Farming Update | Autumn 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 me or our team for further information on anything you read here. Andrew Atkinson, Editor

Market Update

Arable crops (£ per tonne)	A year ago	August 2017	A year ahead
Beans	138	154	165
Oilseed Rape	280	315	310
Feed Barley	97	115	117
Milling Wheat	136	145	150
Feed Wheat	110	127	135
Livestock (£ per kilo dead weight)			
Beef cattle	£3.48/kg	£3.85/kg	Remain stable
Lambs	£4.23/kg	£4.42/kg	Remain stable
Milk (per litre)	19.85ppl (June 16)	26.75ppl (June 17)	Possible increase

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

Arable crops

Global

Earlier USDA forecasts of reduced global wheat stocks at the end of the 2017/18 marketing year (June 18) were based on lower production forecasts in the US, EU, Australia, and the Former Soviet Union (FSU). The latter of those, however, has performed a turnaround and **the FSU is now harvesting a record wheat crop**, up 8.6 million T compared with last year, driven by increases in yield in Russia, Kazakhstan, and Ukraine. The drought conditions on the prairies of North America have **reduced the output for the US and Canada**, however this has been outweighed by the FSU's bounty. The USDA are, as a result, forecasting **another record global harvest of 743.2 million T of** wheat for the 2017/18 campaign which will lead to an increase in ending stocks.

In terms of **coarse grains (e.g. maize, barley, sorghum, millet), USDA are forecasting reduced supplies** and thus a decline in ending stocks. Although Ukraine expects to produce near record amounts of maize due to an increased area of cropping, globally this is outweighed by a drop in production in the US and Canada.

Changeable conditions on the continent have made the **European grain harvest a stop-start affair**. Grain quality has become varied as **combines have been delayed by rain** and wheat being cut at higher moisture levels than usual. This has led to **higher than anticipated stocks of feed wheat in the EU**, which is likely to displace some imported maize, and drive down feed costs for the livestock industry.

Global oilseed markets remain strong, despite increases in harvest estimates for US soya, Russian sunflower seed, and EU oilseeds (i.e. OSR, sunflower, soya and linseed). The EU are forecasting a higher than average oilseed crop: increases in some countries including **Romania and France will more than outweigh the UK and Germany's fall in production**. The EU predicts the **UK's OSR crop to be 1.90 million T which is 20% lower than the 5 year average**. This is due to the lower planted area, rather than yields.

UK

Harvest in the UK - as in the rest of Europe - has been hampered by wet and windy conditions since mid July, with farmers struggling to cut grain on time to retain grain quality. **Only a small proportion of the milling wheat varieties grown have achieved milling quality**, and many malting barley growers have seen their crop downgraded to feed barley too. In terms of wheat yields, AHDB has forecast the **UK average at 8.0-8.2 t/ha** (a 5-10% increase on the long-term average). This is, however, within the context of a highly variable national yield, with reports ranging from 7.0 t/ha on poorer soils to 12.8 t/ha on deep soils.

UK **wheat prices for November have fallen sharply** since mid August and are (at the time of writing) now under £130/T. The fall is due largely to the sheer quantity of feed wheat now needing to be sold this autumn, much of which will need to be exported. Merchants are warning that further falls are likely in order to make UK wheat competitive on the export market. Egyptian state wheat buyer GASC's buying pattern supports the view that the Russian and Ukrainian grain exports are driving the market downwards, having largely bought grain from those two countries in its latest tender. **Farmers able to store grain long-term may be in a position to 'ride-out' the dip in prices** if the UK manages to export a sufficient amount over the winter. **Milling premiums meanwhile have increased to over £20/T** for autumn movement, with further increases likely.

The OSR harvest, which was largely finished before the worst of the rain waylaid the combines, was a cause for optimism in the UK. Although there was a **markedly reduced area of land sown to OSR last year, yields are estimated at 3.5-3.7 t/ha (higher than the five-year average of 3.4 t/ha),** with good oil contents reported, averaging at 45%, according to AHDB. **Prices have risen strongly to around £330/T** for autumn movement, as a result of the lower crop area, but further significant increases are likely to be limited in the short term, particularly if imports come in to satisfy crusher demand.

OSR planting is now in full swing with plenty of moisture providing good early establishment. However, the first signs of flea **beetle damage have also been spotted**. New slug pellet stewardship guidelines in 2017 restrict metaldehyde pellets within 10m of any field boundary. As such our agronomists advise the use of Ferric Phosphate pellets (Sluxx) for all field headlands.

Livestock

Beef and cattle

AHDB figures show that finished **cattle prices have improved over the summer due to lower supplies**. Deadweight prices in August were up over 30p/kg compared with both April 2017 and August 2016. Reasonable premiums of around 10-15p/kg are now being paid for the best carcases (R4L spec) compared with the overall averages. **Costs however remain stubbornly high, with the weaker pound keeping purchased feed prices up**. **Margins are therefore very slim and in many cases negative**, with few beef producers able to make profits even with the recent rise in prices. Unless beef cattle numbers fall significantly to reduce domestic supply and lift prices, it is difficult to see how profitability will improve in the short and medium term.

