BROWN&CO

AGRICULTURAL UPDATE
JANUARY – JUNE 2023

Brown&Co's market update provides an overview of commodity prices for 2023. It also provides an overview of points to consider going forward into the third and fourth quarter of 2023, which include Environmental Schemes, Basic Payment Scheme, and New Agricultural Policies.

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SUMMARY

The Brown&Co Agricultural Update Report reviews the previous financial quarter, highlighting the changes in market prices and trade patterns of commodities during the period.

This quarter analyses the cereals, oilseeds, milk, and meat prices, as well as input prices such as fuel, fertiliser, and feed.

- Pork prices have consistently risen and are currently high at around 220 pence per kilo.
- Defra farmgate milk prices have fallen.
- Lamb prices have increased significantly.
- Beef prices have increased to record levels.
- Cereal & Oilseed prices have decreased significantly.
- Fertiliser prices have fallen further, which has been influenced by political affairs, mining activity and gas prices.
- Crude Oil prices have fallen, and the gap between oil prices and red diesel has closed back to typical levels.

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POINTS TO CONSIDER – 2023

ENVIRONMENTAL SCHEMES

- The Sustainable Farming Incentive 2023 Standards are expected to launch in August this year, where farmers can "pick & mix" an array of actions which can be tailored to their existing farming policy. The 3-year scheme; paid quarterly, allows farmers flexibility to adjust areas each year as well as providing better access for tenant farmers who do not have long term security of tenure.
- The Mid-tier countryside stewardship application deadline is the 18th of August 2023 for agreements with a go-live for January 2024.
- Countryside Stewardship capital grants remain open for applications. Funding is available for the likes of fencing, hedge laying and other yard works such as concrete.

BASIC PAYMENT SCHEME

- 99% of farmers received their remaining 50% BPS payment in December 2022 from the RPA. The remaining unpaid farmers are due to pending inspections and unresolved queries.
- The Basic Payment Scheme rates from 2024 onwards are still to be confirmed due to a potential change of government

NEW AGRICULTURAL POLICY

- The BPS lump sum exit scheme has now closed for applications. Farmers have until the 31st May 2024 to provide evidence that they have transferred out their agricultural land.
- The third round of the Defra Future Farming Resilience Fund service is now available, providing business, environmental, planning and development advice to farmers across England and is funded by Defra. Brown&Co continue to be a provider of the service up to 2025, register your interest here

COMMODITY PRICE COMPARISON BETWEEN MAY 2022 AND 2023

PRODUCE	MEASUREMENT	MAY 2022	MAY 2023	DIFFERENCE	% CHANGE
LAMB	P/KG/DW	626.0	691.2	65.2	9.4%
BEEF	P/KG/DW	439.2	492.7	53.5	10.9%
PORK	P/KG/DW	171.8	219.8	48.0	21.8%
MILK	P/L	40.74	39.43	-1.3	-3.3%
WHEAT (FEED)	£/TONNE	319.4	176.1	-143.3	-81.3%
BARLEY (FEED)	£/TONNE	302.6	162.3	-140.3	-86.4%
OILSEED RAPE	£/TONNE	806.9	336.9	-470.0	-139.5
£/EURO EXCHANGE	EUR to GBP	1.1783	1.1476	-0.031	-2.7%

Note: Due to the dynamic period we are currently in, commodity prices may move daily.

JANUARY - JUNE 2023 COMMENTARY

UK WEATHER

January and February brought relatively mild temperatures to England, with occasional cold snaps and frosty periods. This allowed some farmers to carry out early spring preparations and start sowing spring crops. However, the consistent mild weather also posed risks, as it disrupted the natural winter dormancy of certain crops and made them susceptible to potential damage from late frosts.

As the months progressed into March and April, England witnessed a shift towards more unsettled weather patterns. There were frequent rain showers and cloudy days, which hampered fieldwork activities such as ploughing, planting, and spraying. These conditions also increased the risk of diseases and pests, requiring farmers to closely monitor their crops and apply appropriate interventions.

In late April and early May, England experienced a welcome period of warm and sunny weather, with temperatures reaching above-average levels. This provided a boost to the growth of crops, enabling farmers to catch up on delayed planting and undertake necessary maintenance tasks. It was particularly beneficial for spring-sown crops like vegetables and fruits, which thrived under the favourable conditions. The dry weather continued through to June, where many cereal farmers began to wish for rain again as soil moisture levels dropped to uncomfortable levels.

