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News in brief

UK set to leave EU by end of January

Boris Johnson's election with a sizeable Conservative majority now means the UK parliament is almost certain to approve the current EU withdrawal agreement and exit the EU by, or on 31st January 2020. Clearly any chance of the UK remaining in the EU has been eliminated.

The uncertainty now moves onto exactly what will happen once we leave and when. The EU agreement provides for a withdrawal period up until 31st December 2020 when essentially the UK will maintain free trade with the EU (though trade with some non-EU countries may be affected).

During the 11 month withdrawal period the UK and EU are expected to negotiate a comprehensive trade deal. However, no-one thinks this is long enough unless the UK remains closely aligned to the EU on regulation and standards. Johnson has already indicated he intends to make it illegal (!) to extend the withdrawal period beyond one year. Failure to agree a new deal means No-deal in just over one year's time.

If a long term EU deal is agreed this leaves many questions:

- What will happen to free movement of labour?
- How close will the UK remain to EU regulations?
- This in turn will dictate how much the UK market is opened to trade with other blocs such as the US.

In terms of agricultural support, the Conservatives have pledged to maintain current spending levels for the term of the parliament to 2024 and to move this to rewarding public goods (in England). What is less clear is how much say devolved administrations will have in determining support in Scotland, Wales and Northern Ireland.

This edition examines the prospects for the main sectors in the year ahead in what looks to be another period of unknowns. One thing is now certain; the UK will definitely be leaving the EU. No Deal also remains very much a possible outcome and farm businesses would be well advised to use the year ahead to assess their business, develop their long term strategy and make changes accordingly.

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Julian Bell

Merry Christmas & Happy New Year *from the Agribusiness News Team!*

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Europe investing in rural areas

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Agricultural Policies in 2019…

Brexit, Agricultural Bill, CAP scheme updates, agricultural surveys and climate change were some of the topics featured in the *Policy Brief* section in 2019. Below is a review of some of these areas.

Brexit

The 29th of March 2019 came and went and we were still in the EU. For the proceeding couple of months, Theresa May was still not able to get her deal through parliament and agreed with the EU, with the main sticking point being the Irish backstop. Parliament's opposition to the deal eventually led to Mrs May's resignation on the 7th of June.

After taking over as Prime Minister on 24th July, Boris Johnson set about renegotiating parts of Mrs May's deal. The main change was replacing the Irish backstop with a new customs arrangement, whereby NI would remain pretty well stay in the EU single market while rUK would leave. Thus enabling rUK to sign and implements its own trade agreements with countries around the world. The revised plan effectively would create a customs and regulatory border between Northern Ireland and GB. However, Boris's attempt to put his revised deal to Parliament on 19th of October did not materialise, due to MPs choosing to postpone a vote until the withdrawal agreement was voted into UK law. This meant that Boris had to seek a Brexit extension from the EU, with it being granted until 31st January 2020. In order to aid getting his deal passed, Boris called a general election. This gamble paid off, with the Conservatives securing a majority, taking us to where we are now….

Additional funding and loan schemes

Farm resilience planning. In response to Brexit and market uncertainty additional funding was made available by Scottish Government to help farmers review their business and develop a resilience action plan. Funding of up to £1,000 will continue to be available until 31st March 2020.

Convergence money. £80m of convergence money is to be distributed to active farmers in the hills, islands and marginal areas, effectively topping up the declining Less Favoured Area Support Scheme (LFASS) budget. Money is to be paid by March. There will also be a £15m top-up to the voluntary coupled support schemes.

NLFASS18 and NLBPS19. Two loan schemes were also 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 2018 LFASS payment. This loan was for up to 90% of a farm business's 2018 payment. The second was launched at the end of the summer and allowed eligible farms to receive 95% of their anticipated Basic Payment Scheme and Greening payments for 2019. The additional funding and loans were welcomed by the industry.

Farm Business Surveys & Agricultural Census

Each year Farm Business Income figures and census data is published by the Scottish Government. The recent survey showed that average farm income had risen to £35k; a six year high, however, for most farm business this is highly dependent on subsidies. Unless market prices rise substantially the reliance on subsidies in many sector is unlikely to change.

Published June 2019 Agricultural Census data also highlighted how weather and profitability impacts on the crops grown and livestock numbers. Low profitability of beef has contributed to declines in beef cow numbers, while better weather conditions following the previous year's snow contributed to an increase in sheep numbers. Lower than average rainfall during the summer and autumn of 2018 also resulted in higher winter crop sowings.

What will this year bring?

Brexit

Assuming Boris Johnson is able to get the withdrawal agreement passed, the European Parliament must then ratify the agreement before the end of January. Discussions will then commence on a trade deal, which the UK want agreed by the end of December 2020.

What is clear is that there is still a lot of negotiations and discussions to take place in 2020. It is going to be another eventful Brexit year!

