



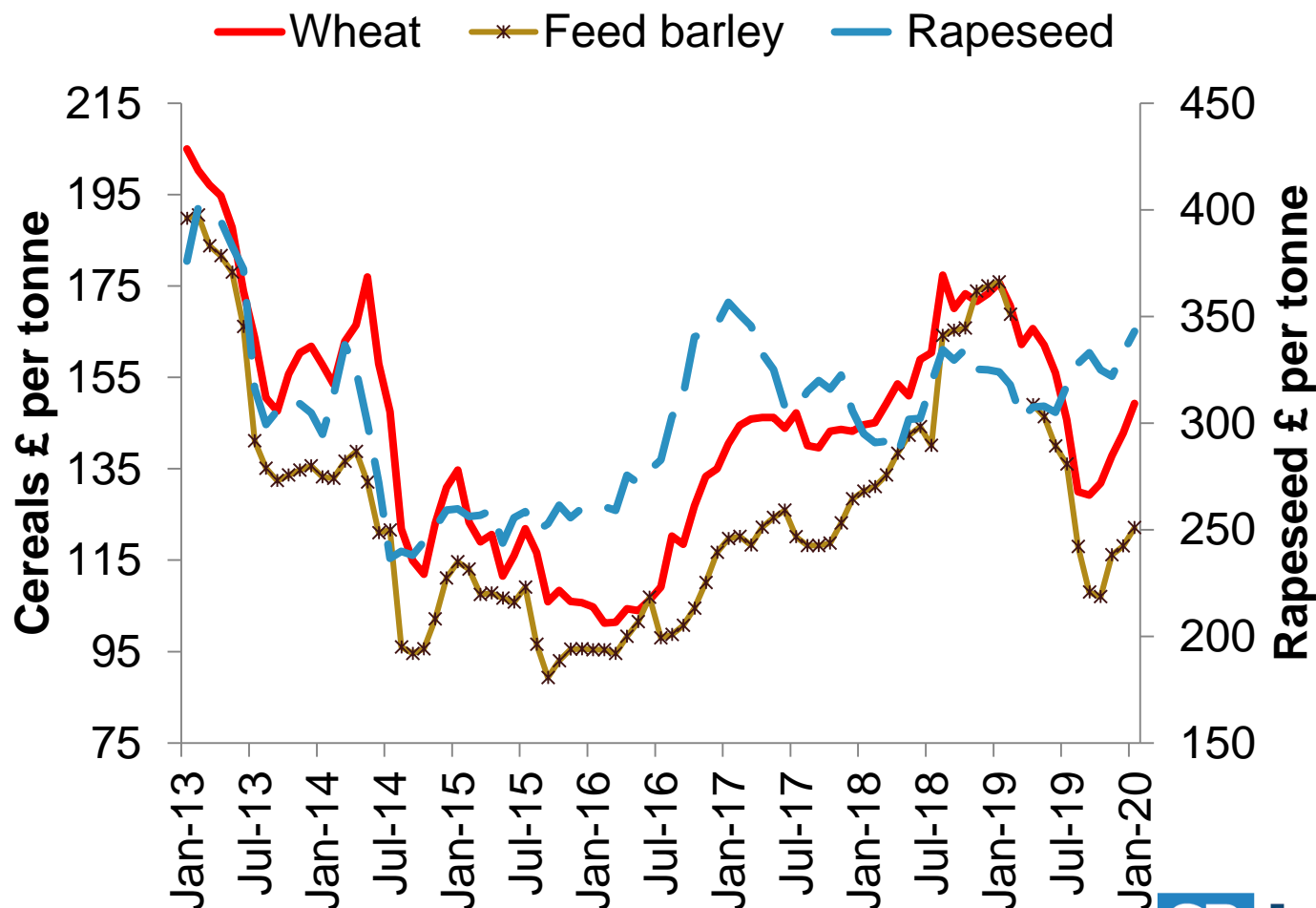
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# Market risks and opportunities in 2020 and beyond

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**Cereal prices recover a little but still down on a year ago - wheat -£26/t, feed barley - £53/t  
Rapeseed +£20/t**



