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January 2019

News in brief

Take back control in 2019 ……of what you can!

With less than 100 days left to the Brexit date of 29th March 2019, there is still no sign of a solution to the paralysis gripping the UK parliament. MP's are currently split between support for May's deal, another deal, no deal or staying in the EU. Second guessing the outcome of this process is not for the faint hearted.

For those in agriculture the emphasis now can only be on controlling better what you can. First this means having a budget (many farm businesses don't!) and monitoring and managing this on at least a monthly basis. Then identifying issues ahead of time and taking action. Some actions to consider that could help under a no-deal Brexit:

- Get your business finances in shape – move short term borrowings to long-term loans, reduce debt where possible, consider delaying investment to allow you to hold more cash.
- Minimise exposure for the 3-6 months after Brexit day - consider buying inputs; fertiliser, feeds, ag-chem, vet-med, spares etc. ahead of March where feasible and cash flow allows. Cover any increased expenditure now by selling crops or livestock. Unsure how much? 50% is a classic hedge.
- Consider currency and inflation – sterling depreciation is a vital short-term hedge against a no-deal event. Input costs would rise but so would most commodity prices. Holding physical product (crops, livestock) to cover immediate cash needs protects against a weaker pound and rising inflation.

Merry Christmas and good wishes for a prosperous 2019 *from the Agribusiness News Team!*

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Agricultural Policies in 2018…

Brexit, CAP scheme updates, cross compliance and exchange rate movements are just some of the topics featured in the *Policy Brief* section in 2018. Below is a review of some of these areas.

Brexit

In March the UK and EU agreed terms for the transition period. This included the length of the transition period (29th March 2018 to 31st December 2020), what happens to EU citizens arriving in the UK during the transition period and vice versa, what the UK can do regarding trade deals during the transition period and what will happen if no solution is found to avoiding a hard border with the Republic of Ireland and Northern Ireland. Avoiding a hard border was always going to be the tricky part and is still causing much debate.

As discussions and meetings continued, in July, the UK government published its White Paper detailing its proposal for the UK's future relationship with the EU. While met with criticism by some it was welcomed by others. Discussions continued both within the UK government and with the EU until the next major milestone, in November when the UK and the EU reached agreement on the draft text of a withdrawal agreement. Although the UK cabinet then agreed the text it did result in the resignation of some MPs, which probably wasn't a surprise.

Just as we thought things were settling down in the UK Government's camp, the UK Parliament vote scheduled for 12th December was postponed because they knew they would not get enough votes, then a vote of no confidence was triggered against Theresa May. Despite surviving the leadership challenge she has still the uphill challenge of getting enough votes from MPs. Although at time of writing a new date for the vote had not been set, the UK government has said it will be before 21st January 2019. If the deal is rejected the UK government will have 21 days to set out a plan of action.

Greening

For 2018 there were some changes introduced to greening which were beneficial to farmers. These included simplification of the exemptions from Crop Diversification and Ecological Focus Areas, so that all farmers with more than 75% of their eligible land in grassland would be exempt and an increase in the weighting factor for EFA nitrogen fixing crops from 0.7 to 1.0. There was also a one year derogation granted to Crop Diversification effectively meaning that farmers did not need to grow any more than one crop. For 2019 farmers will need to grow two or three crops if they are not exempt i.e. there is no derogation.

Additional support and loan schemes

The weather in 2018 brought its challenges, in recognition of this the Scottish Government introduced a new support package. Funds of £250,000 were made available to help farmers offset the additional costs of disposing of fallen cattle and sheep and extra funding was provided to Royal Scottish Agricultural Benevolent Institution (RSABI) to provide further support.

Two loan schemes were once again made available by the Scottish Government. The first one was launched in the spring to help support farmers and crofters in fragile areas who were waiting on their 2017 LFASS payment. The second was launched at the end of the summer and allowed eligible farms to receive 90% of their anticipated Basic Payment Scheme and Greening payments for 2018. These schemes were welcomed by the industry.

What will this year bring?

Brexit

"Deal, no deal, renegotiate, general election, referendum, vote of no confidence or cancel Brexit – the question is; what one will be the outcome?" Although there is the option of cancelling Brexit, the UK government is still committed to Brexit and honouring the public vote. Holding another referendum would require all 27 EU member states and the UK to agree and for another general election to be held Theresa May would need to ask MPs to vote for an early election. Being able to renegotiate is likely to require an extension to Article 50 and would require the EU to re-enter negotiations. Not all impossible but perhaps less likely, therefore leaving us with "Deal or no Deal"… but who knows!

