



MI Prospects

Quality Analysis

The North American crop picture is now known. The US Wheat Associates reported lower proteins for most wheats from harvest 2009. Lower proteins were recorded particularly for its second largest wheat class - Hard Red Spring (HRS) while noting higher fusarium incidences with the Soft Red Winter crop. The US typically accounts for around 20% of global wheat exports but this season, its export pace has got off to a slower start despite the weaker dollar. This suggests strong competition is biting in a global market which is well-supplied. However, HRS exports are more normal as the lower-protein wheat has seen interest. HRS prices have moved unusually close to Hard Red Winter levels, reflecting the impact of these quality developments.

Canada has moved away from its typical weather pattern and so this year is seeing variable results. Total grain production, while down, is expected to be more normal with yields better than first thought despite the weather. Spring wheat availability is expected to fall and as this will affect export prospects. Meanwhile, the global rice market is forecast to be tighter. A 'poorer' monsoon has seen production declines in a number of countries; and government policy responses with this sensitive commodity are still taking shape. India will, for

the first time in 10 years, turn to imports while other key producing regions are gearing their trade policies up that will affect the global rice market.

So, while quality and the fundamentals are now largely set, there are still a number of unknowns for this season and further volatility is to be expected. With CAP market support having gradually been removed, it is clear that price management should be addressed as much as yield management if market returns are to remain secure. HGCA's Scotland Outlook Conference (1 December) and Risk Management workshops (ongoing) are addressing both market facts and ways of coping with the uncertainty.

Anderson's - on behalf of HGCA - undertook an early planting intentions survey to gain initial insights into the size of the 2010 harvest grain and oilseed area. Although the English results are drawn from a limited sample size and varying regional coverage, they show some early trends; a sharp decrease in the estimated barley area compensated by increases in the wheat and rapeseed areas. Further planting information will be available in coming months, principally with the release of the Defra December survey in February.

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Hard Red Spring wheat crop shows lower proteins than last year, while fusarium is an issue for Soft Red Winter wheat

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Crop production generally lower than last year following unfavourable weather conditions but quality not as poor as expected

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World rice production is forecast to fall by 3%, while consumption is projected to rise slightly to a new record

Grain Markets and Price Risk Management

Improving risk and market awareness and understanding available tools is vital for your business

Early Bird Planting Intentions, England

Early English planting intentions for harvest 2010 indicate a rise in wheat and oilseed rape area, while the barley area is expected to fall sharply

US Wheat Quality 2009

The US harvested nearly 8Mt less wheat this year, which is mainly a result of lower planted area. With growing and harvest conditions less favourable than in 2008/09, this year's wheat quality is lower than last year in some quality parameters. In particular proteins are lower for nearly all wheats. Export progress has been slower than anticipated and USDA foresees 2009/10 ending stocks to rise to over 24Mt.

The US Wheat Associates have recently published detailed production and quality information for the different wheat classes in the US, indicating that overall quality is slightly lower than last year. For full *Crop Quality Report* see www.uswheat.org.

Winter Wheats

The majority of the wheat grown in the US is winter wheat, with **Hard Red Winter wheat (HRW)** accounting for an estimated 25Mt this year or 42% of the total crop (Table 1). This is 3Mt below 2009 but more in line with previous years' production level. HRW is mainly grown in the Great Plains with Kansas as the main growing region. Significant quantities, however, are also grown in Texas and Oklahoma. Both regions saw extreme dryness during plant emergence and also, together with part of Kansas, suffered some freeze damage in April.

The harvest was then delayed by late rain. Overall quality, however, is described as sound with above average milling properties. But the average protein content, at 12.1%, is below that of 2008 and also below the five-year average. Hagbergs are also lower than last year, although remain above the five-year average (Table 3).