HARVEST 2023 OUTLOOK

There was a considerable temptation for cereal farmers to establish crops early in the autumn, after harvest 2022 was so early and growers were focused on building drought resilience into their harvest 2023 plans. This early establishment of crops in combination with recent weather trends has caused for significant pressure of problem weeds such as blackgrass.

The spring conditions have also led to increases in crop disease pressure in parts of the country and given the difficult tight windows of opportunity for spraying, proved to be challenging for growers.

Despite all of the above, crop density is generally high and yield anticipations are currently positive.

CLIMATE & CARBON

The COP28 climate summit is set to be held by the United Arab Emirates (UAE) between 30th November and 12th December 2023, which will be the first time the Global Stocktake (GST) will provide an assessment of progress since adopting the Paris agreement. The results of this assessment will determine what further action is necessary to maintain the target limit of 1.5 degrees global warming by 2050.

Initial figures published by the Department for Energy Security and Net Zero show a 1.1% fall in total energy demand; mainly being attributed to the cost-of-living crisis driving people to be more resourceful with energy, however more notably, gas demand fell by 7.6% whereas electricity demand increased by 11%. Given that gas is the most commonly used domestic heat source, it indicates that many households were not being heated to usual temperatures this winter and the increase in electricity demand could indicate more businesses and households are moving towards renewable energy.

Renewable energy production matched its record high (from 2020) in the winter of 2022, making up 41.4% of total electricity generation. This percentage share of electricity from renewable sources has plenty of room for improvement, further demonstrating the opportunities landowners have to capture an opportunity in this market.

SUPPLY CHAIN

The Black Sea Grain Initiative (BSGI) was renewed in May and continues to operate. Over 32 million tonnes and foodstuffs have been exported since the beginning of the initiative, still well below pre-war levels. For the past 8-years, global grain stocks have remained around the 850 million tonne region, with minor fluctuations that have mainly been governed by extreme weather events, however per-capita, the increase in global population has diluted this level of stock per head. In 7 of the 8 years, production has managed to outweigh the upward trend of utilisation (consumption), which has mainly been fuelled by technological and efficiency improvements that are allowing farmers to grow more on the same area to keep up with demand.

CONSUMER BEHAVIOUR

The cost-of-living crisis is a causing a big impact in society currently and driving changes in shopping behaviour. There has been a noticeable increase for demand of cheap cuts of meat, such as stewing beef and minces, which is outside of the annual trend for barbeque season (with burgers & sausages being classified as minces) providing a lower cost alternative ingredient to regular and premium cuts. Despite this, levels of domestic food waste have increased to back to pre-pandemic levels, where lockdown saw a 43% decline in waste levels.

Survey data shows most UK consumers consider welfare, health and the environment when making food choices, which is a positive for high welfare UK producers, however how robust this opinion is when budgets are tightened is to be determined.

PORK

The Standard Pig Price (SPP) has continued to climb to 222 pence per kilo deadweight (p/kg/dw), Despite these record high prices, costs are still significantly above the year before, which puts pressure on margins of profitability.

Slaughter head throughput however has reached a record low in like for like months of the year, and 13% below the 5-year average, this has been fuelled by further African Swine Fever (ASF) outbreaks in combination with a long-term forecast decline in pork consumption.

DAIRY

There was an estimated reduction of 380 dairy producers in Great Britan between April 2022 and April 2023, however the average volume of milk per farm has increased, resulting in an overall increase of 0.5% from the previous year, this is causing a negative impact on milk prices, as a steep decline in the milk price has been seen for most of 2023 with lows of 39.43 pence per litre (p/l). The reduction in producers could be attributed to the Defra lump sum exit scheme paying farmers to retire, in combination with input inflation putting pressure on profitability.

China is also having a large influence on the global milk market, with a continued downward trend in demand for dairy products, a consequence of the zero-Covid policy (which has also lowered economic growth).

