Farming Update | Spring 2020

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. Andrew Atkinson, Editor

MARKET UPDATE

Arable crops (£ per tonne)	A year ago	January 20	A year ahead
Beans	225	198	196
Oilseed Rape	318	325	318
Feed Barley	155	125	130
Milling Wheat	173	163	171
Feed Wheat	165	148	156
Livestock (£ per kilo dead weight)			
Beef cattle	3.63	3.42	Possible decrease
Lambs	4.33	4.66	Remain stable
Milk (per litre)	30.69 (Dec 18)	29.69 (Nov 19)	Remain stable

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: Grain Production Report

According to the UN's Food and Agriculture Organisation (FAO) **the world saw a record year for cereal production in 2019** (all combinable cereals) at 2,714 million Tonnes. Global wheat production was up by 34.8 million Tonnes compared with 2018 mostly due to an excellent harvest in the EU which more than out-weighed the effects of a drop in the USA's wheat area and poor conditions in Australia. Global cereal stocks are marginally down from last year, but still at the third highest global stocks on record underpinning a comfortable ratio of global stock-to-use of 31%.

Planting of 2020 winter wheat crops around the Northern-Hemisphere has not all been affected by the same poor weather as the UK. The USA's winter wheat area was planted up in good time this autumn, while the picture is more mixed for Europe with some areas benefitting from higher than normal moisture and others suffering from water stress such as in Ukraine where dryer and hotter conditions delayed planting, meanwhile Russia had very good conditions for winter wheat establishment.

CONTACT US

Andrew Atkinson
Senior Associate Director, Farming
andrew.atkinson@struttandparker.com
01635 576917

Will Gemmill
Senior Director, Head of Farming
will.gemmill@struttandparker.com
01223 459471

UK Markets

After plummeting throughout the summer, **grain prices in the UK began to recover in September, and have continued to do so with wheat having gained around £20/T between early September and mid January**. The deal reached between the USA and China in mid January was expected to bring positive news for farmers and the grain trade, but there was a general feeling of disappointment within the agricultural industry when the details emerged (BBC.com), which put a bit of a dampener on the global grain markets (CRM Agri Commodities) pulling wheat prices down by around £2/T. **The fact that the Chinese have only bound themselves to buy American agricultural commodities depending on "market conditions" was a devastating caveat within the deal for some traders** (Reuters.com).

Wheat

The **UK has had a very poor winter cereal planting season to date**, with some calling it the worst autumn in memory. Farmers have had few, if any, chances to plant crops after mid September, in many areas. Reports from the AHDB showed that by the end of November **just under 60% of the intended winter wheat area had been drilled,** and much of this will have been established poorly. With very few farmers able or willing to plant crops in December and early January, most are hoping for a "last-chance-saloon" to put winter wheats in the ground before time runs out for winter wheat varieties (which generally have to be sown by the end of January). This relies on the ground having a chance to dry out, which won't happen quickly especially with the hard frosts accompanying the dry weather.

We can expect to see a few brave souls (crossing all of their fingers and toes) making the best of a bad situation to drill their wheat in the next couple of weeks, but the **story of the year will be a bumper area of spring crops.** Much of the spring wheat seed is now coming in from abroad at great cost due to higher than usual demand out-stripping domestic supply.

The predicted **low domestic supply of wheat from the 2020 harvest is supporting the wheat futures prices**, meaning that those lucky enough to have established some wheat should expect to sell at a good price at or after harvest, with futures prices for November delivery at £161/T at the end of January. Those waiting to empty the shed of the 2019 crop before harvest are also now able to take advantage of rising prices, as **the 2019 crop values are being pulled up by the 2020 prices**.

Barley

The **winter barley planted area at the end of October was just under 65% of the planned area** (AHDB), but with the dearth of winter cereals planted there is most-likely to be a very significant increase in the area of spring barley this summer. The markets have pre-empted this and **the gap between feed wheat and feed barley is already around £25/T,** this gap has grown from £8/T in August 2019. Very large stocks of feed barley on the continent and around the Black Sea are likely to keep the price supressed for the foreseeable future. **A large area of spring barley will also severely limit the value of any malting premium**, because maltsters will be spoilt for choice and should have no trouble in securing barley of the right quality.

Oilseed Rape

Cabbage stem flea beetle (CSFB) infestations and their larvae appear to be continuing to reap their dreadful effect on the OSR production of the UK, with **only 1.75 Million Tonnes being produced by the UK in 2019, the lowest since 2004** according to the AHDB. **The planted area for 2020 has fallen from 2019 levels significantly by 23%,** which will lead to an even smaller national production of OSR for 2020. Current and forward prices will however tempt some farmers to grow spring oilseed rape, which has not historically suffered so much from CSFB damage.

