Credit crunch offers growers food for thought

Grain should be marketed in the cold light of day – not in the heat of harvest, says **Jeremy Cole.**

Long after the difficult harvest has been forgotten, this autumn will doubtless be remembered for the banking crisis triggered by the credit crunch – or as a Polish friend of mine says the "credit crinkle".

These are volatile, worrying and unsettling times. Fund managers have exited riskier markets these investments for perceived safer homes. But ever larger production estimates and lower energy prices have impacted the agricultural markets too.

Last month alone saw wheat and oilseed rape markets fall 20% for old and new crop, wiping £200/ha from every long-holding farmer's net margin for the next two years. It's not a nice position to be in.

The UK wheat market, which was approximated 30% sold by harvest at prices from £150 to £120/t, is probably now 50% sold. The increase in the main has come from ëhas to go' distressed parcels which were post rain and wet, all at £100-85/t.

This has been sold into discount internal homes or onto boats and blended away. The remaining farmer controlled wheat is still for sale, being dried/conditioned and valued at £90 or below for November 08 or £105 November 09. What has – and is – happening to grain committed in the trade pools only time will tell, but on a falling market, an averaged price from regular selling will always look good.

But both situations could have been made better by individual farmer hedging because the fall in the market has been far in excess of any hedging premium, despite the often made claim that hedging is too expensive.

Most farmers and pundits this year have stated that £110/t was their minimum acceptable ëStandard of Living Line'. Why then, when the market was over £140/t for 6 months, was it not hedged at that price or above?

It must be better to turn a bad situation on its head and be more pro-active. Farm managers should decide what level of margin is acceptable – before drilling the crop – to run that particular business and then ensure those budgets are met.

Since LIFFE Futures prices for wheat are available 18 months before the crop is drilled and 30 months before it is harvested, decisions about marketing, as opposed to just selling, can be made in the cold light of day rather than in the heat of harvest. Grain for movement at harvest doesn't have to be sold at harvest. Only wet crop or the marginal extra crop bursting the shed's walls need be subject to "fire-engine" selling and won't affect overall net margins too adversely, whatever price it is sold at.

Those needing to sell soon, but afraid of selling at the bottom of the market, are in a hard situation now. What to do? One avenue could be to invest in a hedge, for £9/t, in a May 08 ëOption' to benefit from future rises.

Hedging has been around for decades. So why are so many still not taking advantage of its usefulness? Hedging virgins should get some impartial advice and see how it can work to stabilise your net margin – and help you gain from market movements.

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