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January 2021

# News in brief

## Optimism amongst the uncertainty

And still we wait to find out whether there will be a Deal or not between the EU and the UK. On the bright-side; presumably the negotiators would not still be talking at this late stage if they really didn't want a deal?

Either way, in less than two weeks, Deal or No Deal, the UK will be out with the EU single market and customs union; this alone brings a level of paper-work for importing and exporting goods we have not seen for decades.

On the plus side, in many global markets we are seeing signs of positivity and growth; how well we will be able to harness these opportunities with our new-found global freedom remains to be seen.

The ramifications of 2020's unprecedented CV19 pandemic and resulting economic fall-out will affect agricultural sectors in the months ahead as well as the accompanying debt that will be with us for generations to come.

This edition examines the prospects for the main sectors in the year ahead no mean feat given that the authors along with everyone else still didn't know if there will be a UK-EU deal or not at the time of writing. One thing is now certain; the UK will be completely out of the EU from 1 January 2021.

The UK's new trading arrangements will create difficulties for many and opportunities for others. What we have seen is individual businesses rising to the challenges of Covid19; farm retailers growing online deliveries, novel ways of working and using digital technology to keep everyone safe and changing production to meet unexpected shifts in demand. We all hope that 2021 heralds a gradual return to some form of normality on the public health front, even while it threatens to add a new layer of difficulty as new trading arrangements come into play. However, if the industry shows the same spirit of innovation and collaboration it has done in 2020 there will be opportunities for those who continue to meet societies demands for; safe, healthy, affordable and sustainable food. Seasons greetings everyone.

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Julian Bell & Anna Sellars

Merry Christmas
& Happy New Year
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The European Agricultural Fund for Rural Development
Europe investing in rural areas

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## Policy Brief in 2020…

CAP scheme updates, future support, Agricultural Bill, agricultural surveys, cross compliance statistics and climate change were some of the topics featured in the *Policy Brief* section in 2020. Below is a review of some of these areas.

**CAP simplification**

Recommendations made by the Simplification Taskforce focused on improvements to the current system of administering CAP payments and simplifying regulatory requirements. Some of the key recommendations included the introduction of a new Land Parcel Identification System (LPIS) tool, mapping stability during the Single Application Form (SAF) window, a review of financial penalties and of capital grant scheme standard costs. During 2020 the Scottish Government started implementing some of the recommendations, including those on improving mapping and announcing that they would review penalties and, in some situations, would issue warning letters to first time breaches opposed to imposing financial penalties.

**Greening**

Crop diversification was removed for 2020 and will continue to no longer be a greening requirement in 2021 and beyond. Where applicable farmers still had to comply with the permanent grassland and Ecological Focus Area (EFA) requirements. Although EFA are to be retained in the short term, they will be considered as part of a wider review of greening to ensure they play a part in helping farmers deliver action on climate change and the environment which better meet Scotland's needs.

**Funding and loan schemes**

Convergence payments. The first tranche (£90 million) of the convergence uplift was paid in March and was used to top-up the Basic Payment Scheme (BPS) rate and the voluntary coupled support schemes.

Sustainable Agriculture Capital Grant Scheme. In the autumn, a pilot grant scheme was available to allow farmers and crofters to purchase specific items of agricultural equipment that were deemed to be effective in reducing greenhouse gas and supporting sustainable farming. Letters with grant offers worth almost £18 million were sent to over 3,500 eligible applicants.

NLFASS19 and NLBPS20. Two loan schemes were once again made available by the Scottish Government. The first one was launched at the start of the year to help support farmers and crofters in fragile areas who were waiting on their 2019 LFASS payment. This loan was for up to 95% of a farm business's anticipated 2019 payment. The second was launched in the summer and allowed eligible businesses to receive 95% of their anticipated Basic Payment Scheme and Greening payments for 2020.

The additional funding and loans were welcomed by the industry.

**Farm Business Surveys and Agricultural Census**

Each year Farm Business Income figures and census data is published by the Scottish Government. Figures from the most recent income survey showed that average farm income had risen to £38.6k, which was a seven-year high. However, as has previously been well documented, is the reliance of most farm businesses on subsidies. Unless market prices considerably increase, the reliance on subsidies by some sectors is unlikely to change.

Published June 2020 Agricultural Census data also highlighted how weather and profitability impacts on the crops grown and livestock numbers. Low profitability of beef has contributed to a decline in beef cow numbers; while lamb numbers recovered in 2020 breeding ewe numbers had contracted again. Extreme weather conditions in the autumn and winter resulted in a sharp fall in winter sown crops and an increase in spring sown crops.

## What will this year bring?

The Scottish Government has introduced legislation that will keep farm support approaches broadly the same until 2024 i.e. during their transition period. Within this period, they have and will continue to make simplifications and improvements and operate pilot schemes.

In the recent spending review, it was also indicated that the 'total spent' on farm support in 2021-2022 will be the same as the spend in 2019. Further to this the Scottish Government also announced that they will retain the Less Favoured Area Support Scheme (LFASS) from 2021 to 2024 and the payment rates for each future scheme year will be fixed at the 2018 rate. The remaining £70 million convergence money is also due to be paid by the end of March 2021.

