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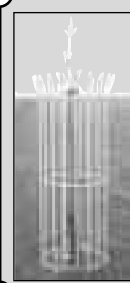

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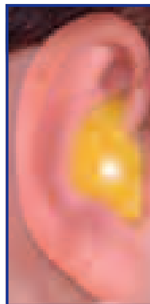

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Never a dull moment for global grains

High grain prices prompt **Jeremy Cole** to suggest a novel way of setting agricultural rents.

The roller coaster ride that is the world grain market continues. It was the talk of the Gransden & District Agricultural Show in rural Cambridgeshire in late September. The show was buzzing with enthusiasm and trade stands upbeat. Farmers were smiling, the sun was out. The only thing missing were the animals.

Early October saw the market fall – yes fall. A phrase not heard since mid-May but it had to come. November futures had reached the dizzy heights of just over £190/tonne before falling £25. The market has since recovered a tad to £20 off. Futures and the delivered market have still to return to normality, suggesting more change to follow. Futures will have to fall or prices paid rise. Normality will return be sure of that.

Other world commodities could not keep pace with wheat, became relatively cheaper and were substituted. Profits were taken in the fund sector and the 'overboughtness' of the market returned to a safer more acceptable level.

In general, few farmers have taken advantage of this rise. Due to the vagaries of this year's trading scenario, many have sold too much too early. Coupled with the lower yields, they dare not sell any more until present commitments are collected by the end of November.

This mirrors the situation for 2003/4 – the last time the market was really short. Then the market dropped £20/t in the New Year as farmers sold their remaining tonnage, which was actually greater than at first feared. Will it happen again or do we have less than expected? The world market certainly has a lower stock to usage ratio than before and world demand appears to be higher. I actually feel £200 May-July is still a real possibility if the Australian crop is as poor as expected.

Yet few appear worried about the £20/t fall as prices remain astronomically high compared with budgets. What they overlook is that £20/t is equivalent to £200/ha lost margin. £200! Few growers, if any, applied a Put Option to cover a fall, partly because Options have been difficult to grant for a month but mainly because most believed the market would run and run. An Option would have cost £10-15/t, and guaranteed a minimum ex-farm price of £177 January 2008 with no physical sale risk needed.

Option premiums for May 08 are currently £12 (Only 7% of crop value) and I think the market could easily rise by that during the next six months. That is worth an initial cover of 25%, restricting maximum losses to an average of £3/t.Put Options are very helpful in guaranteeing a commodity price without actually selling the physical crop. This is important for the probable 40-50% of 2008 harvest that will not be sold until harvest is in, after this year's yield collapses and those seed growers that can't agree a price until time of movement.

Put Options also eliminate the worries of buying-in charges and of selling a specific tonnage for a specific time and price. They guarantee a minimum price. If Puts are not used then adverse market movements could greatly impact on farm business's margin or increased physical sales will have to be made with the serious financial consequences of this year if grain unavailable.

Autumn is rent review time. Land agents and farmers are getting in a stew over rents pushed higher by combinable crop prices. But should we base rents on an average of the past year, the highest price, or the average price over the last three years? It all places unnecessary stress on parties that really want to get on with each other.So, why not link the rent to the price of wheat on a certain day, based on the LIFFE futures close. That way the LIFFE price can be agreed on the day the agreement is signed and both sides could easily hedge that value from then onwards.The landlord would hedge in case the market fell, the contractor/tenant would do the opposite. Because futures can be seen for two seasons ahead, the hedge could be in place for that period too.

Come rent day, one side would be happy with the price and lose their 'insurance premium'. The other would be less happy with the price but claim on the insurance. Both would achieve a similar value, the correct remuneration based on current wheat price, without subjectivity and potential bad feeling.

With prices set to be £100+ for the next few years, no-one needs the agro of bad feeling. Instead, smile. Be happy.

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