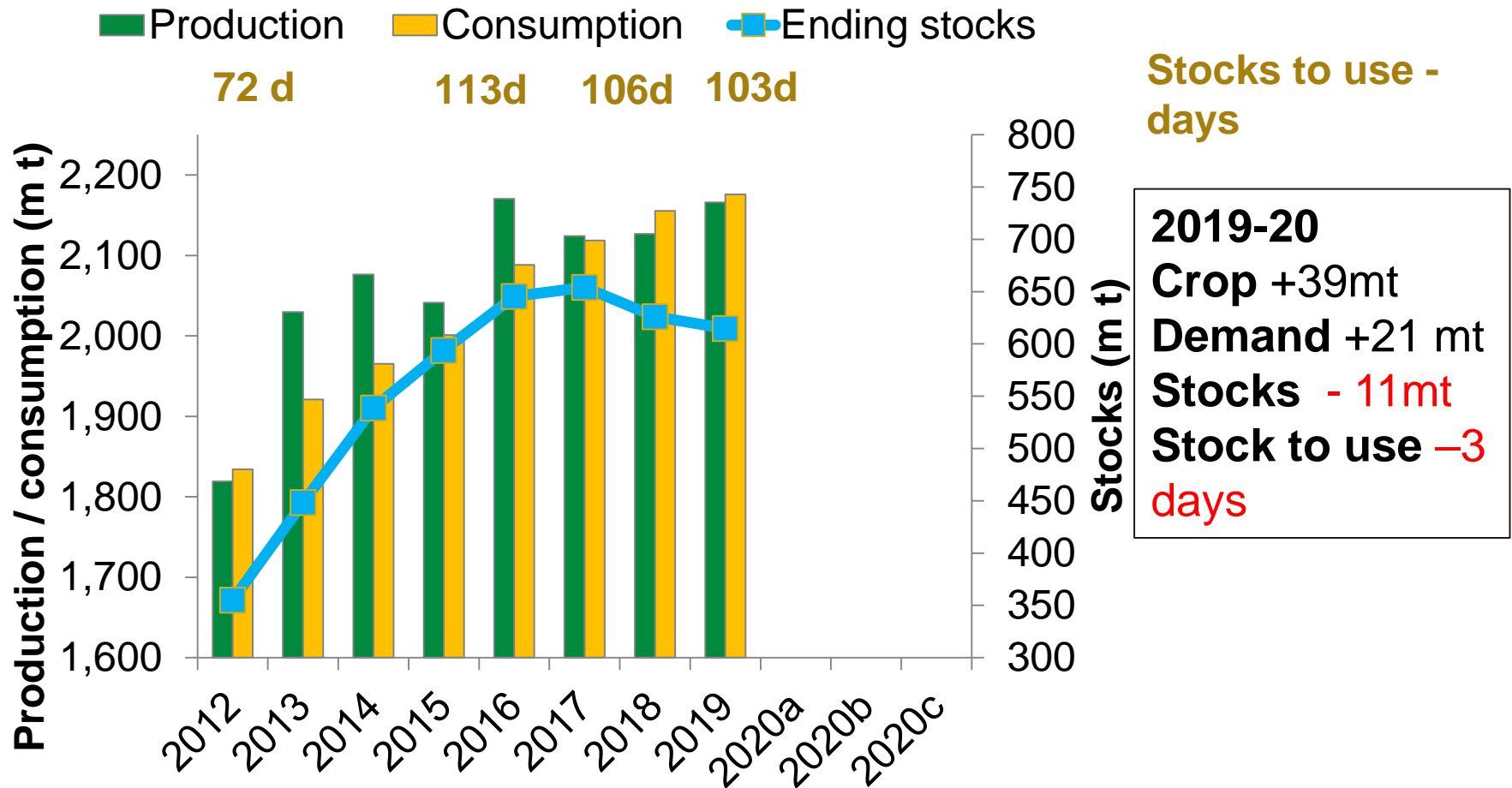
Source: AHDB, SAC Consulting



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# 2019: world grain harvest falls behind usage for 2nd year in a row, S/U lowest in 5 years



Source: USDA, IGC, SAC Consulting

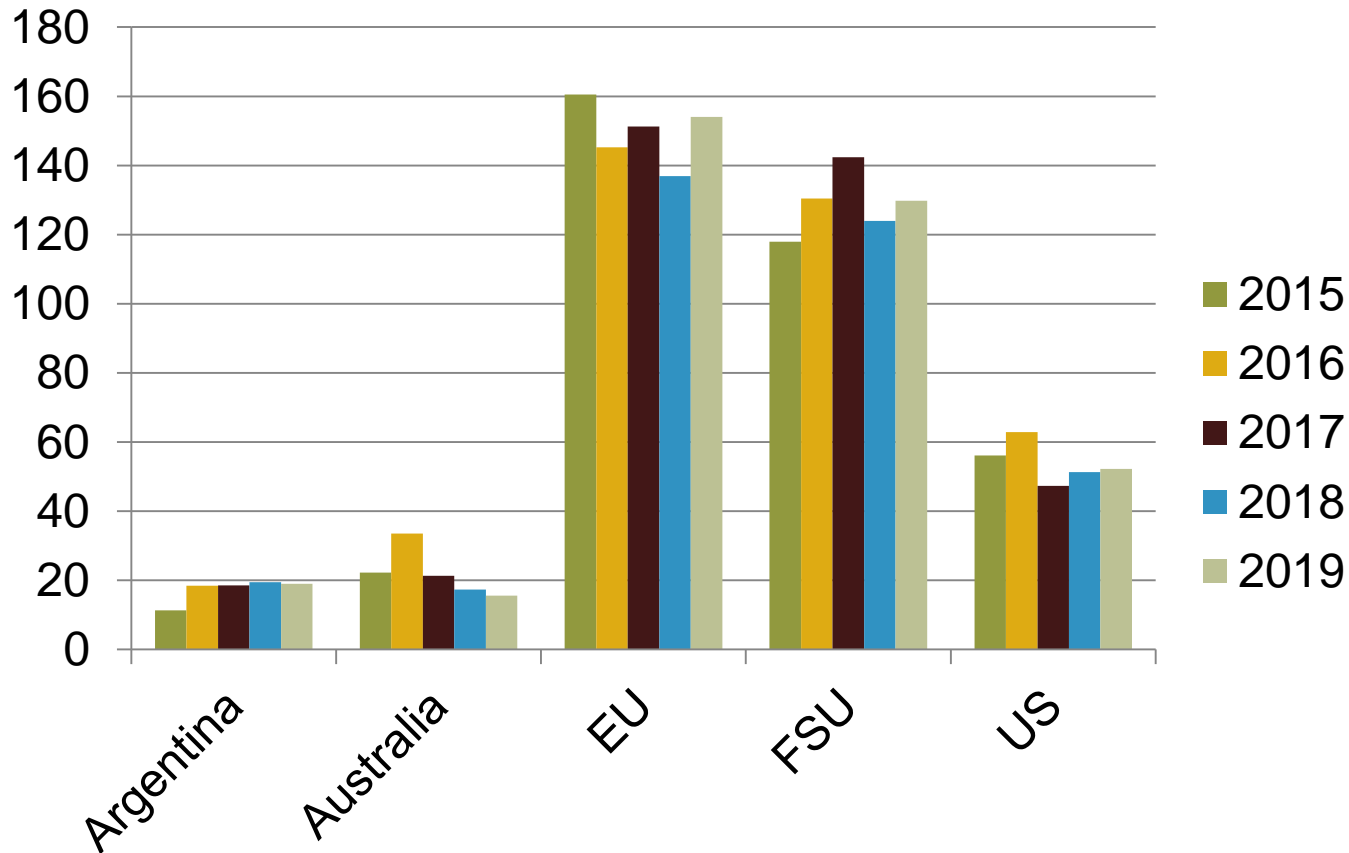


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# But big crops in Europe hit our prices

- world wheat crop 34mt higher in 2019
- EU up 17mt, Russia/FSU up 6mt,



Source: USDA, SAC Consulting



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# EU grain output up 10% in 2019

	<b>2018</b>	<b>2019</b>	Change - '19 vs '18	
	(mt)	(mt)	(mt)	(%)
Wheat	127	145	18	+14%
Barley	56	62	6	+10%
Spring barley	29	30	1	+2%
Total grains	281	308	27	+10%

Coceral;