Production of **Soft Red Winter wheat (SRW)** is estimated at 11Mt (Table 1, 2), which is well below last year's exceptionally large crop but also more in line with previous years' output and the result of a lower planted area and drop in yields. SRW is mainly grown in the eastern parts of the US and its share of total wheat has fallen back to a more 'normal' 18% this year. Although planting conditions were favourable, a cool and wet spring is mainly to blame for increased fusarium incidences this year and a delayed start to the harvest. As a result, quality is lower in 2009. Test weights are down on 2008 and vomitoxin levels are higher. Protein and Hagbergs, however, remain close to last year's averages. The crop got a low average grade of 3SRW.

Soft and Hard White wheats have a combined output of an estimated 6.4Mt this year, or 11% of this year's total US wheat crop. These wheats are predominately grown in the western regions of the US,

Table 1 US Production by Class

Mt	2004	2005	2006	2007	2008	2009
Hard Red Winter	23.3	25.3	18.6	26.0	28.2	25.0
Hard Red Spring	14.3	12.7	11.8	12.2	13.9	14.9
Soft Red Winter	10.4	8.4	10.6	9.6	16.7	11.0
Soft White	7.0	7.3	6.4	5.3	6.1	5.7
Hard White	1.1	0.8	0.5	0.7	0.8	0.7
Durum	2.5	2.8	1.4	2.0	2.3	3.0
Total	58.7	57.3	49.3	55.8	68.0	60.3

Source: US Wheat Associates based on USDA November estimates.

Table 2 US 2008 & 2009 Supply and Demand by Class

Mt	HRW		HRS		SRW		White		Durum		Total	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Beginning Stocks	3.8	6.9	1.9	3.9	1.5	4.7	1.0	1.7	0.2	0.7	8.3	17.9
Production	28.2	25.0	13.9	14.9	16.7	11.0	6.9	6.5	2.3	3.0	68.0	60.3
Total Supply	32.0	32.0	17.0	19.9	19.1	16.1	8.2	8.5	3.5	4.7	79.8	81.2
Domestic Use	12.8	12.9	7.4	7.2	9.0	8.2	2.7	2.7	2.2	2.2	34.3	33.3
Exports	12.2	9.1	5.7	5.7	5.4	3.4	3.7	4.4	0.7	1.2	27.6	23.8
Total Demand*	25.0	22.0	13.1	12.9	14.5	11.6	6.6	7.1	2.9	3.5	61.9	57.1
Ending Stocks	6.9	9.9	3.9	6.9	4.7	4.5	1.7	1.4	0.7	1.3	17.9	24.1

* Total demand includes imports.

Source: USDA November estimates.

Table 3 US Wheat Quality by Class, Summary Main Parameters

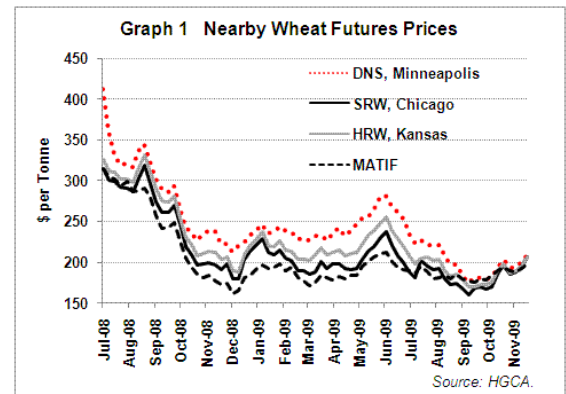
Mt	HRW			HRS			SRW			Soft White			Durum		
	2008	2009	5-Year Avg	2008	2009	5-Year Avg	2008	2009	5-Year Avg	2008	2009	5-Year Avg	2008	2009	5-Year Avg
Grade	1 HRW	1 HRW	2 HRW	1 NS	1 NS	1 NS	2 SRW	3 SRW	2 SRW	2 SW	2 SW	2 SW	2 HAD	1 HAD	1 HAD
Test Weight (kg/hl)	79.3	79.7	78.8	80.0	81.0	79.9	77.9	75.8	78.3	77.5	78.7	78.7	78.4	80.0	78.8
Moisture (%)	11.0	11.3	11.2	11.9	12.7	12.0	13.0	12.8	13.1	9.6	9.3	9.2	11.7	11.8	12.0
Protein (%) ¹⁾	12.2	12.1	12.5	14.3	13.2	14.4	9.8	10.0	10.0	11.4	10.3	10.4	14.8	13.5	14.4
1000 Kernel Weight (g)	30.1	30.1	28.9	33.6	33.4	30.8	35.3	30.8	33.5	33.0	33.1	34.4	35.0	42.4	35.5
Falling Number (sec)	440	410	406	379	374	398	325	325	341	321	324	339	322	398	362
Wet Gluten (%)	29.1	28.4	30.6	35.5	33.8	35.6	21.7	21.4	21.9	24.0	24.0	22.8	39.5	34.8	37.6
Loaf Volume (cc)	802	813	842	982	916	1,016	705	733	714	n/a	n/a	n/a	n/a	n/a	n/a

