



CHAVEREYS

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MONTHLY FARMING UPDATE

November 2017



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I Policy issues

- 1 In anticipation of Brexit, the NFU has submitted a number of options to Defra for future policy including deferred tax saving schemes allowing profits to be “warehoused”; counter-cyclical payments providing support in poor years; a revenue insurance scheme; a margin insurance scheme; futures markets in the UK; full cost recoverability of environmental schemes; and improvements in research, development, innovation, skills and training, technology and advisory services.
- 2 The Government is to introduce legislation which will increase the power of courts to levy sentences of five years in prison for persons guilty of animal cruelty.

II CAP (etc.) support details/payments

- 1 The average Basic Payment received in England in 2016 was £28,000, 19 per cent up on the previous year reflecting the weaker exchange rate.

III Grants/regulations/legislation/environment

- 1 The European Commission’s Standing Committee on Plants, Animals, Food and Feed has approved increased protections against *Xylella fastidiosa*, a disease which has devastated olive plantations in Italy and which is spreading across Europe. The disease could be deadly to UK oak trees.
- 2 The household waste recycling rate in the year to June 2015 was 44.3 per cent, down 0.7 per cent on a year earlier. Total household waste was 22.1 million tonnes, down 0.6 per cent on a year earlier while, in the 3 months to June 2015, there was a fall of 1.4 per cent compared to the same period in 2014.
- 3 In 2016/17 there were 1,002,154 fly-tipping incidents reported by local authorities in England and Wales, the worst areas being London and the North West of England.
- 4 The Waste and Resources Action Programme has reported that 9 per cent of the mature strawberry crop and 19 per cent of the lettuce crop was wasted in 2015.
- 5 The discovery of Asian hornets in Devon has resulted in destruction of the nest and no further sightings have been reported.
- 6 The Welsh Government has awarded £1.5 millions to HYBU Cig Cymru to enhance exports of red meat.

IV Other matters of farm finance and tenure

- 1 The first analysis of 2016/17 Farm Business Income in England has been published. The overall average income rose by 20 per cent over 2015/16 to £38,000 but was the second lowest in the past 7 years. In real terms the average rose by 18 per cent but was little more than half that achieved in 2011/12.
- 2 In 2016/17 lending to Scottish agriculture increased by 5 per cent to £2.32 billions.
- 3 During August the index of all agricultural outputs rose by 8.3 per cent compared to a year earlier but fell by 0.1 per cent compared to July. Inputs rose by 7.1 per cent compared to a year earlier and by 0.5 per cent compared to July.
- 4 Research by AHDB has suggested that farm profits could be more than halved following Brexit.

- 5 In the first quarter of 2017, average house prices in rural areas increased by 4.9 per cent, compared to a year earlier, to £312,800. In the second quarter of 2017 unemployment in rural areas fell by 0.6 per cent, compared to a year earlier, while the inactivity rate, either unemployed or not in employment, fell by 0.4 per cent. The retirement rate increased by 0.7 per cent. The redundancy rate fell from 4.7 to 2.7 redundancies per 1,000 workers.
- 6 Carter Jonas has reported that the national average for bare land has fallen to £8,967 per acre, back to 2012 levels. The biggest fall was 11.1 per cent in the Midlands.

V Product prices

A Market background

- 1 Sterling was volatile this month but with a weakening undertone. Against the Euro, the rate weakened from its opening position of 88.1p per €, spent most of the month oscillating between 88.7p and 90.2p per € before a late improvement led to a closing position of 88.4p per € (0.3p below the September close). The US\$ / Sterling exchange rate followed a similar path for most of the month but excluded the late recovery; whilst it weakened to 76.6p per \$ from its 74.6p starting point, various recovery / drop cycles led to a close at 76.1p per \$, 1.5p weaker overall. Crude oil prices demonstrated a strong trend of improvement this month, despite the expected volatility. Brent crude, after a short decline, climbed from \$56.79 per barrel to close at its peak of \$60.44 per barrel, the highest price since May 2015.