Post Brexit Agriculture in Scotland

Basic Payments will continue in 2019; in 2020 to 2023 there will be a transition period whereby payments will continue to be made within the CAP framework but with some possible changes e.g. capping of payments, streamlining applications. Voluntary coupled support schemes and greening will continue under CAP rules until 2020. From 2020 to 2023 many SRDP Pillar 2 schemes will continue but changes may be made to improve outcomes. As for beyond 2024, there will be changes, so watch this space.

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Cereals and Oilseeds

2018 –stocks fall, prices up

Harvest 2018 was the smallest in three years. World wheat output fell 29.6mt (-3.9%) while coarse grains output rose 16.3mt (+1%). World grain demand rose 36.3mt. The net result was that world grain stocks fell for the second year running down - 45.9mt (-7%) to 603.3mt, the lowest stock to use ratio in five years. The fall in stocks was enough to lift world prices which initially rose to the highest level in five years but then receded as output estimates stabilised and Russian export pace did not fall as expected.

EU grain production fell 22.8mt to 286.9mt, led by a sharp fall in wheat output, particularly France. EU feed grain output fell 8.7mt to 148.5mt due in part to drought affected barley crops in northern and eastern Europe. Malting barley yield and quality were hit with particularly poor crops in Denmark, Sweden and Germany. As a result the EU is not expected to have a surplus this year, which helped support malting barley premiums at over £40/t.

In the UK, the cereal harvest fell 5% to 21.7mt led by a fall in wheat with barley also down. Domestic cereal demand has been strong driven by animal feed though overall demand fell slightly -2% to 24.2mt due to a drop in ethanol use. UK cereal opening stocks were the lowest in 6 years at 3.18mt leaving the UK balance sheet relatively tight. In Scotland cereal output fell further down -12% to 2.512mt, and the lowest in 6 years since 2012. Scottish oilseed production rose 41% to 144kt. Malting barley prices in Scotland benefited from quality issues and lower yields restricting supplies in England and the Continent. In Scotland the harvest was protracted but generally quality was good, though nitrogen levels were higher. Spring barley yields of 5.5t/ha were below average but better than many had feared given the almost total lack of rain early on.

Historic and future grain price summary

	Hvst '17	Hvst '18			Hvst '19
	Dec-17	Dec-18	*Change*		Nov-19
	(£/t)	*(£/t)*	*(£/t)*	*(%)*	*(£/t)*
Wheat	143	170	*+27*	*+19%*	165
Feed barley	131	170	*+39*	*+30%*	145
Malt. barley*	153	202	*+49*	*+32%*	177
OSR #	302	318	*+16*	*+5%*	318

Source; AHDB/SACC, Ex-farm Scot ./*Eng. #del.

2019 – UK wheat and barley surplus to rise – as Brexit bites?

With global grain stocks down strongly in 2018, the market will closely monitor weather around the world. So far world crops have had a mixed start with dry conditions in some parts while world wheat area is expected up 1% to 220m ha. The EU rapeseed area is expected lower due to dry sowing conditions.

Within the UK, the AHDB early-bird survey sees a higher wheat (+4%) and winter barley (+14%) area but lower spring barley (-3%) and rapeseed (-3%) areas. UK wheat output could rise 1.5mt to 15.5mt due to the higher area and a return to trend yields supported so far by good autumn conditions. The loss of UK ethanol output could see overall UK wheat demand fall. This could see a sharp rise of the UK's exportable surplus from 650kt to 2.0mt. . A greater reliance on export markets in both wheat and barley next year could be challenging under a "no-deal" Brexit.

In Scotland, a rebound in winter sowings could see wheat supply rise closer to demand eroding the Scottish premium. Barley output could rise significantly due to higher winter plantings and better trend yields all round. Distilling demand in Scotland for both malting barley and wheat is expected to grow in 2019 but buying interest may be stronger given the low levels of stocks.

Crop gross margins for 2018 currently appear positive, for wheat and spring malting barley based on current forward contract prices and trend yields. Malting barley contracts of £20 over LIFFE wheat futures indicate £183/t for harvest 2019 with wheat prices around £165/t, £10/t to £30/t lower than this harvest.

Brexit remains a huge source of uncertainty and of more concern as the UK moves back into a cereal export mode next year. Buying today's inputs by selling grain today helps cover costs. Large currency swings may occur affecting cereal prices.

- Global grain stock fall this year makes market more sensitive to weather, but higher prices are encouraging a rise in wheat sowings.
- UK wheat likely to move into a large export surplus next year, just as Brexit happens.
- Malting barley supply in Scotland seen similar to this year, demand rising.

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A good year but where's the cheer

There is truth in singer songwriter George Ezra's lines in a spring 2018 chart hit "…what a terrible time to be alive if you're prone to overthinking…" but, fortunately the message within the lyrics pick up from there, so here's hoping!

