

Farming Update | Autumn 2016

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.

In this edition, we look back on harvest 2016 – the good and the bad – and look ahead at the challenges for the 2017 crop, and we highlight some good news for Basic Payment and Countryside Stewardship scheme applicants.

Please contact me or our team for further information on anything you read here.

Andrew Atkinson, Editor

Market Update

Arable crops (£ per tonne)	A year ago	October 2016	A year ahead
Beans	120	141	150
Oilseed Rape	244	339	323
Feed Barley	96	109	117
Milling Wheat	112	138	143
Feed Wheat	102	127	128
Livestock (£ per kilo dead weight)			
Beef cattle	3.57	3.67	Possible increase
Lambs	3.44	3.96	Possible increase
Milk (per litre)	23.61	21.34	Increase expected
Sources			
Arable crops:	HGCA. 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

Many in the grain trade would say that they have been expecting global production estimates to fall for some time. This is because the USDA and others had started with large production estimates for this year, and then continued to increase them, almost month on month based on good production figures from around the world. With October's report **the USDA has finally reduced production estimates for maize and wheat**. Coarse grain production has been revised 5 million Tonnes (0.4%) lower to 1,315 million tonnes due to lower barley and maize production in the EU and Russia. Wheat production is revised down 0.4 million tonnes, along with a 1.2 million tonne reduction in estimated opening stock, leading to a 1.6 million tonne (0.2%) reduction in overall supplies. **These are small revisions and have not surprised the market, so the effect on prices has been minimal.** In fact bizarrely the initial reaction in the US was to see maize prices fall immediately after the release of the data, before they recovered to show a very slight increase.

Despite this, global cereal supply is expected to be more than 2.5 billion tonnes this year, due to the large harvest and rising crops in store, according to the UN. This is expected to continue to put downward pressure on cereal prices this and next year.

The 0.4 million tonne reduction in global wheat production is largely as a result of **Europe's poor harvest, which was estimated down 2 million tonnes**. This fall was offset by a **rise in production estimates for Canada and Australia** – the latter experiencing excellent growing conditions as they start harvest, which may see a record yield. Merchants **Nidera Australia have stated they can see over 31 million tonnes of wheat being produced, compared with 24 million tonnes last year**.

Oilseed prices are treading water globally as production estimates and stocks continue to show strong supplies, albeit lower than this time last year, and this seems to give neither bulls nor bears the upper hand. Expectations are for prices to remain close to their current levels until something provides an impetus.

UK

2016 Crop

In the UK farmers have Brexit to thank as they produce their budgets and cash flows for the coming year. **The fall in sterling (down 15% against the Euro and 20% against the dollar) has been the sole cause of price rises for feed grains and oilseeds over recent months.**

Harvest 2016 will be remembered as one of the more straightforward of recent years with long spells of warm dry weather which meant that **crops were cut on time, so quality has generally been good**, and dry, so drying costs have been kept down. However, farmers will also remember the late **start due to a very dull cold June which for many meant a late finish** - with beans, linseed and peas still out on many farms in the South at the end of September. The poor June weather also caused problems for barley – winter varieties yielded poorly, with shrivelled grains, and spring malting varieties suffered from 'skinning'¹ resulting in penalties, or downgrades to feed.

Good wheat quality and **a big milling wheat area has seen premiums fall to only £10/T, whereas malting barley premiums have risen to over £35/T**, partly due to lower tonnage caused by lower yields and skinning, and partly due to the export demand provided by the weak pound.

DEFRA has released its **provisional yield estimates for harvest 2016**, which show the following:

	Total yield 2016 Million tonnes	Total yield 2015 Million tonnes	Total yield 5 year average Million tonnes	Average yield 2016 Tonnes / hectare	Average yield 2015 Tonnes / hectare
Wheat	14.6	16.4	14.7	7.9	9.0
Barley	6.6	7.3	6.7	5.9	6.7
Oilseed rape	1.8	2.5	2.3	3.1	3.9

2017 Crop

Winter Wheat

- Drilling of winter wheat has **consciously been delayed on many farms** this autumn in a bid to culturally control black-grass.
- Dry conditions have led to poor 'flushes' of black-grass for spraying with glyphosate prior to drilling, consequently **dormancy of black-grass appears high**.
- Early drilled crops have emerged and **pre-emergence control of black-grass in these areas has been poor** due to a lack of available moisture to facilitate the root uptake of the residual herbicides.

