SCOTTISH FARMING UPDATE

Autumn Winter 2022

Welcome to the relaunched Scottish Farming Update, which is produced by our Farming Research Group and reports on market and administrative issues that affect farm businesses. This has been a difficult edition to produce, given the rapidly changing political and economic circumstances, but we hope it will provide information to assist with planning and decision-making.

Please contact our team for further information on anything you read here.

MARKET UPDATE

Arable crops (£ per tonne)	A year ago	September 2022	Looking Ahead
Beans	217	292	
Oilseed Rape	493	488	510
Feed Barley	166	243	235
Milling Wheat	208	311	285
Feed Wheat	177	267	255

Livestock (£ per kilo dead weight)	A year ago	September 2022	Looking Ahead
Beef cattle	4.19	4.55	Possibly decrease
Lambs	5.44	4.44	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: AHDB. GB Beef steers overall price. AHDB. Lambs SQQ overall prices. Future prices from outlook reports.
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 eased prices in the wheat market in the short term, but this remains a volatile and changeable situation. An improvement in the weather for the maize crop in the US underpins a slight easing of wheat prices. UK prices remain volatile – tracking global markets, but currency is also now having an impact as Sterling falls to record lows against the US dollar and the Euro. This has caused prices to rise again after a few weeks of falls. 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. However, we have seen pressures in the week causing the price in futures to drop. Nevertheless, supply remains tight 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 made OSR establishment in Engalnd very difficult this year, with most people waiting for some moisture at the end of the month or in early September before sowing crops. Scottish growers had more soil moisture and drilling was not delayed. Crops are looking reasonable having escaped the flea beetle pressure, but slugs were an issue for some.

Harvest Update

The 2022 harvest will go down in history as one of the earliest finishes and 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 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 soils where the crop had been able to draw up moisture despite the lack of rain. Summer sunshine contributed to good yields.

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 the field 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 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.

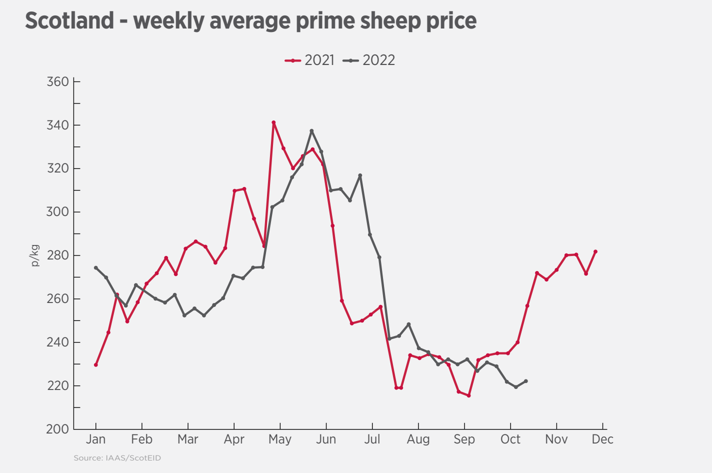
LIVESTOCK

Lamb

Acceding to QMS data, the new season lamb (NSL) live weight price was 222.26p/kg as at the beginning of November 22. Reports indicate that well covered animals were still commanding plenty of interest and the best prices. The deadweight NSL price averaged 444p/kg for the month of October.

Beef

The average Scottish prime cattle deadweight average price for the month of October was 454.88p/kg which is well above the same time last year (416.8p/kg). 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.