Post Brexit Agriculture in Scotland

Basic Payments will continue in 2020, with there being a transition period from 2021-2024, whereby simplifications and improvements would be made to current schemes and policies. From 2021 there are also likely to be pilot projects being run that will test new policy approaches and inform longer-term policy development.

As far as Pillar 2 schemes are concerned, there will be no AECS application window in March 2020; however, 2015 schemes will be rolled over.

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2019 – Great yields, poor prices

The global harvest in 2019 was a record but still below demand and stocks fell. According to IGC world wheat output rose 29mt (+4%) to an equal record 762mt while coarse grains output fell 10mt (-0.7%) to 1,410mt. Total world grain production rose to 2,162mt but was below demand of 2,188mt (up 17mt). The net result was that world grain stocks fell for the fourth year in a row, down 26mt to 594mt, though because of rising demand stock-to-use ratio fell to the lowest in 6 years.

EU grain production rose 9% (26mt) to 315mt, led by a sharp rise in wheat output, particularly France. Feed barley supply rose, weakening prices. Malting barley yield and quality were good across most of Europe, pressuring premiums lower.

In the UK, the wheat harvest rose 19% (+3.1mt) to 16.2mt, total barley output rose 24% (+1.5mt) and oats production rose 27% (+229kt). Rapeseed output fell. Domestic cereal demand has been stable supported by lower domestic cereal prices. In Scotland cereal output rose +22% (+557kt) to 3.1mt, driven by record yields in spring and winter barley. Malting barley prices in Scotland fell more sharply than in England indicating surplus local supply. In Scotland the harvest was catchy but generally quality was good with low nitrogens in barley.

Historic and future grain price summary

Sale period	Hvst '18	Hvst '19			Hvst '20
Date priced	Dec-18	Dec-19	*Change*		Nov-20
	(£/t)	*(£/t)*	*(£/t)*	*(%)*	*(£/t)*
Wheat	170	142	*-28*	*-16%*	155
Feed barley	170	118	*-52*	*-31%*	135
Malt. barley*	218	125	*-93*	*-43%*	175
OSR #	318	318	-	*unch*	302

Source: AHDB/SACC, Ex-farm Scot, * season av. #del.

Wet autumn - UK an importer in 2020?

For the rest of 2019/20, the pace of UK wheat and barley exports will be important price drivers. So far the UK has exported 41% of its surplus of barley but just 23% of its wheat surplus. The terrible autumn sowings may be the saviour of UK wheat prices as strong price premiums for new crop encourage farmers to roll-over wheat stocks into 2020.

With global grain stocks down a little in 2019/20, the market will continue to closely monitor weather around the world as new crop conditions unfold. The IGC estimate world wheat area 1% higher in 2020/21. There are some problems emerging; particularly in the EU where wet weather is curtailing wheat sowings in France and the UK while in Russia the area expands.

Within the UK, the initial AHDB early-bird survey sees lower; wheat (-9%), winter barley (-12%) and rapeseed (-23%) areas but higher spring barley (+28%) and oats (+10%) areas. Note these are early estimates and winter areas and condition may fall further as heavy rain has continued since these were made. Failed winter crops are expected to further boost spring crop and fallow area. UK wheat output could fall 3.2mt to 13mt and given the continuing rain may be lower still as yield potential falls. The picture is similar in Scotland with a likely 10-15k ha swing in winter cereals to spring barley.

Crop gross margins for 2020 currently appear positive for wheat based on current forward contract prices and trend yields. Spring barley returns are more doubtful given the potentially large UK crop in 2020. Net farm receipts could fall given the lower winter cereal area and potentially moderate yields. Distilling malting barley contracts of £20/t over Nov '20 LIFFE wheat futures indicate £175/t for harvest 2020 & wheat prices of £155/t; £13/t up on 2019.

Strangely, Brexit uncertainty maybe less important for the 2020 harvest; the UK is likely to be a net wheat importer though the barley surplus could rise. Also assuming the newly elected Johnson gets his EU withdrawal deal through by 31st January; trading conditions with the EU would remain unchanged at least until 31st December 2020.

The big concern could be for barley and oats; with larger sowings expected any surplus remaining after December 2020 could face export barriers to the EU if a deal is not ratified by then.

Wider trade issues remain a concern not least the US's tariff imposition on Scotch malt whisky which could affect 20% of export sales. Buying today's inputs by selling grain today helps cover costs.

- Global grain stock to use to fall a little this year
- Wet autumn means UK returning to a net wheat importer in 2020, large barley surplus likely
- Malting barley supply in Scotland/UK could rise in 2020, whisky exports at risk
- Brexit impacts may moderate during 2020 but anything could happen to trading relationships from January 2021

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Beef

A challenging year for beef

This time last year we were looking forward to a fairly promising year for beef, all analysis pointed to reduced numbers in the system and good demand from consumers. The year began with favourable cattle prices, around 360p/kg. However by March the price had fallen to around 340p/kg. The situation improved slightly in the late spring and early summer and then crashed down to the late 330p's, where it remained from July onwards. The political stalemate surrounding Brexit has caused uncertainty across the country, hitting the consumer and likely a cause of weakening demand for beef.

