

Are you ready for the post Brexit world? Managing volatility and risk now, and in the future

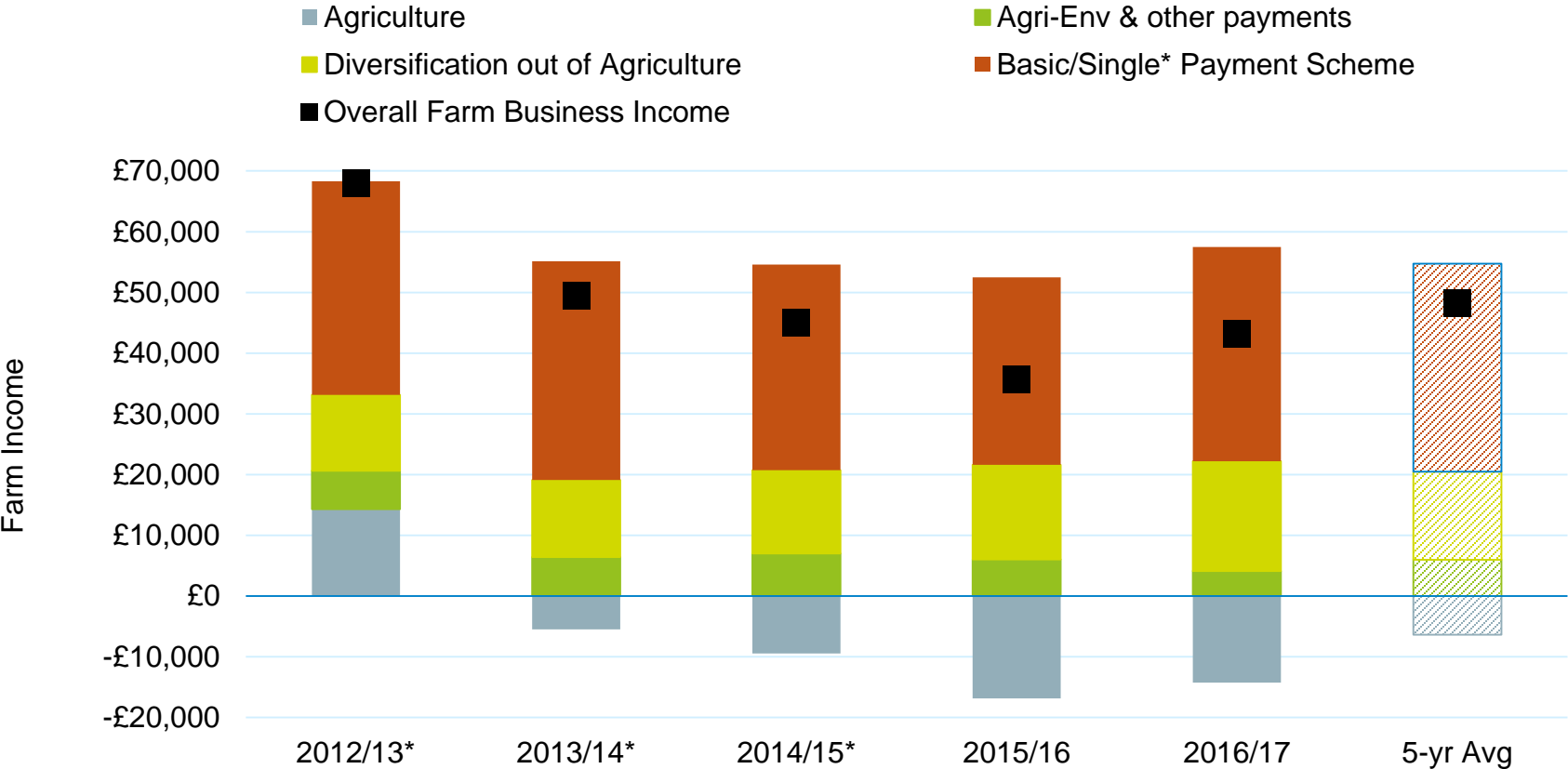
Jack Watts

Lead Analyst, AHDB



Being average is a risk.....

Average English Cereal Farm Business Income



Source: Defra

Our latest report



- Examine the potential impact of various scenarios on farm business income
- Identify parameters within businesses control in order to help levy payers prepare for Brexit and get 'fit for the future'
- Modelling commissioned with independent consultants Agra CEAS

The scenarios

Evolution

- Free Trade Agreement made with EU
- Agriculture support, labour costs and regulation unchanged