These announcements offer some reassurance for the year ahead which is especially important with the uncertainty of post Brexit trade.

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# Cerealsand Oilseeds

## 2020 poor UK harvest, prices up, CV19

Like many sectors, the CV19 pandemic has affected grain markets, but perhaps less than first feared. The greatest threat has been to the malting and distilling sectors with the closure of bars, restaurants and distilleries. Malting barley use continues to run well below last year's levels.

On a global basis, harvest 2020 was a record yet stocks-to-use ratios fell further. According to USDA in 2020 world grain output rose 45mt to 2,221mt of which; wheat output +9mt (+1%) to a record 774mt, coarse grains output +36.4mt (+2.6%) to 1,447.8mt. World grain demand rose 43.6mt. While world grain stocks rose 4.7mt, stocks-to-use ratio fell by just over 1 day to 104.5 days' use; the lowest in 6 years. This hides the fact that stock-to-use ratios for feed grain stocks are the lowest in 7 years while wheat stocks are the highest on record.

COCERAL estimates the 2020 harvested grain crop in the EU+UK at 295.7mt, down 5.35% from the 312.4mt produced in 2019 and projects its first forecast for the 2021 crop to rise to 307.4mt.

In the UK, following the atrociously wet autumn and reduced sowings, the 2020 wheat harvest fell 38% from the year before to 10.1mt; the lowest since 1981! UK barley output rose 4% to 8.4mt on the back of higher spring barley sowings, but mediocre yields. The net result is that UK wheat prices are being supported by the cost of imports while barley is having to compete with lower export prices. In Scotland 2020 cereal output was pretty stable +1% at 3.1mt, masking a 14% fall in the wheat crop and a 15% rise in spring barley output. With distilling demand weaker, Scottish wheat is now trading at a discount to the deficit English market while feed barley prices are on a par with England. Malting barley prices in Scotland were hammered by a combination of a sharp rise in output, relatively good quality and higher stocks/weaker distilling demand. A small malting premium around harvest of £5-£10/t evaporated as the harvest progressed.

**Historic and future grain price summary**

| Sale period | Hvst '19 | Hvst '20 | | | Hvst '21 |
|---|---|---|---|---|---|
| Date priced | Dec-19 | Dec-20 | *Change* | | Nov-20 |
| | *(£/t)* | *(£/t)* | *(£/t)* | *(%)* | *(£/t)* |
| Wheat | 142 | 184 | *+42* | *+30%* | 155 |
| Feed barley | 118 | 141 | *+23* | *+20%* | 125 |
| Malt. barley* | 150 | 156 | *+6* | *+4%* | 165 |
| OSR # | 318 | 370 | *+52* | *+16%* | 345 |

Source: AHDB/SACC, Ex-farm Scot, * season av. Assuming 50% sold £20/futures pre harvest. #del.

## 2021 – better winter sowings, Brexit

With global grain stocks-to-use tightening a little in 2020, the market will continue to closely monitor weather around the world. There are some problems emerging; particularly in Russia and Ukraine where drought has hampered winter sowing and establishment and in South America where more dry conditions threaten crops there. On the other hand Australia is seeing a bumper harvest.

Within the UK, the initial AHDB early-bird survey sees 2020 winter cereal sowings rebound; wheat +38%, winter barley +24 but lower rapeseed -18% spring barley -30% and fallow -30%. The picture is not as extreme in Scotland though more winter crops are expected. Farmer dismay at the low malting barley premiums may curb spring barley sowings; though land remains to be sown aided by the removal of the 3 crops rule.

Brexit uncertainty continues. If there is no-deal in the short term this could be negative for UK barley exports and prices but relatively positive for UK wheat prices. For the 2021 harvest; the UK is likely to be a net wheat exporter so any trade barriers could be more significant for wheat. Trade issues remain a concern not least the US's tariff imposition on Scotch malt whisky which has hit US exports.

Global cereal S&D: **+£** Maize stock tight, weather issues in major producers. **-£** Wheat stock v. high, economic crisis hitting energy/biofuel values.

UK cereal S&D: **+£** UK a net wheat and cereal importer in 2020, Barley surplus to fall in 2021.

**-£** UK 2021 wheat harvest to rebound, exports required. UK a large barley exporter in 2020.

Whisky: **-£** high barley stocks, new high yielding spr. Barley varieties and end of 3 crops rule, US Tariffs hit nearby demand for malting barley. **+£** Strong future growth potential for whisky sales, new Scottish malting capacity expected in 2021.

Brexit and trade: **-£** Risk of a No-Deal with EU, UK Tariff Schedule 0% Tariff on Maize – lowers cost of bringing in world's dominant feed grain.

**+£** UK Tariff Schedule - strong protection (for now) for wheat, barley and livestock products. New US President - mini-deal could lift US Scotch tariff.

