FARMING UPDATE

Autumn 2022

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.

MARKET UPDATE

Arable crops (£ per tonne)	A year ago	October 2022	A year ahead
Beans	235	297	270
Oilseed Rape	532	532	510
Feed Barley	184	244	235
Milling Wheat	229	314	285
Feed Wheat	196	270	255

Livestock (pence/kilo dead weight)	A year ago	October 2022	Looking ahead
Beef cattle	419	450	Possibly decrease
Lambs	522	519	Possibly decrease
Milk (per litre)	31.57	49.40	Possibly stabilise

Arable crops: FW. Prices are ex farm. Future prices are indicative bids from agricultural traders.
Livestock: GB Beef steers deadweight R4L price. Lambs deadweight R3L overall prices. Future prices from outlook reports FW.
Milk: AHDB milk price tracker, Farmgate, excluding bonus

ARABLE CROPS

Global Grain Market

Global grain markets whilst incredibly volatile remain relatively well supported due to forecast reductions in ending stocks for 2022/23.

According to the International Grains Council (IGC) the world total grain production for 2022/23 is forecast to be 2% below the previous season's record, with significant year-on year declines for both maize (-51 million tonnes(mt)) and sorghum (-2mt) contrasting with increases for wheat (+10mt) and barley (+3mt). The fall in maize production is due largely to the war in Ukraine.
Global consumption is projected to decrease for the first time since 2015/16; estimated to be nearly 1% lower than the previous season, due to reduced demand for feed maize, while growth in food and industrial uptake is also projected to be slower than average.

Despite that, because of a sharper drop in supply, cumulative ending stocks are set to tighten. These are forecast by IGC to be 3% lower than last year at 587m t, with maize down 23mt to 262mt and wheat up to 286mt from 279mt last year. Despite the increase in wheat stocks, prices remain firm as they are supported by the overall volume of feed grains.

Notwithstanding the expected drop in maize stocks, it is worth noting that it is the steady increase in the demand for grain around the world which has caused the historically high global prices over the past couple of years. This is in contrast to many of the previous temporary price spikes which have been caused mainly by supply issues such as weather and crop failures. Providing demand remains consistent we are likely to see the current high prices maintained. The major threat to demand would be a widespread or even global recession – potentially caused by rapid inflation – as this would be expected to drive all commodity prices lower, as well as forcing a move away from livestock production in the poorer parts of the world.

UK MARKETS

Wheat

The exporting of grain from Ukraine has eased prices in the wheat market in the short term, as has an improvement in the weather for the maize crop in the US.
The UK harvest was completed in record time, owing to hot dry conditions from the end of June. Yields appear to have held up remarkably well and although grain quality is good, milling wheat proteins are low.

Barley

The market remains tight both domestically and globally following the movements in the wider grain market and the gap between barley and wheat narrows. On the malting front, quality has been very good, owing to good conditions during harvest, and it is expected that there will be a surplus of malting barley this year. Markets for movement before the New Year are already filling up and as such premiums are under pressure, with better rewards available for those farmers who are confident enough to store it until after the New Year.

OSR

There has been little new news within the market as the price of oilseed rape in the short term has been under pressure from shipments leaving Ukraine. In the longer term, the rain across US has made for some improvement for the soybean crop and wider oilseed market which is also limiting prices. This will be something to watch, as the wider vegetable oil market remains tight. The UK winter rape yield has averaged between 3.2 to 3.6 tonnes per hectare, with the higher yields coming from well-established crops in autumn with moist soils and minimal pest and disease damage. The exceptionally dry conditions during August have made OSR establishment very difficult this year with most people waiting for some moisture at the end of the month or in early September before sowing crops. Some crops are looking reasonable having escaped the flea beetle pressure, but others have already succumbed to this perennial pest, leaving farmers with difficult decisions as what to grow instead.

Harvest Update

The 2022 harvest will go down in history as one of the most straightforward to complete for the whole country. Few producers will have had to dry grain this year which is a blessing given the vast increases in gas and diesel prices. It is too early for any meaningful data on yields but anecdotally it appears that winter crops have yielded in line with or just above average. The exceptions being crops which were sown in poor conditions during autumn 2021. Spring crops have been more variable with those on light land struggling for moisture early on, and those on heavier ground drying out in some cases later in the summer. Conversely there have been some excellent spring barley yields on some of the better chalk soils where the crop had been able to draw up moisture despite the lack of rain.