# Make America Late Again

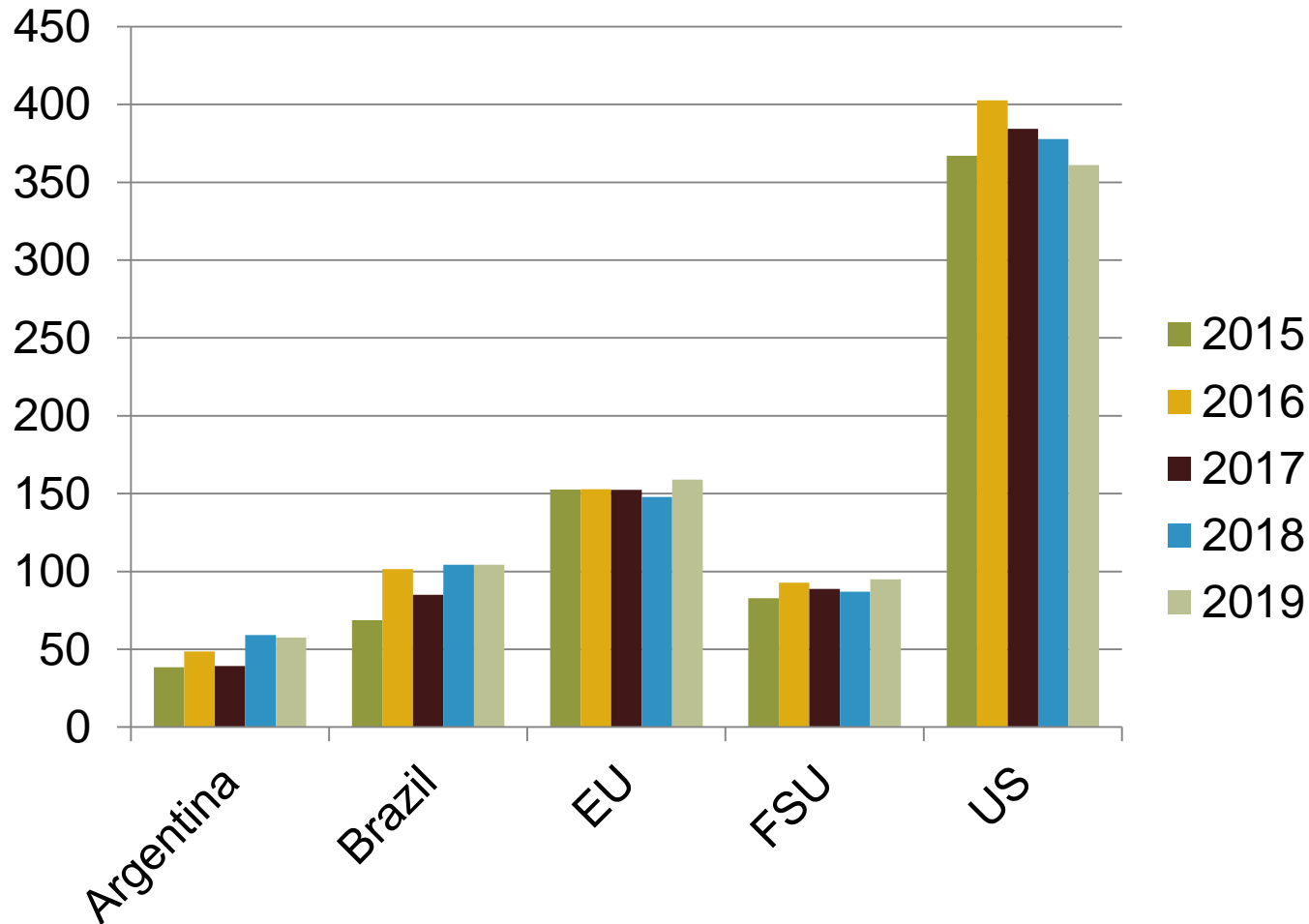
- the latest spring sowings on record  
but farmers and crops made an amazing  
comeback

**US 2019 maize crop estimates cut from 381mt  
to 347mt ....325mt was possible ... 361mt  
actual**



# World feed grain crop 6mt higher in 2019

- EU, FSU up, US down



Source: USDA, SAC Consulting

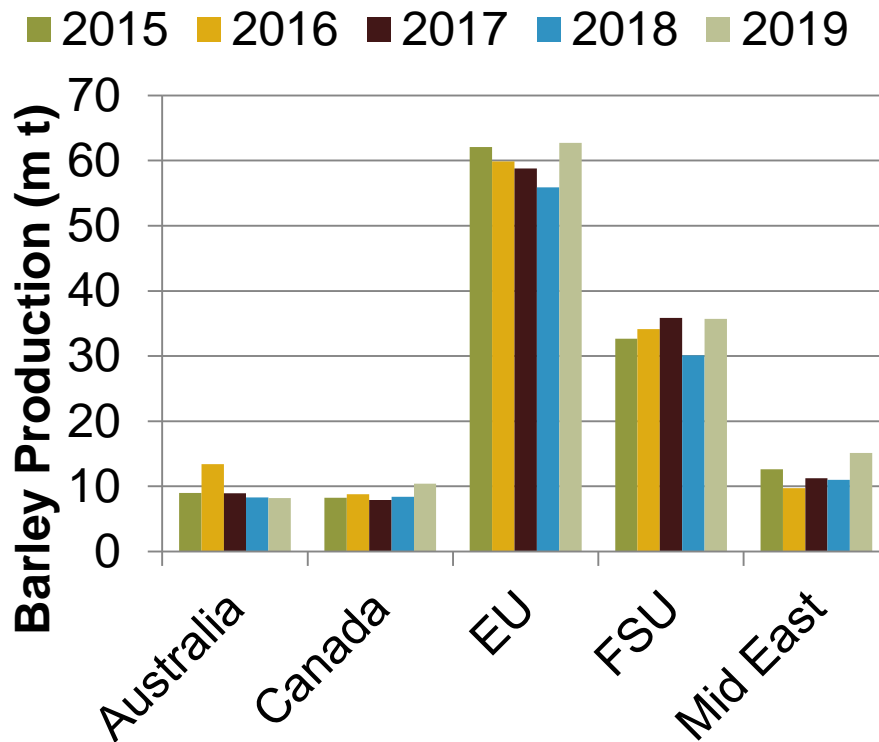


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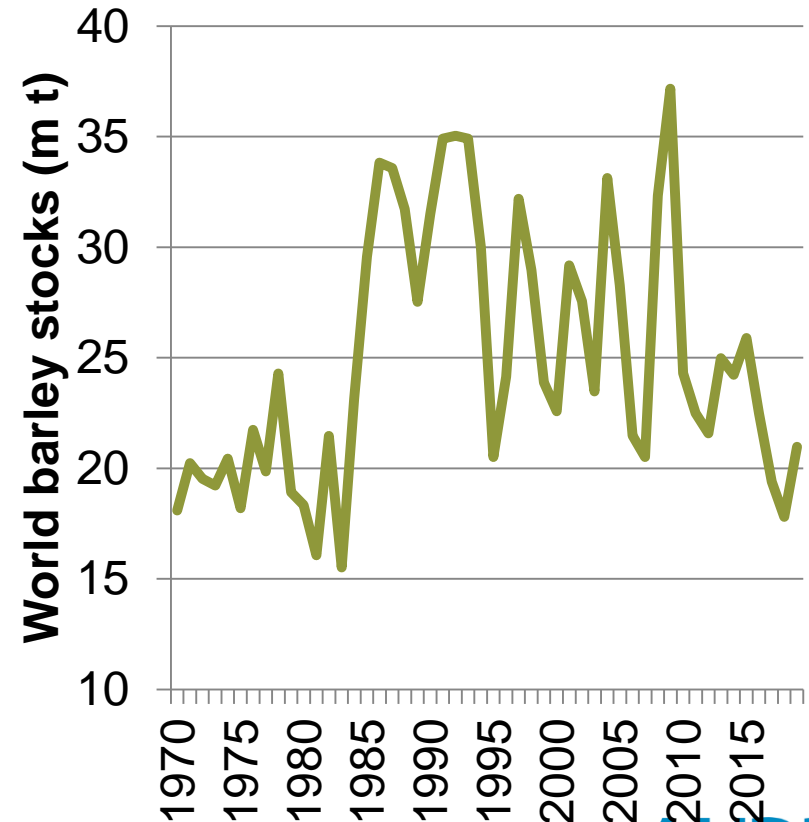