- Buying today's inputs by selling grain today helps cover costs.
- UK wheat returning to a net wheat exporter in 2021, large barley surplus likely.
- Malting barley supply in Scotland ahead of demand – will the whisky sector recover?

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## What a difference a year makes…..

This time last year, producers were looking at their beef enterprises wondering how they could possibly make ends meet with consistently low prices and inflated input prices. The same trend continued until the early Spring when we were hit by a sudden and sustained economic shock in the form of Covid-19. While many beef farmers had been hoping and praying for something to change, I'm sure none would have wished for a global pandemic. However, the changes that resulted from the Covid lockdown have undoubtedly brought some positives to the beef sector.

At the start of the year, supply of cattle was strong, and demand was subdued, with prices languishing in the 330p/kg DW bracket, far below the cost of production for most producers. The arrival of Covid and lockdown brought further uncertainty to already uncertain marketplace. The price immediately fell as lockdown was announced as the hospitality sector disappeared over night, demand for high value cuts dropped like a stone. However, in the weeks and months that followed, we saw a massive change in consumer attitude, panic buying took place in all retail outlets across the country, good weather stimulated BBQ demand, particularly as people were confined to their homes and people working from home meant they had more time on their hands, so started cooking from fresh ingredients rather than ready meals. Consumers also tended to favour Scottish beef over imported product, where they would normally buy ready meals made from imported product. A very interesting change. We also saw a marked increase in sales at local butcher shops, something that is great to see for local high streets, long may it continue.

Over the first 3 months of lockdown, prices improved, with June being a particularly good month, seeing the price rise to the top side of 390p/kg DW, where it has remained ever since. This gave finishers a good return on their cattle, meaning that they paid more for their store cattle. This in turn stimulated confidence in breeding cattle as well, all classes of stock have sold to advantage this year.

## What next for Brexit and beef?

The media have been very focused on Covid this year. The majority of Parliament time has been devoted to dealing with the pandemic, with Brexit being placed well and truly on the back burner through the Spring and Summer. The general public could be forgiven for thinking that Brexit had also been placed on furlough. However, trade talks have been ongoing, with much political posturing going around on both sides. At the time of writing, it is still unclear whether a deal will be achieved, or whether the hard Brexit that some wanted and many feared will be upon us.

Given the level of economic uncertainty at present one is inclined to think that a deal will be struck to try and soften the economic blow on both sides of the English Channel (and Irish sea for that matter). However, until a deal is signed and voted through in London and Brussels, all bets are off. Remember that if a single EU member state votes against the deal, it is vetoed and will fall. Hopefully if a mutually favourable deal is struck then all stakeholders will vote it through.

We know a hard Brexit could be catastrophic for sheep producers in the UK, the situation is slightly different for beef. As a net importer of beef, tariff barriers would make it harder to get beef into the country, pushing the price of beef up in the UK. However, this would only be short term as the government would certainly look instruments like tariff rate quotas to ensure some beef could be imported, whether this be from Ireland, South America or Australia, beef will be sourced and while the outlook is fairly positive for beef, any thoughts of a long term bonanza for beef are unlikely to come to fruition.

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| '000 tonnes | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Production | 882 | 912 | 895 | 890 | 904 | **872** | **847** |
| Imports | 430 | 426 | 443 | 451 | 367 | **369** | **427** |
| Exports | 132 | 143 | 140 | 147 | 167 | **171** | **171** |
| Consumption | 1,181 | 1,150 | 1,198 | 1,193 | 1,104 | **1,070** | **1,103** |
| UK suckler cows ('000 hd) | 1,576 | 1,596 | 1,589 | 1,558 | 1,527 | 1,512 | |
| Scottish suckler herd ('000 hd) | 437 | 437 | 432 | 428 | 417 | 414 | |
| UK dairy cows ('000 hd) | 1,895 | 1,897 | 1,891 | 1,883 | 1,871 | 1,851 | |
| Scottish dairy females +2yrs ('000 hd) | 223 | 217 | 216 | 214 | 210 | 204 | |

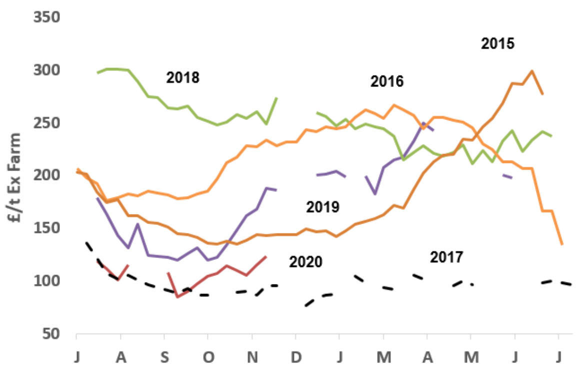
Source :Defra, SG (revised to BCMS data), AHDB, Estimates and forecasts in bold. All figures subject to revision

