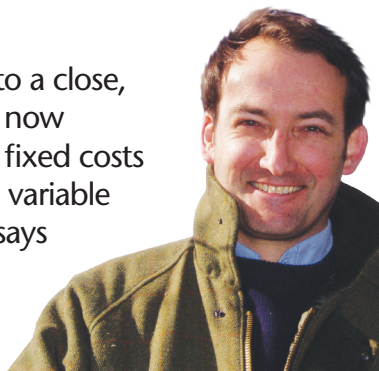


Look forward and market to your budget

As 2014 draws to a close, the abnormal is now normal – just as fixed costs are variable and variable costs are fixed, says **Jeremy Cole**.



The November 2014 LIFFE wheat future expired just a few weeks ago, revealing the two year trading pattern we've just experienced during its lifetime. Was it an anomaly, to be treated with a pinch of salt, before the wheat market returns to normal? But what is normal?

Intervention price controlled the market in the 1980s. Prices then rose in the early 1990s to a peak in April 1996 of £135/t ex farm for feed wheat – plus a hefty subsidy, thanks to then European farm commissioner Ray MacSharry.

From then to harvest 2002, the market virtually went down every day, to hit a low of £50/t. The market finally rocked up in 2007 when world supply was well below demand. Since then, wheat prices have hit both £100/t and £200/t.

The abnormal is now normal, just as fixed costs are variable and variable costs are fixed.

This season was the real antithesis of the harvest 2012 marketing period. The timing of marketing decisions – if

copied from the 2012 season, that is delayed selling, turned out to be totally incorrect. Many farmers had to endure up to a £70/t 'opportunity' cost of not selling. Their selling decisions were not well founded, even though based on solid ground, a budget. It was however largely ignored.

When November 2014 futures for harvest 2014 opened in July 2012, wheat prices equated to about £155/t at harvest or £160 for November 2014 ex farm. The price for Nov 2012 at the time was £170/t and rising steeply as the poor quality of harvest 2012 became apparent.

By the end of Nov 2012, however, futures were £222/t or £215/t ex farm harvest. At that point, November 2014 futures prices peaked too, at £180/t (175/t ex farm).

This meant there were very few forward sellers as the differential from November 2012 to November 2014 was £40/t. Selling a large percentage of your crop two seasons ahead would have been unusual – despite prices being £45/t above most forward budgets >>



Exports from ports such as Great Yarmouth are vital for the UK grain trade

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Next steps for Basic Payment Scheme

The good news we've all been waiting to hear is the first of the registration packs for the new basic payment scheme will be arriving through the letter box just in time for Christmas, says **George Badger**.

For arable farmers at least, January 2015 will be the ideal month to register online for the new basic payment scheme. Every claimant will be required to verify their identity and create a profile on the government's gov.uk online service.

There are four certified third-party companies who will undertake the verification process on behalf of the government, of which claimants must select one: the Post Office, Experian, Digidentity and Verizon.

It is currently understood that only one individual in a partnership or company will need to be identified and they can expect to answer personal questions on the data held by the certified company.

For example, if Experian are selected the

claimant could be asked questions on their credit reference information, such as previous address history and "What are the last 5 numbers of your current account?"

Following successful registration, claimants will be able to log into the CAP Information Service (CAPIS), where they can check their personal and business details are up to date.

At this stage, claimants will be able to add an authorisation for an agent to complete the application on their behalf. But it is worth noting that existing authorisations will not automatically be renewed, an agent or nominated person will need to be selected by searching a name or company.

