Sterling issues cause more competition

THE GLEANER

CEREAL markets have remained relatively quiet, as it absorbs the currency issues going on at present.

With the announcement of the European Central Bank confirming that it was pumping €60bn per month into the eurozone economy in the form of quantitative easing over the next 10 months starting in March, it sent the euro into freefall in an attempt to stave off the threat of deflation.

As a result, sterling hit a new seven-year high against the euro, with £1 equating to €1.34.

Sterling fell to below $1.50 and is getting close to a 4½-year low and the euro fell to an 11-year low of €1.11 against the dollar and, more importantly for UK cereal growers, the weakness of the euro pushed sterling firmer.

The differing fortunes for the pound against the euro and the dollar changes export competitiveness. The downside is that the weaker euro links UK competitiveness into key European markets, where the lion's share of UK crop exports traditionally go.

On the flip-side, UK exports are finding competitiveness onto the world market, which is denominated in dollars.

UK May, 2015, feed wheat futures have fallen almost by £9 since January and are now at a level last seen in mid-November.

However, the recent weakness of the euro against sterling has offset these gains with the same contract hovering around the mid-December levels in euro terms.

May, 2015, LIFFE feed wheat futures dropped by just 55p on the week to £130.45, and for November, 2015, new crop down 40p to £136.

Stratégie Grains forecast the 2015 UK wheat crop at 15.1m tonnes, compared to 16.6m tonnes in 2014 and 11.9m tonnes in 2013.

Global forecasts for this season point towards a record year for wheat production and a large surplus, leading to increased stock levels.

If current forecasts are fulfilled, global end season stock levels are likely to increase to a level that has not been seen since 2011/12.

Current USDA estimates that the global wheat surplus could be 10.2m tonnes and would be the seventh largest surplus out of eight surplus seasons that have been seen in the last 20 years.

In order to balance out the potential 2014/15 surplus, we would need a deficit of around 10m tonnes, a level that has only been reached in five out of the last 20 seasons, the latest occurring in 2012/13.

The EU is predicted to carry over a surplus of around 6.5m tonnes, the highest seen since 2008/09.

The level of excess expected to occur in the EU is one of the highest of the leading exporters in 2014/15.

In order to balance out this, it would require a deficit of around 6.5m tonnes and this level of deficit has not been seen since 2003/04.

In order to counterbalance both global and EU surpluses, it would require a substantial weather event to hit supply and, currently, there does not seem to be any such on the horizon.

The ongoing unrest in the Ukraine appears to be building up a head of steam again, but with so much grain already exported from their region any further export or crop issues are not going to have a big impact on the marketplace at present.

The Ukraine estimate their final 2015 winter crop area at 9.0m ha, compared to 8.4m ha in 2014, of which 97% has emerged and rated 41% good, 41% satisfactory and 18% poor.

Grain continues to flow out of Russia in advance of the impending export tariff introduction in February, albeit subject to the recently tightened customs regulations, which are slowing down shipments.

UK feed wheat ex farm price of wheat is down £5.20, compared to feed barley, which is up £5.20, and milling wheat is up £1 to £172.10, as UK milling wheat demand continues.

This is seeing the differential between feed barley and feed wheat now down to under £5 per tonne.

The UK is well placed to compete for export feed barley business, as the EU is currently the cheapest source available.

Oilseed rape delivered Erith was down £3.50 last week to £266.50, as expectations of a record Brazilian soyabean harvest, news of China's slowing economic growth resulting in the cancelled import soyabean orders and weak palm oil demand has unsettled the market, resulting in US soyabean futures trading down to a three month low.