B Crops

- 1 Wheat prices remained moderately volatile this month as Sterling exchange rates fluctuated. Early price improvements coming from concerns over wet Argentine weather were eroded as the month progressed, largely as the concerns subsided and other factors, such as: further increases in Russian wheat yields and favourable European maize harvest conditions, came into frame. Milling premiums are holding steady at £15 per tonne as quality grain supplies remain limited. Barley prices have improved marginally, whilst pulse prices continue to tail off steadily. Oilseed prices remained flat, as the various market factors cancelled each other out. LIFFE feed wheat futures have been negative in the short term whilst remaining volatile in the longer term albeit with limited swing (£2-3) in the medium term and less still in the longer term. In late October, deliveries for November 2017, 2018 and 2019 stood at £138/tonne (-3), £147/tonne (-) and £147/tonne (-) respectively.
Average spot prices in late October (per tonne ex-farm): feed wheat £135 (+2); milling wheat £149 (+2); feed barley £122 (+4); oilseed rape £310 (-); feed peas £136 (-4); feed beans £145 (-4).
- 2 The average potato price continued its falling trend for the 7th month in succession. By late October harvest for many was reaching conclusion and the evident high yields were leading to excessive levels of crop available on the spot market (in many cases due to storage capacity being exceeded). The average price, from an opening position of £136 per tonne, dropped a further £15 to a late October close of £121 per tonne, whilst the free-buy average was affected slightly less, dropping from an opening position of £94 per tonne by £8, to a late October close of £86 per tonne.
Maincrop harvest is progressing well and in many cases drawing to a close, but those lifting what crop remains in the ground are being hampered by rain, slug damage and increasing likelihood of blackleg.

2017 crop prices for grade 1 in late October (per tonne ex-farm): Maris Piper had tightened at both ends of the scale to between £145 and £175; Desiree had weakened materially to between £105 and £150; King Edward had weakened to between £140 and £150 whilst Estima and other white varieties had also weakened further to between £40 and £80, with the premium for high quality samples and good baker content shrinking to £20-30.

C Livestock

- 1 Cattle price movements for steers and heifers were very different this month. The average finished steer price dropped back materially early on, from its opening position of 193p/kg lw, to 186p/kg, but spent the remainder of the month recovering to reach a closing average back at 193p/kg lw (sitting 13p/kg above the closing average a year earlier). The average finished heifer price dropped back by only 1p, from its opening point of 201p/kg lw but then improved for the remainder of the month to close the month 4p higher at 205p/kg lw (7p above the price a year earlier). The average dairy cow price remains volatile; having peaked at £1,150 per head and dropped to £1,017, settling at a closing average of £1,081 again (£1,019 at the end of October 2016).
- 2 The lamb market remains volatile with an undercurrent of weakness, despite the reducing levels of throughput in the marketplace. The average new season finished lamb price (SQQ live weight) gained in the first half of the month, from an opening price of 162 p/kg lw, to a peak of 171p, before dropping back to 164p but closing on an improving trend with an average of 167p/kg lw (up 5p in the month and 6p/kg above the average a year earlier).
- 3 As demand for pig meat in UK and Europe remains steady and supply remains well in excess of this demand, pig prices continue to fall. The average UK all pig price (APP) dropped from the opening position of 165.7p/kg dw to a closing position of 161.0p/kg dw (down 4.7p/kg, to sit 13.7p/kg above the closing average a year earlier) with no sign that this trend will reverse.
- 4 The UK average milk price for August, published mid-October, demonstrated a material increase to 29.63ppl (up 1.85p, to sit 8.17ppl above the price a year earlier) bringing it above the 5 year average for the first time since October 2014. In the context of the 'EU28' farmgate milk price, the rankings for August, published in late October, saw the UK average milk price gain one place to 18th with an average of 29.63ppl (versus a EU28 weighted average of 33.02ppl).

VI Other crop news

- 1 Average 2016/17 Farm Business Income on cereal farms in England rose by 22 per cent, compared to 2015/16, to £43,000. While output fell by 7 per cent as a result of lower yields, weaker Sterling contributed to higher prices but the main driver was an 11 per cent drop in variable costs. However, pure agriculture failed to make a positive return and it was diversified activities, such as the letting of buildings, together with the Basic Payment, which led to the surplus. Average income on general cropping farms rose by 12 per cent to £70,100, the best result since 2011/12. Overall output fell by 2 per cent but lower yields from cereals, oilseed rape and pulses were offset by higher output from potatoes and energy crops. Variable costs remained stable but there were significant reductions in fixed costs, mainly labour and buildings depreciation. A positive return from agriculture of £6,000 was achieved beating the break even of 2015/16. Incomes of horticulture farms increased by 29 per cent to £44,300, the best result since 2011/12. Output of flowers, bulbs, nursery stock and fruit increased but increased income was suppressed by increases in the costs of seeds and young plants, labour, water and electricity.