## Market price update

- *The latest GB Weekly Average Price reported on week ending 5th December was £154.11/t up £6.02/t on the previous week.*
- *The latest GB Weekly Average Free-Buy price reported on week ending 5th December was £123.08/t up £7.90/t on the previous week.*

| Crop Year 2018/19 | 5 Dec | 28 Nov | 21 Nov |
|---|---|---|---|
| Average Price (£/t) | 154.11 | 148.09 | 147.07 |
| AVP change on week (£/t) | +6.02 | +1.02 | +1.21 |
| Free-Buy Price (£/t) | 123.08 | 115.18 | 105.67 |
| FBP change on week(£/t) | +7.90 | +9.51 | -4.33 |

**GB Weekly Average Free-Buy Price (2015-2020 crop years)**




Trading Season July - July Source: AHDB

## SACAPP Virtual Conference 2021

This year we have all had to learn the art of video conferencing, using Zoom, Microsoft Teams, and various other platforms to interact with friends, colleagues, and collaborators. While some of us continue to work on our online “etiquette” I think we can all agree that this technology brings huge benefits and flexibility when attending webinars, conferences, and virtual meetings. The **SACAPP Conference** will take place virtually on **27th and 28th January 2021.**

This year’s conference will be held **over 2 days, 14:30-18:00** and will have a strong international focus covering topics which promote a vibrant and sustainable potato sector post-2020. There will be thought-provoking presentations with some good “take-home” technical messages. Joining instructions will be emailed to all members in the New Year. If you have any questions please contact Janis Forrest janis.forrest@sac.co.uk or a member of the SAC Consulting Potato team.

## Packing market likely to stay strong in 2021

Let’s face it, 2020 has been a challenging year for all of us and one we will remember for many years to come. With a vaccine now being rolled out across the UK there is optimism in the air that we could return to something like normal in 2021.

The word ‘uncertainty’ would be the best way to describe the outlook beyond 2020. At the time of writing this article we still don’t know whether the UK will reach a deal or not with the EU. With less than 3 weeks to go, the potato sector is still unclear whether exports to EU and perhaps non-EU countries will be possible or not next year.

Covid-19 has had a big impact on all markets this year but particularly those that supply the foodservice sector. Due to lockdown and ‘tier’ restrictions, the majority of ‘out of home’ dining businesses have been forced to close or operate at reduced capacity. This is likely to continue well into next summer as the NHS vaccination programme may take a few months to progress, and there is still some work to do to build confidence among the UK population when eating out. It is hoped that by summer 2021 businesses will be able to re-open and public desire to take a ‘staycation’ will boost demand and prices in the UK processing sector. With the population largely working from home there has been a big rise in packing demand which is very likely to continue in 2021. The majority of the Scottish potato crop is grown for the packing sector so many growers have been somewhat shielded by the impact on the processing market in the south.

At this time in the season many growers will be considering acreages to grow next year. In 2020, the total planted area in GB was 117,500 ha, a 2.3% drop in area planted compared to last year and the third smallest on record behind 2015 and 2016. Despite a fall in planted area, potato production is estimated to have risen 4.1% (210Kt) to 5.37Mt; in line with the 5-yr average 2015-2019.

With uncertainty around demand and end markets next season we may see a further reduction in planted area this coming spring. It is anticipated that contracts will be popular among growers looking for increased security next season. Last year 71% of the area grown in the packing sector was on contract; this figure is likely to rise in 2021.

Whilst we can’t look into our crystal ball and predict what the next few months will bring, there is still plenty to look forward to in 2021. Scottish farmers are resilient and will bounce back regardless of what happens with Brexit and Covid-19. This Christmas enjoy some time off, spend quality time with your family, reach out and speak to someone you haven’t spoken to in a while, and remember those roast tatties on Christmas day!

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## Looking back over 2020

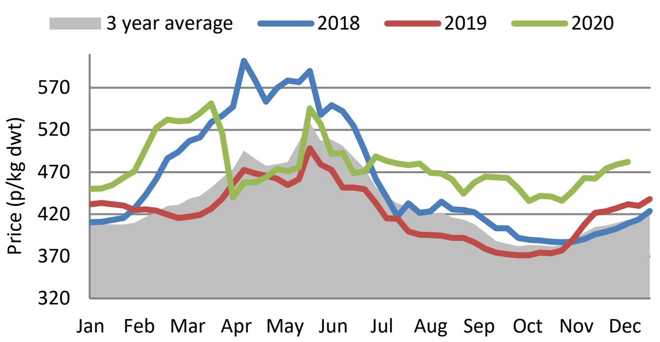
We had all the makings of a great year from the start: strong export demand, low New Zealand imports and reduced lamb supply. This outlook served well with excellent hogg and cull ewe trade until March. COVID-19 did its best to disrupt the supply chain and suppress demand. However, new season lamb bounced back well. Preparation for Ramadan coupled with low throughput into April led to a great start to the new season.

Over 2020, total lambs slaughtered is estimated to be down 4% and ewe slaughtered will be down 9%, compared with 2019 (AHDB projections). While numbers slaughtered were down during the first two quarters of the year, during the third quarter, they caught up (over 6% higher on the year). This is likely a consequence of producers weighing up Brexit uncertainty, favourable price and the need to offload lambs.

