Grain price tools overcome quality concerns

A difficult harvest makes it important to maximise returns from stored grain, writes **Jeremy Cole**

Phil and Kirsty would be the first to cry, “Location, Location, Location” and then, “Quality, Quality, Quality”. With this year’s harvest all in now, the latter is the only cry the grain trade is shouting from the rooftops.

What a nightmare it has been and what a nightmare it’s going to be for the rest of the season. The domestic market remains in a state of flux, with the situation becoming less clear if anything

The amount of sub-72 wheat appears to ever grow, and the average bushel weight of the whole UK crop, all wheat group varieties, is put at 70kg. 72kg, 15% moisture wheat is £190 but sub-68kg wheat starts at £5 discount. Anything under 65kgs is heading North to an ethanol plant, incurring extra haulage. Fallbacks to 63kg will cost approx £26/t.

The further West and South one goes, the lower the bushels. The East is the ‘best’ this year. The milling sector has been hard hit, with an estimated 4% of the crop making full spec, according to the HGCA. Last year it was 40%. Bushel weights are averaging 71-72kgs versus 79ks last year.

As a result premiums have risen to £40/t over feed. Group 3s, the soft wheats, with a lower specification requirement are similarly affected by the bad weather. Only 16% of it is reaching the grade of 73kg, 180 hagberg and 10.7% protein. Last year it was nearly 75%.

This is hitting the ‘grain trade’ hard and making grain movements and placements a logistical nightmare. One trader told me he didn’t need a transport manager this year, what he really wanted was Merlin or Harry Potter, to conjure up the right grain for the right home.

There is a lot of entrepreneurial manoeuvring happening, as different sectors try to adjust to the poor quality and aim to reduce the level and severity of the deductions. Millers are buying from abroad and blending, they’re also using as much Group 2 and 3 and even Group 4 hards as possible to bring down the grist cost, while maintaining output specification.

There is also evidence of farmers with livestock buying back their wheat contracts, paying the difference and just feeding their wheat, thus reducing the need for as much bought in cake. The demand for grain dressers, from agricultural dealers and even eBay has rocketed, so too has the price of using mobile mobile dressers.

Other farmers are selling some crop forward for next year, at approx £160/t ex-farm and are going to carrying over the rubbish until next year and then blend it away with a normal higher bushel weight year.

Along with the quality, or lack of it, inevitably come the deductions. Many over £20, some over £40/t or worse, for any samples with bushel weights beginning with a 5. This is OKish, if the grain is sold at £190/t, as the net price is still £150-160/t, but not if sold at £145 and a yield of 2t/acre.

Some farmers are saying the merchant trade is taking advantage of the situation and charging too much to take the wheat away. But remember it was the farmer that sold the wheat forward, on a spec, at a price, for an agreed month. So in fact the merchant doesn’t actually have to accept the sub-standard product at all, and could ask for the farmer to produce what is contracted.

This would throw the trade into complete turmoil as most producers would have little idea how to replace/nullifying their contract, bar defaulting and receiving an invoice for any

Few growers had a straightforward harvest this year

Guaranteeing the best price for your crop

There are ways of 'selling' forward, or guaranteeing a price forward, without being liable to the spectre of quality and quantity issues.

By hedging for a fall in the future price, and NOT by selling the physical wheat crop forward, the farmer can guarantee a minimum price in the future. This will be the current price minus the hedging premium (like an insurance premium).

If the market rises, the farmers sells the eventual crop (larger or smaller than expected) for a higher price than today's and receives that higher price minus the hedging premium.

If the market falls the farmer sells the eventual crop (larger or smaller than expected) for a lower price than todays and receives that lower price but importantly receives a payment from the hedge of the difference between the initial price and the current price.

This price will be at worst the guaranteed minimum price that was agreed three, six, 12 or even 18 months before.

Selling forward over the full two years before harvest remains an option, but without the worry of any future quantity, quality and contract problems associated with a 'normal' sale forward. It also means a guaranteed price.

price difference. They would still be the problem of what to do with the heap of poor quality wheat on the barn floor.

So the merchant, although they will probably be making a turn on the deal, have an important and very difficult job this year in placing poor wheat to the right home and making basically unsalable wheat into a saleable article by importing/moving into a store/blending wheat. They are the experts at this, this is what they do.

This brings into sharp focus the 'problem' of selling forward, selling something you don't have in the barn yet, something of an unknown quantity and something of an unknown quality.

In most other industries it would appear madness, and bring into question your business acumen. Is this a lesson to growers to wait until the crop has been harvested before selling? Yes and no.

Obviously, selling the crop once in the barn allows for a much better idea of what the farmer has to sell, and so less risks of quality and quantity issues. However, that crop has been trading on the futures market for two years already, and so opportunities to market over that period would have been lost. The price at harvest could be the best over the past two years, or could be worse. We have all experienced both scenarios.

Jeremy Cole, BSc Agr 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