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MI Prospects

Analyst's Insight: No recovery in sight for sluggish US wheat exports

The location of global wheat stocks come the end of the 2014/15 marketing season, will be key to determining the level of 'market comfort' towards any potential 2015/16 production issues (see pages 2 & 3).

Given the good level of accessibility, a **higher level of wheat stocks in the US can have a greater dampening effect on market sentiment than stock build-up in other major exporting countries**. For this reason, US wheat stocks have previously been referred to as the market's 'comfort blanket'.

Current USDA forecasts point to a 1.8Mt increase in US end-season stocks between 2013/14 and 2014/15, to 17.8Mt. However, while this falls a long way short of the 26.6Mt seen at the end of 2009/10, when the level of stocks weighed heavily on the market, it is still considerably above the 2007/08 low of 8.3Mt.

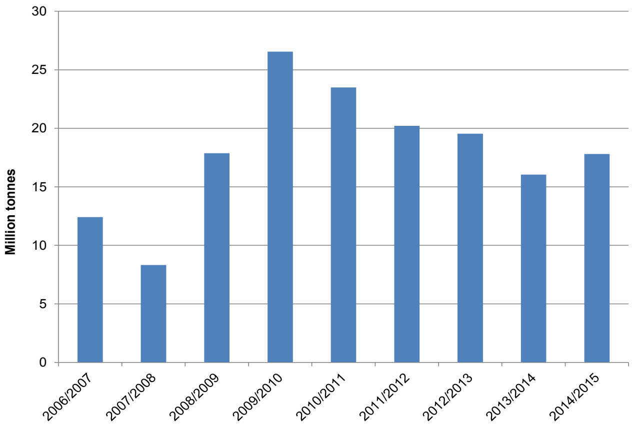
For the US, where exports are predicted to account for 46% of the annual crop, the pace of exports is a key determinant of the potential for stock accumulation. By 18 December, wheat export sales (which includes exports and export commitments) lagged behind last season's pace by 25%, and the pace appears to be slowing. Total season exports are forecast to fall 21% from last season to 25Mt. To reach the current total season forecast of 25Mt, average wheat exports/commitments of around 290Kt per month would need to be seen.

However, as the US economy has continued to show more positive signs for growth than other economies, the US dollar has continued to strengthen. Reuters recently reported that the **US dollar had hit a 9 year high against a basket of major currencies**. This will continue to hamper US export competitiveness and could lead to a further slowdown in the pace of US wheat exports. If realised, this **could lead to a greater than anticipated build up in US wheat stocks** and add downward pressure to the grain market.

Exports are therefore likely to remain a key watch area for the rest of this season. The quarterly grain stocks report, due on 12 January, will also give further insight into domestic usage levels.

Helen Plant

Figure 1 US wheat stocks



Source: USDA

In this issue...

Breakfast Week 2015

The Breakfast Week campaign, organised by HGCA, showcases the most important meal of the day and raises awareness of the health and nutritional benefits of breakfast. To get involved and for more information please visit www.shakeupyourwakeup.com

What does 2015 have in store for grain and oilseed markets?

Markets are likely to remain volatile, with politics, concerns over slowing global economic growth and, as always, the weather being key factors. EU wheat exports are likely to be in focus as much of the stock build up is forecast to occur in Russia and the EU, while the annual US spring area battle points to more bearish news for the oilseeds market.

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30 December 2014

Markets likely to remain volatile

The past 12 months have been characterised by a shift in pricing levels on the back of growing confidence in 2014/15 production. Politics, particularly the tensions in Ukraine, as well as shifting views on the global economy have also been important.

Nearby UK feed wheat futures prices have ranged by over £60/t this year (Figure 1). However, this is the second smallest variation for a calendar year in the post-2007 era of volatility; the lowest was £32.75/t in 2009. Consequently, it's possible that the only potential certainty in the year ahead is that markets will continue to be volatile.