Beef and veal exports continue to attract good demand from Ireland and Germany, and **imports from Ireland have slowed** since the Brexit vote and weakening of the pound.

Lambs and sheep

Despite a slight fall in liveweight values during August, to 191p/kg, pri**ces remain around 5p/kg above the same time last year.**

UK sheep meat production held steady in July at 23,000 tonnes compared to the previous month, according to latest data from DEFRA. This represents a 4% drop in production compared to July 2016, and is the first month in 2017 where production has been lower year-on-year.

Imports in June declined, continuing the general downward trend seen over the last 12 months. Sheep meat imported in June totalled 6,181 tonnes, a 25% decline year-on-year. This is largely due to the **continued decline in New Zealand exports to the UK. Exports from the UK however have increased in June compared with both last year and the previous month**. Both imports and exports have been affected heavily by the weaker pound.

Dairy

The DEFRA average far**mgate milk price for the UK rose to 26.75p/l, which is 6.8p (34%) higher than this time last year.** As is customary, the quantity supplied during the summer has fallen. This year's seasonal fall is in line with last year's, but is significantly greater than normal at this time of year, which tends to be nearer 10%, after the 'spring flush'. This is likely to have been caused by farmers relying more on forage than on purchased feeds this year and last. High production levels during the spring flush mean that, **despite the fall afterwards, overall GB milk deliveries are currently running 0.8% above last year.**

Arla and Morrisons have re-invigorated their "For Farmers" milk range, requiring higher welfare standards, including a minimum of 120 days of grazing per year. The extra 10p per 4-pint bottle of milk will now be distributed among just their 300 British suppliers, a change from previous arrangements which saw the extra 10p distributed among all of Arla's European producers, and which attracted a degree of criticism for the brand. The "For Farmers" brand now also includes "Butter For Farmers", "Cheese For Farmers", "Cream For Farmers" and "Bacon For Farmers".

In terms of cow prices, AHDB figures show that the average cost in July of a **freshly calved heifer was £1416/head**, which was 3% up on the previous month, and 11% up on 12 months earlier. The average cost of a **freshly calved cow was £1198/head**, which was 9% up on the previous month and 15.6% up on 12 months earlier. The **increased prices is due to a lack of supply: the numbers sold in July were around 50% lower than the same month last year,** which in turn is due to the fact that the rate of herd sales is slowing. In addition, fewer dairy heifers were bred last year: a result of poor market conditions last year.

Cull cow prices in June were on average £1.13/kg for a dairy sired cow, and £1.38/kg for a beef sired cow; both continuing an upward trend which began in late 2016.

Pork and Pigs

Pig prices have now been rising for nearly six months and prices now stand at a three year high. Despite this increase in price overall consumption is down, especially in the roasting joint department. It is thought that lack of promotional material by retailers may have contributed to the decline in sales. Exports are also down by 5% on last year despite the weaker pound. The **reduction in exports is due in part to the decline in demand from China**, this is down 15% on June 2016. However it is hoped that exports will perk up following the recent announcement that seven UK businesses have been granted more access to Chinese markets.

Fertiliser & fuel

Fertiliser prices have continued to increase over the summer, **prices having now risen nearly 15% since they were first released in June.** Prices for September delivery are now approximately as follows:

UK ammonium nitrate (AN) £198/T; Doubletop (Sulphur N) £213/T; Urea £220/T; TSP £258/T; MoP £250/T.

Limited purchases have been made in the last couple of months while farmers' attention has been on the harvest. AN prices continue to follow the global urea price, which has been firming due to strong global demand. **Farmers who have not yet taken any cover for nitrogen grades are encouraged to do so**. This will protect against further price increases which are likely as the manufacturers set their pricing policy to discourage last minute buying in the spring which causes them logistical problems.

Red diesel price has fallen 3% over the last three months, to an average of 49.51p/litre plus VAT in July, according to DEFRA. This compares to a 1.5% fall in the price of road diesel and a 5% fall in the price of crude oil over the same period.

Policy and regulation news

Basic Payment Scheme - new Ecological Focus Area (EFA) rules

New EFA rules will affect arable farmers from 1st January 2018, after the European Parliament voted in favour of a ban on the use of plant protection products (PPPs) on EFAs, which include fallow, cover and catch crops, and nitrogen-fixing crops. **The largest effect will be on those who have in the past used nitrogen fixing crops** (peas and beans) to satisfy their EFA requirement, as this will no longer be a viable option for many farmers, so they will need to find other ways of providing EFAs.