The reduction of the flock in recent years has seen a tightening of supply of cull ewes, resulting in good cull ewe trade. Whilst some have offloaded lambs, strong store lamb and breeding stock demand suggest that Brexit is not curtailing 2021 plans for all. In a normal year, a shortage of hogget lamb would be expected early 2021.

Much of New Zealand suffered with severe drought during 2020, resulting in 1.5% smaller lamb crop than 2019 and further reduction in their sheep flock (2.3% lower on the year). Despite lower retail and food service demand, French prices were exceptional towards the end of the year (£6.42/kg week ending 29 November), likely driven by tightened supply. Our relatively weak pound (91p/€ as of 23/07/2020) put us in a strong position to assist with their supply but all hinges on the Brexit negotiations.

**GB SQQ finished lamb price**




Source: AHDB

## What's in for the year ahead?

At time of writing, (December 18th), a Brexit deal is still a possibility. Unfortunately, I am in no position to comment further on this issue and neither is anyone else! However, with a deal, prospects for sheep in 2021 mightn't be too stark as supply across the globe is tight and demand from developing countries is growing.

With lower imports from New Zealand predicted and fewer lambs carried over into 2021, processors will be chasing lambs for Easter. Ramadan concludes in mid-May, therefore demand for culls, hoggs and new season lamb should be decent. It all hinges on these next two weeks, time will tell.

| Key Festivals 2021 | |
|---|---|
| 11th March | Lailat al Miraj |
| 4th April | Easter Sunday |
| 12th April | (start of) Ramadan |
| 11th May | Eid-al-Fitr (end of Ramadan) |
| 19th July | Eid-al-Adha |
| 9th August | Hijra (Islamic New Year) |
| 18th August | Day of Ashura |

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**UK market situation and outlook**

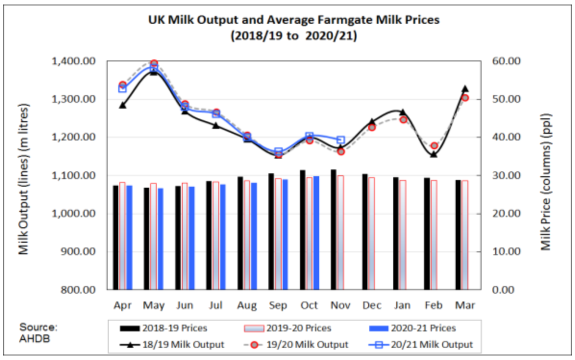
| '000 tonnes | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Production | 302 | 287 | 302 | 289 | 308 | **287** | **280** |
| Imports | 109 | 109 | 91 | 92 | 74 | **62** | **60** |
| Exports | 95 | 82 | 93 | 87 | 98 | **83** | **76** |
| Consumption | 316 | 314 | 301 | 293 | 284 | **266** | **264** |
| UK breeding flock ('000 hd) | 16,024 | 16,304 | 16,669 | 16,286 | 16,035 | 15,784 | |
| UK ewes for first time breeding | na | na | 2,907 | 2,714 | 2,595 | 2,578 | |
| Scottish ewe flock ('000 hd) | 2,588 | 2,618 | 2,661 | 2,552 | 2,568 | 2,544 | |
| Scottish sheep 1 yr for breeding | 697 | 698 | 671 | 632 | 589 | 612 | |

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

## Substantial output increase in Nov'20

- *UK milk production for November 2020 showed a large increase over November last year.*
- *The net effect of this is that the UK has now produced 6.47m litres more than last year on a cumulative basis up until the end of November.*

UK monthly milk output for November 2020 is estimated at 1,193.73m litres (before butterfat adjustment). This is 30.37m litres higher than November 2019 output when UK production for the month stood at 1,163.36m litres. Cumulative UK milk production for 2020/21 now stands at 10,013.29m litres (before butterfat adjustment). This is 6.47m litres higher than at the end of November 2019.




The UK average milk price for October 2020 is estimated at 29.78ppl. This is up 0.38ppl on the average price received during October 2019.

## Farmgate prices - January 2021

Price announcements for January 2021 include:

- Arla Foods amba – Arla is to maintain its member milk prices from December 2020 into January 2021. The manufacturing standard litre price remains at 30.66ppl whilst the liquid standard litre price remains at 29.52ppl.
- Arla's organic milk prices also hold going into the New Year. The organic manufacturing price holds at 39.02ppl and the organic liquid standard litre holds at 37.56ppl.
- Arla Direct suppliers received a 1.00ppl price increase from 1st December 2020. This takes the liquid standard litre price up from 26.00ppl to 27.00ppl. The manufacturing standard litre increases 1.05ppl from 27.08ppl to 28.13ppl.
- First Milk – has announced a 0.25ppl price increase from 1st January 2021. This takes the liquid standard litre price up to 28.00ppl whilst the manufacturing standard litre increases to 28.93ppl.
- Müller Direct – Müller will hold December 2020 prices for non-aligned suppliers going into January 2021 - see table below. Müller Direct suppliers will receive 0.47ppl retail supplement for November 2020 (conventional) milk supplies.
- Sainsbury's – Sainsbury's aligned suppliers who supply via the Sainsbury's Dairy Development Group (SDDG) will receive a 0.27ppl price increase from 1st January 2021. This takes the liquid standard litre price up to 31.12ppl for Müller suppliers, while Arla suppliers will receive 31.00ppl.

