SRDP FARM ADVISORY SERVICE

January 2017

News in brief

The ups and downs of 2016

Bumper global harvests, fluctuating farm-gate prices, favourable currency movements, Brexit, delayed CAP payments are just some of the factors that impacted on the industry in 2016.

Low farm gate prices during the first half of the year, combined with delays in CAP payments resulted in many farmers having to increase borrowings just to tick their businesses over. It is fair to say it was a difficult start to the year for many farmers. However, as the year progressed, driven by a weaker pound and more favourable supply and demand factors, commodity prices lifted to levels higher than they were at the end of 2015, bringing some relief. Furthermore, a 16.5% weakening of the pound against the euro compared to the previous year helped to lift Basic Payment Scheme payments. Input costs have also recently increased, so the full benefits of improved farm gate prices and boosted CAP payments may be tempered.

Although prospects for 2017 are looking more promising than they did earlier in the year, there is still the uncertainty of Brexit and its implications. With official negotiations expected to commence in the spring, further details of the type of agreements the UK will be seeking from the EU and other countries will hopefully become clearer.

Merry Christmas and good wishes for a prosperous New Year
from
the Agribusiness News team!

Next month…

- Sector Focus: Vegetables
- Management Matters: Spring cropping decisions
- Input costs: Fertiliser price update

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Agricultural Policies in 2016…

Without a doubt the headline news for 2016 was the EU Referendum, which by the end of June had left many shocked by the majority vote to leave the EU (including those who voted for it!). CAP Reform and the introduction of new Scotland Rural Development Schemes also still featured and were important news.

Brexit

On the 20th February David Cameron, the former Prime Minister, announced that an EU referendum would take place on the 23rd June. This was the starting point of considerable discussions, debate and turmoil. Despite campaigning to stay in the EU, Mr Cameron wanted the decision to lie with the British people, and that it did. With a vote of 52% to 48% the UK voted to leave the EU. However, the results were not as simple as that, although England and Wales voted for Brexit, Scotland and Northern Ireland both backed staying in the EU, adding further fuel to the Scottish Government for a potential second Independence Referendum.

Following the announced vote that the UK wanted to leave the EU David Cameron resigned and was replaced a few weeks later by Theresa May, who without a doubt has a tough job on her hands. Decisions and agreements will have to be made on many key areas, including trade and immigration.

Article 50 of the Lisbon Treaty is expected to be triggered by the end of March. This will commence the two years of formal exit negotiations with the EU and means that by the summer of 2019 the UK may have left the EU though delays seem likely. Only once these negotiations begin will we start to get a clearer idea of what kind of deal the UK will seek and questions about the single market, other trade deals, tariffs, direct payments, market volatility, regulations, immigration, etc will be answered.

Despite the current uncertainty that has arisen from Brexit, the UK and Scottish Government's have indicated to farmers that new agricultural support policies will be developed to replace existing arrangements. What exactly these are only time will tell but it does at least provide some reassurance.

Greening

Going into 2016 there was uncertainty over whether there would be equivalence options for crop diversification and permanent grassland. However, by the spring the situation was clear, the equivalence option for crop diversification would not be implemented but the compulsory equivalent Nutrient Management Plan requirement would be.

Despite the Scottish Government's intention of trying to help farmers meet the two and three crop rules an agreement could not be reached with the European Commission in time, which was disappointing. As far as the decision to implement a compulsory equivalent Nutrient Management Plan is concerned, this was deemed by many as gold plating.

At the start of the year, the European Commissioner issued a consultation to seek views from farmers and the industry on the first year of the greening requirements. The findings from this review were to be used to inform development of a revised greening package for 2017. However, as we leave 2016 behind no official announcements have been made about greening changes for the year ahead. Whether some EFA options will be merged, more flexibility given in sowing dates of green cover and catch crops, changes are made to the EFA weighting factors or the EFA fallow period is extended, we will just have to wait and see.

Loan schemes

During 2016 two loan schemes were made available by the Scottish Government. The first one was launched in the spring to help support farmers and crofter's access loans whilst they were waiting for their 2015 Basic Payments. The second was launched in the autumn and allowed eligible farms to receive 80% of their anticipated Basic Payment Scheme and Greening payments for 2016, capped at €150,000.

These schemes were welcomed by the industry and helped many farmers who were experiencing cash flow difficulties due to delayed CAP payments.

What will 2017 bring?

Discussions and debates on Brexit will ramp up in 2017. Although the UK has not yet defined the type of relationship it intends to seek with the EU, they have indicated that they want the UK to retain access to the EU Single Market, while reducing the numbers of EU migrants who travel to the UK under the freedom of movement; potentially two incompatible goals?!