The year 2018 will not be defined by the beef price. The problem was not the market, although it has its problems. It is the uncertainty in politics, policy, trade, input prices and weather (noting many beef producers also suffered sheep losses in spring). And cultural change, including the social media campaign, Veganuary, having its highest profile year to date. Indeed, its sentiment has never really faded. Coupled with the publication of a stark agricultural productivity chart showing the UK lagging significantly behind major continental neighbours, despite hard work on the farm. None of these issues are new to 2018, nor exclusive to the beef industry, but their magnitude and concurrence probably make this the toughest the livestock sector has seen. More importantly, they lower confidence amongst young beef farmers i.e. the future. We might guess the answer of older farmers' if asked what their likely business responses will be amidst such flux. Since they are a high proportion of the industry, it is a worry.

In truth, the 2018 prime beef price has been strong and while peak prices were not sustained for as long, and there was an uncharacteristic summer blip, the spring trough was not as deep either. The AHDB R4L annual average reported price was 383p/kg deadweight in Scotland. That is 2p/kg dwt higher on the year. Southern England averaged 1p better at 369p/kg dwt for the same specification. Therefore, overall it has been fractionally better on the year but with less volatility.

This was substantially bolstered by excellent summer barbeque weather and England's world cup run. While dry weather posed some farming problems, on balance, few beef producers would have changed it. Particularly in the heavier uplands, where it presented a very welcome break.

The store cattle trade took the hit, however, as a result of finishers pre-empting shortages and more expensive feeds this winter.

Age of finding opportunity

It may not compensate for inevitably higher costs, particularly in grain and straw, over the next 12 months but all else being equal, the beef price should be similar or firmer into 2019. Demand remained strong despite imports to the UK being roughly similar, GB prime slaughterings being projected (c.2%) higher, and cull cows likely to have been 8% up on 2017. And there were fewer calf registrations in 2018. The UK breeding cow herd is also expected to be at least 1.5% lower overall, which includes 2% fewer beef cows.

Meanwhile, anecdotally, new faces attending technical meetings across the country this year represent a wave of beef producers coming through. A changing sector brings opportunities in land management, co-operation, adoption of new ideas and probably frank family conversations. Irrespective of current politicking, the mood music suggests prospecting for profits in beef will be won through businesses and industries endeavours, and far less through direct Government intervention.

Continuous improvement and quality assurance are no strangers to this article. Customers are willing to pay a bit more for home-grown beef but this brings its own responsibilities. Scotch, as indeed, the Red Tractor are held in high regard and to a higher standard. The sector should, therefore, remain mindful of advances being made elsewhere. Note a potentially significant carbon neutral Brazilian beef programme – no gimmick but a result of a certification process undertaken by a European certifier, which in itself will be no accident one suspects. This shows what can be done and should be viewed as an exciting opportunity, not a threat. The later approach has an unhelpful and altogether more 'Private James Frazer' feel about it – yet not doomed, don't panic, move quickly and that'll do.

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UK Market Situation and Outlook

'000 tonnes	2012	2013	2014	2015	2016	2017	2018	2019
Production	882	848	878	882	912	895	**907**	**886**
Imports	409	389	410	430	426	443	**463**	**455**
Exports	143	131	141	132	143	140	**153**	**146**
Consumption	1,148	1106	1146	1181	1150	1198	**1217**	**1195**
UK suckler cows ('000 hd)	1,666	1611	1569	1576	1596	1589	1558	
Scottish suckler herd ('000 hd)	462	447	437	437	437	432	428	
UK dairy cows ('000 hd)	1,796	1782	1841	1895	1897	1891	1883	
Scottish dairy females +2yrs ('000 hd)	213	211	218	223	217	216	214	

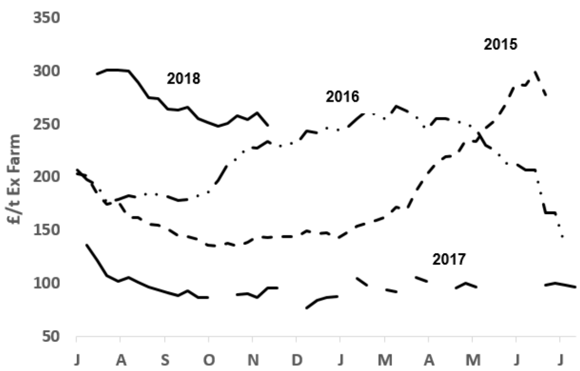
Source: Defra, SG (revised to BCMS data), AHDB. Estimates and forecasts in bold. All figures subject to revision.