It has been easy to blame imports for the downturn in the beef trade but first we need to look at the figures. In 2019, beef imports actually fell by nearly 25% and exports increased by 50%, as processors looked for alternative markets to reduce stock. This makes it clear that the 2019 beef price was driven by oversupply to a market of subdued demand.

Meat in the spotlight

Against the backdrop of political uncertainty, the environmental credentials of beef production have also come under close scrutiny in the media; with seemingly constant barrages of anti-red meat propaganda; with often questionable motives and journalism. This has certainly had a significant impact on UK demand for beef. 2019 saw a 2% drop in consumer spending on beef, in the year to 2nd November, with volume down 1%. Simple supply and demand cannot be ignored. Hopefully in 2020 we will see more balance brought to the debate with the public hearing some of the positive messages about red meat rather than a constant one dimensional sermon about methane.

Looking forward to more uncertain times

In recent weeks, producers have seen improved prices as processors prepare for Christmas, January is always an interesting time for beef prices, with farmers and processors waiting with nervous anticipation of what the market is likely to do. Without a crystal ball, predicting the 2020 beef trade is impossible. However, there are some signals that better times are ahead. According to BCMS figures there are approximately 46,800 less cattle aged 12-30 months in the system, at present, as a result in the drop in calf registrations seen in 2018. Upper weight limits for carcasses have been reduced and also bear in mind that more of these cattle are dairy bred and likely to produce smaller carcasses. It is expected that production will be down by 4% for 2020. With current domestic demand subdued and production looking to be less next year, exports will play an increasingly important role in setting the domestic beef price.

Looking to the global situation, there is plenty of cause for optimism. Currently the Brazilian beef farmers are receiving more for their beef than UK and Irish farmers. The global beef price is high due to incredible demand, driven by the demise of much of the Chinese pig herd. Imports into China are up 54% in the year to October – mainly coming from South America/Australia/NZ, although some processors in the UK are signed off to export to China the reduction in production would limit the impact this would have on beef prices in 2020.

After the general election, one can be more optimistic that we will see some form of progress in the Brexit deadlock. However, what form that takes is still up for a lot of discussion. When the UK first voted to leave the EU, much was made of the potential impacts a hard Brexit would have on the beef industry. While the current market position makes South American product less of a concern, there can be no doubt that our high cost, high welfare beef industry could be very exposed on the global stage.

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UK Market Situation and Outlook

'000 tonnes	2013	2014	2015	2016	2017	2018	2019	2020
Production	848	878	882	912	895	890	904	**869**
Imports	389	410	430	426	443	451	367	**385**
Exports	131	141	132	143	140	147	167	**152**
Consumption	1106	1146	1181	1150	1198	1193	1104	**1102**
UK suckler cows ('000 hd)	1611	1569	1576	1596	1589	1558	1527	
Scottish suckler herd ('000 hd)	447	437	437	437	432	428	417	
UK dairy cows ('000 hd)	1782	1841	1895	1897	1891	1883	1871	
Scottish dairy females +2yrs ('000 hd)	211	218	223	217	216	214	210	

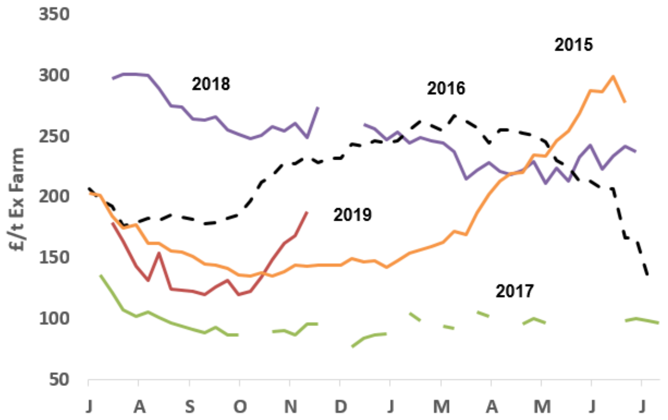
Source: Defra, SG (revised to BCMS data), AHDB. Estimates and forecasts in bold. All figures subject to revision.