¹ Grain skinning is a malting barley defect that occurs when the husk becomes detached from the grain at harvest, which reduces malting efficiency by causing variability in germination, the key step in the malting process.

- A relatively dry forecast through to the end October will tempt most to start drilling on the worst affected black-grass fields from 17th October onwards with aim of applying a stacked pre-emergence spray programme prior to the next rainfall event. **Late drilling will impact yield, but black-grass control has to be given top priority.**
- The mild conditions will encourage a **higher risk of aphids in the emerging crop**, which are a particular threat in the spread of Barley Yellow Dwarf Virus on early drilled crops which were not treated with Deter.

Winter Barley

- **Despite the large fall in yield from 2015 to 2016, winter barley has seen a resurgence** with the aim of maintaining an early harvest and a good entry for oilseed rape.
- Both 6-row hybrids and 2-row conventional varieties are being grown, the former incurring a higher seed cost but a competitive nature (against black-grass) and higher yields achieved across AHDB Recommended List trials.

Winter Oilseed Rape

- Generally **crops were drilled earlier this year; from 10th August onwards, in the battle against Cabbage Stem Flea Beetle (CSFB).**
- The exceptional dry August and localised rain led **to delayed and patchy germination across East Anglia, with crops further west catching more rainfall.**
- Parts of Essex in particular have consequently had complete crop failure due to dry seed beds and subsequent CSFB damage taking the remaining, sparsely emerged, cotyledons.
- Elsewhere crops that received adequate rainfall, where sufficient moisture was retained at drilling, have now mostly grown away from the CSFB adult pressure however the larvae threat, witnessed last year, remains as the adults begin to lay their eggs.
- **Slug pressures have not (yet) been as high as many had feared** after two mild winters and a wet spring, due to the dry conditions experienced so far this autumn.

Livestock

Beef and cattle

The summer months have seen a **steady increase in prime cattle prices**. In **September however prices decreased slightly to £3.54/kg deadweight (dwt)** according to AHDB. The steer trade (R4L) continues to do well, with only a slight reduction in price to £3.71/kg dwt; despite this tiny reduction, **R4L prices are 45p/kg higher than they were in April**. The market is still having to deal with pressure from the dairy sector. The cull cow trade is still performing better than expected at £2.05/kg dwt but this is beginning to decline due to the sheer volume on the market. It is expected that with winter approaching, producers may opt to increase culling rates in the short term as the cost of feeding them throughout the winter will outweigh any benefit.

The **share of the beef retail price that producers receive has increased for the fifth consecutive month, rising to almost 52% for September** according to AHDB Beef and Lamb. Farmers Weekly report that despite a combined market share in the UK of just 10.8%, low beef prices from supermarkets Aldi and Lidl have prompted the four major retailers to follow suit, leading to the price falls reported above.

AHDB says that imports of fresh and chilled beef products from Ireland, the Netherlands and Poland have reduced significantly, by up to 40% in some cases. **The movement away from imported goods is no doubt a reflection on Brexit and the devaluation of the pound against the Euro** which has made European products less attractive to UK buyers. This **reduction in imports has strengthened the domestic demand for UK beef and veal**. There has been a particular increase in demand for 'Native' breeds and premium end products, such as Aberdeen Angus steaks. In September, the Co-op became the only UK supermarket to commit to buying all its meat from the UK.

Exports continue to increase slowly, with Hong Kong seeming to be driving this increase with its demand for bone-in cuts.

Lambs and sheep

Lamb demand continues to be seasonal. The recent Muslim celebration for 'Eid al Adha' resulted in an increase in demand but since then demand has fallen back. **Despite a 7% reduction in the number of lambs being brought forward onto the market, values have continued to decline to £1.66/kg liveweight (lwt), indicating that consumer demand may also be decreasing.** The deadweight market has also seen a decline in price by 4p to £4.00/kg, however this is still a 53p/kg improvement on last year.

