Farming Update | Summer 2018

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.

We include a section on EU and UK policy for agricultural support on the basis that it will influence the Scottish Government to some degree and will certainly affect our markets. We would urge our readers to respond to Fergus Ewing's consultation document for Post-Brexit Transition which can be found on the Scottish Government website and closes on 15 August.

Please contact me or our team for further information on anything you read here. Stephen Whiteford, Editor

Market Update

Arable crops (£ per tonne)	A year ago	July 2018	A year ahead
Beans	170	185	160
Oilseed Rape	325	302	290
Feed Barley	120	165	140
Oats	119	140	120
Feed Wheat	139	180	150
Livestock (£ per kilo dead weight)			
Beef cattle	3.86	3.93	Possible increase
Lambs	4.11	4.40	Remain stable
Milk (per litre)	26.76 (May 17)	26.76 (May 18)	Possible increase

Sources

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

Arable crops

Global

At the recent International Grains Council (IGC) conference, the delegates discussed the fact that a recent 12 million Tonne cut in grain production estimates means that **global supplies are forecast to drop to a three-year low**. Stocks are now forecast at 598 million tonnes at the end of the 17/18 year and 544 million tonnes at the end of the 18/19 year. This is supporting **strong market prices around the world**. There are complexities within the overall grains figures, for example maize and sorghum supplies are actually forecast to rise in 18/19, but this will only partly offset **major falls in wheat and barley production**. Against the background of lower production, **consumption is forecast to rise for a third successive year to new record highs**, and it is worth noting that the production figures remain simply estimates; further reductions are possible once the full effect of the hot dry weather in the EU and Russia is seen.

At a recent conference, representatives of major grain producing regions, including South America, Australia and central Asia, have all said that **climate change is a major challenge that will affect global grain production** and needs to be addressed by **agricultural research**. In Russia, which is one of the world's most significant grain producing regions, yields have been seen to rise in recent years (to over 3t/ha for the first time in 2017) helped by milder winters, which also allow more areas to be planted.

European stocks of oilseed rape continue to shrink whereas soya production and stocks in the US (the major driver of global oilseed prices) remain strong. EU production is likely to be down 10% year on year which should provide support to prices, but this is far from certain given the influence that soya has on the overall market. **US commodities are at risk from the US/China trade war** and the market is nervous at the impact this may have on trade, and thus prices.

UK

In the UK, merchant Cofco International estimates the UK wheat area at 179 million ha (down 8 million ha) which is likely to lead to **a wheat harvest of around 14 million tonnes**. As such, the UK is unlikely to have an exportable surplus and **prices will be therefore be based on import prices**; this will be helpful to UK growers as it will **help to support prices**, particularly with Sterling so weak against the Euro.

The higher wheat price is helping support barley prices although a £20/T discount has developed; earlier in the year, feed barley was, for a time, worth more than feed wheat. **Malting premiums have reached around £40/T due to concerns that the dry weather will have had a detrimental impact on quality, both in the UK and Scandinavia**. Premiums can be expected to drop back if early cut crops make the grade, or if maltsters relax their specifications in order to ensure sufficient supplies.

2018 Crops

With the 2018 harvest upon us – earlier than expected – **crops that were initially full of promise have been detrimentally affected by the weather** and in particular, wet conditions in March and April followed by hot, dry conditions from mid May to the time of writing in mid July. In June for example, the east of Scotland received 131% of the average sunlight, with a mean temperature of 13°C which is 1.8°C above average. Going back one year to 2017 by contrast, the same region had 106% of average sunlight, with a mean temperature of 7.9°C (source: MET Office). Exceptionally wet and cold conditions in March and April meant that many spring crops had to wait until the end of April before they were sown. The dry conditions which followed then capped yield potential by limiting tillering and grain fill. **Autumn sown crops on medium and heavy land should be less affected due to good rooting** and the ability to scavenge for soil moisture, however premature senescence (ripening) of crops, particularly on light land, has been widely seen with early winter barley harvested some two weeks ahead of normal.

Looking forward to the 2019 crops, **moisture retention may prove to be crucial for cultivations and autumn crop establishment**, particularly if conditions remain dry when sowing oilseed rape in August. If it remains dry, seed rates will need to be higher to help compensate for reduced germination, so this will need to be factored in when budgeting and placing orders.

Livestock

Beef and cattle

The **prolonged dry weather has helped to increase demand for burgers and grills by almost 20% over last year** according to Kantar Worldpanel, although this increase has been at the cost of roasting joints sales, which have declined by 17% year on year. With more good weather forecast, this trend is set to continue.

