Farming Update | Winter 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.

Market prices have been broadly stable in the last year and the expectation is that they will remain close to today's levels for some time, currency and global events notwithstanding. Pressure is growing on the re-authorisation of chemicals and we are seeing evidence in our Yields Results survey that delayed sowing to control blackgrass is making yields more variable. This makes reducing risks and diversifying income even more important so that farms can generate long-term sustainable profits with low or no production support.

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	November 2017	A year ahead
Beans	141	144	150
Oilseed Rape	339	316	310
Feed Barley	115	124	121
Milling Wheat	140	148	150
Feed Wheat	135	135	135
Livestock (£ per kilo dead weight)			
Beef cattle	3.67	3.79	Remain stable
Lambs	3.82	3.97	Possible increase
Milk (per litre)	21.70 (Sept 16)	30.13 (Sept 17)	Possible increase

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

Arable crops

Global

Both the International Grains Council (IGC) and USDA are reporting **slight increases in world grain production forecasts for 2017/18**, led by an increase in maize in the US. However, even taking this into account, production is expected to be **2.5% lower than 2016/17's record harvest**. Demand will be up marginally year-on-year (0.8% according to IGC) which is expected to result in a fall in ending stocks between 2017 and 2018 – the first fall in five years. This is not troubling the markets, as the **closing stocks in 2018** are forecast to be 496 million tonnes; the **second highest ever** and some 19% higher than 2014's closing stocks of 416mt. With a comfortable stock level, prices appear settled. Any further increases in estimated stock levels would be particularly bearish to world markets.

UK

As harvest drifts into the memory, it is worth remembering that for many growers it was a drawn out affair this year. After the **earliest start most could remember, a wet August and September meant that many in the South were still cutting wheat and spring barley into September**. Growers in the North of the country escaped the worst effects of the weather and although the delays were still felt, the fact that the crops ripened later meant that they **held on to their quality much better than their southern cousins**. This has led to somewhat of a north/south divide with little milling wheat available on farm in the south, but a reasonable stock further north. This has impacted on prices - particularly on **milling premiums which are more variable around the country than normal**. Different merchants have access to different end markets so it is particularly useful this year to **take the time to obtain prices from more than one trade**r.

Prices have recovered somewhat from their falls in the early autumn, but the **market is far from bullish**, with both **current and new crop prices remaining under pressure**. There are several reasons for this, including the following:

- AHDB data on UK wheat exports shows that **only 147,000T had been exported by the end of September**. This is just over 20% of the volume exported by the same time last year, and suggests that UK stocks are unlikely to come under pressure any time soon.
- The **Vivergo** bioethanol plant in Yorkshire has **closed early for maintenance** due to a fall in bioethanol prices and political uncertainty in the industry. This plant processes around 800,000T of feed wheat each year from the surrounding area.
- Milling premiums are falling and are now between £10 and £17/T depending on location. Where milling wheat is of variable quality – such as low hagbergs – farmers are having to accept price penalties against the premium. However, **if the premium falls much more, then what would have been milling wheat, will become feed wheat**, as the potential price penalty could exceed any premium.
- Russia is working its way through its 4 million tonne exportable surplus of feed wheat, and France is also actively exporting its own surplus 2 million tonnes, both of which are cheaper than UK wheat.

Price rises are therefore more likely to result from external factors (eg global weather events) or currency movements rather than any tightening of stocks in the UK, at least in the short and medium term. As an aside (as an indicator of the relative state of the market) **if it were not for the currency effects of the Brexit vote, wheat would be trading at around £15/T less than the current prices**. In light of these factors we are encouraging clients to **consider further sales of both old and new crop commodities**.

Malting barley growers have also had a difficult season due to the wet harvest, and although the **feed barley price (£124/T) is at only a small discount to wheat**, malting premiums of £25-£30/T mean that **anything with quality is valuable**. Regular testing in store and prior to collection is essential this year, as **germination has been so variable**. Malting barley requires 98% germination and anything below that results in hefty penalties or re-direction charges.

In terms of oilseed rape, prices rises fell by almost 10% in the autumn, before recovering most of the falls. Assistance from currency (i.e. a weakening of the pound) will be needed if the price is to return to £**330/T which is a price that we feel would trigger a raft of farmer selling**.

