

# Crystal ball gazing for 2013

How well did you do when marketing combinable crops during 2012? **Jeremy Cole** looks back at a challenging year – and forward to 2013.

**T**his time last year, I sat down to try to predict and then forecast the year ahead for 2012. As you can imagine, I was right some of the time and wrong some of the time – just like many of you as well as the trade.

I predicted that wheat would not rise above £175/t for Nov 2012, as the world stock levels were good. I was wrong(ish). At the time, I thought I was being brave because the market was £140 spot and £140 for Nov 2012. But I was not brave enough. We've since seen prices rise to £220 ex, due to the bad summer and the appalling quality of this year's wheat.

#### I also predicted that:

- US harvest would be up – it wasn't due to it being very dry and hot. Wrong.
- Corn would be short and underpin the feed and therefore wheat market. Correct.
- Sterling would appreciate and hit 1.25 Euro. Correct.
- The former eastern bloc would export hard. Correct.
- The UK would have a 15.5mt harvest. Wrong.
- Oilseed rape should be sold due low crush margins. Wrong (prices rose before tumbling).
- Rape would be short in the EU and long in the UK, with a maximum price of £360. This was wrong, but now right.
- Farm advisors would continue to get their market predictions wrong. Correct.

#### I forecast that:

- World markets for agricultural commodities would continue to be very volatile as supply and demand were not in sync. Right.
- Farmer's incomes would vary from the top

10% to bottom 10% greater than ever. Right.

- The volatile wheat price would affect incomes and net margins more than changes in input costs, making it vital to get cereal/OSR marketing right, rather than worrying about the nth saving on inputs. Right.
- The Single Farm Payment would continue to add a layer of prosperity. Right.
- Land prices and rents would stabilise but not fall significantly as a function of the prosperous farming economics. Right but too pessimistic.
- Ability to pay rents would be underpinned by the wheat price, especially if hedged properly. Right – but how many farmers actually hedge their rent price?
- Farmers would continue to be prosperous for another year. Right.

On a more detailed level, I forecast that Farmers' Standard of Living Lines (SOLLs) – the price required per tonne to make a good living from farming – for 2012/13 wheat would be £130-135, up £10/t on 2010/11, based on fertiliser, 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. I was right.

With hedging tools available from approximately £15-18 for wheat Nov 12, giving minimum prices of £115-120/t, no farmer in the UK should have experienced a wheat price of under £120, remembering that the ex-farm price forward was £140 and farmer SOLLs were £130/t. Again I was right.

A sale and a call option protected the SOLL and would however have paid on average £40 more, giving £170+ /t Nov 12. Those who sold flat at £140-50, saved their £15 premium but lost the chance to gain from the £60 price hike.

With hedging tools available from approx £25-30/t for OSR Nov 12, giving minimum prices of £290/t + bonuses, no farmer in the UK should experience an OSR price of under £300 really. I was right right.

A sale and a call option protected the SOLL and would however have paid on average £80 more, giving £380+ Nov 12. Those who sold flat at £300, saved their £25 premium but lost the chance to gain from the £100 price hike.

Moving on to my predictions for the remainder of the 2012/13 harvest, I believe wheat prices will stay underpinned by the fact that UK supply and quality is diminished, but upside is limited by import prices. At present imports are competitive.

If the world price falls, the UK prices may then fall. In the New Year, once existing contracts have been cleared, there will be a tranche of UK selling which could force prices down, however the market will remain tight until May. Thereafter it depends how large UK imports have actually been, as every tonne imported displaces one domestic one.

It maybe found that there is 1/2mt left on farm that was thought not to be there. If this is the case and it begins to come onto the market, however rubbish it is quality wise, the market could easily fall 10%. Conversely, if it isn't there, the market will be really short and prices could remain firm. I feel the former is more likely.

For the 2013 harvest, I forecast that wheat prices will fall they are too high at present, assuming world harvests are average. Stocks are over 25%, albeit not all are available as they are held by China, India and former the eastern bloc.

At present, UK wheat prices are very close to import parity, so upside is limited, and merchants and consumers are covering the harvest positions now, in case the UK runs out of wheat and have a late harvest due to late drilled and mauled in crops.

I would suggest selling up to 50% of the crop at £190+ November 13 and hedge with a Put option (in case the market falls) the remaining 50% that you feel the crop will yield, to achieve a minimum of £170+. That way if you only have half a crop at harvest, you've not sold anything to anyone at any price or any quality.

Oilseed rape crops in general are not looking good either, not as bad as the wheat crop reduction but down. I would sell 25% now and hedge with a Put option (in case the market falls) half of the remaining 75% that you feel the crop will yield. This will limit the downside risk and allow for a market rise if there is one. With OSR and soya being tight in the world, I wouldn't be surprised to see £400/t for OSR and \$14 for soya again.

Barley should be sold as there looks to be too much about, both feed and malting, due to the switching from winter wheat to spring crops. Feed barley at £170 sounds good to me.

So there you have it – the next 12 months will reveal how right and wrong I am. In the meantime, I'd like to wish you all a very prosperous and healthy 2013.



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