

Grain market outlook 2020



Welcome from Cereals and Oilseeds Chairman Paul Temple



13 October 2020

Grain market outlook 2020

James Webster, Vikki Campbell & Helen Plant, AHDB



Today's agenda

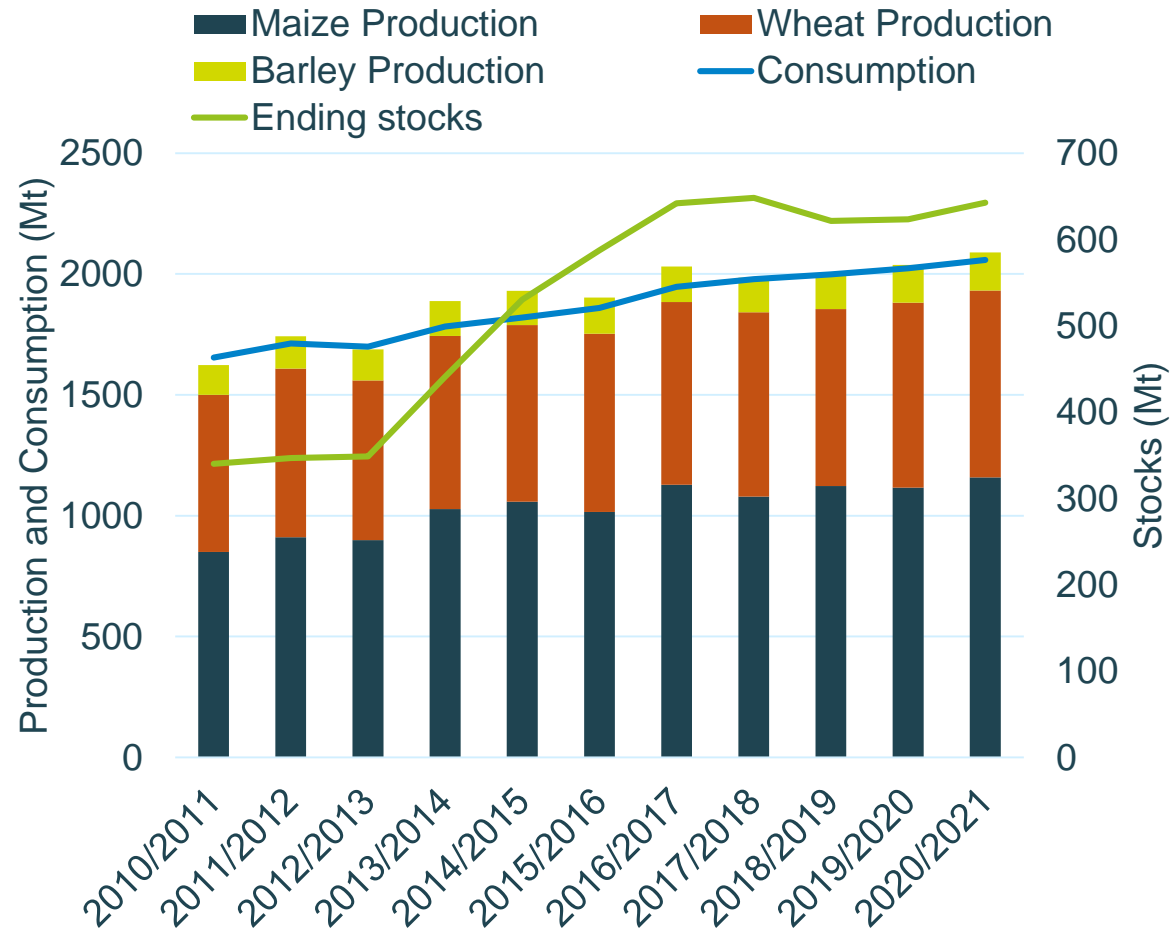
- Welcome & introductions (3 min)
- Global session (includes a Q&A) (20 min)
- Interval (5 min)
- UK session (includes a Q&A) (20 min)
- Chair's summary (3 min)

Global session

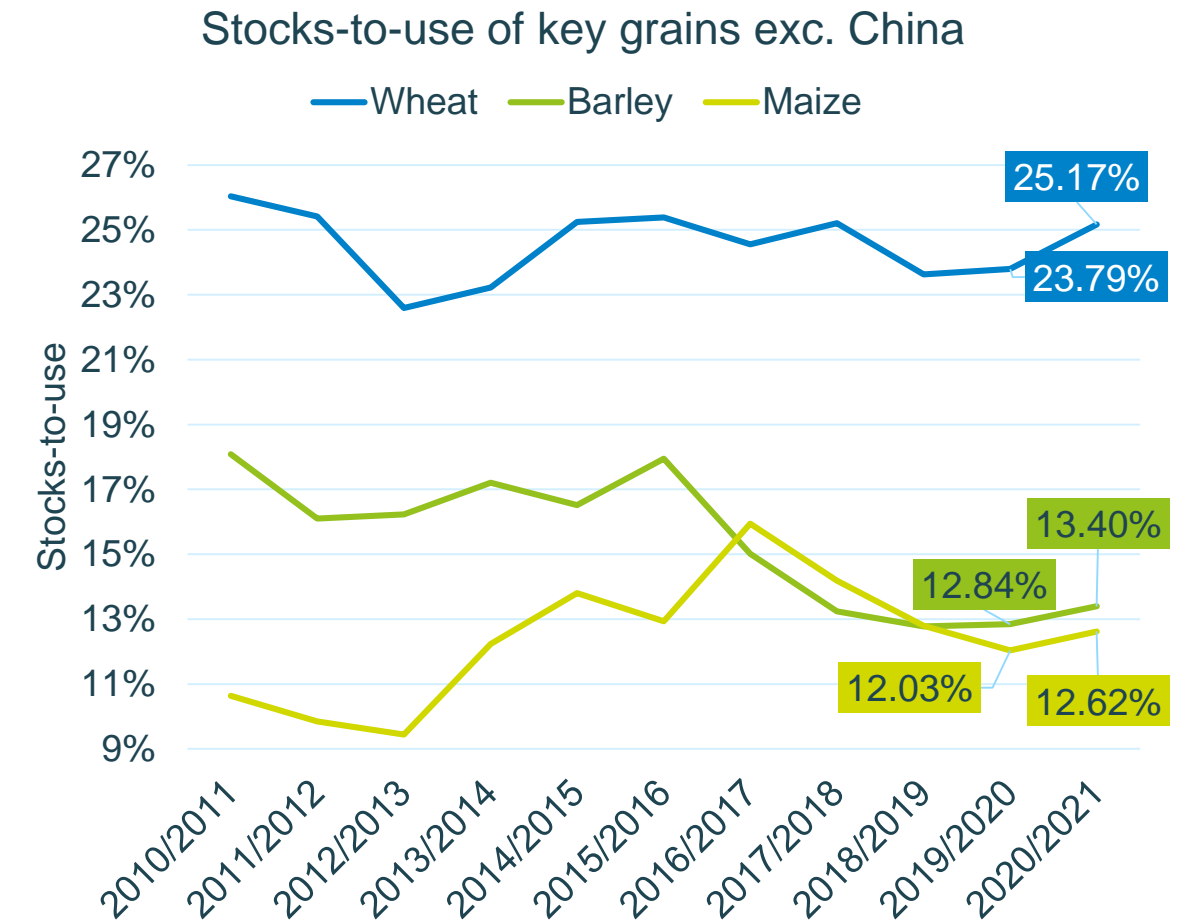
Global factors affecting markets in 2020/21 and beyond