2018 Crops

Winter Wheat

- Owing to a wet September **seedbed quality has been variable**. On lighter land good seedbeds have been achieved but on heavier land establishment has suffered as **compaction from cultivations and slugs have been an issue**.
- Where blackgrass is an issue **delayed drilling has worked well, warmth and moisture enabling growers to generate several flushes to be controlled prior to drilling**. However, a lack of surface moisture in October meant that residual chemistry control in many areas has been sub-optimal, which will be a major concern for those affected, given the fact that post emergent contact herbicides are now largely ineffective.

- Crops after sugar beet are now emerging and have generally gone in in good conditions.

Winter Oilseed Rape

- **Establishment has been very good on most farms** due to adequate rainfall in August/September.
- Cabbage Stem Flea Beetle **(CSFB) adult damage was mitigated by rapid establishment,** although larvae can be found in most crops. If the weather remains warm and the adults continue to lay this, will result in yield loss, however the cold will prevent the issue from escalating. There is little that farmers can do once the larvae are in the stem but the plant count and strength of the plants will go some way to mitigate the detrimental effect. **Anecdotally, hybrid varieties mitigate damage from CSFB larvae better as the lower seed rate produces thicker stems and the growing point lifts away rapidly**.
- Phoma levels are increasing, as is light leaf spot. Most crops should have now had a one or two spray fungicide programme applied.
- As soil temperatures reduce below 10 degrees, propyzamide can now be applied to control blackgrass in OSR crops.

Livestock

Beef and cattle

According to AHDB production of beef and veal in October totalled 77,000 tonnes, 14% more than the previous month although this was 1% less than the same month last year. Beef and veal production so far this year totals 731,000 tonnes, a 1% decline on the same period last year.

Trade with the EU and the rest of the world remains relatively consistent year-on-year, but with a **notable increase in imports from Ireland and Poland**, despite the weaker pound. Imports from Ireland were 6% higher - in line with increased Irish production. The biggest change has come from in volume from Poland, a 44% rise on 2016 to 15,200 tonnes, in the year to date, overtaking the Netherlands to become the second largest importer behind Ireland.

In terms of UK production, AHDB figures show that slaughterings in the year to date are consistent with the same period last year, but **October slaughterings are lower, particularly for young bulls**. This is due in part to lower prices being offered for lower quality cuts produced by the quicker-finishing bulls. **Although the prices for prime cattle remains above the five-year average, prices for young bulls are 10% below**, meaning that margins are very slim indeed.

Lambs and sheep

For the first time in 12 months UK **sheep meat exports recorded a fall compared to the same month last year**, according to the latest data from HMRC, with exports of 8,000 tonnes in September.

DEFRA June survey figures suggest that there is l**ikely to be a small (3%) rise in the 2017 lamb crop, compared with 2016**. According to AHDB, sheep meat production picked up again in the third quarter of the year, following a slight dip during the summer. **Forecasts for the rest of the year suggest that production could be up to 301,900 tonnes: 5% higher than in 2016** and back at similar levels to 2015. Initial forecasts for 2018 suggest that production could be a further 3%, to 311,700 tonnes. **Producers therefore appear to be well set to benefit from the better prices caused by the weaker pound.**

Dairy

The **DEFRA average price for September rose to 30.13ppl** – a 3.9% increase from the previous month. Prices paid on some manufacturing contracts have now surpassed prices paid on aligned contracts, which has eliminated the gap between aligned liquid contracts and others. The five-year average price reached 27.35ppl in September, when excluding the impact of aligned contracts.

GB **milk production has been increasingly edging ahead of year earlier levels in recent months**. Following updates to DEFRA production figures, GB deliveries during the July-September period are estimated at 2,909m litres, approximately 2% higher than 2016 volumes. AHDB estimates for October show production is continuing to move up, reaching 989m litres during the month, 4% higher than last year.

In terms of cow prices, AHDB figures show that the average cost in October of a **freshly calved heifer was £1,377/head**, which was 2% down on the previous month, but 6.6% up on 12 months earlier. The average cost of a **freshly calved cow was £1,105/head**, which was 5.7% down on the previous month but 7% up on 12 months earlier.

Cull cow prices in October were on average 95.59p/kg for a dairy sired cow, and £1.21/kg for a beef sired cow; both up considerably compared with the same month in 2016, but both down around 10% on summer 2017 values.