Market price update

- *The GB Weekly Average Prices for the week ending 7th December was £175.11/t for free-buy and contract purchases, and £187.63/t for free-buy purchases*
- *Compared to the previous reported figures on 30th November, contract and free-buy purchases were up by £0.64/t and free-buy purchases were up by £19.86/t*

Crop Year 2018/19	7 Dec	30 Nov	23 Nov
Average Price (£/t)	175.11	174.47	161.94
AVP change on week (£/t)	+0.64	+12.53	+4.28
Free-Buy Price (£/t)	187.63	167.77	162.05
FBP change on week(£/t)	+19.86	+5.72	+13.38

GB Weekly Average Free-Buy Price (2015-2019 crop years)



Trading Season July - July Source: AHDB

Market Overview

There has been a continual rise in free-buy prices lately as there is still some uncertainty over remaining unharvested crops in England, and packers purchasing stocks in the run up to Christmas. There are reports of some growers in England still attempting to lift unharvested crops affected by the severe wet weather, but it is likely that they will now be left until the spring when it is hoped that conditions will dry up.

In Scotland, Grade 1 Maris Piper is trading around £175/t ex farm, with a high of £240/t ex farm reported for particularly good stocks. Grade 1 Whites are trading around £170/t ex farm with a high of £230/t ex farm reported for good quality stocks with a high baker content.

In England, Grade 1 Maris Piper is trading around £250/t ex farm with a high of £300/t ex farm reported. Grade 1 Whites are trading around £215/t ex farm with particularly good quality stocks with a high baker content reaching a high of £300/t ex farm. King Edwards are trading around £205/t ex farm, and Reds are trading around £250/t ex farm.

The bagging trade continues to be slow as there is limited demand from chip shops, and prices for the best quality material continue to be supported by tight availability, particularly for stocks of Agria. In the East, Agria is trading around £250/t ex farm with a high of £300/t ex farm, Maris Piper is trading around £190/t ex farm, and Markies is trading around £220/t ex farm with a high of £270/t ex farm reported. In the West, Markies is the only variety reported this week trading around £170/t ex farm. In the South of England, Cabaret, Caesar, Daisy, Lady Anna, Miranda, and Sagitta are all trading around £160/t ex farm with a high of £220/t ex farm reported where there is limited availability for particularly good stocks.

In the processing market, data published by HMRC in October suggests that the UK imported 8.4Kt of fresh potatoes from Belgium, up 434% from average. The majority of these imports are likely to be frying potatoes and import prices are likely to be competitive with Belgian Bintje prices quoted at €106/t on Friday 6th December. AHDB predicts that there will be increasing volumes of processing material from both Belgium and the Netherlands to help UK processors cover domestic shortfalls. This past week peeling Piper was trading around £110/t ex farm with a high of £160/t ex farm, and Whites were trading around £100/t ex farm, with a high of £150/t ex farm.

The latest export figures released by HMRC for October indicate that the UK shipped 28% fewer fresh potatoes (7.9Kt) to Spain and the Canary Islands than the three-year average. Demand from the Canary Islands may continue to be dampened, partly due to the collapse of Thomas Cook, as there could potentially be a reduction in tourist numbers lowering import demand for potatoes used in the food service sector.

SACAPP Conference 2020

The SAC Association of Potato Producers Annual Conference will take place on **Wednesday 29th January 2020** at **Perth Racecourse**, Scone Palace Park, Perth PH2 6BB from **9.30am to 4.00pm.** The full day conference is free to SACAPP members but is also open to non-members. To register please contact Janis Forrest, SAC Consulting, at janis.forrest@sac.co.uk or call 0131 603 7525.

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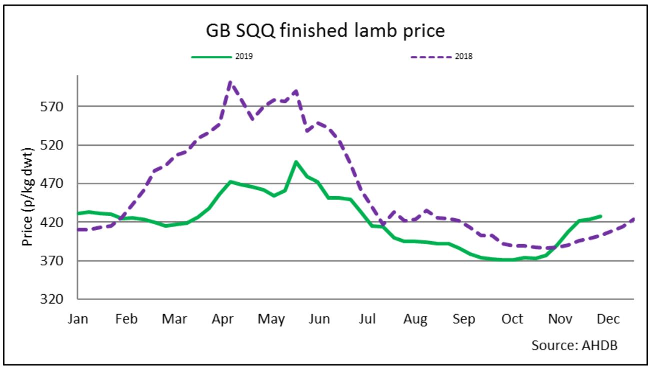
2019 better than expected

2019 turned out far better for sheep producers than feared a year back. At the end of March and October the industry could have been dealing with the catastrophic price consequences of an abrupt exit from the EU. Instead, the day of reckoning was postponed twice and pig problems in China provided unforeseen support for sheep prices here.

As the price chart shows, the farmgate price disappointed through to the end of the winter even allowing for the exceptional strength of the market the year earlier. New season prices bucked up somewhat, but soon declined and were consistently lower than the previous year right through the summer and much of the autumn despite a smaller UK lamb crop.

Good weather helped. Pasture production was well up resulting in lower feed bills and quicker finishing of lambs through the summer. The latter helped by more singles in England and Wales owing to the carryover effect of the 2018 drought.



