Farm Advisory Service

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October 2017

News in brief

SFP boost and loan scheme – a silver lining?

Commodity farm gate prices may still be holding up for most sectors, driven mainly by a favourable exchange rate and the usual supply and demand factors, however, this is soon over shadowed by the impacts created by the prolonged wet weather. Whether September goes down as being one of the wettest on record, time will tell, but the impacts it has had on harvesting, baling, silage making, sowing, etc. will be felt for many months yet, with increased costs being inevitable.

Although at present, when farmers are battling against the elements, it may not be seen as a silver lining but the exchange rate that will be used to calculate 2017 payments (BPS and greening payment) has been set at: €1 = £0.89470. This is an increase of around 4% compared to last year, after taking into account Financial Discipline, so will provide some financial relief. This rate which is based on the average exchange rate set throughout September sets the amount that farmers who elected to take the BPS payment in Sterling will receive. Further to this the Scottish Government are giving eligible farmers and crofters the opportunity to receive a loan of 90%, of their anticipated Direct Payments for 2017, which is 10% more than last year; something definitely worth applying for.

With added financial pressure arising from the impacts of the wet weather, it will be essential to keep an eye on cash flow this winter. The 2017-18 edition of the SAC Farm Management Handbook is a useful tool to help with forward planning and budgeting (*see page 10 for details*).

Next month….

- Sector focus: Brexit - Scotland cereal trade flows
- Management Matters: Changing eating habits

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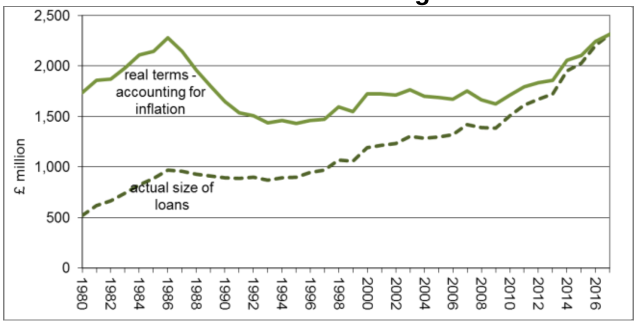
Farm debt reaches record high

Figures released by Scotland's Chief Statistician reveal that outstanding debt from all of the banks and mortgage companies that lend to Scottish agriculture at 31st May 2017 was £2.32bn, £113m (5%) higher than the previous year. In real terms, accounting for inflation, this is an increase of £71m (3%). As the chart indicates, this is the eighth consecutive year that outstanding debt has risen, not really a surprise considering the recent situation with delayed CAP payments and volatility in prices.

Current and real term outstanding debt since 1980



Source: Scottish Government

Schedule of CAP Payments

The Scottish Government have published a schedule of dates by which 95% of payments (by value) are expected to be made for the 2015-2019 scheme years. A summary of key dates for the 2016 and 2017 scheme years are included below, details for all the schemes can be found at: http://www.gov.scot/Resource/0052/00524625.pdf.

The publication provides a useful indication for farmers, however, it should be noted that the dates will be subject to regular revisions so may change.

BPS & Greening Loan Scheme

Applications for the National Basic Payment Support Scheme (NBPSS) 2017 are currently dropping through farmers' letter boxes. This scheme, which is being funded by the Scottish Government is an 'opt in' scheme and will provide a loan that is around 90% of anticipated 2017 Basic Payment Scheme and Greening payments.

Applications received before the deadline included in the letter should receive their payment from the start of November, with the balance being paid from March.

Less Favoured Areas Support Scheme

The Scottish Government have pledged that LFASS 2017 payments will commence in May 2018. However, if delivery looks unachievable, they have stated that a national LFASS loan scheme will be introduced in April. If required, this scheme would be for 90% of the anticipated payment.

2017 CAP scheme deadlines

- Scottish Upland Sheep Support Scheme - deadline for applying to the scheme has been extended from 16th October until 30th November 2017.
- Food Processing, Marketing and Co-operation - next application deadline is 19th November 2017.
- Scottish Suckler Beef Support Scheme - claim deadline is 31st December 2017.