Market price update

- *The GB Weekly Average Prices for the week ending 8th December was £192.82/t for free-buy and contract purchases, and £248.28/t for free-buy purchases.*
- *Compared to the previous reported figures on 1st December, contract and free-buy purchases were down by £11.48/t and free-buy purchases were down by £12.31/t.*

Crop Year 2018/19	8 Dec	1 Dec	24 Nov
Average Price (£/t)	192.82	204.30	205.05
AVP change on week (£/t)	-11.48	-0.75	8.60
Free-Buy Price (£/t)	248.28	260.59	254.22
FBP change on week(£/t)	-12.31	6.37	-3.37

GB Weekly Average Free-Buy Price (2015-2018 crop years)



Trading Season July - July Source: AHDB

The Scottish packing market has remained strong over the past 3 weeks as packers continue to trial "Christmas Stocks". Grade 1 Maris Piper is trading between £320-360/t ex farm with poorer quality grade 2 stocks ranging between £200-220/t ex farm. Prices for grade 1 whites including; Cultra, Estima, Harmony, Manhattan, and Saxon have remained firm trading between £210-260/t ex farm. Moving into the Christmas period packers will start to batch stocks by in-loading around 4-8 loads per farm per day in order to increase factory efficiencies when resources are pushed to maximum capacity.

Prices in the English packing market have also remained strong in recent weeks. Grade 1 Maris Piper is trading between £350-370/t ex farm with poorer grade 2 stocks being purchased for £230-285/t ex farm. Grade 1 whites including; Electra, Estima, Lanorma, Saphire, and Saxon are trading between £260-300/t ex farm.

Outlook for 2019

Hindsight is a wonderful thing and future predictions and forecasts are hard to determine – even the BBC can't predict an accurate weather forecast 7 days in advance! Last season was characterised by high production and low prices, with the WAPS average free-buy price ending the 2017/18 season at £106.97/t ex farm. In contrast, the 2018/19 season started off with the highest WAPS free-buy price recorded since the equivalent period in 2012 (£296.92/t ex farm). Free-buy prices during the 2018 harvest from weeks 10th August to 1st September hit over £300/t as availability of stocks tightened during the transition from old-crop to new-crop. This is the highest free-buy price recorded at the start of the season over the past 20 years.

In 2017/18, the UK planted area was 122.8k ha, the second consecutive increase in area planted following a record low of 112k ha in 2015/16. This coupled with above average yields of 49.3t/ha meant that production broke the 6m t mark. This season (2018/19), the GB planted area fell to 117.3k ha, the third lowest area on record. The combination of a reduction in planted area coupled with below-average yields will potentially result in a reduction in crop availability and higher free-buy prices going forward.

Across Europe, crop yields are reported to have suffered following the prolonged dry summer. The North-Western European Potato Growers (NEPG) association estimates that crop yields in the Netherlands, Belgium, France, Germany, and the UK are around 8% lower than the 5 year average. High temperatures and near drought conditions resulted in many crops only reaching 40t/ha, with un-irrigated crops struggling to reach 30t/ha. With strong EU demand and a reduction in crop availability, it is anticipated that prices in the ware and bagging market will remain strong, or even rise towards the end of the season.

Quality, cost, appearance, and convenience will continue to be the main drivers influencing consumer purchasing decisions. AHDB/YouGov Consumer Tracker Aug 18 data suggests that over 50% of consumers place convenience (51%), time to prepare (55%) and cost (58%) as the main considerations when choosing what products to eat.

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Weather leaves mark on 2018

Most producers will remember 2018 for the extreme weather rather than the record price of lambs. From a base of 420p/dwt at the start of February, the hogget price took off climbing consistently through to May when hoggs peaked at 585p with new season lambs at 620p/kg dwt. Difficult finishing conditions plus lower New Zealand imports largely explain the record prices.

Most Scottish producers weren't celebrating however. The awful March weather hit many flocks during lambing. The impact was worsened by the poor body condition of ewes in many parts of Scotland caused by the lack of a 2017 summer. High barren rates added to high ewe and lamb deaths meant that some farmers tailed just two-thirds of their normal number. The June Census indicated that the Scottish lamb crop was down 8% to 3.1m (out of a UK crop of 17m).

Given a tough start, poor early season pasture covers and then dry weather limiting summer pasture growth, lambs finished slower than normal. While the lamb price dropped sharply through early summer, a typical supermarket sized lamb grossed in the low £70's through the glut period. While the lamb price was solid, getting lambs killed was difficult thanks to a lack of migrant workers in UK processing plants.

While the cull ewe trade reflected the above pattern, the trade for light lambs was again poor until a late flourish in November. Hill sheep production is under threat regardless of Brexit.

Brexit – stick or twist?

2019 will be the year of Brexit, or maybe not. The outlook is that uncertain. Mulling over the date of Easter, the volume of Kiwi lamb imports, the likely size of the 2019 British lamb crop, or the exchange rate is frankly pointless given the potential consequences of Brexit.