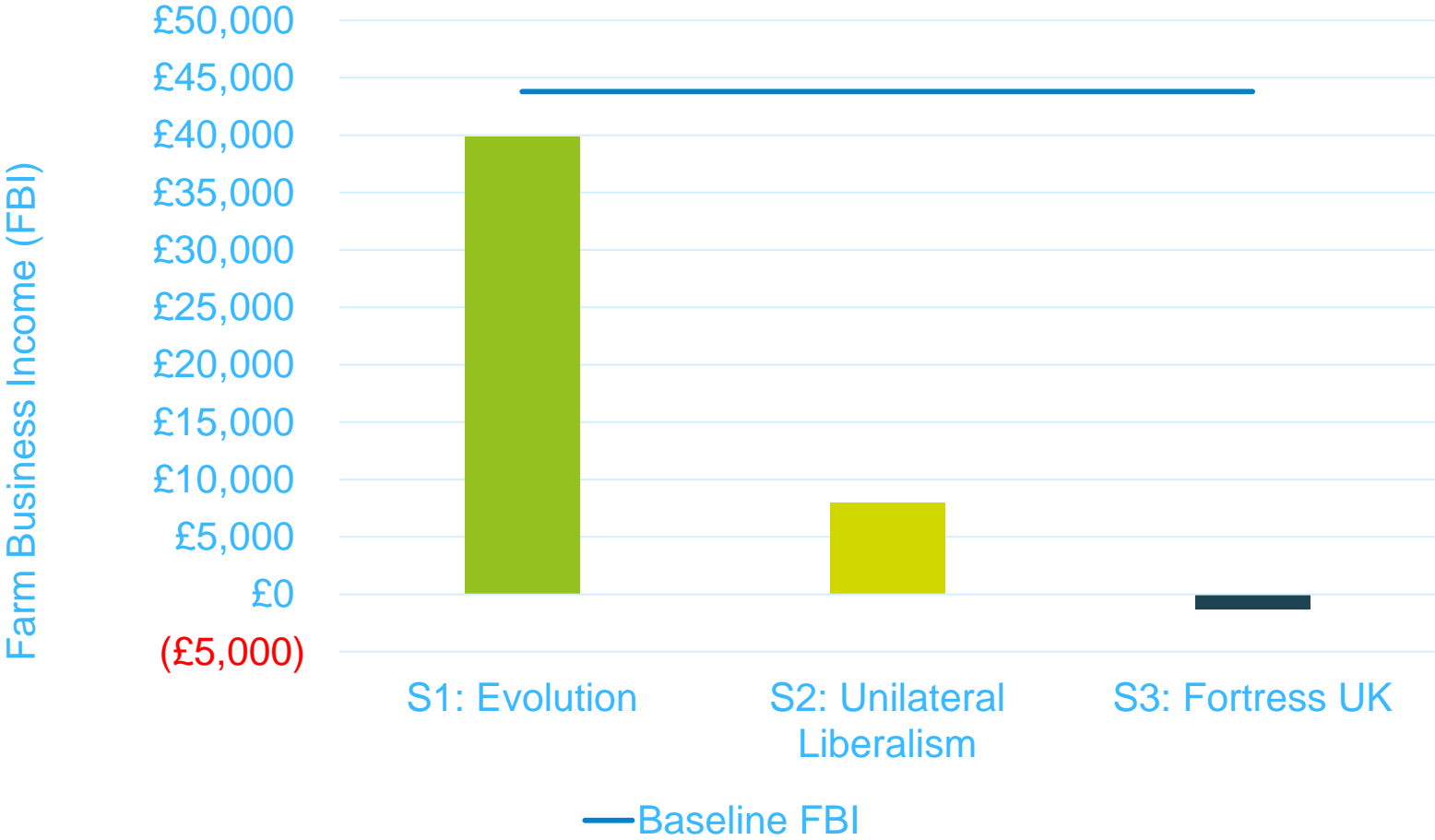
Unilateral liberalisation

- No trade deal with EU, but UK unilaterally lowers all tariffs to zero
- 50% reduction in agricultural support
- Permanent labour costs rise

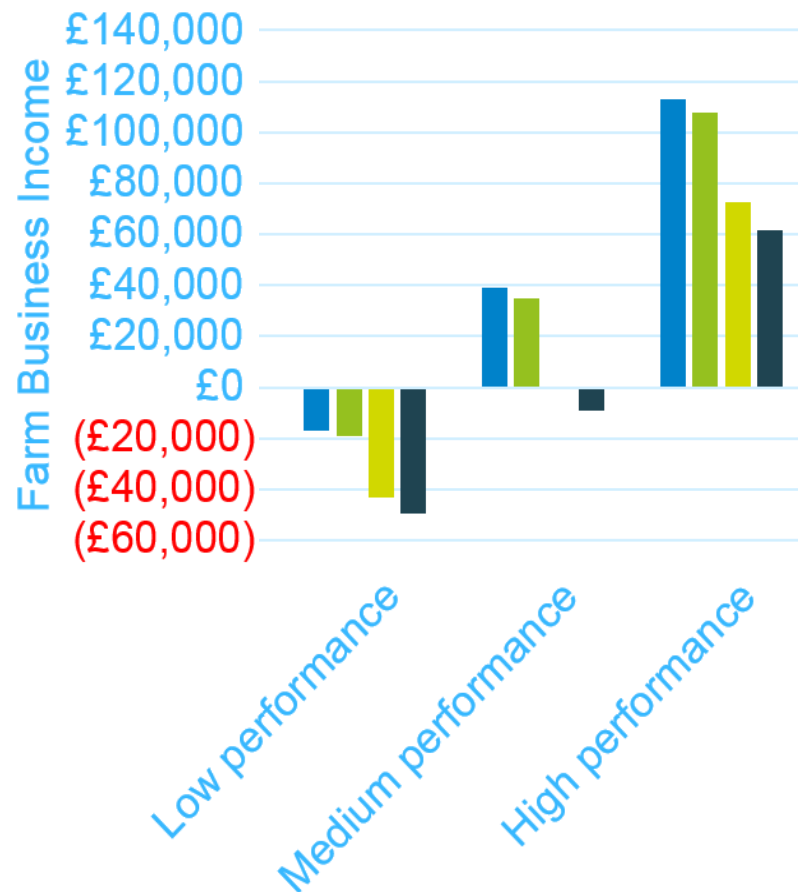
Fortress UK

- No deal with EU
- WTO tariffs apply
- 75% reduction in agriculture support
- Labour (permanent and seasonal) costs rise