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2016 Schemes	Payment start date	Majority payments made	95% total value paid
Agri-Environment Climate Scheme	August 2017	October 2017	End December 2017
Land Managers Options	September 2017	October 2017	End December 2017
Forestry Grant Scheme	September 2017	October 2017	End December 2017
Beef Efficiency Scheme	End of October 2017	October 2017	End December 2017
2017 Schemes			
BPS/Greening/Young Farmer	March 2018	March 2018	End June 2018
Scottish Suckler Beef Support Scheme	May 2018	May 2018	End June 2018
Scottish Upland Sheep Support Scheme	May 2018	May 2018	End June 2018
Less Favoured Area Support Scheme	May 2018	May 2018	End August 2018
Rural Priorities	End of May 2018	June 2018	End September 2018
Land Managers Options	End of May 2018	June 2018	End September 2018
Forestry Grant Scheme	End of May 2018	June 2018	End September 2018
Agri-Environment Climate Scheme	End of May 2018	June 2018	End September 2018
Beef Efficiency Scheme	End of July 2018	July 2018	End October 2018

Source: Scottish Government

Prices down in tough global market

Overall the world cereals supply and demand situation is similar to a month ago, however, there has been a rise in expected output from two of the largest exporters; the US and Russia. This has kept downward pressure on world export prices. UK values have fallen further due to a strengthening sterling up to the end of September.

In the USDA's latest global grain estimate there was little change to the overall picture; 3.5mt higher wheat output in Russia, offset by lower Australian output and stocks, and higher US maize output offset by lower opening world stocks. Maize exports from both Argentina and Brazil are set to reach record levels this season, creating strong competition for US maize exports.

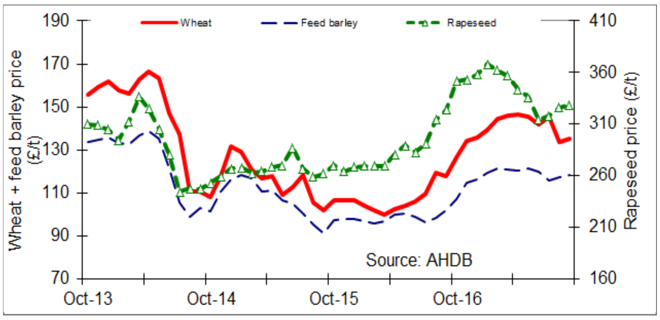
The world has harvested a large cereal crop of 2,064mt, the second largest on record however, it will fall below global demand of 2,085mt, leading to a 5% or 24mt fall in global stocks to 493mt. This offers some support to longer-term market prospects. UK LIFFE wheat futures for November 2017 were at £142.15/t on 28 September, a fall of £6.35/t on a month before. Rapeseed prices have fallen £17/t in the last month partly on an improving yield outlook for US soyabeans.

UK cereal production estimates rise

DEFRA released their first estimates of UK cereal production with the UK wheat harvest estimated at 15.2mt (14.35mt in 2016). However a sharp fall in opening stocks means that UK wheat availability in 2017 (production plus stocks) is expected to be slightly lower at 16.92mt (17.14mt). AHDB quality survey results indicate lower wheat quality which may hinder exports though currently UK wheat prices are at a premium to French values.

UK barley output is estimated at 7.4mt in 2017 (6.65mt in 2016) but these estimates may change when the results of the late and unfinished Scottish cereal harvest are known. If achieved the increase in UK barley output will exceed a reduction in stocks and leave overall barley availability higher than last year. With a buoyant, global barley market, any feed surplus should find a ready home in the export market. However, the generally poorer quality of the UK malting barley crop this year with higher nitrogen and screenings levels and poor germination of some samples are likely to limit UK mating barley exports. These same factors are however boosting UK malting barley prices.

UK spot ex-farm grain and oilseed prices



Barley export markets strong

Global barley production has fallen below demand for the second year in a row and world barley stocks are expected to fall to a 34 year low of 18.6mt by the end of 2017/18. EU barley output and stocks are also set to fall with stocks seen down 29% to 5.5mt by the end of 2017/18. Export demand for barley is strong leading to a narrowing of the price discount between wheat and barley. This trend is expected to continue and the price differential between the two grains to narrow further.

- Smallest world barley crop in 34 years boosts export demand and supports barley prices.

