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February 2019

News in brief

No deal edges closer

Yet again we are no nearer to knowing what is going to happen to our relationship with the EU in less than two month's time. Whatever your view of the medium to long term benefits or otherwise of Brexit, almost no-one thinks that no-deal is the way to go about it.

You cannot unilaterally sever all ties with your largest trading partner and expect this to be without serious consequences no matter your confidence in human ingenuity to keep the show on the road.

Farmers and those in the supply and processing trades have spent a lifetime managing uncertainty and keeping food, feed, inputs and services flowing through periods of disruption and uncertainty. However, no-deal if it comes to pass, will push everyone to new levels of resourcefulness.

Key figures in the UK farming, processing, and retail sectors have written an open letter to Mrs May pleading to avoid a no-deal. They stress the shortages and rising prices for consumers that would result.

Farmers ears may prick up when they hear "higher prices" but be careful, it's not automatic that farmers would benefit. For instance higher prices are no use if your local slaughterhouse is only running three days a week due to labour shortfalls.

The good news is that the government is not ready for 29th March either, and there have been hints already from Jeremy Hunt that the Brexit deadline will be put back. As the Brexit deadline nears the pressure to buy more time for the sake of businesses (and consumers) on both sides of the Channel should grow. Otherwise all bets are off as to how a no-deal will affect agriculture, the economy and the consumer.

(For more details see this month's final Section on page 10).

Next month –

- Timber market and farm woodland update
- Fertiliser market outlook

Contents

Policy Briefs 2
- Uncertainty of Brexit rumbles on

Cereals and Oilseeds 3
- No-deal and UK cereal markets

Beef 4
- Has the market reached the bottom?

Potatoes 5
- Strong market expected through spring

Sheep 6
- Store prices up, 3 months to Ramadan and Easter

Milk 7
- Contract review delayed until after Brexit

Management Matters 8
- Spring cropping margins

Sector Focus 9
- Poultry - eggs

Brexit Options and Agriculture 10

This month's editor:
Julian Bell

The European Agricultural Fund for Rural Development
Europe investing in rural areas

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Uncertainty of Brexit rumbles on

As the 29th of March looms, are we any closer to knowing which way the tables will turn - renegotiate, general election, second referendum or no deal Brexit?

Despite Labour pushing for no deal Brexit to be taken off the table, Theresa May has said that the UK must retain the option of leaving without an agreement, meaning no deal Brexit can't be ruled out. Although there are some MPs who support the option for a second referendum the government does not, making this a less likely option. Theresa May could call a general election to break the Brexit deadlock but such actions are again unlikely. Brexiteers hopes are therefore being pinned on Theresa May managing to get her amended deal though Parliament, but, the main sticking point is the Northern Ireland backstop, which the EU may not back down on.

What is a no deal Brexit and what impact might it have? A no deal scenario is one where the UK leaves the EU on the 29th March 2019 without a Withdrawal Agreement and framework for a future relationship in place between the UK and the EU.

In a no deal Brexit scenario, UK farmers are likely to be faced with high tariffs to sell their goods into Europe, making it likely the UK would be priced out of the market, this would especially impact on the sheep sector. It is also likely that the UK would put tariffs onto imports, which would potentially protect farmers from the impact of cheap imports but the flip side would be that food prices would likely rise. A government briefing published at the end of last year did suggest that "in the event of no deal, the government could allow some products to continue to enter the UK without paying a tariff to keep food prices stable". Depending to what extent this was implemented it could have a significant impact on UK farmers. On the plus side, if there is one, in a no deal Brexit scenario trade agreements could be made with other countries, but, this will take time.

In the event of a no deal Brexit, the UK Government has published guidance on how to prepare your business for such eventuality, which is available at: https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal.

If Theresa May was able to get her deal through parliament and agreed with the EU, it is expected that in the short term trade between the EU and the UK would continue pretty much as is. The Brexit waiting game continues!

CAP Scheme update and payment timetable

2019 Agri-Environment Climate Change

The Agri-Environmental Climate Change (AECS) scheme opened for applications on the 16th January and will run for 12 weeks until 12th April or 31st May for collaborative projects, i.e. those that involve five or more businesses. Information about the scheme, including details on how to apply and current guidance can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/agri-environment-climate-scheme/

Note: Due to the number of applications last year the Improving Public Access element of AECS will not reopen for 2019.

National Basic Payment Support Scheme 2018

The 2018 National Basic Payment Support Scheme (NBPSS18) will close to applicants on the 8th February 2019. Farmers or crofters who have yet to take up their NBPSS18 loan offer should do so before this date. If loan offers have been misplaced, copies can be requested from local Area Offices or by emailing - NationalBPSScheme@gov.scot

2018 CAP payments timetable

Pillar 1 payments are expected to commence in March and be largely completed by the end of June and Pillar 2 payments are expected to commence in April with the majority being paid by the end of October, see table below.