Strong demand for store lambs and breeding stock suggested that Brexit was not foremost in farmer thinking. When Brexit was again postponed, strong export demand plus a dwindling supply of lambs led to a welcome jump in lamb (and cull) prices in November to well above year earlier levels despite a strengthening exchange rate.

Calm before the storm?

The UK will leave the EU at the end of January. But for the UK sheep industry it will be business as usual in 2020 as we enter a limbo period to, in theory, allow smooth transit to the new basis upon which we trade with the EU. Trouble is: that deal is yet to be negotiated and, if the Prime Minister is to be believed, will operate from 1 January 2021.

Setting aside what the long term trade deal could be, prospects for sheep in 2020 look pretty good thanks largely to lower supply. Less lambs are being carried over into 2020, and with lower imports from New Zealand forecast, processors will be chasing lambs to build a stockpile of legs for Easter (12th April). Demand, especially for culls, should also remain healthy through the following month or so with Ramadan concluding in late May.

Given normal weather, AHDB predict a slightly smaller lamb crop (16.6m) in 2020 owing to the further decline in breeding flock. If New Zealand continues diverting lamb (and mutton) into China, UK lamb will have less competition both at home and on the continent, even if a stronger sterling persists.

So even presuming that the UK retailers do little to boost shopper demand through price promotions, tight supplies should tip the farmgate price in favour of the producer. That said, fears about what might happen after 31st December 2020 could take the shine of the autumn store trade especially for hill lambs that are often bought for long keep finishing. A positive is that Waitrose, from the start of 2021, will join a number of other retailers in stocking only UK lamb, which should add some confidence to the store lamb finishing job.

One further factor could affect farmgate prices in 2020. Farmers fearful of a bad long term trade deal might be tempted to reduce and even exit sheep farming in 2020 adding to supply. For big changes on trade and farm policy are likely.

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UK market situation and outlook

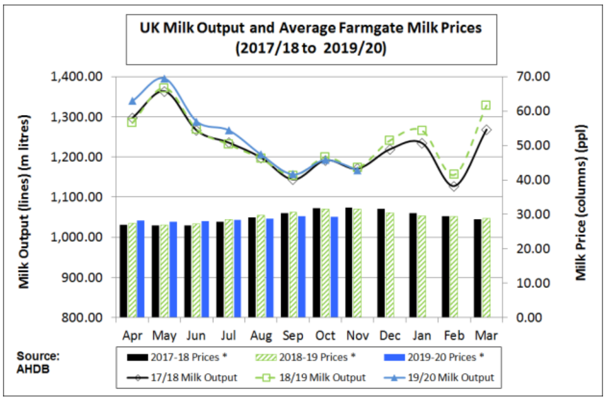
'000 tonnes	2014	2015	2016	2017	2018	2019	2020
Production	298	302	287	302	289	**304**	**287**
Imports	108	109	109	91	92	**74**	**69**
Exports	108	95	82	93	87	**93**	**79**
Consumption	298	316	314	301	293	**284**	**277**
UK breeding flock ('000 hd)	16026	16024	16304	16669	16286	16083	
UK ewes for first time breeding	na	na	na	2907	2714	2629	
Scottish ewe flock ('000 hd)	2604	2588	2618	2661	2552	2568	
Scottish sheep 1 yr for breeding	631	697	698	671	632	588	

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

Output slows for a second month

- *UK monthly milk output reduced during November 2019, for the second consecutive month*

AHDB production data for November 2019 shows UK monthly milk output estimated at 1,167.02m litres (before butterfat adjustment). This is 6.98m litres below milk output for November 2018. This is the second consecutive month that UK milk output has shown a year on year reduction. Cumulative UK production (April to end of November 2019) is now estimated at 10,011.15m litres. This means that cumulative production for 2019/20 is 131.22m litres higher than the cumulative total at the end of November last year. The UK average milk price for October 2019 is estimated at 29.35ppl (down 0.12ppl from the September 2019 average, 29.47ppl). The average milk price for October 2019 is 2.09ppl lower than the average price received during October 2018.



New Year milk prices for 2020

Price announcements for January 2020 include:

- First Milk – FM has confirmed a hold on the December milk price for January 2020 (see table below).
- Sainsbury's – members of Sainsbury's Dairy Development Group (SDDG) will receive a price reduction of 0.19ppl from 1st January 2020. Müller members of the group will see prices reduce from 30.94ppl to 30.75ppl, whilst Arla members will see prices reduce from 30.82ppl to 30.63ppl.
- Müller – from 1st January 2020 the Müller Direct Premium will rise from 0.50ppl to 1.00ppl. Although the milk price remains unchanged, the increase to the premium means that the liquid standard litre increases to 26.25ppl (see table above). The premium is currently payable to all Müller Direct members who are signed up to three herd health initiatives (Müller Direct Farm Insight Programme; Müller Direct Antibiotic Programme; and the National Johne's Management Plan). With the Müller Direct Premium increasing to 1.00ppl, the company has now introduced a new requirement for there to be no bull calf euthanasia on farm. As previously the case, the Direct Premium is accrued during the year and paid in January of the following year. Any supplier who has given notice to terminate milk supply does not qualify.