- 2 First estimates indicate the 2017 UK wheat harvest as being 15.163 million tonnes, up 5.4 per cent on 2016 but still well down on the previous 2 years, while the barley harvest is forecast to be 7.36 million tonnes, up 10.6 per cent on 2016 and well above the 5-year average of 6.7 million tonnes.
- 3 The first estimate of the 2017 Scottish cereals harvest indicates a 12 per cent increase in production to 3.08 million tonnes comprising an area increase of 1 per cent and a yield increase of 11 per cent. Yields of both winter and spring barley have increased by 14 per cent, wheat yields are up by 7 per cent to 9 tonnes per hectare and oats yields have increased by 3 per cent to 6.7 tonnes per hectare. Oilseed rape yields have increased by 24 per cent to 4.1 tonnes per hectare.
- 4 In August the price index for all crop products rose by 2.5 per cent compared to a year earlier but fell by 0.2 per cent compared to July. The cereals index rose by 16 per cent compared to a year earlier but fell by 0.9 per cent compared to July. Compared to a year earlier there were increases of 16 per cent in wheat, and 18 per cent in barley but falls of 8.9 per cent in potatoes and 11 per cent in fresh vegetables. Compared to July there were falls of 3.4 per cent in wheat and 4.1 per cent in fresh vegetables but rises of 6 per cent in barley and 15 per cent in potatoes.
- 5 In the year to June 2017, UK wheat yields increased to 8.5 tonnes per hectare, up 7.3 per cent from 7.9 tonnes per hectare in 2015/16. Barley yields increased from 5.9 tonnes per hectare to 6.3 tonnes per hectare and are forecast to be 7.4 tonnes per hectare in 2017/18. The winter barley area fell by 3.6 per cent but the spring barley area grew by 10 per cent. The area of oats rose by 14 per cent as did production, to 900,000 tonnes. While the area of oilseed rape fell by 2.8 per cent, yields increased by 26 per cent to 3.9 tonnes per hectare. The area of horticultural crops increased by 3.4 per cent.
- 6 The UK Cereal Pathogen Virulence Survey has confirmed the presence of a new yellow rust race "Red 24".
- 7 Home production of vegetables in 2016, as a proportion of total supply, fell by 4.6 per cent to 54 per cent while home fruit production increased to 17.2 per cent. Overall, UK self-sufficiency in fruit and vegetables fell by 2 per cent to 36.5 per cent.
- 8 The British Beet Research Organisation has advised that cercospora beticola, which can reduce yields by up to 40 per cent, is showing signs of resistance to strobilurins.
- 9 M and J Haulage, a sugar beet contractor based in the East Midlands, has been placed in administration.
- 10 Hutchinsons has launched the Hutchinsons Enhanced Light Interception Orchard Systems project to examine the theory that the ultimate yield of apples is relative to how much light is shed on trees.
- 11 Construction has commenced on a new packhouse facility costing £18 millions at Linton in Kent commission by Berry Gardens.

VII Other livestock news

- 1 Sales of antibiotics for use in food-producing animals fell by 27 per cent between 2014 and 2016 from 62mg/kg to 45 mg/kg, the lowest level since records commenced. Sales of the highest priority antibiotics which are critically important for humans accounted for less than 1 per cent of all antibiotics used in animals. There was an 83 per cent reduction in the use of Colistin which is an antibiotic of last resort in humans.