Grain supply and demand



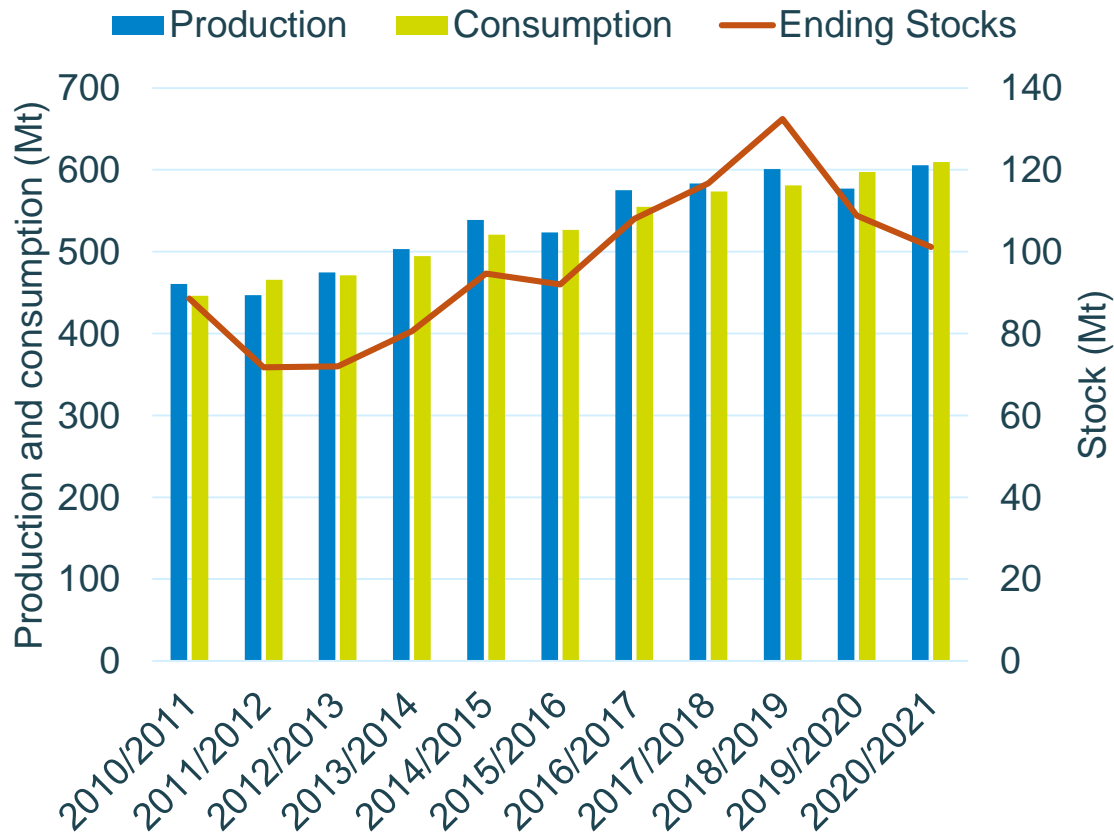
Source: USDA



Source: USDA

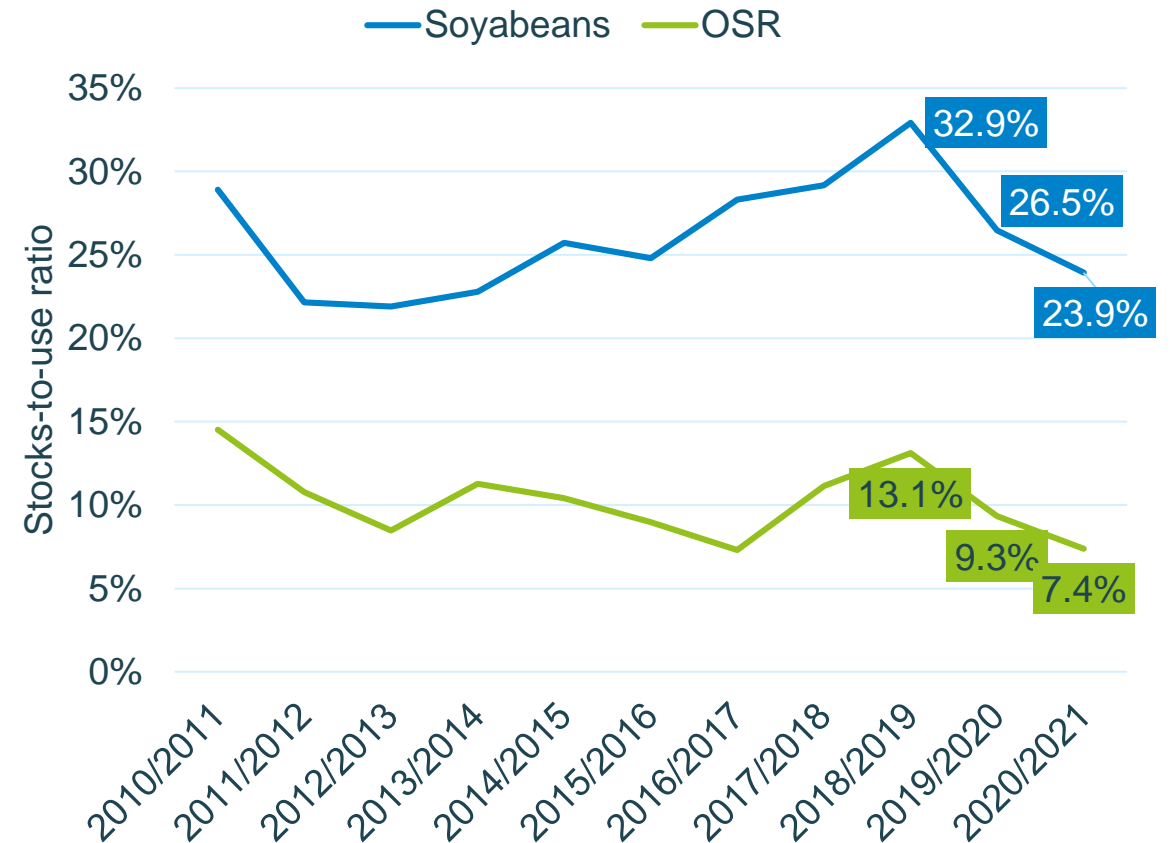
Oilseed supply and demand

Supply and demand of oilseeds*



*Soyabeans, OSR, sunflowerseed, peanut, cottonseed, coconut and palm kernel

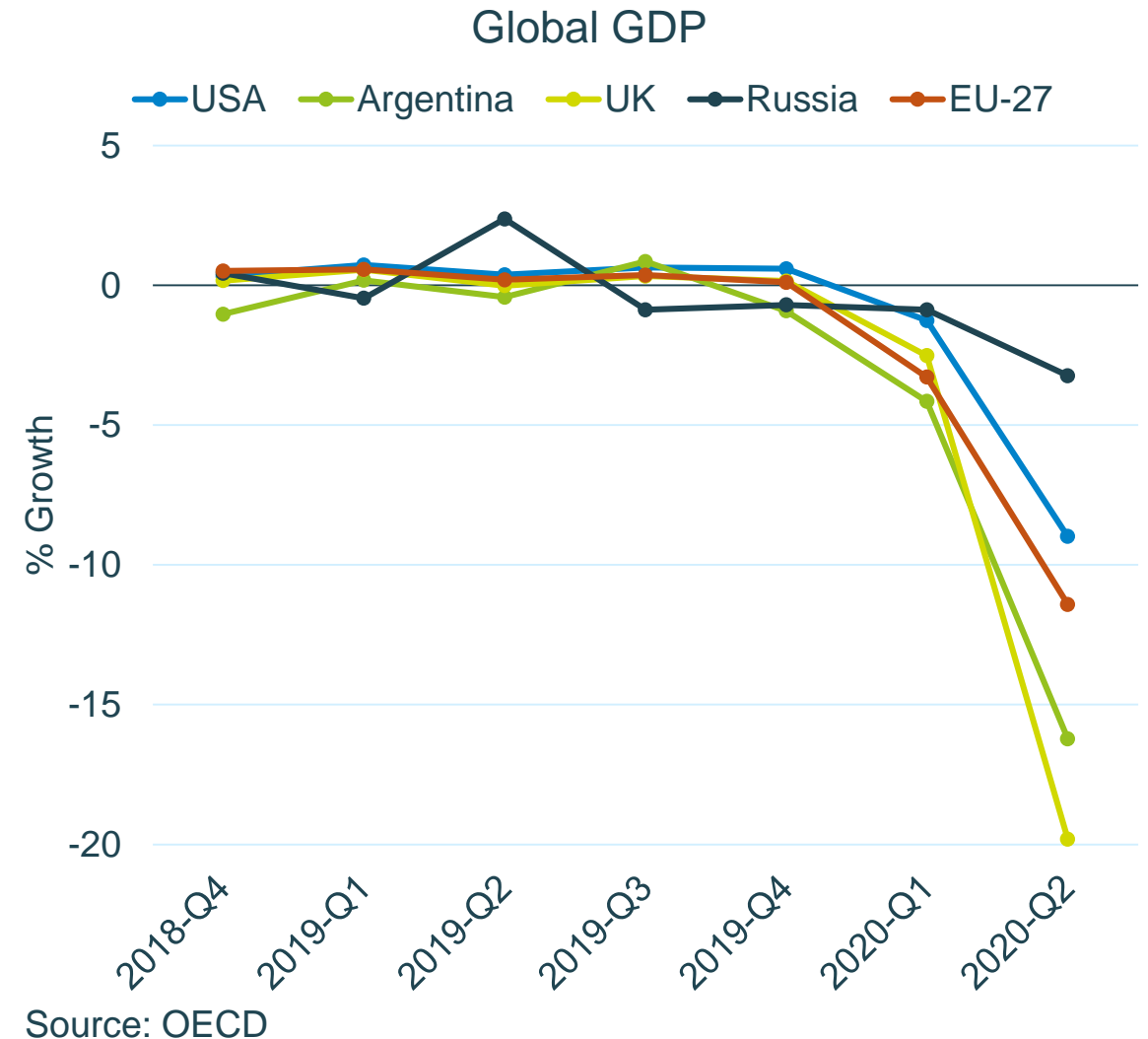
Soyabean and OSR stocks-to-use



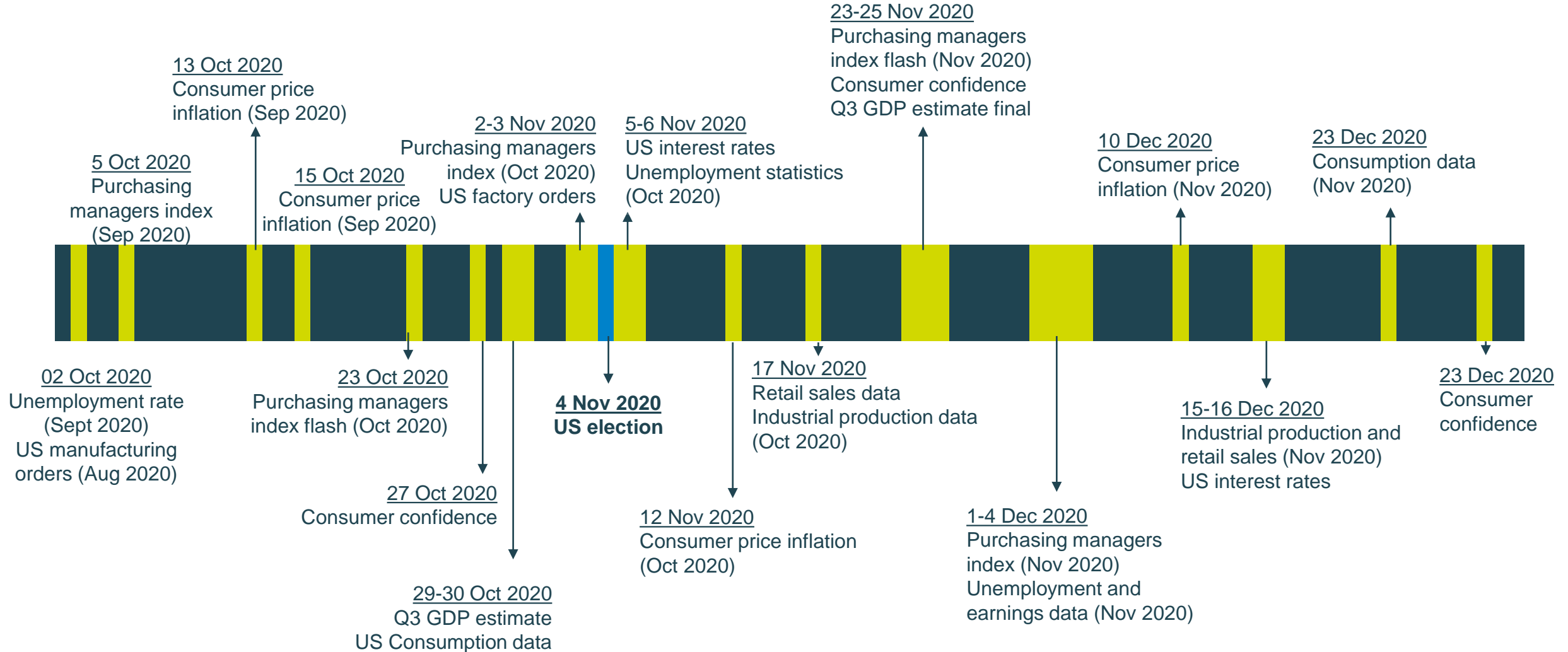
Source: USDA

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

