Grain market outlook 2020
Welcome from Cereals and Oilseeds Chairman Paul Temple
Today’s agenda

• Welcome & introductions (3 min)

• Global session (includes a Q&A) (20 min)

• Interval (5 min)

• UK session (includes a Q&A) (20 min)

• Chair’s summary (3 min)
Global session

Global factors affecting markets in 2020/21 and beyond
Grain supply and demand

Source: USDA

Maize Production
Wheat Production
Barley Production
Consumption
Ending stocks

Stocks-to-use of key grains exc. China

Source: USDA

Wheat
Barley
Maize
Soyabean and OSR stocks-to-use

Source: USDA
Political and economic landscape

- Backdrop of political and economic uncertainty.
- US election uncertainty
- China trade disputes
- Russian control over food supply
- Brexit!
- South American economic uncertainty

Source: OECD
A timeline for US political and economic uncertainty

4 Nov 2020
US election

2-3 Nov 2020
Purchasing managers index (Oct 2020)
US factory orders

5-6 Nov 2020
US interest rates
Unemployment statistics (Oct 2020)

12 Nov 2020
Consumer price inflation (Oct 2020)

17 Nov 2020
Retail sales data
Industrial production data (Oct 2020)

23-25 Nov 2020
Purchasing managers index flash (Nov 2020)
Consumer confidence
Q3 GDP estimate final

10 Dec 2020
Consumer price inflation (Nov 2020)

23 Dec 2020
Consumption data (Nov 2020)

02 Oct 2020
Unemployment rate (Sept 2020)
US manufacturing orders (Aug 2020)

5 Oct 2020
Purchasing managers index (Sep 2020)

13 Oct 2020
Consumer price inflation (Sep 2020)

15 Oct 2020
Purchasing managers index (Oct 2020)
US factory orders

23 Oct 2020
Purchasing managers index flash (Oct 2020)

27 Oct 2020
Consumer confidence

29-30 Oct 2020
Q3 GDP estimate
US Consumption data

15-16 Dec 2020
Industrial production and retail sales (Nov 2020)
US interest rates

23 Dec 2020
Consumer confidence
Speculative trading in grains and oilseeds… where will it end?

100 day average of exchange trade funds volume on New York Stock Exchange

- Maize
- Soya

Source: Refinitiv

Annualised index of Dow Jones Industrial index

- 3 June

Source: Refinitiv
How long can Chinese purchases support soyabeans: A saviour or false prophet?

Pork production trailing in wake of ASF but stocks rebuild hint at size of herd restocking

With record Brazilian shipments driving stocks

Source: USDA
La Niña – South American crops more exposed?

- Lower Argentine wheat & barley output expected
- Dryness putting maize and soyabean plantings at risk
- Brazilian soyabean planting delayed

Source: BAGE, NOAA
Dryness in the Black Sea

- Delays in Russian planting – early days yet, but extended dryness could extend price support
- If greater reliance on lower yielding spring wheat, potential to diminish crop size for 21/22 marketing year and increased volatility into the market
- Russian government stating quota still relevant, despite large crop this year. Currently quoted at 20Mt from Jan-Jun
- Lack of soil moisture delaying Ukrainian planting. Government still bullish on progress, and may see planting well into December
- Concerns over EU supply may bring increasing volatility to EU wheat and rapeseed markets
La Niña supporting Australian yields, but threat to quality?

- Last moderate La Nina 2010-11 brought wettest two-year period on record – and a strong 2011-12 crop

Sources: ABARES, Australian Bureau of Meteorology

Wheat production forecast to rebound 91%

Source: ABARES
Coronavirus – the big unknown for demand

- EU and USDA forecasting demand largely back to “normal” Q4 levels and beyond – but CV cases rising, and impacts on closing parts of industry sizeable

