Agribusiness NEWS

Farm Advisory Service

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April 2017

News in brief

Article 50, sterling and BPS

With the UK's envoy due to hand Brussels an Article 50 notification on 29th March, the hard graft of negotiating the UK's exit from the European Union will begin.

One of the most tangible concerns of many farmers will be the fate of sterling once the trigger is pulled. The triggering of Article 50 is not exactly news and in theory markets may have already priced this into current exchange rates. However, the unpredictability of events mean that almost any market reaction is possible.

Early signs of a more conciliatory tone from the UK Government and the European Commission would increase confidence that a workable end-result can be achieved. However, early signs that the UK may be heading for a sharp exit without a trade agreement and sterling could fall quickly.

With farm commodity prices and subsidy rates so closely linked to exchange rates, managing currency risk is essential in such uncertain times. Farmers will shortly have the chance to receive their BPS payments in euro or sterling. BPS is essentially an output of the farm business in the round so one way to mitigate getting this wrong is to also fix the price of key inputs such as feed, fertiliser and fuel at the same time. If a farmer fixes BPS early and sterling then rises they will "lose out" on potentially higher sterling payments in September. However, if they have also locked in an equal value of feed, fertiliser or fuel they will gain protection from likely price rises in these input costs come September; a natural hedge.

Developing strategies like these will be important in helping farm businesses navigate as safely as possible the uncertainties coming the UK's way.

Next month….

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Basic Payment Scheme payment – sterling or euros?

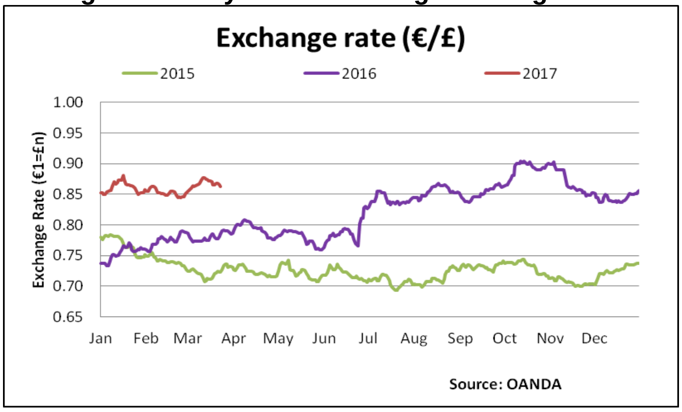
Now that the Single Application Form (SAF) application window is open, you will once again be faced with the question 'how would you like to receive your funding - sterling or euros?'

Electing to receive your Basic Payment Scheme (BPS) payment in sterling means that the payment amount is dictated by the average euro – sterling exchange rate set throughout September. Although this does expose the payment value to chance, it is still the most popular option. If the exchange rate becomes more favourable, like it did last year, it can however be a risk worthy of taking.

Where as electing to take the payment in euros does give a bit more flexibility to manage exchange rate risk, either by locking into a forward contract at a rate you are happy with or converting it into sterling at a later date.

If you are considering entering into a forward contract it is important to understand what the arrangement is, if the rate offered includes all costs and fees and ensure there is an adequate exchange window in case the BPS payment is paid late.

Figure 1. Daily Euro - Sterling Exchange Rate



What direction the sterling will take against the euro over the next 6 months is not easy to predict. Although it is looking like it may continue to fluctuate around the €1 = £0.85 mark, there are no guarantees. The rate will continue to remain highly sensitive to political announcements and decisions on Brexit, as well as being driven by many other global factors.

At the end of the day there is no right or wrong answer of what option to take for 2017, it will largely depend on what you are comfortable with and perhaps more typically what you have done in the past!

Further support for food and drink

A new £10 million funding package has recently been announced by First Minister Nicola Sturgeon to further support Scotland's food and drink industry. This money will be used to fund a new food and drink strategy, called Ambition 2030 and will target key markets, boost innovation, focus on skills, and support local producers. The overall aim is to double the value of the industry to £30 billion by 2030.

With the uncertainties of Brexit looming, this commitment to the industry from the Scottish Government, Scotland's Food and Drink and industry bodies is welcomed. Further information about this new package will be published in due course.

Glyphosate not classified as a carcinogen

Following a recent review of the available scientific evidence on glyphosate by the European Chemicals Agency (ECHA) Committee for Risk Assessment (RAC), they have concluded that glyphosate did not meet the criteria to classify it as a carcinogen or as a mutagen.

This opinion still has to go through a normal editorial check but once this has been done it will be sent to the European Commission and will be taken into account when the Commission and Member States consider whether to renew the approval of glyphosate later this year.