Cereals farms in England – average

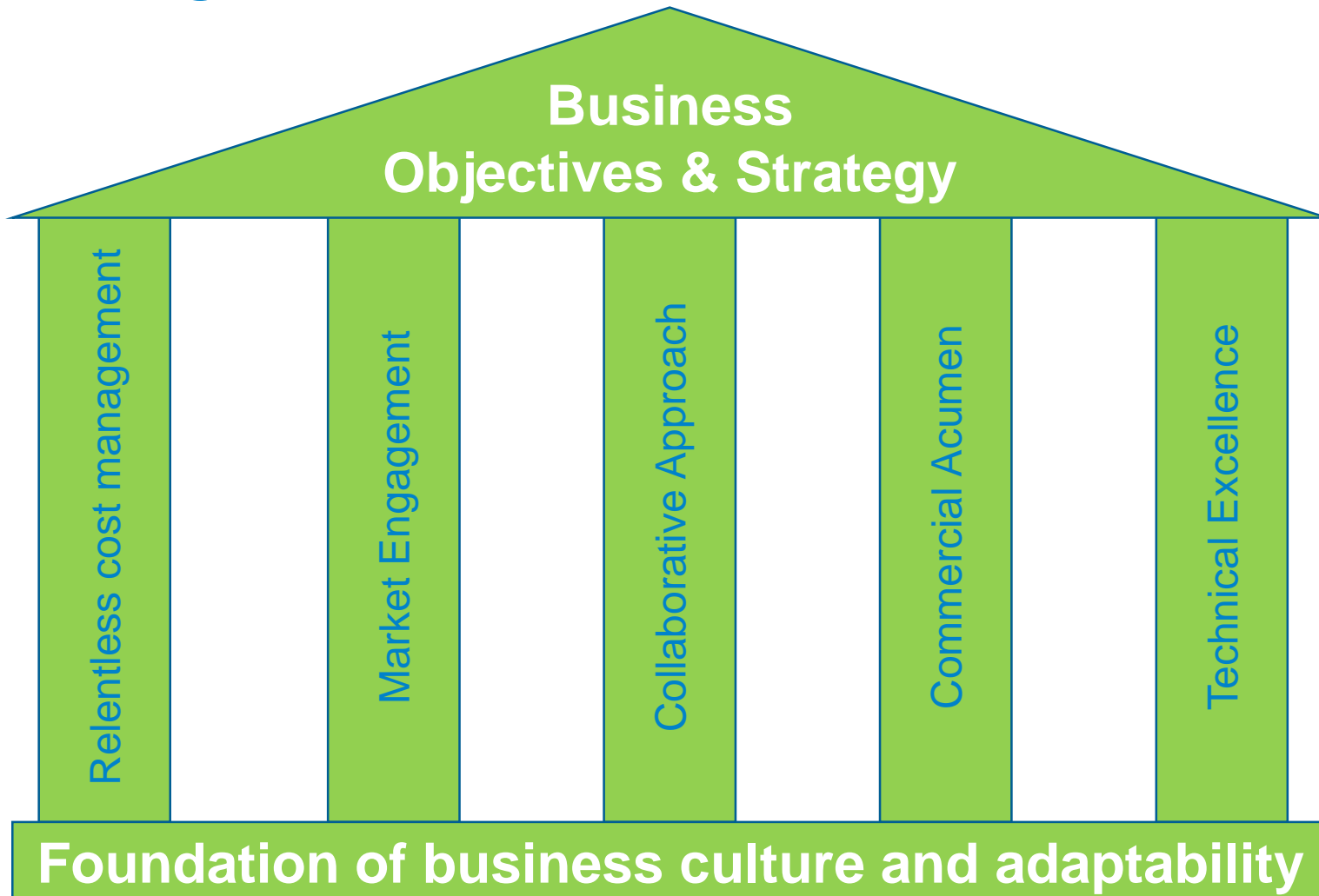


Cereals – results by performance of enterprise



■ Baseline ■ S1: Evolution ■ S2: Unilateral Liberalisation ■ S3: Fortress UK

Putting Business Risk Management at the heart of farming – How?