Ensuring the UK seeks the best trade agreements with the EU and other countries will be critical to the industry, as will the development of agricultural policies that continue to support farmers.

2017 will make for an interesting year as further details of Brexit and its potential impacts transpire.

gillian.reid@sac.co.uk, 07803 222362

2016 – bumper crops again but strong demand helps ease the strain

Harvest 2016 was a record and the fourth year in a row when world production exceeded demand. World grain stocks rose to a record 500mt, however there was also a large increase in world demand. The result is that world grain stocks to use ratios are expected to essentially stabilise 24.6% (24.7%). This suggests that while overburdened, the world grain market situation is no worse than last year and global grain prices are broadly similar to a year ago whilst oilseed prices are higher.

Within the EU, very poor harvests in both yield and quality terms in France and Germany have supported EU prices.

The good quality of the UK cereal harvest has helped exports into Continental and North African markets. UK grain prices are 20-30% higher than a year ago largely due to the weaker pound following the Brexit vote, but also boosted by a smaller UK grain surplus and EU shortfalls in specific sectors such as; milling wheat, rape and malting barley.

Historic and future grain price summary

	Last year	This year			Next year
	Dec-15	Dec-16	*Change*		Nov-17
	(£/t)	*(£/t)*	*(£/t)*	*(%)*	*(£/t)*
Wheat	106	132	*+26*	*+25%*	128
Feed barley	96	114	*+18*	*+19%*	108
Malt. barley	110	129	*+19*	*+17%*	145*
OSR #	260	332	*+72*	*+28%*	315

Source: AHDB/SACC, Ex-farm Scotland/*England, # delivered

2017 – UK grain market to tighten?

With the 2016 global harvest almost complete and indications of a good crop in Australia where the combines are starting to roll, the market is now focused on conditions for next year's crop. This is wide open at present. So far good autumn sowing conditions have been seen in the EU, Ukraine and Russia. Unless there is severe winter kill, spring weather will be the next driver of crop area and condition. Trump's surprise win in the US presidential election so far appears to be boosting the strength of the US dollar due to his plans to raise; infrastructure spending, borrowing and interest rates. The pound remains subject to the UK's Brexit negotiations and there are no signs that the uncertainty over this will end any time soon. The euro also has it's Italian banking and other woes so do not assume a weak pound is guaranteed.

Within the UK, the AHDB 2017 early-bird survey sees lower wheat and rapeseed plantings and more spring barley. With a 2mt fall in UK cereal opening stocks likely next season unless yields are above average grain availability and the exportable surplus will fall sharply.

With the weather, markets and politics remaining as inscrutable as ever now is a good time to see what farm businesses can do within their farm gates.

Crop gross margins for 2017 currently appear positive, particularly for spring malting barley based on current forward contract prices and trend yields. Forward prices can be set for a proportion (typically 50%) of next year's spring distilling malting barley crop. Typically this is being priced at £20 over LIFFE wheat futures i.e. £150-155/t net. This represents a good premium over prices this harvest (£129/t). The value for any unpriced barley within contracts is currently unknown and a conservative total average value of £145/t has been assumed.

Estimated cereal crop gross margins

Harvest	Yield	Price	Output	VC	GM
Wheat (1st)	*(t/ha)*	*(£/t)*	*(£/ha)*	*(£/ha)*	*(£/ha)*
2015	10.1	114	1,317	443	**874**
2016	9.5	125	1,356	437	**919**
2017	*9.0*	*128*	*1,320*	*438*	***882***
S. Barley - malting					
2015	6.3	119	884	300	**584**
2016	5.7	129	858	285	**573**
2017	*6.0*	*145*	*1,000*	*263*	***737***

Source: SAC Consulting, output includes straw sales

The opportunity to fix a proportion of next year's cereal harvest at prices close to or above current levels particularly for malting barley offer the chance to cover off input costs.

Farm Accounts Scheme data indicates that the gap in performance between average and top cereal producers remains as large as ever. In 2014 top 25% producers had yields 25% higher and costs 30% lower so there is room to improve for many.