# Barley – world output up 17mt to 156.7mt in 2019 - on bigger crops in EU, FSU, Mid East

## Barley production



## World barley stocks



Source: USDA, SAC Consulting



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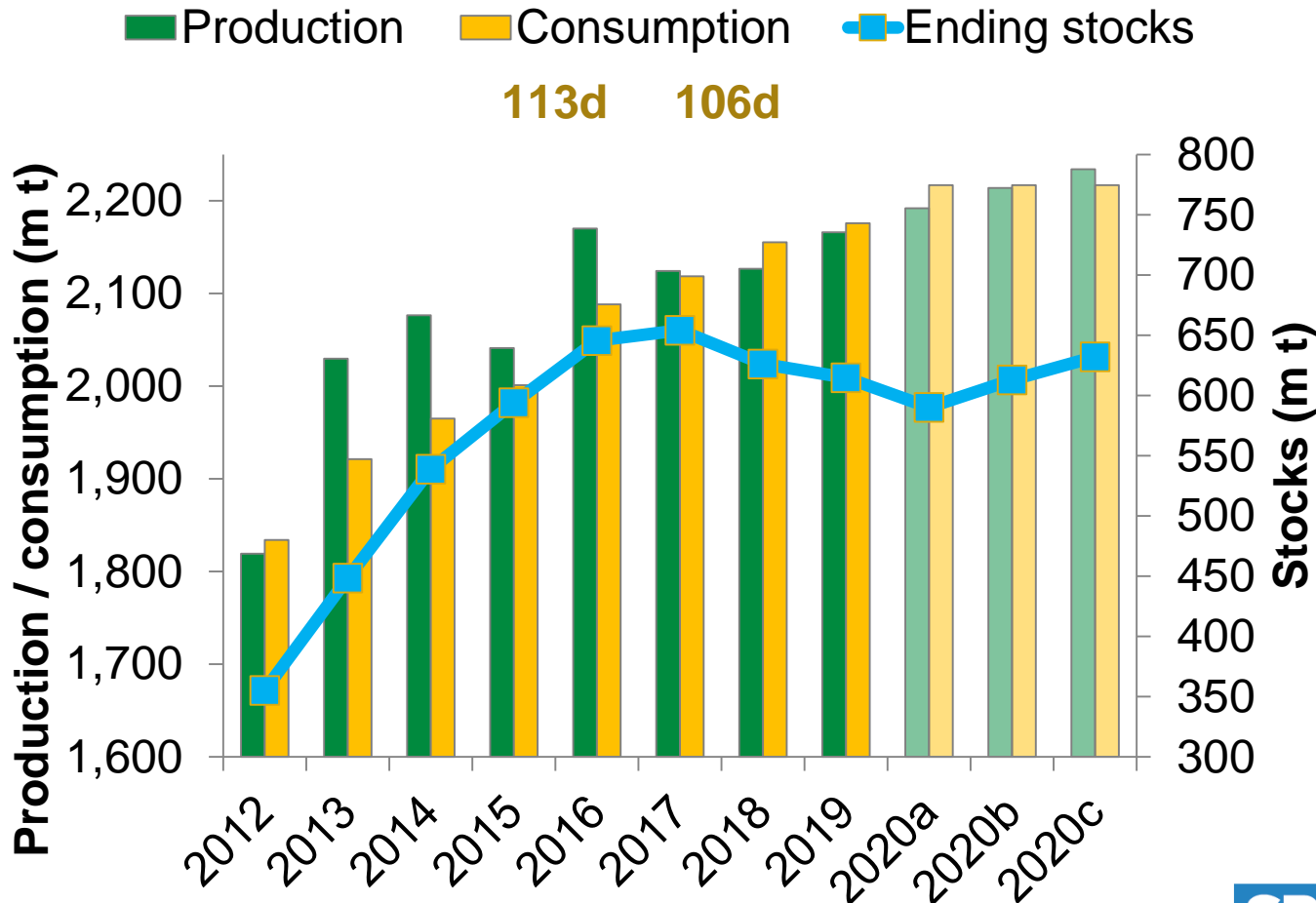


# 2020 world harvest; higher area AND yield needed

(A) 2019 yield, +5m ha area = 25 mt fall in stock

(B) Trend yield +5m ha area = 2 mt fall in stocks

(C) Trend yield, +10m ha area = +18mt rise in stocks



**2020-21 –  
higher area +  
record yield  
or stocks will  
fall  
Assuming  
trend use  
+42mt**

Source: USDA, IGC, SAC Consulting



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**UK a large wheat surplus in 2019 – export or carry over in 2020 – if carried over, could be large export surplus next season too! Or higher UK ethanol use.**

<b>UK wheat</b> '000 t	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Open Stocks</b>	1,718	1,911	2,787
<b>Production</b>	13,555	16,283	13,651
<b>Imports</b>	1,858	1,050	1,750
<b>Available</b>	<b>17,131</b>	<b>19,244</b>	<b>18,188</b>
Human Use	6,976	6,876	6,800
Animal Feed	7,403	7,477	7,200
Seed etc	349	362	349
<b>Domestic Use</b>	<b>14,728</b>	<b>14,715</b>	<b>14,349</b>
<b>Exports/surplus</b>	<b>358</b>	<b>1,742</b>	<b>2,139</b>
<b>End Stocks</b>	<b>1,911</b>	<b>2,787</b>	<b>1,700</b>
<i>Net trade</i>	<b>-1,500</b>	<b>692</b>	<b>389</b>

Source: AHDB, SAC Consulting



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# Wet autumn to cut UK autumn planting -

- England worse hit, Scotland also affected



Source: AHDB, SAC Consulting



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# UK – wet autumn to slash winter cereal area, boost spring barley in 2020 - AHDB

UK	2019 harvest ('000's ha)	2020 harvest ('000's ha)	Change (%)	Change ('000's ha)
Wheat	1,816	1,631	-10%	-185
Winter barley	453	395	-13%	-58
Spring barley	710	929	31%	219
Oats	182	201	10%	19
OSR	530	414	-22%	-116
<b>Total</b>	<b>3,691</b>	<b>3,570</b>	<b>-3%</b>	<b>-121</b>

