

SCOTTISH FARMING UPDATE

Spring 2023

FARMING OVERVIEW

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.

At the time of writing in mid-February grain and oilseed markets have been gradually improving for three weeks due to several factors including the weakening sterling and the uncertainty surrounding the war in Ukraine. Although prices remain well below the market highs of almost twelve months ago, UK ex-farm prices do appear to be feeling some positive effects of a reinvigorated world market. Further good news came from the fertiliser markets with nitrogen prices continuing to fall.

UK beef production is expected to grow by 0.6% in 2023, yet recent analysis has indicated that the Scottish beef herd size has decreased in the past year (2022). The outlook indicates consumer spending is likely to be lower due to the cost-of-living crisis. Milk prices have reduced for the first time in almost 2 years.

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

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MARKET UPDATE

Commodity	February 2022	February 2023
Beans	£247.00/t	£242.00/t
Oilseed Rape	£567.90/t	£463.00/t
Feed Barley	£203.00/t	£207.10/t
Milling Wheat	£282.20/t	£253.30/t
Feed Wheat	£217.50/t	£225.80/t
Beef cattle (deadweight R4L)	405.90p/kg	473.40/kg
Lamb (old season deadweight RSL)	496.90p/kg	502.00p/kg
Milk	34.12p/l	51.51p/l
Red Diesel	75.00p/l	86.45p/l
UK Ammonium Nitrate	£550/t	£645/t

Source: FW, AHDB & agricultural traders

DATES FOR THE DIARY

28th February	AECS capital claim & Sustainable Farming Scheme claim deadline
24th March 2023	AECS Slurry Store application deadline
15th May 2023	BPS 2023 applications deadline
7th June 2023	AECS & Organic Conversion application deadline



ARABLE

GLOBAL GRAIN MARKET

- Escalations to the war in Ukraine including concern over whether the Black Sea grain export corridor will be renewed, has added some support to wheat markets.
- Black Sea exports remain very competitive on the export market.
- Both Russia and Ukraine are expected to have planted less cereals for harvest 2023.
- US markets were pressured by a storm front, however weather has improved again.

UK MARKETS

Wheat

- Improved wheat availability offset the increase in projected usage and exports, leading to the largest wheat end of season stocks since 2015/16. Estimates put the UK surplus at 2.25Mt.
- Wheat use for the bioethanol and starch industries is expected to increase by 8%, offsetting the decline in flour miller demand.

Barley

- The barley balance sheet remains tight, despite seeing a rise in production and a fall in animal feed demand.

- Malting barley supply and demand could be tighter in 2023/24, as an expected 5% reduction in area to be sown this spring has been reported. Demand is expected to reach, and possibly exceed, 1Mt and supply looks marginal without good yields.

OSR

- Rapeseed values have regained a significant proportion of what they lost after the proposal from the German Federal Minister to remove all crop-based content from German biofuels.
- Many EU crushers have switched from crushing soybeans to crushing rapeseed due to the attractive margins on offer and the strong demand generated by the relative cheapness of rapeseed.

Beans

- Demand for old crop beans is increasing for May to September. This demand is driven by compounders seeing beans as better value compared to other midrange proteins such as rape meal or distillers' pellets.
- The UK demand alone will not be sufficient to consume the large number of beans still left unsold on farm.

S&P Comment

The ex-farm grain prices have seen a significant and sustained fall since October 2022, however recent improvements (of up to £15/T in only two weeks) suggest that we may have seen the bottom of the market for the time being. The improved prices have prompted some more farmer selling to start to clear the balance of the 2022 crop. Forward prices for the 2023 crop should be carefully considered and growers should not expect to see prices hit the same levels as we saw last May. That said there are signs that we may see some improvement to the forward prices currently on offer.

Malting barley prices are expected to be firm for 2023 harvest, given the large area in autumn-sown crops.

Fertiliser prices are expected to ease for the 2024 season, and buyers should not rush to commit to purchasing now for next year. There is still volatility in the market but, as inflation falls, the prospect of securing fertiliser at relatively lower prices increases.

UK WEATHER

The UK had favourable weather in autumn 2022, which meant that the majority of cereal and oilseed crops were sown by November, with crops doing well so far.

- UK Rainfall = 736.3mm (July 22 - January 23), this is near enough average for the same period over the five years.
- Air frost = 27.1 days (July 22 - January 23), which is around the average for the past five years. However, December has had the highest amount of air frost since 2010, totalling 14.5 days.

S&P Comment

The increase in air frost during December 2022 is not bad news for growing crops, as for winter crops to optimally perform and produce good yields; we need a cold climate for vernalisation.

Source: AHDB & Met Office National Information Centre

LIVESTOCK



Lamb

- Through January (7 Jan – 4 Feb) GB OSL SQQ prices averaged 232.1p/kg.
- Weekly prices saw fluctuations, ranging by 11.4p.
- Prices in January were down 36p but were 8p higher than the 5-year average.
- Overall throughputs (NSL & OSL) for January 2023 totalled 486,700 head. This is down 5.7% (-29,700 head) in comparison to the previous year's levels, and also down 3.5% (-17,600 head) on the five-year average.



Dairy

- 2022 GB milk production totalled 12.4bn litres. This is 0.5% down compared to 2021.
- Farmgate milk price have reduced for the first time in almost two years, with price reductions in January and February through to March.
- Farmgate milk prices still remain higher than the same time in the previous year (February 2022, 32.55p/lit to February 2023, 46.40p/lit = 35% increase), but production costs are estimated to be at their highest level for at least 9 years.