- Global grain stocks high but rising demand may offer price support in 2017 if a weather problem emerges, spring 1st crunch point.
- Prospects for malting barley pricing this spring are currently looking the best in recent years.
- Opportunity to fix a proportion of next year's grain sales to cover input costs and hedge against currency and market movements.

julian.bell@sac.co.uk, 07795 302264

A pretty good year for beef

Suckled calf producers can look back favourably on 2016 with store prices generally strong. Scottish producers had the added benefit of an enhanced calf subsidy. Finishers will also be relieved with the sustained rise in prime prices from May to October and though plateauing since, are ending the year well above year earlier levels at a base of around 370p/kg dwt for steers here in Scotland. The big drop in the value of the sterling following the BREXIT vote accounts for much of the price improvement. Having traded around 70p/€ through much of 2015, the pound weakened steadily through early 2016 til the referendum. Thereafter it immediately dropped to 85p before eventually topping 90p in late October, though it has strengthened sharply since to currently lie at 84p/€.

Irish beef became far less competitive as the pound plunged and cattle prices there suffered. Remember, about half of the Irish Republic's beef exports come to Britain. Besides the tough exchange rate, the Irish also bemoan that the British retail trade is far more supportive of British (and Scotch) beef these days, which may surprise many farmers here. No doubt domestic processors have felt the squeeze, jammed between increasing cattle prices and supermarkets lowering the price of beef on the shelves. A weaker pound has also helped the competitiveness of our exports, providing further support for our cattle prices.

Domestic production will probably be the highest in five years, partly thanks to the increased cull of dairy cows caused by the collapse in milk prices. It would have been higher, but for the combination of poor summer growth rates at grass and processors changing price grids to encourage the finishing of cattle at lighter weights.

Problems in euroland?

In August, HSBC bank economists predicted that the pound would reach parity with the euro. At the time considered a bold (i.e. daft) prediction by many other forecasters, given the growing problems in Italy, where an early general election is now possible. So, any dip in the fortunes of sterling caused by the triggering of Article 50 in the spring, could be more than offset by euro fears.

If the euro weakens back into the 70p's, Irish beef imports may pick up. And given Irish production will be at its highest in a decade, cattle prices there are expected to be low and hence very competitive. While domestic production should ease back as the dairy herd stabilises, less production here is unlikely to help the cattle price. To sum up, a good cattle price in 2017 may depend on the economists at HSBC being right.

From CAP to BAP

If you believe the timetable, we will no longer farm within the CAP come 2020. Instead a British Agricultural Policy (BAP) may provide the support framework. What might this look like? Oddly perhaps, not that much different to the CAP post 2020.

Recent research for the European Parliament, by Professor Alan Matthews, puts together a strong case for phasing out area based decoupled payments; recommending that funding instead be used to improve competitiveness, risk management and the provision of public goods. The delivery of, for instance, environmental goods, would be subject to contract with payment by results.

While EU politicians will almost certainly water down the hard economics of Matthews' proposals, a British government would be more accepting. Moreover, this policy mix could provide the flexibility needed by the home countries to meet their specific priorities.

Besides ticking the devolution box, reducing the area payment (over time) would meet budgetary savings and give the UK government the scope to shape future trade deals. Whether the latter will result in our beef imports in 10 years time being from Ireland, the USA, Australia or Uruguay, is moot.

kev.bevan@sac.co.uk

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

'000 tonnes	2010	2011	2012	2013	2014	2015	2016	2017
Production	909	935	882	848	878	882	**922**	**910**
Imports	397	381	409	389	410	430	**423**	**430**
Exports	136	174	143	131	141	132	**148**	**150**
Consumption	1178	1142	1148	1106	1146	1181	**1197**	**1190**
UK suckler cows ('000 hd)	1657	1675	1666	1611	1569	1576	1596	
Scottish suckler herd ('000 hd)	468	471	462	447	437	437	437	
UK dairy cows ('000 hd)	1857	1847	1796	1782	1841	1895	1897	
Scottish dairy females +2yrs ('000 hd)	218	216	213	211	218	223	217	

Potatoes

Market summary

- For the week ending 2 December the AHDB's Weekly Average GB price for all ware potatoes was £196.06/t virtually unchanged (down by £0.37) over the previous week. The Weekly Average Free-buy price which excludes all forward contract material was £227.38/t down £0.72 over the week. Free-buy prices are now stable following the price surge driven by the rush to buy in the run up to the Christmas holiday period

Storage Update

Dramatic swings in temperatures, (-4 to 14 degrees C in the same week) have been challenging for store managers. Overall stocks are reported to be keeping well with wastage mostly arising from growth cracks, greening and scab. Across Scotland quality is reported to be good to very good.

Prices stabilise after the buying rush

Scottish packing prices are firm as buyers continue to source material for the Christmas holiday period with interest focussed on the best material. Salads are trading at £330-£360/t, King Edwards are at £215-£240/t with Maris Piper at £180-£210/t.