Scheme	Payments commence	95% of total payments made by
BPS, Greening, Young Farmer	March 2019	End of June 2019
Voluntary Coupled Support Schemes (i.e. SSBSS, SUSSS)	April 2019	End of June 2019
LFASS	April 2019	End of June 2019
Rural priorities	May 2019	End of September 2019
Agri-Environment Climate Scheme (AECS)	May 2019	End of September 2019
Forestry Grant Scheme (FGS)	May 2019	End of September 2019
Beef Efficiency Scheme (BES)	July 2019	End of October 2019

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Cereals and Oilseeds

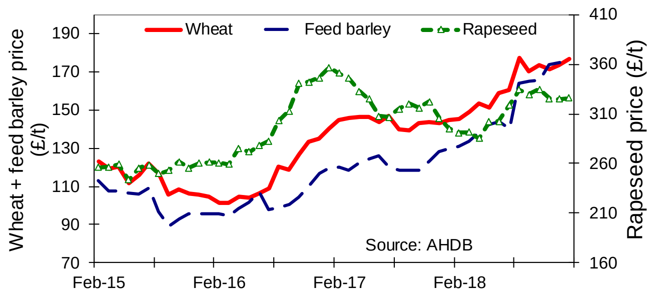
World prices up, UK prices fall

Global wheat prices have risen in recent weeks as Russia and Ukraine finally start to step back from export markets as they approach their intended export tonnages. EU wheat have risen as interest in EU wheat starts to pick up but EU exports remain 27% behind schedule so some catching up to do.

In the UK, cereal prices have fallen due to a 5% rise in the value of sterling against the euro to £1 = €1.15 in recent weeks. This has more than offset rising global price levels. Recent market sentiment has indicated a softer or delayed Brexit which has strengthened the pound weakening UK grain prices

In the last month, Scottish ex-farm wheat prices fell -£3.40/t to £171.50/t and UK barley prices fell -£2.40. Rapeseed prices fell -£1/t to £325/t delivered November 2018.

Scottish spot ex-farm grain and oilseed prices



New crop price drivers

The UK is expecting a rise in wheat output of around 1.5mt to 15.3mt in 2019 given trend yield due to a 4% rise in wheat sowings. This could give the UK a wheat surplus of 2.1mt compared to one of 0.5mt this season. What market this will face will depend on the global market and the outcome of Brexit and the UK's trading relationship agreed with the EU post 29th March 2019. Under a no deal arrangement the UK would face tariffs into the EU. This would likely to re-direct UK wheat to non-EU markets (N Africa) and to displace other imported grains; particularly maize. This means UK wheat would have to be cheaper than it otherwise would be to buy market share. However, given a likely devaluation in sterling then the net effect on UK prices may not be as pronounced.

Malting barley and no-deal

New crop malting barley prices in England are currently being restrained by the risk of a no-deal Brexit which would place tariffs on exports to the EU. The south of England typically exports around 300kt of brewing barley to Belgium and Germany. Right now, no one is selling cargoes past the 29th March. In Scotland, this issue had also delayed forward pricing of malting barley but now some forward contracts are out. One of the more common enables growers to fix 50% of their crop any time ahead of harvest at a £20/t premium over November LIFFE wheat futures and the remainder at harvest.

If there is a no-deal there may be implications for the malting barley sector. The UK is relatively self-contained with the capability to grow and malt enough barley to meet its domestic requirement. The UK traditionally has a surplus of malt to export and this is sent largely to non-EU destinations. Some of these may be subject to EU bi-lateral deals which the UK would no longer be party to, so some export markets may be affected. The most pressing issue could be the potential need to re-direct 300kt of English malting barley from EU export markets. This could be achieved by serving non-EU markets. There is also potential to re-direct some malting barley to Scottish distilling markets. However, this would need a switch to distilling varieties in the next few weeks and seed of key varieties is already sold out. Even if more English barley or malt was sent to Scotland, Scottish producers would still benefit from a transport cost advantage. The most significant factor in the pricing of Scottish distilling barley is therefore likely to be the size and quality of the Scottish crop. Already the area is expected to be 12k ha lower at 238k ha due to a rise in winter crop sowings. The rest is down to the weather. Equally a no deal Brexit is widely expected to see a further 10-25% devaluation in sterling against the euro and dollar which could prove a useful boost to grain prices. While input costs would also rise, net margins would benefit overall.

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Indicative grain prices week ending 25 January 2019 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Jan 2019	Mar 2019	May 2019	Hvst 2019	Nov 2019	Mar 2020
Wheat	Ex-farm Scotland	171.50	173.50	176.50	155.00	157.00	162.00
Feed barley	Ex-farm Scotland	171.00	173.00	176.000			
Malt. barley - distil	Ex-farm Scotland				174.00		
Malt. barley - brew	Ex-farm England#	195.00				170.00	175.00
Oilseed rape*~	Delivered Scotland	325.00			303.00		

Has the market found it's low?

