

## European feed costs shrug off higher international prices - for now

by KEN RANDALL, Business Editor of Poultry World

Producers in Europe could still be set to enjoy favourable feed prices for another season, even though the US and other major grain growing areas of the world have been hit by drought.

In what seems at first sight a strange turn of events, US wheat and maize export prices are at their highest levels for three years, yet EU feed wheat is at its lowest levels over the same period.

Soya is also at a three-year high, which is one difficulty that the EU compounding sector cannot evade. Nevertheless the recent drop in the cost of feed cereals in Europe has counterbalanced this and kept feed prices in the EU on an even keel during the transition to the new cereals marketing year.

However, the big uncertainty is the outcome of the US maize crop, which is the traditional driving force in the global feed grains market. Traders are well

aware that the crop, still being harvested as this article was prepared, is drought-damaged but the question is by how much. Current estimates suggest the US maize harvest is down by around 10%, an expectation which has now been largely factored into current prices.

This prospect of a reduced crop has seen the US maize price climb out of its established trading range and break through the \$100 a tonne barrier for the first time in four years (fig 1). In September, US maize stood \$24 a tonne up on a year earlier.

### Rude shock

These developments have come as a rude shock to a market that was growing accustomed to a relatively stable international feed grains market. For the last five years, the US maize crop has met normal expectations at around 250 million tonnes or so, but

previous to that, the crop would regularly deviate by 10-20% off trend. As the US maize crop accounts for around 30% of world feed grain production and 70% of world trade in feed grain, hiccups in the US tend to have big repercussions on the world grains market.

So far, however, there has been little sign of this happening. European feed grains have taken an independent course and while US maize was going up, EU feed wheat and maize was falling in price.

Italian maize (fig 2) in September was at its lowest point for the year, down €23 a tonne since the mid-summer. This is the same level as two years ago and a only a little higher than the same month last year.

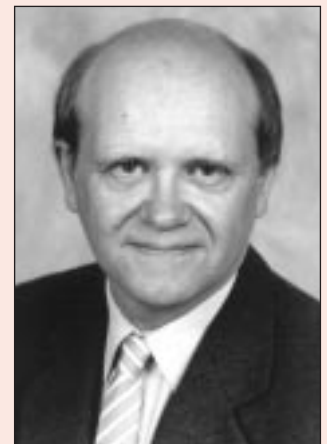
Feed wheat has fallen more dramatically, and in the UK is at its lowest point since the mid-70s. The situation on the German market (fig 3) typifies the picture across the EU with feed wheat reaching a marked low point in August.

In Europe, there has been a big wheat harvest which is sharply polarised on quality. Good, milling quality wheat is in short supply and prices have been very strong; but at the feed quality end of the spectrum, supplies are abundant and prices have weakened as noted above.

### Massive crop

The EU soft wheat crop this year is put at around 95 million tonnes, up 11 million tonnes on last season. The total French wheat crop is thought to be up 24% to 37.6m tonnes; and the UK

### THIS EDITION

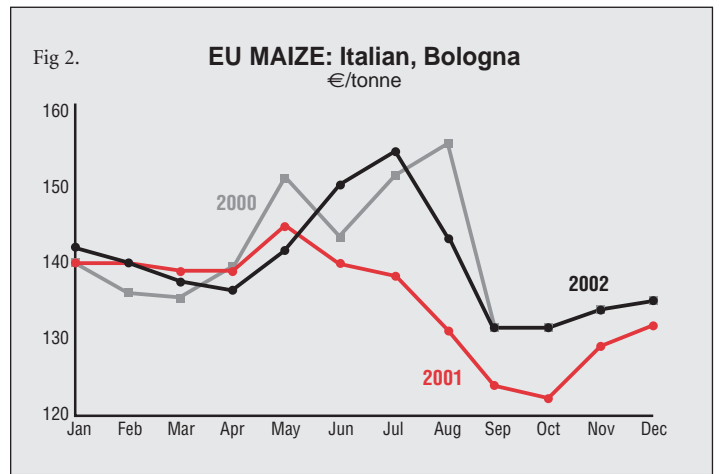
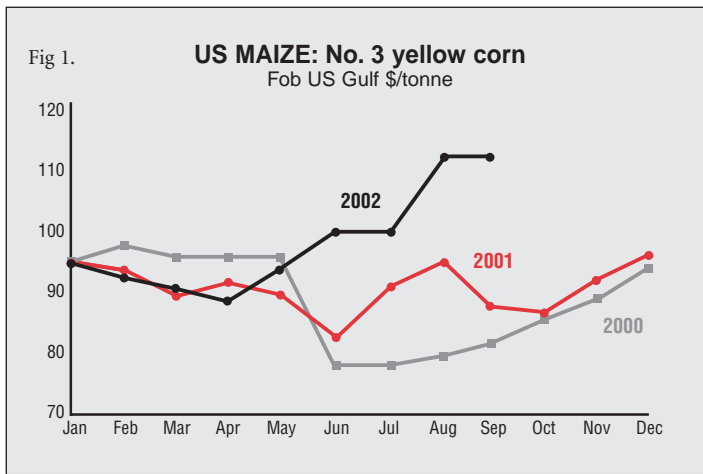


