

THE FINAL WORD

A sense of déjà vu



We might be at the start of a new decade but some things never change, says Jeremy Cole.

Déjà vu or promnesia is the feeling that one has witnessed or experienced and new situation before, in the near or distant past. It was first expounded by a Frenchman called Boirac in the mid 19th century. I am having such a feeling now.

Every season I am told by farmers, their advisors and the trade that the price of wheat has to be a certain price or more to make a margin, the so-called Standard of Living Line (SOLL). This price, based on average yields and costs is well known and previewed before the crop is drilled and the final commitment made to produce the crop.

For the 2009/10 season it was it was £120/t. And as I wrote in December, that price was available for many months, albeit before and at drilling time 2008. But that price then slipped to £85 and is now around £90. There was a clear margin over the SOLL of £30/t before and just after drilling.

Now, after there has been all the time and effort and worry of growing, harvesting and storing of the crop, there is no margin, save the SFP. Still there are mountains of wheat left on farm unsold, compared to previous years, which was borne out in the recent Agricole members' grain survey.

For the 2101 harvest, the SOLL was £100/t, as costs were lower as fertiliser and fuel prices receded. LIFFE futures prices came out at £118, giving approx £112 ex farm. The market rose to £126 ex by January 2009, equivalent to £146 last year, at its peak, and stayed there trading in a narrow band until June when the US began harvest, followed by the rest of the Northern hemisphere. All the reports were of good harvests, less demand due to the appalling economic news and large carryover stocks. The market fell faster than a bungee jumper, to hit £100 in September.

Fund buying and worries over the corn harvest in the US did allow the market to rise back to £112ex, but was a dead cat bounce in reality as the USDA report in early January, raised corn and soya crop yields to record quantities, increased carry over stocks and reduced demand again. The market fell £12 in a fortnight.

This all goes to show that information is king. And we have seen this scenario before. Why make a budget and do nothing? What is the point of blind faith that the market will be OK when it's time to sell or cash or space? We are in a world market, operating 24 hours a day, with mega-bucks being poured in or taken out at a press of a button.

Please take time to look at the government data, from the USA, Australia, EU and even the UK, as it sends signals, which need to be analysed and acted upon. Not selling is fine, so long as it is a positive decision, but please make sure you have a Plan B if the market doesn't do what you want – selling as the market falls or hedging to achieve an average, which is at or hopefully above your SOLL.

Now prices for 2010 and 2011 harvest are at the SOLL level, what do you do? If you're having that Déjà vu moment like me, you know what's likely to happen. Do something.

Jeremy Cole, Bsc Agri 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

Fen Tiger is away. We hope he is well enough to return next month.

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