Slow, wet Scottish harvest continues

The Scottish harvest continues to drag on with a significant area yet to harvest in the NE and SW with waterlogged soils hampering combining. Almost half of the Scottish spring barley crop was estimated, remaining uncut, in the week ending 29 September, with crop quality deteriorating and straw going unbaled. The Scottish Government has released their first estimate of cereal production which is expected to see output rise 12% to 3.1mt – if it can all be harvested. See page 9 for more.

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Indicative grain prices week ending 28 September 2017 (Source: SACC/AHDB/trade)
Ex-farm England spring max 1.85%N,'* Before oil bonus, ~ nominal

£ per tonne	Basis	Sep 2017	Nov 2017	Jan/Feb 2018	May 2018	Nov 2018
Wheat	Ex-farm Scotland	140.90	144.90	147.00	150.00	150.00
Feed barley	Ex-farm Scotland	116.40	124.00	126.00	130.00	130.00
Malting barley	Ex- farm Scotland	160.10	-	-	-	-
Malting barley#	Ex-farm England	158.00	160.00	-	-	155.00
Oilseed rape*	Delivered Scotland	-	312.00~	315.00~	-	308.00~

Prices better than weather

The finished cattle price in Scotland and Britain has been pretty steady in recent weeks. Not too surprising given six months of sustained improvement. With Scottish R4L steers and heifers around 400p/kg dwt last week, finishers will be making a welcome margin on stores that earlier in the year were considered expensive. A helpful exchange rate plus (12kg) smaller carcase weights restraining production, underpin the strong market. The cull cow trade has changed little since July, but at 252p/kg dwt remains 40p/kg dwt better than last September when a lot of dairy cows were being offloaded.

By comparison, Irish finishers have seen their finished price ebb away since June, especially in recent weeks with the wet weather giving the processors the whip hand. The good news from our point is that though the Irish kill is reaching its autumn peak, like here, a lower average carcase weight is keeping a lid on production. Moreover, a lot of Irish weanlings (yearling suckled calves) have been exported live to the continent and Turkey which will limit future Irish production.

A sobering footnote is that one Irish market recently completed a sale of “never had antibiotics or GM feed” weanlings to Coop Italia. A recent article in *The Economist* highlighted how antibiotic resistance in fish farms in China is being caused by the antibiotics fed to the fish that are fed to the fish (fishmeal). The take home message is to use antibiotics sparingly and correctly to ensure their continued availability for beef production.

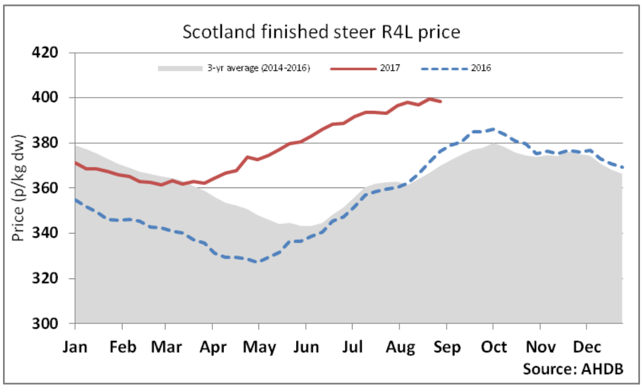
Beef trade post Brexit

The prospects for beef post Brexit beat that of sheep (see sheep section) because the UK is a net importer of beef. Yet as a recent AFBI report shows, the consequences for the beef industry of a poor trade deal, especially in Scotland where suckler systems dominate, are also bad.

AFBI modelled three potential trade deals to assess the impact on UK beef prices and production. Domestic subsidies were assumed unchanged. The first option – a free trade deal with the EU – essentially continues the status quo with a marginal lift in prices and production.

The second option – defaulting to WTO trade terms – is good for UK beef prices and production. Put simply, the British market would be protected from both Irish and South American beef imports by high tariffs. Half of Irish beef exports come to Britain hence the Irish are deeply worried about this option.

However, the final option – unilateral trade liberalisation – results in a collapse in the beef price and lower production. Effectively, the big UK beef market would be open to imports from Ireland, South America and everywhere else subject to WTO agreed standards. Unlikely to happen? Don’t be too sure. There are far more consumers than beef farmers in Britain. More importantly, the UK would presumably be negotiating access to export markets, like services, where we have a competitive advantage.



