

The Andersons Centre – Latest News Update

04 May 2010

Arable Markets

As the last futures contract for the 2009 harvest crop comes to an end (May 2010), the remainder of the old crop market is left in a situation of ever decreasing volume and therefore falling fluidity. The market will therefore become less predictable (not that it ever is). Prices will increasingly move because of position squaring and regional hot spots rather than fundamentals. This could, of course, go either way for grain long-holders such as farmers with unsold stock. Some believe the late start to the spring could push the harvest back providing a brief but valuable old crop marketing opportunity. Our experience though suggests that wheat (and other crops) have a remarkable ability to claw back time following harsh winters.

The EU has had a very successful month of grain exports to non-EU countries; some to regular customers, some to more 'exotic' locations and also some unlikely destinations such as an unconfirmed report of sales to the US (the biggest grain exporter of all). This has been bullish to EU prices, coupled with the fall of the Euro making European grain prices more competitive. Despite not being part of the Eurozone, the UK has also done rather well, with considerable sales of UK wheat. These sales were made when the UK prices were discounted to other EU locations. Now the boats are being filled and merchants need to procure sufficient grain, UK ex-farm wheat prices have firmed (see chart below).

MAY 2010 LIFFE FUTURES



This could be seen as an opportunity to sell any remaining old crop grain on a price ridge whilst the physical demand is still high. This price rise has closed the gap between UK and French prices, making further UK export sales far less likely. Furthermore, the carry over into new crop now looks substantially smaller, providing support for the new crop values.

However, we perhaps should not get carried away. The US Department of Agriculture (USDA) expects grain carry over stocks into the 2010 harvest year to be 30mt higher than last year (which was 43mt higher than the previous one). This is despite consumption rising, and production falling in 2009 compared 2008. All of this increase in stocks is wheat, with virtually no change in coarse (feed) grains. At 17mt, European wheat stocks are seen a million tonnes lower than last year but still 6mt above the 2007 year's close of 12mt. We should still be aware that consumers globally are unlikely to struggle to buy the tonnages they require this coming season. Severe drought is still a possibility, but the rise in wheat stocks this coming year is roughly equal to the total exports of Australia and Canada combined, the second and third largest wheat exporters by volume.

We also note the prices for the 2011 crop appear attractive compared with what is available for old and new crops, with futures as high as £123 per tonne for May 2012. Whilst this is a long way ahead, for those forward thinkers, it might be worth a hedge on 5-10% of their next crop.

On the oilseeds front, soybeans remain fairly well supplied. As the Pound has strengthened against the Dollar this month, prices ought to have fallen. However, they have actually risen on the back of what is probably a short-term trade disagreement between the Chinese and Argentinean governments. China imports half of all traded soybean (and a fair chunk of soy oil) and Argentina is the third largest soybean exporter and the largest oil exporter by far. Trade between the two is therefore important. Whilst the Chinese are buying from the US instead, the whole oilseed price matrix is fuelled. This might not last long though, so those with oilseed rape in the ground might consider selling a proportion, especially those looking to sell before or move at harvest time.

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