¹⁾ 12% moisture basis.

n/a not available.

For comprehensive summary see www.uswheat.org.

Source: US Wheat Associates.



US Wheat Quality 2009 (cont.)

although some Hard White wheat is also grown in Kansas. About 70% of the crop is exported, with Asia as the main market.

Spring Wheats

Hard Red Spring wheat (HRS) production, mainly grown in the Northern Plains of the US, rose to a high of nearly 15Mt (25% to total crop). This is 8% above 2008 output and the result of very high yields of around 3t/ha. Planting was delayed by late snow and cool and wet conditions continued for most of the growing and harvest season. In line with above-average yields and the cool summer, test weights are up on 2008 and the five-year average, while the average protein, at 13.2%, is well below normal. Some 65% of the samples showed proteins below 13.5%, compared to 30 - 35% in normal years. Medium protein levels of 13.5 - 14.5% were found in 27% of the analysed wheat and just 11% of the samples showed high proteins of greater than 14.5%. In addition, in some regions of South Dakota and Minnesota wheat samples did not show the required dough properties, despite having the necessary proteins.

Durum wheat production has risen for the third consecutive year, reaching 3Mt. Cool and wet conditions during the summer helped yield potential, but delayed development and maturity of the crop. Overall, this year's durum crop is reportedly of good quality with an average grade No1 Hard Amber Durum. However, proteins are lower and some regions showed reduced vitreous kernel counts.

US Wheat and Export Markets

The US produces around 9-10% of the world's wheat but its share of world wheat exports has exceeded 20% in recent years and reached over 30% in 2007/08. However, the world has harvested another large wheat crop this season and with sizeable carryover stocks from 2008/09, availability remains large in 2009/10. This means another year of strong export competition on export markets.

The export pace of US wheat is currently behind last year. As at 12 November, a total of 14Mt of wheat were committed for export (incl outstanding sales), down from nearly 20Mt in mid-November 2008. In particular exports of HRW and SRW are behind last year's pace at 5Mt (9.5M in Nov'08) and 2Mt (4.4M) respectively. Exports of HRS, at 3.4Mt (3.9M),

appear to be more 'on-track'. Trade sources reported increased interest for lower protein HRS, as it is sold at a discount to the hi-pro HRS.

Nigeria has been the main buyer of US wheat so far with 1.5Mt, followed by Japan (1.3Mt), Mexico (0.78Mt), the Philippines (0.7Mt) and Egypt (0.46Mt). The slower US export pace reflects strong competition on export markets this season, given that import requirements by some Middle Eastern and North African countries are lower compared to 2008/09. This seems to have counteracted a weaker US dollar which should have aided US wheat competitiveness. Prices for US wheat are currently similar to the values seen in November last year. However, there is little price difference between the wheat classes, with in particular HRS (DNS Minneapolis) being on par with HRW (Kansas) (Graph 1). This is unusual and mirrors this year's greater availability of lower protein HRS.

