

## **Expert view**

Better Returns Programme

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

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The past 12 months have been characterised by a general decline in both grain and oilseed prices due to growing confidence in 2014/15 crops. Politics, particularly the tensions in Ukraine (a major exporter of grain), as well as shifting views on the global economy have also been important.

UK feed wheat futures prices (nearby contract) varied by over £60/t in 2014 (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, the only potential certainty in the year ahead is that markets will continue to be volatile. This article explores some of the factors likely to impact on prices in the months ahead.

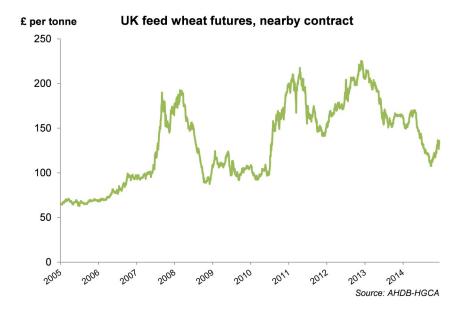


Figure 1

Global production of maize, wheat and soyabeans are all forecast at new records this season, with increasing proportions now harvested. Some of the last crops to be harvested in 2014/15 will be in South America. With 35 per cent of maize and 53 per cent 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.

Nevertheless, if the current projections for production and consumption are realised, stocks of soyabeans will reach record levels at the end of the current (2014/15) marketing season (see figure 2). Global maize stocks are also forecast at a 17 year high, with wheat stocks projected at a three year high. These stocks would provide a generous cushion against any issues that may arise with the 2015/16 harvest, and a large weather event would be needed to significantly alter the current market outlook.

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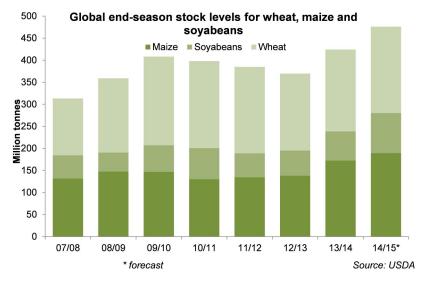


Figure 2

The evolving economic situation in Russia also brings increased grounds for concern, exemplified by rising inflation. 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.

It is however, worth noting that Russia is projected to account for 14 per cent of exportable wheat stocks at the end of the season (i.e. those wheat stocks which are accessible to the market). Ukraine is forecast to hold a further eight per cent. Given the uncertain political and economic situation in the region, markets will be watching the pace of wheat exports from other major exporting nations closely in the months ahead.

Around a third of the world's soyabeans are grown in the US and, as a result, the size of the US soyabean crop can impact on soyameal prices in the UK. 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, soyabean prices more than twice those of maize would tend to see greater areas planted to the oilseed.

Currently, Chicago soyabean (spot) futures prices are over two and a half times the equivalent maize price. 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 historically high. A very early <u>forecast by the USDA</u>, points to a US soyabean area in 2015 just 0.2 per cent smaller than 2014's record. Another large US soyabean area would bring the potential for another large crop, dependent on final yields, and subsequently downward pressure on oilseed prices.

Prices are likely to remain volatile, with politics, concerns over slowing global economic growth, and as always the weather, being key factors. Greater levels of stocks, which are forecast to be built globally this season, are likely to have a dampening effect on grain and oilseed markets should issues arise with the 2015/16 harvest. Although the degree of 'cushion' will depend on extent of the problem. The location of wheat stocks come the end of this 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 areas planted to maize and soyabeans in the annual US area battle. However, there are always likely to be as yet unknown influences.

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