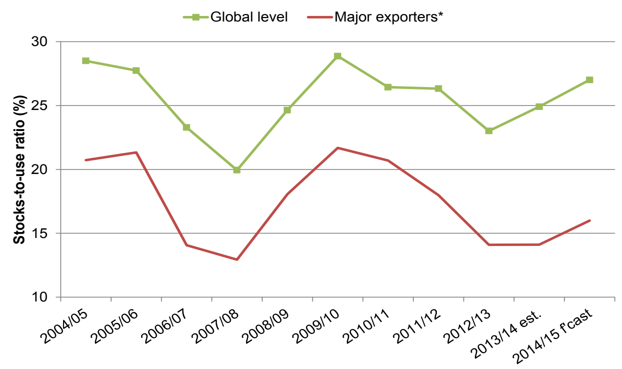
Figure 1 UK feed wheat futures, nearby contract

Source: AHDB-HGCA

Who's holding the wheat stocks?

Current FAO forecasts place 2014/15 global wheat ending stocks at 193Mt, up 17Mt year-on-year. This volume is projected to account for 27% of global demand, the highest proportion since 2009/10 and a relatively comfortable level. However, a smaller recovery is projected for the major exporting countries, where the stocks will be accessible to the market (Figure 2).

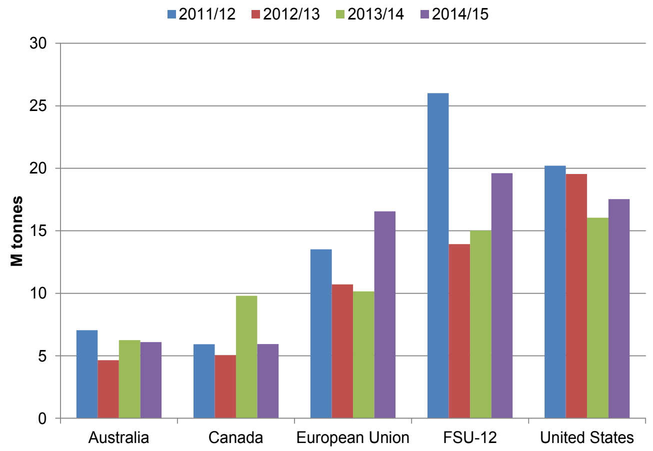
Figure 2 Wheat end-season stock forecasts relative to demand



** includes current export expectations* *Source: FAO*

A smaller recovery in exportable stocks could be important, should a wheat production issue develop in 2015. Furthermore, not all exporting nations are viewed equally in terms of accessibility/risk by the market. **Much of the stock accumulation forecast to occur this season, is projected to be in Russia and Ukraine** (Figure 3). Given the political situation, this perhaps explains why the market has reacted so strongly to reports of potential Russian export restrictions in recent weeks.

Figure 3 Wheat end-season stock forecasts, selected key exporters



Source: USDA

Although the largest stock build-up is forecast for the EU, export licenses are being issued at a record pace; if this continues, the EU may see a smaller stock build-up than expected. Further, US wheat stocks are only forecast to increase slightly and are still a long way below the high security levels (of around 25Mt) at the end of 2009/10 and 2010/11.

Threat from an unsettled global economic picture

As discussed in an earlier Analyst's Insight, the grain and oilseeds markets do not operate in isolation but against a backdrop of the wider economy. While a new US budget deal was agreed in time to prevent a Federal shutdown, recent news on the global economy has not been particularly promising.

Crude oil values have continued to fall on strong supplies and reports of weakening global demand, with Brent futures dipping below $60/barrel on 16 December. While in the longer term, lower crude oil values may support economic growth – in the near term, it is being partly seen as a symptom of the economic situation.

The evolving economic situation in Russia also brings increased grounds for concern, exemplified by the sharp rise in interest rates in an attempt to bring rising inflation to heel. The effects are being felt in grain markets as Russian farmers look to hold an appreciating asset, amid suggestions of export restrictions. The political environment is also far from certain, with tensions persisting with Ukraine.

What does 2015 have in store for grain and oilseed markets?

El Niño to support South American soyabean yields?

Conditions typical of an El Niño weather phenomenon are currently being experienced and forecasts suggest these are likely to continue into 2015. Australian crop forecasts have been revised lower in response to dry conditions, while South America and parts of the US are experiencing increased rainfall levels.