Concluding Remarks

US wheat availability in 2009/10 is plenty again. However, there appears to be some quality issues with regards to low proteins for the HRS and the occurrence of fusarium for the SRW crop. This and another season of large global wheat supply seem to have slowed the US export campaign, despite US wheat being competitively priced. Markets are now awaiting the arrival of the Southern Hemisphere crop, which is expected to increase competition for the US Pacific export market but may also offer some export opportunities for US wheat. Argentina is expected to harvest just 8Mt of wheat this season, which may not be enough to fulfil the needs of their traditional South American markets, eg neighbouring Brazil. However, US wheat closing stocks for 2009/10 were raised to 24Mt this month by USDA, up from 20Mt forecast in September and the highest since 1999/2000, indicating little change to markets until new crop issues will become influential.

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Key Points

- Larger HRS and smaller SRW crop
- Proteins lower for most US wheats
- Fusarium occurrence in SRW crop
- US export pace behind last year

Canadian Crop Update 2009

Production for most Canadian crops for harvest 2009 was lower when compared to 2008 due to the very variable but generally late and poor growing conditions. Quality, however, has not suffered as much as was initially anticipated.

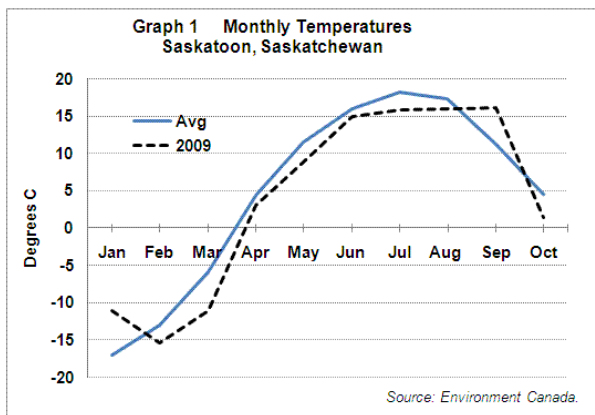
Weather

Weather appears to have had more of an influence on Canadian supply and, therefore, export prospects this year than economic conditions. Both temperatures and moisture conditions were exceptional.

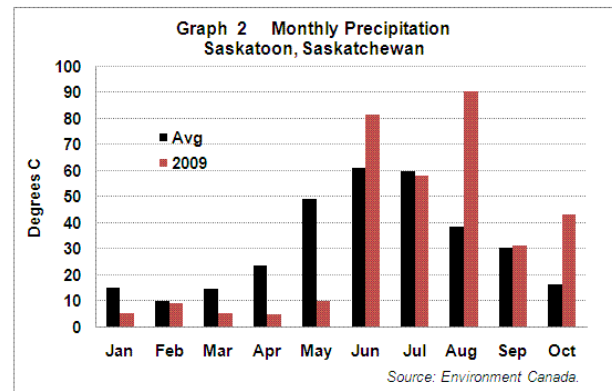
Typically, and conveniently, May, June and July, when crops are most in need of moisture, are the wettest months on the Prairies. The majority of planting is completed in May and by August, crops are normally ripening. The 30-year average data for Saskatoon which is located in central Saskatchewan and, therefore, central to the Prairies illustrate how conveniently moisture, temperature and day length come together to allow crops to be grown in a very short season (Graph 1 and 2).

But the weather did not follow this script in 2009. Over much of the western Prairies, seedbed moisture was not adequate for reasonable germination until late in June which resulted in very uneven maturity. In the eastern Prairies excessive moisture, including flooding, in some areas resulted in delayed sowing. Almost everywhere temperatures were below average for most of the growing season.

By the end of August, crops were generally assessed three weeks behind average in maturity and crop yields and output were expected to be well below normal. But just as the prior four months had been unusually cold, September was unusually warm.