The 29th March 2019 is important because it marks the day we will either leave the EU on a basis where trading arrangements stay quite similar to that currently applied while talks then progress to agreeing a long term trade deal that ideally would apply from late 2020. Or, we leave the EU without a (withdrawal) deal and, in theory, trade on WTO terms until a longer term trade arrangement is worked out.

The withdrawal deal negotiated by Theresa May lacks support at Westminster. All sides fear that negotiating a good long term trade deal from this starting point would be nigh on impossible.

From the sheep industry's standpoint, the current deal would be acceptable. For until a long term deal is agreed, access to the EU market may be relatively secure. If eventually (possibly years beyond 2020) a Free Trade Agreement (FTA) were agreed with the EU while allowing the UK to sign similar agreements with the big sheep exporters New Zealand and Australia, the trading environment may be tough but not catastrophic.

If no withdrawal agreement is signed and we leave the EU at the end of March then prospects for the sheep trade look grim for 2019 because export demand would collapse. Massive tariffs and non-tariff measures including extra inspections would kill the export trade. Optimists suggest that mini deals, and even a full FTA, could be quickly negotiated that involved the EU taking our sheepmeat and fish if we took their beef, cheese, fruit and so forth. Dream on!

Yet it is also clear that while a majority of MP's are against the prime minister's deal, most are also opposed to a no deal. The chances of negotiating a new withdrawal agreement (e.g. Norway+) are very low. Hence, there appears growing support for another referendum that would include revoking our request to leave the EU.

Agreeing to and implementing a referendum would take months. Brussels has indicated that it would agree to extend the withdrawal date beyond the end of March to allow another vote. So by the time the first big pulls of lambs are coming forward we could have some clarity.

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UK market situation and outlook

'000 tonnes	2013	2014	2015	2016	2017	2018	2019
Production	289	298	302	287	302	**285**	**286**
Imports	116	108	109	109	91	**96**	**92**
Exports	109	108	95	82	93	**82**	**83**
Consumption	296	298	316	314	301	**299**	**295**
UK breeding flock ('000 hd)	15,561	16,026	16,024	16,304	16,623	16,497	
Scottish ewe flock ('000 hd)	2,616	2,604	2,588	2,618	2,661	2,555	

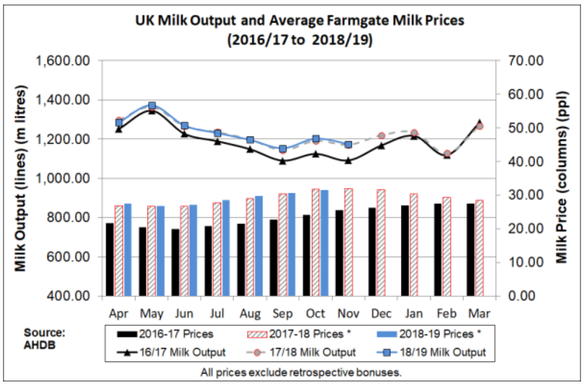
Source: Defra, SG, AHDB. Estimates and forecasts in bold. All figures subject to revision.

UK production growth slows

UK monthly milk output for November 2018 is estimated at 1,173.97m litres (before butterfat adjustment). This is 3.41m litres above output for November last year. Cumulative UK production from 1st April to 30th November 2018 is currently estimated at 9,881.44m litres. This is 17.06m litres ahead of last year, when the cumulative total was 9,864.38m litres.

The latest DEFRA statistics show that the UK average milk price increased by 0.95ppl between September and October 2018 taking the average price for October up to 31.52ppl. The UK average milk price figure for October 2018 is 0.28ppl below the average price for October 2017 (31.80ppl).

- *UK milk production for November 2018 has increased slightly against November 2017 and is estimated at 1,173.97m litres.*
- *Although November 2018 production showed a year on year increase of 3.41m litres, the rate of production growth has slowed.*



UK prices fall further back in Jan 2019

The following price movements are confirmed for January 2019:

- Arla Direct – 1.00ppl price reduction from 1st January 2019. This takes the standard litre price down to 27.75ppl.
- Graham's Dairies - 1.00ppl price reduction from 1st January 2019. This takes the standard litre price down to 27.50ppl.
- Müller – 1.00ppl price reduction from 1st January 2019 (see table below).
- Yew Tree Dairy – 1.00ppl reduction from 1st January 2019. This takes the standard litre price down to 27.50ppl.
- First Milk – 0.75ppl reduction from 1st January 2019. (see table).
- Sainsbury's – 0.56ppl price rise from 1st January 2019. This takes the price for Müller Milk Group SDDG members up to 30.41ppl, whilst Arla SDDG members move up to 30.29ppl.