This announcement by ECHA is welcome news for the industry, especially as glyphosate plays an important role in UK agriculture i.e. reducing the need to use other herbicides and helping to reduce the need to plough. However, despite this announcement it will still be some time yet before we know if the use of glyphosate will be reauthorized for a further 15 years or not. There are still organisations that claim glyphosate is a probable carcinogen, so before the final decision is made there is still likely to be some on-going debates!

Glyphosate is a key herbicide used by most farmers to manage weeds. Its loss to the industry would have many consequences so let's hope it can continue to be used for a few more years yet.

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Markets prepare for spring

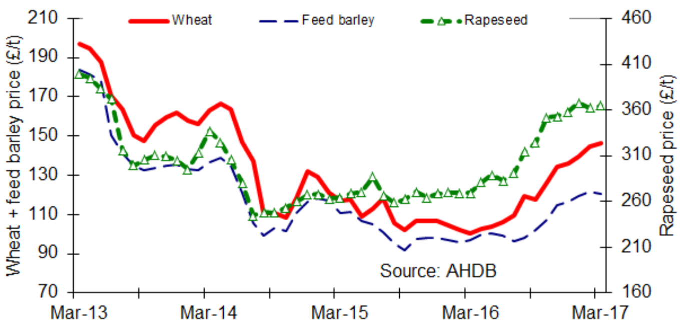
Overall world grain markets remain well supplied with adequate stocks. In the US, slow export pace and increased spring sowing estimates have pushed prices lower. The world market remains dependent on weather over the next few months and the pace of US spring plantings in particular. Exchange rates remain key to UK prices and with Article 50 expected to be triggered on the 29th March more sharp swings in the value of sterling (up or down!) and hence grain prices could be expected in the next few weeks.

Wheat – Wheat supply is short in the north of England and south of Scotland due to the Ensus ethanol plant drawing wheat from as far as Edinburgh. Grain distilleries in Scotland appear to be working at lower capacity at present reducing wheat demand (and limiting prices) further north.

UK wheat balance sheets are looking very tight this season and next with AHDB releasing a planting estimate for England with wheat at 1.589m ha, down 3.2% year-on-year and the lowest area since 2013. Scottish winter wheat plantings are in contrast expected to rise. If so this could mean Scottish wheat trading at English price levels again with no premium.

Barley – Static or lower spring barley area is expected in Scotland this spring due to excellent autumn/winter and maximum winter/spring wheat plantings going in. With Scottish malting barley demand expected to rise this harvest, this could squeeze feed barley supply depending on yield and quality achieved.

UK spot ex-farm grain and oilseed prices



UK and Scotland winter sowings

AHDB estimates of crop areas sown by 1st December reveal a fall of 46kha in winter sowings in England led by lower wheat, barley and rapeseed plantings and higher oat plantings. These are relatively small changes and may be offset by higher late winter wheat plantings and spring crop sowings. In Scotland winter sowings were nominally 5,800ha higher than at the same time last season according to Scottish Government December Survey results. The December survey fails to capture the area of minor crops such as winter rye grown for AD so the increase in winter sowings may be higher still. In Scotland this may pressure the area of spring barley lower than the 239kha planted last season. However, forward prices for spring malting barley and other cereal and oilseed crops are substantially higher than this time last year. This suggests that overall cropped area will rise and fallow may fall.

In terms of livestock, cattle numbers in Scotland were seen falling 1.4% while pigs were up 11% and poultry were up 8% potentially supporting grain demand.

Crop areas on 1st December

000's ha	Wheat	W. Barley	W. Oats	OSR	Winter total
England					
2015 Dec	1,662	376	76	548	2,637
2016 Dec	1,589	369	95	538	2,591
Scotland					
2015 Dec	102	51	9	29	191
2016 Dec	104	52	9	32	197

Source: AHDB, Scottish Government

- Higher winter plantings in Scotland, lower in England
- Leaving less room for Scottish spring barley though this may be offset by less fallow?

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Indicative grain prices week ending 17 March 2017 (Source: SAC/HGCA/trade)
'* Before oil bonus, # Ex-farm England spring max 1.85%N, ~ nominal

£ per tonne	Basis	Apr 17	May 17	Hvst 2017	Nov 2017	Nov 2018
Wheat	Ex-farm Scotland	146.50	148.90	136.00	140.00	142.00
Feed barley	Ex-farm Scotland	118.00	118.00	108.00	112.00	114.00
Malting barley	Ex-farm England	145.00	145.00	135.00	140.00	145.00
Oilseed rape*~	Delivered Scotland	-	355.00	316.00	325.00	317.00

A controlled slide

Production is running around 5% ahead of last year, putting pressure on price across GB. Despite this, the market is currently holding well at between 354 and 360p/kg dwt in Scotland. That is 20p/kg (£72 per 360kg carcase) higher on the year and marginally up on the 3-year average. Price for week commencing 20th March is only around 2p/kg dwt lower for Northern England and even narrower for U-grade cattle, making a tempting prospect for producers within a short haul or for big loads.

