Locking in to the weak pound

Favourable exchange rates can mean free money for farmers, writes **Jeremy Cole**

The grain market has been somewhat subdued of late. Old crop has fallen off recent highs and new crop sellers have been waiting to see the outcome of the spring. So all eyes have shifted to another topic: currency exchange rates.

Much has been talked about the falling value of sterling against the dollar and euro. It might be better for exporting UK crops, but it certainly makes imports and skiing holidays more expensive – and après-ski prohibitive.

As May approaches, exchange rates are also focusing attention on the Single Farm Payment. Forms must be returned by early May. But should payments be claimed in euros or the traditional sterling? It's just a little tick in a box but it may have serious implications for your wealth should sterling appreciate.

As I write, the sterling:euro rate is 1.07 (93.45p). A year ago it was 1.3 (76.92p). Therefore, the value of the SFP has appreciated on a 100,000 euros payment from £76,920 to £93,450. This is a rise of £16,500. It is a windfall gain to the British farmer and should be protected. It is actually a free gratis payment for no effort by any farmer and therefore should be accepted and a letter of thanks sent to Brussels.

But the gain may be more or less than the above figures if the exchange rate changes before 30 September 2009. If the value of sterling appreciates to 1.3, the gain will have been lost. If it weakens to 1.02 – its lowest level ever, as in December 2008 – then a further gain will be made.

So does a farmer do? Just sit and hope that the Sterling remains weak for six months, risking the SFP? Or does he hedge it by fixing the rate at today's level or applying an Option to benefit from further fluctuations but limit the reduced SFP to the cost of the premium?

Many farmers are now doing one or the other, as 90p+ is seen as an unusually high value and good opportunity to take the money. But how is it achieved in practice?

Five years ago, I did have farmers doing this, directly with a broker in London. But since then, as sterling has been fairly static against the euro, no need has been seen. But to actually get an institution to do this for an average farmer has been like drawing hen's teeth. After much effort, I finally did find a bank that was willing and able to deal for smaller foreign exchange quantities. Some institutions wanted a 10% deposit. Others would only deal with limited companies. Not all were helpful.

The system is very simple. No upfront payments are needed to fix a rate, and only the premium is deposited into a client bank account if an Option is set up. These premiums are from 4.5% downwards, depending on the rate you wish to protect.

The date to be fixed or period of protection against movements up or down, depends on whether the SFP is in sterling or euros. The former needs to be hedged until the 30 September, while the latter needs to be hedged until 30 June 2010. The latter costs a little more, as there is another eight months to cover.

If you feel exchange rates will remain the same give or take five percent, then you'll probably do nothing. But if you feel the pound will be at parity with the euro, or may rise to 1.15, 1.2 or even 1.3, then please apply a hedge. Which one depends on whether your payments are in sterling or euros.

The rates for 2010 harvest are almost the same as now, so why not hedge for two years at 90p? I feel doing nothing may seriously damage farmers' wealth. How often do you get a free windfall like this to add directly onto your bottom line?

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Farmers toast a century of success

Guests raised a glass to 100 years of farming history as Ramsey and Whittlesey NFU branch kicked off its centenary celebrations last month.

A special dinner, at the Whittlesey Ivy Leaf Club on 25 March, marked the start of three years of centenary events. Ramsey branch was formed in 1909 and Whittlesey in 1911, with members agreeing to merge both branches in 2000.

Former Ramsey and Whittlesey branch chairmen joined guests including former group secretaries for a drinks reception before enjoying a meal with produce sourced from local farms.

NFU group secretary Catherine Little said: "This was a chance to look back at a century of extraordinary change for agriculture in this part of Cambridgeshire – but also to look at the challenges ahead."

Modesto – Impact of new oilseed rape seed treatment shows from establishment to harvest.

A new insecticidal seed treatment for oilseed rape can help growers lift the ceiling on oilseed rape yields.

Called Modesto, it has been developed by Bayer CropScience to improve crop establishment, pest control and yield in winter oilseed rape according to the company's seed treatments campaign manager Adrian Cottey. "The yield potential for current varieties is 6.5t/ha but average farm yields are half this. In HGCA trials fungicide treatment has consistently produced 0.7t/ha more than untreated and this new seed treatment can give the same yield benefit."

Containing clothianidin, their new generation neo-nicotinoid insecticide, it will be a significant improvement over current standard Chinook in many ways he claims. "With aphids and Turnip sawfly on the label, as well as Cabbage stem flea beetle, it offers broader spectrum control and is longer lasting, providing up to eight weeks protection from germination, and it's robust enough to mitigate pest changes being brought about by climate change."

"Peach-potato aphids (Myzus persicae) are the main vector, but it is also carried by the Potato aphid (Macrosiphum euphorbiae) and has an extremely wide host range including all brassica crops, lettuce and many weed species. Broom's Barn research has shown that it can decrease oilseed rape yields by 26%. In addition it can hit crop value by reducing oil content and increasing glucosinolate