One unwelcome feature of this year's crops is the presence of ergot in cereal crops this year – particularly spring sown crops. This is a fungus which occupies a grain site in the ear of the crop and where present in stored grain it must be removed before the grain can be sold. It can be removed from the heap using a colour sorter or gravity separator, but it involves extra cost and causes logistical issues for the farmer. Careful sampling is required before crops start to move in order to make decisions before the grain is collected.

2022 will also be remembered by some as the year in which they experienced field or machinery fires for the first time; often caused by machinery striking stones in very dry fields or within the machinery itself. According to the Fire Safety Journal by mid August there had been 745 wild fires in the UK compared to 247 in the whole of 2021. The NFU and NFU Mutual have issued advice to farmers and the public to try to raise awareness and help ensure farmers are prepared – eg with cultivation equipment ready to create a fire break, and knowledge of nearby water sources.

LIVESTOCK

Lamb

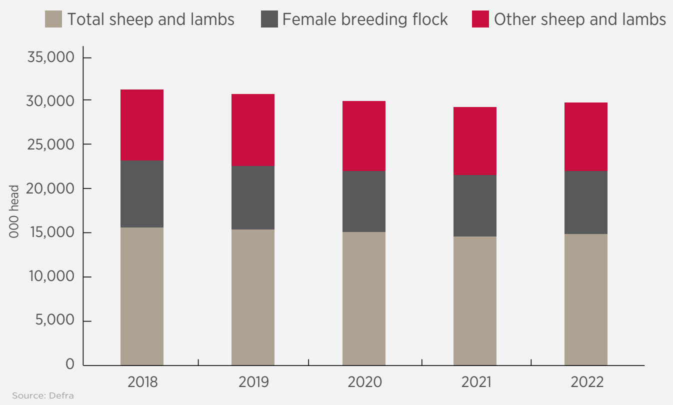
According to AHDB the GB new season lamb (NSL) live weight price was 243.88p/kg as at August 2022. Reports indicate that well covered animals were still commanding plenty of interest and the best prices. The GB deadweight NSL price was 574.5p/kg in the week ending 30th July. Prices are approx 9p above last year, and 113.9p above the 5-year average.

According to the latest June livestock survey released by DEFRA, the English sheep flock grew to reach 14.9million head, up 2.0% on 2021, the first increase in 5 years.

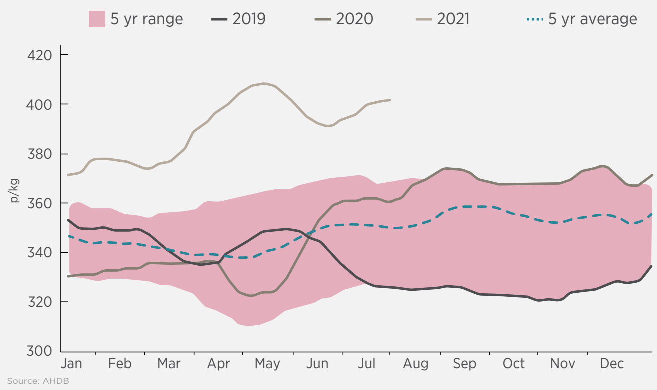
Beef

UK prime cattle deadweight average price is well above the 5-year average at 406/kg on 23rd July (Farmers Weekly). These high prices appear to be supported by a long term decline in the numbers of beef cattle in the UK, while the global supply is being absorbed by growing demand for beef worldwide. In the short to medium term prices look to continue to be well supported.