The extra month allowed crops to even up, much of the crop to be harvested and quality prospects to improve. October, however, proved to be unusually cold and wet, with a series of weather systems producing enough moisture to halt harvest, but not worthwhile moisture reserves for the spring. In Saskatoon rain or snow was recorded on at least 17 days in October. Over the last week or so the weather settled again and harvest has been completed in most areas. Because October was unusually cool for crops, quality did not suffer in the way it may have otherwise.



Production

Statistics Canada does three production surveys. The late July survey in a normal year provides a pre-harvest estimate; the second survey in early September provides further refinement as some of the crop will normally have been harvested and the third survey in late October / early November provides improved accuracy post-harvest reporting.

The most recent September survey estimated aggregate production of the **ten major crops** at 64.4Mt, 15% below the large 2008 crop. This is towards the low end of a normal crop range (Table 1) but in view of the rather difficult season, it seems a very acceptable result. Since the survey was taken in early September before the exceptionally favourable harvesting conditions, the final estimates are likely to see an upward adjustment in yields for most crops.

The 10% decline in 2009 **spring wheat** production to 16.6Mt from 2008, results from a smaller planted area and lower yields. The decline will more than offset this year's higher beginning stocks; exports and ending

Canadian Crop Update 2009 (cont.)

stocks are expected to be lower than last year. Crop quality is expected to be good, but harvest samples indicate protein levels below average.

As **durum** is grown away from the areas most severely affected by adverse weather, the 8% decline in output to 5.1Mt is mainly the result of a reduction in area. While some recovery in exports from last year's low level is anticipated, ending stocks are also expected to rise. Full crop year prospects ultimately depend on early 2010 North African crops.

The 37% decline in **winter wheat** production to 3.0Mt is also the result of a reduction from last year's unusually large area. While winter wheat production in western Canada continues to expand, it is still only a relatively small proportion of total wheat production.

The 22% decrease in estimated **barley** output to 9.2Mt results from a reduced harvested area and lower yields. Barley is more widely grown in Alberta where drought has been more of an issue than in other provinces. Improved harvest conditions in September may not have added much to overall production, but there is now plenty of good quality barley available for malting selection. US maize is imported into Western Canada to supplement domestic feed grain supplies.

Table 1 Canadian Crop Production

<i>M Tonnes</i>	2008	2009	% Change
All wheat	28.6	24.6	-14.1
Spring Wheat	18.4	16.6	-10.0
Durum	5.5	5.1	-8.2
Winter Wheat	4.7	3.0	-37.0
Barley	11.8	9.2	-22.2
Oats	4.3	2.9	-32.1
Maize for Grain	10.6	9.7	-8.1
Canola	12.6	10.3	-18.8
Soyabeans	3.3	3.6	7.8
Flaxseed	0.9	1.0	12.0
Dry Field Peas	3.6	3.2	-11.5
Total	75.7	64.4	-14.9

Source: Statistics Canada, September estimate.

Oat production is currently estimated at 2.9Mt, 32% below 2008. After two years of surplus supplies, the sown area declined sharply in 2009. Further, because of poor crop conditions, a larger than usual proportion of the crop is likely to have been taken as green feed. It is still not clear whether supplies of milling quality oats will be sufficient to meet US millers' needs.

Production of **maize**, mainly grown in eastern Canada, is projected at 9.7Mt, down 8% as a result of

a lower harvested area. The Ontario crop is not as late maturing as the US crop with a warm September helping to speed maturity.

There is a general expectation that **canola** production will be larger than the current Statistics Canada estimate of 10.3Mt which is 19% below the 2008 crop. Canola with its indeterminate growth habit is believed to have benefited more than other crops from the very favourable September weather. The Chinese restrictions on imports of canola shipments with blackleg infection have made export prospects more uncertain than usual.