The reason for the ban is to increase the environmental benefit from EFAs, due to concerns that they produce little benefit at present. **Peas and beans will be less popular** if they can't be treated with PPPs, and so the unintended consequence is likely to be a reduction in the area of these crops, which are important crops for pollinators. **Growers should also bear in mind that this ban on PPPs will limit the tools available to combat blackgrass and other weeds on land used as fallow.**

Farms with Countryside Stewardship agreements should consider cheap cover and catch crops to **limit income reduction from double funding** and taking more land out of production than is necessary. **Strutt & Parker's briefing paper** on the changes to EFA rules can be found here.

CLA Survey on Farm Support

A survey carried out for the CLA has found over **80% thought that the government should continue to spend money on preserving and managing the countryside** after Brexit. 61% of people think that the current annual spend of around £3bn is either 'the right amount' or 'too little'.

Farm business news

Farming: Post-Brexit UK agricultural policy in full force from 2025

As suspected, **the agricultural policy that will replace the CAP in the UK may not come into full effect until around 2025**, to give farmers a **transition period to adjust and**, importantly, for the government to design processes to administer it. The Government has also confirmed that it would **support payments at their current level until 2022**, which is an additional two years.

Farming: CAP post-2020: budget and policy details delayed, at least partially due to Brexit

The **CAP post-2020 is important as UK farmers will operate under it until at least 2022 and most likely 2025**. Publication of the policy details of what the EC would like in the CAP post-2020 are likely to be delayed until early 2018 due to discussions about **the size of the EU budget being delayed, partially due to Brexit**. As €10-13bn pa less will be in the EC's coffers, all European Commission departments have been asked to work out the impact of changes in the budget they are allocated. Although they have been asked to assess a 0% and +10% change, most **commentators think that the -15% or -30% scenarios are probably closer to what reality might be**. The main European farm lobby group has called for the budget to be maintained as farm incomes are under pressure and as farming is expected to do more to help deliver environmental and social goals.

Farming and environment: Michael Gove's major speech on delivering a green Brexit

The Secretary of State chose a wildlife organisation as the setting to deliver his first major speech on farming, food and the environment. **Key themes were strengthening environmental protection post-Brexit and continuing to support farming for providing clear environmental benefits and producing healthy food.** The speech feels weighty and like a significant change from previous policy but we will know whether the rhetoric translates into action when the 25 year environment plan is published, probably in 2018. **He has also said that he supports current environmental rules but thinks their implementation could be improved** (which S&P would agree with). The next publications to watch for are: the advice on what the 25 year plan should aim to achieve and how it should do it, from the Natural Capital Committee, which will be published in September; and, the Clean Growth Plan, which will be published by BEIS in autumn 2017. Please email for a summary of the speech.

Farming: Reauthorisation of glyphosate for 10 years is a step closer but petition against hits 1m

The European Chemicals Agency (ECHA) has published the official conclusions of its Risk Assessment Committee's independent scientific review. They are **that the weight of evidence shows the chemical should not be classified as carcinogenic nor as mutagenic when used correctly**; the results had been made public on 15 March but are now official. The ECHA review was published on the same day that **a petition to the EU to ban glyphosate reached one million signatures**. The EC now needs to decide how to react. A decision on the reauthorisation now has to be taken within six months or by the end of 2017 at the latest, when the current EU glyphosate license runs out. The process is that Member States must submit written statements on their positions by early September, with the EC warning that it will not reapprove the herbicide without the support of Member States (i.e., that this is a shared decision and countries should not abdicate the responsibility). Interestingly, in Germany, Angela Merkel's CDU party supports the re-approval while the Environment Minister from the SPD is against it. The French environment minister is also against. Separately, Professor Stephen Powles of the University of Western Australia, who is **one of the most highly cited plant scientists in the world, has said that glyphosate is a 1 in 100 year discovery – like penicillin – so we need to preserve it for the future**.

Forestry: Only 525 hectares of new woodland was planted in England in 2016

These latest figures from the Forestry Commission, for the year ending 31 March 2017, are **massively below the national targets for planting**. Most of the planting was done in early 2016 with very little planted since. ConFor, a forestry industry body, has called the figures pathetic and lays much of the blame on poorly delivered woodland planting grants, which are now administered by three organisations (Forestry Commission, Natural England and the Rural Payments Agency). **Our experience, through John Clegg and Co, is that some remarkable issues are being raised to frustrate planting proposals**, such as partial rush cover on one site. Separately, uncertainty over the future of farming subsidies has reignited the debate over land that was let to tenant farmers being taken back in-hand once a tenancy ends and planted with trees. It is not clear at what scale this is happening.

Rural Development Programme for England grants reopen for productivity (£120m), tourism and food processing (£45m) and broadband (£30m)

The funding is through the Countryside Productivity and Growth Programme grants. It also includes investments in woodland management equipment, creating on-farm reservoirs and using water more efficiently. Please contact Sholto Moger for further details.

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