The Christmas holiday period is a time when consumers trade up on varieties in a quest for the best roast potatoes. Hence King Edward and Maris Piper win out over standard varieties. The importance of the festive month is illustrated by the fact that according to AHDB 11% of annual fresh volume is sold at this time.

In the bag market there is good demand for the best chipping material from East Lothian. Prices remain steady with Maris Piper and Markies trading around the £200/t mark. General bagged ware is making £170-£180/t which includes Piper and Wilja. Bagged Hermes and Picasso seed tops are making £130-£140/t.

GB Weekly Average Price 2016 and 2015 Crop (£/t)

Crop Year	2 Dec	25 Nov	18 Nov	11 Nov
All potatoes 2016	196.06	196.43	188.24	185.19
All potatoes 2015	149.57	144.46	140.12	141.97
Free-buy 2016	227.38	228.10	217.40	211.56
Free-buy 2015	144.02	138.26	134.66	138.13

Source: AHDB

GB potato production 5% down

The AHDB's first provisional estimate of GB production for the 2016 crop is 5.22 million tonnes down 5% from the previous year. Average yields across GB are estimated at just below 45t/ha, down 8% on 2015. The contraction in production is against a backdrop of a 4% increase in the planted area which is estimated at 116,000 ha.

According to AHDB the 2016 crop is the fourth smallest potato crop on records going back to 1960. It is the lower gross yields which have resulted in the lower production figure with higher wastage caused by cracking and greening playing a part.

The picture varies across GB depending on market sector and geography. Scottish yields are reported to be showing less of a reduction compared with those from south of the border. In particular yields for Scottish seed and packing crops have been less adversely affected.

This year's low production figure follows on from last year's contraction of 4.5% which resulted in supply issues later on in the trading season. The indications are that supply this year could be even tighter in many market sectors.

GB Potato Production 2014 - 2016

	2016	2015	2014	% Chg
Total plantings (000ha)	116.2	112.0	121.1	+3.75
Average yield (t/ha)	44.9	49.0	47.4	-8.4
Total production (mt)	5.217	5.486	5.746	-4.9

Source: AHDB % Chg. – Percentage change over the previous year

North European production down 3%

Potato production (excluding seed and starch) in the NEPG countries for the 2016 crop is estimated at 24.55 million tonnes, down 3% over the previous year. All NEPG countries recorded a larger planted area with a combined increase in area of 4.8%. The drop in production is largely due to lower average yields which are down 7.5% over 2015 to just under 45t/ha. Belgium and the Netherlands recorded the largest yield decreases down by 13.7% and 12.8% respectively. Yields are down across all five NEPG countries as a result of weather variations including flooding and heatwaves bringing production down below 25mt. Consequently supply is likely to be tight for the remainder of the trading season.

NEPG Potato Production 2015 - 2016

	2016 mt	2015 mt	Change %	Average Yield t/ha
GB	4.58	4.82	-5.0	46.2
Belgium	4.01	4.07	-1.5	44.2
Germany	7.49	7.38	+1.4	45.5
France	5.11	5.23	-2.3	40.8
Netherlands	3.36	3.81	-11.7	46.2
TOTAL	24.55	25.31	-3.0	44.4

Source: NEPG Change %. – % change over the previous year

iain.mcgregor@sruc.ac.uk, 01292 886190

The year things changed

By voting to leave the EU, the long-term trading prospects for the British sheep industry became more challenging. While the detail of our new trading arrangements may not be known for some time, the final deal for the Scottish and British sheep industry will almost certainly be worse than the status quo – potentially much worse.

Still, the short-term consequences were very helpful. The tail end of the 2015 crop season did not reach the heights that finishers would have liked as price levels plateaued below the three year (2013-2015) average. Though in-spec hoggs, that met (super)market requirements, made over £90 each, highlighting the increasing need for farmers to produce what the market wants.

Early (2016) season producers did not achieve the prices needed to justify high cost systems. However, by the end of May producers getting lambs to market were smiling as the price strengthened sharply and though the price dropped back in June, by mid July, well fleshed 19kg dwt lambs were making £80. A combination of supermarkets switching fully to British lamb, Ramadan, plus “gutless” pasture limiting lamb supply, explain the good July prices.

A much better exchange rate was also helping by this point thanks to the BREXIT vote. Yet although a very favourable exchange rate helped through the rest of the year, export trade has not been that wonderful with demand for light lambs awful. So the fact that the base Scottish price never fell below 370p/kg dwt through the autumn, was probably thanks to a lower lamb kill caused by difficulty in finishing lambs, and the good old store buyer. Unfortunately, the lamb market has not improved in the run up to Christmas, meaning that short keep finishers will have struggled to make a margin.