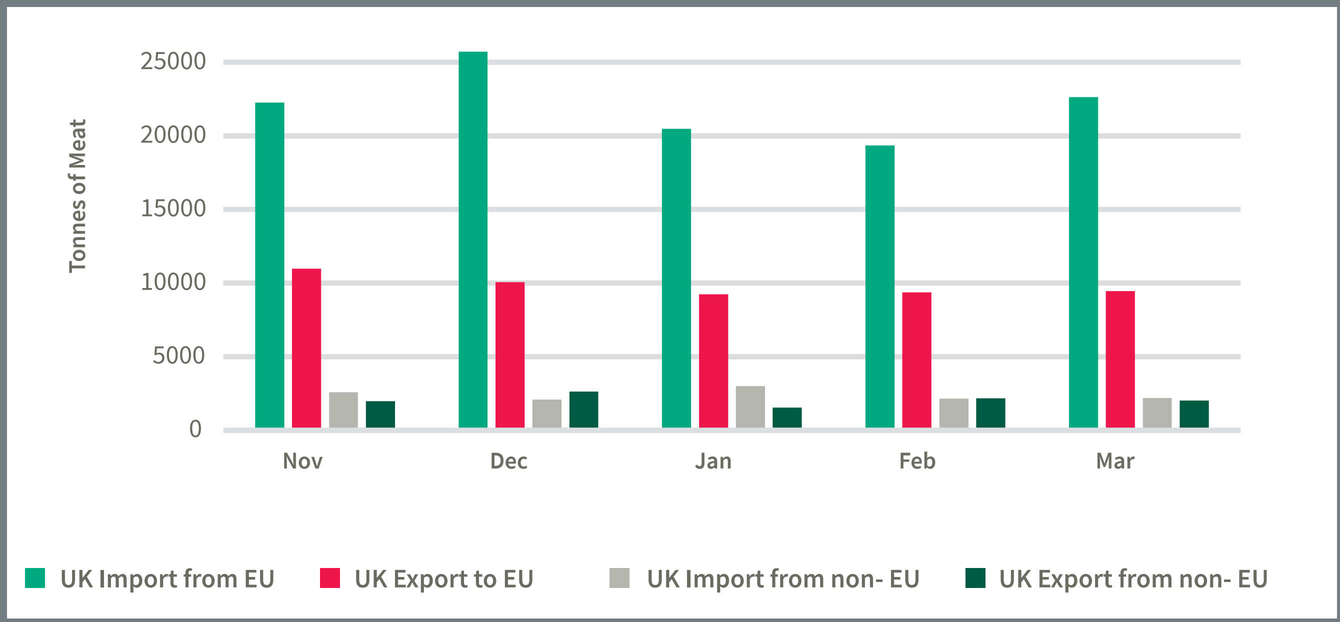
LAMB

- Lamb prices slumped around the 500 pence per kilo deadweight (p/kg/dw) mark, to then rise throughout the spring and early summer, peaking at 741 p/kg/dw, to then fall in June, closing on 672 p/kg/dw.
- Lamb prices rose higher than the seasonal trend for new season lamb at easter, which has mainly been attributed to the dry conditions in summer 2022, where new season lambs were slower to reach their markets, mainly due to feed availability.
- New Zealand's sheep numbers have continued to decline to their lowest in 150 years, which has tightened global supplies and further stimulated the high lamb prices.
- The spring weather was favourable for early turnout of stock and good grass growth looks for promising UK supply for next season.

BEEF

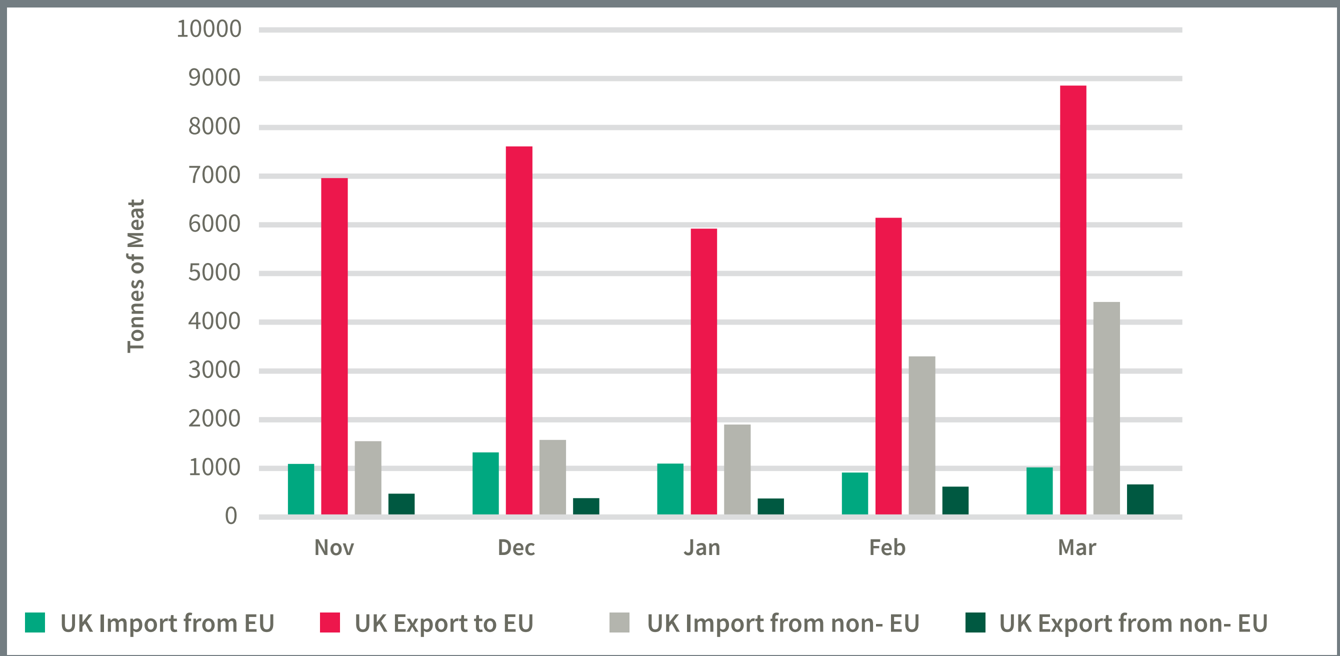
- Across the EU, beef prices have generally remained firm since the start of the year. Tight cattle supplies stemming from contracting herds are likely offering support across key markets, with prices particularly strong in France and Ireland. UK beef exports to the EU have remained firm for the first three months of the year. This in combination with a forecast decline in EU beef and sheep production, is set to continue the upward trend seen in recent months for UK beef prices, where they hit a historic high price of 493.7 p/kg/dw.
- Although some big hitters in the global beef market like China, Australia, Brazil and India have increased production to offset the decline in US and EU levels, high welfare beef is in high demand still, after domestic sales spending increased by 9.9% between May 2022 and May 2023. Volume of sales decreased by 1.7% in the same period, however this can be attributed to the cost-of-living crisis in the UK, after a noticeable increase in demand for cheaper cuts and minces.
- An awareness of input costs should be maintained, as although output prices have increased, so have inputs; due to global affairs, fuel prices, and weather trends influencing the costs of feed as well as fertilisers, which has had a large impact on gross margins for many beef producers. Those on a lower input system are less exposed to these market fluctuations.