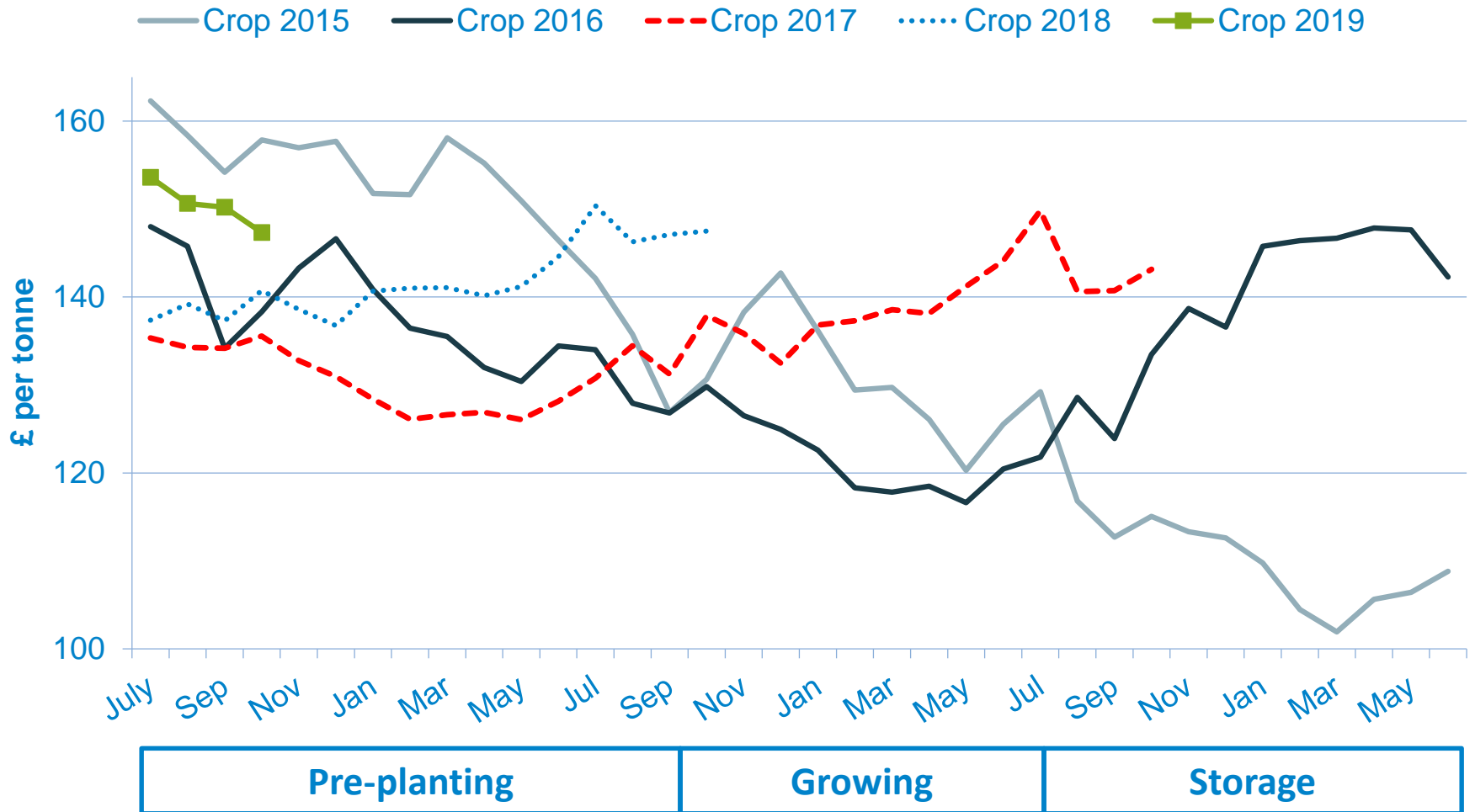


Market Engagement

Understanding price context



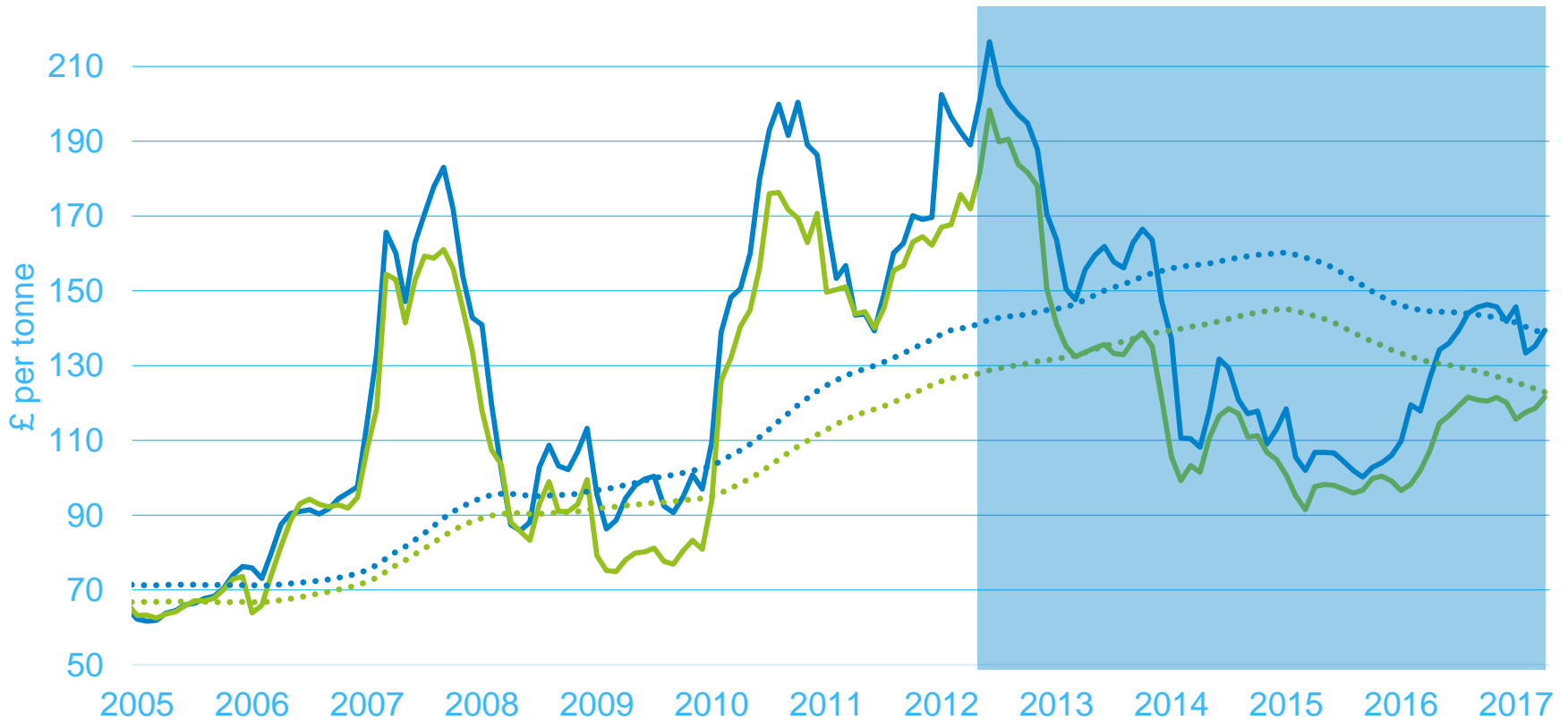
The wheat marketing window



Short term noise Vs long term trends

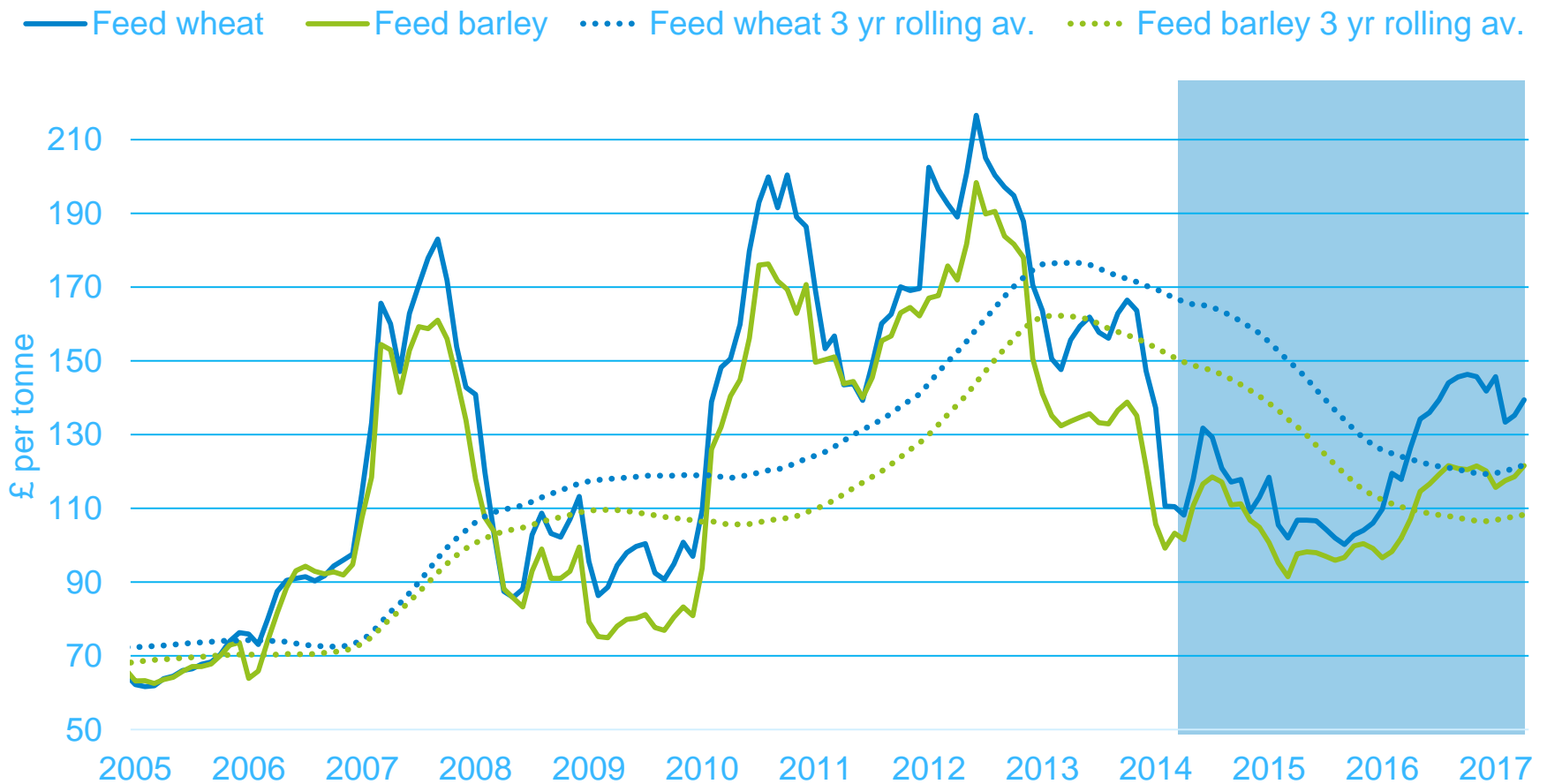
UK spot ex-farm grain prices

— Feed wheat — Feed barley Feed wheat 5 yr rolling av. Feed barley 5 yr rolling av.



Short term noise Vs long term trends