For South America, the increased rainfall could support yield potential as maize and soyabean crops approach their key yield forming stages With 35% of maize and 53% of soyabean exports forecast to come from the region (USDA), **how South American crops fare in the coming weeks will be a focus for market attention**. Furthermore, the US High Plains (major hard red winter wheat growing area) have the lowest levels of drought for mid-December since 2009, which **could support US winter wheat crops** during the rest of the growing season.

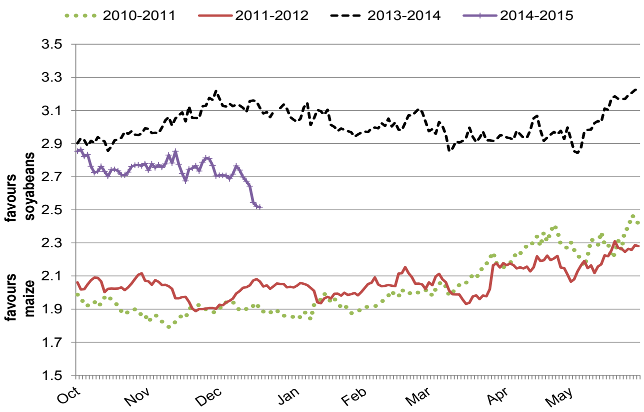
There remains a risk of El Niño bringing drier conditions to the major palm oil producing countries in South Asia. However, based on the current effects being seen 'El Niño-like' conditions currently seem to be having a more bearish than bullish impact on grain markets.

The annual US 'fight for dirt' points to more bearish news for oilseeds

Each year the relationship between US maize and soyabean prices comes under particular scrutiny, as US farmers make their spring planting decisions, often referred to as the 'fight for dirt'. Due to the greater costs involved in growing soyabeans over maize (partly due to yield differences), soyabean prices more than twice those of maize would tend to see US farmers plant greater areas to the oilseed.

Despite the recent rally in maize prices, nearby Chicago soyabean futures prices remain over 2.5 times the equivalent maize futures price (Figure 4), with a similar pattern seen for the Nov/Dec 2015 contracts. Although there is still time for some changes before US planting gets underway in March, the **current price ratio would support the US soyabean area remaining high**, although the ratio is trending lower.

Figure 4 Ratio of Chicago soyabean futures prices to Chicago maize futures, nearby contracts



Source: AHDB/HGCA

An early release from the USDA's long range forecasts, points to a US soyabean area in 2015 just 80Kha smaller than 2014's record. **Another large US soyabean area would potentially bring further bearish news to the oilseeds market**.

Concluding comments

As the grain marketing season reaches its half way point, much of the focus is on factors beyond grain markets. Political uncertainty and concerns over slowing economic growth are likely to continue to influence markets into 2015.

The location of wheat stocks come the end of the 2014/15 season, may be particularly important given the uncertainty over the situation in Russia. The next watch factors for the market will include how maize and soyabean crops in South America fare and the annual US area battle; however, there will always be as yet unknown influences.

Key Points

- Where the wheat stock build-up occurs is likely to be important in the face of political/economic uncertainty
- Weather will continue to be a key factor, with South America the next major watch area
- Price relationships favour a strong US soyabean area
- Markets likely to remain volatile

Global oilseed exports being driven by strong demand

Globally, demand for oilseeds has been strong during the first half of this season, with global net exports forecasted to be up by 3.7% year-on-year. In the EU, current forecasts for rapeseed crush margins have the potential to support continued demand during the latter half of the season.

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6 January 2015

Introduction

Our earlier insight into the oilseeds market suggested that increased global oilseeds forecasts were outweighing the bullish market drivers. This sentiment was reiterated in mid-December when the USDA once again increased their estimates for global oilseed production to a record 679.7Mt.