UK BEEF MEAT TRADE



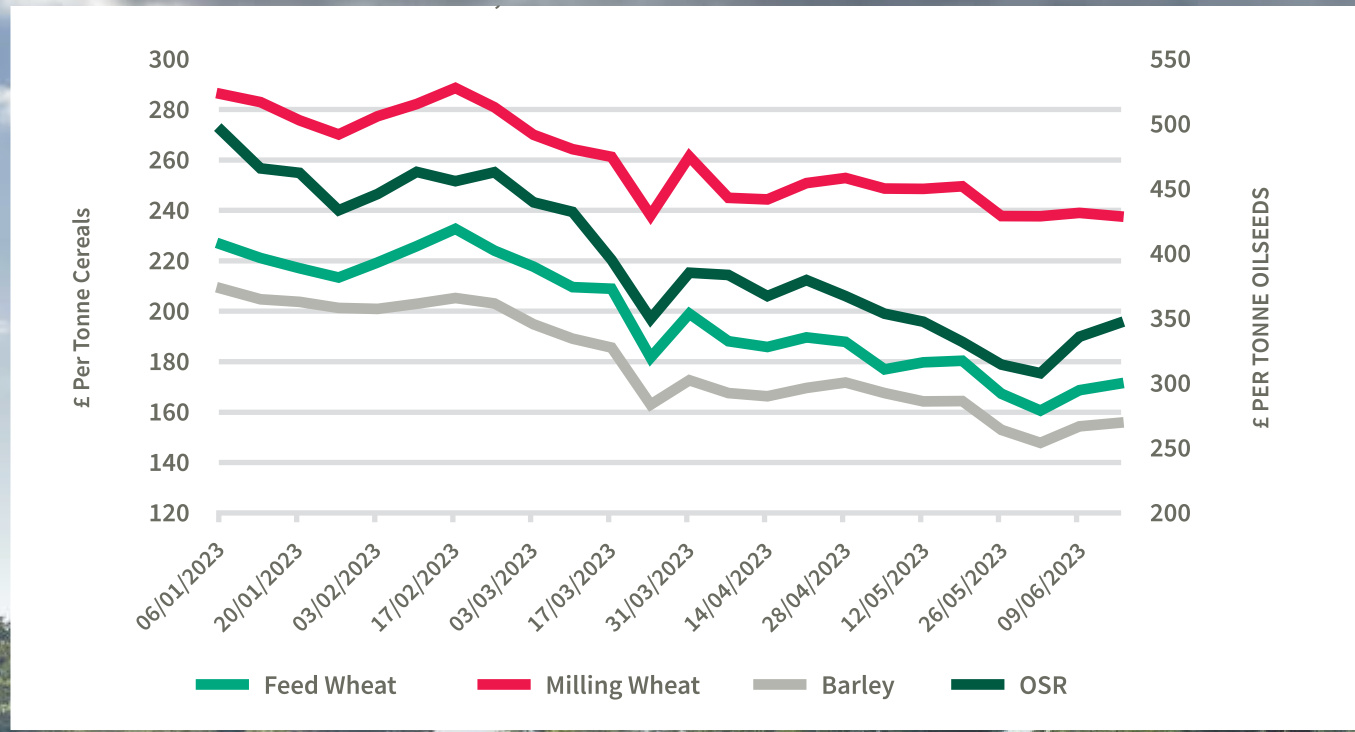
- EU Imports peaked in December, which is typically seen with the Christmas season.
- Trade levels in late winter / early spring were stable despite the increased beef prices.