Source: AHDB Early Bird survey and  
DEFRA



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# UK 2019/20 large barley surplus

– expected to continue in 2020/21 – Brexit risk

UK barley '000 t	2018/19	2019/20	2020/21
<b>Open Stocks</b>	1,076	1,091	1,367
<b>Production</b>	6,510	8,180	8,328
<b>Imports</b>	70	52	52
<b>Available</b>	<b>7,656</b>	<b>9,323</b>	<b>9,747</b>
<i>Human Use</i>	1,903	1,929	1,929
<i>Animal Feed</i>	3,578	4,047	4,047
<i>Seed etc</i>	221	229	229
<b>Domestic Use</b>	<b>5,702</b>	<b>6,205</b>	<b>6,205</b>
<b>Exports</b>	<b>893</b>	<b>1,751</b>	<b>2,175</b>
<b>End Stocks</b>	<b>1,091</b>	<b>1,367</b>	<b>1,367</b>

Source: AHDB, SAC Consulting



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# Largest Scottish cereal crop in 5 years, up 22% on strong yields – 3.07mt up 560kt on 2018

Scotland		WHEAT	
	Area (ha)	Yield (t/ha)	Prod'n (t)
2015	109,562	9.30	1,019,182
2016	109,594	8.45	925,992
2017	109,489	8.12	889,308
2018	99,778	6.83	681,000
2019	107,480	8.72	936,865
Change			255,865

Wheat up 255,000t (37%) to 1.94mt, erosion of Scottish premium to parity of £2-3/t over England

<b>2020</b>	<b>98,000</b>	<b>8.39</b>	<b>822,220</b>
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Total barley up 286,000t (17%) to 1.94mt, £3-5/t price discount to England

Scotland		SPRING BARLEY	
	Area (ha)	Yield (t/ha)	Prod'n (t)
2015	255,878	5.94	1,520,756
2016	238,899	5.43	1,296,481
2017	243,838	5.88	1,432,815
2018	250,476	5.54	1,387,503
2019	242,090	6.38	1,543,825
Change			156,322

<b>2020</b>	<b>244,000</b>	<b>5.83</b>	<b>1,422,520</b>
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Source: Scottish Government



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# Scotland expected to see only a modest swing to spring crops in 2020 - AHDB

Scotland	2019 harvest ('000's ha)	2020 harvest ('000's ha)	Change (%)	Change ('000's ha)
Wheat	107	98	-8%	-9
Winter barley	49	45	-8%	-4
Spring barley	242	244	1%	2
Oats	32	30	-6%	-2
OSR	32	29	-9%	-3
<b>Total</b>	<b>462</b>	<b>446</b>	<b>-3%</b>	<b>-16</b>

## Note – treat with caution due to

- Small sample size - <5% of cropped area

Source: AHDB Early Bird survey and  
DEFRA



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# Malting barley use in Scotland – no more capacity until 2022, yields key

	Scottish / Berwick malting Spring barley purchases ('000's t)	Scottish Spring Barley Crop ( '000's t)	Est. Malting varieties (%)	Est. Malting varieties ( '000's t)	Scottish malting purchases as % of malting varieties	Malting premium over feed £/t
<b>2015</b>	<b>775</b>	1,521	76%	1,156	67%	14
<b>2016</b>	<b>765</b>	1,296	64%	829	<b>92%</b>	<b>28</b>
<b>2017</b>	<b>775</b>	1,433	57%	815	<b>95%</b>	<b>41</b>
<b>2018</b>	<b>810</b>	1,338	72%	963	<b>84%</b>	<b>47</b>
<b>2019</b>	<b>840</b>	1,543	72%	1,111	76%	<b>17</b>
<b>2020</b>	<b>840</b>	1,422	72%	1,023	<b>82%</b>	<b>40</b>
<b>2022</b>	<b>910</b>					