The cull ewe trade over the first half of the year, tracked well below the excellent levels prevailing in early 2015, peaking at £78 in April. By July the cull price had come into line with 2015 and bottomed at £49. Since, however, it has disappointed and is ending the year well below year earlier levels.

Exchange rates key in 2017

How the pound trades against the euro and Kiwi dollar, will probably be the key price driver in 2017.

Strong arguments can be made for both a weak pound (BREXIT negotiations) and a weak euro (quantitative easing by the ECB, elections in France, Germany and maybe Italy, plus BREXIT negotiations). If the pound stays near the current, firmer level of 0.84£/€ through the coming summer, glut period, supermarket spec lambs may well be the wrong side of £70.

Again, the response of the store buyer will be important in supporting the market. So a good start to 2017 is important in giving them confidence. The prospects are mixed. AHDB estimate that more lambs are being carried over into the New Year (a negative). But given the strength of the Kiwi dollar allied to yet further decline in lamb production there, competition from imports should be less.

As for the 2017 lamb crop, a slightly larger crop is predicted given the breeding flock is bigger. Hence, hope for a weaker pound.

Key Muslim Festivals 2017	
25 April	Lailat al Miraj
28 May	(start of) Ramadan
27 June	Eid-al-Fitr (end of Ramadan)
31 Aug	Waqf al Arafa (Hajj)
4 Sept	Eid-al-Adha
22 Sept	Hijra (Islamic New Year)
1 Oct	Day of Ashura
1 Dec	Milad un Nabi (prophet’s birthday)

And what of BREXIT negotiations? The chances of the UK government opting for a hardline negotiation strategy, are rising. For there seems a growing realism that a more nuanced approach will almost certainly get bogged down like the trench warfare of a 100 years ago. For the UK sheep industry, the loss of tariff free trade with continental Europe would be extremely negative.

kev.bevan@sac.co.uk

UK market situation and outlook

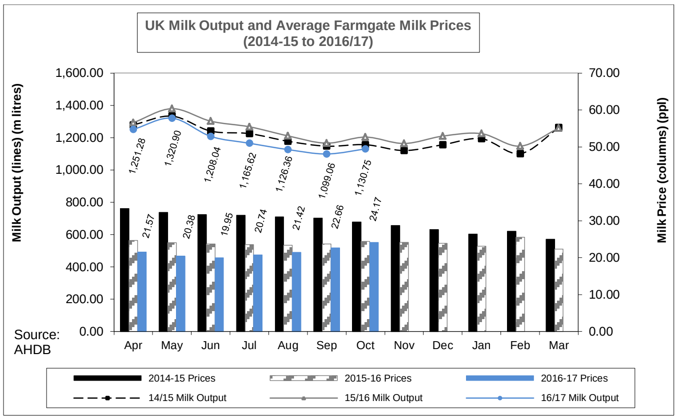
‘000 tonnes	2011	2012	2013	2014	2015	2016	2017
Production	289	276	289	298	302	**291**	**298**
Imports	103	100	116	108	109	**104**	**100**
Exports	103	98	109	108	95	**104**	**108**
Consumption	290	277	296	298	316	**291**	**290**
UK breeding flock (‘000hd)	14868	15230	15561	16026	16024	16092	
Scottish ewe flock (‘000 hd)	2642	2624	2616	2604	2588	2618	

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

Average prices increase during Oct '16

Latest milk production figures show that UK milk output for October 2016 is estimated at 1,130.75m litres (before butterfat adjustment). This is 72.94m litres lower than October 2015 output. UK cumulative production up until the end of October 2016 is currently estimated at 8,302.01 litres which is 520.71m litres lower than last year's cumulative total.

The average price across the UK increased to 24.17ppl during October 2016 (an increase of 1.51ppl from the previous month).



Milk price round-up for January 2017

Recent price announcements for Jan 2017 include:

- Graham's Dairies – 2.00ppl increase from 1 Jan 2017, taking farmgate milk price up to 25.50ppl. After abandoning their A & B pricing mechanism from 1 Dec 2016, Graham's suppliers will be hoping for less price volatility in the year ahead.
- Müller Wiseman – Müller non-aligned suppliers are to receive a price increase of 2.50ppl from 1 Jan 2017. The price increase takes the farmgate price level up to 25.44ppl. Müller's supplementary payment for Nov 2016 is confirmed at 2.623ppl.
- Yew Tree Dairies – 1.50ppl price increase from 1 Jan 2017. This takes the standard litre price up to 26.00ppl.
- Lactalis – 2.50ppl price increase from 1 Jan 2017. See table below.