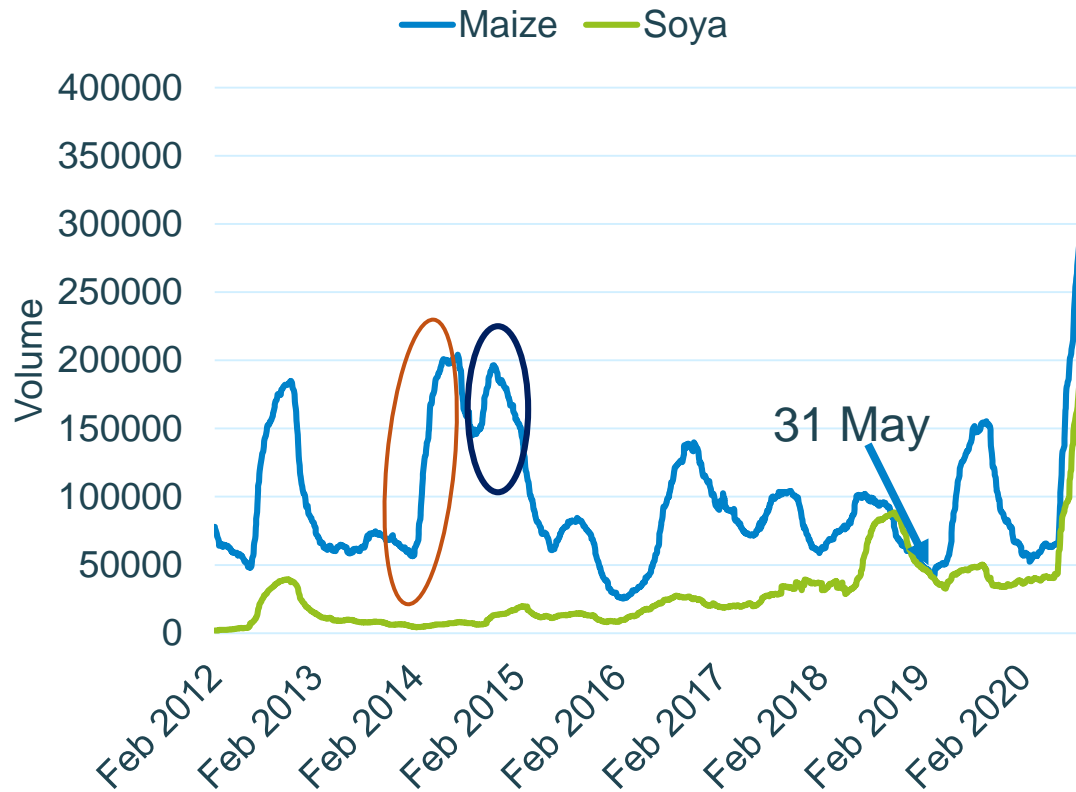


A timeline for US political and economic uncertainty



Speculative trading in grains and oilseeds... where will it end?

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



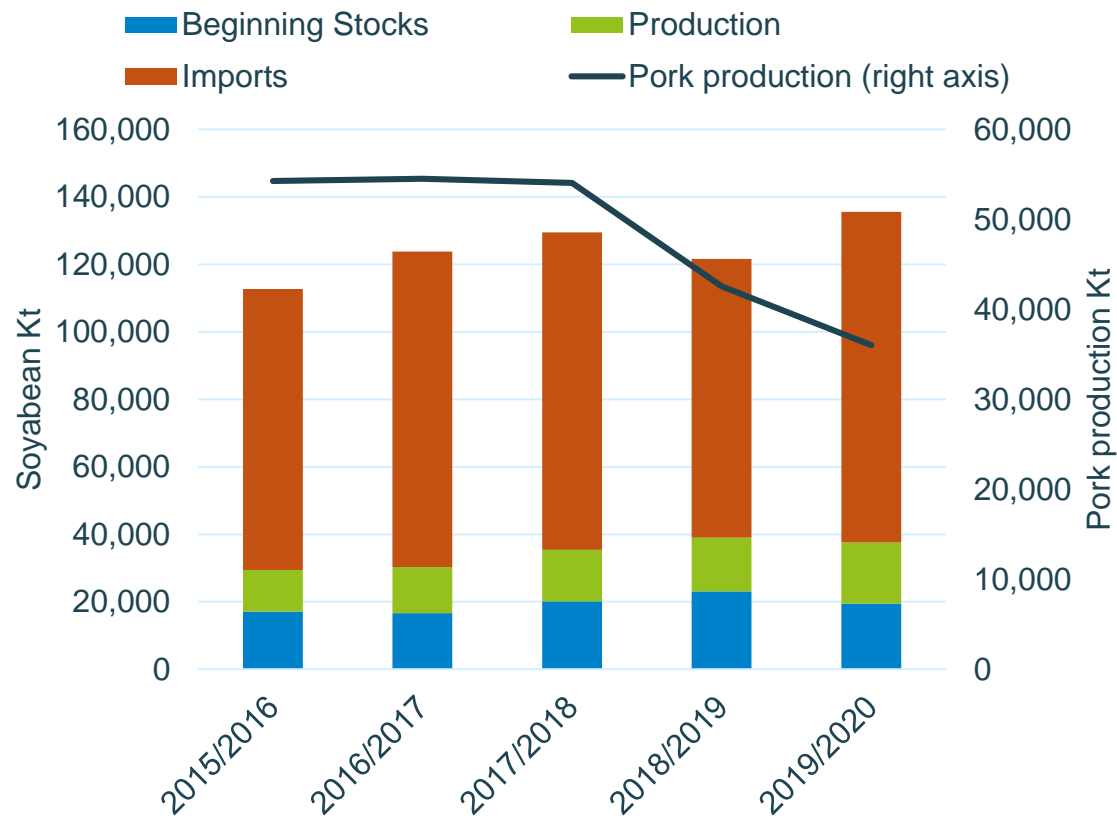
Source: Refinitiv

Annualised index of Dow Jones Industrial index



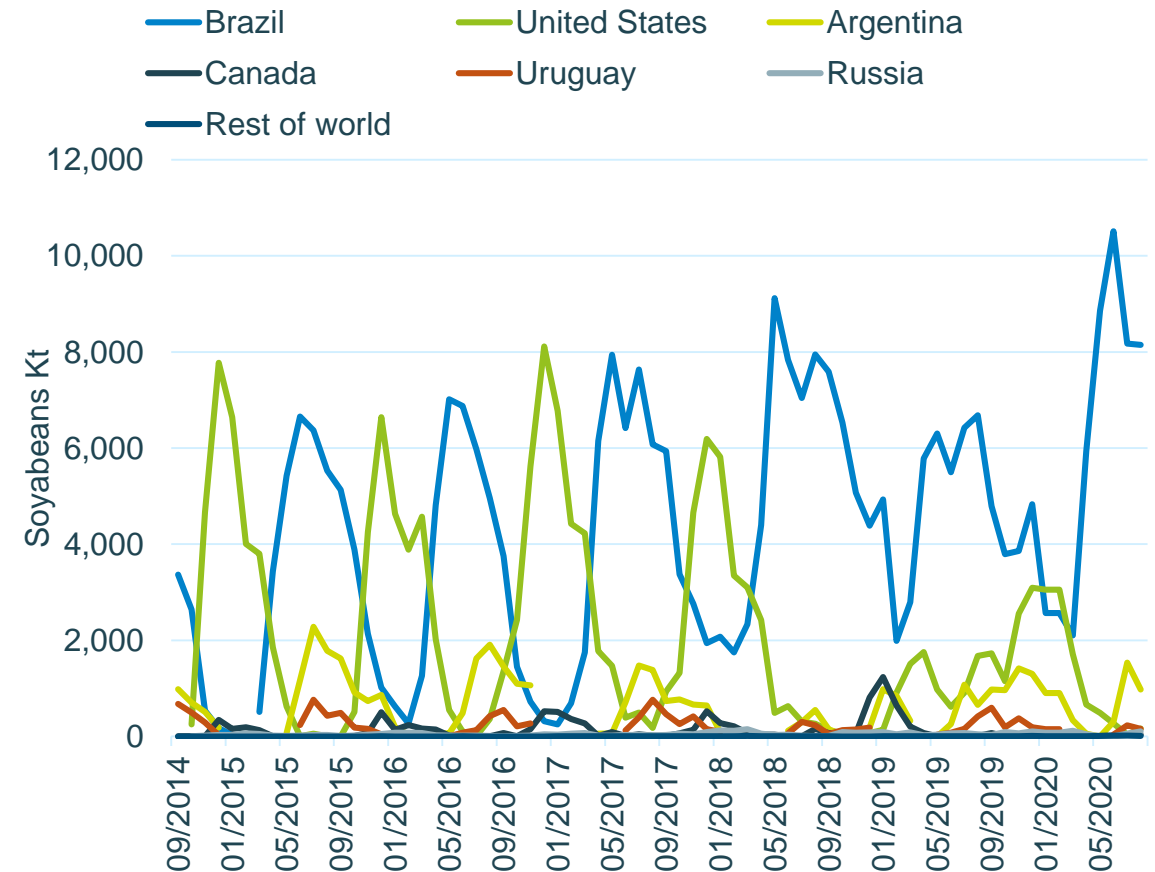
How long can Chinese purchases support soyabeans: A saviour or false prophet?

