th January and signed over 100 executive orders on day one reversing many of Joe Biden’s policies and aiming to “Make America Great Again.”

These included tightening immigration and border control, withdrawing from the Paris Climate agreement and the World Health Organisation, anti “woke” and transgender policies plus fossil fuel expansion.

Officials have been asked to investigate trade relationships and unfair practices with China, Mexico and Canada in particular and tariffs are expected to be announced by 1st February, but the scale of these is not known.

How this works out will determine how big an effect this will have on US exports and world prices. In his last term of office, the trade war with China led to US soyabean exports falling by 21% and prices also fell.

In the meantime, the markets are volatile depending on which rumours and statements carry the most weight at any particular time. The feeling is that Trumps policies are likely to be inflationary so interest rates will tend to remain higher for longer. An improving US economy and the Trump effect has certainly caused the US$ to strengthen – see below.

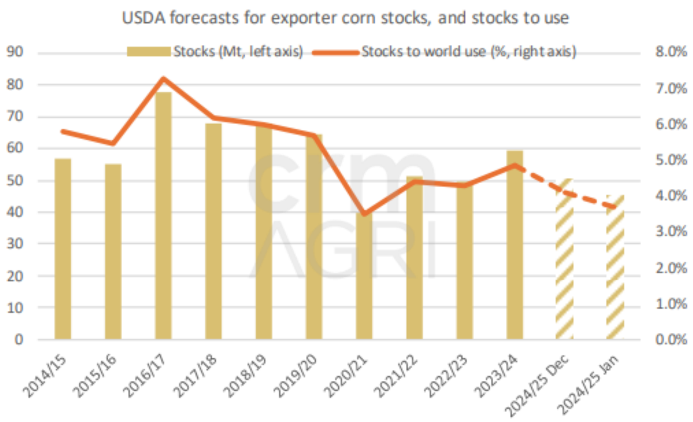


With worsening UK economic indicators and the rising cost of servicing debt the £ had weakened against the $ to 1.22 from recent highs of over 1.3. Over the last few days it has stayed at around 1.23, which is pushing the cost of imported goods up compared to where they were a few months ago. Against the Euro it has now also fallen but is stable at around 1.18.

Crude oil prices have also risen sharply recently and are now around $78/barrel, partly due the US$ effect but also because Joe Biden imposed further sanctions on Russian oil exports to try and stop the supply of China and India with unregistered ships.

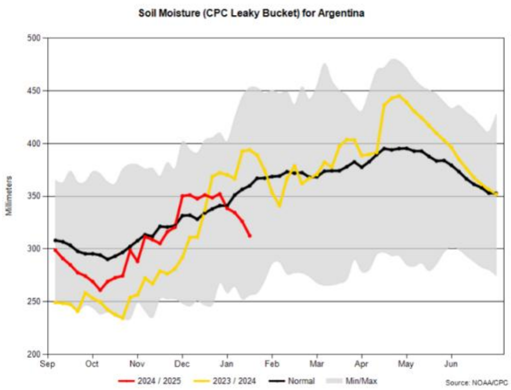
Cereals- The Detail

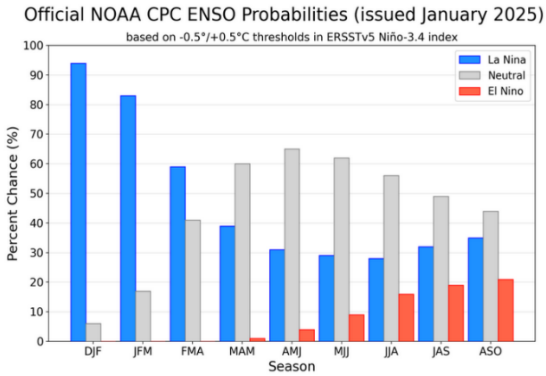
The January USDA WASDE report further reduced the estimate of maize ending stocks for 2024/25 for major world exporters and by more than the markets expected. This leaves ending stocks at 45MT (down from the June 2024 estimate of 60MT) and stock:world use at 3.7%, the tightest in 4 years.



Following the poor Brazilian Zafrina crop last year plus higher domestic use for bioethanol exports from Brazil are low. In addition, soil moisture levels in Argentina are very low following a prolonged drought and local forecasters have reduced their production estimate for 2024/25 from 51MT to 48MT.