Despite a reduction in our domestic supply of OSR, the price has fallen back to around £325/T (ex farm before oil bonuses) from a high of around £340/t earlier in the month (for old crop). The price is governed by external factors such as an enlarged area of OSR being planted in Ukraine, and global vegetable oil being supported by Russia's enormous sunflower harvests and South America's expanding soya production. This large soya area seems to be suppressing the forward prices for 2020 harvest OSR too, which were as low as £314.50/T in December.

Many farmers are facing difficult decisions about OSR, and those being forced to abandon crops sown in August and September (the AHDB suggests about 7% of the OSR area may be abandoned this spring) coupled with a declining value may see this as the final straw. Options for alternative, less risky break crops are available, and many farmers will be looking for support and advice from the industry and government as to where else to turn. Our agronomists at Strutt and Parker are well equipped for such conversations.

UK 2020 CROP ESTABLISHMENT – SPRING

Many farmers were able to cultivate land in September, with the aim of planting winter cereals in October and November. Those seed beds have unfortunately had to bear the brunt of the rainfall experienced over the course of the winter. The condition they are in now depends on the amount of rainfall, soil type, type of cultivation performed and the amount of green cover established. **The real challenge now is deciding on the appropriate cultivations to rectify the seed bed** in order to establish the spring crops. **This will have to be done on a field-by-field basis**, and it is difficult to predict when farmers will be able to start spring drilling in earnest, with further rainfall events at the end of January pushing field work back again.

Those fields left as stubble appear to be in a better condition, and are likely to be workable sooner than their cultivated contemporaries. We must also consider the wider environmental impact of those fields cultivated in the autumn, it is a shame to see some water courses turning into chocolate coloured rivers. The top soil washed into those water courses will have taken hundreds of years to accumulate, and can be washed away in an instant. In many cases the erosion could not be avoided, but perhaps farmers need to really target their cultivations and land use strategy to avoid this happening again in the near future. **We can't afford to keep washing our most valuable resource down the drain.**

Growers are soon set to start making applications of nitrogen to crops drilled in the autumn, when conditions allow. Again it must be emphasised that this year is completely different to last year, and **many crops are not in a state where they can take up large applications of nitrogen**. It will pay to tailor the nitrogen application according to crop growth stage, and not rush to apply to much too soon. Any nitrogen not used will be leached from the soil and into water courses, which must be avoided at all costs.

It will also be interesting to see how agronomic advice will vary in the 2020 season. **Crops enjoyed a low disease year in 2019**, and chemical manufacturers and distributors will have suffered lower fungicide sales as a result. We are now entering a year with a dramatic reduction in winter cropping (usually warranting the higher chemical expenditure) and facing an increase in lower input spring crops. **The distributors will be keen to generate sales of new chemistry** (such as BASF's Revystar), **but the market will undoubtedly be smaller**. This being said, the winter wheat crops that were established are at a higher risk of septoria this year – and wet weather exacerbates spread through rain-splash. The main risk period isn't until later in the spring though, so now is not the time to panic. It looks like **the season ahead could be very challenging and impartial, independent advice will be crucial to navigating these key decisions.**

LIVESTOCK

Beef and cattle

AHDB figures show that prime beef is being sold at an average of £3.31/kg, 20p/kg below the 5-year average. **The declining value of beef was the story of the year in 2019, and this trend has hardly changed course**; while prices have recovered slightly in the new year they remain near the bottom of the range of prices achieved in the last 5 years. There has been little change to the market after the deal was struck to allow British beef access to the Chinese export market.

Despite the gloom U**K beef production was 2% higher in 2019 than 2018, and this was driven mostly by higher carcass weights**, which is not a surprise if you consider the scarcity of feed during the drought in 2018. There also seems to be a trend in higher heifer slaughterings which will inevitably have a long term impact on the breeding herd of the UK.

Beef seems to be suffering from a deluge of bad public relations, with, most recently, an appearance from Mr Monbiot on Channel 4's "Apocalypse Cow" which aired before the Oxford Farming Conference, pointing an accusatory finger squarely at agriculture and the beef industry as a major cause of ecological degradation and climate change. The Secretary of State for the Environment, Theresa Villiers, was asked at the Oxford Farming Conference to show support for the UK Beef Industry and her response was notably measured as she declared that well managed livestock *can* be good for the environment. **Theresa Villiers' refrain about policy being "*guided by the Science*", and that "*this is a Government which will always back Britain's farmers*". failed to reassure the room-full of farmers she was speaking to**.