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



Source: USDA

With record Brazilian shipments driving stocks

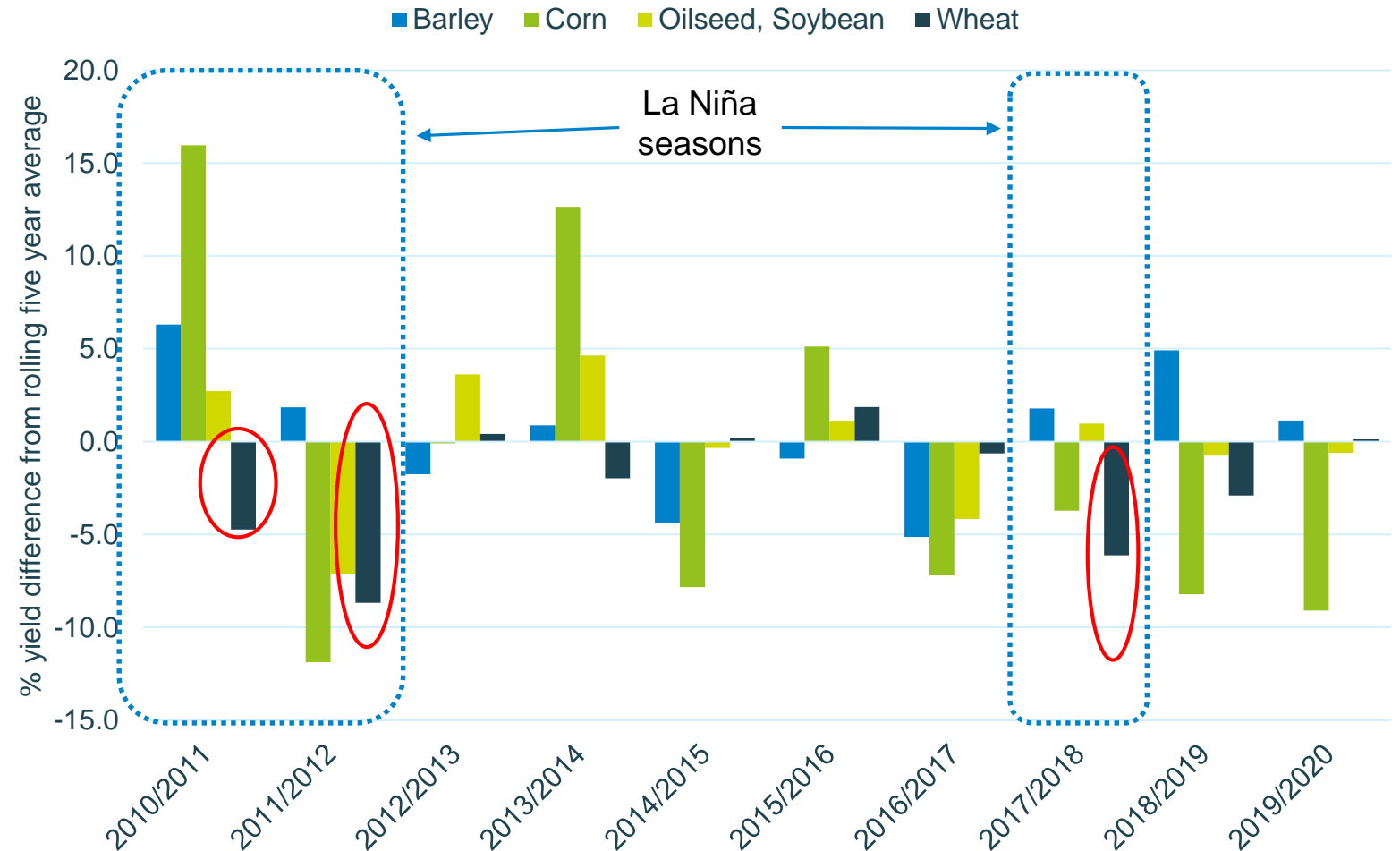


Source: USDA

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

Argentine wheat yields most noticeably back on average in La Niña seasons



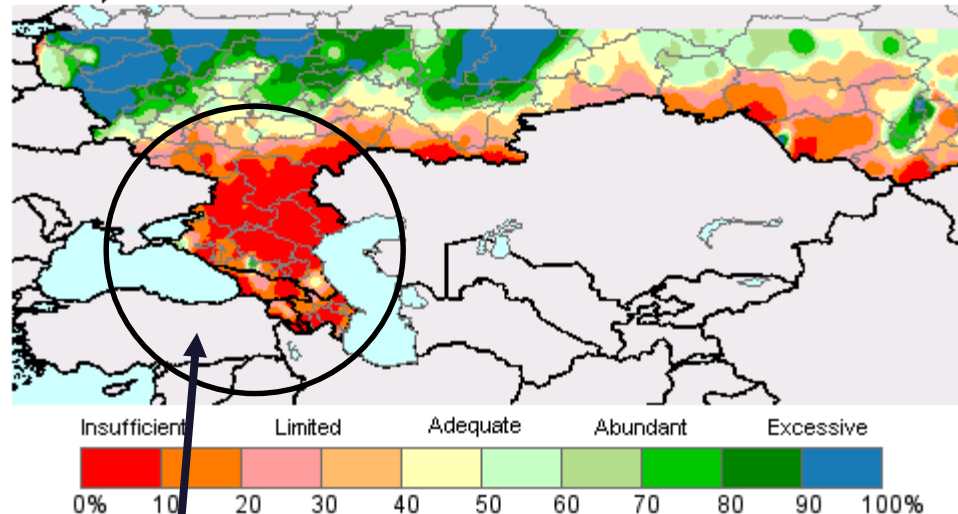
Source: BAGE, NOAA

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

Percent Soil Moisture (WMO)

Oct. 4, 2020



Foreign Agricultural Service
Global Market Analysis
International Production Assessment Division

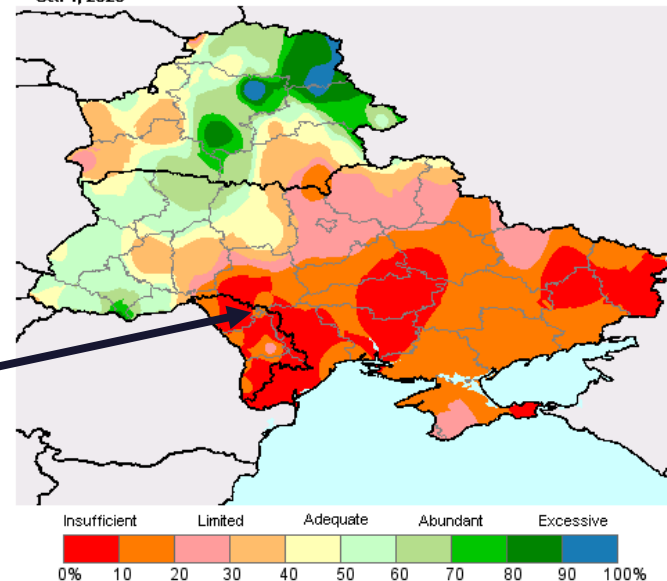
Source: World Meteorological Organization
<http://www.nws.noaa.gov/fscs/nwsgtfs.html>

Russian dryness

Soil moisture deficits in Ukraine

Percent Soil Moisture (WMO)

Oct. 4, 2020

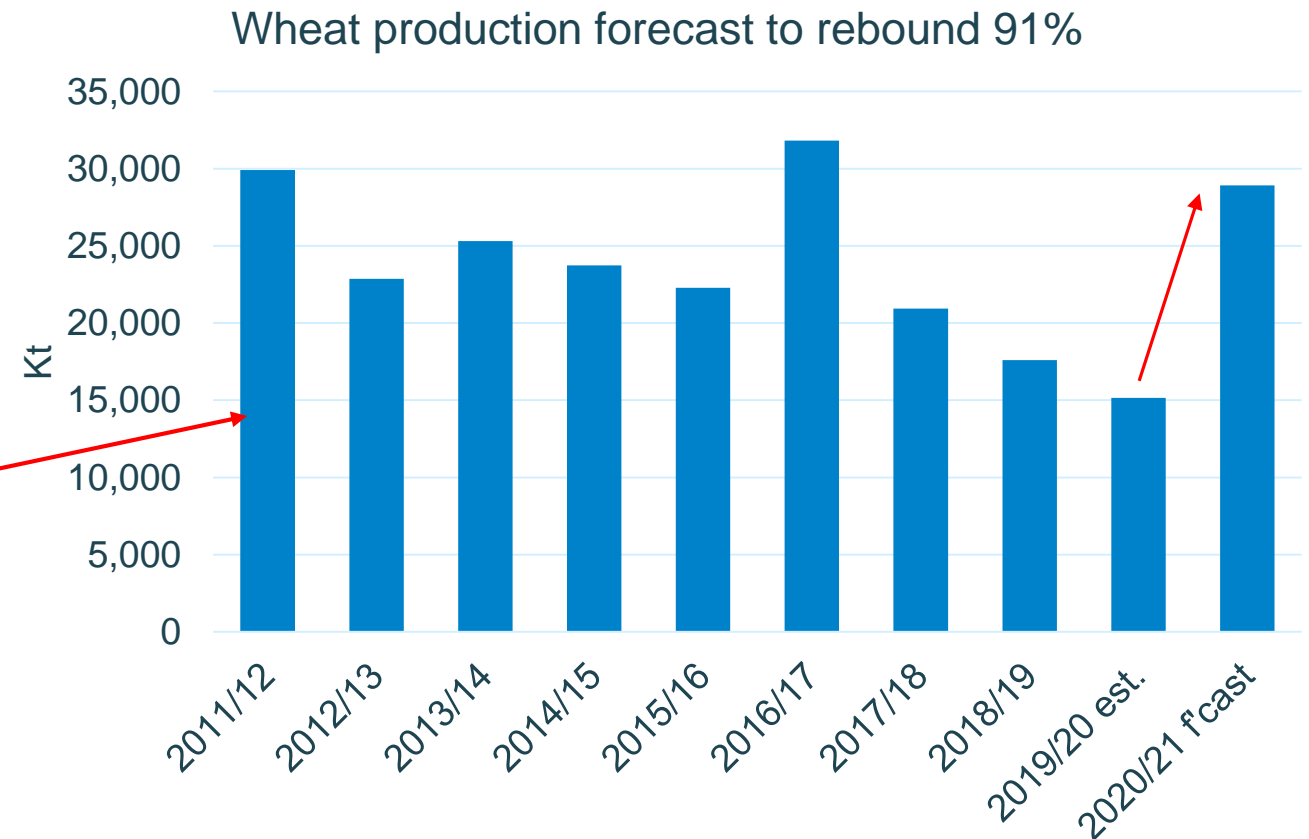
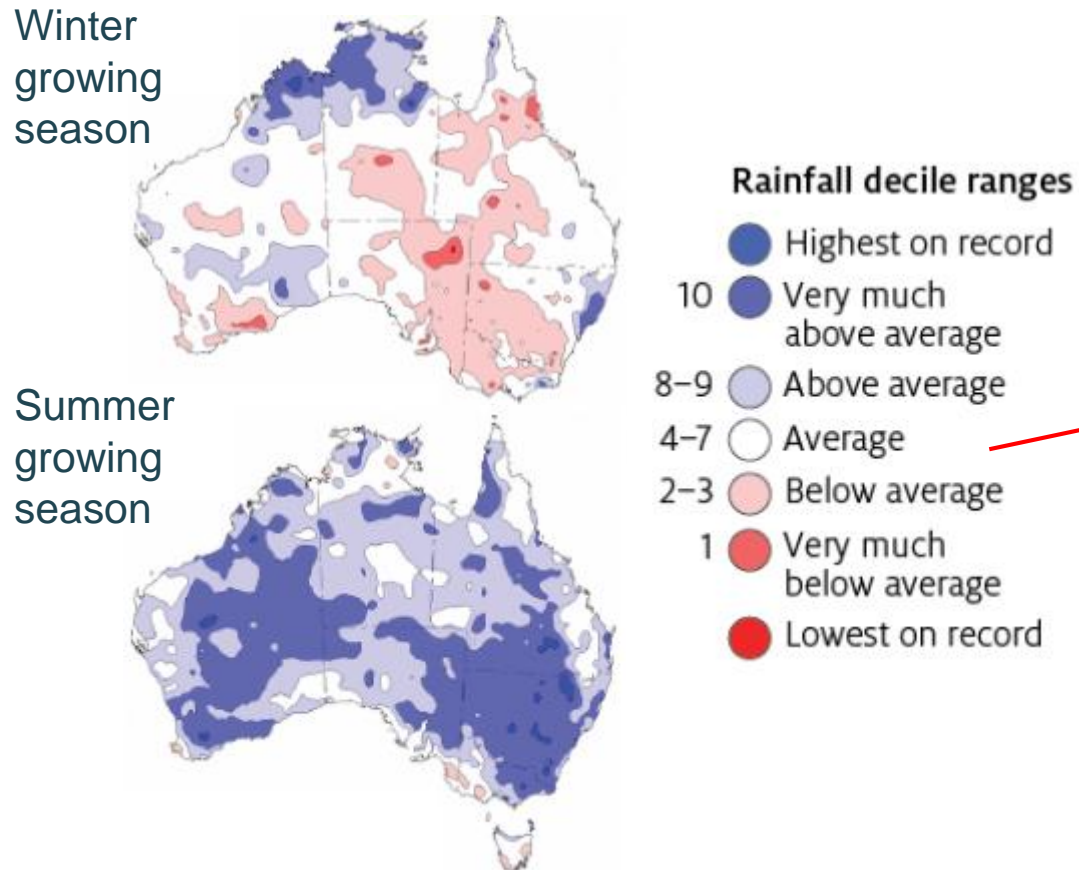