Not every processor has a waiting list but there is generally greater supply in Scotland just now, less so in England (although that is changing). Hence, Scottish abattoirs are currently reluctant to drop the price in fear of damaging relationships and running short later in the season – you tend to lose more than one load of cattle to a competitor before winning back producer favour.

The race is on to get cattle away, with last spring's big price dip being at the back of finishers minds. The UK December 2016 survey results show steers and heifers (aged 1-2 years) are up 3% and 2.4% respectively on the year.

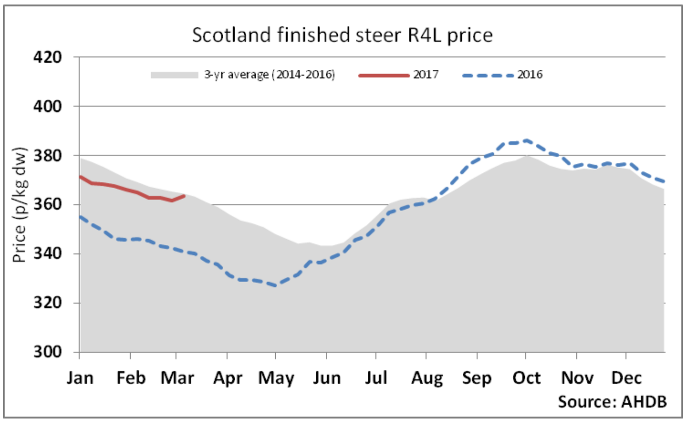
In the short-term, thoughts will turn to sowing, lambing and calving. Meanwhile demand remains reasonable, particularly for cheaper cuts. Defra also reveals that carcase weights were trending lower, despite being marginally heavier in February.

Easter is also later this year and will encourage greater spend on higher value cuts and roasting joints, stimulating volume demand and price into April – over and above a small rise in exports.

Cull cows making an excellent trade

The cow beef market is performing well and supply is already reducing. A price over 270p/kg dwt is achievable for beefy types, which could be £1,200/hd. Note export demand could be under threat (probably from mid-season) due to high dairy cull numbers expected out of the Netherlands.

- Watch the market closely over the next few months if wanting to sell culls cows



If we just demand cheap, import it

UK food expenditure represents a fraction of household income (12%); lower than in France, Germany or Japan. There are cheaper beef exporting nations too. Fortunately, it is not only about cheapness. This does raise the conversation about consumer perception of value. An average eating experience from a premium cut of beef makes the consumer (i.e. you and I) think twice about their next purchase.

Considering carcase value is driven by the value of the striploin any unconscious reduction in 'quality' (image, tenderness, taste, gristle, colour) is bad for business. Despite cost (and, therefore, production efficiency) remaining similarly central to consumer buying decisions in Australian and USA, they have managed to bring beef quality grading systems into mainstream. Over 70% of the eating experience may be in the cooking but this does not change the fact the industry has (at least pre-slaughter) adopted little to select for tenderness or taste.

The UK is behind the curve. Measurement or certification does not need to include every carcase cut or product line. It does not need to wait for implementation of an alternative to the EUROP grid. It does not even need to cost a lot. It does, however, need a supply chain that works better. Instead, all consumers see is beef labelled with pseudo farm brands that undermine the integrity of current research and genuine progress.

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Prime cattle prices (p/kg dwt) (Source: drawn from AHDB data)

	E&W			Scotland			E&W		Scotland
	South R4L Steers	North R4L Steers	North -U3L Y. Bull	R4L Steers	R4L Heifer	-U3L Y. Bull	South -U4L Steers	North -U4L Steers	All -U4L Steers
25-Feb	358.9	360.7	343.8	362.6	361.7	342.6	363.6	359.3	359.3
4-Mar	355.3	365.4	351.8	361.5	361.7	349.7	364.0	358.8	358.1
11-Mar	355.6	360.8	353.1	363.5	361.2	352.2	360.7	358.2	358.4
18-Mar	358.1	360.2	339.7	361.9	362.5	358.1	360.7	355.5	359.3

Market summary

- For the week ending 17 March, the AHDB's Weekly Average GB price for all ware potatoes continued to increase at £227.26/t up by £4.64 (2%) over the previous week. The Weekly Average Free-buy price which excludes all forward contract material contracted slightly at £262.05/t down £4.19 (1.6%) over the week.
- The AHDB estimates stocks at the end of January at 1.9 million tonnes, the same as last year at this stage in the season, but lower than the 2014-15 growing season when the equivalent figure was 2.5 million tonnes.