Annual Average milk price estimates for January 2017 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	27.50
First Milk Balancing- A price (90% of production). [1,2]	23.24
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein-A price (90% of production). [1, 2]	24.21
Müller Wiseman- M&I - Müller Milk Group [1, 3]	25.44
[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] *December 2016 prices stated. January 2017 prices awaiting release.*	
[3] *No monthly supplementary payment included in the price estimate.*	

Cream almost £2,000/ tonne in Nov 16

AHDB report that UK cream prices have risen to around £1,990/tonne during November 2016. This represents a return of around 11.69 ppl for liquid milk processors that are able to sell cream onto the market. UK cream prices have risen dramatically during 2016, going from £900/tonne during January 2016 down to £800/tonne by May. Cream prices started to rise from September 2016, when they reached £1,710/tonne. Rising values for dairy commodity products has meant that cream is of increasing value as one of the key ingredients for butter and powders. Unsurprisingly, the demand for cream increases during the run-up to Christmas. It will be interesting to see how cream prices hold up in the New Year and whether commodity price movements continue to support cream values.

Commodity prices continue to rise

Dairy commodity prices continued to rise during Fonterra's latest online GDT auction (6 Dec 2016) when the weighted average price across all products climbed to US $3,622/tonne, representing a price increase of 3.5% from the previous auction. This is the fourth consecutive auction in which prices have risen via the GDT platform.

UK dairy commodity prices (£/ tonne)	Nov 2016	Oct 2016	Jun 2016
Butter	3,800	3,750	2,350
SMP	1,850	1,860	1,300
Bulk Cream	1,990	1,930	1,100
UK milk price equivalents (ppl)	**Nov 2016**	**Oct 2016**	**Jun 2016**
AMPE (2014)	31.46	31.31	18.93
MCVE (2014)	33.68	33.95	19.63

Source: DairyCo

In the UK, AMPE continued to rise and has reached 31.46ppl for November 2016. As wholesale prices continue to rise, the pressure is on milk buyers to ensure that increases are passed on to farmers.

Positive outlook for Irish milk output

Teagasc (the Irish Agriculture and Food Development Authority) has forecast that Irish milk production looks set to increase by around 6% to more than 7 billion litres in 2017. This comes after a 5% increase in 2016.

The researchers forecast that the average milk price in Ireland is likely to rise by around 20% to 32.2 euro cents per litre (approximately 28.00ppl, based on an exchange rate: £1 = €1.15). As a result, net margins are forecast to increase an average of 12.4 euro cents per litre (approximately 11.00ppl).

alastair.beattie@sac.co.uk, 07771 797491

Sector Focus: Land reform

The Land Reform (Scotland) Act 2016

The Land Reform (Scotland) Bill was passed by the Scottish Parliament on 16 March 2016, by 102 votes to 14, and received Royal Assent on 22 April. The individual elements of the Act do not become law until the relevant *Commencement Packages* are passed by Parliament. Five packages are expected between late 2016 and late 2018.

Commencement Packages

The timings of the various commencement packages may be subject to change, due to civil service and parliamentary workloads, but the table below shows the current estimate:

Commencement Package	1	2	3	4	5
Expected Date	late 2016	early 2017	late 2017	late 2017	end 2018

Late 2016 (package 1)

- The first package is due to go live on 23 December. This will bring into law the provisions of the Act regarding the **widening of assignation and succession rights**: a far wider class of relative will now be able to inherit or be assigned a secure tenancy.
- Brings in the right of a tenant to **object to a landlord's improvement**.
- Brings in sections on **diversification** and **irritancy for the non-payment of rent.**

Early 2017 (package 2)

- Brings a new type of tenancy, the Modern Limited Duration Tenancy (MLDT), which is broadly similar to the existing LDT.
- The requirement for tenants to register a pre-emptive right to buy in the Register of Communities Interests in Land will be removed. A landowner will be required to offer to sell to the sitting tenant (secure 1991 Act tenants only) in the first instance, if a sale is planned.
- Possibly the most important part of this package for tenants will be the introduction of a Tenants' Improvements Amnesty. The amnesty will allow a tenant to register improvements with the landlord where paper work has been lost or where Improvement Notices weren't served prior to the work taking place. The amnesty has the potential to increase the value of a tenant's way-go compensation and could also be very useful during rent negotiations, as a tenant can't be charged rent on their own improvements.

