Farming Update | Spring 2019

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 our team for further information on anything you read here. Stephen Whiteford, Editor

MARKET UPDATE

Arable crops (£ per tonne)	A year ago	Feb 19	A year ahead
Beans	152	220	195
Oilseed Rape	293	293	318
Feed Barley	140	168	135
Milling Wheat	155	166	160
Feed Wheat	150	162	150
Livestock (£ per kilo dead weight)			
Beef cattle	3.66	3.63	Remain stable
Lambs	4.94	4.33	Possible decrease
Milk (per litre)	30.6 (Jan 18)	30.69 (Dec 18)	Possible increase

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

ARABLE CROPS

Global: Grains

Both the USDA and IGC (International Grains Council) are forecasting slight reductions in wheat production for 2018/19, due to lower production in Turkey, Russian and Australia. The latter due to drought which puts their output down to 17 million tonnes; the lowest number since 2007/8. **Forecast ending stocks remain stable at around 268 million tonnes** (4% lower than last year's record stocks).

Maize production forecasts also remain relatively stable, with lower than anticipated harvests in the US and Russia, but a larger crop in Ukraine. **Consumption estimates have risen**, which leads to a fall in forecast ending stocks to 267.5 million tonnes: 14% below their opening estimates for this year.

Overall, forecasts of global production and ending stocks for grains remain relatively benign, with generally good planting and winter growing conditions experienced so far in the northern hemisphere, and in the southern hemisphere drought issues in eastern Australia were balanced by good conditions in South America and South Africa.

The latest report from the Agricultural Market Information System (AMIS), (a collective assessment of the market by ten international organisations in place to track and analyse world food production & prices) describes how **market analysts are reacting to China's revised grain production estimates, published in late 2018.** The revisions relate to every year between 2007 and 2017 and cumulatively **increase China's wheat production by 312 million tonnes** over that period; to put that into context China's 2017 wheat production is estimated at about 250 million tonnes. As there has been no corresponding revision in China's consumption figures, the **extra production has had to be provisionally added to their**

ending stocks records, but there is concern that this may not reflect the true position. The report highlights the risks that poor quality stocks data presents to the international community as it can lead to unexpected price swings, as seen ten years ago. As such **it advocates putting in place a long term solution of survey-based approach to stocks** in the main grain producing countries; something that will be difficult to implement.

Global: Oilseeds

The **USDA reports global oilseed production up marginally to 600.5 million tonnes**, and higher soybean production in Brazil and Nigeria outweighs a reduction in oilseed rape production in Australia and India. **Stocks remains well supplied**, with AMIS reporting that ending stocks in 2019 will be one third greater year on year.

UK

Wheat

The **UK wheat values have remained stable** due to the combined effect of the stronger Sterling preventing a hike, and reasonable export progress preventing a slide in prices. **Feed wheat markets appear to be slowing down in the lead up to the intended Brexit date on 29th March**, and several merchants are of the view that price falls are almost inevitable over the coming weeks.

Barley

Market prices for feed barley are still holding up, but tend to be less buoyant than wheat. Malting barley premiums remain around £25/T but **selling malting barley forward for April and May is difficult as end users wait to see how Brexit plays out**. Domestic maltsters are limiting their purchases to short term requirements, so as to avoid carrying large surpluses. Their rationale being **that in the event of a 'no-deal', domestic prices are likely to fall sharply** due to the practical and financial difficulties of exporting to the EU.

Oilseed Rape

Thanks to a largely domestic market there is less vulnerability to the impending trade disruption this spring for Oilseed Rape, and it is holding onto value well as a result. Australian canola continues to be imported into the EU which will keep a lid on prices. **Fluctuations in currency may provide the best selling opportunity for farmers who still have crop to sell**.

2019 CROPS

A warm end to 2018 and a mild start to 2019 has meant that many **winter crops have continued to grow well, and have started the 2019 season with good potential. The cold snap at the end of the month persuaded most growers to hold back on nitrogen applications until the speed of growth increases slightly again**. Some have also made good progress with either later drilled winter crops, or early drilled spring crops. **It is very rare to see drilling taking place in the first couple of weeks of January, but this year it is was not an uncommon sight in south eastern parts of England**, particularly on slightly heavier land where farmers couldn't pass up the opportunity to get onto the ground. Once the weather warms up – and if conditions remain as dry as they are now – spring land work will begin in earnest.