Production of **soyabeans** grown mainly in Eastern Canada at 3.6Mt is up 8% from last year with a larger area more than offsetting lower estimated yields. Yields, however, may be better than forecast at the beginning of September. The crop has not been as late maturing as its US counterpart.

Flaxseed production, at 0.97Mt is up 12% from 2008 with a 10% increase in sown area only partially offset by lower yields. With the EU and Canada mutually dependent on one another in the flaxseed market, prospects in this market are very uncertain until the EU is able to resolve its restrictions on imports of Canadian flaxseed arising from unapproved genetically modified material, or Canada is able to assure supplies free of this material.

Prospects for 2010

Soil moisture conditions prior to freeze-up are very variable. In the western half of the Prairies top soil and sub soil moisture levels are low and 2010 crop development will likely be more than usually dependent on timely and adequate precipitation during the growing period. In the eastern half, soil moisture reserves are more normal and more latitude exists in terms of weather in the spring.

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Key Points

- Prairie crops were late maturing following cool weather
- But most were harvested during favourable late summer conditions
- Yields are below average
- 2009 production of main 10 crops 15% lower

World rice production, on a milled basis, in 2009/10 is projected by USDA to decline by 3% compared to 2008/09, to 432.1Mt. A small increase in consumption is forecast, to a record 435.5Mt, which will lead to a reduction in end-season stocks of around 5%, to 85.9Mt. Some significant changes have occurred this season which are currently affecting world rice markets.

Production

The main reason for the decline in rice production for 2009/10 is a forecast drop in production in India of around 16% to 83.0Mt (milled basis), due to a late and uneven monsoon season. This adversely affected sowings of the main ('kharif') rice crop, which accounts for around 85% of India's total rice crop. The India Meteorological Department reported that rainfall during the monsoon season (June to September) was 77% of its long-term average. Government reports suggest that 6Mha of land were not sown due to drought, which was most severe in the north-east and north-west of the country. It has announced intentions to increase the area of winter-sown ('rabi') crops, including wheat and some rice to compensate for the decline in kharif crops, but total rice output will be significantly down on last year.

Domestic consumption of rice in India is seen by USDA at 89.0Mt (down from 93.2Mt last season), and production therefore, at 83.0Mt, is insufficient to meet this demand. The government however has built up stocks in recent months, and USDA forecasts a drawdown in stocks from 17M to 9.9Mt, and imports of about 400,000t. The government of India wishes to

ensure that prices remain stable in the country, and is reported to be planning to import 200,000 to 300,000t of rice before the end of 2009. The 70% import duty on rice has already been removed by the government. It will be the first season since 1999/00 that India has to import rice.

Other countries where this season's rice production is expected to be lower (Table 1) due to the poor monsoon include Bangladesh, Indonesia, Vietnam, Japan, South Korea and Pakistan. Production of milled rice in Bangladesh is forecast down 1Mt, or 3.2% due to the dry sowing season followed by devastating floods in some of the main rice-growing areas. Rice production in the Philippines has been badly affected by typhoons this year, and the USDA has recently adjusted its production forecast downwards for this country to 10.4Mt. Countries where rice production is expected to increase in 2009/10 include China, Thailand, Burma, USA and Iran. In China, the government continues to encourage sowings, while Thailand, where harvesting is currently taking place, is forecasting high yields this year. Production of milled rice in Burma is forecast to rise by 580,000t to 10.7Mt, due to a higher sown area and better yields, aided by continuing progress on irrigation systems in the country.

Consumption

The projection for world consumption of milled rice was reduced slightly by USDA in its November report, to 435.5Mt, in line with a lower production figure and reduced availabilities in India and the Philippines. Domestic consumption in China accounts for 132.5Mt, or 30% of world consumption. India is the second largest consumer, forecast to use 89.0Mt in 2009/10, down from 93.2Mt in 2008/09. Other significant consuming countries are Indonesia (37.4Mt), Vietnam (19.2Mt), Philippines (13.8Mt), Burma (9.8Mt), Thailand (9.6Mt), Brazil (8.8Mt) and Japan (8.2Mt).