*In our annual review of feed price prospects for the year ahead, Poultry World Business Editor Ken Randall looks behind the paradox of grain prices rising in North America and falling in Europe. Soya prices are rising, but South America could hold the key over into the new year.*

*Inside, we look at trends in Thai chicken exports with more Asian sales taking the pressure off the European market, and Brazil's moves to protect its foreign trade involving top exporters opting for non-GM poultry rations. Also, why the expected recovery in European broiler markets has been slow in developing this year.*



crop is estimated to be up 44% to 16.7 million tonnes (HGCA estimate) after the poor harvest conditions of 2001.



Continued from page 1

That is where the similarity between some member states ends. Despite being a massive crop, the French wheat harvest has been of very good quality and is finding a ready export market at good prices. There is a world shortage of high quality milling wheat this season.

The situation in Germany and the UK is rather different. Because of adverse weather, most of the German wheat crop is of lower feed quality. The wheat crop in the UK did better, but a rainy interlude during the harvest resulted in a big surplus of feed quality wheat.

In the UK, for example, the exportable surplus has shot up from 600,000 tonnes in 2001-02 to 6.7 million tonnes for this season.

### 'Black Sea' wheat

With all this feed wheat weighing on the market, it is international prices that are going to determine where it finds its level. The question for European broiler growers is how the global feed grain market, driven by US maize, will impact on the European situation.

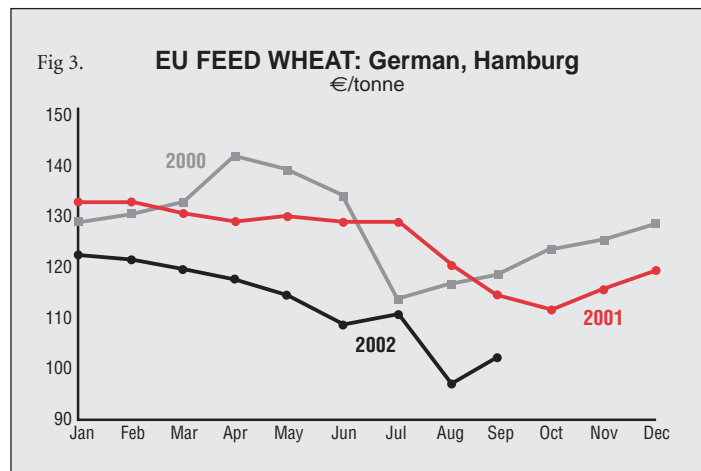
And this is where the rise in the US grain price has so far had the opposite effect from what might have been expected. The rise in US wheat (fig 5) has meant it has now overtaken EU internal prices, resulting in the EU's import duties on feed wheat falling to zero.

It is this development that has removed any remaining

of the former Soviet Union. These countries have large surpluses of feed quality wheat to export and are able to offer some of the cheapest feed grains on the international market.

These have been flooding into the European Union for the past year and are effectively suppressing feed wheat prices across the regions.

international feed grain market could tighten considerably, and then customers may start turning to other sources such as Chinese maize, and of course that Ukrainian wheat. If the latter begins to be siphoned away from the EU, it could be the signal for a rise in prices in EU feed wheat and maize, with a corresponding effect on ration costs. Things are still in the balance.



### Soya harvest

For that other key constituent of rations, soya, the overall scenario is similar to maize, and dry conditions have knocked back the US soya crop.