Progressing through the third full week of January, the prime beef market remains flat at best. Although, for the first time since prices began to soften in mid-September, there are some signs of it having reached or nearing its low point.

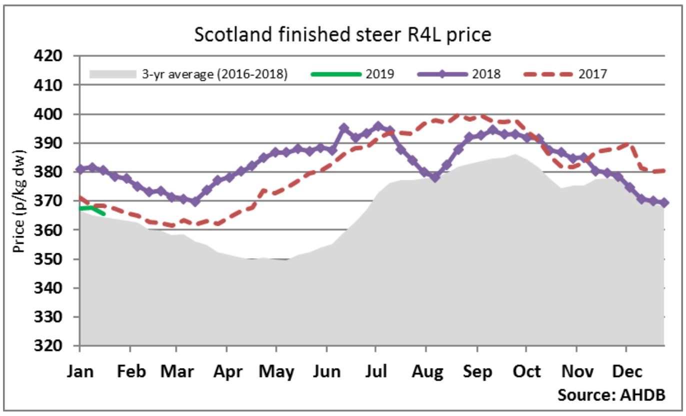
Back in the autumn surplus cattle were being offloaded to reduce costly winter feed requirements. For the 20-week period (from the beginning of September 2018 to the second week in January), clean cattle throughputs were 6% higher on the same period beginning September 2017. This gave processors plenty supply for the Christmas holidays hence 2018 beef markets went out with a whimper. Demand remains flat but back stocks are clearing.

- January is a difficult month to gauge with the first couple of full weeks (across Scotland and GB) trade only now being reported, at 25th January.
- Forthcoming months are set to bring other uncertainties too!

Scottish R4L grade steer base price averaged between 360-365p/kg deadweight at weekending 19th January. A similar carcase in Southern England will start at around 351p/kg dwt. While prime heifers receive a very similar price to steers, worryingly – as the source of future replacements – AHDB figures suggest GB processor throughputs (of clean heifers) was some 12% higher for the same 20-weeks period mentioned above. Considering cull cow numbers were also up 10% over this period either means prime heifer supply is going to tighten significantly and soon or the GB June beef herd census will take a knock.

The cull cow trade is a bit brighter with prices around the 230p/kg dwt mark. Market reports show a steady flow of cull cows coming through in the first few weeks of the month with liveweight prices creeping up from 100p/kg to average 110p/kg. Bigger beefy type cows are being keenly bid for.

Cow price is expected to increase in the coming weeks as traditionally consumers turn to mince and cheaper cuts at this time of year.



Can be too much of a good thing

Accepting the odd disaster, Scottish scanning rates look fair to good, similar in that respect to the ewe flock. This is not so true further south. In short, fewer calf registrations this spring will tighten rolling supply. Whilst too much supply lowers price, the reverse is not necessarily true. Price can only go so high, beyond which nobody benefits medium-term.

Veganuary

There are concerns over the publicity red meat is receiving as 'Veganuary' takes hold. January, however, is typically a time when consumers spend less and the current market position reflects this more so than consumers turning wholesale to meat-free substitutes. Undoubtedly, curiosity will capture a few more sales and, therefore, supermarkets are readying for increased demand for plant based food alternatives. Veganism remains a small proportion of lifestyle choices. Flexitarians (those consciously eating fewer meals that include meat) may become more of a 'thing' but that does not preclude the same consumer eating high quality home-grown beef. Falling per capita consumption is also different from nationally (and beyond) demand for high value beef either – all provided the industry addresses criticisms and presents a credible alternative image.

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

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
05 Jan	**367.4**	-2.1	0.1	**367.9**	0.4	4.6	353.8	14.5	242.8	211.8
12 Jan	**367.7**	0.3	-1.1	**364.8**	-3.1	-0.6	359.9	13.0	240.0	220.6
19 Jan	**365.7**	-2.0	-2.3	**365.0**	0.2	2.1	355.6	0.1	244.3	223.8

The finished cattle base price quoted by a buyer may be significantly different from the national average deadweight price presented above as these are averages of both commercial and premium cattle, reflect variation between processors and any bonus payment differences.