Better weather helps planting

Better planting progress has been made in Ayrshire and a start has now been made in Fife and East Lothian on lighter soils. Early varieties have mainly been planted together with some early market Maris Piper.

Scottish stocks move down south

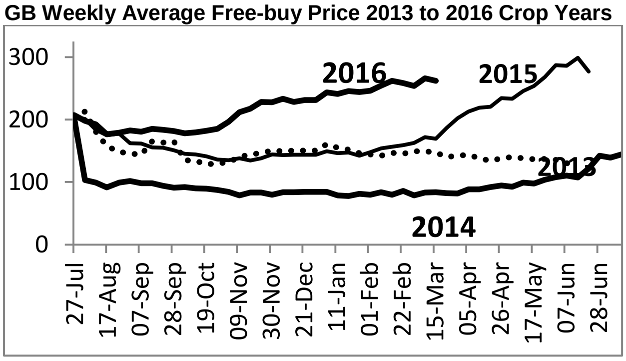
Scottish packers are tending to use contracted and pre-purchased stocks although free-buy material is also being used to fulfil orders in some cases. Some Scottish stocks are moving to packers in England to supplement supplies particularly for general pack whites. Prices are generally steady.

GB Weekly Average Price 2016 and 2015 Crop (£/t)

Crop Year	17 Mar	10 Mar	3 Mar	24 Feb
All potatoes 2016	227.26	222.62	219.04	211.67
All potatoes 2015	171.96	172.94	166.48	161.87
Free-buy 2016	262.05	266.24	253.58	258.39
Free-buy 2015	169.19	171.81	162.80	158.98

Source: AHDB

GB Weekly Average Free-buy Price 2013 to 2016 Crop Years



Growers missing out on margins

Speaking at February's Farming Scotland Conference in Carnoustie, AHDB Potatoes Strategy Director Rob Clayton suggested that UK potato growers could be missing out on £700 per hectare. This was based on AHDB analysis which looked at some of the top 25% of producers and found that improvements in seed rates and energy efficiency could be worth approximately £37,000 for the average grower. He suggested that farmers are not collecting this extra income for a number of reasons. Changes to seed and nitrogen rates and making simple investments to improve store performance, can make a real difference to the bottom line. We need to work on supporting producers to change their practices to improve productivity and increase their yields and margins.

When AHDB last analysed the figures in 2015, average UK yields were 48.8t/ha while Germany, France and Belgium were achieving yields of over 50t/ha. While this is partly down to environmental factors such as soil quality and weather as well as variety mix, the analysis demonstrates that there is room for improvement.

He also called on the industry to embrace the changing tastes of consumers. A decline in consumption of fresh potatoes has been partly due to greater diversity of products, yet there are growing markets which the industry could exploit. Consumers are looking for convenience; they are looking for meal time solutions rather than ingredients. As a result, the chilled sector which includes mash and roast potatoes is growing and we need to tap into this.

Farmcare and Morrisons supply deal

Farmcare has announced a supply agreement with Morrisons which involves the retailer acquiring the company's packhouse at Carnoustie. The Carnoustie site will be used to procure, store, grade and pack potatoes for Morrisons in a move designed to provide the supermarket with greater control over the sourcing and quality of its fresh produce. Farmcare inherited the Carnoustie site along with a further packhouse at Tamworth in Staffordshire when the Welcome Foundation acquired the Co-operative Farms business in 2014. Richard Quinn, Farmcare CEO, described the deal as a "strong strategic fit" and said: "We are looking forward to an ongoing relationship which allows Farmcare to concentrate on what it does best – growing great crops and working closely with Morrisons as a supplier of choice."

Andrew Thornber, MD of Morrisons Manufacturing added: "Our acquisition of the Carnoustie site, and our relationship with Farmcare, shows Morrisons commitment to working directly with growers in Scotland and offering our customers the very best fresh produce."

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Chill in the market and on the ground

There is little change expected in the market for week commencing 20th March. The hogg trade is running at 166-172p/kg ringside while the deadweight price is between 370 and 380p/kg dwt. A 45kg hogg is currently worth around £72/hd. Trade is running 20p/kg liveweight behind last year (between £8 and 9/hd lower for 45kg). Good types are still topping £75-78/hd i.e. little more than they were at the turn of the year but weight gain is compensating for a dip in price per kilo.

- The price disparity on last year is being muddied by the early Easter market in 2016, 27 March. This year, it is more than two weeks later

Trade has been reasonably stable despite higher throughput. There is no denying that a large carryover of lambs has strained the market. Throughput is 6% higher on the year to date.