Weekly Coronavirus changes we 7-10-20

<table>
<thead>
<tr>
<th>Country</th>
<th>New cases</th>
<th>7 day % change</th>
<th>Total cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>531,368</td>
<td>-8</td>
<td>6,757,131</td>
</tr>
<tr>
<td>US</td>
<td>303,311</td>
<td>2</td>
<td>7,380,326</td>
</tr>
<tr>
<td>Brazil</td>
<td>181,711</td>
<td>-3</td>
<td>4,927,235</td>
</tr>
<tr>
<td>Argentina</td>
<td>86,596</td>
<td>4</td>
<td>809,728</td>
</tr>
<tr>
<td>UK</td>
<td>83,957</td>
<td>97</td>
<td>530,117</td>
</tr>
<tr>
<td>France</td>
<td>82,102</td>
<td>1</td>
<td>608,537</td>
</tr>
<tr>
<td>Russia</td>
<td>72,333</td>
<td>34</td>
<td>1,248,619</td>
</tr>
<tr>
<td>Spain</td>
<td>55,470</td>
<td>-24</td>
<td>825,410</td>
</tr>
</tbody>
</table>

Source: WHO

UK barley usage recovered in August, but effect of subsequent lockdowns?

Source: AHDB
US ethanol demand in question

Potential impact of reduced ethanol production on maize consumption

- US maize usage in ethanol figures
- Calculated maize usage from USDA FSI maize forecast
- 10% drop in usage for ethanol from forecast
- 5% drop in usage for ethanol from forecast

US fuel ethanol production as a % of nameplate capacity*

Source: US Energy Information Administration

*2020 data uses 2019 nameplate capacity data
Global session summary – winter of volatility ahead

**Political & economic**
- Clear potential for volatility in currency markets.
- Market risks from US elections.
- Speculative trade playing a key role in price formation.

**Weather**
- La Nina rains shaping a forecast 91% rise in Australian wheat production
- Still planting opportunity until Nov/Dec for Black Sea region
- Early days for South American planting, but soil moisture deficits may need considerable rain to rebound

**Coronavirus**
- Many Western countries appearing to enter a second wave
- Much of the forward forecasts for H&I use have not factored in a demand hit from a second wave – might numbers shock markets?
UK session

The outlook for the domestic market in 2020/21 and beyond
UK 2020 production shows the effects of a challenging growing season
Price incentivising barley usage as animal feed but could we also see a switch to maize?

Barley inclusions already high in compound feed*, maize rising?

Imported maize competitive through July

- Feed wheat Delivered Yorkshire (Nov)
- Ukrainian maize delivered compounder (Oct)

*Ukrainian FOB price + indicative transport costs

Source: AHDB, Defra

*GB compounders & Integrated Poultry Units

Source: AHDB
Coronavirus impacts on malting barley and industrial wheat usage likely to continue

Barley usage by Brewers, Maltsters and Distillers compared to licensed venues trading
- Total Barley Usage by Brewers, Maltsters and Distillers (Kt)
- Proportion of licensed venues trading (%)

Source: AHDB, CGA

'Other flour' production – indicates trends in wheat used in starch and ethanol production

Source: AHDB
Supply challenge for flour milling sector

Little change to total flour produced in UK (excluding ‘other’ flour*), during lockdown

Source: AHDB

GB production of nabim Group 1 wheat meeting a full milling specification

Source: AHDB

*‘other’ flour includes flour equivalents for starch and bioethanol production.
UK wheat area could rebound for harvest 2021 but OSR looks set to shrink again

Top 6 ranking crop gross margins for harvest 2021

<table>
<thead>
<tr>
<th>Rank</th>
<th>Crop Name</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Winter milling wheat</td>
<td>No change</td>
</tr>
<tr>
<td>2</td>
<td>Winter OSR</td>
<td>+7</td>
</tr>
<tr>
<td>3</td>
<td>Winter feed wheat</td>
<td>-1</td>
</tr>
<tr>
<td>4</td>
<td>Spring malting barley</td>
<td>-1</td>
</tr>
<tr>
<td>5</td>
<td>Winter feed barley</td>
<td>+3</td>
</tr>
<tr>
<td>6</td>
<td>Winter milling oats</td>
<td>+4</td>
</tr>
</tbody>
</table>

