

Farming Update | Winter 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.

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 2018	A year ahead
Beans	144	220	175
Oilseed Rape	316	320	320
Feed Barley	124	164	140
Milling Wheat	148	169	160
Feed Wheat	135	162	150
Livestock (£ per kilo dead weight)			
Beef cattle	3.78	3.77	Remain stable
Lambs	3.90	3.88	Possible decrease
Milk (per litre)	30.44 (Sept 2017)	30.63ppl (Sept 18)	Likely decrease

Sources

Arable crops: AHDB & FW. 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: Wheat

The global picture this autumn is dominated by the **dry conditions in northern Europe and the drought in Australia** both of which have reduced the competitiveness of their respective wheat sales to the global market and left space for competitors, such as **Russia, to increase their market share in Asia and Africa**. Australia has diverted much of its crop back to their domestic market (rather than export) to help provision the country during the drought.

Remaining stocks from last year's record breaking harvest in Russia are helping to further boost an already respectable 2018 harvest and making Russian wheat very competitive especially at a time when European and Australian wheat has lost market share.

The **USA has also had a good year in terms of wheat production** but is competing with Canada for market share, both are sitting comfortably though, due to the gaps left by other major producers and the continued increase in global consumption.

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Global: Oilseeds

The biggest ripple in the global market of oilseeds has been made by the trade tariff stand-off between the USA and China. It has meant that the USA, which usually exports large amounts to China, has had to offload its soya harvest on the rest of the world. Soya bean output in the 2018/19 marketing year is set to exceed production, leading to ample supplies. Prices are however set to firm up for both soya and EU rapeseed.

UK

Domestic prices reached highs of £180/T for feed wheat and over £210/T for malting barley during the summer/early autumn (for November 18 deliveries), as reports of poor yields from across Europe reduced EU crop estimates and fanned flames about the prospect of the UK crop. Since then the wheat price has dropped back in the UK in part because of world supply including in particular Russia (see above) but also because the two large bioethanol plants Vivergo and Ensus have shut up shop. Vivergo is reportedly stopping for good, whereas Ensus is not thought to be a permanent shut-down. This is expected to release up to 1 million tonnes of wheat back onto the UK market, and so it was not surprising that the wheat price dropped £5/T in the week that the second (Ensus) closure was announced.

Looking ahead to the 2019 crop, the forward prices look relatively attractive despite recent falls; they were carried higher over the past year by the 2018 values (which were based on concerns about supply and other uncertainties in the markets). With good conditions throughout much of the northern hemisphere this autumn, analysts are optimistic about the likely size of the 2019 crop (e.g. the IGC is forecasting an increase in the world wheat area for the 2019 harvest), and if that comes to fruition then the regional markets will be well supplied, leading to falls in prices which will be particularly relevant if the UK is having to export wheat.

Brexit is adding to the uncertainty around the markets and, as such, merchants are offering wheat on 'tariff free' prices. A tariff free price means that the price paid will be honoured and the wheat will be used within the UK. It is not possible to sell malting barley forward for harvest 2019 (as most of this is exported), but farmers can take the feed price and add the malting premium later. If we exit with no deal and have to rely on WTO terms, the tariffs to sell into the EU will be €90/T for cereals, which is clearly punitive.

2018 HARVEST

Harvest 2018 was characterised by good autumn crop establishment followed by a prolonged winter which delayed spring drilling and subsequent drought conditions lasting into August. East Anglia saw only 57% of the 1981-2010 average summer rainfall, whilst the UK overall received 73% of the average. The UK mean spring temperature was 1°C warmer than the average, with 115% of the average sunshine hours.

The implications of the difficult season are widespread. The main 'winner' in the Strutt & Parker 2018 Yield League Table is winter barley, this saw the average yield rise to 7.77t/ha in comparison to the five-year average of 7.55t/ha.

The average winter wheat yield in our league table was 8.47T/ha, i.e. 12% below the five-year average of 9.37t/ha, as crops suffered from lack of moisture at grain fill.