Annual Average milk price estimates for January 2020 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1]	26.50
First Milk Liquid [1, 2]	27.00
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	27.90
Müller - Müller Direct [1, 3]	26.25

1 Liquid 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 FM prices include 0.25ppl Member Premium. The member premium increases to 0.50ppl from April 2020.
3 No monthly supplementary payment included in the price estimate. Includes 1.00ppl Müller Direct Premium.

Review of 2019 & Outlook for 2020

If we are to remember 2019 for anything much, it's likely to be for one of two things. First, there was a complete turnaround from 2018 in terms of some massive first and second cut silage yields and, more generally, impressive grass growth throughout the season. Secondly, 2019 has also seen some milk buyers introduce contractual terms which will make it a breach of contract to euthanase dairy bull calves. Granted, this measure will enhance the public perception of dairy farming, but milk buyers must ensure that the cost of adopting alternative practice is fully rewarded.

After some price reductions at the end of the 2019 calendar year, UK milk prices appear to be stabilising. If UK production levels can be managed more effectively by some producers, stable milk prices should be maintained. However, as per this time last year, the UK is still in limbo with Brexit and this makes it impossible to give sensible predictions about milk prices at the present time. January 2020 will not deliver much needed clarity on our future trade arrangements with the EU but maybe January 2021 will!

UK dairy commodity prices (£/ tonne)	Nov 2019	Oct 2019	Jun 2019
Butter	3,180	3,170	3,240
SMP	2,130	2,040	1820
Bulk Cream	1,550	1,490	1,450
Mild Cheddar	2,830	2,830	2,830
UK milk price equivalents (ppl)	**Nov 2019**	**Oct 2019**	**Jun 2019**
AMPE (2014)	31.14	30.21	28.41
MCVE (2014)	30.20	30.09	30.37

Source: AHDB

Date for the Diary

Semex International Dairy Conference, 12th-14th January 2020, Radisson Blu Hotel, 301 Argyle Street Glasgow G2 8DL. Tel: 01292 671525.

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Global trends for 2020

Introduction

With a sense of déjà vu, the outlook for UK agriculture is still dominated by the ramifications of Brexit, and the knock-on effects with regards trading, not just with Europe, but also globally. The ADHB Agri Market Outlook November 2019 states that the uncertainty "could see UK Markets temporarily diverge from global trends", which coupled with uncertainty over future support funding for the Agricultural sector post 2020 means that all sectors of the industry including suppliers and processors need to know their strengths and weaknesses so that they can limit any threats as much as possible and capitalise on opportunities.

Global trading & currencies

Global trade tensions have continued to build between the United States and EU, China, Brazil, and Argentina with the proposed and imposed trade tariffs. The situation in the UK has been further muddied by the uncertainties surrounding Brexit and potential post Brexit deals.

The EU Short Term Outlook for EU Agricultural Markets 2019 and 2020 report highlights that further currency depreciation is expected in 2020-2021 for emerging currencies such as Argentina, Brazil and China. It suggests that as major net exporters of agricultural commodities Argentina and Brazil will increase in global competitiveness, while China (a net importer) is seeing depreciation of the yuan which could reduce demand for imports. While the EU GDP growth forecast of 1.3% & 1.0% in 2019 and 2020 respectively, is modest compared to the +2.1% US forecast; the forecast EU/USD exchange rate of 1.12 may favour EU exports.

World population & oil prices

The global population is expected to increase from ~ 7.6 billion in 2018 to 9.2 billion in 2040, with the majority of the 1.6 billion growth projected to come from developing countries, in particular, the Middle East & Africa. While the global working-age population (aged 15–64) remain relatively constant 65% ▸ 64%, urbanisation is expected to increase from 56% in 2018 to 64% in 2040, with implications meeting demands for both food and energy.

The EU Agricultural Outlook for Markets and Income report forecasts that oil prices will rise to $92/barrel by 2030 which, crudely, if you pardon the pun, equates to a rise of ~ $3/annum. However, the price of Brent crude has varied significantly over the past 12 months due to an attack on key crude oil infrastructure in Saudi Arabia which cut global supply by 5%; the prediction for 2020-2021 is a relatively stable oil price of $60-65/barrel.

Energy demand vs. carbon emissions

Following the 2015 Paris Agreement and the United Nations Climate Change Conference in December 2019, during 2020 the 193 participating countries will be required to submit new or updated Nationally-Determined Contributions (NDC) aimed at:

- reducing emissions by 45% by 2030;
- achieving carbon neutrality by 2030, and
- reducing the global temperature rise by the end of this century from 2 to 1.5 Celsius.