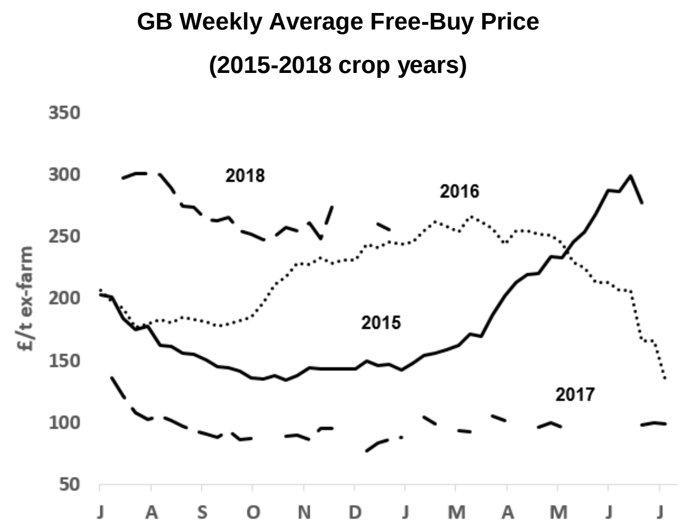
Potatoes

Market price update

- The GB Weekly Average Prices for the week ending 19th January was £196.02/t for free-buy and contract purchases, and £255.64/t for free-buy purchases.

- Compared to the previous reported figures on 12th January, contract and free-buy purchases were up by £0.50/t and free-buy purchases were down by £4.05/t.

Crop Year 2018/19	19 Jan	12 Jan	15 Dec
Average Price (£/t)	196.02	195.52	196.78
AVP change on week (£/t)	0.5	-1.26	3.96
Free-Buy Price (£/t)	255.64	259.69	273.51
FBP change on week(£/t)	-4.05	-13.82	25.23



Trading Season July - July Source: AHDB

The Scottish packing market remains strong with reports of some secondary quality stocks being sold into English markets. Free-buy grade 1 Maris Piper is trading around £360/t ex farm, an increase of around £30/t on last week. Grade 2 stocks of Piper are trading around £230-240/t ex farm. Free-buy stocks of whites have remained steady with Cultra, Manhattan, Harmony, Saxon, and Saphire continuing to trade between £210-240/t ex farm.

In England, packing prices remain firm but depend on quality. Free-buy grade 1 Maris Piper is trading around £350-400/t ex farm with lower quality stocks being purchased for around £270-300/t ex farm. Salad varieties Maris Peer and Charlotte are trading around £400-420/t ex farm with Gemson and Piccolo Star trading around £330-340/t ex farm. Good quality grade 1 stocks of King Edwards are trading between £350-390/t ex farm with lower quality stocks being purchased around £250/t ex farm.

The bagging market has been reported as being "slow" for much of January yet prices for good quality chipping supplies remains strong. In the East, Maris Piper is trading around £300-360/t ex farm with Agria trading between £320-400/t ex farm. Excellent quality stocks of Agria have been reported to reach £450/t ex farm. In the West, Maris Piper and Markies are trading around £300/t ex farm and in the South of England, varieties; Challenger, Sagitta, and Markies are trading between £270-300/t ex farm.

Every tuber counts

Potato packers and processors have altered specifications to reduce waste and maximise utilisation of this season's smaller crop. Reports suggest that there was a reduction in retailer promotions during the Christmas period in order to manage supply later in the season. Good quality stocks continue to command a premium price and it is anticipated that free-buy prices will rise towards the end of the season. However, during May and June 2017 (2016/17 crop), free-buy prices fell sharply because of an influx of stock flooding the market following a prolonged period of reluctance among growers to sell earlier in the season. Strong optimism for good end-of-season prices fell flat when growers realised that there were significantly more potatoes remaining in the market than initially expected. The WAPS free-buy price fell £84.64/t ex farm from £250.81/t w/e 27th April to £166.17/t w/e 29th June.

Estimated potato stocks held in growers stores at the end of November 2018 was 2.97 million tonnes, the lowest tonnage at this point in the season since 2016.

Estimated GB grower-held potato stocks end November

Year	2012	2013	2014	2015	2016	2017	2018
Stock (Mt)	2.66	3.15	3.47	3.19	2.22	3.62	2.97

Source: AHDB

Strong demand south of the border and in EU markets will inevitably keep free-buy prices firm, but growers should weigh-up whether keeping stocks later in the season is worth the additional storage, chilling and potentially lower pack-out costs.

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Setting the tone?

The GB average deadweight price is north of 420p/kg at week ending 18th January. It is ahead on the year, and up £10/hd on late November. Whilst a consequence of the year, unsurprisingly, carcase weights are also significantly higher, as is over fatness. There is keen trade for fit cull ewes and further uplifts look promising in the approach to spring if hoggs become scarce.