| Annual Average milk price estimates for January 2021 (ppl) | |
|---|---|
| **Milk Buyers – Scotland** | **Standard Ltr*** |
| Lactalis (No profile or seasonality) [1] | 27.75 |
| First Milk Liquid [1, 2] | 28.00 |
| First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2] | 28.93 |
| Müller - Müller Direct - Scotland [1, 3] | 27.00 |

*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 The FM member premium is set to remain at 0.50ppl from April 2021.*

*3 No monthly supplementary payment included in the price estimate. Includes 1.00ppl Müller Direct Premium and additional 0.25ppl haulage charge for Scottish suppliers.*

## Müller Advantage to launch Jan 2021

Müller has announced the launch of its new programme (Müller Advantage) in January 2021. The programme, which is available for Müller Direct members, will reward farmers with a 1.00ppl bonus if they successfully meet targets for reducing antibiotic usage, sourcing sustainable feeds, reduce power and water usage, and improve farm biodiversity.

## Review of 2020 & Outlook for 2021

2020 is a year that most of us will remember for a long time to come and it's probably fair to say that it will be remembered for all the wrong reasons; further delays to Brexit, COVID-19 (be it impact upon our businesses or upon our families). The dairy sector did not go unscathed; farmers who supply milk buyers which, in turn, supply milk to the food service sector were subject to some of the largest reductions to milk price during the first national lockdown (spring 2020) as consumer demand from this sector of the market almost vanished overnight. One would hope that 2021 can only be better but right now we still do not know what the fallout from the Brexit trade talks will be. Will the UK be trading under WTO rules or will an EU deal be done? If a trade deal can be agreed with the EU it would certainly help to address the concerns from some quarters that we may face reduced availability of certain food ingredients from the continent but let's hope that there's no compulsion to sell out in order to achieve it!

| UK milk price equivalents (ppl) | Nov 2020 | Oct 2020 | May 2020 |
|---|---|---|---|
| AMPE (2020) * | 29.15 | 29.75 | 24.86 |
| MCVE (2020) * | 31.55 | 31.64 | 30.09 |

** AHDB have recently launched AMPE (2020) and MCVE (2020) which contain revised weightings. From October 2020 ABN will publish AMPE (2020) and MCVE (2020).*

*Source: AHDB*

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# Global trends for 2021

## Introduction

With the ongoing pandemic, resultant changes in consumer behaviour, the increasingly unpredictable weather, and decisions still to be made with regards Brexit, life for the soothsayers has never been more challenging….

## Coronavirus

The WTO has reported a marked slowdown in the number of trade-restrictive and trade-facilitating measures adopted by WTO members on goods traded over the past year, with an overall sharp decline in global trade since the COVID-19 outbreak. Open and predictable markets have been critical to ensure food can move to where it is needed. However, the extent to which countries and economies start to recover during 2021 will not simply hinge on the rollout of ground-breaking vaccines; recovery will be largely determined by each country's collective ability with regards overall governance, healthcare, and social protection.

## Oil Prices

While the EU Agricultural Outlook for Markets and Income 2018-2030 report predicted that oil prices for 2020-2021 would be relatively stable at $60-$65/barrel; in reality, Brent Crude slipped below $55 by the start of February, then plummeted to $19/barrel on the 21st April when Covid lockdowns forced industries and airlines to close. Although news of vaccine approval in the US prompted prices to rise to over $50/barrel on the 10th December, confidence within the oil sector remains low with regards vaccines timescales, and the knock on effects with regards consumer behaviour and the travel industry, resulting in OPEC dialling back planned additional production in January 2021 by from 1 million barrels a day to 0.5 million barrels a day in order to protect prices.

## Currencies & GDP

It is not possible to predict how Sterling will fare against global currencies in 2021 as at the time of writing as Brexit negotiations are ongoing. While in the autumn, HIS Markit predicted the USD/EU exchange rate to fall from a March 2020 high of $1:0.93€ to $1:0.84€ by the start of 2021, exchange rates by mid-December had already fallen to $1:0.82€, negatively impacting on EU competitivity in world markets. The European Commission expects the real EU GDP to decline by 8.3% in 2020 but to rebound by 5.8% in 2021 on the basis of no major second wave Covid infections, vaccines being widely available by the end of 2021, confinement measures being gradually lifted and continual physical distancing; revised to 0.5% if 'severe' pandemic condition continue in 2021.

## World Population & Global Trading

Before Covid, as the world population was predicted to rise by 1.6 billion over the next 20 years to ~9.2billion, global food systems were already facing a formidable "triple challenge" of : providing nutrition and food security to a growing population; ensuring the livelihoods of millions of people working all along the food chain; and ensuring the environmental sustainability of the sector and climate change mitigation. Recent OECD work on food systems highlighted "The importance of policies and approaches to address dramatic short-term shocks and enhance long-term resilience, and that global food systems rather than domestic self-sufficiency will be more effective". However, to achieve this on a global scale, a more level playing field is needed as continuing with high levels of agricultural protection in some countries will make it harder for supply shocks in one country to be compensated by production in others.