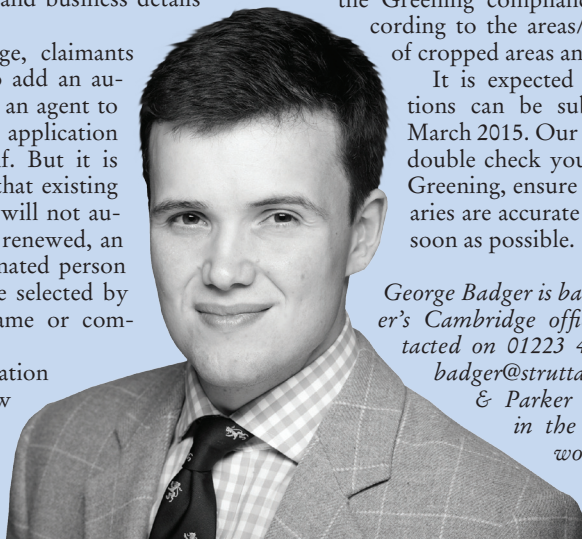
The application itself will follow a map-based format with the business's existing RLR

boundaries already being digitally mapped out. Claimants will be able to annotate these maps with draw and measure tools to separate out individual field parcels and boundary features, coding these to their appropriate crop or EFA code.

The online programme will then calculate the Greening compliance automatically according to the areas/lengths mapped out of cropped areas and EFA features.

It is expected that online applications can be submitted as early as March 2015. Our advice is therefore to double check you are compliant with Greening, ensure the mapping boundaries are accurate and get registered as soon as possible.

George Badger is based at Strutt & Parker's Cambridge office. He can be contacted on 01223 459478 or at george.badger@struttandparker.com. Strutt & Parker have 19 consultants in the eastern region who would be delighted to assist in any part of the process.



>> of £130/t.

Harvest 2013 came and went with November 2014 prices dropping almost every day for 14 months until the end Jan 2014 when November 2014 prices stood at £144/t (£138/t ex farm). Early sellers were happy with their now, year-old selling strategy. But they were few and far between.

Then crop jitters over concerns at dry weather in Brazil and Argentina – and a fresh bout of cold weather in the US and Ukraine – helped push up the November 2014 futures market to £162/t (155/t ex farm) until Mid April 2014.

Once the fear of dry weather passed and northern hemisphere crops were looking great, the market fell again. November 2014 futures fell in a straight line to a low of £109/t (103/t ex farm) by the end of September 2014, as an almost perfect growing season duly produced bumper crops.

For the UK farmer, the problem was that wheat sales virtually ceased from March onwards. Harvest arrived and over 75% of the crop appeared to be unsold compared to a more usual 40-50%. Budgets of £130/t had mostly been ignored.

This state of affairs was based on the fact

that the previous year many farmers had either over-sold or didn't have the wheat quality required. And growers didn't want to experience the merchant buying-in or quality fall-back charges again.

Since October the market has risen £15/t to £124/t (£118/t ex farm) for November 2014 futures. Not what the economists would think is rational in a UK oversupply situation but due to lack of farmer selling and merchant 'shorts' the market has risen.

But for how long? Farmers will/must sell their bumper crop and exports are needed to do that. So to sell or to hold? That is the question facing farmers today and every day.

The wheat market is and has been volatile. How to minimise the 'wrongness' of any marketing decision is the key to good, bad or indifferent margins, regardless of how efficient you are at growing the crop.

The harvest 2014 marketing season (since July 2012) has seen a downward swing of £70/t – equivalent to a massive £700/ha on a 10t crop). Getting that drop half right would give a benefit of £350/ha, which is a massive increase over the net net net margins without SFP of £0-150/ha generally achieved.

To some, this year was a nightmare of

missed opportunities. To very few, it was not as they budgeted at £130/t+ but they received £130/t+ by a straightforward sale (gamble) or using Financial Price Risk Management (a hedge).

Those who hedged using either exchange-traded or merchant put options didn't mind what happened as they 'sold' by guaranteeing a minimum price they could live with – even though they were not actually selling any physical crop to anyone, at any price, any specific spec or delivery month. They benefited even with a falling market, and had little or no worry.

So to conclude, looking forward and budgeting realistically is key to marketing success. Be aware of the market from its beginning and doing something proactive, be it selling or not selling, but with an appropriate hedging strategy attached.

Dr Jeremy M.G. Cole has run Agricole since 1993, from Cambridge. Agricole is an independent farmers' grain marketing and brokering business and has no ties with any merchanting organisation. Dr Cole has a PhD in Financial Price Risk Management from the University of Reading. For details, call 01954 715777 or visit www.agricole.co.uk

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