Annual Average milk price estimates for Jan 2019 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	29.00*
First Milk Liquid [1]	27.75
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	28.69
Müller - Müller Direct [1, 2]	28.00

[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] No monthly supplementary payment included in the price estimate. Includes 0.50ppl Müller Direct Premium.

** Unconfirmed for January 2019*

Review & Outlook for 2019

- *Rising input costs this winter.*
- *UK farmgate milk price have been buoyant but some reduction likely for standard contract prices during Q1.*

The weather certainly left its mark on 2018. After some record breaking hot weather during the early summer grass growth was well back across much of the country and the majority of farmers looked set to struggle with securing sufficient stocks of conserved forage. Since the summer, most UK dairy farmers have managed to get forage stocks back on par by taking more silage from later cuts but there are still some farmers whose forage supplies are a long way back from where they were targeted.

With the UK average milk price moving between 26.79ppl (May) and 31.52ppl (November) throughout 2018, milk prices have been relatively high. Although several UK milk buyers are set to reduce their prices during January 2019 (see article – left), feed prices and other input costs remain high (e.g. barley @ £185/t), and dairy margins remain finely balanced. In recent years, price volatility has been a key feature of the dairy market, however, volatility around input costs now looks set to be of increasing importance in 2019. Whilst some milk buyers have introduced pricing mechanisms to mitigate against volatility, the on-going delays around the Brexit negotiations do little to deliver certainty in the market.

UK dairy commodity prices (£/ tonne)	Nov 2018	Oct 2018	Jun 2018
Butter	3,750	4,100	5,130
SMP	1,420	1,380	1,360
Bulk Cream	1,830	1,840	2,320
Mild Cheddar	2,860	3,000	3,000
UK milk price equivalents (ppl)	**Nov 2018**	**Oct 2018**	**Jun 2018**
AMPE (2014)	27.01	28.34	33.23
MCVE (2014)	31.06	32.66	32.77

Source: AHDB

Dates for the Diary

- **Semex Conference**
  13th – 15th January 2019, Radisson Blu Hotel, 301 Argyle Street, Glasgow G2 8DL.
  To book, please call Leanne Garden on 0800 868890.

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Introduction

The outlook for UK agriculture is currently dominated by the fate of the UK's Brexit negotiation. Whatever the outcome, the market outlook across the EU and wider global market will remain as important as ever to our domestic market. The EU Commission have just released their outlook for agriculture for the next decade and beyond; EU Agricultural Outlook For Markets and Income 2018-2030 available here. Interestingly, the report retains the UK within EU forecasts up to 2030, it also features UK data throughout. Until we've actually left it's probably easier to keep us in!

Economic baseline

Oil prices - the report forecasts oil prices will rise to $92/barrel by 2030; currently they are $55/barrel having slumped 35% since October. New extraction methods led by US shale are driving down the cost of getting difficult oil out, electrification of transport (cars, trucks, tractors!) is curbing oil demand growth. Oil will lose demand faster than reserves. Petro states face a dilemma; pump now what-ever the price or risk never pumping it at all. The message to agriculture; don't look to oil price rises to support commodity prices in future.

World population growth is slowing – the world is currently adding 80m people per year, this will slow to 70m per year in 2030. Population growth will shift to Africa and S & SE Asia – away from China, the EU, US. This is still good news for agriculture; there will be 12% more mouths to feed and they will be considerably wealthier by 2030. But the pace of growth will be less than we have seen in the last couple of decades.

World economic risks – the world economy is expected to grow at 3.2% in 2018, 3.1% in 2019 and 3.0% in 2020. There is thought to be a growing risk that world growth could be hit negatively in the next few years. The US is turbo-charging growth at the top of the economic cycle by aggressively cutting tax; fuelling debt and the trade deficit. Donald Trump is also pursuing a policy of trade disputes with China, the EU and others, potentially de-stabilising the world order. The EU faces a number of challenges including high debt levels in Italy and other euro area countries and disruption from the departure of its largest trade partner, the UK.

Currency exchange rates – strong US economic growth and rising interest rates are boosting the dollar against the Euro and Sterling. The Euro is also facing threats linked to high debt levels in Italy. Sterling is at the mercy of UK politics and Brexit.

Trade disputes and soya – in retaliation for US tariffs on a range of Chinese goods, China responded by putting large tariffs on key US agricultural exports; namely soyabeans, maize and pork. So far this has boosted prices for S American soya and depressed US soya prices. This in turn has pushed down the cost of US soya imports to the EU and UK; benefitting our intensive livestock producers. A recent thawing of relations between the US and China at the G20 led to a 90-day 'tariff truce'. While tariffs remain, recently China purchased 1.5mt of US soyabeans in a sign that tensions are easing. If so, expect a rise in UK soyameal and rapeseed prices.