UK LAMB MEAT TRADE

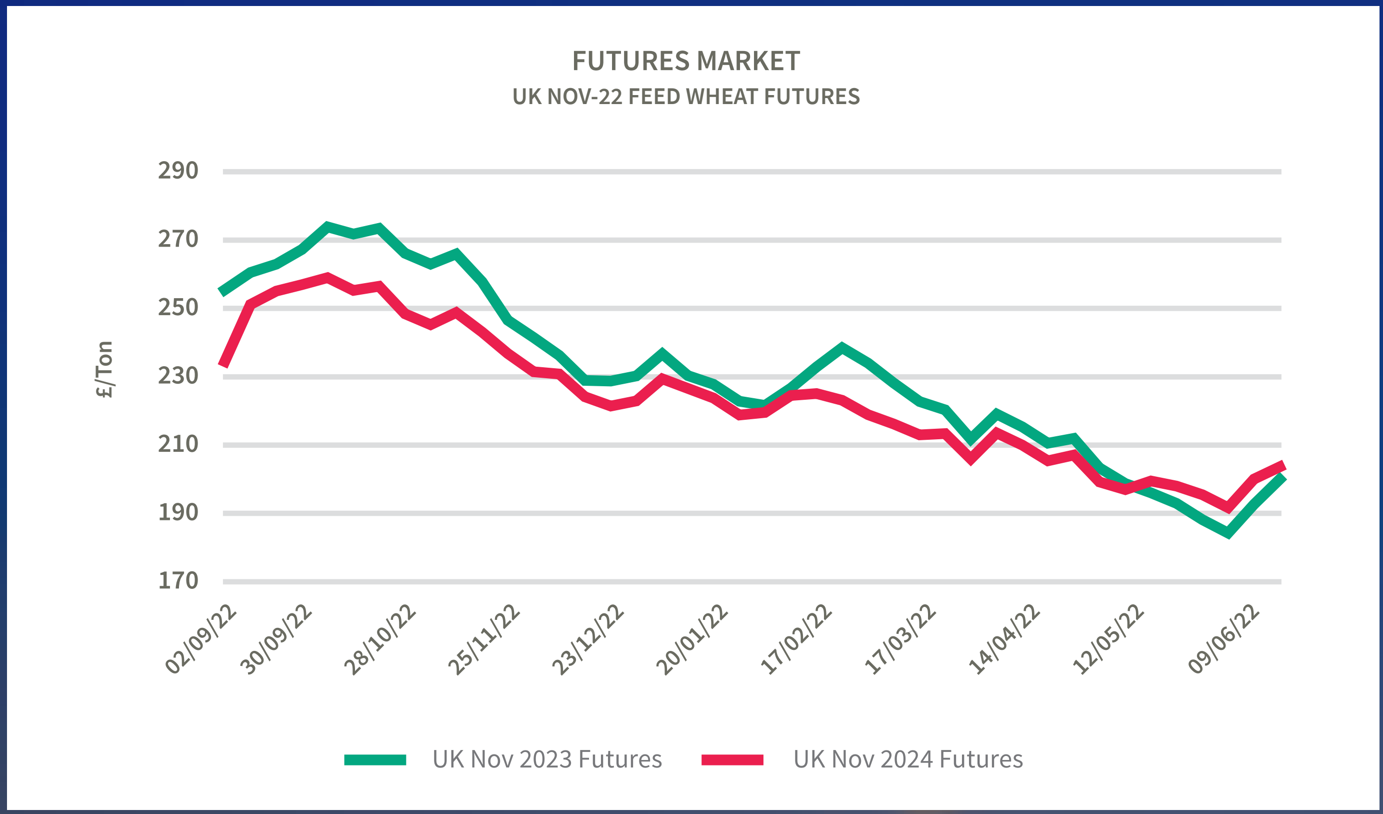


- EU Export trade hit highs in the Christmas and Easter seasons as typically seen.
- Non-EU imports in the build up to easter rose as anticipated, however slightly lower than usual trends, which could be attributed to the cost of living crisis stunting demand for sheep meats in general due to the cost per kilo.