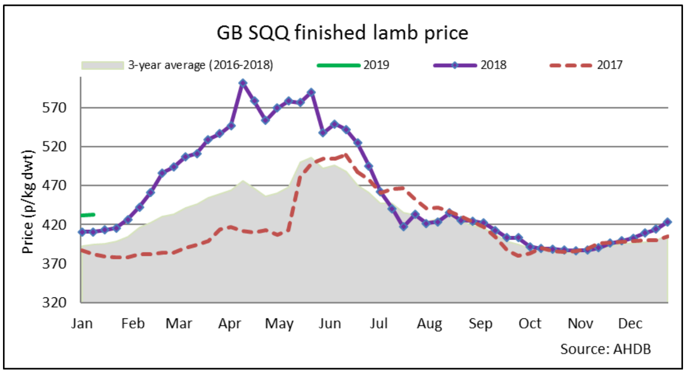
At the time of writing, 21st January 2019, there are exactly 3-months until Easter, with the start of Ramadan commencing only 2-weeks later. No surprise then that store lambs are in demand. A 32kg lamb at around £52/hd (+£5 on the year) gaining 120g per day over the next 12 weeks would reach 42kg lwt. Admittedly, not all lambs will manage this performance or end weight but that is why lambs with – up until now – untapped potential are in demand, especially since a big part of winter [costs] has now passed.

A moot point but while some of these store lambs originate from hard hills, what about many of the upland lambs still coming forward. Is 'chasing the high notes' sensible? Priorities are different for specialist finishers but what value is in a higher grass residual to support the breeding flock?

Nevertheless, trade average peaked at around 250p/kg at the mart and some 585p/kg dwt or £120/hd for Easter 2018. Price peaks should not mask the average sale value or performance of the mob but there is margin for concentrate feeding if the market performs equally strongly this year.

Acknowledging the significant Brexit unknowns (it is hard not to mention it!) a similar market trend is foreseeable this spring as, the same factors prevail i.e. reduced Kiwi supply, reduced carryover of 2018 lamb crop, and a gap before new season supply is online, coinciding with demand from Easter and Ramadan, and a strong exchange rate.

The exchange rate is simply rolling with market reaction to parliamentary proceedings just now. If nothing else, this ensures exports remain competitive. Opening on w/c 21st January at 88p/€ is very similar to this time last year but the rolling average is certainly trending higher!



Signal of caution from 2018

Who wins when prices reach so high? While historic prices brought early 2018 confidence, it also robbed the main season of the same retail price promotions, with supermarkets having paid so much in early season.

The GB 2018 SQQ average price for prime lamb and hogget was 461p/kg dwt on the year and a massive 44p higher on 2017. Average auction mart trade in Scotland was similarly stellar at 202p/kg lwt and 18p up on the year. This was only a result of spring markets. By the laws of supply and demand, however, the market reached historic highs only because few hoggs were available and, therefore, few producers benefitted.

Producers should look forward to strong market performance in 2019 but the 'B' word remains the white elephant in the room. Shepherds remain understandably sceptical and more nervous of the lack of winter thus far as lambing draws ever closer.

- Prior to the manic spring, it is urged to analyse last year and where losses occurred.
- Benchmarking should also consider key profit drivers for the year ahead e.g. flock size, stocking rate, prolificacy, or weight gain.

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Ewes (£/hd) Eng & Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
05 Jan 19	433.5	6.2	-1.5	3.5	194.00	-11.5	0.7	10.3	53.48	57.74
12 Jan 19	435.4	1.9	-1.7	3.7	195.90	1.9	2.2	11.9	56.63	58.07
19 Jan 19	433.9	-1.5	-0.3	2.7	194.20	-1.7	4.7	17.1	54.01	54.33

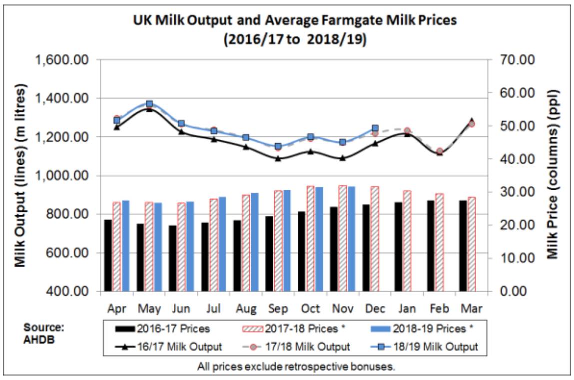
Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB

UK production expands during Dec '18

UK monthly milk output for December 2018 is estimated at 1,244.97m litres (before butterfat adjustment). This is 25.97m litres above output for December last year. Cumulative UK production from 1st April to 31st December 2018 is currently estimated at 11,124.72m litres. This is 41.19m litres ahead of last year, when the cumulative total was 11,083.53m litres.

The latest DEFRA statistics show that the UK average milk price edged upwards by 0.17ppl between October and November 2018 taking the average price for November up to 31.61ppl. The UK average milk price figure for November 2018 is 0.33ppl below the average price for November 2017 (31.94ppl).