Production of forage and availability of straw is now starting to drive decisions on farm as to the numbers of animals to be kept this winter. The lack of grass due to the dry weather is also causing some farms to cut livestock numbers so that they do not need to be fed valuable forage during the summer. **The stores market is weakening as a result**.

The increase in the value of cereals and straw will add to the costs of rearing this winter which, without an uplift in prices, will squeeze margins.

Lambs and sheep

The poor weather at the start of this year resulted in **lower lambing rates and higher losses than normal**, and the impact on lamb production is now starting to show with **slaughterings of lamb down 16% on last year** at 872,000. This reduction in numbers has not had a big impact on the price due to UK prices being on a par with those in Europe meaning that exports are down and **domestic supply (and thus UK prices) remains broadly similar to last year**.

Higher than average ewe losses seen this lambing season has seen the level of cull ewe slaughterings fall by 7% to 118,600 for June. There are also reports of ewe lambs intended for the replacement market being sold in to the fat market to prop up incomes meaning **there could be fewer replacements available this autumn. UK production in 2019 could therefore be down again.**

New markets for New Zealand and Australian Lamb are helping to keeping world prices firm.

Dairy

Milk prices continue to rise, with average prices heading towards 30ppl. Production is currently down 0.5% on last year, although this is likely to fall further behind last year as the dry weather restricts grass growth.

Forage stocks are seen to be lower than last year, and this will be compounded by the lack of grass growth during the summer, as it will lead to winter stocks being fed out much earlier than normal. Without some rain during July and August, the volumes of grass from 3rd and 4th cuts will be minimal. **The market for standing crops of wheat for whole crop has rocketed** as dairy producers try to ensure they have enough forage for the winter; wheat crops changing hands for upwards of £650 per acre is not uncommon in parts of the country.

AHDB figures show that the average cost in June of **freshly calved heifers was £1,403/head**, which was about 2% higher than both the previous month and 12 months earlier. The average cost of a **freshly calved cow was £1,133/head**, which was 2% up on the previous month and 3.4% up on 12 months earlier.

Cull cow prices have improved from the start of the year and are now seen at 116.7pp kg for dairy sired cows and 143.9pp kg for beef sired cows.

Fertiliser and fuel

The ammonium nitrate market opened at around £220/T and has since risen to around £250/T. Urea has risen sharply to around £280/t, but there is a possibility that it may fall back later in the year, depending on global supply/demand. It is interesting to note that urea accounts for over 70% of all nitrogen applied globally as fertiliser or used industrially. In the past 10 years, world production of urea has grown by 30% with half of this increase taking place in China. Demand has also grown rapidly: China has increased consumption from 36mt in 2006 to 61mt in 2015 with India growing from 23.5mt to 32.5mt in the same period.

P and K prices have also risen with TSP around £330/T, MOP £280/T and DAP £410/T and compounds such as 0.26.26 being priced at around £310/T.

The average red diesel price has risen to approximately 63ppl, an increase of 3ppl on the previous month and a significant **(23.5%) increase compared with a year ago**. Over the same period, crude oil price has strengthened from £35 to £55 per barrel, a rise of 57%, due to a number of factors, including ongoing political tensions in the Middle East.

Policy and regulation news

DEFRA Agriculture Policy

The DEFRA Secretary **Michael Gove received some 44,000 responses to his consultation** document "Health & Harmony: the Future for Food, Farming and the Environment in a Green Brexit". There has been no formal response from DEFRA to these representations, but one conclusion appears to be that the proposed reductions in Basic Payment as from 2020 will not be targeted towards larger farming businesses, but rather will be allocated equally across the board. The expectation is that **a 10% cut will be implemented for all in that first year (2020), with ongoing progressive reductions (18% per annum) thereafter until the Basic Payment has been completely removed by 2025**.

Farmers in England will be able to **offset the loss of Basic Payment by entering into new Environmental Land Management Schemes (ELMS),** although it is not yet clear what these will comprise or how they will be operated. Logic would suggest that they will not suddenly become available to all from 2020 (as the cash with which to fund them will be only gradually released from Basic Payment reductions over 5 years). However, there is no suggestion that funding for these new schemes will be phased in over 5 years. This would suggest that there will be pilot schemes only for certain farmers or certain areas in the first year in which these are available, with these gradually being rolled out more widely. Logic would also suggest that funding will not be available simply for certain activities – such as growing pollen and nectar mixes or maintaining field margins, as these alone, on a limited area of a farm, will not warrant the same level of payment as previously applied to the entire farm under Basic Payment, concentrated on to the small area. Therefore, **the expectation is that the new schemes will be "whole farm" schemes, perhaps not dissimilar to the old ELS,** perhaps with top-ups for additional measures (as with ELS/HLS) and perhaps with further top-ups for farmers who cooperate on a landscape scale.

