Lips, chins and heads

There is very little argument for physically storing grain nowadays, says **Jeremy Cole.**

At the time of writing, we are entering the last six months of the 2005 marketing season. Two years have past since this market first opened. In the first four months – February to May 2004 – the market was between £75 and 70 ex-farm for November 2005. It then dropped £10/t very quickly and, for the last 12 months, unusually has traded in only a £4 band, currently £65 February.

Worryingly there is 25% of the harvest 2005 crop still to market, in an oversupplied UK and EU market place. I see no sense in it at all. Since Christmas there has been an increased farmer sell off, the reason stated the lack of Single Payment and the subsequent need for cash for spring fertiliser.

Realistically, these are distressed sellers who have run out of time. This is selling not marketing to a pre agreed business plan.

There is very little argument for physically storing grain nowadays. Using a piece of paper, an Option, is much easier, simpler, and less time-consuming. It also gives much quicker upside gains and far less downside risk than on farm or commercial storage.

I continue to hear complaints of poor prices giving low returns and of farmers who are losing the will to continue. Prices might be "too low for next year" but drilling continues as usual.

There is very little argument for physically storing grain nowadays.Using a piece of paper, an Option, is much easier, simpler, less time consuming.

This season's 10% 'fallow' for harvest 2006 has not materialised, and I feel never will for future crops, as UK overheads are too high and margins would be even lower. It's either in for the long term or get out for good. For owner occupiers it's probably the former, for smaller tenants, unfortunately the latter.

However, looking forward, with one's lip stiff, chin forward and head held high, prices are better, giving a sustainable income.

For harvest 2006, prices are £4 higher than those prevailing now, so selling now would give a £39/ha better margin on a 10t/ha crop. Harvest 2007 prices are £7 better – that's £70/ha extra margin. Why not take these prices as a base without much thought, they are better than those achieved this season by the current long holding strategy.

Thankfully, many farmers are selling now with a Price Risk Management hedge, just in case the market rockets over the next year or two. They have identified that they will be drilling in the future and have set a 'Standard of Living Line' they will not breach.

What is wrong with £67 minimum plus premiums for November 2006, or £70 minimum plus premiums for November 2007? Is it better to sell at these prices, or more, now guaranteeing margins for the next two harvests? Or is it better not to sell, hoping that the market will rise, risk it falling, all for the sake of up to £3/tonne?

The former allows you to be free to concentrate on factors in your business you can control, rather than worrying for the next two years about the grain market that you can't control but which has the biggest effect on your net farm margin.

Make a budget. Look forward. Sell if the price is right for your business.

Agricole has been run by Jeremy Cole, Bsc Agri Econ (Reading), since 1993. It is an independent grain brokering and marketing service for farmers, offering a weekly grain market report. Price risk management and training in the use of Futures and Options, are seen as a key element in obtaining the best from the present volatile grain market. For details, call 01954 719452.