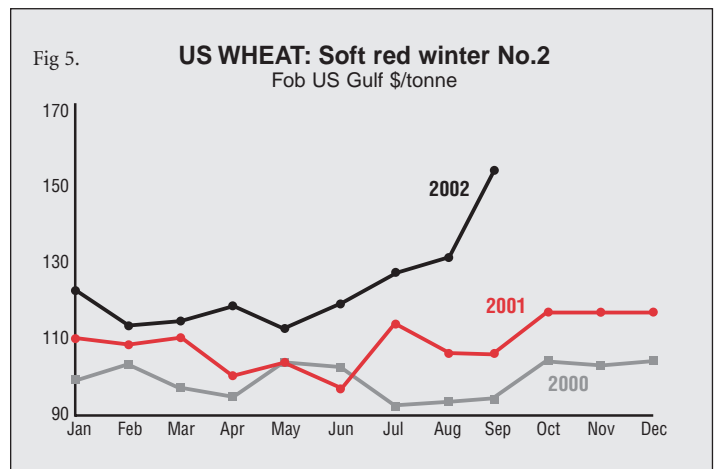
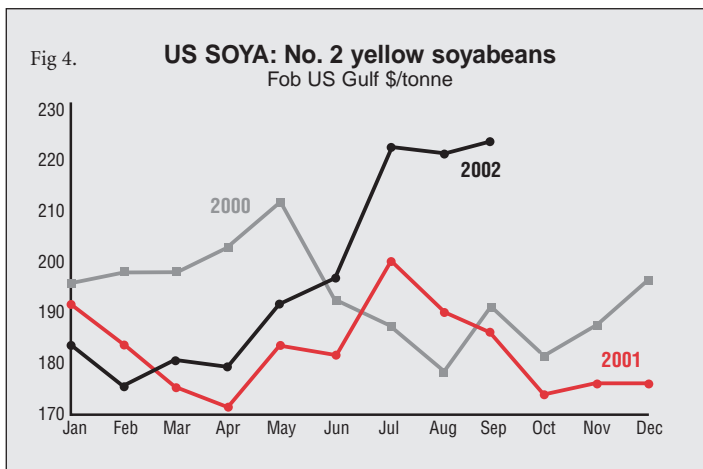
Estimates indicate a crop reduction of up to 10%, around 6-7 million tonnes, but again until the harvest is complete the true picture will not be known.

However, traders tend to be more cautious in marking up prices sharply because there is the potential for the South American growers to compensate by increasing plantings in response to higher global prices.

Unlike wheat, there is the potential for this southern hemisphere soya harvest to have a big impact on supplies within just six months of the US harvest.

What happens next depends on whether the US maize crop turns out to be as reduced as widely expected, or perhaps even more badly affected.

If this turns out to be the case, there is the risk that the



# Brazil's top exporters opt for non-GM poultry rations

THE continuing status of Brazil as the primary global source of non-GM (genetically modified) soya for poultry rations has been strengthened this year by a commitment from the country's two top broiler processors to eliminate GM material from their animal feeds.

In September, the food company Perdigão announced it would remove GM ingredients from all its food products and animal feed, and take steps to ensure its supply chains were not genetically contaminated.

A similar move was made earlier in the year by another leading Brazilian food company,

Sadia. The two companies rank among the largest food companies in Brazil and are the two leading processors and exporters of poultry meat.

They account for 20% of broiler production and 50% of broiler exports. They also account for 29% of Brazil's pork exports.

Brazil still remains officially a GM-free zone, where the growing of commercial GM crops is illegal, and it is the principal global source of non-GM soya for animal feed.

But this status has been under threat from the widespread smuggling of GM seed varieties

from neighbouring Argentina, which has resulted in 'genetic contamination' in some localities and in parts of the supply chain.

The Brazilian government has failed to take effective action to curb this activity, perhaps partly because it is awaiting the results of an Environmental Impact Assessment commissioned in June 2000, with a possible view to abandoning the country's official GM-free status altogether.

Perdigão and Sadia will now do their own policing of home-grown raw materials, and promise to have the necessary controls in place by 1st

December. They will soon be found out if they don't succeed, because the local office of Greenpeace makes regular tests for traces of GM soya and maize on the company's food products.

Within Brazil, the two companies use millions of tonnes of soya and maize, some for food production, but the majority for animal rations.

Greenpeace commented that if even if the commercial growing of GM crops was made legal in Brazil, the influence of Perdigão and Sadia would ensure a large share of the country's soya and maize production would remain non-GM.

## Broiler prices slow to improve

THE hoped-for recovery in European broiler markets has been slow in developing this year.

Wholesale prices continued to drift lower in both the Netherlands and Germany (fig 6) as the summer progressed, and prices remain flat in the UK.

These three member states have been at a particular disadvantage for some time as the principal destinations for Brazilian and Thai poultry exports, especially the reduced-tariff imports of salted poultry meat. This has been undermining these EU markets, as featured in our previous edition.

Although this loophole was closed by Brussels at the start of

the summer, existing contracts were not due to run out until the autumn.

There has also been a reluctance to maintain the momentum of cut-backs in broiler chick placings within the EU, and this could now delay any sustained price recovery.