UK spot ex-farm grain prices



Grain marketing challenge

Can you beat the average?

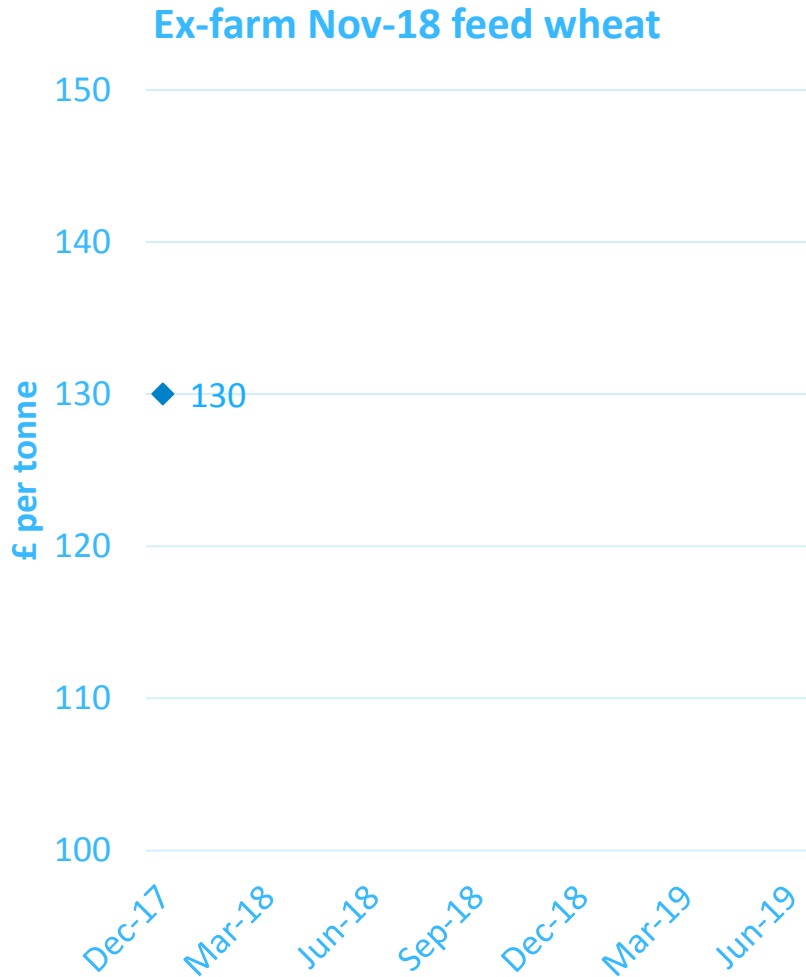


Rules of the game

- You have 300ha of feed wheat for harvest 2018
- 7 opportunities to sell over the next 21 months



Governing a pricing strategy for crop 2018 – Dec-17



300Ha of feed wheat

Budgeted yield of 9t/ha, but could be anywhere between 8 & 10t/ha

(~2,700t)