- 2 The Animal and Plant Health Agency and the Pirbright Institute has identified signs of bluetongue virus in 32 animals brought to locations in the North of England and Scotland from the same assembly centre in France in an area where multiple cases of the virus have been identified.
- 3 Defra has launched a new helpline to offer advice to farmers on limiting the risk of bovine TB. The advice will be given by trained consultants.
- 4 The number of new herd bovine TB incidents in England increased by 1 per cent in the year to July with increases of 1 per cent in the High risk area and 6 per cent in the Edge area but a fall of 17 per cent in the Low risk area. There was a fall of 21 per cent in Scotland but a rise of 3 per cent in Wales. The number of herds not officially TB free rose by 7 per cent in England with rises of 7 per cent in the High risk area, 10 per cent in the Edge area and 4 per cent in the Low risk area. There were also increases of 4 per cent in both Scotland and Wales.
- 5 Average Farm Business Income on dairy farms in England rose by 14 per cent, to £50,000, compared to 2015/16 but still well down on the period 2013/15. Production levels fell by 7 per cent and prices by 5 per cent but these falls were offset by a substantial increase from output from other cattle. Costs fell, in particular feed and fodder while there were also falls in labour costs, machinery depreciation and rent. Incomes of lowland grazing farms increased by 33 per cent driven by an increase of 17 per cent in beef enterprises although the output from sheep enterprises was static. Generally there has been little change in average incomes over the past 6 years but the level now is half that of 2011/12. Average incomes of grazing livestock farms in less favoured areas rose by 42 per cent to £27,000. Firmer prices for fat and store lambs and breeding sheep coupled with an increase of 29 per cent in the Basic Payment contributed to the better performance which is second only to 2011/12 in the past 7 years. The income of specialist pig units increased by 168 per cent to £57,800, bettered only by 2013/14. Tighter supplies due to reduced throughput and weaker Sterling had a positive effect on prices. There were also falls in both variable and fixed costs, particularly feed and labour. Conversely the income of specialist poultry farms halved to £54,000, the worst performance by far since 2011/12. While output from eggs increased by 9 per cent, the fall was driven by a reduced throughput of birds for poultry meat.
- 6 Slaughterings of UK prime cattle in September fell by 3.4 per cent compared to a year earlier to 160,000; beef and veal production fell by 4.8 per cent to 73,000 tonnes; sheep slaughterings fell by 10.4 per cent to 1.167 millions; mutton and lamb production fell by 11 per cent to 26,000 tonnes; pig slaughterings fell by 4 per cent to 873,000; and pigmeat production fell by 2 per cent to 76,000 tonnes.
- 7 A farmer from North Yorkshire has been fined for failing to have his cattle tested for bovine TB.
- 8 UK milk production in September was 1.134 million litres, up 5.2 per cent on a year earlier but down 3.8 per cent on August.
- 9 Protein content in milk in September rose to 3.35 per cent, up 0.05 per cent on August and 0.03 per cent on a year earlier. Butterfat content was 4.10 per cent, up 0.08 per cent on August and 0.01 per cent on a year earlier.
- 10 During August, dairies used 822 million litres of milk, down 0.9 per cent on July and 0.1 per cent on a year earlier. Of the total, 52 per cent was used on liquid milk production, 26 per cent for cheese, 2.3 per cent for butter and 2.1 per cent for cream.

- 11 The price index in August for animals and animal products rose by 14 per cent compared to a year earlier and by 0.2 per cent on July. The price index for pigs rose by 21 per cent and for milk, both compared to a year earlier, but the pig index fell by 0.1 per cent compared to July while the milk index rose by 0.8 per cent. The index for compound feeding stuffs rose by 8.9 per cent compared to a year earlier but fell by 0.1 per cent compared to July.
- 12 During August, animal feed production rose by 23 per cent for sheep, 11 per cent for cattle and 6.6 per cent for pigs but fell by 4.3 per cent for poultry, all compared to a year earlier. There was a 2.8 per cent increase in the use of barley. Over the year to August, feed production rose by 24 per cent for sheep, 11 per cent for cattle, 5.2 per cent for pigs and 3 per cent for poultry, all compared to the previous year.
- 13 Italy has reported a number of outbreaks of H5N8 HPAI avian influenza including one in a large layer farm resulting in 850,000 birds having to be destroyed. The risk level in the UK for an incursion in wild birds has been raised to “Medium” given the migration season but the risk level for poultry units remains “Low”.
- 14 In September, UK commercial layer chick placings rose by 13 per cent to 3.1 million chicks; broiler chick placings rose by 2 per cent to 80.3 million chicks; turkey chick placings fell by 19 per cent to 1.6 million chicks; turkey slaughterings rose by 20 per cent to 1.3 million birds; broiler slaughterings rose by 7.8 per cent to 82.2 million birds; and total poultry meat production rose by 8.7 per cent to 148,500 tonnes.