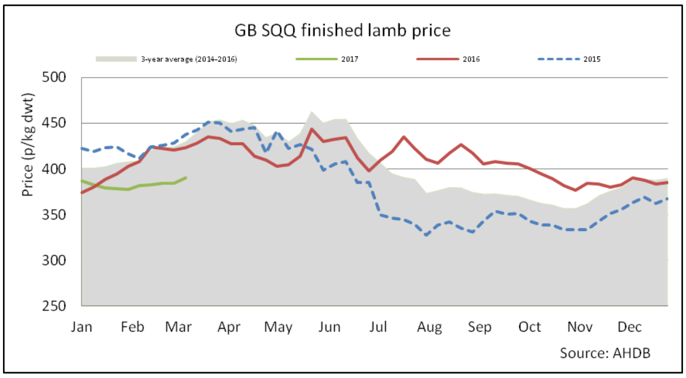
A kind winter and expensive store lambs means hoggs are also heavier and fatter – further reducing the average price per kilo. Store finishers will do well to make a margin on lambs purchased at £55/lamb for 35kg in October if selling 5-months later at £72 once deductions are made for fodder, creep, commission, haulage, kill charges, medicines and mortalities.

Some years it works others it does not. Long-keep systems might still be okay as they were purchased at lighter weights and, therefore, lower value. Their point of sale should also better match Easter trade.

There is likely to be a continuing high number of hoggs onto the market as producers clear the decks pre-lambing, before cattle turnout, and end of winter grass lets. Rough arithmetic suggests there are still a lot of additional hoggs on the ground, even if a higher proportion are flock replacements.

Fortunately, this broadly coincides with procurement for Mother's Day, and Easter. A lot is being hinged on Mother's Day (26 March) and Easter (16 April) as catalysts for price turning. It will at least help.

Meanwhile, the temperature has dropped, rain increased, and snow, just in time for lambing. Admittedly, this is not the case across the country



but it is not a great start and would seem to validate an anecdotal shift to later lambing – although this does need enhanced grazing management to avoid even higher lamb carryover into the next year.

- The 10 to 15 day forecast looks milder and drier, as at 22 March
- Grass will soon motor as soil temperatures are up and that will dictate the trajectory for new season lamb markets

Market for early season

Ramadan lands at a difficult time of year to service with sheepmeat for all but the earliest of new season lamb and early weaned cull ewes (27 May to 25 June). However, it is worth bearing in mind for cull ewes not running with lambs or those that could be weaned early, if they are in good saleable condition.

What of France… and the Kiwi's?

The average price across the EU is down 13% on the year, including sticky domestic trade in all key GB European sheepmeat exporting destinations. A more competitive pound insulates exports from some of this decline but it highlights sluggish demand, even from loyal French lamb consumers.

Lamb imports to the UK from New Zealand seem significantly lower for January and only partly offset by higher supplies from Australia and Ireland.

- Easter will provide some help for demand and exports while greater retailer reliance on home-produced cuts will help the hogg trade

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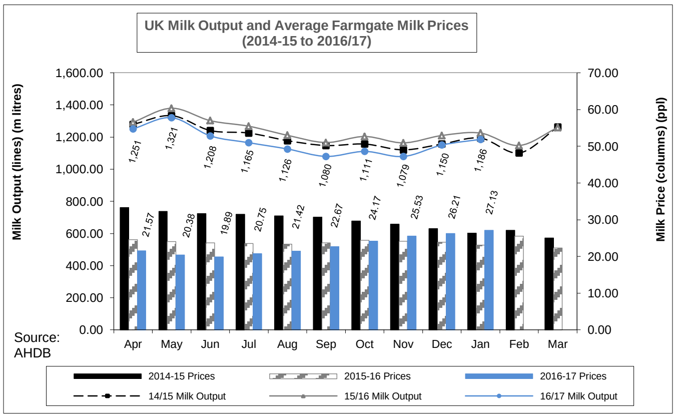
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg			Scottish auction (p/kg)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
25-Feb	387.4	387.4	384.2	162.8	168.5	158.0	50.17	56.28
04-Mar	386.4	387.5	384.4	166.2	174.3	163.4	50.47	58.94
11-Mar	393.9	393.6	391.2	160.1	170.0	161.5	55.55	62.10
18-Mar	398.1	398.6	395.2	159.5	171.2	160.9	57.97	64.99

Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB.

UK prices rise in January 2017

UK milk production figures for January 2017 are estimated at 1,185.55m litres (before butterfat adjustment). This equates to a reduction of 39.44m litres on January 2016 production. This latest reduction to monthly output takes UK cumulative production up until the end of January 2017 to 11,675.94m litres which is 745.58m litres lower than the cumulative total at the end of January 2016.