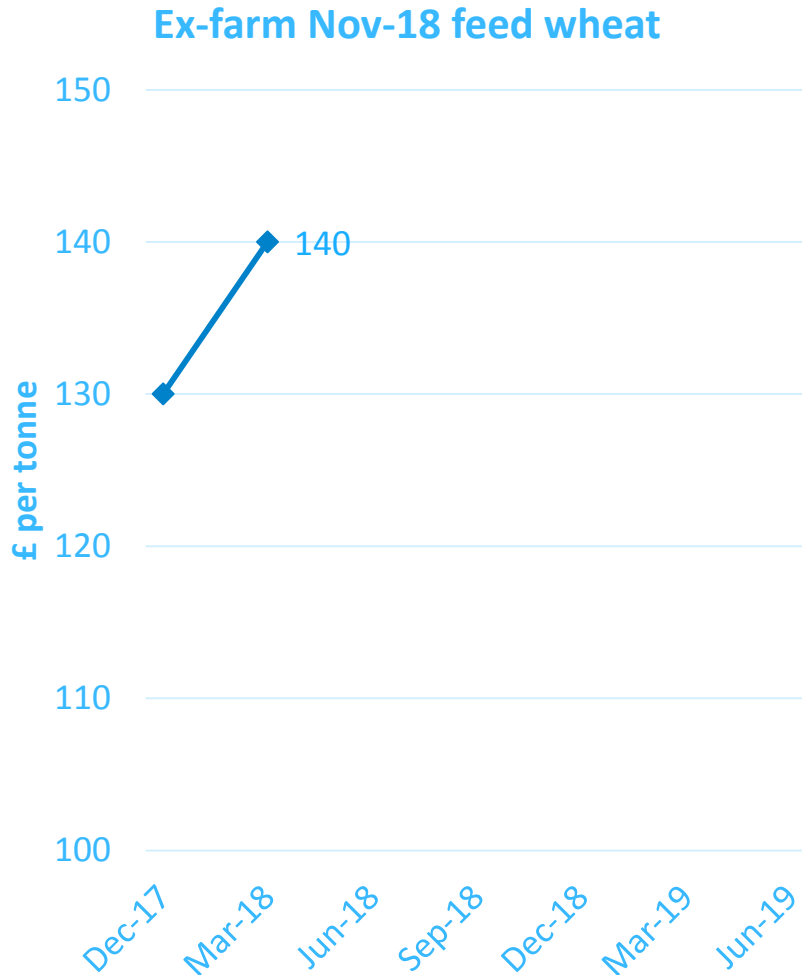
UK and EU crops established well.
Plentiful world stocks but tighter EU picture

Budgeted costs:

£1,150/Ha = £128/t

...the next decision is Mar-18

Governing a pricing strategy for crop 2018 – Mar-18



300Ha of feed wheat

Budgeted yield of 9t/ha, but could be anywhere between 8 & 10t/ha
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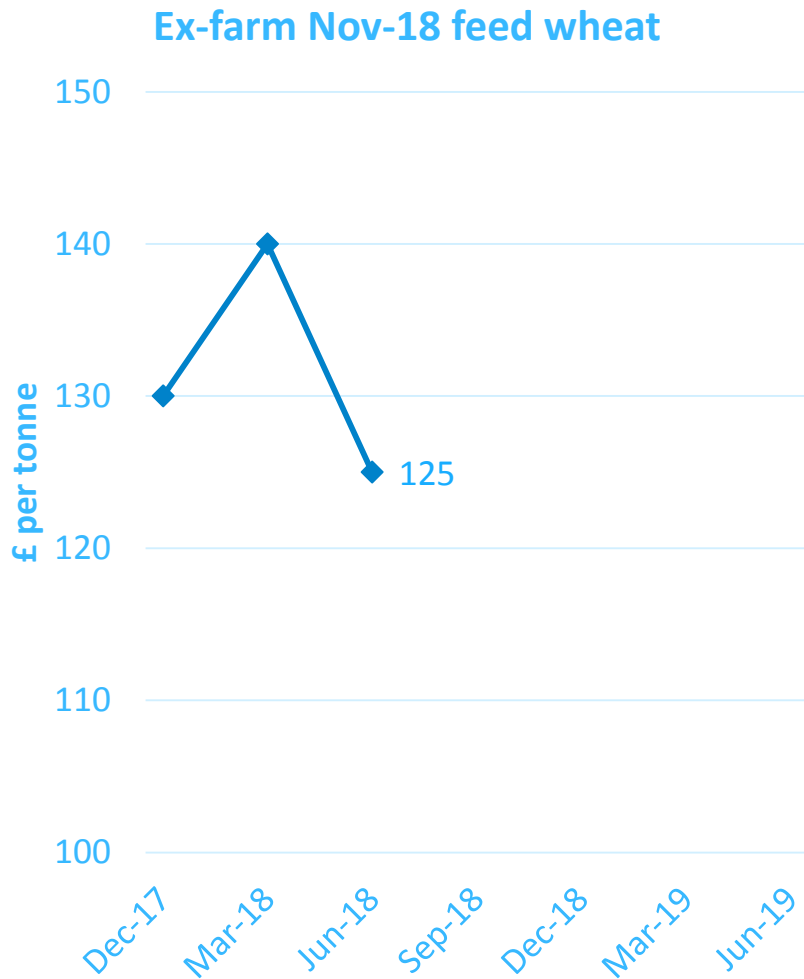
Slow Brexit negotiations keep pressure on sterling

Benign winter for crops

Budgeted costs:
£1,150/Ha = £128/t

...the next decision is Jun-18

Governing a pricing strategy for crop 2018 – Jun-18



300Ha of feed wheat

Good spring follows good winter weather.