In spring 2018, higher than average winter rainfall and the beast-from-the-east prevented growers from getting onto the land, limiting yield potential from the outset – this was then compounded by the prolonged drought in the summer. **This winter has been much drier than last, the question is how long will this weather last – and when will the deluge arrive?**

In terms of forward prices for the 2019 wheat crop, these have been steadily reducing in line with positive news about cropped area (up 4% year on year according to the UK's AHDB early bird planting survey) and good crop conditions elsewhere in the northern hemisphere. Premiums for milling wheat remain low (circa £10/T) in the UK due to the large area of milling wheat being grown.

Other results from the AHDB planting survey are as follows: Winter barley area up 14%; oats up 10%, oilseed rape down 3%, fallow down 15%. **Although OSR planted area is only 3% below last year, the harvested acreage south of the Border is likely to be somewhat different following another challenging season with flea-beetle damage**. Further updates on the scale of crop losses will be covered in future Farming Updates. Crops in Scotland are looking as good as they ever have, with little impact from slugs or wetness.

LIVESTOCK

Beef and cattle

The forecast for 2019 is as expected significantly affected by the drought seen in 2018; production is **expected to be decline as a result of the poor calving period in 2018 and the continued decline in the UK breeding herd,** which is expected to be 2% down for 2018.

The **feed market remains firm and forage or replacer feeds are at a premium**, which will continue until turnout and may increase further if bad weather returns and delays turnout.

Prices for prime cattle have stabilised but are running well below last year's. With the looming spectre of Brexit the forecast for pricing will depend on the strength of Sterling and the level of imports.

Lambs and sheep

The lamb crop from 2018 was confirmed at 990,000 head below the previous year this has helped to maintain prices and with a lower number of lambs still to be marketed then the firm prices should remain until new crop lambs enter the market. The mild winter to date has given some respite providing grass and helping to reduce forage use.

As well documented the Sheep sector will be one on the most effected sectors by Brexit and its outcome has added caution to the autumn breeding sales market and **should Brexit go against the sector it is likely that the number of breeding sheep will fall significantly.**

Dairy

'Veganuary' ended with the publication on social media of a map of the leaked addresses of hundreds of dairy farms across the country, while this may not keep dairy farmers up at night the trend of falling milk prices will.

Muller followed the downward trend announcing on the 31st of January that they were dropping the price by 1.25ppl (non-aligned Muller Direct producers were left with 26.25ppl). This prompted their Producer Representative Board to issue an unprecedented "stark warning" to the company of the "unsustainability" of the move.

The end of last year saw the highest December domestic production for 25 years, meanwhile AHDB Dairy observed positive changes in their milk price index the "Milk Market Value (MMV)" in December and January. **They predict that farmgate prices may rise in April following the traditional 3-month delay from milk processors**. This is the kind of good news dairy farmers need to kick off 'Februdairy' (a campaign started in 2018 by the industry to try to combat the success of the 'Veganuary' online campaign)

AHDB figures show that **freshly calved heifers increased in value through the autumn** coming to an average of £1,401/hd in December (from £1,288/hd in October), whereas freshly calved cows moved very little to £1,103/hd (from £1,110/hd in October). This would be partly driven by a desire to reinvest in herds after an autumn where farmers were keen to minimise the risk of poor availability of forage.

FERTILISER & FUEL

The Ammonium Nitrate (AN) price at the end of 2018 was around £285/T, mak**ing it some £59/T (26%) higher than a year earlier**. Imported AN was around £271/T; up 21% year on year. Ur**ea prices continued their upward trend to £305/T where they peaked and have dropped to approximately £290/T**. Once again, these prices are high compared to those who were able to take delivery earlier in the season when AN was as low as £220/T. These higher values are a function of higher energy costs and tight supplies, as well as speculation about increased nitrogen demand due to cropping changes for 2019 and 2020.

In terms of other fertilisers, the dramatic increase in the price of Triple Super Phosphate (TSP) has slowed, however the October 2018 value of £338/T still represents an increase of 28% year-on-year. Diammonium Phosphate (DAP) has shown a similar year-on-year increase of 22% and is currently priced at around £409/T. Muriate of Potash (MOP) has been somewhat more stable and increased by only 5% year-on-year to around £409/T. **Early indications are that prices will continue to hold firm and rise gradually through into spring 2019 with demand remaining firm due to a relatively large area of winter crops planted in autumn 2018.**

DEFRA figures show that in December red diesel was priced at an average of 62.57ppl, a decrease on the previous month of 7.2% but still 11.5% higher year-on-year. The average red diesel price for 2018 was 61.53ppl, 8.21ppl or 15.4% higher than for 2017. Pump prices for DERV have increased by 8.2% year-on-year from an average of 120.15ppl in 2017 to 130.00ppl in 2018.

