Farming Update | Summer 2017

Welcome to this quarter's Farming Update, which is produced by our Farming Research Group and reports on market and administrative issues that affect farmers' business decisions and on which they may need to act.

Please contact a member of the farming team for further information on anything you read here.

Stephen Whiteford, Editor (Scotland)

Market Update

Arable crops (£ per tonne)	A year ago	May 2017	A year ahead
Beans	125	176	160
Oilseed Rape	271	323	305
Feed Barley	99	120	120
Milling Wheat	112	147	150
Feed Wheat	101	142	140
Livestock (£ per kilo dead weight)			
Beef cattle	£3.27/kg	£3.67/kg	Remain stable
Lambs	£4.30/kg	£4.80/kg	Possible decrease
Milk (per litre)	25.57ppl	27.46ppl	Remain stable

Sources
Arable crops: AHDB. All prices are ex farm. Future prices are indicative bids from agricultural traders.
Livestock: AHDB. Beef R4L and lamb R3L specification. Future prices from outlook reports.
Milk: DEFRA.

Arable crops

Global

As the northern hemisphere harvest approaches (it may feel a long way off, but combines will be rolling in the UK in less than two months) the global supply and demand estimates for the current 2016/17 year continue to show record production of grains at 2,594 million tonnes according to the IGC (International Grains Council), and record ending stocks of 635 million tonnes. The result is that the importing countries and consumers are confident in their ability to secure enough wheat and maize to meet their needs, meaning that world prices are treading water.

However, the recent trend of ever increasing grain stocks, which has run for around five years, is forecast to come to an end in 2018. The USDA, the IGC and other analysts are all forecasting lower production and reduced global stocks of grain at the end of the 2017/18 harvest year. The USDA forecast that wheat production will be down 15 million tonnes (2%) to 737.8 million tonnes, and maize production down 31 million tonnes (3%) to 1,034 million tonnes. The main reductions in wheat production are forecast in Australia, the former Soviet Union, and the US, which will more than outweigh increased production in the EU and India. Consumption is also expected to fall, but by a smaller amount, all of which is expected to result in ending stocks of all grains at the end of 2017/18 to reduce to 599 million tonnes according to the USDA and 611 million tonnes according to the IGC.

UK

In the UK we are in a slightly different position to the world in general. Carry-over grain stocks are forecast to be relatively low, and this added to the weak pound against euro and dollar is helping to keep prices firm. This is because some consumers are choosing to import grain to ensure continuity of supply up until the coming harvest. The weaker pound makes imports more expensive which helps support the domestic price. Added to this recently, the impact of the long dry spell during April and early May has caused concerns for yields and this has encouraged the market upwards in recent weeks. Old crop wheat has moved up to £143/T at the time of writing towards the end of May, although little actually remains on farm. Of more interest to growers is the new crop price, which has also moved up gradually, to £130/T for harvest movement and £135/T for November. Having reached these levels, the market is expected to track the global market with adjustments for currency fluctuations. Being significantly better than last year's prices, most of our clients have sold between 10% and 35% of their expected tonnage forwards at these levels.

In terms of oilseed rape, prices have not reacted much to the dry weather across Europe. The UK crop is expected to have passed the dry spell reasonably unscathed in most areas, although drier parts of Essex have (as last year) been forced to irrigate to keep crops going. Overall prices are remaining steady, with new crop oilseed rape at around £300/T. The consensus in the trade is that this has the potential to improve, particularly if yields fail to impress in Europe when the combines start moving.

<u>2017 Crops</u>

Winter Wheat

- First wheats seem to have retained yield potential, following much needed rains – between 25 and 50mm across much of the country – which have enabled crops finally to pick up nutrients.
- Yields of second wheats could be as much as 20% down as it looks as though rain has come too late for the ear number which has been set. These crops will need near perfect June conditions to beat 5-year average yields.
- Generally, Septoria disease pressure has been higher than might be expected in dry conditions, and Yellow Rust has been a constant threat all spring. Flag leaf emergence occurred at the same time as recent rain events, justifying a robust rate of SDHI fungicide at T2 timing. Crops are earlier than usual at this stage, so a relatively early harvest is on the cards.

Winter Oilseed Rape

- Rape has looked exceptionally well all season. Sclerotinia pressure has been low enabling growers to use just one flowering sprawithout debate. Crops are now off flower and look to be podding up well.

Spring Crops

- Cold dry weather, delayed spring crop emergence for large parts of the country, and

but rain has come just in time to keep spring barley, oats, peas and beans going, many of which have had next to no rainfall since drilling.

Spring barley has raced through the growth stages and disease pressure has been low.

Livestock

Beef and cattle

This month has seen the strongest price increase for GB all prime since September 2016 and it now is 47p up on this time last year. The price increase was seen across all markets - heifers were up 2.8p and young bull carcases were up 9.6p, the highest increase seen since September 2015. The cow trade is doing well as it continues to benefit from the weak sterling giving it a competitiveness on euro markets.

Demand for beef from retailers has been buoyant over the past few months, with the latest consumer data from Kantar Worldpanel showing that fresh and frozen beef sales were up 3.4% year on year.

In spite of the increase in sales, overall prime cattle slaughterings are down, which is probably contributing to the strengthening in price. Adult cattle slaughterings fell by 5%, giving an indication that conditions are improving in the dairy sector.

Lambs and sheep

Despite the ever increasing number of live lambs coming onto the market, prices are holding firm according to AHDB. Usually after the Easter period demand falls back but this year it has remained relatively strong, which is supporting the live-weight prices.