Source: SAC Consulting  
MAGB, Scottish Government,

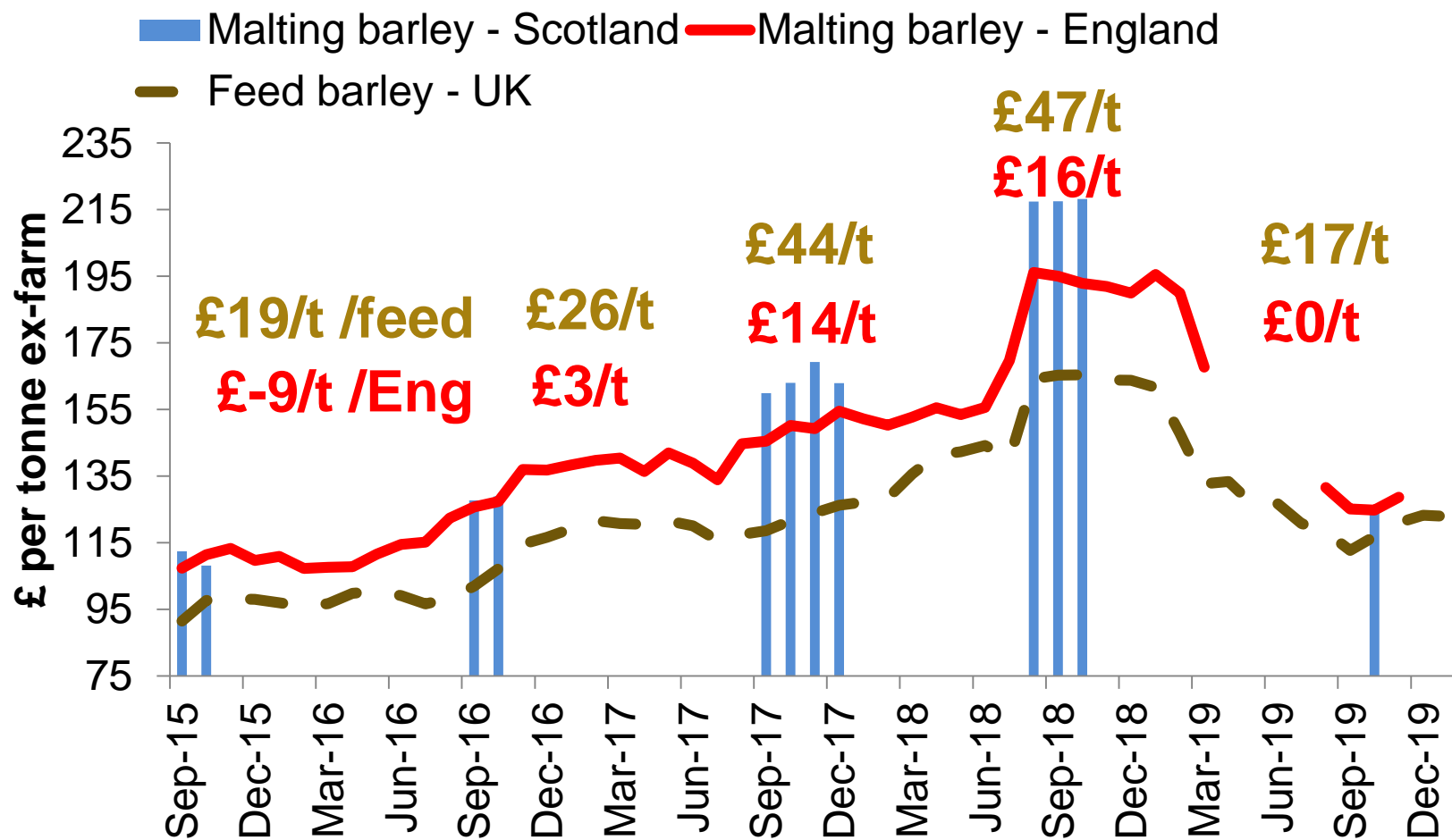


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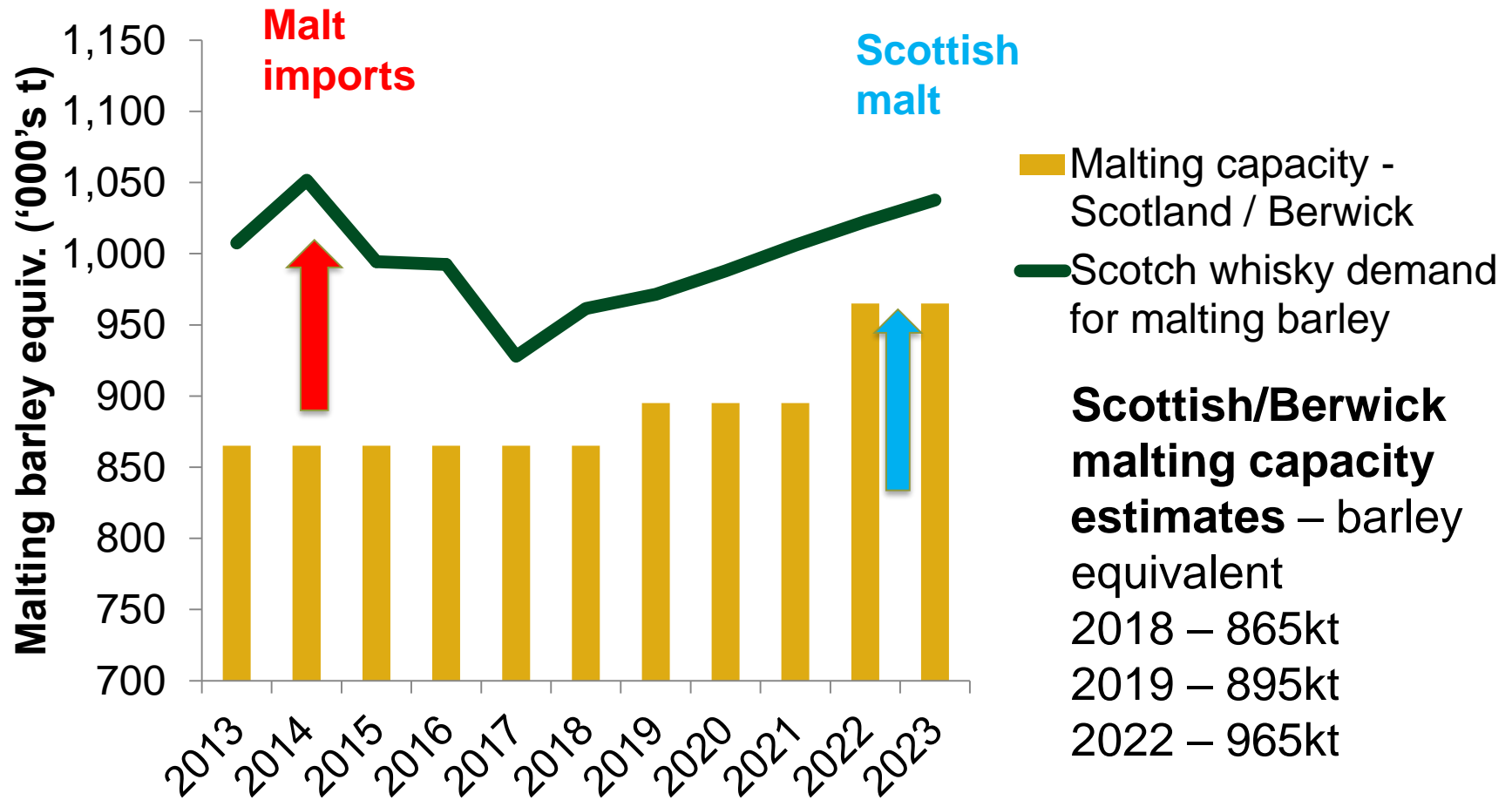


