Effects of falling oil prices being felt

THE GLEANER

THE fall in nearby Brent Crude Oil futures to under $50 per barrel from more than $115 per barrel in mid-June is likely to have far reaching effects on agriculture both in the UK and worldwide.

Despite currency movements, crude oil prices, in sterling terms, have lost more than half their value since June. This has come on the back of strong increases in world oil production. In the first instance, oil prices affect farmers' margins through limits with both input and, to a lesser extent, output prices.

On top of this, the potential effects on the wider global economy could be noticeable and, if it is an indicator of showing global growth, could mean a slower pace of growth for agricultural products.

If lower fuel prices prevail into the 2015 growing and harvest season, then this should take some pressure off farm cash flows due to lower machinery running and crop drying costs.

UK and US natural gas futures have also fallen since late November, but the scale of the decline has not been as large as the decline in crude oil futures.

This suggests that the effects of the low oil price are not moving into the energy markets to the same extent. As such, the impact on overall energy costs on farm may be dampened compared to the impact on direct costs.

As natural gas is a key component in nitrogen fertiliser production, it should lead to downward pressure on nitrogen fertiliser prices. And they could fall significantly as a result.

With the emergence of biofuel demand, rapeseed prices have become loosely linked with crude oil values and, to a lesser extent, grain prices via bio-ethanol.

The costs of transport can also have an impact on farmers' margins, both directly and indirectly. Directly it can help reduce the disparity between the price and purchaser pays and that which farmers receive both for inputs and outputs.

Fuel costs are the largest cost item of the highly competitive global shipping industry suggesting that fuel savings will likely result in lower international freight rates.

The Baltic Freight Index, which tracks the rates for vessels carrying dry bulk cargoes, including grains, coal and metals, has fallen to its lowest level for 28 years since 1986. Weakness from the index has come as the available vessel capacity continues to increase due to the oversupply of vessels coupled with falling fuel costs and results in driving down the rates exporters must pay to ship commodities.

The predominant trend in global grain markets this year has been one of record output forecasts, followed by downward moving prices.

However, on a global basis, barley appears to be down by 5% in 2014/15 compared with a year earlier. The competitiveness of EU malting barley has been strong this season so far and this has been compounded recently by the weakening of the euro compared with the US dollar.

This has led to the EU becoming extremely competitive in this country's exports for both barley and wheat. As a result of the strong demand for EU barley, malting barley export prices have received a level of support throughout the last three to four months.

Considering this in the context of the UK crop, with historically high quality results reported for UK barley this year, the latest export price information presents an opportunity for UK malting barley exports.

Following two consecutive large barley production years in 2013 and 2014, 2015 could also produce a big crop – weather depending.

The current HGCA projections include a 12% increase for the winter barley area and a 9% increase for the spring barley area for the UK in 2015 compared with 2014.

The HGCA survey suggested that the nett increase in area for 2015 is in response to the new CAP regulations, specifically the three-crop rule.

Also, on top of the policy changes, spring malting barley – including straw – come out on top of the gross margin rankings for key UK crops.

The current UK cereals supply and demand estimates indicate that there is potentially more than two million tonnes of barley surplus this year available for either export or free stock.

With the estimates pointing to higher end season stocks and increased competition from wheat in animal feed demand, exports are the key to shipping the surplus and, up to last November, 35% of the exports has gone to non-EU destinations.

Supplies of malting barley are slowing on the world markets but the UK is going against that trend with increasing supplies of good quality barley available.

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