Foreign Agricultural Service
Global Market Analysis
International Production Assessment Division

Source: World Meteorological Organization
<http://www.nws.noaa.gov/fscs/nwsgtfs.html>

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



Source: ABARES

Coronavirus – the big unknown for demand

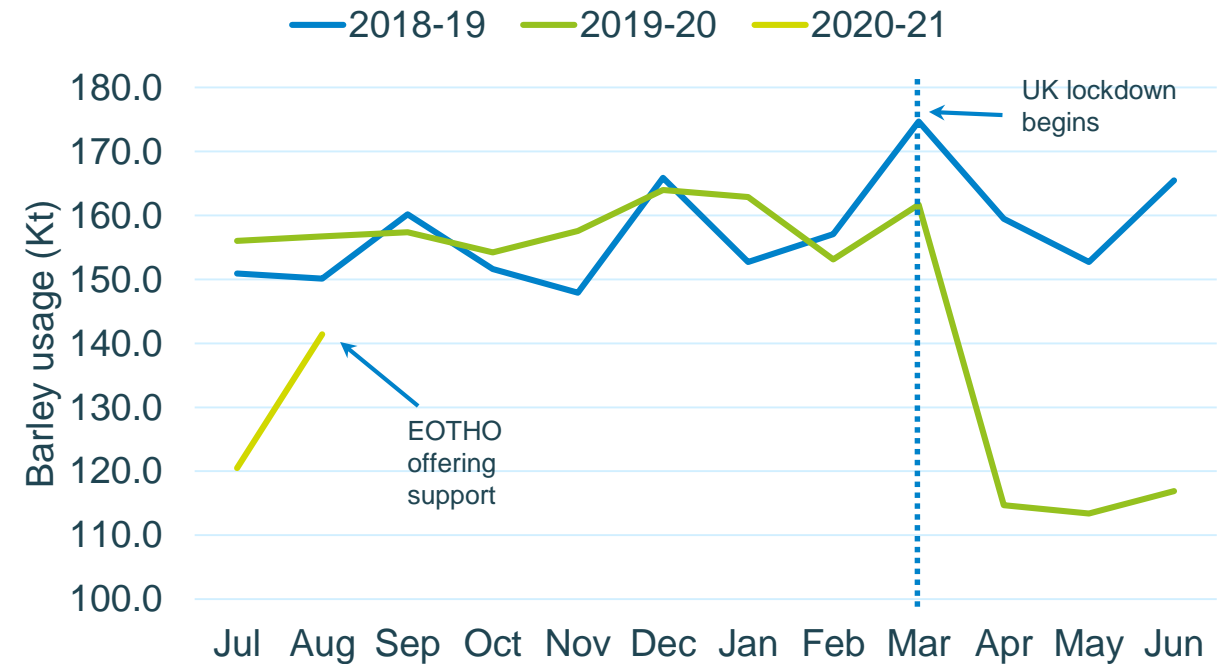
- EU and USDA forecasting demand largely back to “normal” Q4 levels and beyond – but CV cases rising, and impacts on closing parts of industry sizeable

Weekly Coronavirus changes we 7-10-20

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

Source: WHO

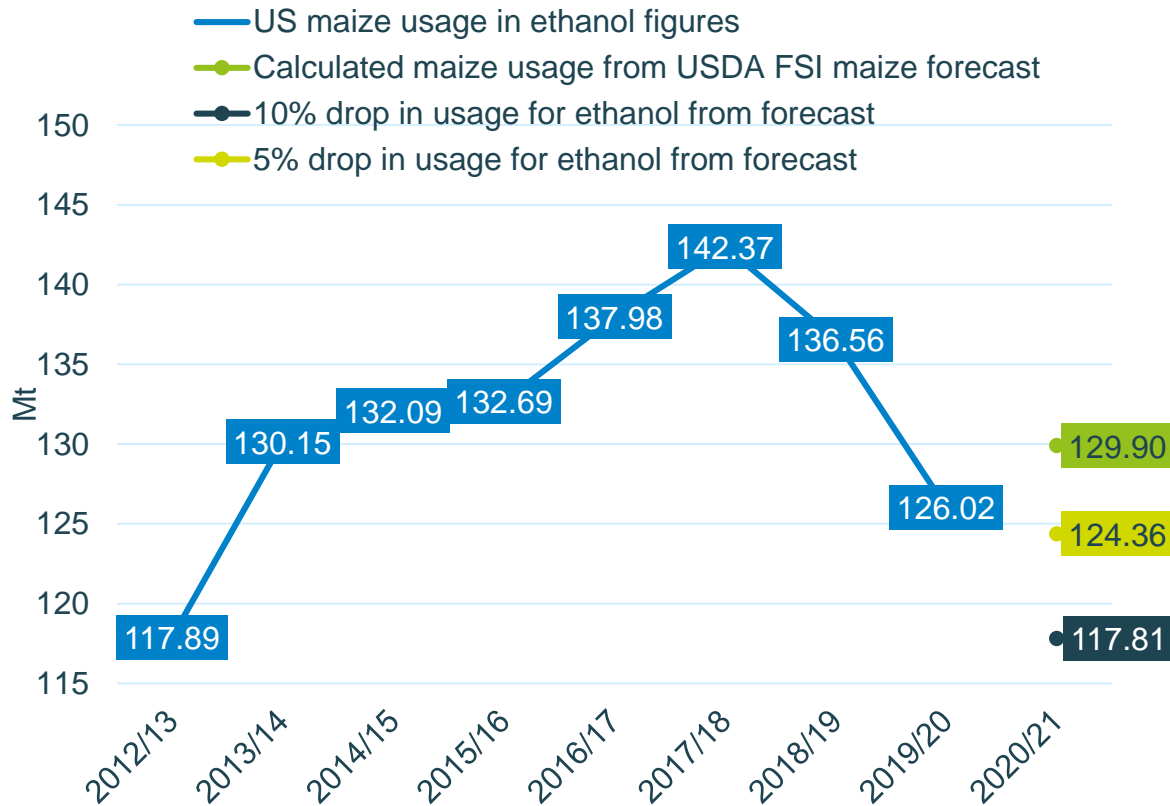
UK barley usage recovered in August, but effect of subsequent lockdowns?