Lambs and sheep

Lamb prices (at around £4.50/kg) have been supported throughout 2019 and into 2020 by a lower than normal New Zealand lamb supply and greater UK exports of lamb, according to AHDB. Since November 2019, production in the UK has also increased due to the heavier carcasses coming out of the abattoirs, the result of good lamb finishing conditions in the autumn.

With the reintroduction of the Agriculture Bill to Parliament the Chief Executive of the National Sheep Association – Phil Stoker - has welcomed the aspiration of a fairer supply chain included in the current text of the Bill, and called for the reintroduction of sheep grazing into arable rotations to help improve soil health as soils too have been mentioned in the Bill.

Dairy

January has seen little movement in the farm gate prices for milk. The latest average provided by DEFRA is given for November 2019, which put liquid milk at 29.69 pence per litre. **Milk markets stayed remarkably stable last year, despite the political uncertainty.** The market performance has been very mixed as we have seen declines in sales of yoghurts and fresh milk but increases in cheese sales. With 98% of UK households still regularly buying dairy products, it seems to be fresh milk and yoghurt taking the biggest hit in terms of changing diets, while cheese appears to be a more tempting staple and harder to move away from.

The success of British cheese in the last year reflects a longer trend which has seen it become one of the UK's more important exports, valued in total at £675m per annum (FarmingUK.com). Stilton, Caerphilly, and Wensleydale still have not toppled Cheddar from its throne as the favourite. The USA imports £50 Million of British cheese while Chinese demand has been growing at 20% per year.

January saw the announcement of a £1m study to combat Johne's disease funded by the UK government's Biotechnology and Biological Science Research Council. This bacterial disease can cause deadly gut infections, and has a significant and growing impact on cattle and Sheep in the UK and around the world, and brings a serious welfare issue as well as a £9.8 million cost to the UK dairy industry. **Meanwhile a £60,000 dairy project into alternative "Cow-with-calf" dairy farming has been announced by the Scottish government's Knowledge Transfer and Innovation Fund** (KTIF), and aims to introduce higher welfare standards for cows and calves in the dairy industry by keeping them together for up to 5 months as opposed to the usual 24 hours. With the news that a paper was published in December 2019 in *Scientific Reports* that cattle use different tones to convey different situations, it is evident that the subject of animal welfare in dairy farming is set to become even more complicated.

FERTILISER & FUEL

Due to the reduced winter crop acreage the fertiliser manufacturers had piled up large inventories of fertilisers by the turn of the year, and have recently reduced prices significantly to try and shift stock before the potential rush of demand in the spring.

UK ammonium nitrate is currently priced at around £225/T, and urea is approx. £242/T Guide values for phosphate and potash are: Muriate of Potash (MOP) £257/T, Diammonium Phosphate (DAP) £297/T and Triple Super Phosphate (TSP) £250/T.

AHDB data reports **red diesel priced at an average of 61.35ppl for December 2019**, while diesel at the pump was at 129.79.

Some farmers have been reporting problems with fuel filters on their equipment, getting clogged up. It is believed that it is due to problems with biofuels in the mix with the red diesel. The NFU are running a survey to keep track of the problem, and are appealing for those affected to go to their website **(NFUonline.com/nfu-diesel-survey)** to report it.

POLICY AND REGULATION NEWS

Valuing Natural Capital – DEFRA Guidance

DEFRA has published detailed guidance and methodology on the valuation of Natural Capital, under the banner of 'Enabling a Natural Capital Approach' (ENCA). The aim is to encourage policy makers and those in private enterprise to move ahead with projects in this area by providing an initial set of standards which can apply to all stakeholders. The expectation is that the tools will be developed further as understanding and expertise in this area spreads among the industry.
https://www.gov.uk/guidance/enabling-a-natural-capital-approach-enca

Committee of Climate Change – Land Use Policies for a Net Zero UK

The Committee on Climate Change has published its second and more detailed report on land use, called Land Use Policies for a Net Zero UK. The report aims to explore policies which could help bring about the required changes, and while it acknowledges that Farmers and Landowners will face many challenges it suggests that there are ways these challenges can be balanced at least in part by creating new revenue streams in return for delivering the required changes. These include low carbon food production, afforestation, developing the markets for bioenergy crops and protecting the most valuable habitats. Watch this space for a more detailed summary in due course.

Basic Payment Scheme

The Rural Payments Agency (RPA) reports that it had paid 97% of the c.85,000 Basic Payment Scheme (BPS) claims in England by the end of January. We have produced **a BPS calculator to check the value of your 2019 BPS payment** so you can check the accuracy of the RPA's calculations. Please contact Charles Garrard.