# Scottish malting barley in 2019 – price premium collapses to £17/t over feed, parity wi Engl malt. bar.



# New maltings planned - will need local barley to replace imported malt – US malt whisky tariffs?

- Bairds +30kt capacity in 2019, + 70kt by 2022 -



Source: Scotch Whisky Industry Review  
2017, SAC Consulting

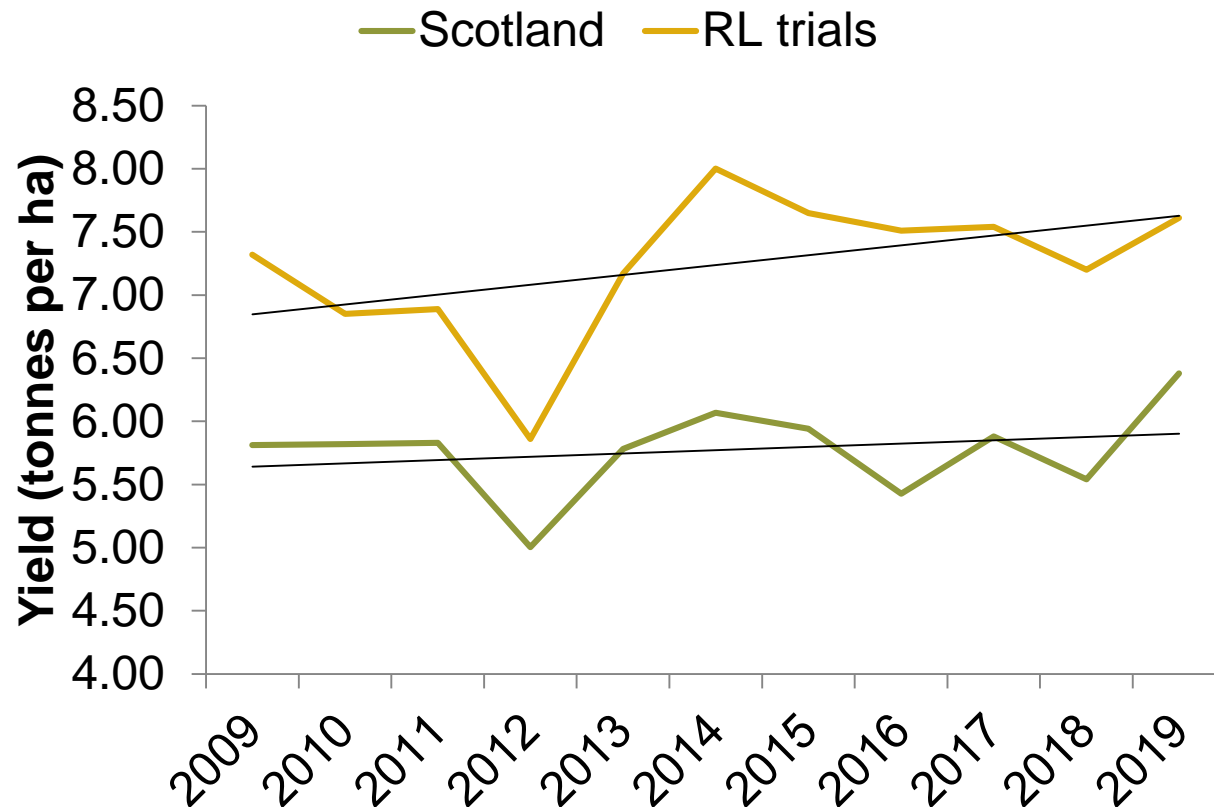


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# Higher spring barley yields in Scotland

Has Laureate raised the bar on farm trend yields?



Source: AHDB, Scottish Government

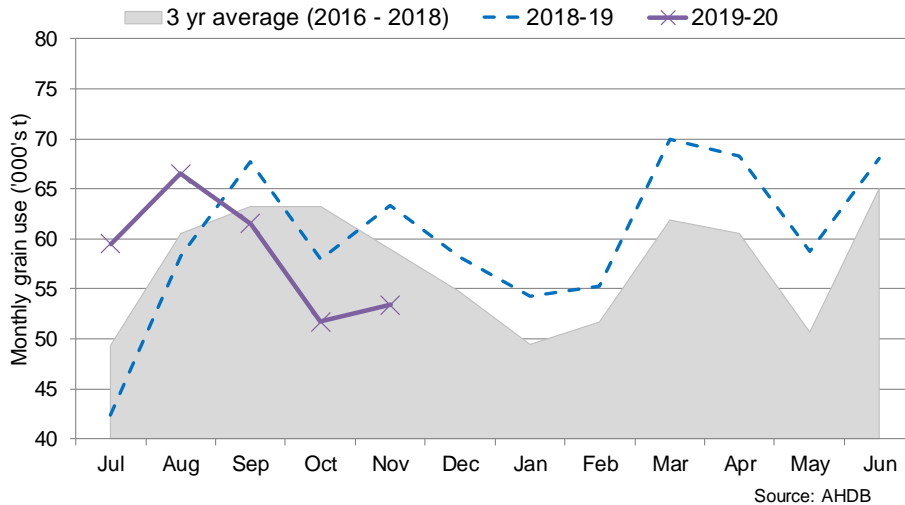


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# Scottish wheat loses its price premium in 2019 on bigger crop - maize?

## Distilling wheat use



## Premium of Scottish wheat over English

- 2018 = + £5.60
- 2019 = + £1.00

**Why** - 37% rise in Scots wheat crop to 937kt **+285kt**

Distilling wheat use weak.

Enough of a discount to encourage maize distillers to switch to wheat?

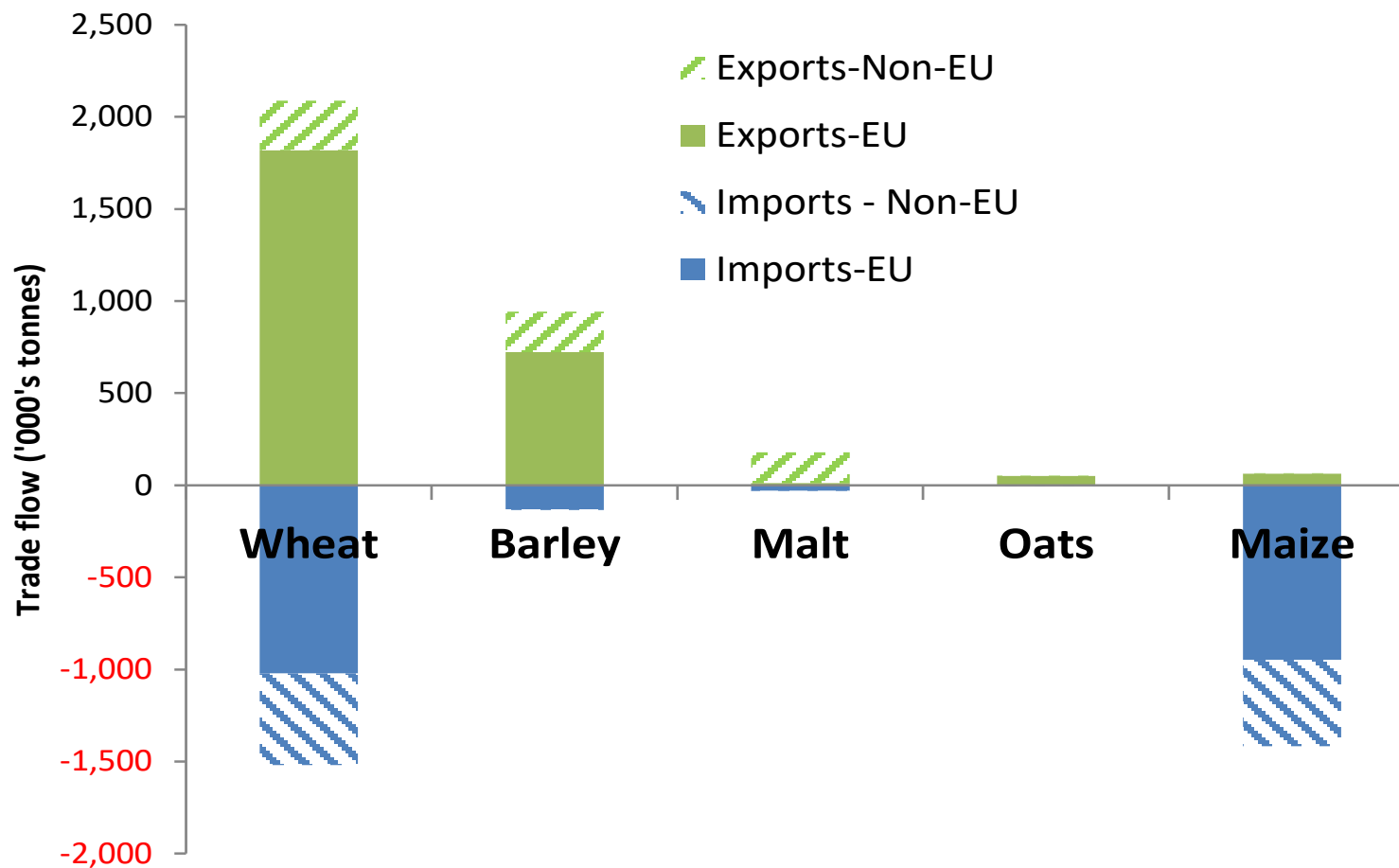
## New crop Scottish wheat at a discount to French maize.