Biofuels – EU biofuel use is expected to grow from 6.3% of fuel use in energy terms to 8.2% by 2030 driven by the Renewable Energy Directive. However, how positive this will be for EU and UK commodity prices remains to be seen. EU transport fuel use is stagnating and expected to decline before 2020. The only way to grow biofuel use is through higher blending rates. Technical, trade and policy limits suggest that EU crop based biofuels will struggle to capture this growth in demand. RED limits crop based biofuels to 7% of fuel use; already reached in several EU countries. Advanced bio-fuels and imports seem likely to be the source of supply growth. The US is facing a growing ethanol surplus as it hits the same problems of stagnating fuel use and blending limits. The EU applies tariffs to limit US ethanol imports but these are proving ineffective. Cheap US ethanol imports are the main reason for the closure of UK bioethanol plants this season. Brexit and a desire for a US trade deal will bring pressure on the UK to lift any tariffs on US ethanol imports. The message for UK agriculture; ethanol demand for UK wheat and the supply of resulting feed by-products is unlikely to recover to the high levels seen in the last few years and may cease altogether.

Agricultural sector highlights

Cereals – cereal balances on world and EU markets have declined in 2018/19. EU cereal output was 8% lower in 2018 than the 5 year average at 283mt. EU cereal prices rose sharply in 2018 up +€50/t for wheat. Longer-term EU cereal prices are seen well supported in the range €168-180/t by 2030 due to a relatively tight global supply and demand situation. Within the EU, human and livestock demand for cereals is seen static or falling with growth coming from industrial uses (starch, bio-plastics etc) and exports, particularly of wheat.

The EU runs a very large deficit in protein crops and increasing policy efforts to narrow this gap are expected in the period up to 2030. This is likely to include more investment in R&D to boost pulse yields as well as the introduction of a direct pulse subsidy of €75/ha from 2020. Soyabean plantings in the EU are set to rise boosted by a non-GM premium of €80-100/t. EU use of home-grown oilseeds, particularly rapeseed is expected to grow which coupled to a global growth for oilseeds is expected to support EU rapeseed prices and crop area. Trade with the rest of the EU dominates import and exports of cereals to the UK. Whether this pattern shifts to greater third country trade will depend on the outcome of Brexit. In terms of cereal prices, EU and UK prices are already close to world market levels so significant UK divergence is not expected in pricing terms.

Dairy – in 2018/19 EU dairy prices have risen driven in part by the forage shortfall and weaker growth in milk output. In 2019 EU milk output is still expected to grow but at a lower rate of 0.7%. Other factors have boosted EU milk prices including; falling SMP stocks, strong export demand for EU dairy products and strong butter prices. Longer-term, world demand for dairy products is expected to grow at an increased pace to reach 1Bn t by 2030 as population and wealth increase. Average EU per capita consumption of dairy products is expected to decline slightly to 74kg/hd, down from 77kg/hd in 2018. Cheese consumption will rise further while fresh milk will see the greatest fall, driven by rising consumption of plant based alternatives. The EU is expected to capture 35% of global dairy exports by 2030. While not a low cost producer, the EU retains a competitive advantage in processed dairy products; particularly cheese. How closely the UK dairy market follows EU trends may depend on the outcome of the Brexit process. As a major importer of dairy products from the rest of the EU, any trade barriers may in the short to medium term support growth in the UK dairy sector.

Meat - EU meat production is expected to remain stable at 48kg/hd however, there will be an ongoing shift in consumption from red meat to poultry. This will lead to higher EU poultry production. EU pork production will continue rising but will be more dependent on exports. EU beef production will fall linked to a fall in dairy cow numbers as per cow yields rise faster than demand for dairy products. EU sheep-meat production is actually set to grow as it recovers from a period of stagnation.

World demand for meat will grow by 48mt between 2018 and 2030 to reach 378m t. Growth rates will decline from 2% between 2008 and 2018 down to 1.1.% from 2018 to 2030 due to slowing global population and wealth growth. World demand growth will be led by poultry and beef with weaker demand growth for pork and sheep meat.

Within the EU per capita meat consumption is set to fall very slightly from 69.7kg in 2018 to 68.7kg in 2030. This masks a rise in meat consumption in newer member states and a decline in older ones. EU beef and pork consumption will fall and poultry and lamb will increase (the latter due to a rising muslim population). Consumer concerns over meat consumption for health, environmental and ethical reasons are shifting some EU consumers to plant based proteins. So far any shifts that may be occurring have yet to show up clearly in overall EU meat consumption figures. However, that is not to say that a point of inflection may soon occur, and if it does, EU per capita meat consumption forecasts to 2030 may be affected.