Fertiliser & fuel

Nitrogen fertiliser prices continue to rise, and are now around £**240/T for ammonium nitrate (AN) and sulphur grades**, with **further price rises imminent**. So far AN prices have risen over 35% since they were released in June, highlighting the value of early orders. Prices of P and K grades have risen to around £260/T for MoP and £285/T for TSP.

According to DEFRA figures, the price of red diesel rose 8.5% between July and October to 53.54p/litre plus VAT. This compares with a 4.4% increase in road diesel and a 11% increase in crude oil over the same period.

Policy and regulation news

Basic Payment Scheme payment rates

The RPA confirmed payment rates for the 2017 Basic Payment. These will be **8% higher than 2016** due mainly to the weaker pound against the Euro. Rates are confirmed in the three English regions as follows:

Payment region	2017 Entitlement Value	2017 Greening Value	2017 total value (€)	2017 total value (£)
Non-SDA	€180.46	€77.69	€258.15	£230.97
SDA	€178.90	€76.92	€255.82	£228.88
SDA Moorland	€49.63	€21.32	€70.95	£63.48

These rates will be subject to the Financial Discipline reduction, which is 1.388% on amounts over €2,000.

The payment window for **2017 claims opens on 1st December** and the RPA are confident of paying the vast majority of claims during December.

The RPA have also issued a reminder that they will, in 2017 for the first time, **apply penalties for any failure to meet the Greening rules**. Up until now a failure to meet the rules has resulted in a non-payment of the Greening element on the relevant area. In 2017, as well as non-payment, an additional penalty of up to 20% of the total Greening payment may be applied.

Farm business news

Farm Wages Reviews

1st October is the date on which wages are traditionally reviewed on farms – a legacy of the now disbanded Agricultural Wages Order. Strutt and Parker clients look to us to guide them on suitable wage reviews for their employees and whilst that guidance will be tailored to individual circumstances, our consultants start with a standard recommendation. This standard takes into account:

- Changes in the National Living Wage
- Inflation
- Public sector pay awards
- Decisions of the devolved administrations' agricultural wages boards
- Any other relevant information (such as the introduction of auto enrolment pensions contributions)

Based on the factors above, **our recommendation has been a 1.4% wages increase**, on top of the mandatory 1% increase in employers' auto-enrolment pension contributions which will come into effect next April.

Economy: National living wage will increase by 4.4% from April 2018

The new rates for the national living wage (NLW) and the national minimum wage (NMW) will be:
NLW - for workers aged 25 and over - will increase to £7.83 (+4.4%), from £7.50.
NMW - for 21 to 24 year olds - will increase to £7.38 (+4.7%), from £7.05.
NMW - for 18 to 20 year olds - will increase to £5.90 (+5.4%), from £5.60.
NMW - for 16 and 17 year olds - will increase to £4.20 (+3.4%), from £4.05.
NMW - for apprentices - will increase to £3.70 (+5.7%), from £3.50.

Strutt & Parker Yield Results | Harvest 2017

We have collected provisional **results of crop yields from 142 farms managed by our farming department.** The farms cover over 58,000 hectares, have an average size of 415 hectares and are mainly located in the East of England, Midlands and Southern England.

In general, **marginal improvements were seen compared with 2016,** the exceptions being second wheat and spring barley both of which yielded less than last year. **Spring barley in particular suffered at the hands of the weather during harvest,** which led to large losses during harvest itself. The yields of most crops remain just below the five-year average.

The **most significant change in crop performance was seen in winter oilseed rape yields which rose 27%,** from a disappointing 2.9t/ha in 2016 to 3.7t/ha in 2017. Part of the reason for the improved yields is that only those crops with good potential were taken through to harvest. **In the eastern region, a large area was lost shortly after establishment due to the dry conditions, with Cabbage Stem Flea Beetle (CSFB) damage a secondary problem**. Elsewhere CSFB larvae pressure seemed to be lower and the OSR plants benefited from higher June sunshine hours than we saw in 2016. This helped to push yields to 6% above the five-year average.

	Winter Wheat	1st Wheat	2nd Wheat	Winter Barley	Spring Barley	Winter OSR	Spring Beans
2017	9.1	9.5	7.8	7.3	6.0	3.7	3.8
% change from 2016	2%	2%	-11%	9%	-6%	28%	-2%
2016	8.9	9.2	8.8	6.7	6.3	2.9	3.9
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
2017 – 13 (5 year) average	9.4	9.7	8.7	7.6	6.5	3.5	3.9
% change from 5 year average	-3%	-3%	-10%	-3%	-8%	6%	-3%

Further analysis of the yield survey has identified that while average winter wheat yields have slowly climbed since it began 19 years ago, **growers are now seeing a wider range in yields from year to year**.