Source: AHDB

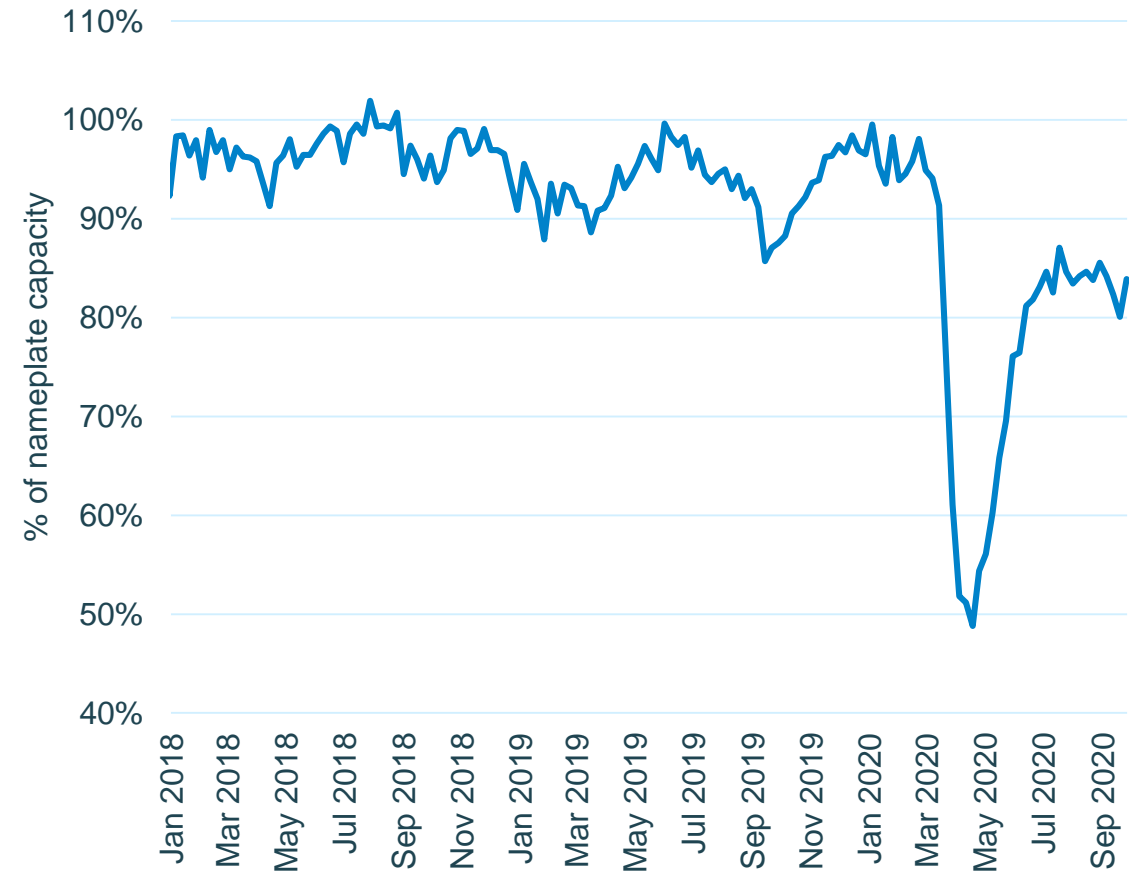
US ethanol demand in question

Potential impact of reduced ethanol production on maize consumption



Source: USDA

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

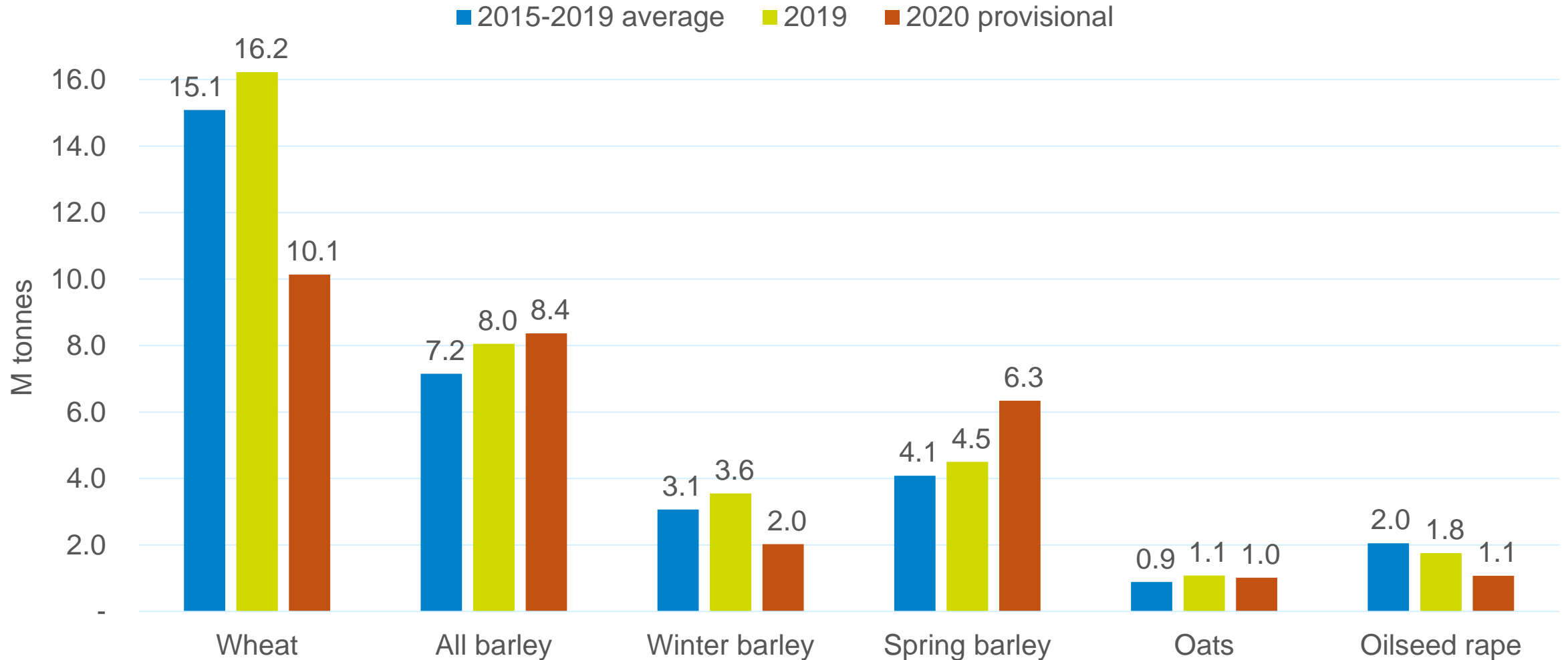
Coronavirus

- 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

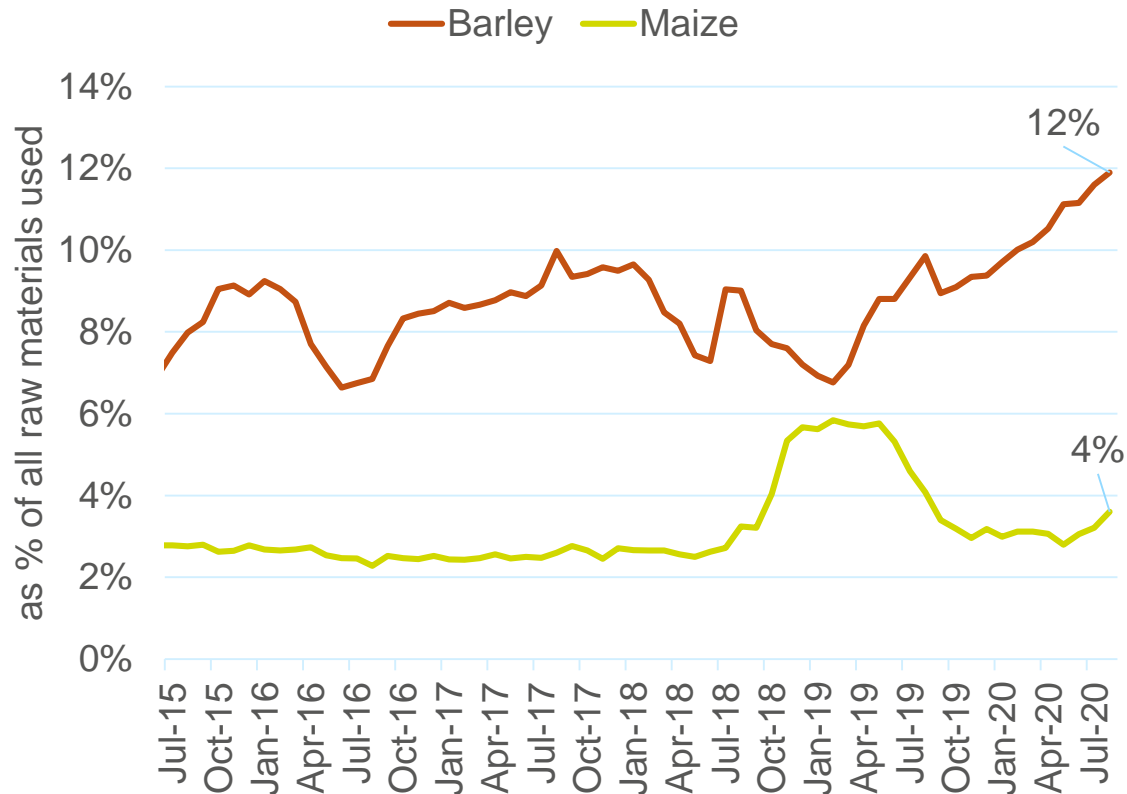
UK 2020 production shows the effects of a challenging growing season



Source: Defra

Price incentivising barley usage as animal feed but could we also see a switch to maize?

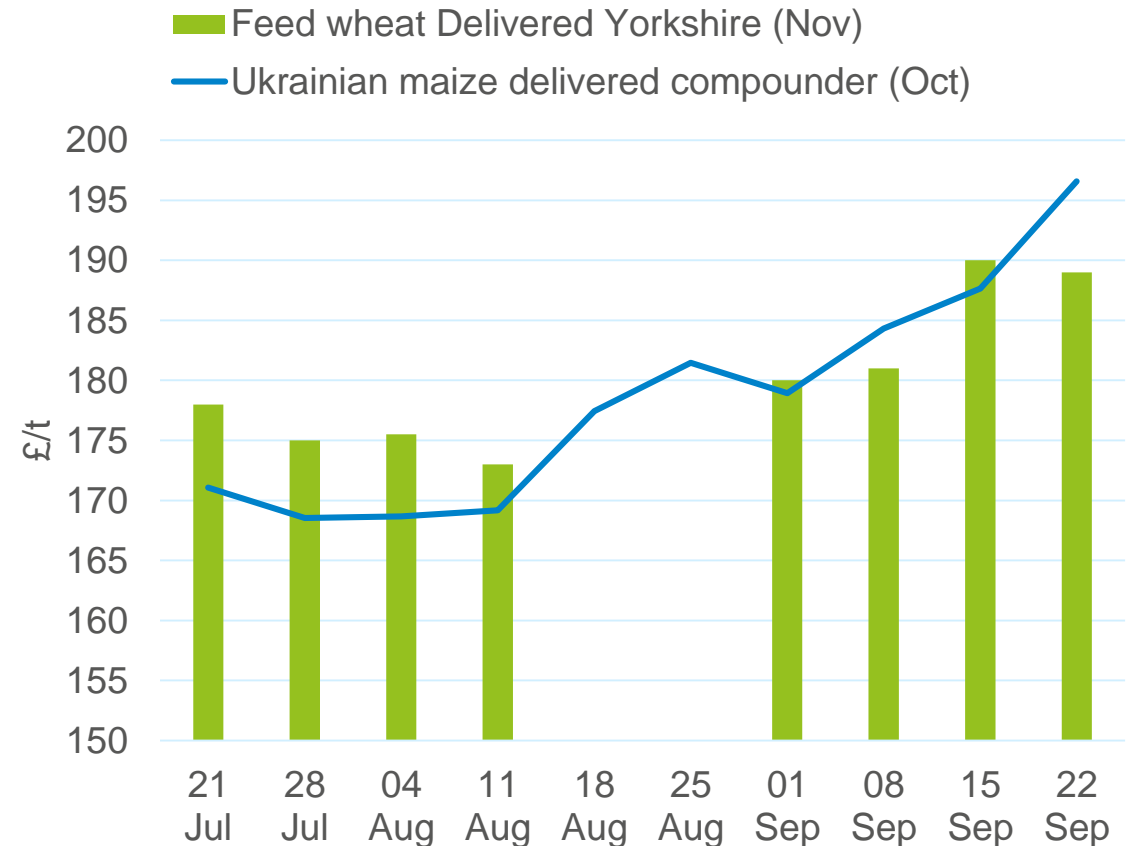
Barley inclusions already high in compound feed*, maize rising?