Environmental issues

Greenhouse gas emissions – the report estimates that EU GHG emissions from agriculture will decline just 0.3% between 2012 and 2030. The EU has targets to reduce GHG by 40% by 2030. Sectors within land use will not be given specific carbon reduction sectors. Instead emissions from agriculture must be reduced or offset by rising carbon sequestration, principally from afforestation. The impact for UK agriculture, unless technology helps drive down carbon emissions, expect the pressure to plant more trees to continue, assuming current EU carbon reduction commitments continue in the UK after Brexit.

Food waste – The EU supports meeting the UN Sustainable Development Goal to halve per capita global food waste at retail and consumer level by 2030 and to reduce losses across the supply chain. The EU requires member states to monitor food waste and put in place policies to reduce it. The Scottish and UK Governments have set targets for reducing food waste. Analysis by the EU indicates that reducing food waste by 50% would save EU consumers €93 per year by 2030 and reduce environmental impacts. The food sector would incur compliance costs of 1% and agricultural producers would face lower demand and prices; particularly in the fruit and vegetable and meat sectors.

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Input costs – Feeds

odity	Price for bulk delivery (£/t)	Commodity	Estimated price for bulk delivery (£/t)
Soyameal	320	Pot Ale	n/a
Rapemeal	246	Draff	£40 (scarce)
Sugar beet pulp	225	Dairy Compd.18%	249
Maize Dark Grains	224	Beef Blend	205
Maize Gluten	214	Lamb Finisher Pellets	255
Soya Hulls	185	Pig Grower	276
Stockmol 20	185	Pig Finisher	269
		Dry Sow	258

Animal health	Product Detail	(£ ex VAT)	Fodder	Ex farm
Pour – On Wormer	Ivomec 2.5ltr	58.00	Hay (4×4)*	£40/bale
Drench Wormer	Panacur Sheep 10. 1ltr	65.00	Silage (4×4)*	£22/bale
Inj Wormer	Ivomec Supercattle 500ml	124.00	Straw *	£100/t
Magnesium (bottle)	Mg Sulphate 400 ml	5.50		
Calcium (bottle)	Ca + M40 400 ml	5.50		
Flukicide	Fasinex 240 0.8ltr	80.75		

Note: the above prices at time of writing (12th December 2018), based on 29t loads, they are a guide only and may vary from region to region. *Wide variation in prices depending on the area and quality and type. Finished feeds are estimated prices and will vary depending on the specification of the feed.

Barley continues to be overpriced compared to feed wheat which is trading at closer to its futures price. Oats are also expensive and in high demand for milling. Maize is still looking extremely good value against both barley and wheat as a cereal and energy source, which is unusual as it normally trades at a premium. Bread waste is sold out and biscuit meal is just looking dear enough at around £195/t.

Sugar beet pulp, availability is good, if more expensive than last year and not good value in terms of an energy feed, but it has a steady trade due to its other nutritional merits as a feed. Soya hulls are around £40/t cheaper than sugar beet and definitely worth considering to replace it in some situations.

Pot ale continues to be tight due to AD usage. Blended liquid feeds are popular and can fill pot ale gaps, prices are higher but their value is in enhancing ration palatability, increasing diet sugars and improving performance of forages and intakes. Draff is hard to come by, now and again there is some availability for companies to bid for. Imported maize dark grains and home produced are dearer due to the lack of profitability in the ethanol market, closure of Vivergo and the current closure of Ensus.

Soya remains the best value protein on the market, rapemeal not so much! If America and China settle their differences, and China start buying soya again (which is possible) we could see the soya price rise significantly. Taking some cover for next winter is a good idea for regular buyers of soya.

Supply of baled silage is adequate, hay is scarcer despite a good hay making season. Straw round bales are scarce and the barley straw isn't standing up well for bedding this year. Wheat straw is easier to find and holding up better. Unusually, square bales are same trade as round bales (squares are usually a premium) due to barley straw being scarce, particularly rounds.

Key economic data

General Indicators	
Base interest rate	0.75% (0.50% Aug '18)
ECB interest rate	0.00% (0.05% Mar '16)
UK (CPI) inflation rate	2.4% (target 2%)
UK GDP growth rate	0.6% (Q3 '18)
FTSE 100	6,800 (17 Dec '18)

Price indices for October 2018 (Defra 2010 = 100)			
Output Prices		Input Prices	
Wheat	142.75	Seeds (all)	105.6
Barley	158.43	Energy	127.5
Oats	153.04	Fertiliser	109.4
Potatoes	124.09	Agro-chemicals (all)	104.3
Cattle and Calves	98.86	Feedstuffs	116.5
Pigs	110.64	Machinery R&M	107.6
Sheep and Lambs	99.54	Building R&M	111.3
Milk	128.70	Veterinary services	115.0

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