Pigs

- GB deadweight pig prices continued to increase in January.
- GB estimated slaughter fell in January, weekly throughputs averaged at 157,500 head lower than the previous year and down 17,200 head on the 5-year average.
- The EU-spec standard pig price (SPP) stood at 204.8p/kg deadweight at the end of January 2023, compared with 138p/kg deadweight a year previously (2022). This does show an increase, however the National Pig Association has stated that this is still below the cost of production for most producers, with high costs wiping out profits.
- Due to the decline in the UK breeding herd, pork production is prediction to decrease by 15% in 2023.



Beef

- Prime cattle prices continue to be strong, with prices consistently higher year-on-year and significantly greater than the 5-year average.
- Cattle prices ended 2022 on a historic high when prices peaked at 448.1p/kg.
- UK beef production is expected to grow by 0.6% in 2023 due to higher cattle availability. However the outlook indicates consumer spending is likely to be lower due to the cost of living crisis.
- Lower domestic demand will discourage imports, which are forecast to drop by 2%, according to the AHDB, while export volumes could increase by 3% on the year.

Source: AHDB & DEFRA

S&P Comment

The AHDB Agri-Market Outlook report suggests that the cost-of-living-crisis and changes in consumer behaviour are expected to reduce overall spending on red meat during 2023. Export volumes should help to offset some of the losses from the domestic market, but lower farmgate prices and high on-farm input costs will eat into profit margins for some sectors.

FERTILISER & FUEL

Fertiliser

- Prices of Nitrogen have decreased recently, to the lowest level since September 2021. However the majority of farmers have already bought for this year. Please note that prices are fluctuating daily.
- Availability of Ammonium Nitrate (AN) in the UK continues to be low, with an expected competitive market for early season orders for the 2024 harvest.

Fuel

- The average price of oil stood at £80.53/barrel for 2022, an increase of 45% compared to 2021.
- Red diesel has increased by 45% and diesel at the pump has increased by 27% over the same period (21-22).
- Prices have reduced, with red diesel having dropped to 86.45p/l from 90.47p/l in the previous month (January 2023).

Source: AHDB

POLICY AND REGULATION NEWS

FARM BUSINESS NEWS

AECS 2023

A 2023 AECS round opened up at the end of January. Funding of up to £30k is available to upgrade or extend **Slurry Storage**. This is open to businesses that have existing slurry based systems and which are not located within an NVZ and the deadline for applications is the 24th of March. The deadline for **Agri-environment** and **Organic Conversion and Maintenance** funding is the 7th of June.

Anyone that would like to discuss a potential application, or would like to talk through their available options, is encouraged to contact a member of the farming team as soon as possible.

Preparing for Sustainable Farming 2023

Funding is available on an on-going basis to cover the cost of soil sampling under the Preparing for Sustainable Farming scheme. The soil sampling must be carried out to PAS 2050 standards and cover pH, P, K and Soil Carbon. Funding is set at £30/ha to a maximum of 20% of the Region 1 land held per claim. However, in recognition of the fact that many farmers will sample a more extensive area at one time on a 4-5 year cycle, it is possible to spread a larger amount over a number of years by claiming up to the 20% allowance annually.

Another pre-requisite to claiming the funding is to have a carbon audit carried out within the previous three years. However, £500 of funding is available through the scheme to complete a carbon audit. The CA needs to be carried out by an FBAASS qualified advisor. All members of the S&P farming team are qualified to carry out carbon audits to the required standards so please get in touch to discuss any carbon audit and/or soil sampling requirements.

BPS 2023

The BPS application window usually opens around the middle of March each year and closes on the 15th May. No significant changes to the application process or payment system are expected. With a later AECS deadline this year, we will be looking to get going with BPS applications early in the window and will be in touch with our regular BPS clients soon to make the necessary arrangements. We have capacity to increase the volume of BPS work that we do and would be delighted to hear from anyone that is looking for help with their 2023 BPS claim.

Scottish agricultural reform route map published

This sets out the [timetable for changes to farming and environmental policy](#) between now and 2025 to help land managers plan for them. It confirms that the existing support will continue in 2023 and 2024, as expected, with the changes to support starting in 2025:

- New conditionality requirements (from 2025). This could be based on Good Agricultural and Environmental Conditions (GAECs) and Statutory Management Requirements (SMRs) but has not been confirmed.
- Tier 1 Base Payments, for meeting essential standards (from 2025);
- Tier 2 Enhanced Payments, for additional measures that will reduce greenhouse gas emissions and restore and improve nature (from 2026).
- Tier 3 Elective Payments, which land managers can choose for a particular species or habitat, to support conversion to alternative forms of agriculture such as organic production, encourage innovation and provide supply chain support (from 2027).
- Tier 4 Complementary Payments, for training and advice for land managers (from 2027).

Existing schemes, such as the Less Favoured Area Support Scheme and Agri-environment and Climate Scheme will continue until 2026, after which they will change, although no details are available. Although generally welcomed, Scottish Land & Estates said that some detail was still missing and, importantly, the total amount of funding. Helpfully, the route map includes a schedule of announcements. More information on conditions for BPS 2025 and the Agriculture Bill Consultation report are expected in April-June this year. We will cover the route map in more detail in our Scottish Farming Update and please contact Mary Munro, head of farming in Scotland, if you would like to discuss the route map.

National Living Wage increase in 2023

The National Living Wage will increase by 9.7% in April 2023 to £10.42 per hour. This may affect farm pay reviews, particularly where other benefits such as provision of a house and vehicle make up employees' remuneration.

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