VIII Inputs/Supply businesses

- 1 Having failed to secure agreement to a 10-year renewal of the glyphosate licence, the European Commission has proposed a 5-year renewal.
- 2 The Labour Party has reportedly stated that it will support the continued use of glyphosate for a “restricted time period”.
- 3 The European Parliament has agreed to restrict the limit of cadmium content in fertilizers.
- 4 As part of the acquisition of Monsanto by Bayer, BASF is to acquire the seed and non-selective herbicide businesses.
- 5 The price index for energy and lubricants rose by 10 per cent in August compared to a year earlier and by 4.8 per cent compared to July.

IX Marketing

- 1 Kantar Worldpanel figures show that supermarket sales have increased in the past year by 3.1 per cent, the 17th successive monthly growth. Grocery inflation remains at 3.2 per cent.
- 2 In the 12 weeks to 8 October, Tesco held a 27.9 per cent share of the grocery market followed by Sainsbury’s 15.8 per cent, Asda 15.4 per cent and Morrisons 10.3 per cent. Over the month both Tesco and Sainsbury’s increased their share by 0.1 per cent. Aldi, Lidl and Co-op all saw share reductions of 0.1 per cent.
- 3 Aldi has announced plans to build, at a cost of £75 millions, a distribution centre in Bedford while Lidl has bought a 34 acre site in Peterborough for a new regional distribution centre.
- 4 Asda is to supply British tomatoes all year following an investment by grower Flavourfresh in LED lighting.

X Miscellaneous

- 1 Government ministers are reportedly to review the laws designed to prevent unlawful encampments by travellers.
- 2 Lamma is to move to the NEC in Birmingham in 2019.

Postscripts

Thank goodness for the honesty of military staff appraisals (the rest of us are not allowed to say such things!)

- 1 His men would follow him anywhere but only out of curiosity.
- 2 I would not breed from this Officer.
- 3 This man is depriving a village somewhere of its idiot.
- 4 This Officer can be likened to a small puppy – he runs around excitedly, leaving little messes for other people to clean up.
- 5 This Officer is really not so much of a has-been, more of a definitely won't-be.
- 6 She opens her mouth, it seems, only to change whichever foot was previously in there.
- 7 Couldn't organise 50% leave in a 2-man submarine.
- 8 He has carried out each and every one of his duties to his entire satisfaction.
- 9 He would be out of his depth in a car park puddle.
- 10 Technically sound but socially impossible.
- 11 The occasional flashes of adequacy are marred by an attitude of apathy and indifference.
- 12 When he joined my ship this Officer was something of a granny; since then he has aged considerably.
- 13 This Medical Officer has used my ship to carry his genitals from port to port, and my officers to carry him from bar to bar.
- 14 This Officer reminds me very much of a gyroscope, always spinning around at a frantic pace but not really going anywhere.
- 15 Since my last report he has reached rock bottom and has started to dig.
- 16 She sets low personal standards and then consistently fails to achieve them.

Monthly Farming Update

I don't like trusts!

Family trusts have a bad press in farming circles. Why? The answer is simple, the lawyers who created the trust document were not up to scratch. Whose fault is that? Yours. Use a good lawyer. Family trusts are very useful and are here to stay.

Remembering the adage “never do anything for tax”, a family trust is a useful vehicle to pass property, pregnant with gain, to the next and subsequent generations. Any gift of property is treated as a sale and is therefore subject to Capital Gains Tax. But a gift via a trust defers any tax until the property is actually sold and cash is available to pay the liability.

The problem is a gift into trust is, realistically, limited to £325,000 and many cottages are worth more than this. The solution is to pass a share in the cottage to one's spouse and then create a joint family trust. This means that £650,000 is available.

To do so the property must be registered in joint names at Land Registry. This exercise is currently taking 6 months. Add to that the speed at which many lawyers work and it is easy to wonder if it is worthwhile.

Persevere and plan ahead. £650,000 is worth £260,000 in Inheritance Tax savings to future generations. Just don't rely on the 7 year rule, you have Land Registry and the lawyers to add to that!!

We welcome feedback on the MFU.

Does this issue raise any questions in your mind?

Would you like more information on a particular item?

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The MFU was edited from 1991 to 2006 by John Nix, Emeritus Professor of Farm Business Management at Imperial College London



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