

Coping with uncertainty in the market

THE GLEANER

HARVESTING of winter barley is nearly at an end and oilseed rape well on the way to the finish, too, and yields have been much better than average.

Further south, where some poor OSR yields have also been reported, around 20% of the wheat crop has come under the knife, with 10 tonnes per ha regularly achieved and up to 14 tonnes per ha in some cases.

If this is replicated throughout the country, then this will see an exportable surplus not seen for many years. The problem with this is that poor weather has caused problems with quality elsewhere in Europe and what usually ends up with millers, is now destined for the feed bin, leading to an oversupply of that commodity.

From the middle of June to the end of July, rainfall was up 198% compared with normal levels in central France and some parts of Germany were up 160% from normal rainfall at that time.

To date, the UK wheat quality is good with high specific weights, hagerbergs and reasonable protein levels.

But, then again, imports of quality wheat should decrease after harvest as, dependant on quality and final yield results, millers are likely to have access to increased UK milling quality supplies.

The UK has a lot to do in 2014/15 to win back demand in both domestic and export markets and the prospect of a larger EU and UK wheat crop and strengthening of the pound are both challenges to overcome.

We may find it increasing difficulty to compete for export markets due to the growing dominance of maize. In the coming season, for instance, the US maize crop is forecast to account for 18.1% of the total global grain output (excluding rice) up from 17.8% last season.

Winter barley harvest, however, in the UK is now more or less complete and 20% of spring barley has been cut in the southern half of England where yield and quality again appear to be good.

As a result of increased yields and falling wheat prices, this has put more pressure on barley returns and even at their lower levels, feed barley is relatively expensive against feed wheat and will result in a significant drop in UK demand from

animal feed compounds.

This will put more pressure on export markets and, currently, with poor quality French wheat widely available, this is providing adequate requirements for EU animal feed compounds.

The upshot of all that is, malting barley premiums are now also coming under pressure due to supply and demand, despite having previously held up reasonably well.

The markets have reacted to this glut of wheat and the November, 2014, feed wheat futures fell to a four-year low, having dropped £2.70 two weeks ago and £4.30 this past week to £122. UK ex farm feed wheat has dropped £6.80 last week down to £117.40, feed barley ex farm has dipped below £100 and one wonders how low it can go.

Merchants suggest that if farmers can hold on to the crop until November, then prices could increase by over £5 per tonne – which is a small mercy!

Oilseed rape production for the EU crop this harvest is put at 22.9m tonnes, which would be a record. But, even with these figures oilseed rape futures have increased by £3 per week for the last two weeks, which means there will be lower imports from Australia and a greater reliance on home-produced seed.

Oilseed rape delivered Erith last week rose by £6.60 up to £254.50. Prices will be helped by global demand for soyabean, rapeseed and palm oils in biodiesel production which has been growing steadily over the years and is expected to reach 23.3m tonnes in 2014, which is 6.6% higher year on year.

The EU Energy Council has agreed to limit biofuels made from food crops to 7% of all EU transport fuel made from renewable resources by 2020. Originally up to 10% of food crop derived biofuels could be used.

It appears from the latest consumption trends that demand for rapeseed oil to produce biodiesel used in UK road transport fuel is limited.

However, on a global level, the use of vegetable oils in biodiesel production is growing and this provides price support to the vegetable oil sector.

Food security is becoming a bigger issue and rising demand levels from an increasing global population,

expanding urbanisation and higher incomes per capita are putting the planet's resources under intense pressure.

By 2050 rain-fed wheat production is expected to decline by 8.1% in existing areas and by 2080 predictions are for a 15.5% drop in existing areas with Europe hit particularly hard. For rain-fed maize, the fall in production is greater with a decline of 11.2% expected by 2050 and 37.3% forecast by 2080.

Parts of the US, Central Africa and Asia are the worst affected areas. Higher food prices will, no doubt result if these scenarios are realised.

There needs to be improvements in technology to maximise productivity, extension of farming systems and reforms in economic and trade policies and GM technology is cited as a key step for example in China, which would build self sufficiency in feed grains but public confidence will be important as opposition

to GM technology is seen as a barrier.

One final thought regarding current low wheat prices is how farmers make their marketing decisions which have a big impact on profitability. Price volatility continues to be an inevitable characteristic of the markets and is caused by either weather issues, currency or supply and demand.

Growers must consistently keep abreast of market drivers during all parts of the season as in

2012/13 UK feed wheat futures fluctuated between a minimum price of £155.70 per tonne up to maximum price of £225.45 per tonne, which is a significant range of £69.70 per tonne.

This year we have seen a similar variation of more than £50 in a futures contract period and volatility in the market place creates uncertainty and this can be particularly challenging depending on the extent of the instability and unpredictability.

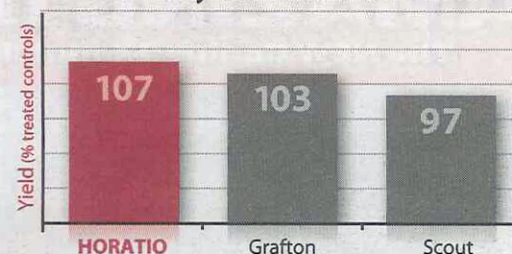
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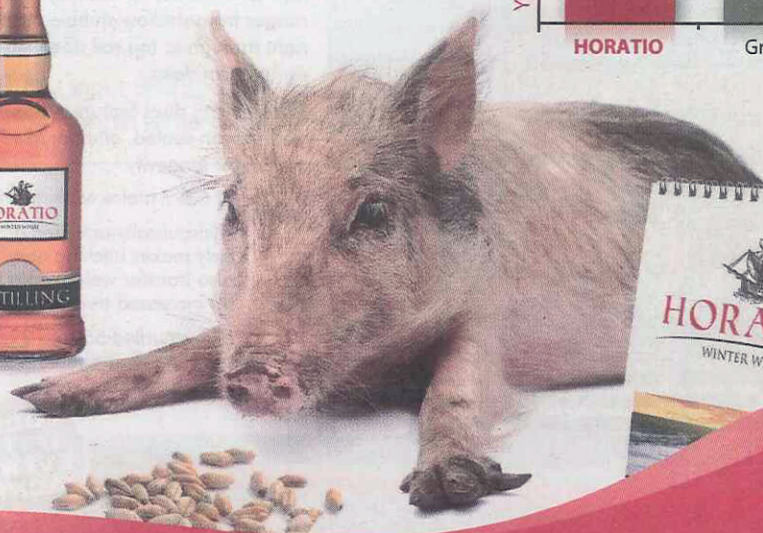
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