With Brexit talks currently in some disarray and the outlook very uncertain with regard to future trade between the UK and EU, **it is also important to watch progress of CAP reforms and budget proposals within the EU** – as, if the UK wishes to continue to have open trade with the EU, it is likely to have to abide by very similar rules to avoid non-trade tariffs. Consequently, it is noteworthy that the **EU budget for the CAP is proposed to be reduced by 15%** (in particular because the EU will be losing one of its major financial contributors, namely the UK, but also because the Eastern European countries are demanding fairer allocation from the budget between all 27 member states). The EU proposal is for an 11% reduction in direct payments, and a 26% reduction in rural development – which is strange as the encouragement is to divert greater funds towards environmental protection. One should note that, if CAP support reduces by 15% in Europe, then the UK government is likely to take the opportunity to reduce payments overall in the UK by at least the same amount. Therefore, although **our government has indicated that the current expenditure on agriculture (namely £3.2bn) will be protected for the life of this parliament**, and that there is no reason why the budget should not remain at that level so long as it can be justified in the public interest, **in reality the likelihood is that this budget will diminish as the years pass**. On a positive note, the current Basic Payment at £90/acre might equate to approx. £30/T – by which amount the grain price has risen over the past 6 months: a short term relief perhaps.

The Scottish Government does appear more inclined to continue direct support for food production than Michael Gove, according to the Post-Brexit Transition consultation document. How this is translated into policy remains to be seen.

There is much water to pass under the bridge between now and 29th March 2019. However, farming is a long-term industry and crops being planted now or stock being reared now will not be sold until after that date. **Farmers should therefore monitor the progress of developments very carefully and be prepared to adjust policy quickly if appropriate**.

Farm business news

Strutt & Parker Contract Farming Survey 2017 provisional results

The **provisional results for harvest 2017** show that the **average return to the farmer rose to £353/ha** (£143/ac), which is around the five-year average, up from £273/ha in 2016. **Contractors received £367/ha** (£149/ac) on average, up from the lows of 2015 and 2016, although still below the 10-year average. The survey covers 71 agreements covering 18,700 hectares. **The way agreements are structured continues to change**, with contractors taking higher fixed charges and **farmers bearing more of the risk** from variability in crop prices and yields.

British agricultural policy: Over Gove's dead body will the UK allow poor quality food imports

Farmers Weekly has reported Michael Gove, speaking at the Hay Festival, as saying "over my dead body" will he allow imports of food produced using techniques banned in the UK. **He restated that he does not want a race to the bottom,** a**nd that consumers should be confident that the food they are buying is ethical, sustainable, tasty and good value.** This principle will be extremely important when negotiations start with other countries, particularly the US, on trade agreements and the National Farmers' Union is concerned that it is not weakened to reach a deal.

Fire safety – harvesting in dry conditions

With exceptionally dry conditions being seen as harvest gets underway, **farmers are being urged to take precautions against the risk of field fires**. Steps that can be taken include exposing hydrants, filling water tankers and bowsers, and having clearly communicated procedures to be followed in the event of fire occurring.

Fodder/Bedding Shortages – consider selling straw

Whilst all sectors have been struggling with the long dry spell of weather, it is predicted that the livestock sector in particular will feel the effects long in to the coming winter. The lack of grass due to the dry spell has forced many farmers to feed any residual forage through the summer. To compound the fact that there will be a lack of residual hay/straw/silage carried forward, silage yields are also back which points to a likely shortage of winter feeding. As a result, the option to treat and feed straw is perhaps looking like the best option for many as a means of making up the shortfall.

With a view to alleviating the likely shortages through the winter, arable farmers are being encouraged to bale straw wherever possible this year. Needless to say, the value of straw both in the bale and in the bout has increased significantly – straw is being sold in the region of £90-100/acre in the bout and may go higher. Many arable farmers will have stuck to a policy in recent years of chopping straw to maximise nutrient and organic matter return to the soil. However, there is a potential opportunity for arable farmers to increase output this year through straw sales.