- *December 2018 production is estimated at 1,244.97m litres.*
- *Production for December 2018 is up 25.97m litres on a year on year basis.*



Prices edge downwards in Feb '19

The following price movements are confirmed for February 2019:

- Arla Direct - 0.75ppl price reduction from 1st February 2019. This takes the standard litre price down to 27.00ppl.
- Arla Foods amba - No change for February 2019. The standard litre price remains 29.06ppl.
- Graham's Dairies – No change for February 2019. The standard litre price remains 27.50ppl.
- Müller – No change for February 2019 (see table below).
- Yew Tree Dairy – No change for February 2019. The standard litre price remains 27.50ppl.
- First Milk – 0.25ppl reduction from 1st February 2019 (see table below).
- Tesco – Tesco Sustainable Dairy Group (TSDG) members will see an increase of 0.37ppl from 1st February 2019. This takes the standard litre price up to 31.61ppl for Müller Milk Group suppliers, whilst Arla Direct suppliers move up to 31.36ppl.
- Coop – Cooperative Dairy Group members (Müller CDG) will see prices reduce by 0.03ppl from 1st February 2019. This takes the standard litre price down from 30.04ppl to 30.01ppl.

Annual Average milk price estimates for Feb 2019 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	27.50
First Milk Liquid [1]	27.50
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	28.43
Müller - Müller Direct [1, 2]	28.00

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 No monthly supplementary payment included in the price estimate. Includes 0.50ppl Müller Direct Premium.

Door open for review of milk contracts

- DEFRA farm minister supports change to dairy contracts.
- Consultation on dairy contracts likely to be delayed until after Brexit.

During the recent Semex conference in January, DEFRA Farm Minister George Eustice confirmed his support for a consultation on milk contracts, stating that changes to contracts were long overdue. This position was also supported by NFU president Minette Batters who stated that the voluntary code of practice was not working. Any review is likely to be delayed until after Brexit.

Wholesale prices update

World wholesale prices for dairy products are showing mixed but with an overall downward trend. Prices for butter, whole milk powder (WMP) and cheddar cheese have been in decline but skimmed milk powder (SMP) prices are climbing. These world market trends have impacted upon the UK domestic situation where product prices are shown within the table below. The potential for farmgate price increases within the UK remains constrained by increasing milk deliveries.

UK dairy commodity prices (£/tonne)	Dec 2018	Nov 2018	Jul 2018
Butter	3,680	3,750	4,880
SMP	1,500	1,420	1,340
Bulk Cream	1,700	1,830	2,150
Mild Cheddar	2,850	2,860	3,050
UK milk price equivalents (ppl)	**Dec 2018**	**Nov 2018**	**Jul 2018**
AMPE (2014)	27.44	27.01	31.80
MCVE (2014)	31.04	31.06	33.37

Source: AHDB

- Recent downward trend in world market product prices.
- Whilst UK milk deliveries remain strong the potential for significant price increases will be limited.
- GDT price index shows fourth successive increase which should help to stabilise prices.

The latest Global Dairy Trade auction on 15th January 2019 saw the GDT price index increased by 4.2% with the weighted average price across all products increasing to US $3,057/t.

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Management Matters: Spring Cropping

Spring cropping for 2019

Sowing conditions in autumn 2018 were excellent across Scotland and the UK encouraging an increase in winter cereal sowing. In Scotland AHDB Early Bird survey results indicate a 16,000 ha rise in winter wheat area to 116,000 ha and a 8,000 ha rise in winter barley area to 46,000 ha. The area of spring barley in Scotland is expected to fall 12,000ha to 238,000ha in 2019. Input costs are also higher than a year ago given a rise in seed and nitrogen costs.

Grain prices and margins for 2019

Grain prices for harvest 2019 are lower than spot values but up on the 3 year average. Feed wheat is around £156/t ex-farm Central Scotland for September 2019 (vs £175/t spot / £130/t 3yr av.) Current forward spring malting barley prices are around £174/t (based on £20/t over November wheat futures) and down on 2018 harvest spot values (£217/t) but up on 3yr av. (£142/t). Though given forward selling, average market returns for malting barley in 2018 for most farmers were more like £180-£200/t. On a typical forward malting barley contract the producer is able to lock in 50% of the crop at the futures plus rate with the rest to be determined on the harvest spot market. So a producer could today lock in 50% at around £174/t with the rest awaiting harvest. Rapeseed prices are very similar to current levels at £303/t ex-farm including oil bonuses for harvest. Overall rapeseed has lost ground to cereals.

Spring bean gross margins have risen due to the strong prices though seed prices have also risen. Last season farmers could replace Ecological Focus Area requirements one for one with pulses. However, two species must be grown and no plant protection products can be used, restricting it to organic growers.

Seed availability is now tight for some of the newer spring malting barley varieties (Laureate, LG Diablo) though Concerto is still available. Spring beans and oat seed is also becoming restricted and prices have risen significantly on last year

Overall, currently *potential* gross margins for 2019 are higher across the board than equivalent margin forecasts one year ago in January 2018. Actual gross margins will be determined by the weather and market factors. In 2018 actual crop gross margins were generally higher than forecast due to the sharp rise in grain and straw prices, despite the drought affected yields.