Late 2017 (package 3)

- The potential for a forced sale of a tenanted farm if the **landlord is in breach** of a Land Court order to remedy a material breach of their obligations to the tenant becomes law. The landlord has the option to "remedy" up to the last minute, so it is not expected that this reform will be widely used.

Late 2017 (package 4)

- The fourth package brings in the contentious reform regarding the **Right to Relinquish and Assign 1991 Act Tenancies**. Secure tenants will be able to offer to relinquish their tenancy to the landlord in return for payment. If the landlord chooses not to accept the offer, then tenants are able to assign the secure tenancy to a third party for value.

Late 2018 (package 5)

- A **new rent formula** will be introduced for secure 1991 Act tenancies. The rent will be based largely on the productive capacity of the farm and ultimately the Land Court must fix a *fair rent* for the holding. There are also some dramatic changes about how reviews will be initiated and the conduct required of the parties involved. The details of exactly how the new rent test will work are still to be finalised as the Scottish Government have commissioned some detailed rent modelling to make sure the new test will work on the ground.
- A new **Repairing Tenancy** will also be introduced.

michael.halliday@sac.co.uk, 07500 823626

Economic and global outlook

- UK economic performance has remained relatively robust in the face of Brexit though growth and borrowing forecasts have deteriorated.
- Sterling has weakened 7% vs the € and 13% vs the $ since the EU referendum vote in June.
- World food prices have started to increase particularly for vegetable oil, dairy and meat.
- Cereals prices are weaker due to a massive world harvest.
- Global livestock margins are improving which could stimulate production.
- Oil prices are strengthening which may help underpin food prices in the year ahead.

The UK economy

The UK economy appears to be performing relatively well following the Brexit referendum result though both growth and borrowing are expected to deteriorate. Although nothing has actually happened yet as we are still in the EU!

In their Autumn report The Office for Budget Responsibility revised UK GDP growth to 1.4% in 2017, down from 2.2% estimated in March. A weaker outlook for investment and therefore productivity growth were the main causes, while consumer spending remains strong. The public budget deficit in 2016/17 was revised up by £12.7Bn due largely to weaker tax receipts. The deficit will also be higher in future years with no chance of balancing the books before 2021. The fall in the pound will drive inflation above 2% in 2017 and peaking at 2.6% in 2018.

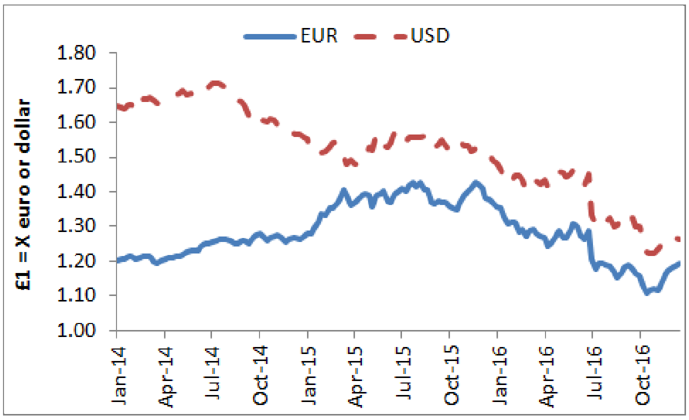
- Lower UK growth reduces the chance of an interest rate rise and may keep sterling weak.
- Consumer spending likely to be squeezed by low wage growth and higher inflation.
- While food prices will rise, cash strapped consumers are likely to trade down e.g. to beef mince, chicken and to reduce discretionary spending on higher value foods e.g. beef steak.

Exchange rates

Since the Brexit vote in June, Sterling has weakened 7% against the euro and 13% against the dollar. The lowest point was reached during the Tory conference when Theresa May talked tough on immigration and confirmed Article 50 would be triggered by March 2017 indicating a "hard" and "fast" Brexit. Since then, there have been some signs that a "softer" and "slower" Brexit may be possible.

The UK court decision that Parliament should have a vote on Article 50 suggests more scrutiny and a softer approach. Recent statements by the UK and EU suggest they both agree that a transition period will be needed after the 2 year Article 50 period ends to avoid a WTO rules (Tariffs all round) "cliff-edge". Sterling will continue to be strongly influenced by the state of Brexit negotiations. However, if the UK and EU adopt a more measured approach, with more time agreed to negotiate, market fears may recede and external factors could become more important. The weakness of Italian banks could come back to threaten the euro which <u>may</u> strengthen the pound vs. €. In the US, Trump's presidency looks like it could strengthen the dollar due to higher; spending, growth and interest rates this <u>may</u> weaken the pound vs. the $.