Of course, the AFBI analysis does not factor in how our beef industry might react to become more competitive. The most recent AHDB Horizons report picks up this theme, suggesting that efforts be best focused on competing in the home beef market to displace imports rather than looking to export to markets where the likes of the Australians, American’s and South Americans can provide low value and high end cuts at lower cost. Indeed, the importance attached to provenance by UK retailers following the horsemeat scandal, provides the home industry with a strong base to build on.

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

	E&W			Scotland			E&W		Scotland
	South R4L Steers	North R4L Steers	North -U3L Y. Bull	R4L Steers	R4L Heifer	-U3L Y. Bull	South -U4L Steers	North -U4L Steers	All -U4L Steers
2 Sep	379.5	391.0	360.3	398.3	398.1	381.7	385.5	385.4	400.8
9 Sep	382.6	389.8	360.8	399.5	398.5	380.9	383.0	381.4	397.6
16 Sep	384.5	389.1	359.9	397.7	395.6	380.6	383.1	384.4	397.1

Market price update

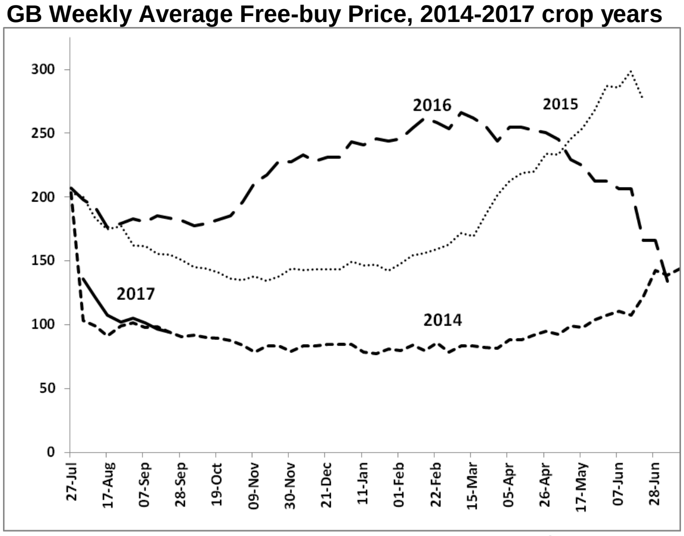
- The GB Weekly Average prices for the week ending 22 September 2017 were £136.15/t for free-buy and contract purchases and £94.01 for free-buy purchases, down by £7.16/t and £2.77/t respectively over the week.
- Prices have eased due to a continued subdued demand and ample supplies coming into the market.

GB Weekly Average Price 2017 and 2016 Crop (£/t)

Crop Year	22 Sep	15 Sep	8 Sep	1 Sep
All potatoes 2017	136.15	143.31	143.23	152.28
All potatoes 2016	166.73	167.12	165.05	177.76
Free-buy 2017	94.01	96.78	101.55	105.16
Free-buy 2016	183.48	185.30	180.74	182.72

Source: AHDB

GB Weekly Average Free-buy Price, 2014-2017 crop years



Source: AHDB

In Scotland, from a limited free-buy market, 2017 grade 1 Maris Piper for packing is trading at £160/t, grade 1 whites are around £85/t and general packed whites are around £80/t. Although free-buy trade remains limited, it is broadly in line with trade expectations.

In the bag trade remains slow with higher than average yields resulting in a surplus compared to demand. Maris Piper for chipping is trading around £80/t.

Weather hampers harvest

The unsettled weather is hindering both cereal and potato harvest across most of Scotland and with priority being given to the former there are still a lot of potatoes in the ground. Although in the short term the potato crops will not take any hurt, growers are still keen to get them lifted, especially seed growers who have early export contracts to meet. These crops need to be lifted, dried and cured before grading can start, so growers will be under pressure from exporters.

Of the crops that have been lifted (mainly from the drier fields), reports are that quality is generally good. Although there are reports of some powdery scab on some varieties or in some fields it should dress out. So far yields are reported to be average or slightly above average.

Wet Conditions in Europe too

It is not just Scotland that is being challenged by the wet weather. Potato Europe 2017 which was held in Emmeloord, the Netherlands on 13th and 14th September, had its first day cancelled, due to high winds and rain. Although it went ahead on the second day, conditions were very wet. Wet conditions and waterlogged fields have also been holding up potato harvest there too!

New export markets for seed?