Imports of sheep meat to the UK have fallen, much of this is driven by the 43% decline in shipments from New Zealand as a result of their decrease in lamb production. While imports have declined, exports have risen by 10% with the largest increases to Germany and Ireland, and much of this is due to the weak pound. The overall value of sheep meat exports is now £23 million; up 11% compared with the same time last year, according to AHDB.

Dairy

Milk production across the EU has been rising steadily for the past four months and is now approaching levels seen last year and is expected to continue to grow. Global milk production has in fact been declining, although a recent report from Rabobank predicts that production and thus stocks will rise during 2017. They also predict that demand from China will grow as their stocks are thought to be relatively low, and this extra demand will account for the increased production this year. In terms of global prices, with the markets relatively balanced, prices should be relatively stable in the coming months.

In terms of cow prices, the average cost in April of a freshly calved heifer was £1230/head, which was slightly less than a month earlier but 15% up in 12 months earlier. The average cost of a calved cow was £968/head, which was slightly less than a month earlier but 6% up in 12 months earlier
Cull cow prices in April were on average £1.11/kg for a dairy sired cow, and £1.34/kg for a beef sired cow.

Pork and Pigs

Prices increased strongly in April, with the All Pig Price (APP) reaching 158.16p/kg for week ended 15 April, the highest weekly figure since October 2014. With the tight supply situation showing no signs of easing, price support is likely to remain strong in the coming weeks.

Fertiliser & fuel

The nitrogen fertiliser market got off to an early start this year, with CF Fertilisers (formerly Growhow) issuing their ammonium nitrate price on 16th May at £175/T. Yara fertilisers quickly followed suit, at the same price, and three days later prices were withdrawn, leading to speculation that prices, when they are released again, will be higher. In the meantime, the main merchants and buying groups – including Strutt & Parker's fertiliser team – had secured large tonnages for customers and members for delivery during the summer. At these prices ammonium nitrate is reasonably competitive against urea and the indications are that CF and Yara are trying to win back those farmers who have been forced to switch to urea over the past couple of years of low grain prices and high AN prices. As a comparison, imported ammonium nitrate was on offer in early May at £190-£195/T, and so unless the UK product increases to well over £200/T, imported products are unlikely to see much market share this year. Urea is priced at around £205/T.

Red diesel prices have continued their rise, tracking oil prices, and are now back to around 53p/litre plus VAT. This is a similar level to that last seen two years ago.

Policy and regulation news

Ecological Focus Areas area will not be increased from 5% but ban on pesticides on cover crops still possible

The European Commission has confirmed that area of land covered by EFAs will not be increased from the current 5% to 7%. The reason given is that around 10% of land is already covered by EFAs. However, the proposal to ban the use of pesticides on 'productive' EFAs, such as fallows, nitrogen-fixing, catch and green cover crops, may still happen due to concerns that they produce little environmental benefit.

EFRA committee worried about difficulties – and possible crisis – in farm labour

The House of Commons Environment, Food and Rural Affairs Committee says that agricultural and horticultural businesses are facing considerable difficulties in recruiting and retaining labour, and that this could become a crisis. The Committee stops short of calling for a new Seasonal Agricultural Workers Scheme (SAWS) as it was assured by the Government that a new scheme is unnecessary as long as the UK retains free movement of labour among the European Union and that, if that ends, a new SAWS could be introduced quickly (within six months).

UK should maintain or strengthen existing animal rules post-Brexit, says British Veterinary Association

The BVA's report says that animal health and welfare standards must be equivalent to current EU standards or higher where supported by evidence-based risk analysis.

Government postpones Making Tax Digital – probably by a year

The Government has removed the proposals, which would have required all businesses and property landlords with income over £85,000 to keep digital records and send HMRC quarterly updates, from the Finance Act 2017; this means that the changes are likely to be delayed for at least a year, so now possibly starting in April 2019.

Farm business news

Scottish farm incomes fell by 50% in 2015/16

Incomes halved to an average of £12,600 per year across all farm types, due to lower prices for farm produce. This is the lowest level in the six years that this data has been produced. The data highlights the large difference in income between the bottom and top 25% farms; for example, the bottom 25% of dairy farms made a loss of £85,600 on average, compared with a profit of £112,000 for the top 25%. The detailed analysis from the Scottish Government is available here.

Scottish rents rise by 4-5% on tenanted agricultural land in 2016

This data is based on information from around 10,000 holdings collected by the Scottish Government through the June Agricultural Census. The average rent paid rose by 4% for LFA holdings and 5% for non-LFA holdings, based on a calculation that is weighted to reflect actual areas of different farm types in LFAs and non-LFAs. The data also highlights the very significant range of rents being paid; for example, rents for cereal farms ranged from £75 to over £200 per hectare, and this excludes the top and bottom 10% of rents. The Government also notes that, in recent years, there has been a reduction in the area of land rented under cheaper, long-term rental arrangements, and an increase in shorter-term limited duration tenancies.

Science and environment news

European Commission proposes complete ban on neonicotinoid seed treatments

The extension of the current partial ban is due to the threat that the chemicals pose to pollinators, and is based on updated risk assessments from the European Food Standards Agency (EFSA). As could be expected, environmental organisations have welcomed the proposals while the Crop Protection Organisation says they are not based on evidence-based decision making.

Show Season

We are looking forward to kicking off this year's show season at the Royal Highland Show on the 22nd-25th of June. Anyone that is planning to attend is welcome to come in to the Strutt & Parker stand, which is located on the south side of the main ring, to enjoy some refreshments and a catch-up with the farming team. We will also be at the Scottish Game Fair from the 30th of June to the 2nd of July and then the Black Isle Show on Thursday the 3rd of August.

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