Number of sheep in England 1 June 2022



GB all prime average deadweight cattle price



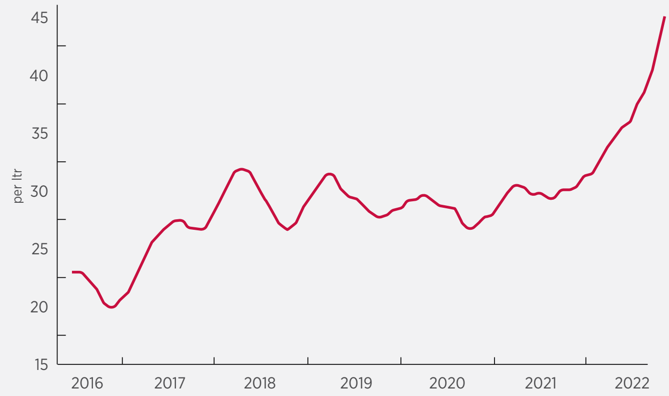
Dairy

According to DEFRA the GB milk production as of 15th September was 5.3 billion litres, 1.7% (90 million litres) behind the same period in 2021. Production over the remainder of the year will be influenced by how inputs costs develop, as well as whether milk prices can continue to compensate for further cost inflation.

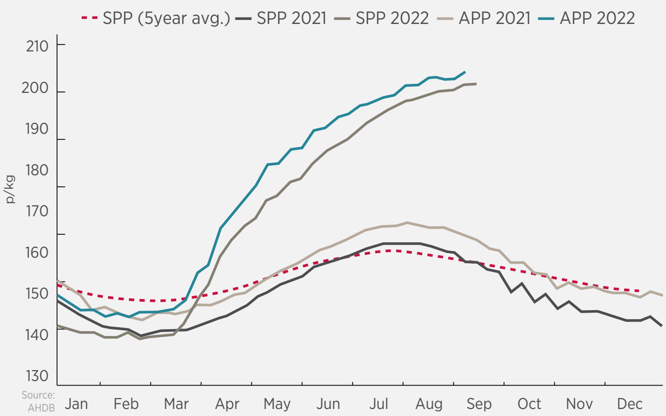
Pigs

The week ending the 10th September, the EU-spec SPP reached 199.93p/kg, up 0.4p on the previous week. Bringing the average for the four weeks ending the 10th September to 198.98p/kg, a 3p increase from the average price for the previous four-week period. The EU-spec APP has followed the same trend, and in the week sending the 3rd September, it reached 202.79p/kg, bringing the four-week average to 201.71p/kg. The higher prices are not sufficient to absorb the huge extra costs being incurred by pig producers in terms of feed in particular. The National Pig Association has warned that the industry is in crisis due to the high costs and a flood of cheap imports which is limited market prices. Despite a reduction in the size of the UK pig herd there remains a surplus of home-reared pork and the NPA estimate that on average pig producers have lost £50 per pig in the second quarter of 2022.

UK average farmgate milk price (excl bonus)



GB finished pig prices (Eu-Spec)



FERTILISER & FUEL

Fertiliser

Fertiliser prices have increased significantly as global supplies have been hit by the unprecedented increases in the cost of gas. The recent announcement from the UK's only remaining fertiliser producer of a temporary halt to ammonia production highlights the risk of further pressure on both price and availability. Further afield several major fertiliser plants across Europe have shut down temporarily due to the high gas prices, and this has added to the supply issues. Farmers who have not yet secured their requirements for the 2023 crop are needing to consider a range of options, including urea (at £875/T) as a more cost effective replacement for ammonium nitrate (at £890/T). Other products are also costing significantly more than in previous years including Triple Super Phospate at around £875/T (compared with £500/T this time last year) and Muriate of Potash at around £750/T (compared with £450/T this time last year).

Fuel

Red diesel is currently £1.11/litre compared with 67p a year ago, according to Defra figures.

POLICY AND REGULATION NEWS

FARM BUSINESS NEWS

Slurry Infrastructure Grant

The new slurry storage grant will be launched this autumn to enable farmers to upgrade their slurry storage, increase storage capacity to 6 months and cover grant-funded stores. The grant will cover 50% of costs and starts at £25,000 and is capped at £250,000 per applicant.

Sustainable Farming Incentive (SFI)

The Sustainable Farming Incentive (SFI) is now open to all farmers in England, with the focus being on measures to improve soil health. Anyone who currently receives Basic Payments can apply to the SFI and there is no application deadline – farmers can sign up at any time. There are three standards available initially, but more will be added over the next three years.
The standards available in 2022 are:
1. Arable and horticultural soils standard
2. Improved grassland soils standard
3. Moorland and rough grazing standard

Managing overhead costs and cash flow

Harvest 2022 is likely to have seen an improvement of returns compared with previous years, particularly for those arable growers who purchased the bulk of their inputs before the massive increases in input costs.