There may be the uncertainty of Brexit still hanging over the potato sector and what impact that might have on trade with Europe, particularly for seed, but there is still the opportunity for new markets to develop.

A deal has recently been struck with Brazil to simplify the import classification requirements for seed potatoes, helping to harmonise certification standards. It is hoped that this will open the door to the supply of seed to a country that currently produces 3.6 million tonnes of potatoes a year, potentially resulting in a significant increase in the tonnage of exported seed.

Further to this AHDB and Science & Advice for Scottish Agriculture (SASA) have been involved in seed potato trials in Kenya. Ten processing varieties are being trialled, which are expected to yield 30-40t/ha more than what is obtained from the home-saved seed currently used. Trials are expected to be finished shortly and it is hoped that a market will open early next year.

These developments could result in a significant increase in the tonnage of Scottish seed exported to these countries.

Diary date

AHDB Agronomists' Conference 5th & 6th December 2017, Peterborough Arena - AHDB Potatoes and AHDB Cereals & Oilseeds will provide evidence-based developments in agronomy.

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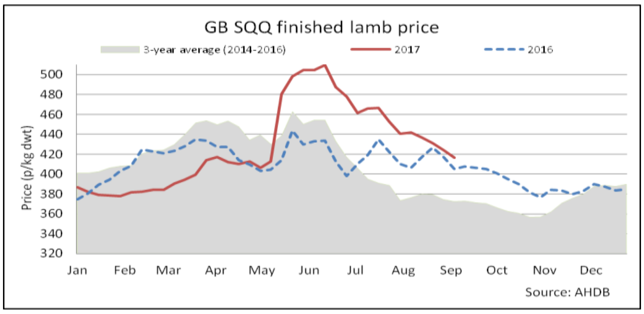
Going down

The finished lamb price dropped sharply in mid September due to a stronger pound hitting export demand, plus a weak demand, in the home market, where lamb is simply too expensive for many shoppers and restaurants. The drop was unsurprising given the widely forecast spike in demand provided by two Muslim festivals in late August/early September.

At the time of writing (w/b 18 September), buyers here in Scotland are quoting a base price around 380p/kg dwt, which remains above the 370p level the finished price bottomed at last autumn. The cull ewe trade also dropped back following the Muslim festivals plus the high numbers of old girls hitting the market at this time of year.



A difficult year for finishing

For producers that have got most of their lambs away, they should be happy with a very healthy average. Unfortunately, getting lambs finished has been a problem for many producers owing to the poor weather. Even if the finished price remains at 2016 autumn levels, many lambs will need expensive creep to help them finish, taking the shine off margins. The alternative is to sell store. Given potentially more lambs being offloaded store, the price will depend largely on how finishers view future finished prices. The good news is that the exchange rate remains very favourable and above the 84p/€ it traded at in early 2016. As for competition from New Zealand imports, the news is mixed. The Kiwis plan to send little frozen lamb to the UK or EU. However, they will be targeting chilled product at the Christmas market with orders reportedly strong. The race is on to get lambs ready "for the November boat", with a 17kg dwt lamb forecast to gross around NZ$119 (£64).

Exporting lamb post Brexit

A sheep farmer recently told me that leaving the EU will only upset the lamb price for a year or so. If Brexit ever happens, I hope he's proved right. However, a couple of recent reports suggest he's dreaming.

An AFBI report models the impact of three potential trade deals against continuing with the current arrangement where we have free trade within the EU, but tariff arrangements (protection) with most non-EU countries.

Option 1 – a bespoke free trade deal with the EU – effectively is the current arrangement and so, unsurprisingly, results in little change to farm gate prices and production here. The second option – WTO default – assumes tariffs applied to trade with the EU, no change in tariffs and arrangements with the rest of world and an increased cost in administering trade. As a big exporter to the EU, the British sheep industry will be badly hit with a 30% drop in price predicted. The final option – unilateral trade liberalisation – assumes that the UK removes tariffs on all food imports while exports to the EU (and the rest of the world) are subject to tariffs, again with an increased cost of facilitating trade. The UK sheep industry is as badly affected as under option 2.