Trade

Global trade in rice (milled basis) in 2009/10 is forecast by USDA at 29.54Mt, 4% above 2008/09 but below the 2006/07 record of 31.8Mt. Philippines remains the principal importing country, and USDA has recently increased its forecast for imports in 2009/10 to a record 2.6Mt due to its production problems this year. Thailand is the principal exporter,

**Table 1 World Rice Production & Consumption
Main Countries**

<i>M Tonnes</i>	2007/08	2008/09	2009/10	% Change
China	129.9	134.3	136.0	1.24
India	96.7	99.2	83.0	-16.29
Indonesia	37.0	38.3	37.6	-1.83
Bangladesh	28.8	31.0	30.0	-3.23
Vietnam	24.4	24.4	23.8	-2.60
Thailand	19.3	19.4	20.0	3.09
Burma	10.7	10.2	10.7	5.71
Philippines	10.5	10.8	10.4	-3.28
Brazil	8.2	8.6	8.5	-1.06
Japan	7.9	8.0	7.6	-5.09
USA	6.3	6.5	7.0	7.12
Pakistan	5.7	6.3	6.0	-4.76
Others	48.0	48.8	51.5	5.41
Total Production	433.4	445.8	432.1	-3.07
Total Consumption*	426.2	434.7	435.5	0.18

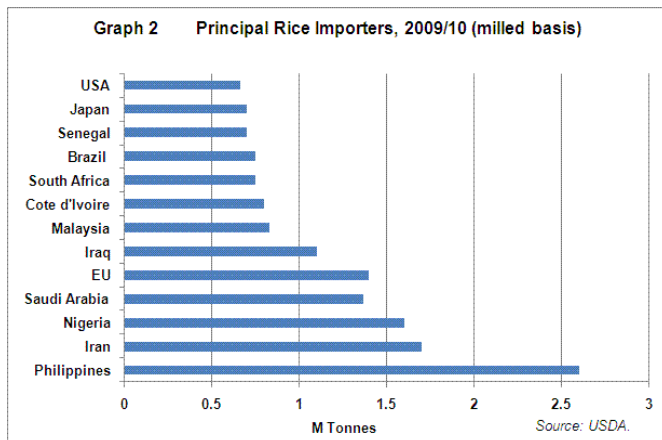
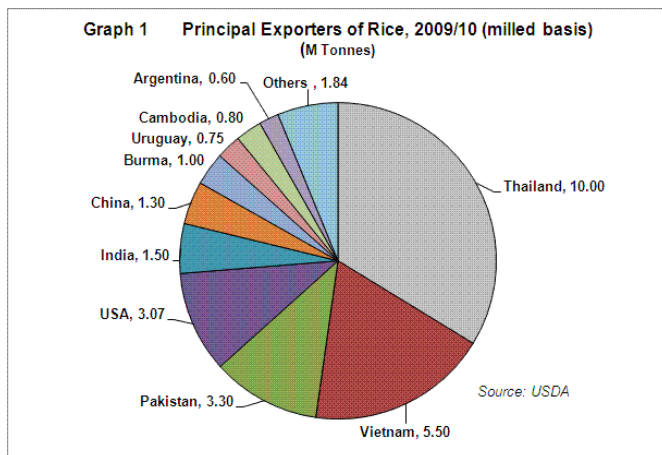
* Milled basis.

Source: USDA.

Rice Market Update (cont.)

forecast to export 10.0Mt this season, though final quantities will depend on government policy with regard to release of rice stocks.

The main change with regard to trade is the re-entry of India into the import market. The country is forecast to import 400,000t in 2009/10, but the final quantity will depend on government decisions with regard to the release of government stocks and its commitment to maintain stable prices for basic food commodities.