Grain prices have increased significantly, with feed wheat prices averaging around £250/t this year, compared with £180/t in 2021.

Recent figures from AHDB's Agricultural Price Index show that fertiliser costs are more than 150% higher than the year before and around a third up on where they were at the beginning of this year. Meanwhile, electricity costs have quadrupled, where contracts have been renewed recently.

Working capital requirements for Harvest 2023 will therefore significantly increase from previous years.

Defra has already recognised the cashflow challenges faced by farmers and paid the majority half of their BPS payment in July. The remaining 50% is due to be paid in December.

However, while this money will help in terms of cashflow, it does not solve the problem of rising input costs and their impact on working capital requirements and farm profitability. Anyone who had a profitable Harvest 2022 could also be facing a big tax bill to pay next year.

Our farming team can assist with benchmarking and budgeting to help you navigate the financial challenges of the year ahead. We can assess if you are likely to have sufficient working capital over the coming months, and to see where the dips in your cashflow potentially may be, which will help funding discussions with the bank.

We have also developed a tool which can also be used to carry out a sensitivity analysis to assess how sensitive your net margins are to changes in the price of the main variables, such as a fertiliser and crop prices.

Rural England Prosperity Fund (REPF)

The government has announced the Rural England Prosperity Fund (REPF), a £110 million pot of funding to support rural businesses. It will be delivered by eligible local authorities, which have to secure funding for their district. Funding will be available from April 2023 for two years for schemes that create jobs and increase countryside productivity. Examples of projects that may be funded:

- Farm businesses looking to diversify by opening a farm shop, wedding venue or tourism facilities
- Improvements to village halls, pubs and other rural hubs for community uses

It is expected that, like the previous similar grant schemes, the grant intervention rate will be set at 40% of the total project eligible costs.

Farms' lack of business planning highlights risk for agricultural transition

A new large-scale survey of rural businesses by the National Innovation Centre for Rural Enterprise (NICRE) has found that the majority of farmers do not engage in formal business planning or seek external professional advice. NICRE says that this may affect their ability to cope with the challenges of new agricultural policies and the withdrawal of the Basic Payment Scheme.

The impact of the removal of direct payments, massive changes in input and output prices, and the need for different approaches to land management make it even more important for farmers to plan ahead and manage risk. The most successful businesses we see are driven by people who have a clear plan with focused objectives and who welcome engagement with all of their 'partners' including staff, customers, and technical and business advisors.

The report is available here and please contact Jonathan Armitage, our head of farming, if you want to discuss the findings or business planning.

Defra position on the future of Environmental Land Management (ELM) and the rapid review of frameworks for regulation, innovation, and investment that impact farmers and land managers in England

In late September, following an announcement in the 'mini-budget' of a rapid review of regulation, innovation, and investment that impact farmers and land managers in England, Defra announced that that there are no plans to scrap ELM or reintroduce area based payments. At the time of writing, it was anticipated that the outcome of this rapid review would be revealed in late October, but there are no guarantees given the current political turmoil. It is also unclear on its relationship to the departmental spending review – of all departments - that was covered by the media on 28th September. Defra and the RPA has been informed that the uncertainty has led to many clients putting agri-environment scheme applications on hold until the results of the review have been announced.

CONTACT US

DIRECTOR, FARMING

ANDREW ATKINSON
01635 576917
andrew.atkinson@struttandparker.com

FARM BUSINESS CONSULTANT

ALICE JOHNSON
01609 780306
alice.johnson@struttandparker.com

For more information on how the Strutt & Parker farming team can help on regenerative agriculture contact your local farming office today:

Banchory
01330 824888

Cambridge
01223 459500

Chelmsford
01245 258201

Inverness
01463 719171

Morpeth
01670 516123

Newbury
01635 576910

Northallerton
01609 780306

Norwich
01603 617431

Oxford
01865 366660

Perth
01738 567892

Salisbury
01722 328741

Shrewsbury
01743 284204

Stamford
01780 484040