The sheep sector is the worse affected sector because of our dependence on exports to the continent. My optimistic farmer chum points to export opportunities elsewhere. Unfortunately, the latest excellent Horizon report from AHDB highlights that even if we can negotiate access to the likes of China, Canada, USA and the Middle East, we can't currently supply them with product at a cost competitive with the ANZACS. The AHDB report suggests that the British agri-food industry will probably find more opportunity in displacing imports in the home market. Against a backdrop of declining per capita consumption, seasonality of supply and a high cost of production, however, the UK sheep industry faces a tough challenge. In short, without continued good access to the EU market the UK sheep industry will be much smaller come 2030!

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg			Scottish auction (p/kg)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
2 Sep	428.7	427.0	419.5	180.8	191.4	186.1	57.4	58.8
9 Sep	419.3	418.3	411.7	159.6	176.2	172.3	52.7	52.1
16 Sep	407.7	406.3	399.6	154.8	168.2	168.1	49.2	52.7

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

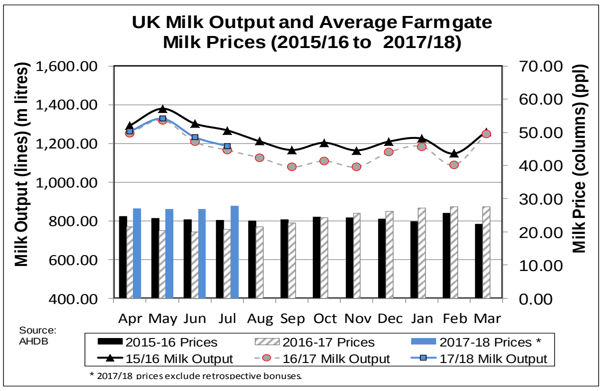
UK average price edges towards 30ppl

There's no further update on milk production from AHDB this month, so the latest figures still relate to July 2017 where estimated production is revised to 1,186.32m litres (before butterfat adjustment).

This equates to an increase of 21.38m litres on July 2016 production (1,164.94m litres – see chart below). On a cumulative basis, the UK has produced 5,009.04m litres up until the end of July 2017. The revised production figure for July 2017 represents an increase of 64.36m litres on the cumulative total at the same point last year.

The average milk price across the UK has continued to rise during July '17. The latest monthly UK average price (prior to retrospective bonuses) for July 2017 shows that prices averaged 27.78ppl (up 1.03ppl from the June 2017 average, and up 7.03ppl from the July 2016 UK average price).

- *UK average milk price for July '17 is estimated at 27.78ppl.*
- *In light of recent milk price increases from UK milk purchasers it looks increasingly likely that the average UK milk price will rise above 30ppl before the end of this year.*
- *Wholesale prices (particularly butter) continue to drive demand within domestic markets and on the continent.*



Farmgate prices increase for Oct' 17

Although the average UK milk price for July 2017 is around 27.78ppl, recent announcements for October 2017 indicate that several milk purchasers are already set to deliver a net milk price of 30ppl.

Price announcements for October 2017 include:

- Müller Direct – will increase prices by 1.00ppl from 1st October 2017. This takes the liquid standard price for non-aligned suppliers up to 30.00ppl. The retailer supplement for August 2017 is confirmed at 0.167ppl for non-aligned suppliers.
- Müller Organic – Müller's organic suppliers will also receive a 1.00ppl price increase from 1st October 2017 taking the organic liquid price to 41.50ppl.
- Graham's Dairies – will increase producer prices by 1.00ppl to 29.75ppl from 1st October 2017.
- Yew Tree Dairy – will increase prices by 1.00ppl from 15th October 2017. This will take the liquid standard litre up from 29.00ppl to 30.00ppl.
- Sainsbury's – The SDDG will increase prices by 0.24ppl from October 2017. This takes the liquid standard price up from 27.97ppl to 28.21ppl following the latest quarterly review of input costs.
- Lactalis - will increase producer prices by 1.00ppl from 1st October 2017. This takes the liquid standard litre price to 28.5ppl.
- Arla Foods amba – will increase prices by 1.00 euro cent per kg from 1st October 2017. This equates to an increase of 1.50ppl on the manufacturing standards litre (4.2% bf & 3.4% protein), taking the price up to 32.30ppl.