Higher European rapeseed consumption

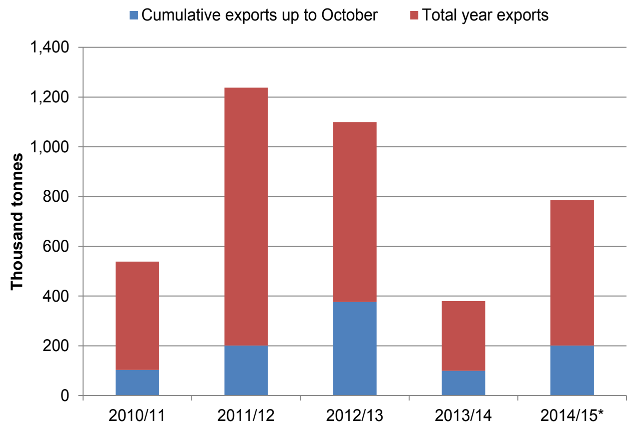
EU rapeseed consumption in 2014/15 is forecast marginally higher than in 2013/14, at 24.9Mt. The slight uplift is owing to **ample domestic supplies and favourable processing margins**, according to the International Grains Council (IGC). Strategie Grains' calculations suggest that EU crush margins should reach a record level in 2014/15, with improvements expected over the second half of the season. Rapeseed directly fed to animals makes up a small proportion of EU rapeseed demand, equating to 3% of total domestic rapeseed consumption.

EU imports of rapeseed are expected to fall steeply in 2014/15, compared with last year, with the IGC predicting that 2.3Mt of rapeseed will be purchased (3.2Mt in 2013/14). Strategie Grains expect that import volumes will be even less, at 2.2Mt.

UK rapeseed exports take a dip in October

So far this season, the UK has exported just over 200Kt of rapeseed, and remains a net-exporter for the 5th year in a row. **The UK has exported 34.4% of Strategie Grains' full season export forecast**, a similar pace to last year.

Figure 1 UK cumulative exports at end of October against total season exports



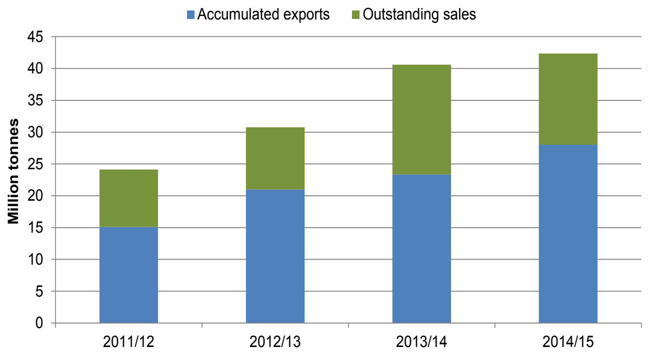
**2014/15 total year exports: Strategie Grains forecast* *Source: HMR&C*

However, anecdotal evidence suggests that farmers could have been holding on to rapeseed during this season so far, due to lower than average prices.

Strong US soyabean export progress remains

Much of the focus this season has been concentrated on exceptionally strong demand for US soyabeans. Accumulated exports of US soyabeans for the current marketing year had reached 28Mt by 25 December, an increase of 1.1Mt since the previous week, and ahead of the amount exported by the same time last year (23.4Mt). Total export commitments (outstanding sales plus accumulated exports) stand at 42.3Mt, also ahead of the 40.6Mt committed by the same point in time in 2013/14.

Figure 2 Total US soyabean export commitments as at fourth week of December



Source: USDA

US soyabean crush levels are also at record highs, according to the latest data released by the National Oilseeds Processors Association (NOPA). At 4.4Mt, the amount of soyabeans crushed in November was the fourth largest monthly crush on record. However, the season to date cumulative crush rate is slightly behind last year's level; in addition, the latest data fell short of some industry expectations. This is perhaps as a reflection of high soyameal prices and recent logistical issues in the US. The implications of the most recent crush data were addressed in this recent Grain Market Daily.

South America

At this stage in the season, it is still too early to tell the potential trade patterns for South American soyabeans as planting is still in progress. The USDA has currently forecast Brazilian soyabean exports at 46Mt, slightly down on last year, while Argentina's soyabean exports are estimated to be marginally higher than last year, at 8Mt.

Concluding comments

Overall global trade for oilseeds is forecasted to be up on last year's estimates, with global consumption also rising. Looking ahead, with the majority of the world's supplies of oilseeds produced in South America, focus will shift to how the soyabean crops in Argentina and Brazil develop, and price this into the market as necessary. Closer to home, demand certainly looks like it will continue to be strong in the EU, supported by the current favourable crush margin forecasts.

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