Outlook

Overall the prospects for spring crops look good and this is likely to maximise the area sown. Livestock farmers remain mindful of recent feed, forage and straw shortfalls and this is favouring cereal sowings over other break crops and fallow. Good malting demand for distilling barley and expectations of lower spring barley plantings could support distilling barley premiums again at harvest 2019 unless yields are particularly favourable.

Brexit continues to cast uncertainty over the outlook for many sectors in agriculture but the outcome is impossible to predict; good or bad. Instead focus on the long-term rotation and business plan and secure income where feasible. Given good potential margins there are opportunities to start locking some of this in by selling a safe proportion (30%-50%) of the expected crop forward and using this to pay for crop variable and other current costs.

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Estimated Spring Cropping Gross Margins - SAC Consulting — **£ per ha**

	Spring Barley - malting	Spring Barley - feed	Oats - milling	Wheat - feed	Spring Rapeseed	Spring Beans
Grain price **(£/t exf)**	174	140	174	156	303	186
Yield **(t/ha)**	6.5	7.0	6.0	6.5	2.5	5.0
Straw	157	157	150	179	0	0
Output	**1288**	**1137**	**1194**	**1193**	**758**	**930**
Seed	77	77	80	92	60	131
Fertiliser	181	202	171	190	140	48
Sprays	62	62	60	41	38	108
Drying (fuel)	0	35	30	49	9	38
Variable costs	**319**	**376**	**341**	**373**	**248**	**325**
Gross Margin 2019	**969**	**761**	**853**	**820**	**509**	**605**
Gross Margin 2018 (Jan '18)	*873*	*647*	*761*	*738*	*502*	*485*
Change '19 vs '18 (£/t)	*96*	*115*	*92*	*82*	*7*	*120*
Change '19 vs '18 (%)	*11%*	*18%*	*12%*	*11%*	*1%*	*25%*

Sector Focus: Eggs

2018 Production up, margins squeezed

- 2018 Q1-Q3 UK egg production totalled 74,369 cases (26.7m total), up 9.5% from 67,915 cases (24.4m total) from the same period in 2017.
- Scotland's throughput rose by 1.7% to 2.982m cases in 2018 Q1-Q3, compared to 2.931m cases in 2017 Q1-Q3, 13% of UK.
- Demand has seen 3% year-on-year growth, but this is not equal among egg sizes, with higher demand for larger eggs, but low prices and an oversupplied market for smaller eggs.

The egg packer to producer price began 2018 with a 1.3p rise from Q4 2017, then remained relatively stable throughout the year, dropping slightly to 69.30p/doz in Q3 2018.

While the overall trend indicates that free-range prices have remained fairly stable and enriched cage prices dropping slightly in the first three quarters of 2018, actual producer prices range from 45p/dozen for small eggs and 50p/dozen for medium, compared to £1.35/doz for large eggs. This reflects an oversupply of small and medium eggs, the struggle of producers to sell these eggs, and a consumer-end demand for larger eggs.

The cost of chicks is predicted to increase as of March 2019 by between 2p and 4p per bird, due to increased costs from investment and feed.

2018-19 egg and feed price summary

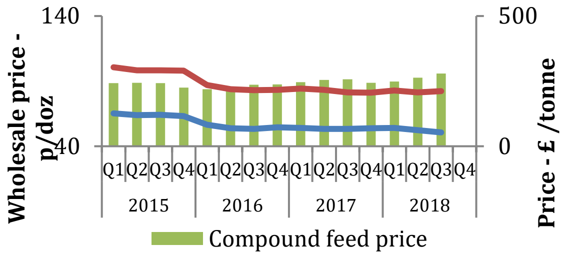
	Egg price	Feed price	Margin
Jan 2018	95.20	231.78	-2.71
Jan 2019	101.00	261.88	-4.47
% change	+6.09%	+12.98	-64.94%

Data source: The Ranger

Import of shell eggs ranged between 106,700 and 171,700 cases in the first half of 2018. Imports decreased by 125,800 cases in January-May 2018 (681,200 total) compared to the same period in 2017 (807,000 total).

However, the discovery of fipronil in Dutch eggs sold in Germany had a significant impact on export of shell eggs; up 2500% from January 2018, exports peaked significantly in February and March 2018 to 449,800 and 245,700 cases respectively. The potential of exports is predicted to decline, having only been maintained as a result of quality assurance provided from British eggs following the fipronil scandal; it is likely that export opportunity will decrease after Brexit. However, demand from UK processors may increase, with increasing interest in ensuring UK provenance of eggs in processed products in the face of food safety issues in Europe.