The UK average price continued to increase during January 2017 – rising to 27.13ppl (up by 0.92ppl on the average for December 2016 and 4.06ppl higher than the January 2016 average price).



- *January 2017 production for the UK is down against January 2016, however, the gap between 2016 production and 2017 production is now closing (see chart above)*
- *As we enter the period of peak production, commodity stock levels (e.g. SMP in intervention storage) and the timing of their release from intervention storage will have a significant bearing on spot milk prices*
- *It is anticipated that UK milk prices will plateau in April/May as production reaches its peak point*

Deadline for Müller contracts

Müller Milk Group members have until 21st April 2017 to sign up to a new contract which has been re-distributed to suppliers following amendment after it was first sent to farmers during late 2016.

Of particular note is the fact that the forecast accuracy does not apply any penalty for deliveries within 7.5% and the butterfat penalty has been reduced from 0.035ppl to 0.025ppl for every 0.01% less than the 4.0% butterfat base. Conversely, there is a bonus of 0.025ppl for every 0.01% above 4.0% butterfat.

Milk price update – April 2017

Price announcements for March 2017 include:

- Arla Foods amba – Member's on-account milk price is to decrease by €1.00 cent per kg from 1st April 2017. In the UK, this equates to a decrease of 0.79ppl, however, this price drop has been diluted by a 0.37ppl increase resulting from Arla's currency smoothing mechanism, giving a net change of a 0.42ppl reduction which takes Arla's standard litre price down to 27.03ppl. Arla's organic UK suppliers will not be affected by the change.
- Müller – The farmgate price is held at 26.69ppl for the second consecutive month. Müller's supplementary payment for February 2017 is confirmed at 0.74ppl.

Annual Average milk price estimates for April 2017 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	27.50
First Milk Balancing- A price (90% of production). [1,2]	26.09
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein-A price (90% of production). [1, 2]	27.11
Müller Wiseman- M&I - Müller Milk Group [1, 3]	26.69

[1] *Standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.*
[2] *March 2017 prices stated. April 2017 prices awaiting release.*
[3] *No monthly supplementary payment included in the price estimate.*

Commodity prices

UK wholesale prices are continuing to ease back, as the table shows, below.

Following reductions to the GDT price index of 3.2% and 6.3% on 21st February and 7th March 2017, respectively, prices recovered very slightly at Fonterra's latest auction (21st March 2017) where the price index increased by 1.7%. These substantial reductions have affected recent market prices with large reductions to SMP values in particular. This is now impacting upon some UK milk contracts which are linked to commodity markets.

UK dairy commodity prices (£/ tonne)	Feb 2017	Jan 2017	Sep 2016
Butter	3,450	3,600	3,550
SMP	1,700	1,850	1,670
Bulk Cream	1,540	1,620	1,710
UK milk price equivalents (ppl)	**Feb 2017**	**Jan 2017**	**Sep 2016**
AMPE (2014)	28.27	30.48	28.47
MCVE (2014)	32.28	33.71	32.40

Source: DairyCo

Kerrs & Gallacher move on

Mike Gallacher is to step down during April as Chief Executive of First Milk - his mission of turning the fortunes of FM around being considered a success. Gallacher will be replaced by Shelagh Hancock who has previously worked with Medina Dairies and Milk Link. Similarly, Ronald Kerrs is to depart from Müller and is due to be replaced by Uwe Sommer (previously of Lindt Chocolate) from 1st May 2017.

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Sector Focus: Finishing Cattle

Regardless of system, finish early

Cereal-based finishing and forage-based finishing enterprises have an average cost of production around 186p and over 210p per kilo liveweight respectively based on QMS Cattle and Sheep Enterprise Costings in Scotland, 2016. That is **before private drawings or a share of capital** repayments, making the true breakeven price higher. Average performance is not sustainable considering steers averaged 200p/kg lwt in 2016.

- Knowing your cost of production is the first step to assessing performance, setting targets and making improvements

The major disparity is the level of fixed costs between the two systems. Those recorded cereal-based enterprises had better control of fixed costs and/or able to spread costs over more output. The feeding period was certainly longer for those forage-based systems so they are taking up more valuable resource (labour, shed or land). This is not to advocate intensive cereal systems *per se* but it does support two large pieces of research recently concluded by SRUC on the advantages of shorter finishing times – irrespective of system.

Approximately two-thirds of feed consumed by finishing cattle is for body maintenance. Since maintenance is largely a function of weight, feed efficiency is better for lighter cattle, particularly those with higher genetic merit for growth.

Marginal gains

Several key factors influence cattle performance: (1) average daily feed intake, (2) average daily carcase weight gain, (3) feed conversion, (4) days on feed, (5) carcase characteristics (confirmation, fat cover, killing out percentage), (6) morbidity and mortality (health and nutrition) and (7) genetics.