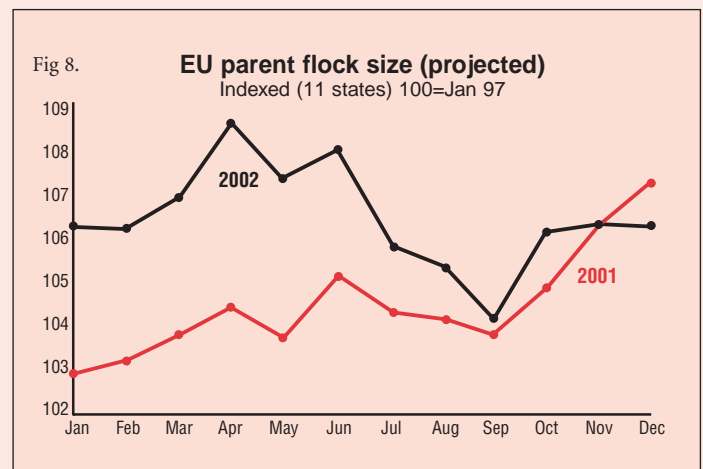
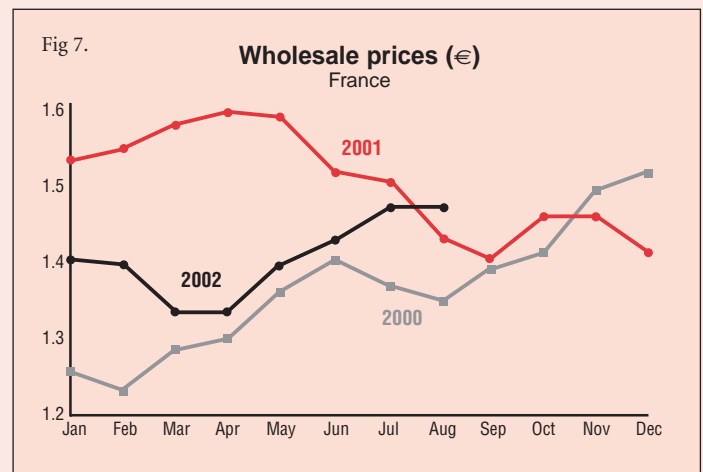
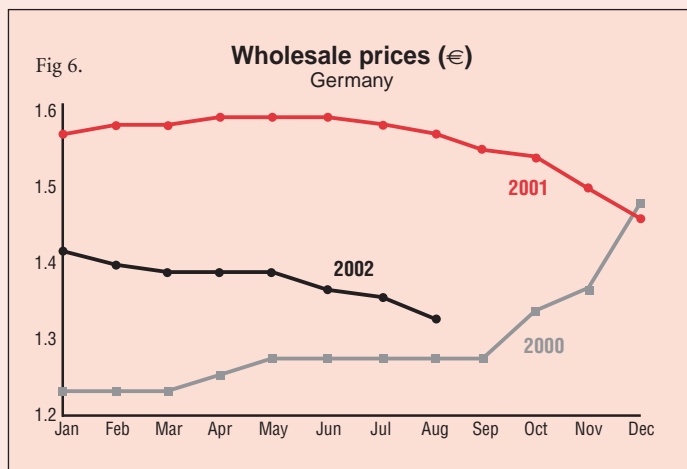
As the chart shows on the back page, commercial chick numbers were down significantly in the first three months of this year but they have subsequently come back up to levels similar to previous years.

Overall in the first six months of this year, broiler placings were down 3% to 2.02 billion for the EU-12. The only member state which has

seriously addressed the problem of oversupply is France, where placings were down 7% in the first half of the year.

These cut-backs have had a

marked effect on wholesale prices in France. Prices have improved steadily since April and are back at comparable levels to the last two years (fig7).



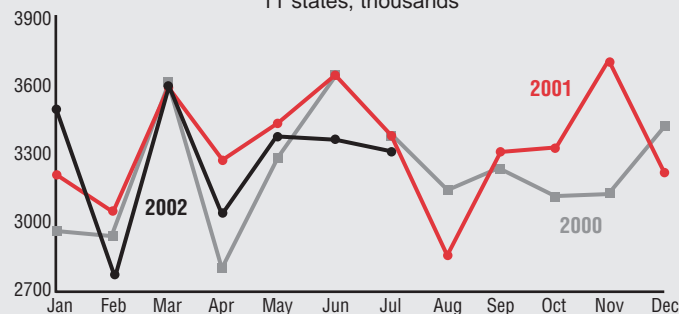
# MARKET TRENDS

## Feed ingredient prices

National currency/tonne	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
<b>US wheat (\$)</b> soft red winter	153	118	114	116	105
<b>US maize (\$)</b> No 3 yellow corn	111	99	90	95	87
<b>US soya (\$)</b> No 2 yellowbeans	223	196	180	176	186
<b>EU feed wheat (£)</b> UK - national average	57	60	71	77	76
<b>EU feed wheat (€)</b> Rotterdam	111	115	124	131	128
<b>EU feed wheat (€)</b> Hamburg	102	108	119	119	114
<b>EU maize (€)</b> Bologna	130	149	137	130	123
<b>S American soya (\$)</b> Argentina/Brazil	250	207	157	192	236