## Global Warming

Despite developing La Niña conditions, WHO has reported that the global mean temperature in 2020 is on course to be one of the three warmest on record, making the past six years likely to be the six warmest years on record.

## Agricultural Sector Highs and Lows

**Cereals:** Global cereal production in 2020 is expected to reach a record high of 2,742 million tonnes (MT), 1.3% above 2019. Global wheat production is forecast at a new record of 761.7 MT boosted by bumper harvests in Russia, Canada, and Australia. Global cereal utilisation in 2020/21 is predicted to be a record 2,744 MT, up 1.9 % on 2019/20 due partly to higher feed use of maize and sorghum in China, and a rise in the production of maize-based ethanol in Brazil & the US.

Following a 9.4% increase in EU cereal production in 2019/20, the EU's Autumn 2020 Short Term Outlook highlights that due to persistently dry conditions negatively affecting different stages of plant development, total EU Cereal production is estimated at 274.3 MT, (6.8% below last year). While cereals exports were up 54% in 2019/20, trade over the 2020/21 marketing year is expected to decline by 29%.

**Wheat:** At 757.6 million tonnes, global wheat utilisation in 2020/21 is expected to exceed the estimated level for 2019/20 by 1.1%, largely as a result of a foreseen increase in food use. The EU

2020/21 Soft Wheat production is estimated at 115.5 MT linked to reduced yields (-3.6%) and planted area at a 13 year low. Wheat exports are predicted to fall to 24mt (-11%). EU consumption is expected to decrease to 95.3 MT, mainly linked to smaller consumption in the feed industry (39.5mt, -2.5%).

**Barley:** While EU barley production is expected to be relatively stable at 55mt in 2020/21, winter barley production is expected to be down 12.5% on 2019/20, and spring barley production up by 13.9%.

**Protein Crops:** EU protein crops production down 0.9% in 2020 and consumption down 3.1%, but production expected to increase by 10% in 2021 to reach 4.5mt, imports to reduce by 11%, and consumption to increase by 5.1%.

**Oilseed:** EU oilseed production in 2019/20 was down 8.7% in 2019/20, production is expected to rally by 0.9% in 2020/21.

**Milk:** Despite the Covid related closure of the food service sector in Spring 2020 and mixed weather conditions, last year's prediction of EU milk collection growth increasing by 1.4 in 2020 % has held true, driven by an increase in the consumption of liquid milk (4%) and increase in milk yield (+1.6%). Cow numbers had expected to fall by 0.7% but only fell by 0.4% due to a delay in seasonal slaughtering.

**Cheese:** Global demand remains positive, with increased demand from Japan, Switzerland, South Korea, and Ukraine more than compensating for losses in the US market due to tariffs. In 2021, supported by an increase in production of 0.5%, EU exports are expected to grow by 3%, partly driven by recovered import demand in China. For the UK, Brexit could significantly impact on demand for UK cheeses, the extent to which is not yet known.

**Butter:** Despite an increase in EU butter prices, exports are expected to reach a record high in 2020 of 320,000t. In 2021, EU production is expected to grow by 1%, consumption by 0.4%, and exports by 5% as the food sector adjusts to the 'new normal'.

**Milk Powder:** With continuing strong demand for WMP, EU exports grew by 12% in 2020 by 12%, mainly due to a 53% increase in demand from Africa, resulting in a December 2020 price of $3,210. In 2021, availabilities worldwide and an increasing substitution of WMP by other powders are likely to reduce EU exports by 2%, resulting in a production decline of 0.5%.

With EU SMP exports in 2020 expected to reach 850,000t, prices rose to $2,930 in December 2020. Further growth (3%) is expected in 2021 driven by an increasing export demand (5%).

**Beef:** The USDA has forecast global beef production to lift to 61.5 MT carcase weight equivalent in 2021, an increase of 2% on 2020 levels. Brazil has been a key contributor to global production growth in recent years, and this trend is set to continue in 2021. Australian production is expected to decline for a second consecutive year as producers rebuild herds following the end of a multi-year drought. Chinese beef imports are forecast 4% higher at 2.9 million tons in 2021, another record high. EU beef production is expected to decline by 1.5% in 2021 linked to earlier slaughter in 2020 due to a shortage of fodder, a reduction in herd size in FR, DE, and IE, and an expected 1.2% reduction in consumption. Exports may fall by 4% in 2021 due limited domestic availability.

**Sheep & Goats:** Globally, sheepmeat prices are projected to remain high in the short term due to the knock-on effects of the Australian drought, lack of product availability in New Zealand due to competition for grassland and continuing strong import demand in China. In 2021, EU sheep and goat meat production is expected to increase by 1%, but consumption is expected to decline by 1.6%, and imports by 3%, linked to tight supplies.