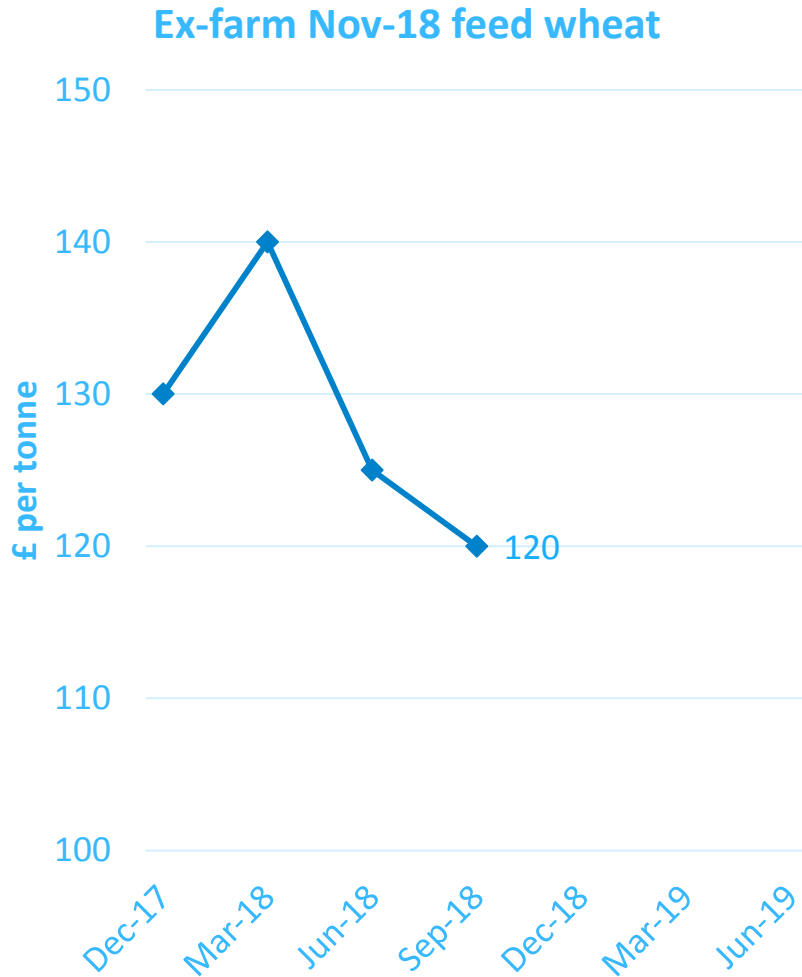
Poor establishment for US maize

Budgeted yield of 9.5t/ha
(2,850t)

Budgeted costs:
£1,200/Ha = £126/t

...the next decision is Sep-18

Governing a pricing strategy for crop 2018 – Sep-18



300Ha of feed wheat

Sterling strengthens after Bank of England raises interest rates

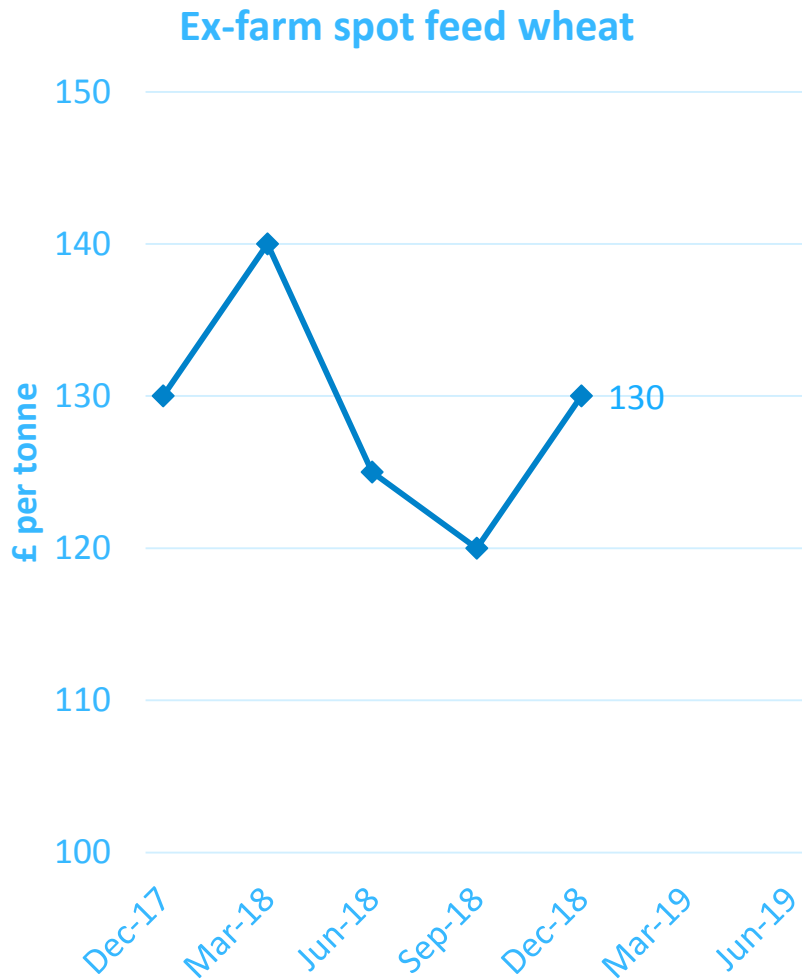
Above average UK crop size.

Actual yield of 9.2t/ha
=2,760t

Budgeted costs:
£1,200/Ha = £130/t

...the next decision is Dec-18

Governing a pricing strategy for crop 2018 – Dec-18



300Ha of feed wheat

US maize concerns bite, helping UK feed grain exports.

Low UK quality.