AECS – 2019 AGRI ENVIRONMENT APPLICATION ROUND

The deadline for 2019 AECS applications is the 12th of April. We are already busy working up some confirmed schemes and have been out on farm scoping out opportunities for other potential plans. It may be that this is the last opportunity to apply to the scheme in its current format and there could be a gap of a year or two while the post-Brexit replacement is devised.

There are management and capital options available in most circumstances that can provide meaningful additional income at a time where there is significant uncertainty around the future of agricultural subsidy payments. Furthermore, in some cases, it can provide an opportunity to get funding towards some infrastructure development.

The scoring threshold for successful applications was raised to a record high for 2018 applications and it is expected that the same threshold at least will need to be reached for successful 2019 applications. Therefore, a great deal of time and thought is required to design a successful scheme that scores highly enough. With all of the above in mind, it is best not to delay the scoping out process and if we can be of help with any part of the process, please do get in touch to arrange a free of charge and no obligation farm visit.

FARM BUSINESS NEWS

Farming: total profit from all farming businesses in the UK is expected to fall by 15% in 2018
Defra's first estimates show overall profitability falling as, although output rose (by 1% for the value of crops produced and 3% for livestock), costs rose by 6% due to rising fuel, feed and fertiliser prices. This combined to cut total profits, which is called Total Income from Farming, to £4,900m from £5,700m in 2017. This makes it even more important for farmers to review the profitability of their businesses and look at all options to diversify income before direct payments start being reduced from 2021 onwards. Contact Will Gemmill to discuss S&P's five steps for preparing farm businesses for Brexit.

Farming: farmer confidence at lowest since 2010, according to NFU survey
Farmers' confidence about the next 1-3 years is at the lowest level since the NFU started its survey in 2010 due to concerns about input prices, regulation and the availability of workers. Over half of the respondents said they had a negative economic outlook. Farmers likelihood of investing in their farms has fallen but those who are investing are diversifying to help support their farm businesses and investing in staff and energy efficiency, but cutting back on machinery and land investment. Please call Will Gemmill if you would like to discuss long-strategies for your business.

Farming: Brexit: Defra criticised again over Brexit preparations
The Public Accounts Committee has said that Defra has not given many businesses detailed advice on what will change for them when the UK leaves the EU, saying that Defra has had "very limited engagement" with stakeholders until recently, so that many farms were unaware and unprepared for changes in trade and other issues. It also said that the Department's border planning is not sufficiently developed and that six critical IT systems are still to be tested. Separately, the House of Lords EU Energy and Environment Committee said that much of the UK's current biosecurity system operates at EU level and that we would need to create new ways of working. The Committee identified seven main areas of concern, including information sharing, capacity in the veterinary sector, inspections and audits, enforcement of biosecurity legislation, capacity within government and its agencies.

Farming: antibiotic use in farm animals falling but Government acknowledges that more is still to do
The Government has restated its commitment that any future trade deals will require any meat and dairy produce imported into the UK to meet at least the same standards relating to antibiotic use which apply to meat and dairy products produced in the EU, and that the UK will not water down standards on food safety, animal welfare and environmental protection as part of any future trade deals. The statements were made in the Government's response to the recommendations of the Health and Social Care Committee's inquiry on antimicrobial resistance.

Let Properties: Minimum Efficiency Standards

Minimum efficiency standards are due to be announced by the Scottish Government 'early this year'. We are waiting for details but expect the requirement to be that properties will have to meet the below standards. There are likely to be exemptions and cost caps so that, in some situations, Landlords can apply for a derogation against meeting the necessary standard. We would suggest that those with let residential properties understand how those properties currently perform and consider small improvements prior to instructing EPC surveyors to update any EPC's. We understand at this stage that the requirements will only be for private let properties but we would not be surprised if this is expanded to include employee housing in future years.

EPC Band	To be achieved at change of tenancy	To be achieved in all private lets
E	1 April 2020	By 31 March 2022
D	1 April 2022	By 31 March 2025

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SCOTTISH FARMING DEPARTMENT CONTACTS


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

Farming Departments

Cambridge 01223 459500
Chelmsford 01245 258201
Inverness 01463 719177
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

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