Of course, the replacement of nutrients and organic matter forgone by not incorporating chopped straw should still be targeted. Therefore, collaboration with livestock farmers in straw for dung arrangements and the like is very much encouraged. Others have sourced hen muck locally to replace lost nutrients and some have entered in to cattle wintering agreements where possible to bring the cattle (and dung) to the straw rather than the other way around.

UK Agriculture Bill will be published by August

Michael Gove confirmed the timing when giving evidence to a House of Commons committee. It is unclear whether the Bill will be mainly procedural, to give the Government the powers it needs to make new agricultural policy, or whether it will contain policy detail, as he also mentioned that a food strategy will be developed but that it will be separate from the Bill. The Health and Harmony consultation published earlier this year said that it would provide a new statutory framework for the reforms and could include powers to:

- Make payments to farmers and land managers
- Change regulation
- Create new schemes to support farming, environmental protection, animal welfare, public access
- Establish a new compliance or inspection regime
- Introduce emergency measures if needed
- Retain UK-wide frameworks where commonality is needed
- Allow some elements of the CAP to continue during the 'agricultural transition' period

Tesco to enter strategic alliance with France's Carrefour
The alliance aims to combine how they deal with global suppliers, in order to **cut prices and increase choice** for customers. It will be interesting to see how it affects their relationship with existing farmer suppliers.

UK farm income rose 41% in 2017, mainly due to higher commodity prices post-Referendum
The Total Income From Farming, or TIFF, which is a measure of the profits from the farming sector, rose significantly in 2017 as **the value of crops and stock produced rose more (+10%) than costs (+1%)**. BPS payments rose by just over 2%.

Ban on neonicotinoids on all outdoor crops likely to come into effect by end of 2018
EU Member States, including the UK, have voted to extend the partial ban that was first implemented in 2013, following an updated risk assessment on neonicotinoid pesticides by the European Food Safety Authority. The ban will prevent the pesticides' use on all outdoor crops, including non-flowering crops, such as sugar beet seed dressings. **Their only legal use now will be in permanent greenhouses** where exposure to bees is not expected, although controls are likely to be increased.

More from Strutt & Parker

Report Land Business Tracker struttandparker.com/tracker	**Report** English Estates & Farmland Market Review struttandparker.com/eefmr	**Brochure** Strutt & Parker Farming struttandparker.com/farming-brochure
Report Health & Safety Update struttandparker.com/health-safety	**Report** Contract Farming Agreement Survey struttandparker.com/cfa	**Blog** Land Business Update View all: struttandparker.com/blog

National Contacts

Farm Research Group Chairman
George Chichester MA FRICS FAAV
01635 576914
george.chichester@struttandparker.com

Land Research Group Chairman
Charlotte Kershaw MRICS ACIArb
01273 407019
Charlotte.kershaw@struttandparker.com

Farming Department
Will Gemmill BSc FAAV MBPR
01223 459471
will.gemmill@struttandparker.com

Land Management
James Farrell BSc MRICS FAAV
01423 706770
james.farrell@struttandparker.com

Development & Planning
Simon Kibblewhite BSc (Hons), BA, FRICS MCIArb
020 7318 5177
simon.kibblewhite@struttandparker.com

Research
Jason Beedell MRICS PhD BSc(Hons)
07795 651493
jason.beedell@struttandparker.com

Accounting & Taxation Services
Alex Heffer FCCA
01245 254656
alex.heffer@struttandparker.com

Energy
Alexander Creed BSc (Hons), MRICS FAAV
020 7318 5022
alexander.creed@struttandparker.com

Building Surveying and Architecture
Tony Saffery BSc (Hons) MRICS
01483 383098
tony.saffery@struttandparker.com

National Estate Agency
Guy Robinson BSc (Hons) MRICS
020 7318 5175
guy.robinson@struttandparker.com

Estate & Farm Agency
Michael Fiddes
01223 459500
michael.fiddes@struttandparker.com

Farming Departments

Cambridge 01223 459500
Chelmsford 01245 258201
Morpeth 01670 516123
Newbury 01635 576914
Northallerton 01609 780306
Norwich 01603 617431
Oxford 01865 366700
Perth 01738 567892
St Albans 01727 840285
Salisbury 01722 328741
Stamford 01780 484040

Mary Munro
Head of Farming (Scotland)
01738 783354
mary.munro@struttandparker.com

Stephen Whiteford
Farming Consultant
01738 783355
stephen.whiteford@struttandparker.com

Harriet Ross
Farming Consultant
01738 783358
harriet.ross@struttandparker.com