Annual Average milk price estimates for October 2017 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	28.50
First Milk Balancing- A price (90% of production). [1,2]	27.49
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein-A price (90% of production). [1, 2]	27.98
Müller - Müller Direct [1, 3]	30.00

[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] *September 2017 prices stated. October 2017 prices awaiting release.*
[3] *No monthly supplementary payment included in the price estimate.*

Butter prices rise again

UK wholesale prices for butter and cream have continued to rise going into August 2017. UK butter prices for August hit a record high of £6,150/t. The rising market for butter has helped to support demand for cream prices which also hit a record high during August.

UK dairy commodity prices (£/ tonne)	Aug 2017	Jul 2017	Mar 2017
Butter	6,150	5,420	3,650
SMP	1,550	1,570	1,550
Bulk Cream	2,850	2,500	1,690
UK milk price equivalents (ppl)	**Aug 2017**	**Jul 2017**	**Mar 2017**
AMPE (2014)	40.12	36.71	27.79
MCVE (2014)	38.70	37.14	32.08

Source: AHDB

The elevation in market prices for butter and cream means that AMPE for August has reached 40.12ppl (only the second time on record that AMPE has reached 40.00ppl – the first time was during August 2013). One of the consequences of the buoyant market is that some non-aligned contract prices are now over-taking aligned prices. One example is mentioned above: Müller Direct suppliers (30.00ppl) compared with Müller SDDG members (28.21ppl) for October 2017.

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Sector Focus: Input Costs-Feeds

Feed update

The wet summer and autumn particularly in the north east and south west of Scotland means that many livestock producers will be needing significant quantities of extra feed this winter.

While globally speaking feed and grain prices are relatively subdued due to a large expected grain and oilseed harvest there are a number of local issues pushing up prices in Scotland. Factors include; the diversion of distillery by-products to AD plants, an increase in crops and their straw for AD plants on farm, the use of straw in power station in England and the wet harvest in Scotland. In addition the weakness of sterling against the euro and the dollar is pushing up feed values in sterling terms.

Straights

The following table details price estimates for feeds for October and November delivery. These are a guide only as there will be price variations between areas, suppliers and depending on the size of load etc.

Feed price estimates

Commodity	Price (£/t del.)	Comments
Barley	£126-132	Wet harvest slowing supply
Wheat	£146-153	
Oats	£126-132	
Maize	£183	Less £7/t in Nov., +£13 if ground.
Sugar beet pulp	£167	October onwards
Bread waste	-	
Biscuit meal	£155	
Potatoes	£28	£15/t ex-farm but hard to get while harvest on
Soya hulls	£148-153	
Wheat feed	£149	Very little available on spot market
Pot Ale Syrup	£75-80	Supplies still tight for winter
Draff	£30-40	If you can find any, tight supply
Pea	£165	Estimates as no serious trade presently
Beans	£170	Roughly £25/t over wheat
Maize Dark Grains	£185-190	
Wheat Dark Grains	£185-192	
Barley Dark Grains	£180	Very short supply
Hi Pro Soyameal	£300	
Rapemeal	£196	
Maize gluten	£167	Up £15/t in last month

Forage supply particularly difficult

One of the biggest headaches this year is likely to be straw. The wet harvest has severely hampered efforts to bale straw across Scotland but particularly in the west and north east. Where straw has lay in the swath for several weeks, the chances of getting it baled in satisfactory condition are fast diminishing and many crops are being chopped just to get the winter crops in. In addition around half of the spring barley crop in Scotland was estimated to be still to harvest at the end of September with waterlogged soils preventing combining even on dry days. Getting this baled late in the season will be difficult enough even if the weather dries up.

Straw demand in Scotland is also likely to be higher this year given that cattle in some areas are already inside. In addition, in some areas late cut silage crops have not been made, raising the need for forage which would normally be most cheaply replaced with straw.

The other option of drawing straw north across the border is limited by a lack of straw in England for similar reasons to Scotland, plus the growth in use in power stations in East coast regions.

Just now straw in Scotland is trading at £65/t ex farm but the traders expect it to rise to over £100/t this winter. Hay is currently £90/t ex farm and silage is £10/ round bale.