Sterling exchange rate with the € and $



Source: ECB

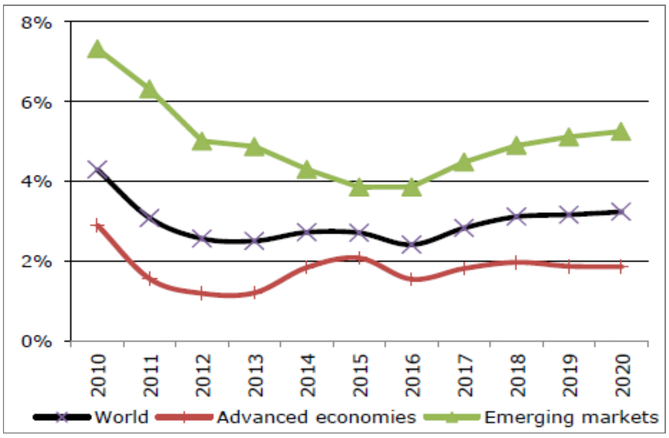
- Sterling likely to remain weak while Brexit uncertainty continues and if US$ gains but problems in the euro zone a possibility.
- A weaker £ greatly boosts UK farm gate prices and BPS payments but don't rely too heavily on forecasts as currencies are difficult to predict.

Global food price outlook

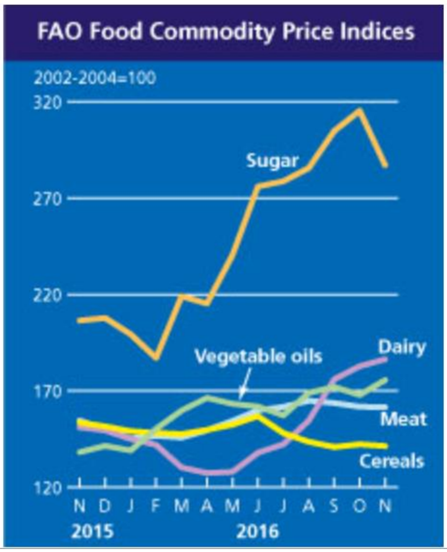
The global economy dipped in 2016 driven by a range of political and economic uncertainties but is expected to see higher growth in 2017. Higher global growth led by developing nations lends support to global food prices as consumer demand for higher value foods such as vegetable oil and protein rises.

Economic and Global Outlook

Global annual economic growth



Source: EC DG Agri



The FAO's food price index shows that most foods are starting to see a rise in price particularly dairy, vegetable oils and sugar. Sugar's price rise is more a reflection of crop problems in major producers. Dairy and vegetable oil price recovery reflects a combination of weak output and rising demand. Cereals are the main commodity to miss out on the price gains reflecting the fourth massive global cereal harvest in a row. But even cereals have seen huge demand growth (+97mt) this season.

Weak cereal prices and rising dairy and meat prices indicate better profitability of livestock production and hence a sharp rise in cereal usage. If global economic growth rises as expected, supported by rising crude oil prices as well, then the current trends towards higher global food prices are likely continue into 2017.

Crude oil prices have doubled from $28/barrel in early 2016 to reach a high of over $57/barrel in early December. Prices benefited from news that OPEC and Russia had agreed a production cut. Global stocks are still high but it is expected that these production cuts will help boost oil prices in the next six months. It is also expected that prices above $60/barrel will encourage greater US "fracked" or 'tight-oil' production which may help limit further price rises. However, in the next year rising oil prices look like they may be another factor helping support global food prices. Higher oil prices increase the use of vegetable oil and grain in biofuel production and raise the production costs of foods more widely. We may see higher fertiliser and fuel prices as a result but the overall impact should be positive for global and UK agriculture.

julian.bell@sac.co.uk, 07795 302264

Key economic data

General Indicators		Price indices for October 2016 (Defra 2010 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.25% (0.50% Mar '09)	Wheat	104.1	Seeds (all)	96.7
ECB interest rate	0.00% (0.05% Mar '16)	Barley	109.0	Energy	100.8
UK (CPI) inflation rate	1.2% (target 2%)	Oats	118.9	Fertiliser	79.9
UK GDP growth rate	0.5% (Q3 '16)	Potatoes (Main Crop)	117.5	Agro-chemicals (all)	97.4
FTSE 100	6,957 (15 Dec '16)	Cattle and Calves	123.4	Feedstuffs	105.3
		Pigs	102.0	Machinery R&M	112.8
		Sheep and Lambs	99.1	Building R&M	110.3
		Milk	98.0	Veterinary services	108.27

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