Winter oilseed rape saw a 0.1t/ha reduction on the five-year average, as the crop struggled to maintain the number of seeds set per pod. The sample size for oilseed rape yields was 24% higher than in 2017, indicative of easier conditions for establishment in autumn 2017 in comparison to 2016. Conversely, the number of responses for spring beans fell by 62% suggesting reduced crop plantings, either a result of planting another spring crop or successfully establishing a winter crop, and perhaps a factor of revised Greening rules.

Oats also saw a reduction in yield in comparison to the five-year average. Winter and spring oats fell by 0.3t/ha and 1.31t/ha respectively.

The trend was that 2018 spring crops were more affected by the challenging season than winter crops because the latter established well in the autumn.



2019 CROP ESTABLISHMENT

Despite oilseed rape being drilled in a **very dry August, well timed rains at the end of the month** and into September helped many crops establish well. Cabbage Stem **Flea Beetle pressure was high this year** and, where crops did not receive rain, the rate of leaf loss was greater than that of leaf growth, leading to crop failure. **Slug pressure was moderate** but manageable if monitored properly. Crops that made it past the waves of flea beetle are heading into the winter looking well, aided by recent rains and warm temperatures to facilitate growth.

Autumn drillings of winter wheat and barley have on the whole been successful. Good flushes of blackgrass were seen in September and October, being helped by low dormancy of shed blackgrass seed and the presence of moisture in most places. Unfortunately – but as expected – **earlier drillings of winter cereals have seen more blackgrass emerge than is sustainable, with some reports of re-drilling where populations are too high.**

Winter bean drillings are also now complete. Due to shortage of quality seed, merchants obtained a PGRO derogation to supply seed down to 70% germination, although many growers have instead opted to home save seed. In this situation, testing for germination, nematode and ascochyta and subsequent cleaning is important to ensure the correct seed rate is used.

LIVESTOCK

Beef and cattle

The **extreme weather of 2018 has made its mark on pork, beef and lamb production**, according to AHDB's latest Red Meat Outlooks.

Strong beef demand and shortages of forage saw the **slaughterings of cull cows increase by 30,000 head** which could lead to a **2% reduction in the breeding herd**. This could be exacerbated if we get a hard winter causing further forage shortages in the spring.

Prime **finished cattle prices are holding firm at similar levels to last year but store cattle and calf prices have fallen significantly** as rearers and finishers remain cautious with the reduced forage and high feed price situation.

Lambs and sheep

Defra census figures suggest that the **UK lamb crop for 2018 could be around 1 million head (4-5%) lower than 2017**, mainly due to the high level of on farm deaths in the spring, particularly in Scotland and Wales where conditions were particularly harsh. This has led to **lamb prices remaining stable and at levels similar to last year**.

The summer drought has led to some lambs being sent to slaughter at a lighter weight than would usually be seen, and these unfinished lambs have seen lower returns.

Breeding sheep sales (and thus demand) have been affected by the **uncertainty of Brexit and poor forage availability** on farm, with prices for Gimmer lambs currently averaging around £80 per head compared to £100 a year ago.



Dairy

Good milk yields in the UK through the drought this summer were largely supported by feeding out forage early. As farmers look to avoid the high costs of maintaining yields with expensive bought in feeds, milk production is likely to fall through the autumn. A fall in production has however been avoided until recently as the mild and relatively dry autumn has allowed for good grass growth.

To further squeeze the profit margins this autumn (along with the expensive feed costs), the **milk price is likely to fall in December** driven by a general fall in commodity prices seen since September.

The long term **futures prices of dairy commodity prices are looking increasingly volatile**; this volatility is encouraged by Brexit deal uncertainty. Irish milk processors have begun to stockpile cheddar in the UK in preparation for a no-deal Brexit, to avoid tariff barriers on the sale of their produce.

In terms of cow prices, according to AHDB figures, the average price of freshly calved heifers was £1,288/hd in October which is 4.6% down on the September average and 6.4% down on 12 months earlier. Freshly calved cows averaged £1,110/hd which was marginally up on the September average and 7.4% down on 12 months earlier.