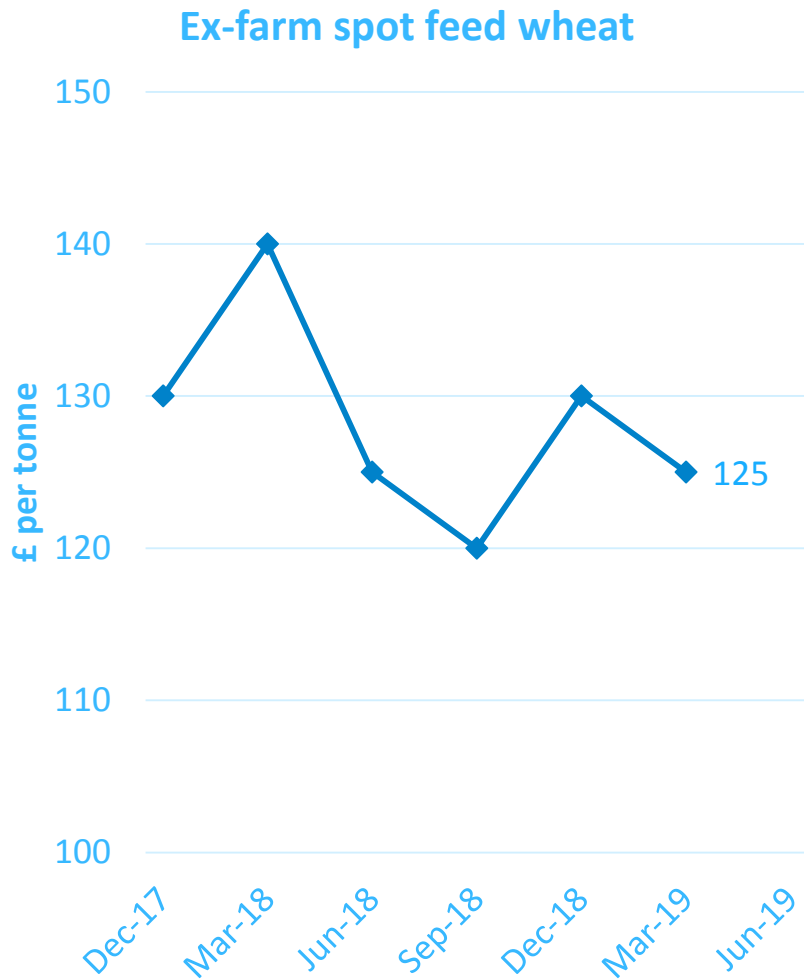
Actual yield of 9.2t/ha
=2,760t

Actual costs:

£1,175/Ha = £128/t

...the next decision is Mar-19

Governing a pricing strategy for crop 2018 – Mar-19



300Ha of feed wheat

Large South American maize crops start to limit UK feed wheat exports.

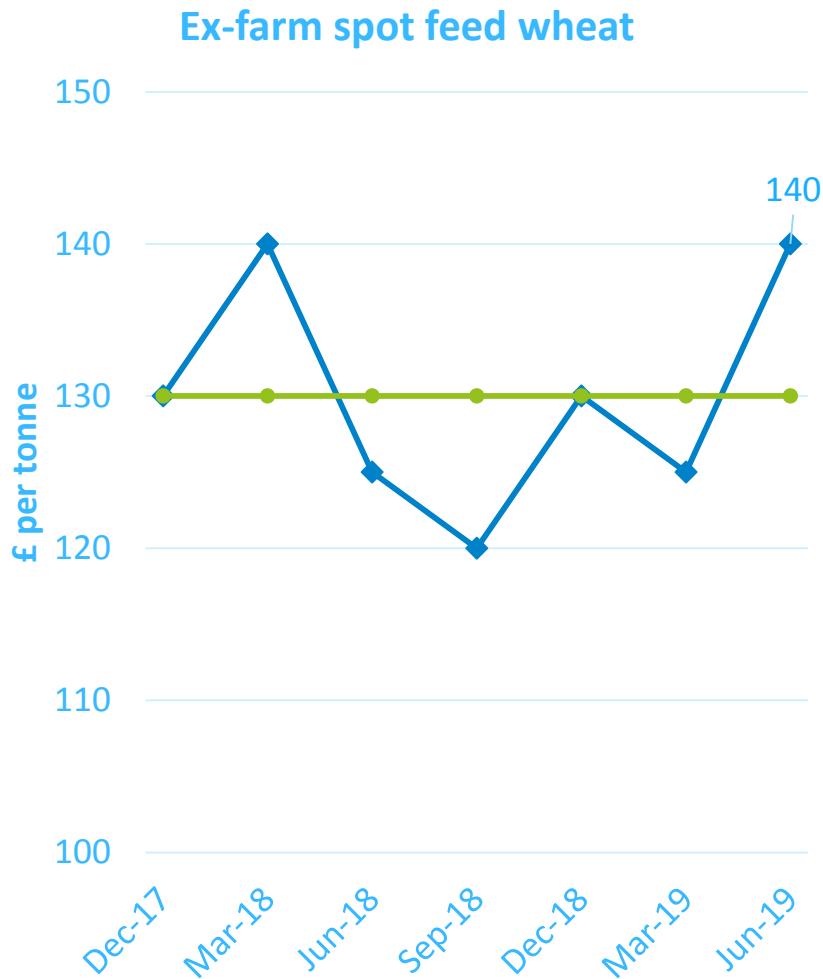
UK feed surplus building.

Actual yield of 9.2t/ha
=2,760t

Actual costs:
£1,175/Ha = £128/t

...the final decision June-19

Governing a pricing strategy for crop 2018 – Jun-19



300Ha of feed wheat

Sterling drops again after the UK leaves the EU.

New crop concerns also lift prices.

Actual yield of 9.2t/ha
=2,760t

Actual costs:

£1,175/Ha = £128/t

Commercial Acumen

Taking control of the business to manage risks



Setting the corporate agenda – not just for big business

What do arable businesses need to **know** and **control**?

Objectives & KPIs

Costs & competitiveness (past, present and future)

Cash and P/L forecasts

Market position Vs market view Vs risk appetite (outputs & inputs)

Scenario stress testing

Key risks facing the business – reduction / resilience

Risk mapping, reduction and resilience