WHEAT, BARLEY AND OSR PRICE TRENDS



- Feed wheat prices fell throughout to close at £171/t.
- The cost of production; most importantly Nitrogen fertilisers, has had the biggest impact on grain prices. Those who bought expensive inputs without securing any futures sales will see extremely tight margins and potentially losses if crop prices remain low.
- The price jump seen at the end of March was mainly regarding concerns over Russian grain supplies, however the market then settled, and the downward trend continued to the end of May.
- The increase in all crop prices in June was mainly attributed to the collapse of the Kakhovka Dam in Ukraine, where flooding has affected 10,000 hectares of farmland and is causing fears of environmental disaster from oil, debris, and pesticide contaminated sludge. This contamination could eventually reach the black sea and have further environmental impact.
- The Milling premium gap widened to record levels, peaking at a £77/t premium in June, as the extreme weather conditions in 2022 continue to have a lasting impact on crop quality, dry conditions in the leadup to harvest 2023 cause further concerns for crop quality.
- Barley prices fell to close the quarter at £155/t, which has mainly been governed by the feed wheat price, as barley is a close replacement feedstock ingredient to wheat.
- Oilseed rape prices fell between January and the end of May. This is mainly influenced by the crude oil prices as well as production levels of alternative oilseeds such as sunflowers.

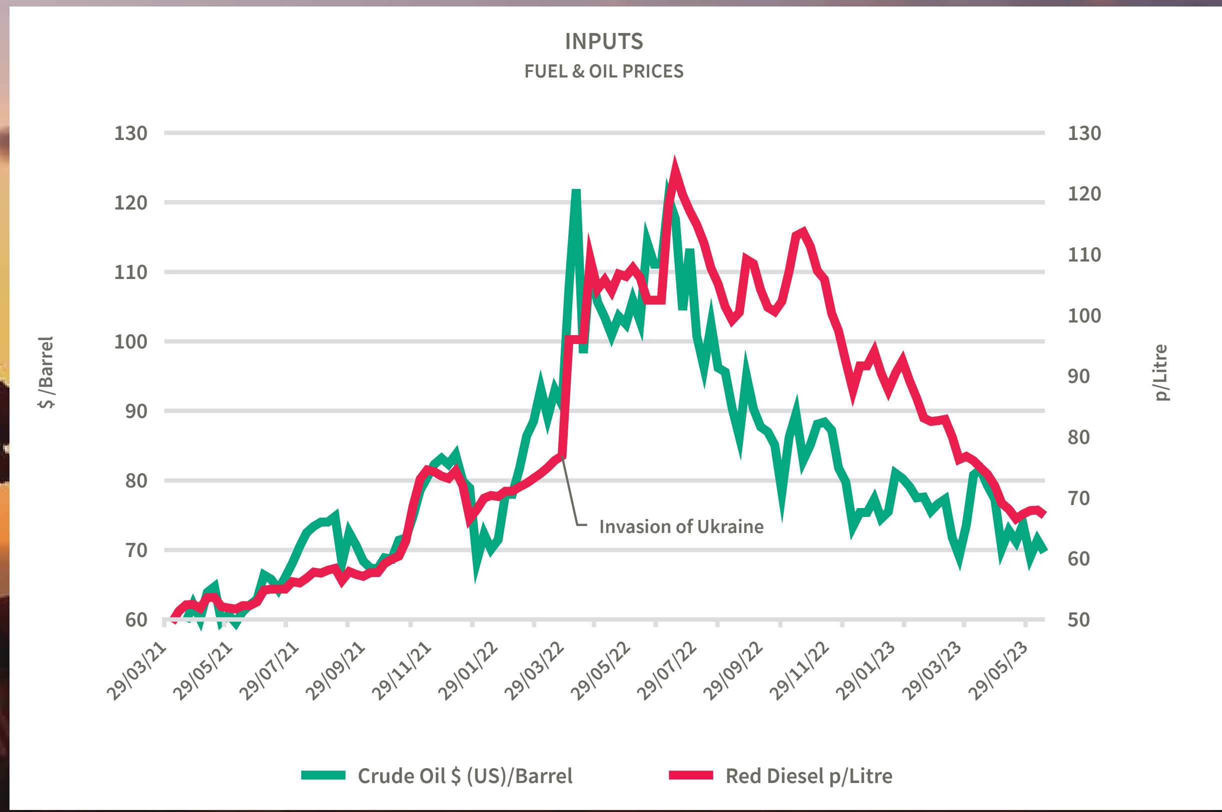


FUTURES MARKET

- Since the renewal of the Black Sea Grain Initiative (BSGI) in the Autumn, feed wheat futures prices have been on a downward trend, with November 2023 prices as low as £184/t.
- UK Crop prospects are also positive, adding further downward pressure to prices.

