

Brexit: Should I sell grain now or not?

Which way will grain markets move post-Brexit?

Jeremy Cole gets out his crystal ball

UK wheat prices for the coming harvest and next are currently in the region of £136/t for May 2018, £135/t for November 2018, 138/t for November 2019 and £142/t for May 2020.

Depending on your view of these prices, you will be a seller or not. As most farmers are not selling at present for harvest 2018 or 2019, it is a fair assumption that the price is perceived as being too low and unprofitable against any budgetary measures.

Or is there something more fundamental at play? Could it be that farmers are so uncertain about the future post-Brexit that they are stunned into inactivity on the basis that any decision to sell is a complete punt in the dark?

I feel it is the latter. After all, what Brave New World is UK agriculture entering into? Depending on the trade policy implemented after Brexit, international trade flows will have important implications on UK commodity prices and production – and in turn future agricultural policy.

Alternative analysis

This article draws heavily on a broader analysis of the UK agri sector by the Agri-Food and Biosciences Institute. Brexit will have important implications on UK agricultural commodity markets due to potentially significant changes to trade flows, it says.

Their paper tries to isolate the impacts of these changes on three alternative Brexit scenarios against a baseline scenario in which the UK stays in the Single Market.

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Grain prices will be among those commodities affected by post-Brexit trade policies

The three scenarios:

1. Bespoke Free Trade Agreement (FTA) with the EU (Brexit White Paper 2017)
2. World Trade Organisation (WTO) default Most Favoured Nation (MFN) tariffs
3. Unilateral Trade Liberalisation.

The scenarios are designed to be illustrative of a broad range of potential trade arrangements, rather than speculating on the final outcome of the Brexit trade negotiations. In practice, trade arrangements finally adopted by the UK are likely to be some hybrid of these scenarios.

Remember, that for the analysis below I'm concentrating here on the arable sector. The impact will be different for other farm sectors which could experience different tariff levels than those imposed (say) on grains and oilseeds.

1 Bespoke Free Trade Agreement (FTA)

- UK retains tariff and quota free access to the EU
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- UK maintains EU tariff structure to rest of the world
- 5% trade facilitation costs on UK-EU27 trade

Effects: Wheat price will fall 1%, production zero %, output value will fall 1%. Barley price will fall 1%, production zero %, output value will fall 2%.

2 World Trade Organisation (WTO) default

- MFN tariffs applied to imports from the EU
- Tariff Rate Quotas from 3rd countries retained
- MFN tariffs applied to UK exports destined for the EU
- No change in tariff structure for exports to the rest of the world
- 8% trade facilitation costs on UK-EU27 trade

Effects: Wheat price will fall 4%, production will fall by 1%, output value will fall 4%. Barley price will fall 5%, production will fall by 1%, output value will fall 6%.

3 Unilateral Trade Liberalisation

- Zero tariffs applied on imports to the UK from both the EU and the rest of the world
- MFN tariffs applied to UK exports destined for the EU
- No change in tariff structure for exports to the rest of the world
- 8% trade facilitation costs on UK-EU27 trade

Effects: Wheat price will fall 5%, production will fall by 1%, output value will fall 6%. Barley price will fall 7%, production will fall by 2%, output value will fall 8%.

From these three scenarios it can be seen that the UK wheat and barley sectors will be in a worse situation than at present. And with that in mind, maybe it is time to sell some crop.