The latest La Nina forecast has changed and is now showing the weather pattern to remain stronger for longer – see below – so unless significant rains do come Argentinian production could go even lower.

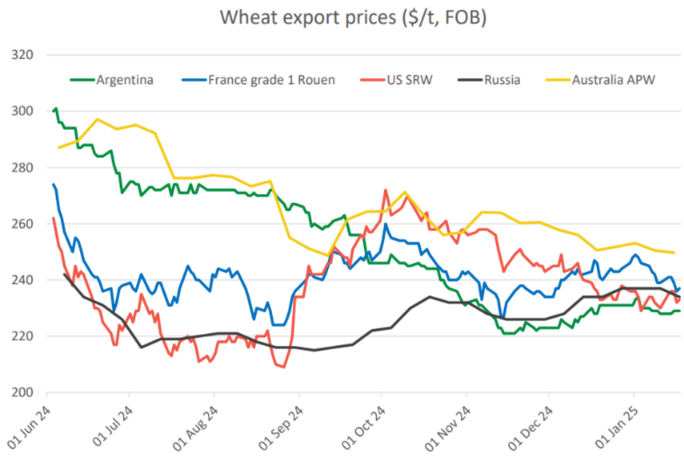




With Ukrainian supplies also dwindling rapidly prices have risen markedly with the US maize price up 7% since the start of the year. US Fund Managers have increased their net long positions to the highest for 3 years.

Chinese imports have fallen to low levels but Mexico has been importing strongly. The decisions to be made on tariffs by Trump could change the outlook over the next few weeks.

The January WASDE report left wheat production and stock:use ratio at similar levels to the December report with major exporters ending stocks at 12-year lows. Global prices continue to converge as US prices fall, Russian exports restrictions start to kick in and newly harvested Australian wheat comes to the market.



Decisions to be made by the US/Trump over the next few weeks could also have an effect on the outlook for wheat. China imports around 50% of US exports so what level of tariffs, if any, are imposed will have an effect.

The feeling is that wheat prices will rise over the next few months as the Russian export restrictions tighten supplies and corn prices rise. Concerns still exist for the 2025 harvest, with dryness in southern Russia and the -33C temperatures in the US recently causing damage with no snow cover to protect crops.

UK wheat imports have been particularly strong following the poor quality and quantity of the 2024 UK harvest with milling wheat from Germany and Canada the main sources, though this is now slowing.

UK forward prices for May 2025 are around £190/t and for November around £195/t. Farmers are reluctant sellers at these levels and restricted supplies will add further upward pressure to prices in the short term.

Barley has been plentiful this year following the larger than average plantings last year and so far, demand from Europe has been weak, though this could change as Ukrainian supplies run out. The discount to wheat is still around £25-30/t, the largest January discount for 9 years.

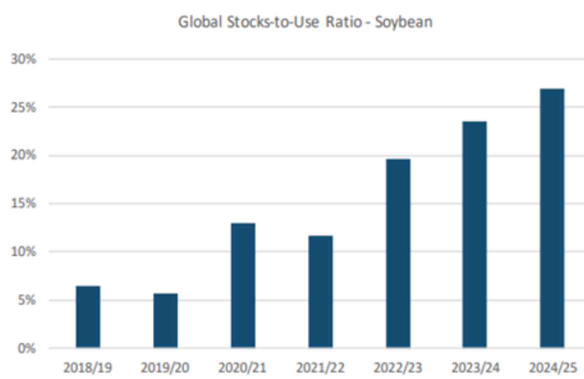
Although there is significant uncertainty around at present the upside risks are significant and the advice remains to continue to take cover as needed for wheat/barley at current prices through to harvest 2025.