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Management Matters: Harvest review and outlook

2017 Harvest

For harvest 2017, initial establishment in autumn 2016 went well with dry and warm conditions into October. It then turned wet in late autumn and winter causing waterlogging, flooding and stressing crops. The spring was then very dry and cold with early development of spring crops slow. Weather was pretty mixed over the summer but generally cool and wet at times. The harvest itself has been one of the latest in recent years, beginning under stop start conditions. The harvest is still not complete with very difficult conditions particularly in Aberdeenshire and Morayshire and the west. Yields and quality of most crops were generally good in the Lothians and Borders deteriorating further north, particularly in Aberdeenshire and Morayshire.

The Scottish Government's initial harvest estimates detailed below indicate that national grain yields are close to or above record levels. Yields for winter cereals and winter oilseed rape are seen similar or just below the previous records set in 2014. Yields for spring barley and oats are seen even higher and well above the previous records.

Due to the lateness of the harvest these yield estimates were made before most of the crops in the north were cut. In October significant areas of cropping remain in the field particularly in the north and upland areas which could lead to above average field losses. Therefore, while this season appears to be one of good yield potential the final results achieved may be tempered by the difficult harvest.

Provisional Scottish cereals: area, yield and production

	Wheat	Wint. Barley	Spr. Barley	Total Barle	Oats	Total Cereal	OSR
Scotland	*Area (k ha)*						
2016	110	48	239	287	31	428	31
2017	109	48	244	291	33	433	34
Chng.	-1	0	5	4	2	5	3
Scot.	*Yield (t/ha)*						
5yr av.	8.2	7.1	5.6	5.9	5.8	6.4	3.5
2016	8.4	6.8	5.4	5.7	6.4	6.4	3.3
2017	9.0	7.8	6.2	6.5	6.7	7.1	4.1
Scot.	*Production (t)*						
2016	926	329	1,296	1,625	201	2,752	102
2017	988	371	1,509	1,880	217	3,085	140
Chng.	62	42	213	255	16	333	38

Source: Scottish Government

Malting barley quality has been mixed with generally higher nitrogen and screening levels. There have also been problems of skinning and poor germination with later cut crops.

The wet weather has caused severe problems in baling straw across the country with straw typically lying in the swath for several weeks before baling has been possible. Sowings of oilseed rape and winter barley are likely to be down significantly. A lot more straw is being chopped and incorporated and straw prices are rising sharply.

Local market situation

- Spring malting and feed barley – a combination of slightly higher plantings and the good projected yields should see a strong rise in overall barley availability. The poor harvest weather has impacted on what otherwise would have been good availability of malting barley. Maltsters have also proven willing to accept below specification barley (with deductions) helping make the most of what is available. However, there have been some opportunities for farmers particularly in the south to sell uncontracted barley into premium malting markets to help make up any shortfalls. Feed barley availability should be increased this year which should find a ready home given the difficulties with later cut silage crops and cattle having to come in early.
- Wheat – Scotland has (almost) harvested another large wheat crop. The sharp fall in ending stocks and a recovery in use has helped tighten the local balance sheet. Wheat prices are currently at a small premium to English values though on a par with the north of England. The main reason for this is the strong demand for ethanol production from the Ensus plant in north east England. As the season progresses the Scottish premium is likely to rise as long as the English ethanol plants stick to UK wheat.
- Forward grain prices for harvest 2017 are £6/t higher than spot values and oilseed rape prices around £5/t lower. The wet and late harvest and inability to clear straw in many areas is likely to lead to a fall in winter crop sowings, particularly oilseed rape and winter barley. The Scottish wheat area may also fall, due to the wet weather and poor performance of second wheats since the loss of take-all seed treatments. Spring barley sowing could rise next spring as a result.

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Key economic data

General Indicators	
Base interest rate	0.25% (0.50% Mar '09)
ECB interest rate	0.00% (0.05% Mar '16)
UK (CPI) inflation rate	2.9% (target 2%)
UK GDP growth rate	0.3% (Q2 '17)
FTSE 100	7,518 (6 Oct '17)

Price indices for July 2017 (Defra 2010 = 100)			
Output Prices		Input Prices	
Wheat	119.5	Seeds (all)	98.0
Barley	113.0	Energy	98.0
Oats	131.8	Fertiliser	99.8
Potatoes (Main Crop)	136.5	Agro-chemicals (all)	101.1
Cattle and Calves	133.1	Feedstuffs	113.0
Pigs	115.5	Machinery R&M	114.6
Sheep and Lambs	117.7	Building R&M	113.7
Milk	112.6	Veterinary services	108.8

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