**Pigs:** Global pig meat production is forecast to be 4% higher in 2021 due to primarily to rebounding output in countries affected by African swine fever (ASF), with production forecast to be +9% in China as producers aggressively rebuild their herds and take advantage of high hog prices. While EU Pig meat production is expected to fall by 1% in 2021, consumption is also expected to increase by 1%. While EU exports were up 15% in the first half of 2020 due to continued increase in demand from China and Vietnam, discovery of ASF in wild boar in Eastern Germany has resulted in trade restriction to China, South Korea, and Japan. This coupled with a degree of recovery of China's pig industry following its' own swine fever outbreak is expected to facilitate a sharp decline in EU exports from +2% in 2020 to -10% in 2021.

**Poultry:** Global poultry production is forecast to increase by 2% in 2021 to a record 102.9 mt. For 2021, EU poultry production is predicted to rise by 1% in response to continuing EU demand, although consumption is expected to slip from 1.5% in 2020 to 1.3% in 2021 linked to the ongoing effect of the pandemic on the food service sector. Exports are expected to rise by 1% in 2021, and imports by 6%.

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# Brexit Update

**'Narrow path' for Brexit deal and concern over backlogs at ports** At the time of writing (18th December) Johnson and Von Der Leyen continue in extended discussions in the hope to tread a 'narrow path' and reach and ratify a deal before the 31st December. So far, the deadlock has focused around sovereignty over UK governance, fisheries access and a 'level playing field' for UK-EU trade. Whether a deal is reached or not, significant disruption is expected; the agri-food sector should expect increased costs, regulations and paperwork at customs. Major ports have already been experiencing backlogs of shipments over the last few months, attributed both to Covid and retailer stockpiling in preparation for the 1st January, so we enter the new year on an already rocky footing. No deal will result in the loss of markets, greater delays and red tape, with trade following WTO tariffs and non-tariff import and export barriers from the 1st January.

**Outlook for trade deals and international markets** The last few months have seen new trade deals with Canada, Australia and Norway; Biden's presidential win also throws up a new set of priorities in a UK-US trade deal, including maintaining peace in Ireland and a different focus on environmental, human and animal welfare issues than the Trump administration. As a result, any trade deal with the US will likely now take much longer to negotiate, though less likely to push through a deal that forces the UK to drop food standards. Outcry from the farming industry against a vote in the Commons against leaving British food standards exposed post-Brexit, twice defeated in the House of Lords, may have raised attention to the issue, although experts warn there is still much room for interpretation of rules by ministers after we leave the EU. The Waitrose Food and Drink Report 2021 revealed 74% of people wanted more food business to express their support for UK producers and 61% worried there would be a rise in factory-farmed meat coming into the UK if standards were not safeguarded.

**Ag support across UK to diverge; environment and net-zero hot topics** In a recent Farmers Weekly survey farmers' top concern for 2021 was government policy, followed by market conditions, including uncertainty around both Brexit and the ongoing impacts of Covid-19 on the economy and rural areas. The UK Agricultural Bill was finalised in November, setting out the transition from direct subsidy in England to future payments; as of 2021 England and Scotland will begin to diverge with support payments, with Scotland given BPS substitute until 2024, but English farmers warned to prepare for a new system tied to environmental and public goods compliance.

The new ambitious UK climate targets of 68% by 2030 suggests that 2012 will be a year of increased attention of the environmental impacts and benefits of agriculture, and how these services fit into Britain's new place in the global economy and agri-food commodity markets. The recent Farming for 1.5 report begins to translate some of the implications for farming in changing economic and social priorities into the new decade, and demystify what this might actually mean for farmers and farming systems. Both retailers and schemes such as the current SACGS are increasingly looking at farm carbon footprints as part of environmental assessments, but with just 15% of land managers having looked at their carbon footprint (according to a recent survey by the CLA), we expect that to change over the coming year.

*For more Brexit planning and resilience resources visit: https://www.fas.scot/rural-business/brexit/*

## Key economic data

| General Indicators | |
|---|---|
| Base interest rate | 0.1% (0.75% Mar '20) |
| ECB interest rate | 0.00% (0.00% Sep '18) |
| UK (CPI) inflation rate | 0.3% (target 2%) |
| UK GDP growth rate | 15.5% (Q3 '20) |
| FTSE 100 | 6,580 (17 Dec '20) |

| Price indices for December 2020 (Defra 2015 = 100) | | | |
|---|---|---|---|
| Output Prices | | Input Prices | |
| Wheat | 145.41 | Seeds (all) | 114.1 |
| Barley | 124.60 | Energy | 107.3 |
| Oats | 123.48 | Fertiliser | 88.8 |
| Potatoes | 94.24 | Agro-chemicals (all) | 145.3 |
| Cattle and Calves | 106.41 | Feedstuffs | 120.7 |
| Pigs | 119.15 | Machinery R&M | 114.2 |
| Sheep and Lambs | 114.24 | Building R&M | 113.7 |
| Milk | 121.61 | Veterinary services | 115.5 |



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