Producers usually rely on the seasonal peaks in demand during the spring and over Christmas to provide the necessary boost to their incomes, but this past year, **seasonal premiums appear to have been absent from the market**, according to data produced by AHDB and DEFRA. This will have had a negative effect on producers lambing early (with a higher associated cost base) to catch those markets, but lamb produced for sale through the summer has not been adversely affected. It is too early to tell whether this lack in seasonality will become a permanent feature; in previous years normality did eventually resume but, in combination with Brexit, producers need to think carefully about their lambing arrangements.

According to DEFRA UK sheep meat production is down by 5% to 27,300T. This decrease is down to poor summer grazing which resulted in difficulty finishing lambs quickly and to a high weight. There has also been a reduction in the amount of imports coming onto the market; **New Zealand imports are down by 14%, Australia by 16% and Ireland by 12%.** Whilst a decline in imports from Ireland was to be expected due to Brexit and the weak pound, the New Zealand decline is a long term trend caused by their shrinking sheep flock, a reduction of 3% year-on-year.

Dairy

The overall Price Index at the Global Dairy Trade auction fell by 3.0% in early October, ending a run of consecutive increases that began in early August.

The UK milk market is seeing a varied degree of demand, with some processors in desperate need of milk while some can afford to wait to fulfil requirements. With a reduced milk supply and contracts to fulfil, it could mean milk processors actually having to buy on the spot market to ensure they keep their customers happy. **There are price increases coming through to the farm gate, with the average price thought to be around 21.5p/litre. This is still some way below the average cost of production, so the pressure on farmers remains.**

Declines in global milk production may result in dairy farmers being unable to satisfy, or slow to react to, any strengthening in demand from domestic markets according to Rabobank. Adverse weather conditions, low farmgate prices and fewer cows have resulted in milk production falling in Europe, China and Latin America. **Rabobank is forecasting EU milk production to fall by 2%,** due to the milk supply reduction scheme (to which almost 2,000 UK farmers signed up), reports of poor silage quality in Ireland, and France recording one of its worst harvests in recent memory. Dairy prices across Europe have started rising as world demand and supply starts to rebalance, but they remain 15% lower than a year ago and 24% below their five-year average.

In terms of cow prices, freshly calved heifer prices are nearly 6% lower than a year ago, at £1,273 per head on average, according to AHDB. Freshly calved cows are 3.6% lower, at £996/head on average, with the cull cow prices referred to in the beef and cattle section above continuing to support these values.

Pork and Pigs

Pig prices have continued to rise for the fifth consecutive month, to £1.38/kg, a 7.85p/kg increase on last year. The continued weak value of sterling against both the euro and the dollar has ensured **UK pork remains competitive on both the domestic and international markets.** This greater demand, coupled with a tightening of supplies, has supported the price. Growth has continued into the first two weeks of September, with the APP exceeding £1.41/kg for the week ended 10 September. These prices have not been seen since January 2015.

Fertiliser

Sterling's weakness is pushing UK prices up, although good domestic supplies of ammonium nitrate (AN) and sulphur blends are expected to help contain any rises in the price of those products. **AN is currently priced at around £180/T. Sulphur products are generally priced £10/T more than AN.**

Urea, which is a more globally traded option, is **currently priced at £200/T and is expected to see more substantial price rises in the short term.**

Muriate of Potash is around £235/T and Triple Super Phosphate is £265/T. Prices of both have fallen since the summer, but are forecast to rise due to the fall in Sterling.

Red diesel has risen sharply over recent weeks to just over 48p/litre (plus VAT) in mid October. OPEC production concerns and weak sterling are likely to drive the price upwards further over the winter.

Basic Payment Scheme

The early Brexit effect has not been limited to higher grain prices, but has provided a welcome boost to the value of the Basic Payment too. **The RPA confirmed the exchange rate at 85.228p/€ for 2016 claims, which will push the claim value up around 16% compared with 2015, and is the highest rate for five years. English lowland claims should therefore be worth around £205/ha (compared with £178/ha last year).**

The RPA has stated **90% of 2016 claims will be paid during December**, but the CEO Mark Grimshaw stopped short of saying they will be full and correct claims. Having had to work hard over the last few months to sort out the myriad of underpayments from last year – which by and large they appear to have done, having persuaded the EU to extend the payment window until October 15th – it remains to be seen whether they have sufficient resources to process the 2016 claims correctly and on time.