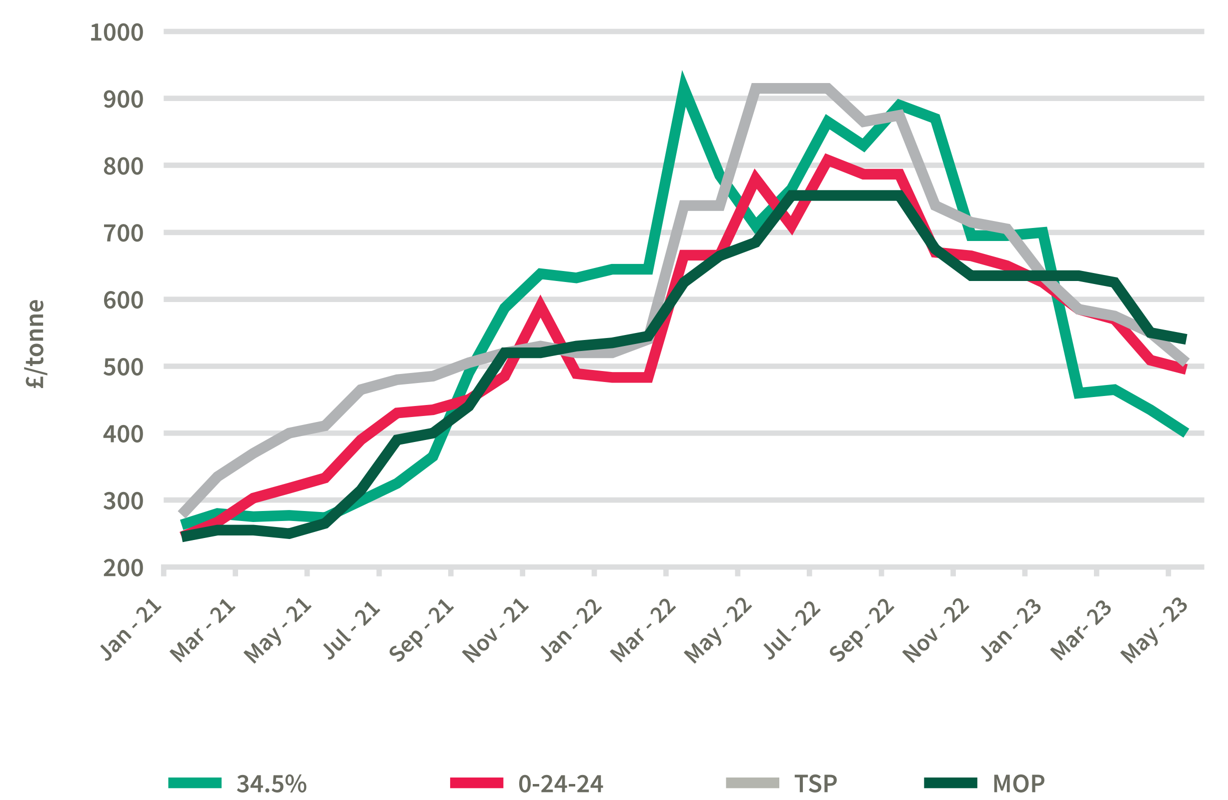
INPUTS

- Crude oil prices remain to be below pre-Ukraine invasion prices, after the rest of the world increased levels of extraction to compensate for Russian sanctions.
- The red diesel price gap has closed to historical levels, after the UK managed to wean consumption off of Russian imports.
- Almost all Russian crude oil shipments are heading to Asia, after the G7 allies infringed a price cap on the Russians. Exports to the G7 are now estimated 2 million barrels/day below the pre-war levels. As a result of this, Moscow announced a cut output by an estimated 500,000 barrels/day which never came to fruition after record demands in China after relaxing the zero-Covid restrictions.