A good frame size is required to support carcase weight and reduce days to slaughter, "you need frame to hang meat", but it is not a prerequisite to achieving high daily liveweight gains. This requires healthy cattle with good genetics.

The finer detail of timing of sale is another factor – where daily costs (primarily feed) rise to meet the financial value from (falling) daily liveweight gain. Carcase gain tends to drop-off as fat deposition increases. This is particularly important in native bred cattle and heifers since producers are more likely to hang onto them to increase overall weight.

A certain level of fat is essential for cover and marbling but too much is wasteful. This is compounded by increasing feed requirement for maintenance with age.

- Lean tissue gain is four times more efficient than deposition of fat

Avoiding overly long finishing periods and ensuring that animals achieve minimum carcase fat scores (to ensure best price per kilo) help reduce feed requirement and cost.

Let's not forget the market

Market volatility over recent years (see chart below) complicates the message to sell quickly. Provided finished cattle do not go over processor weight limits or resort in penalty for over-fatness the combined benefit of liveweight gain and a rising market might offset feed costs – get the timing wrong and cattle literally 'eat' profit margin.

It raises the question when is it better to target feed and resource at younger and more efficient cattle, especially (for specialist finishers) if replacement store cattle can also be bought more cheaply then sold into a risen market.

- Firm knowledge of feed cost and intake, weight, weight gain and markets is required

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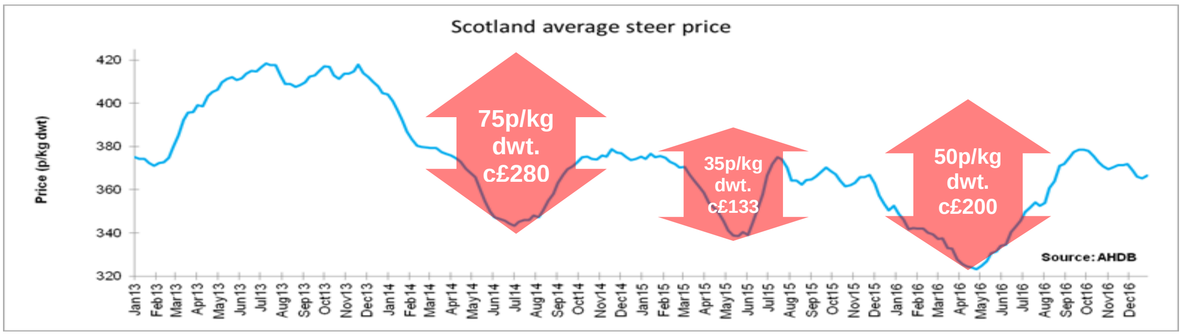

Management Matters: Cross Compliance

Cross compliance – know the rules to avoid financial penalties

With thoughts turning to completion of the 2017 Single Application Form it is timely to remind claimants of their Cross Compliance obligations – complying with Statutory Management Requirements (SMRs) and Good Agricultural and Environmental Conditions (GAECs) and the main areas of breaches.

Statutory Management Requirements

There are 13 SMRs that cover environment, public, plant and animal health and animal welfare. Of these 13 requirements previous RPID inspection statistics have revealed that the most commonly breached are Cattle identification and registration (SMR 7) and Sheep and goat identification (SMR 8). The most common reasons for these breaches are:

Cattle identification and registration (SMR 7)

- Failure to report movements and deaths to the British Cattle Movement Service (BCMS) within appropriate timelines
- Missing ear tags
- Incomplete farm records
- Passport discrepancies

Sheep and goat identification (SMR 8)

- Failure to maintain a record of identification or replacement identification
- Failure to use red tags with replacing lost tags in purchased sheep
- Incomplete identification, movement and death records

Unfortunately in the current annual round of farm inspections there are unofficial reports that there is still a high level of breaches relating to registering and tagging of calves. Although analysis of inspection findings will not be completed until later in the year it is likely that breaches of SMR 7 will still be at the top of the list.

Making sure that you know the rules, particularly relating to registration and tagging of cattle, as well as the new rules around ScotMoves notifications and timescales for recording movements; failure to do so could be costly to your business.

Full details of the SMRs can be found at: https://www.ruralpayments.org/publicsite/futures/topics/inspections/all-inspections/cross-compliance/detailed-guidance/statutory-management-requirements/

Good Agricultural and Environmental Condition

There are 7 GAECs that are in place to protect water courses, groundwater, soils and landscape features. Associated rules include restricting the storage, application of fertilisers and pesticides and cultivations along watercourses; licensing abstraction of water for irrigation and disposal of dangerous substances; preventing soil erosion; maintaining soil organic levels; restricting cultivation of land and application of fertiliser and pesticides along hedgerows and restricting hedge cutting periods.