Source: AHDB, Defra

*GB compounders & Integrated Poultry Units

Imported maize competitive through July

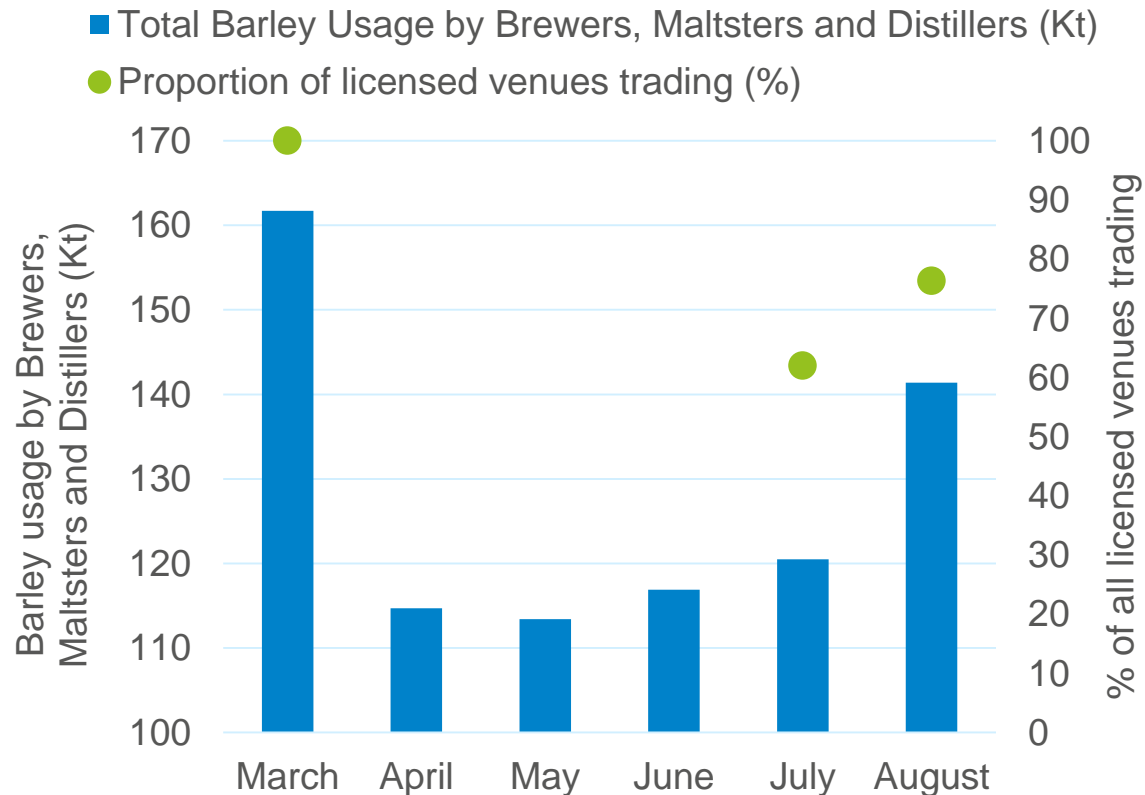


Source: AHDB

*Ukrainian FOB price + indicative transport costs

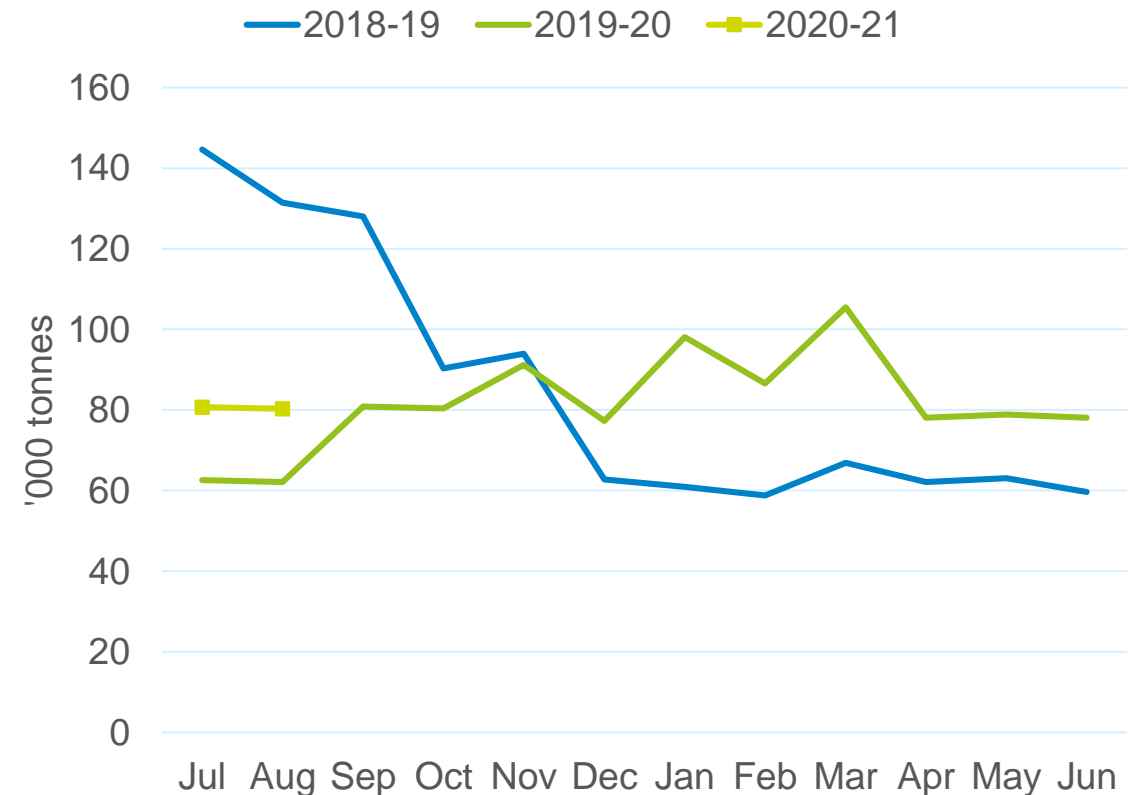
Coronavirus impacts on malting barley and industrial wheat usage likely to continue

Barley usage by Brewers, Maltsters and Distillers compared to licensed venues trading



Source: AHDB, CGA

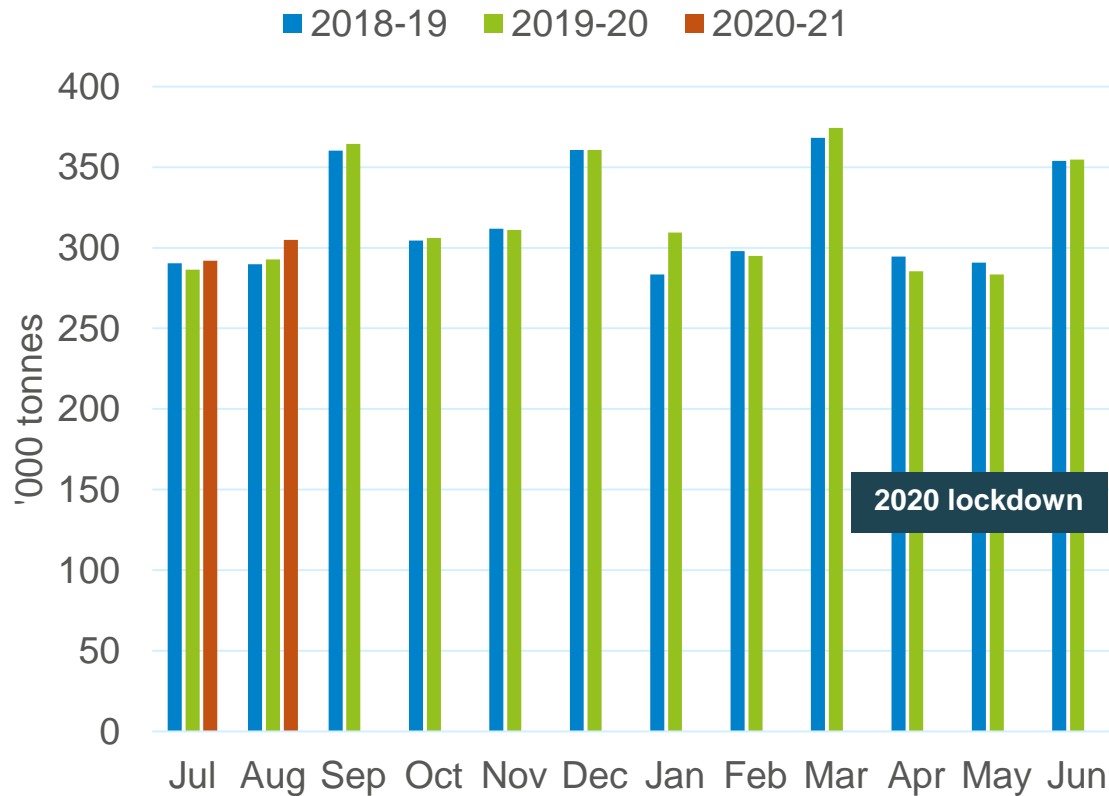
'Other flour' production – indicates trends in wheat used in starch and ethanol production



Source: AHDB

Supply challenge for flour milling sector

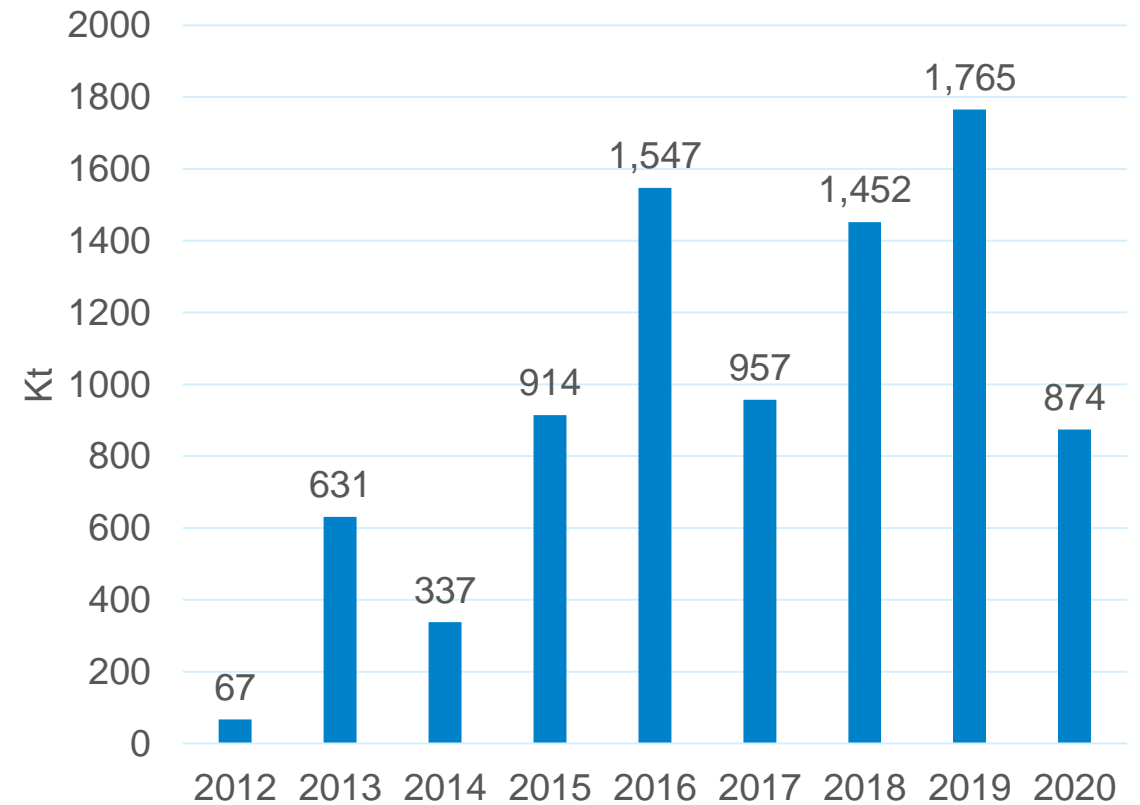
Little change to total flour produced in UK
(excluding 'other' flour*), during lockdown



Source: AHDB

*'other' flour includes flour equivalents for starch and bioethanol production.