The World Meteorological Organisation (WMO) has announced that 2019 is likely to be the 3rd warmest year on record at ~1.1 Celsius above pre industrial levels, and following a record-breaking decade of global temperatures, sea levels and ice cap melt. This presents a huge global challenge, but opportunities for new technologies in; electrification, transport, agriculture & consumption.

Agricultural sector highlights

Cereals - Global grain production is expected to rise by 0.7% to reach 2.2 billion tonnes in 2019/2020. Wheat output is growing in all regions of the world, and barley output is expected to increase to 155 million t (+10%). However, adverse weather conditions, either at the time of sowing (in the US and Ukraine) or during the growing period (EU) is expected to reduce global maize production by 3%. The IGC predict that due to an accelerating rate of stock drawdown, led by maize; total grain supplies will tighten over the next five years.

The EU's cereal production recovered from last year's drop and should reach 312 million tonnes for 2019/2020, up 7.6% on 2018/19 total production. Exports, buoyed by increased demand worldwide and competitive prices, have increased by 13%. Akin to global production, only the EU maize crop was negatively affected by drought, with a 4% decline in production to 66.5 million tonnes but demand is expected to slow as EU grain availability for feed recovers. In the EU protein production was ~ 0.5% below average, with smaller crop area but higher yields, and a 43% increase in imports mainly due to demand for peas and lupins.

Largely due to a reduction in area planted and yields in the United States, global soya production is expected to be down by 20% in 2019/2020, with limited increase in demand due to African Swine Fever (ASF) in China.

Global trends for 2020

Global rapeseed production and area is down (particularly in Canada and the EU) and oilseed output is expected to fall 9% to 29.7 million t due adverse EU weather conditions.

Dairy - Global milk production is expected to grow by 1% in 2020 (AHDB) primarily led by the US, EU and Argentina, offsetting lower anticipated production in Australia following recent droughts. Demand for dairy products is expected to increase further at ~2.1% for fresh products and 1.5% for processed products, with prices remaining firm. Within the EU milk yield growth has slowed, with 2019 possibly only 0.5% higher than 2018; The UK and Ireland have seen growth (+2% and +8%) with countries further south seeing production fall. EU and UK demand has declined due to plant-based milk, but increasing with organic and 'differentiated milk'. For 2020, while cow numbers are expected to fall by a further 0.4%, milk yields are predicted to rise by 1.2%, with the expectation that the total EU milk collection will rise by a further 0.7%.

Cheese: While 2019 has seen a dramatic rise (+20%) in demand for cheese from China, it is not yet known what effect the US tariffs imposed on the majority of EU cheeses will have on demand (4% of the UK's total cheese exports). EU consumption remains relatively stable, but with further impact on UK trade in the implementation of tariffs. EU/UK producers will either have to somehow absorb the cost of the new tariffs to remain competitive in existing markets or develop new lower cost/higher value/niche products or seek new markets.

Whey: China's whey imports have fallen since the prevalence of ASF, following a rise of 8% Jan-July from the same period last year, resulting in little annual change in exports.

Butter: For 2019 increased availability of milk fat and +2.5% growth in EU butter production is anticipated, and EU exports have become more competitive (+10%) due to the convergence of butter prices in the EU and Oceania. Domestically, higher butter prices last year lead to some food business replacing butter with vegetable fat thereby reducing domestic use predictions to 1% for 2020..

Milk powder: Over the past year, due to strong demand and lower production, coupled with a 28% uplift in exports, EU Skimmed Milk Powder (SMP) prices have risen steadily from €1,552/t in October 2018 to €2,320 in October 2019. This has had a positive knock-on effect on Whole Milk Prices (WMP) as despite increased availability due to a 16% reduction in exports, prices have risen.

Meat - Global growth in demand for animal protein in the next decade is projected to slow, with per capita consumption projected to increase to 35.1 kg, retail weight equivalent (r.w.e.) by 2028, or just 1.2% up from 2016-2018. The EU has seen a decline of 0.5% during 2019. Meat production is predicted to rise 13%, with the majority from increased poultry production in developing countries. While in real terms, price rises are expected in all meat sectors over the next decade, in nominal terms, only modest price increases are forecast given demand for meat expected to slow.

EU gross beef production is expected to decline by 0.9% in 2019, and by a further 0.7% in 2020, linked to reduced suckler cow numbers in the main producing member states. While EU beef exports are expected to rise by 8% and 5% in 2019 and 2020 respectively, imports are expected to decline by 3% due to countries such as Uruguay diverting their produce to Asia as markets start to recover from ASF. However, as the EU's access to China is more limited and has one of the highest farmgate beef prices in the world, beef prices are likely to be under pressure in 2020.