Up until 2008 yields were relatively consistent year on year, but afterwards the variability seems to be a lot higher. Whilst the low of 2012 and the highs of 2014 and 2015 are a lot to do with the fortunes of rainfall and sunshine, **we think there is another factor at play**. Our survey data is largely gathered from farms in the South, the East and the Midlands where **blackgrass is an issue**. It is our belief that part of the explanation is a **shift to later drilling, as part of a strategy to tackle blackgrass** once resistance to contact post-emergence herbicides became more evident from 2010 onwards. Late drilling is an essential grass weed management tool, but it does result in smaller root structures which leave crops more vulnerable to weather extremes than they were when people could reliably drill in September. **For the 2017 harvest, people who late-drilled second wheats were caught by the dry conditions** and lost secondary tillers to the spring drought. This meant that crops of 6 to 7t/ha were quite common in the survey, bringing the average down.

Government changes its position to support a total ban on neonicotinoids across Europe

This decision, which reverses its original opposition, follows the assessment of more data by the UK's Expert Committee on Pesticides. The EU banned the chemical's use on flowering crops in 2013, despite UK opposition, and is voting on a ban on all uses (apart from in greenhouses) in the next few months, which is expected to be passed with the UK's support. While Michael Gove accepted that there is still uncertainty in the science, he said that "it is increasingly pointing in one direction". Key points from the ECP's assessment are:

- "Exposure to neonicotinoid pesticides under field conditions can have an unacceptable effect on honeybee health"
- "Such unacceptable effects are occurring at a landscape level and between seasons."
- "The available evidence justifies taking further steps to restrict the use of neonicotinoids"

Finally – an agreement on glyphosate renewal – EU vote secures new 5 year licence

A very tight vote on 27th November finally broke the two-year long deadlock much to the relief of farmers across Europe. The vote produced the 'narrowest possible margin' under which the renewal was possible. At least 16 countries, representing no less than 65% of the EU population needed to be in favour of the proposal, and in the event **18 countries were in favour, representing 65.7% of the population** (nine countries were against and one abstained). It was **Germany's support for the vote** which proved key to the positive result, putting them at odds with France who remain steadfastly opposed to the chemical. This vote will not end the political charged nature of the debate - the French President has vowed to ban the chemical in France "as soon as alternatives are found and within three years at the latest". **The UK has supported renewal of the licence at every stage** and the result has been welcomed by farmers and farming organisations.

Target to cut use of antibiotics in farm animals achieved two years early

The 27% fall in use since 2014 meets a government target set following the 2016 O'Neill Review on Antimicrobial Resistance. This is good news, and particularly that the use of antibiotics considered critically important for human health has also dropped. There is still scope to do more and the Responsible Use of Medicines in Agriculture alliance, which is an agricultural and food industry alliance, will set further targets.
Defra, 271017

What the CAP post-2020 could look like

A leaked draft of the European Commission's proposals for the CAP, which is due to be published on 29 November, includes the following major changes:

- Capping of direct payments, with €60 – 100,000 mentioned, but with flexibility to avoid negative impacts on jobs and support for those that depend on farming for their incomes.
- A major overhaul of greening and cross-compliance. There is a strong hint that higher minimum environmental standards will be required in order to receive direct payments.
- Member States can't top up direct payments (under Pillar 1), as it would undermine the internal European market if different countries made different levels of payments to their farmers. The long-term policy of convergence of support rates between Member States will continue.
- Greater scope for Member States to design their own policies – but they will have to demonstrate their impact, so more results driven.
- Increased trade with other countries, but recognising that some agricultural sectors cannot withstand full trade liberalisation and unfettered competition with imports.

The costs of compliance with environmental standards

It costs the average German farm around €350-370/ha/year to comply with standards on water, fertiliser, pesticides, animal husbandry, air quality and cross-compliance costs, according to research commissioned by one of the German farming unions (Bauernverband or DBV). The union claims that there are higher production standards in Europe than elsewhere in the world, which leads to higher costs, which should be debated when considering the CAP. Birdlife International criticised the report's logic as flawed and said that it did farmers a disservice.

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