Cabbage Stem Flea Beetle damage reported to crops in 2018

Source: Defra, AHDB, industry sources
UK general tariff for imports

<table>
<thead>
<tr>
<th>Imports</th>
<th>HS Code</th>
<th>UK General Tariff</th>
<th>Current – EU</th>
<th>Current - Non-EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat – high quality</td>
<td>1001 99 00 13</td>
<td>£0/t</td>
<td>€0/t</td>
<td>€0/t</td>
</tr>
<tr>
<td>Wheat – all other</td>
<td>1001 99 00 40/50</td>
<td>£79/t</td>
<td>€0/t</td>
<td>€95/t (€12/t inside TRQ)</td>
</tr>
<tr>
<td>Maize</td>
<td>1005 90 00</td>
<td>£0/t</td>
<td>€0/t</td>
<td>flexible tariff</td>
</tr>
<tr>
<td>Soyabees</td>
<td>1201 90 00</td>
<td>£0/t</td>
<td>€0/t</td>
<td>€0/t</td>
</tr>
<tr>
<td>Oilseed rape</td>
<td>1205 90 00</td>
<td>£0/t</td>
<td>€0/t</td>
<td>€0/t</td>
</tr>
</tbody>
</table>

- High quality wheat defined as 14.6% protein (at 13.5% moisture), 78 kg/hl specific weight and 230s HFN.
  - This would allow imports of high quality North American wheat, quality dependent.
  - Will there be any tolerances in place? EU has a 0.7% protein tolerance at 12% moisture.

- Likely to see considerable maize imports after 1 January 2021 with uncertainty over access to imports of lower quality wheat.

- Will we see a trade deal?
## Risk for exports

<table>
<thead>
<tr>
<th>Exports</th>
<th>HS Code</th>
<th>Tariff to export to the EU after 31 Dec</th>
<th>Tariff Rate Quota rate</th>
<th>EU Tariff Rate Quota volume in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley</td>
<td>1003 10 00</td>
<td>€93/t</td>
<td>€16/t</td>
<td>0.3Mt</td>
</tr>
<tr>
<td>Oats</td>
<td>1004 90 00</td>
<td>€89/t</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Wheat</td>
<td>1001 99 00 40/50</td>
<td>€95/t</td>
<td>€12/t</td>
<td>2.5Mt</td>
</tr>
<tr>
<td>Malt</td>
<td>1107 10 99</td>
<td>€131/t</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Flour</td>
<td>1101 00 15</td>
<td>€172</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

- There are significant tariff risks for UK exports beyond 31 Dec 2020, particularly for barley with big exportable surplus and small TRQ.
- Won’t necessarily feel the full force of a barley tariff, we don’t need to take a €93/t cut on prices, just need to price in to the next cheapest destination.
- Oats a significant price risk with a 1Mt+ crop for the second year running.
Outside the fundamentals, currency is key!

Source: Refinitiv
A timeline for UK political and economic uncertainty

- **7-9 Oct 2020**
  - House prices and UK productivity
  - Covid impact on economy
  - GDP figures (Aug 2020)

- **13 Oct 2020**
  - UK unemployment figures

- **21-23 Oct 2020**
  - UK inflation and public sector finances (Sep 2020)
  - *UK house price index (Aug 2020)*
  - Covid impact on the UK economy
  - *UK retail sales (Sep 2020)*
  - Trade in goods and services (Apr-Jun 2020)

- **30 Oct 2020**
  - UK national accounts and Balance of Payments

- **19 Oct 2020**
  - UK government debt and deficit (June 2020)

- **12 Nov 2020**
  - UK GDP estimates (Sep 2020) and Q3

- **5 Nov 2020**
  - UK interest rate and asset purchase decision

- **18 Nov 2020**
  - UK inflation and house price index

- **10 Nov 2020**
  - UK unemployment figures

- **10 Dec 2020**
  - UK GDP estimate (Oct 2020)

- **31 Dec 2020**
  - End of the transition period

- **15-18 Dec 2020**
  - UK unemployment figures (Dec 2020)
  - UK inflation data (Nov 2020)
  - UK interest rate and asset purchases
  - UK retail sales data (Nov 2020)

- **22 Dec 2020**
  - Quarterly national accounts (Jul-Sep 2020)
  - Public sector finances (Nov 2020)
UK session summary - volatility in sterling is the only certainty

**Political & economic**
- Knock-on from global factors
- Will we have an EU exit trade deal?
- Increased volatility!

**Weather**
- Wheat area rebound but could further grains be limited as still blackgrass?
- OSR issues with CSFB continue

**Coronavirus**
- Uncertain demand back-drop
- Increased volatility!
‘Inspiring our farmers, growers and industry to succeed in a rapidly changing world’