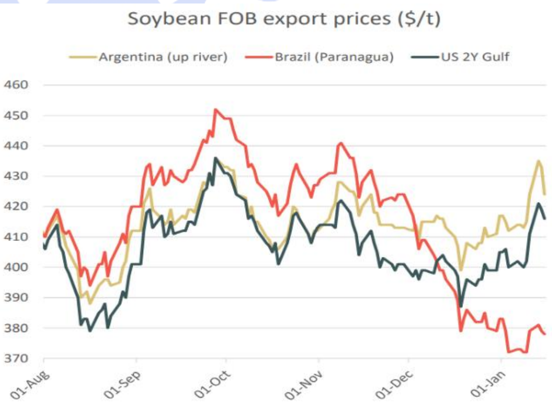
Proteins-The Detail

The January WASDE report surprisingly reduced US ending soyabean stocks for 2024/25 by 2.5MT and Brazilian stocks by 1MT. This was partly the reason for soyabean futures rising significantly in the US and Argentina.

In addition, the rise in crude oil prices has caused vegetable oil prices to rise which has also helped soyabean values. The dry weather in Argentina with a stronger than expected La Nina weather pattern forecast for the next few months has also added to the upturn. Although 98% of the crop is planted 21% is rated poor/very poor and this figure is rising.

Although market sentiment has shifted at present the supply side still looks comfortable in the long run with a record Brazilian harvest of over 170MT forecast and a good stock:use ratio – see below.





In contrast to the rising prices in the US and Argentina, Brazilian prices have stayed at their lowest levels of 4 years as the delayed harvest there gets underway and outlets for the forecast record crop are sought.

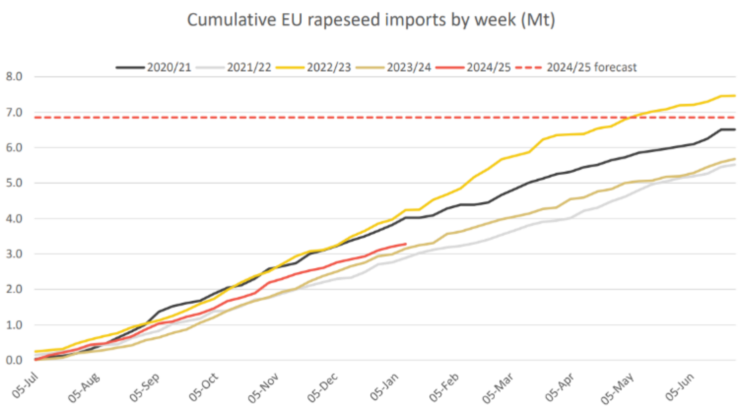
Some recent Brazilian exports to China have been rejected due to claimed contamination by pests/pesticides though the Brazilians dispute this.

The big unknown factor in the soya market is again the Trump effect regarding tariffs. Will he, won't he and at what level will he impose them and on which countries?

Around half of US production is exported and China is the biggest importer. During his last term in office the trade war with China resulted in a fall of 21% in exports and prices fell to 10-year lows.

Demand for rape oil in Europe has been strong and with the rise in crude oil prices rapeseed prices are buoyant with Paris Feb 2025 OSR around €525/t although the crush is slowing now.

Supplies are tight with a poor 2024 EU harvest around 3.3MT below 2023 and Ukraine exports ending. Imports have only amounted to around 3.5MT so far and need to accelerate to reach the 7MT forecast need – see below.



Australia and Canada are the next most likely sources. Again, the picture is complicated by the election of Donald Trump and his threat of 25% tariffs on Canadian goods. Canada now exports around 90% of their canola oil and meal to the US so that may have to look for an alternative market, which would solve the EU supply problem.

The January WASDE report showed a tight global position for rapeseed with stock:use ratio of only 9%.

Palm oil has been leading the way for the vegetable oils recently but since the November highs it has fallen around 18% in dollar terms to $1000/t. Indian demand has fallen and the Indonesian mandate for 40% biodiesel in fuels has been delayed.

In the UK, any origin Hi pro soya has stayed around its recent levels at £330 - 335/t for May – October with a premium of around £15-20/t for US origin. Rape meal has been fairly stable at around £250-260/t through to next harvest, depending on which port it comes from.

The maize distillers supply has tightened recently with short term supply issues, but forward prices around £230/t for May – October look attractive where they can be used.

Soya hulls have gone POA until April/May due to rising demand and a lack of supply. Hopefully, everyone has booked forward what they need at previous good prices. Wheatfeed has also become very scarce. This is said to be due to the exceptionally high quality of the imported German milling wheat, which has virtually no waste.

As an alternative fibre and sugar source the sugar beet pulp price has fallen back recently and is now around £200-210/t.