The European Commission has been working on changes to Greening rules, and they had intended the changes to be introduced for the 2017 scheme. However we now understand that **the Greening rules will remain unchanged for 2017, with the alterations coming in on 1st January 2018.** The most concerning for UK farmers is the proposal to **prevent the use of pesticides on nitrogen fixing crops.** Environmental groups have said that if spraying is continued to be allowed on Ecological Focus Areas growing catch and nitrogen fixing crops, the EFAs have little if no environmental value. The European Commission's proposal to ban spraying is being challenged by 18 Member States.

If spraying is banned, it will come as a severe blow to those farmers who have been growing (and who have counted on growing) pulses to satisfy their EFA requirements. It is not known whether the weighting given to such crops will increase as a result (which would mean a lower area of the untreated crop could be grown to satisfy the same requirement) or whether each hectare of pulses will continue to equate to 0.7 hectare of EFA. **The decision will result in a lower area of pulses being grown**, and in England farmers are likely to use hedgerows, fallow land and cover crops to meet their requirements. The unintended consequence is that although the decision was most likely made to try to provide further protection for pollinators, it is likely to result in a reduction in their food source. In a European opinion poll, just 40% of farmers and 25% of environmentalists said they expected Greening (which is growing 3 or more crops, ecological focus areas and grassland protection) to have a long-term beneficial impact on soils or wildlife. We hope that any environmental rules in the UK's future farming policy are more successful.

Countryside Stewardship Scheme

In the week that our office celebrated our first CSS agreement offer (a capital grant for woodland planting), the Treasury provided further words of comfort for those farmers who have submitted CSS applications. Whereas the initial reassurance had placed emphasis on having an agreement signed by the Autumn Statement (23rd November) the latest news confirms that **funding for Rural Development Schemes signed after the Autumn Statement will**

also receive guaranteed funding, subject to strict criteria. Where such agreements run beyond the UK's exit from the EU the ongoing funding will be met by the UK government providing the agreements offer "good value for money", and show they are "in line with domestic strategic priorities".

This relates to CSS agreements with a start date of 1st January 2017. It is not clear what provisions (if any) will be in place for agreements that would need to start on 1st January 2018 and 2019.

Natural England has confirmed the numbers of CSS applications received before the 30th September deadline. **3,770 Mid Tier applications were received, and 954 Higher Tier applications were received.** Both represent a considerable increase on the previous year, in which 2,538 Mid Tier applications were made (with a 75% success rate) and 493 Higher Tier applications were made (with an 84% success rate). As a comparison, **at the end of 2005 - the first year of the ELS/HLS regime - there were around 12,000 live agreements in place.**

Other news

Strutt & Parker Yield Results | Harvest 2016

We have published the results of our survey of yields from 129 farms managed by our farming department. The farms cover 54,000 hectares, have an average size of 416 hectares and are mainly located in the East of England, East Midlands and South East England.

Yields were lower for all main crop types although wheat yields were around the five year average. The headlines are:

The average yield of winter wheat for harvest 2016 fell to 8.9t/ha, 13% lower than in 2015 and 2% lower than the 2012-16 five year average².

Rainfall in the latter stages of crop development hampered yields, with the lack of sunshine particularly affecting wheat on heavy soils, oilseed rape and winter barley.

Oilseed rape yields felt the impact of Cabbage Stem Flea Beetle as the average winter OSR yield fell to 2.9t/ha, 23% lower than in 2015 and 18% lower than the five year average.

