THE ANDERSONS CENTRE

# Farming In Focus

## A monthly briefing for UK farmers - December 2019

- In the ***General Election***, the Conservative Party secured its biggest overall majority since 1987. This means unless something totally unexpected happens, the UK will formally leave the EU on 31st January 2020. With respect to farming, in the manifesto, the Conservative Party said they would maintain farm support at current levels for the term of the next Parliament (i.e. 5 years), in return for farmers protecting the environment and safeguarding animal welfare. The previous administration's plans to replace the BPS with the new Environmental Land Management (ELM) scheme looks set to be implemented.

- The ***Withdrawal Agreement Bill (WAB)*** should pass into law early in the New Year ready for formal exit at 11pm on 31st January 2020. The UK will then enter into a Transition Period until 31st December 2020. During this period, the UK's relationship with the EU does not really change; trade, migration, travel and all EU rules will continue unchanged. The real effects of Brexit will start to be seen after the end of the Transition Period. Focus is now turning to the next stage of the Brexit process; negotiating a long-term trade deal with the EU. But it is a challenging timeframe. If an agreement on the UK-EU Future Relationship cannot be reached by the end of 2020, a version of 'No Deal' re-emerges.

- The ***2019 BPS payment window*** opened on 2nd December and both the RPA and Welsh Government have reported good progress. The Welsh Government has confirmed, due to Brexit delays, the Basic Payment Scheme (BPS) will continue in Wales in 2021, as long as sufficient funds are made available by the UK government.

- The wet weather continues to play havoc. In the ***arable sector***, the lack of cold dry frosts could make managing grain quality in store increasingly difficult this winter. There have been reports of samples, particularly barley losing premiums because of infestations. Plantings have struggled on, the AHDB is reporting the ***winter wheat*** planted area to be 60% of the planned amount. Brexit uncertainty has been challenging for UK grain traders who have been unable to book grain exports past the official Brexit dates, affecting market prices. Perhaps some Brexit clarity in the New Year will help. The ***barley*** market is quiet; the expectation of a large UK and EU 2020 harvest is weighing on prices. It appears there will be enough seed available for in excess of 1m hectares of spring barley to be planted; the largest area since 1988. UK ***OSR*** prices remain strong on the back of high global demand for vegetable oil.

- The most recent forecasts show ***global milk*** output is expected to increase by about 1% in 2020. This would put global milk production at 292.5 billion litres, 2.9 billion litres higher than the estimates for 2019. Forecasts from the five largest milk producing regions indicate increased supplies from Argentina, the USA and the EU 28. In contrast, Australia is expected to have a reduction in supply due to the ongoing challenges of drought, fires and high feed and water costs in the country. The production forecast for New Zealand is level; last season saw a record production and it is difficult to see that being beaten.

- Defra's ***milk statistics*** will not be updated until the New Year to show November's production, but the AHDB is expecting to see a fall compared to 2018's deliveries for the month. According to its forecast, GB deliveries will be 0.8% less than last year and the lowest level delivered in November for 3 years. The AHDB's Milk Forecasting Forum is expecting production to be slightly down for the rest of the season. As, although silage stocks are reported to be good and plentiful, this time last year short supplies of forage saw high levels of concentrates being fed which gave yields an extra boost.

- Suppliers to ***Wyke Farms*** now have the option to fix the price they are paid for their milk for 3 years. The offer follows a long-term cheese supply deal between Wyke and the discount supermarket Aldi. All of Wyke's suppliers (approximately 130 farmers) will be able to fix between 10% and 50% of their volumes at 28ppl. The offer comes into force as from 1st January 2020. A similar move was made by Muller in 2018, following a three-year supply deal with the discounter. *With the recent swings in milk prices, securing a fixed price will give suppliers some certainty and reduce their exposure to market volatility.*

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## Spotlight on: Sheep

The AHDB has recently released its latest sheep outlook forecasts. The levy board is forecasting the breeding flock and the lamb crop to contract in 2020 and also lamb and ewe slaughter numbers to reduce. The contraction of the breeding flock is mainly due to producers' reactions to uncertainty. With a normal lambing season assumed, the levy board is forecasting a small reduction in the 2020 lamb crop of 400,000 to 16.6 million. In the year to October an estimated 6.6 million lambs from the 2019 crop have been slaughtered, up 7.7% on the year and slightly above the five-year average. But the AHDB is expecting around 100,000 fewer lambs to come to market in November and December compared with last year, which will support prices. This tightening in supply is forecast to continue into 2020. There is expected to be 100,000 fewer lambs to carry-over into next year. In addition, the levy board is forecasting 165,000 fewer new season lambs to be available in the first 5 months of 2020.

The cull sheep kill has been 'exceptionally' high throughout 2019, with carcase weights also up. The forecast is for cull numbers and carcase weights to return to more normal levels in 2020. Sheep meat production is forecast to reach 303,800 tonnes in 2019; the highest since headage payments were removed over 10 years ago.

Strong domestic production has been one of the factors behind the high level of exports in 2019. In addition, New Zealand has diverted its exports to China, so less has been available on the continent which the UK has been able to exploit. During the third quarter exports have risen by 9% to 24,800 tonnes, with most going to France and Germany. In contrast, imports have continued to decline. In quarter three, imports were down by 34% to 12,900 tonnes. Again, this is mainly due to New Zealand directing more of its product to China.

| Actual & Forecast Supplies of Sheep in the UK – source AHDB | | | | |
|---|---|---|---|---|
| 000 tonnes (cwe)* | 2018 | 2019 (f) | 2020 (f) | 2021 (f) |
| Production | 289 | 304 | 287 | 283 |
| Imports (a) | 92 | 74 | 69 | 72 |
| Exports (a) | 87 | 93 | 79 | 80 |
| **Available for Consumption** | **300** | **284** | **277** | **275** |

*Carcase weight equivalent and including processed products

*The new season lamb (NSL) price is currently buoyant and continues to rise. It is now comfortably above last year's, with the liveweight price nearly 20p per kg higher than the five year average. The global lamb situation is supporting prices. Demand is strong, particularly from China due to the effects of African Swine Fever (ASF). Global farmgate prices are high; traditionally GB prices have been above New Zealand and Australia but this price difference has been narrowing since the middle of 2016. Throughout the third quarter of 2019 both New Zealand and Australian prices have been above GB. Recently the NZ price has recorded further (unseasonable) gains, whilst the Australian price has fallen. Both NZ and Australia are not forecasting any rise in production for the next year, which will mean global supplies remaining tight and limited imports to the UK. With our own production expected to decline and imports remaining low, availability will be tight if exports can continue as normal (Brexit?), helping to keep farmgate prices healthy.*

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