Of these rules, previous inspection statistics have shown that common GAEC breaches are due to:

Abstraction of water for irrigation (GAEC 2)

- Not submitting a data return to SEPA confirming the volume of water abstracted, even if no water has been abstracted

Retention of landscape features (GAEC 7)

- Cultivating within 2m of the centre line of a hedge

Minimum land management reflecting site specific conditions to limit soil erosion (GAEC 5)

- Failure to prevent erosion of the banks of water courses by livestock

Ensuring compliance with these common breaches and the other GAEC rules will help protect your support scheme payments.

Further details of the rules can be found at: https://www.ruralpayments.org/publicsite/futures/topics/inspections/all-inspections/cross-compliance/detailed-guidance/good-agricultural-and-environmental-conditions/

To help check that you know the rules and have adhered to them, easy to use checklists can be downloaded from the publication section of the Scottish Government funded Farm Advisory Service website at: https://www.fas.scot/publications/

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Input Costs

Commodity	Price for bulk delivery (£/t)	Commodity	Price for bulk delivery (£/t)
Soyameal	329	Dairy Compd. 18%	212
Rapemeal	216	Beef Blend	174
Sugar Beet Pulp	186	Lamb Finisher Pellets	210
Wheat Dark Grains	199	Pig Grower	262
Maize Gluten	POA	Pig Finisher	232
Soya Hulls	159	Dry Sow	230
Molaferm 20	168		
Pot Ale	70		
Potatoes	NA		
Draff	26-34		

Animal health	Product Detail	(£ ex VAT)	Fodder	Ex farm (£/tonne)
Pour – On Wormer	Ivomec 2.5ltr	48	Hay (4×4)*	100
Drench Wormer	Panacur Sheep 10. 1ltr Ivomec Supercattle 500 ml	65 145	Silage (4×4)*	varies
Magnesium (bottle)	Mg Sulphate 400 ml	3.50	Straw (Quads)	75
Calcium (bottle)	Ca + M40 400 ml	3.75	Straw (Rounds)	70
Flukicide	Fasinex 240 0.8ltr	79		

Note: the above prices are for April 2017 at time of writing (mid March), based on 29t loads, they are a guide only and may vary widely.

Global soya bean stocks are at a record high and although soya prices have come down in recent weeks the market remains quite firm. Looking forward it will be the weather for the Argentinean harvest, the area of US soya planted, Chinese demand and currency with Brexit negotiations that will likely impact the UK soya meal price. The current forward price of soya for next winter looks similar to just now. Rapemeal prices rise until the availability of new crop in August/September where it is expected to drop below £200/t.

Distillery by-products are becoming hard to source particularly in the north of Scotland. Barley dark grains are unavailable and draff and pot ale syrup (PAS) are restricted due to increasing use in AD plants. Some draff and PAS are available on contract. English Vivergo and Ensus bioethanol plants are currently supplying dark grains (Ensus meal, Vivergo pellets). Some suppliers will have more than others to sell and shortages are reflected in the on-farm price. Phase 2 of Norvite's Aberdeenshire NEOS plant, is due to start in March. Annual capacity will rise to 8,400t of expelled rapeseed meal (NEOPRO) and 3,600t of a high energy supplement for pigs and poultry (NEOFLO). UK sugar beet pulp is sold out until October.

It continues to be a challenging time for forages, hay carry-over from last year appeared plentiful but good hay is now disappearing fast. Straw is the major news with incredibly tight supplies and unprecedented demand. There is a lot of straw coming up from England but supplies are dwindling there too due to continental demand as well as domestic. Stockfeed potatoes are hard to come by as prices for ware and seed potatoes are good and there is less wastage. Carrots and turnips are more plentiful and are around £25/t and £30/t respectively. Remember these have a very low dry matter content.

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Key economic data

General Indicators		Price indices for January 2017 (Defra 2010 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.25% (0.50% Mar '09)	Wheat	112.7	Seeds (all)	99.3
		Barley	115.3	Energy	117.2
ECB interest rate	0.00% (0.05% Mar '16)	Oats	120.8	Fertiliser	93.9
		Potatoes (Main Crop)	161.4	Agro-chemicals (all)	107.2
UK (CPI) inflation rate	2.3% (target 2%)	Cattle and Calves	126.9	Feedstuffs	111.6
UK GDP growth rate	0.7% (Q4 '16)	Pigs	106.0	Machinery R&M	113.5
		Sheep and Lambs	98.1	Building R&M	112.3
FTSE 100	7,295 (28 Mar '17)	Milk	110.0	Veterinary services	108.5

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