The **RPA intend to make the online land and entitlements transfer system available from 31st January**. This enables farmers to log in to their online RPA accounts to transfer land and entitlements almost instantaneously; much quicker and easier than the RLE 1 form. Under current plans it will be possible to edit 2020 land use online from 11th February and submit the 2020 BPS claims online from 12th March.

Despite Brexit, farmers should not see any significant changes to their BPS in 2020. Treasury funding has already been put aside, and the application process will remain the same. It has not yet been announced whether payments will be available in Euros, or whether the Treasury will use the £:€ exchange rate to set the payment rates for 2020. In previous years, the payments have been set in Euros and converted to Sterling in September.

FARM BUSINESS NEWS

Final Call for Growth Programme Applications

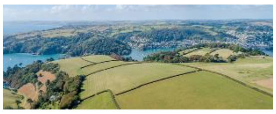
DEFRA has reopened this RDPE grant for what is probably a final tranche of applications. It awards grants of up to 40% for projects which create new jobs, increase business turnover and improve productivity that are related to growing businesses, rural tourism and food processing. The minimum grant threshold has been reduced to £20,000 to encourage smaller businesses to apply and the maximum is around £175,000 (so a £0.5m project). **Act fast – the deadline for submitting expressions of interest is 16th February.**

National Trust to forest large swathes of farmland

Huge swathes of farmland owned by the National Trust are to be forested under plans to make the charity carbon zero by 2030. On the Trust's 125th anniversary, Hilary McGrady, the director general, announced that trees will be planted on 18,000 hectares (44,000 acres), the equivalent area of 42 Sherwood Forests. But controversially, around half of that expanse will come from grazing land, with dozens of tenant farmers told they will have to reduce their numbers of cattle and sheep. Some 20 million trees will be grown over the next 10 years, some planted and some allowed to self-seed after livestock is removed from upland areas. It will nearly double the amount of wooded National Trust land from 10 per cent to 17 per cent.

MORE FROM STRUTT & PARKER

The Future Farming Funding Gap - #2
Click here



English Estates & Farmland Market Review Winter 19/20
Click here

Health & Safety Update
Click here

What the low-carbon agenda means for farms & estates
Click here

Yield Results – Harvest 2019
Click here

The net zero challenge – implications for land use
Click here

ELMS – a progress update
Click here

Land Business, Autumn / Winter 2019
Click here

Offices

Head Office (London City)	020 7338 4000
Ascot	01344 876 363
Banbury	01295 273 592
Banchory	01330 824 888
Cambridge	01223 459 500
Canterbury	01227 451 123
Chelmsford	01245 258 201
Chester	01244 354 888
Chichester	01273 832 602
Cirencester	01285 659 661
Edinburgh	0131 226 2500
Exeter	01392 215 631
Farnham	01252 821 102
Gerrards Cross	01753 891 188
Guildford	01483 306 565
Harpenden	01582 764 343
Harrogate	01423 561 274
Haslemere	01428 661 077
Horsham	01403 246 790
Inverness	01463 719 171
Ipswich	01473 214 841
Lewes	01273 475 411
Ludlow	01584 873 711
Market Harborough	01858 433 123
Mayfair	020 7629 7282
Moreton-in-Marsh	01608 650 502
Morpeth	01670 516 123
Newbury	01635 521 707
Northallerton	01609 780 306
Norwich	01603 617 431
Odiham	01256 702 892
Oxford	01865 366 700
Pangbourne	0118 984 575
Perth	01738 567 892
Salisbury	01722 328 741
Sevenoaks	01732 459 900
Shrewsbury	01743 284 204
St Albans	01727 738 280
Stamford	01780 484 040
Sunningdale	01344 623411
Winchester	01962 869999
Windsor	01753 257217

People

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

Farming
Will Gemmill BSc FAAV MBPR (Agric)
01223 459471
will.gemmill@struttandparker.com

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

Accounting & Taxation Services
Alex Heffer, BA(Hons) ACCA
01245 254656
alex.heffer@struttandparker.com

Building Surveying
Alex Naraian
01483 303098
alex.naraian@privatepropertyprojects.co.uk

National Estate Agency
Guy Robinson
020 7318 5175
guy.robinson@struttandparker.com

Estate & Farm Agency
Mark McAndrew MRICS
020 7318 5171
mark.mcandrew@struttandparker.com

Health & Safety
Robert Gazely, BA (Hons) MSc
01245 254611
robert.gazely@struttandparker.com

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

Research
Jason Beedell MRICS PhD BSc(Hons)
020 7318 4757
jason.beedell@struttandparker.com

Forestry
Jon Lambert
0131 222 9643
jl@johnclegg.co.uk