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



Source: AHDB

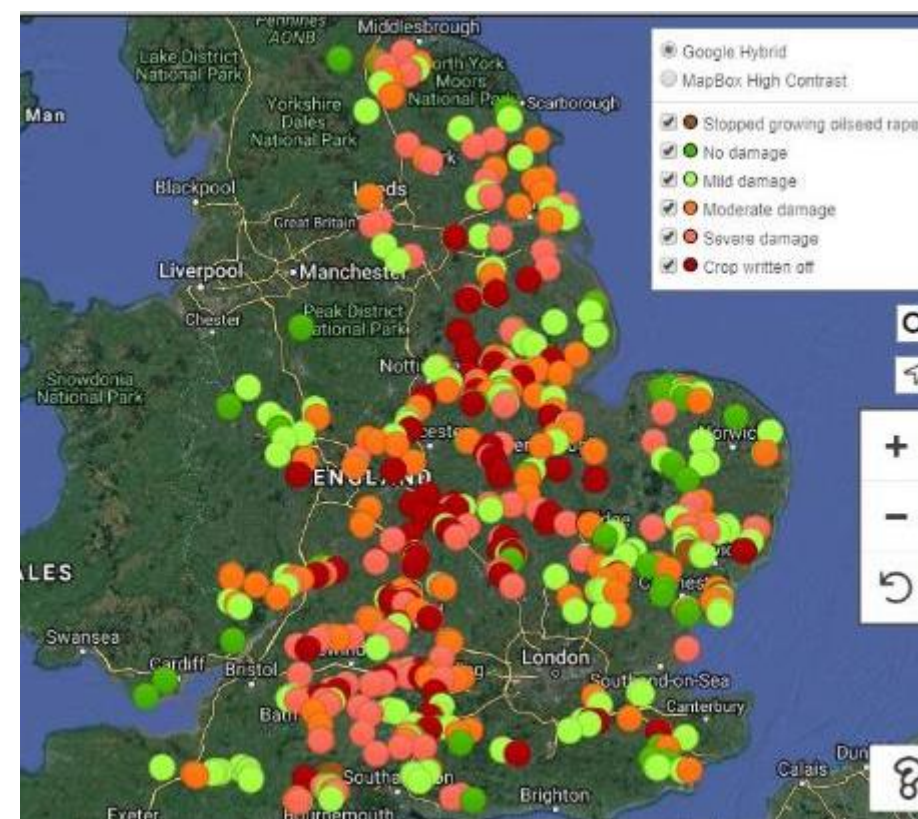
UK wheat area could rebound for harvest 2021 but OSR looks set to shrink again

Top 6 ranking crop gross margins
for harvest 2021

Rank	Crop Name	Change
1	Winter milling wheat	No change
2	Winter OSR	↑ 7
3	Winter feed wheat	↓ 1
4	Spring malting barley	↓ 1
5	Winter feed barley	↑ 3
6	Winter milling oats	↑ 4

Source: Defra, AHDB, industry sources

Cabbage Stem Flea Beetle damage
reported to crops in 2018



Source: NIAB

UK general tariff for imports

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

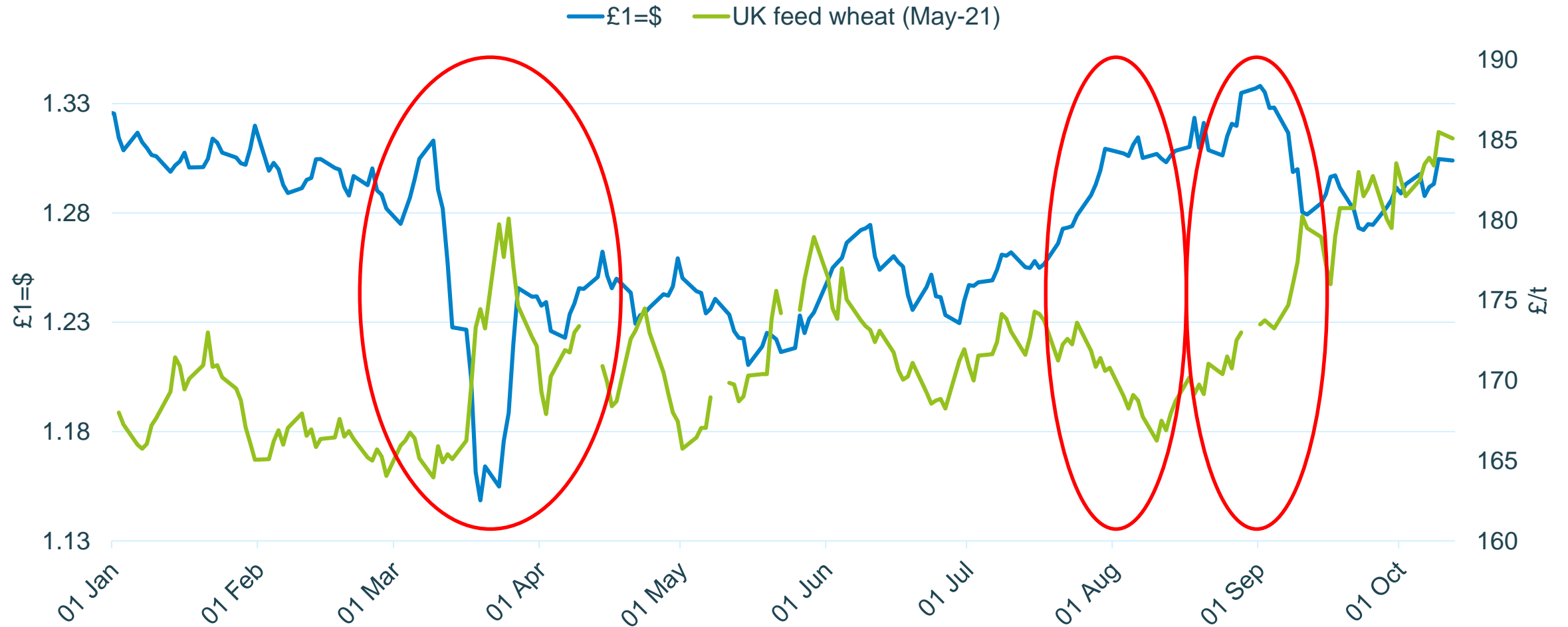
- High quality wheat defined as 14.6% protein (at 13.5% moisture), 78 kg/hl specific weight and 230s HFN.
 - This would allow imports of high quality North American wheat, quality dependent.
 - Will there be any tolerances in place? EU has a 0.7% protein tolerance at 12% moisture.
- Likely to see considerable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

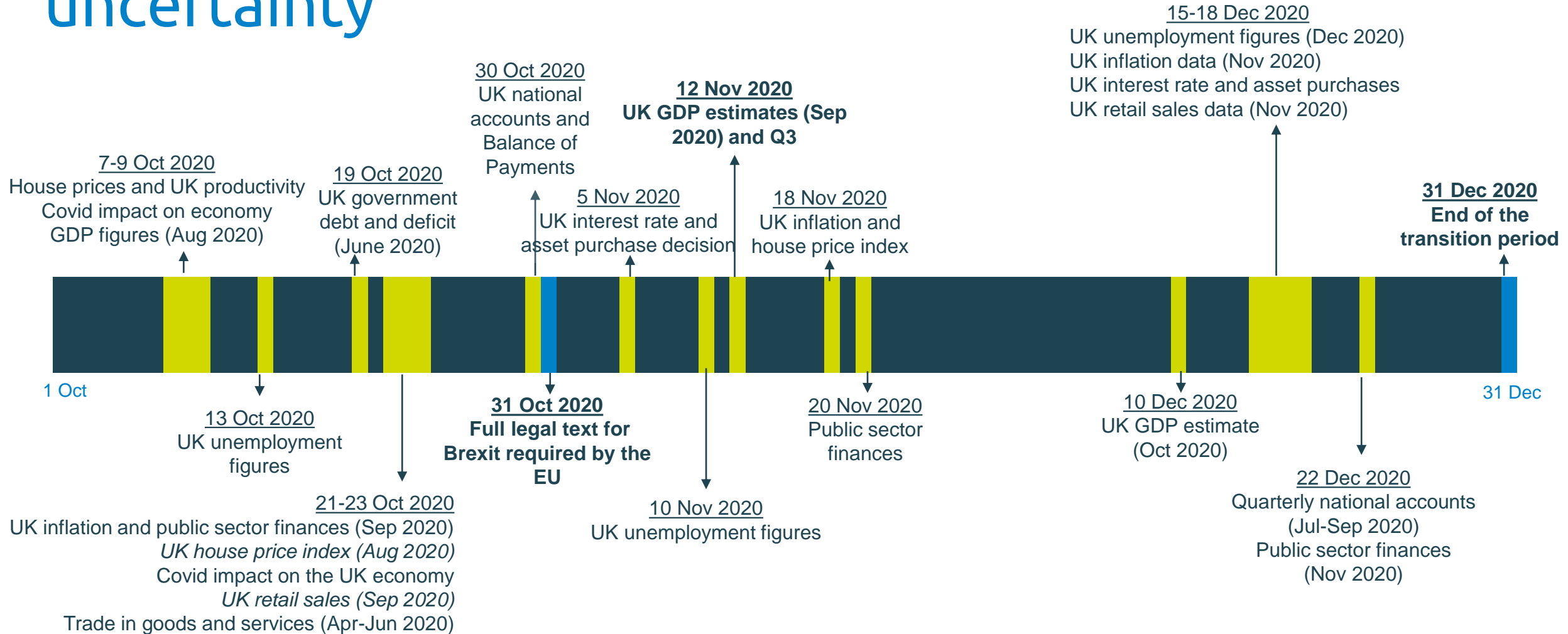
Exports	HS Code	Tariff to export to the EU after 31 Dec	Tariff Rate Quota rate	EU Tariff Rate Quota volume in 2020
Barley	1003 10 00	€93/t	€16/t	0.3Mt
Oats	1004 90 00	€89/t	-	-
Wheat	1001 99 00 40/50	€95/t	€12/t	2.5Mt
Malt	1107 10 99	€131/t	-	-
Flour	1101 00 15	€172	-	-

- 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!



A timeline for UK political and economic uncertainty



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!

A vibrant landscape of a green field at sunset. A path leads from the foreground towards the horizon where the sun is setting, casting a warm glow. The sky is filled with colorful clouds. The text is overlaid in the center of the image.

**‘Inspiring our farmers, growers
and industry to succeed in a
rapidly changing world’**

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