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CROPS

Crystal ball gazing for 2012

With his crystal ball out on the desk, **Jeremy Cole** look into the future of the 2012 combinable crop market.

Is looking into the future, fortune-telling, prediction or forecasting? Fortune-telling is traditionally the practice of predicting information about a person's life. The scope of fortune-telling is in principle identical with the practice of divination. The difference is that divination is the term used for predictions considered part of a religious ritual, invoking deities or spirits, while the term fortune-telling implies something less serious.

Prediction is a statement about the way things will happen in the future, often but not always based on experience or knowledge. A prediction may be a statement that some outcome is expected.

Although guaranteed information about the information is in many cases impossible, prediction is necessary to allow plans to be made about possible developments.

Forecasting is a planning tool that helps management in its attempts to cope with the uncertainty of the future, relying mainly on data from the past and present and analysis of trends. A forecast may cover a range of possible outcomes.

Forecasting starts with certain assumptions based on the management's experience, knowledge, and judgment. These estimates are projected into the coming months or years. Estimations of future trends are by examining and analyzing available information.

Considering the above options, I don't think I'll go down the fortune-telling avenue, so the crystal-ball is clouding over. Never write about animals, children or religion. Or so they say.

So here are my predictions:

- There will be an abundance of wheat in the world's main producing areas, with stocks at 10 year highs, and this will limit massive rises. Max price next year, £175.

- Northern hemisphere drillings are up and the harvests from the Southern hemisphere, especially Australia are up too, weighing on the old, and to a lesser extent, new-crop market.

- Corn, which is shorter in supply, will help to underpin the wheat market, stopping wheat from falling below the £110 level.

- Sterling will appreciate vs Euro, hitting 1.25 Euros, making exports harder.

- E. Bloc will continue to export hard as they need the cash.

- Winter will get colder but spring will be normal in UK.

- UK wheat harvest will be 15.7mt, based on higher drillings.

- Old crop OSR has had it and should be sold as lower crush margins and imports into the EU reducing any panic buying by EU bio-diesel plants.

- EU will be short of OSR again for 2012/13 season, and the UK will be long due to record drillings. There will be a great need to export but a stronger Sterling will hamper that.

- Price of OSR will be in the range of £300-360 for new crop.

- With the EU situation still unresolved, and probably unresolvable in its present form, Fund money will go to 'safe havens' of Dollar and Sterling. As returns in the financial sectors remaining low, Fund money will continue to be pumped into 'commodities' as a whole, and keep agricultural markets volatile and uncertain.

- Farm advisors will continue to get their market predictions wrong

And my forecasts:

- World markets for agricultural commodities will continue to be very volatile as supply and demand are not in sync.

- Farmer's incomes will vary from the top 10% to bottom 10% greater than ever.

- The volatile wheat price will affect incomes and net margins more than changes in input costs, so get cereal/OSR marketing right, rather than worrying about the nth saving on inputs.

- Farmers' Standard of Living Lines, SOLLs, for 2012/13 wheat will be £130-135, up £10/t



on 2010/11, based on this year's fert, fuel and labour costs. OSR stands more like £280. So more of the crop should be sold /hedged now to avoid sub-SOLL average prices.

- Hedging tools available from approx £15-18 for wheat Nov 12, giving minimum prices of £115-120/t, so no farmer in the UK should experience a wheat price of under £120 really... if they act now. The average should therefore be above the SOLL, with existing sales already on the books.

- Hedging tools available from approx £25-30/t for OSR Nov 12, giving minimum prices of £290/t + bonuses, so no farmer in the UK should experience an OSR price of under £300 really... if they act now. The average should therefore be above the SOLL, with existing sales already on the books.

- The SFP will continue to add a layer of prosperity.

- Land prices and rents will stabilise but not fall significantly as a function of the prosperous farming economics.

- Ability to pay rents are underpinned by the wheat price, especially if hedged properly.

In short, farmers will continue to be prosperous for another year.

Jeremy Cole, BSc Agr Econ (Reading), runs *Agricole* – an independent grain brokering and marketing service for farmers. For a weekly grain market report, call 01954 719452 or visit www.agricole.co.uk