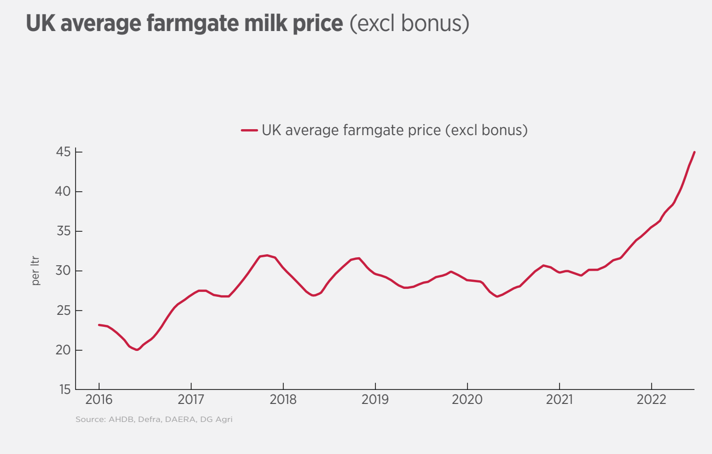
Dairy

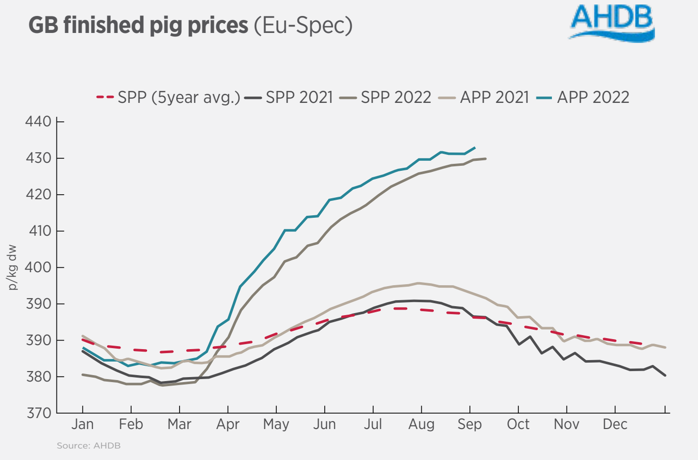
According to DEFRA the GB milk production as of 15th September was 5.3 billion litres, 1.7% (90 million litres) behind the same period in 2021. Production over the remainder of the year will be influenced by how inputs costs develop, as well as whether milk prices can continue to compensate for further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

The UK average farmgate milk price (excluding bonus) for July 2022 was up to approx. 45.57ppl, an increase of 15.09ppl from July 2021 (30.48ppl) (AHDB).

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.





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 much more cost effective replacement for ammonium nitrate (at £890/T). Other products are also costing significantly more than 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). These price increases have resulted in a surge in demand for organic alternatives such as pig and poultry manures, which are now difficult to source.

Fuel

According to DEFRA red diesel is currently £1.11/litre compared with 67.3p a year ago.

POLICY AND REGULATION NEWS

FARM BUSINESS NEWS

Preparing for Sustainable Farming (PSF)

The Preparing for Sustainable Farming (PSF) National Test Programme is now open to all Scottish farmers & crofters, with the focus on helping farmers prepare for future changes in support payments that will require deliverance on targeted outcomes for biodiversity gain and low emissions production. The first phase of the National Test Programme offers funding for carbon audits and soil sampling & analysis.

Funding of £500 is available for getting a carbon audit completed by an FBAASS accredited advisor and is available to those farmers who have not yet had a carbon audit completed or where their current carbon audit is more than three years old or doesn't align to PAS 2050 standards. The aim of this funding is to provide encouragement for every farm in Scotland to improve awareness of their climate performance. Anyone can claim for this grant as long as they are registered for funding with SGRPID and have a rural payments & services (RPS) username & password.

Funding for soil sampling and analysis is available to farmers & crofters in Scotland who claim region 1 ground on their SAF form. In addition, each claimant must have a carbon audit that is both aligned to PAS 2050 standards and was completed within the previous three years from the 1st of January in the year of claim. Each farm is able to claim the actual cost for their soil sampling & analysis up to a calculated maximum value. This funding amount is calculated by taking 20% of their claimed region 1 land in the year of sampling and multiplying that figure by £30. The aim of this option is to improve nutrient planning & nutrient management. There is also an additional standard payment of £250 to go with your first soil-sampling claim which is designed to encourage applicants to spend time researching best practice for soil sampling and nutrient management.

Claims should be made annually for work that has been completed and paid for within the period of 1st January and 31st December, with the claim submitted by the deadline date of 28th February the following year. Carbon audit and soil sampling & analysis claims are submitted via the online portal on RP&S.

Managing overhead costs and cash flow

Harvest 2022 is likely to have been a profitable year for those arable growers who purchased the bulk of their inputs before the massive increases in input costs.

As grain prices have increased significantly many farmers are likely to have made a substantial margin on their arable land for harvest 2022. Of course, input costs – especially the price of fuel, fertiliser and energy – have increased significantly over the past 12 months. Recent figures from AHDB's Agricultural Price Index shows 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.
Working capital requirements for Harvest 2023, will therefore significantly increase from previous years. Whilst early payment of BPS is welcome, 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 cash flow potentially may be.

In addition to this, our farming and research team has developed a new tool to help assess how sensitive the net margins are to changes in some of the main variables, such as fertiliser & diesel costs and crop prices.

The spreadsheet uses 2021 as its baseline and produces projections for 2022 and 2023. It compares income, expenditure and profits for arable farms, allowing us to adjust most variables. We can also change the rotation and areas grown to suit most farms.

It produces figures for in-hand land, contract farming agreements and let land.

If you would like one of our farming team to run your figures and rotation through our calculator, please contact rural.enquiries@struttandparker.com

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