## EU female parent chick placings

11 states, thousands



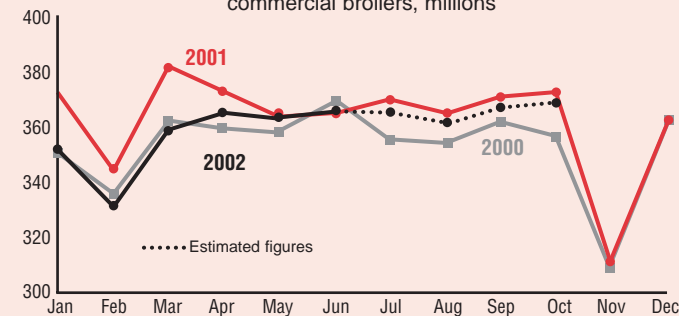
## EU broiler prices

€/kg liveweight (except UK & Denmark)

	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
<b>Belgium</b>	0.84	0.71	0.65	0.47	0.77
<b>France</b>	0.86	0.86	0.88	0.89	0.88
<b>Germany</b>	0.71	0.72	0.72	0.74	0.78
<b>Italy</b>	0.85	0.72	0.79	0.64	0.85
<b>Netherlands</b>	0.67	0.68	0.71	0.75	0.79
<b>Spain</b>	0.99	0.80	1.07	0.79	1.16
<b>Denmark (DKr)</b>	4.11	4.41	4.61	4.76	4.61
<b>UK (£)</b>	0.48	0.48	0.49	0.50	0.50

## EU chick placings, 11 states

commercial broilers, millions



## EU average wholesale prices

per/kg, whole oven-ready chicken

	UK (€)	Germany (€)	Italy (€)	France (€)
Sep	1.64	1.54	1.37	1.60
Oct	1.64	1.53	1.13	1.68
Nov	1.65	1.49	1.16	1.68
Dec	1.65	1.45	1.12	1.61
Jan '02	1.65	1.41	1.05	1.60
Feb	1.58	1.39	0.96	1.59
Mar	1.59	1.38	1.20	1.50
Apr	1.60	1.38	1.17	1.50
May	1.56	1.38	1.20	1.59
Jun	1.52	1.36	1.19	1.64
Jul	1.53	1.35	1.56	1.70
Aug	1.54	1.32	1.58	1.70

## Thailand takes the pressure off the EU

THAILAND has been turning its attention elsewhere than Europe in its push for export growth.

Thai broiler meat exports were up by 16% to 233,000 tonnes in the first half of this year compared with the same period of 2001, but exports to the EU were down by the same amount. Meanwhile exports to Asia were up by 35%.

Asia and Europe account for virtually all Thai chicken exports, the former accounting for 72% and the latter for 27%. Japan is the dominant customer within Asia, and has become much more so this year, increasing shipments

received by 57% to 133,000 tonnes - amounting to more than half of all Thai exports.

Thailand's exports to the EU are virtually all taken by three states - the UK, the Netherlands and Germany - with similar volumes of around 20,000 tonnes going to each destination in the first six months of this year.

However, that equalisation followed a 35% drop in shipments to Germany compared with the year before, and a 21% fall in those to the Netherlands, whereas exports to the UK rose slightly.

## Exchange rates

	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
<b>£ / €</b>	1.58	1.55	1.59	1.59	1.60
<b>\$ / €</b>	0.97	0.91	0.89	0.90	0.91
<b>£ / \$</b>	1.53	1.46	1.41	1.44	1.46



For more information on topics in this issue please contact us at:

### Cobb Europe

Midden Engweg 13, 3882 TS Putten, The Netherlands

Tel: +31 341 36 08 80 Fax: +31 341 36 05 24

Email: info@cobb-europe.com www.cobb-vantress.com

The market analysis is compiled with the help of Ken Randall, business editor of Poultry World.

Business Focus is published as an information service to Cobb customers. However, Cobb does not necessarily endorse the data published and does not accept any responsibility for the accuracy or validity of the content.