FERTILISER & FUEL

There have been dramatic increases on the price of fertilisers in the last year. **With Ammonium Nitrate (AN) produced in the UK increasing by 31% to £260/T** (27% to £245/T for imported AN). This has largely been driven by higher gas prices in Europe. Once again, those in a position to buy and take delivery early in the season appear to have benefitted from the best seasonal prices (c.£220/T for UK AN), and those who – either for cash flow or logistical reasons – cannot buy early are paying 20% more.

Triple Super Phosphate (**TSP**) has also seen a dramatic increase in value to **£329/T** (24% on last year), due to a slowdown in global production.

Meanwhile, Muriate of Potash (**MOP**) has only seen an increase of **7%** to £270/T.

Red diesel has increased 25% in price to 67.05ppl in the last year, whereas diesel at the pump has increased by 13.5% to 136.63ppl. Such increases will have a large impact on the costs of farming operations.

POLICY AND REGULATION NEWS

BASIC PAYMENT SCHEME – ENGLAND

The 2018 Basic Payment Scheme cash rates were confirmed by the RPA on the 6th November. The **exchange rate for this year's payments is €1 = £0.89281**.

Including the greening element, the **2018 payment rates** will be:

- Non-SDA land: **£231.7/ha** (£93.77/acre)
- SDA land: **£229.93/ha** (£93.05/acre)
- Moorland: **£62.70/ha** (£25.37/acre)

DEFRA AGRICULTURE POLICY

Agriculture Bill published and includes some significant new elements

The UK Government published its Agriculture Bill in September, which sets out agricultural and environmental policy after Brexit. Its main proposals are to **phase out Direct Payments to farmers, which are worth c.£230/hectare/year, over a seven-year agricultural transition period that ends in 2028**. Farmers will instead be paid 'public money to deliver public goods'. **Farms that are not in the top 25% of performance will struggle to make sustainable profit levels** unless they significantly increase their productivity. The Bill is currently being debated in parliament and is expected to be passed and become an Act in spring 2019.



Second round of Countryside Productivity Small Grants scheme announced

Our farm management team worked with tens of farmers to identify equipment that increased their productivity and environmental performance, and which was available under the first round of this grant. The second round will open in early 2019 and its budget has been increased to £30m, which is positive news. Please speak to **Seb Murray**, who is our national coordinator, or your local farm management team.

FARM BUSINESS NEWS

Key points for farmers and landowners in Phillip Hammond’s Autumn Budget

- To help stimulate business investment, **Annual Investment Allowance to rise from £200,000 to £1m** for all qualifying investment in plant and machinery for two years starting from 1 January 2019.
- Introduction of a new non-residential structures and buildings allowance (2% capital allowance for contracts entered into after October 2018) which **may help farmers and landowners invest in more modern, more efficient buildings.**
- £200m of funding to help connect primary schools and libraries in rural locations to full fibre broadband, and with a voucher scheme for homes and businesses nearby. The first wave of investment will include the Borderlands, Cornwall, and the Welsh Valleys.
- The Government will set up a Woodland Carbon Guarantee scheme which will support the planting of around 10m trees by purchasing up to £50m of carbon credits for qualifying tree planting.
- **National Living Wage will increase** by 4.9%, from £7.83 to £8.21 an hour, from April 2019. This could be challenging for rural employers, following a 4.4% increase in the NLW in April 2018.

MORE FROM STRUTT & PARKER

Planning: read our summary of the revised National Planning Policy Framework for England

The new NPPF contains some major changes and clarifications to national planning policy as well as new proactive measures: clarification on how the presumption in favour of sustainable development is applied; a new duty for Local Authorities to prepare and maintain statements of common ground to document cross boundary issues; requirements for local authorities to use a standardised methodology for the calculation of local housing need; 10% of the local housing requirement to be met by small and medium sites; and, finally, the Government’s commitment to protecting the green belt is maintained. Read our summary at struttandparker.com/nppf.

<p>Report</p> <p>Land Business Tracker</p> <p>struttandparker.com/tracker</p>	<p>Report</p> <p>Agriculture Bill Summary</p> <p>struttandparker.com/ag-bill</p>	<p>Brochure</p> <p>Strutt & Parker Farming</p> <p>struttandparker.com/farming-brochure</p>
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