During 2019, EU sheep and goat meat production is expected to increase by 1%, though UK production is expected to decline by 1% in 2020, partly due to more female lambs being slaughtered rather than kept for replacement in anticipation of possible trade difficulties due to Brexit. Due to oversupply and a weak pound, UK heavy lamb prices reached a 4 year low in July-September.

EU sheepmeat exports are expected to rise by 11% in 2019 then slow to 2% in 2020, and live sheep exports, mainly to the Middle East, rise by 20%. EU imports are expected to fall by 16% by the end of 2019, and to fall by a further 6% in 2020. While Brexit may have significant impact on the industry, surging demand in the Middle East and China may improve the trade balance.

EU Pig meat production is expected to rise by 0.4% in 2019 and then by 1.5% in 2020, largely in response to the continued increase in demand from China due to the spread of ASF, with EU exports predicated to rise by 20% during 2019, and a further 13% in 2020, with prices remaining strong .

During 2019, EU poultry production has increased by 2.5% and predicted +2% in 2020 in response to rising EU demand (+0.5kg per capita) and an expected 4.5% increase in exports linked to a strong world demand, with consumers switching to poultry in response to higher pigmeat prices.

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Election - Quick Take

Parliamentary deadlock broken – what next? The Conservatives have gained a commanding Commons majority and will be able to get approval for just about anything they wish. This means that things will start to move quickly on; exiting the EU (expected by 31st January 2020), in negotiating longer term trade deals with the EU and others and in domestic policy reforms. Whether these changes will be good or bad for agriculture and sectors within it, remains to be seen, but happen they will.

Agricultural support – relative stability until 2024 The Conservatives have pledged to keep the overall envelope of agricultural payments at current levels until 2024. In Scotland Basic Payments will continue in 2020, followed by a transition period from 2021-2024 involving a continuation of direct support with some simplifications and piloting of new approaches. Convergence money will help offset otherwise potential declines in LFASS payments. Potentially this gives farm businesses a decent 5 year period of support in which to review their businesses, plan for and implement structural changes. The trouble is even if support is relatively stable; market conditions in some sectors may change dramatically. Access to existing export markets such as lamb to the EU could be at risk while protection from global imports could be drastically reduced or removed all-together (as the UK's tariff schedule indicates). My plea to farm businesses would be please don't wait until year 4 or 5 to start the review process!

Labour Many UK businesses such as soft fruit, vegetables, meat processing and others had been facing difficulties in recruiting EU citizens before the election, this problem will only be exacerbated by the emphatic Conservative win. With the possibility of a second EU referendum gone EU nationals hesitating over their future in the UK will have little reason to stay beyond immediate issues such as jobs, money, and schools. The UK government have indicated an increase in the SAWS seasonal workers scheme for EU nationals from 2,500 to 10,000 workers per year but this remain woefully inadequate against a demand for over 70,000 seasonal workers in food and agriculture and the much larger pool of permanent EU staff.

Trade – non EU Presuming we leave the EU on 31st January trading relationships with many non-EU countries will change overnight as we will no longer be party to EU third party bilateral deals such as those with Canada. While the UK has re-negotiated some of these agreements with individual countries many remain to be concluded. This issue is of most significance to certain sectors dependent on non-EU trade such as seed potatoes. For seed potatoes the good news is that the majority (but not all) UK exports to non-EU markets will have taken place by 31st January and this should leave around 8 months for new arrangements to be in place before the new season exports resume in October 2020. However, unforeseen difficulties may arise in both seed potatoes and other sectors due to this change.

Trade – EU The biggy. Boris Johnson is planning to make it illegal for the UK to extend the transition period beyond 2020 – this is either genius or insanity; only time will tell. Will it force the EU to up the pace and agree to accommodate our demands or will it force the UK to soften its planned departure from EU standards? Again nobody can tell but what is certain is this plan leaves very little margin for error in what will be hugely complex negotiations, and if they fail, No Deal beckons with all the risks and uncertainties this implies for the food and agriculture sector.

Key economic data

General Indicators		Price indices for October 2019 (Defra 2010 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.75% (0.50% Aug '18)	Wheat	112.19	Seeds (all)	103.7
		Barley	108.57	Energy	123.4
ECB interest rate	0.00% (0.00% Sep '18)	Oats	106.04	Fertiliser	102.1
UK (CPI) inflation rate	1.5% (target 2%)	Potatoes	99.53	Agro-chemicals (all)	118.9
		Cattle and Calves	92.05	Feedstuffs	110.6
UK GDP growth rate	0.3% (Q3 '19)	Pigs	120.57	Machinery R&M	109.5
		Sheep and Lambs	96.76	Building R&M	112.0
FTSE 100	7,552 (19 Dec '19)	Milk	119.83	Veterinary services	115.3

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