UK Egg and Feed Price



Average packer to producer price vs. compound feed price 2015-2018 (data: Defra)

2019 – Implications for the year

There is an expected growth in demand for eggs of 1.6% in 2019. The oversupply of small and medium eggs to the market is likely to continue. There are various options to mitigate this, including increasing egg size, retail-led marketing of smaller-sized eggs, or exploring the development of alternative markets for smaller eggs, such as liquid eggs for processing supply chains, or mixed size boxes.

Organic eggs are less at-risk from oversupply than free-range, showing a steady market growth of 10% over 2018 which is expected to continue.

In the case of a no-deal Brexit, eggs are expected to face a tariff of 6% each way; exporting and importing, assuming the UK adopts EU tariff schedule which is the current UK plan. As a net importer of eggs this could raise UK prices. However, a reliance on EU labour is already causing difficulties for UK producers.

Attention to the imbalance of rights in supplier to buyer contracts favouring buyers has prompted a consultation on how contracts are drawn up, with the aim to establish new model contracts, and reduce pressure on suppliers to invest in infrastructure without a contract or agreed price.

The first 'no-kill eggs' have gone on sale in Germany this month, using laser technology to detect a chick's sex before hatching. Although the technology required is expensive and requires integration into incubation infrastructure, it is argued that this cost could be mitigated through reduced feed and culling costs for male chicks. If this proves a successful product in the marketplace, it could be an area for market development in the face of increasing consumer interest in high-welfare foods.

- Egg size management will be important to reduce oversupply of smaller sizes in the UK.
- Provenance and high quality assurance of British eggs plus potential tariff costs could provide a boost to UK egg prices in a no-deal Brexit.

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Where are we going?

With less than two months until the UK's planned EU departure we are still no closer to knowing the outcome. Some options and implications below.

1. Brexit is delayed?

This is thought to be a growing possibility given the lack of time remaining to pass legislation even if an outcome is finally agreed. This most likely could be achieved by the UK asking the EU 27 for an extension of Article 50 but all countries would have to agree. During the extension the status quo would continue but it could be a short breathing space (up to July 2019?), not a solution.

2. UK approves EU withdrawal agreement?

Right now this seems unlikely given the government's recent large defeat and Theresa May's plans to go back and re-negotiate the Irish back stop. But if other options are closed off this may eventually gather enough support. If approved the UK would enter a transition phase up until end of December 2020 during which time the UK would remain in the EU Single Market and Customs union so EU trade would continue as before. However, the UK would lose automatic access to over 70 EU trade agreements with third countries covering sectors such as seed potatoes to N Africa. While the UK is seeking to replicate these deals; no such deals have yet been signed!

This period would then be used to agree a long-term trade arrangement with the EU but may not be long enough and may need extended further.

3. No deal?

This is becoming more likely. No country has ever voluntarily left such a large deeply integrated trading bloc. Our lives and industries have through EU membership become accustomed to free trade and flow of people, goods, capital and services with seamless just in time delivery from across the continent. In the short-term, widespread uncertainty and disruption to a range of supply chains is likely. Over time solutions may be found to ease the flow of goods and at some point a trade agreement will be agreed with the EU.

It is possible to see market opportunities for some sectors particularly those where we are import dependent such as pigs, dairy, vegetables and higher prices are likely. Probably the greatest comfort for commodity producers could be a likely sharp deterioration in the value of sterling buoying the value of many UK farm products higher. On the other side some EU dependent sectors such as sheep-meat may suffer significantly.

However, all sectors are vulnerable to a range of factors, particularly labour, for growing and processing food, transport, storage and extended delivery times. For individual farm business there may be delays and cash flow issues. In the longer term the future of agriculture in the UK will become dependent on the outcome of a range of trade talks not least with the EU as the UK will have to come back and start negotiating again from outside the bloc. No other country will enter into serious negotiations with the UK until its relationship with the EU his clear. So in a way, no deal is simply deferring the inevitable but with an added period of uncertainty and disruption in between.

4. Second referendum?

Right now this is not a contender but could come into play. If Leave were to win this would change nothing but extend the uncertainty. If Remain were to win, we may stay in the EU but changes will come from CAP reform and new free trade deals.

Key economic data

General Indicators		Price indices for November 2018 (Defra 2015 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.75% (0.50% Aug '18)	Wheat	142.52	Seeds (all)	104.4
		Barley	155.36	Energy	127.8
ECB interest rate	0.00% (0.05% Mar '16)	Oats	161.16	Fertiliser	110.7
UK (CPI) inflation rate	2.1% (target 2%)	Potatoes	136.37	Agro-chemicals (all)	105.7
		Cattle and Calves	99.53	Feedstuffs	116.6
UK GDP growth rate	0.6% (Q3 '18)	Pigs	109.17	Machinery R&M	107.8
		Sheep and Lambs	101.30	Building R&M	111.5
FTSE 100	6,976 (31 Jan'19)	Milk	129.32	Veterinary services	115.1

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