Average yields for 2016 compared with the last five years (t/ha)

	Winter Wheat	1st Wheat	2nd Wheat	Winter Barley	Spring Barley	Winter OSR	Spring Beans
2016	8.9	9.2	8.8	6.7	6.4	2.9	3.9
% change from 2015	-13%	-15%	-5%	-19%	-9%	-23%	-7%
2015	10.2	10.9	9.3	8.3	7.0	3.7	4.2
2014	10.1	10.1	9.8	8.1	7.0	3.8	4.2
2013	8.5	8.9	7.7	7.3	6.0	3.4	3.5
2012	8.0	7.9	7.8	7.4	6.6	3.9	4.9
2016 – 12 5 year average	9.1	9.3	8.7	7.5	6.5	3.5	4.0
% change from 5 year average	-2%	-1%	0%	-11%	-3%	-18%	-2%

[Click for the full results.](#)

Glyphosate update

Switzerland's Parliamentary Committee on Science, Education and Culture has said that there is no evidence to ban the herbicide, following a petition to do so by four environmental organisations. Separately, an initial report from the

² All wheat yields stated are an average of all varieties of winter wheat grown, as either first or second wheat, unless explicitly stated as being yields for 1st or 2nd wheats.

US Environmental Protection Agency said “the strongest support is for ‘not likely to be carcinogenic to humans’ at doses relevant to human health risk assessment”. Its final report will be published in 2017.

Soil – The Key Farming Resource

A recent report published by the House of Commons on Soil Health has highlighted how at risk our soils are. The Soil Association are calling for the UK government to commit to increasing soil organic matter levels by 20% in the next 20 years.

The Soil Security Programme estimate that UK soil is worth £5.3billion each year but some of the most productive agricultural land in the country is at risk of becoming unprofitable within a generation due to soil erosion and loss of organic carbon. Soil is crucial in storing carbon, in Britain alone 9.8million tonnes of carbon is stored. As you can imagine, if this is managed incorrectly it can contribute hugely to greenhouse gas emissions.

Soil is crucial to society, neglecting soil health could have dire consequences for food security, climate change, and public health. Some of the most productive agricultural land in England is at risk of becoming lifeless. 2.2 million tonnes of soil is eroded in the UK each year, Professor Bardgett believes this degradation will only increase unless more frequent soil monitoring occurs and effective policy is developed. Current legislation, such as cross compliance do go some way to regulating landowners and how they manage their land, however, evidence suggests that this is not sufficient to meet the Governments 2030 ambition to manage soils sustainably.

Farm workers after Brexit

The government has given assurances to the farming sector on introducing an overseas seasonal workers scheme. Growers say that they will need around 90,000 seasonal workers – ideally from anywhere in the world, not just Europe - to pick fruit and vegetables, which is more than under the old Seasonal Agricultural Workers Scheme (or SAWS) that ended in 2013.

CAP simplification announced but unlikely to be used in UK

The European Commission has published a package of ways it will simplify the CAP. The proposals include a tool to help reduce volatility in farmers’ incomes and also provide lower interest rates on loans. However, what this means for UK farmers depends on whether we choose to apply them and our expectation is that the UK will not. The proposals for CAP simplification, which are part of the midterm review of the European Commission’s budget, have been broadly welcomed by MEPs and farm ministers. What is most significant is the acceptance (finally) to change elements of policy that do not work; in the past, the EC has been quite intransigent. Although the changes do not go far enough in terms of simplifying rules, they do make progress. Changes include making the Income Stabilisation Tool more flexible and changing the rules on notifying who is an active farmer.

Tackling antibiotic resistance

The UK, and the 192 other UN members, have pledged to produce national plans to combat antibiotic resistance within two years. Use on farms is likely to be a key element. Some UK vets have said that any target for the amount of antibiotics used on animals should be based on medical principles and not be an arbitrary number.

European Commission short-term agriculture outlook

The Commission’s outlook report published in October is for cereal prices to remain low as world production hits all time high; dairy prices to rise as world demand and supply rebalances; and, meat prices to rise due to greater European exports outweighing increased cattle slaughtering.

Farming Departments

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Newbury	01635 576914
Northallerton	01609 780306
Norwich	01603 617431
Oxford	01865 366700
Perth	01738 567892
St Albans	01727 738280
Salisbury	01722 328741
Shrewsbury	01743 284134
Stamford	01780 484040

Health & Safety

See our latest update on farm Health & Safety matters as well as other publications on our website:

[S&P Health & Safety Update](#)

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