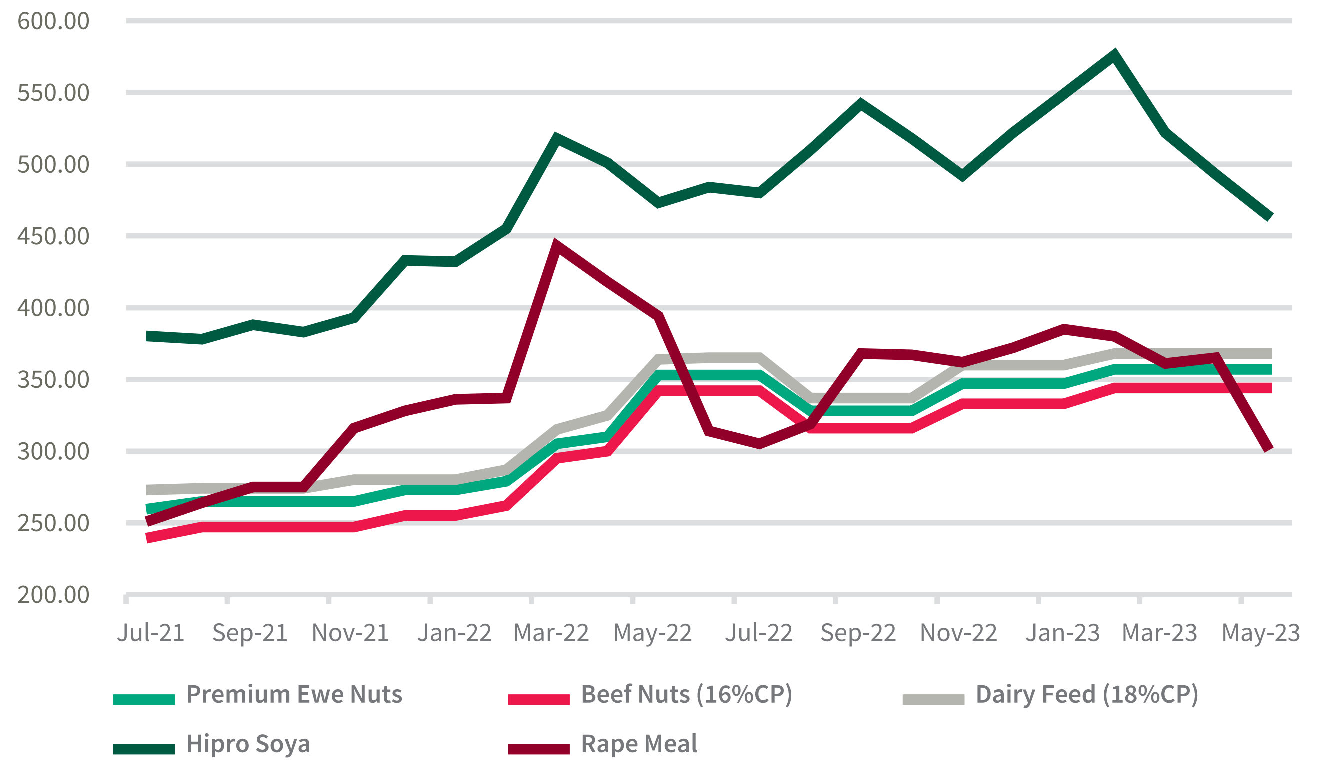
FERTILISER

- Fertiliser prices have declined by 43.6% since May 2022.
- UK Nitrogen fertiliser prices are continuing to decrease simultaneously with natural gas prices; following a mild winter, as the weather gets warmer, the demand for gas has decreased.
- Liquidised natural gas (LNG) has been imported from Asia, however fluctuating demand in Asia creates volatility in the markets for LNG.
- Triple Super Phosphate (TSP) and Muriate of Potash (MOP) prices have fallen to close at £505 and £540/t respectively. The Back Sea Grain Initiative (BSGI) continues to keep fertiliser flowing from Russia and Ukraine, who continue to be the world's largest exporters of this fertiliser, however they hold lesser of a market share now since the opening of the new phosphate mine in Australia, which is consequently not having as much governance on market prices.



FEED

- Cereal derived feeds are mainly influenced by the grain market, however recently they have not followed the downward trend of the cereals market. This is likely due to old stocks remaining of expensive cereal ingredients.
- Demand for concentrate feeds also increased due to the dry weather in 2022 leading to less forage stocks, meaning concentrate feeds were relied on as an alternative replacement.
- The above in combination with favourable weather for 2023 so far would indicate feed prices could fall.



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Brown&Co have one of the largest Agricultural Business Consultancy teams in the country. We are a very practical, down to earth firm who take real pride in our clients' success and our team's professionalism.

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