Delivery date	Spot - Jan'19	Spot - Jan'20	New crop - Nov'20
Wheat – delivered	188.5	158	174.0
Fr. Maize delivered	187.0	164	181.0
<b>Fr. Maize - premium</b>	<b>- 1.5</b>	<b>- 6.0</b>	<b>- 7.0</b>



# Trade with EU critical for all grains

– 70-80% of both UK imports and exports



Source: 5yr average, AHDB. SAC  
Consulting



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# Proposed post Brexit UK tariffs

- UK diverges from EU, removes protection for cereals

	EU TRQ	EU Tariff under TRQ	EU Tariff out of TRQ	UK Tariffs
Wheat (soft)	4.0Mt	€12/t	€95/t	£0/t
Barley	0.557Mt	€16/t	€93/t	£0/t
Malt	n/a	n/a	€131/t	£0/t



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\* Free Trade Agreement

# Cereals and Brexit

UK has announced zero Tariffs on 3<sup>rd</sup> country trade

- **Net result**
- Imports from EU and the world will be tariff free
- Removing previous protection afforded as an EU member. This may lower UK prices.
- Continued tariff free access of EU cereals (Danish malting barley, Fr wheat and maize) and cereal products (malt)
- Opening UK for first time to tariff free imports from new suppliers e.g. N America, Brazil, Ukraine, Australia

# Future subsidy support post Brexit

- some clarity to 2024, beyond?

- **UK** - 2019 to 2020 – as is (cut to LFASS in Scotland) + Convergence
- **Scotland**
  - - 2021 to 2024 – continue Direct Payments system, some changes,
  - > Post 2024 + continue with Direct Payments? Would coupled payments be allowed – SUSS, SBCS? Simplification? More Public Good?
- **England**
  - - 2020 to 2027 – England phase out Direct Payments
  - - >Post 2028 - England move to “public money for public goods”



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# How do the prices you need compare with the market? SAC standard costs vs the current forward market for hvst 2020

		Winter wheat	Spring barley - malt	min price	Spring barley - feed (undersown)	Oilseed Rape
Yield - grain	(t/ha)	9.5	6.5		6.5	4.5
Current price - grain	(£/t)	160	165	175	130	310
<u>Target yield</u>						
Break even cost	(£/t)	132	164	164	167	248
Current margin	(£/t)	28	1	11	-37	62
Profit margin		18%	1%	7%	-22%	20%

**Use AHDB Farm Bench for your farm**

- These are SAC estimates for illustration



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# What do you do if the market is below the cost you need?

- No easy answer – today .....it takes time to address
- **1) What can you do more to lower your costs?**
- Work with a benchmarking group – e.g. AHDB Crop Bench to identify opportunities
- **2) Extend your marketing window** - market opportunities come and go – you need to think ahead
- **3) Spread your sales** – cover today's costs with today's sales – autumn sowing costs



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# Scottish grain prices - down in 2019 – harvest 2020 values £20/t higher (contracts more)

	Last year	This year			Next year
	Dec-18	Dec-19	Change		Nov-20
	(£/t)	(£/t)	(£/t)	(%)	(£/t)
Wheat (ex-f)	171	143	-£28	-16%	163
Feed barley (ex-f)	165	118	-£47	-28%	138
Distil. Barley (ex-f) # (Oct)	217	125	-£92	-42%	183
Brew. Barley (ex-f)	203	130	-£73	-36%	130
OSR (del.)	317	333	+£16	+5%	310



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#last traded values October

# Key drivers in the cereal market

## 1) World market down but not out

2019 – good EU and world harvest depresses prices but stocks still decline

2020 – world planting need to rise – are prices high enough? .

## 2) UK still has a large surplus of wheat and barley – export pace too slow

## 3) Wet, wet, wet – UK wheat area down this autumn, how much to carryover?

## 4) Malting barley market could be well supplied in 2020

But still potential for distilling market in Scotland to diverge

## 5) Brexit calm before the storm during 2020?

## In an uncertain world focus on what you can control

Financial resilience, reduce trading risk post Dec 2020,

keep your market options open, spread your risks



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# Market discussion

**1) With Brexit and market volatility high - how far forward should farm businesses be marketing grain forward?**

# Market discussion

**2) If Boris gets Brexit done by 31 January – will it still affect me in 2020 or can I ignore it for a year?**

# Market discussion

**3) What can the Scottish cereal industry do to encourage more Scottish grain is used in whisky?**

# Market discussion

**4) How important will UK ethanol be in supporting wheat prices in 2020?**



# Market discussion

**5) Should we be looking at long term alternatives to growing feed barley?**

# Market discussion

**6) Are you ready to go fully digital on arable production and marketing in the next five years?**



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**Europe investing in rural areas**

# Thank you

# Should I sell forward given the heightened currency uncertainty? Well yes, with care.

- The sterling exchange rate is a natural hedge against a “Hard Brexit”; weaker currency = higher grain prices.
- Input costs will also rise but net farm income effect is positive
- On the other hand a favourable Brexit outcome and the £ strengthens = lower grain price.
- Response? – sell forward a proportion of expected yield as usual to cover current costs (seed, fert, fuel) and sterling costs (rent, interest), hold grain unsold to cover future costs

# Wheat use in Scotland dominated by distilling

## Distilling

- UK / Scotland use 500kt to 600kt
- Soft Group 3 & 4 well suited to Scotland
- Specific weight can be an issue in a poor year
- Distilling demand drives the Scottish wheat premium over English market (+ £5 -10/t)
- Main competition is imported maize

**Brexit** – “No deal” risks low to moderate – zero tariff on spirits, low or zero tariff on maize, but may re-direct more English wheat to Scotland