A change to the export regime in Egypt, which is an important supplier to the EU, has recently been announced. This includes a lower export tax but a limit of 34,000t per trade in any export tender and an overall monthly limit of 100,000t.

In the longer term, developments within the Association of Southeast Asian Nations (ASEAN) will be important for the rice trade. Rice remains one of the most sensitive products within trade liberalisation discussions in the region.

Six countries (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) within the 10-member bloc, had agreed in 1992, under the ASEAN Free Trade Agreement (AFTA) to bring down their tariffs on all goods, including those listed as sensitive or highly-sensitive, to between zero and 5%. In recent months however, Philippines has requested maintaining its tariff on rice at 35% until at least 2015. Although it offered to open a 50,000t tariff-free quota to compensate for not meeting its original target, Thailand has requested a quota of 360,000t.

Stocks

The decline in rice production for 2009/10 is likely to lead to a drawdown in world stocks, which are now forecast at 85.9Mt at the end of the season compared to 90.7Mt at the beginning. A significant proportion of rice stocks in China, India and Thailand remain in government hands, and final, end-season stocks will depend on policies within these countries, which have a very influential effect on the world rice market.

Conclusion

A number of factors are affecting the world rice market this year, including adverse weather conditions in India, Philippines and other Asian countries. Government policies still affect markets very significantly, but these are changing as a result of economic integration within ASEAN, and changing policy priorities in countries such as Egypt and Thailand (where a major change to the rice support regime is currently being implemented). The long-term effects of these changes are unclear, although prices in recent weeks have been rising on expectations of forthcoming import tenders from both India and Philippines before the end of the year.

Sarah Nightingale

Key Points

- Rice production forecast down 3%
- India's rice production down 16% due to poor monsoon
- India to import rice for first time since '99/00
- Philippines production adversely affected by typhoons, and record imports are forecast
- Rice remains a highly sensitive product within final negotiations for AFTA

Grain Markets and Price Risk Management

The ability of all in the UK grain supply chain to manage their individual price risk has never been so important. It is essential that growers, traders and processors alike have access to appropriate tools, which will contribute to a more sustainable business with less exposure to global commodity markets.

Severe grain market volatility hit global grain markets in 2007 as a combination of weather, low grain stocks and a weak US dollar pushed UK feed wheat prices from £80/t to almost £200/t. In 2008, the world saw its biggest wheat crop ever in response to high prices and favourable growing conditions. This in turn produced the largest surplus of wheat the world had ever seen, some 45Mt, pushing prices significantly lower. For 2009, prices have remained volatile.

The Way forward

At farm level, price management demands as much time as yield management. Individuals can look at this via a sensitivity analysis (Prospects Vol 12 Issue 3). Longer term, erosion of the single farm payment will mean that cropping enterprises need to become more economically viable in their own right.

HGCA continues with their workshops focussing on grain markets and Price Risk Management. Over 120 have been held since November 2005. Further workshops are planned as well as web-based resources. In broad terms, there are two main objectives:

1. Improve awareness of the market and price risk
2. Increase understanding of the tools available

Improve Market and Price Risk Awareness

Traditionally, UK arable farmers did not need to be 'market aware' as the Common Agricultural Policy (CAP) protected them from global price volatility in the

past. However, as a result of CAP changes, the UK market has now become a follower of the global grain market, which is led by other external markets as well as traditional supply and demand issues.

Market awareness will help individual businesses to form an opinion on current market events and prospects, i.e. is the price going up or down? However, there needs to be acceptance that a market view is not always right and will change over time, which is an element of risk. This is why a risk management strategy is important to protect against the unexpected.

Many farmers are now in the midst of marketing the 2009 crop, which is safely in store. However, at the same time, growers also have a price risk associated with new 2010 crop despite being some 8-9 months from harvest. This is because as soon as the crop is planted, the farmer is committed to growing the crop and so is committed to all the associated costs.

Increase understanding of available Tools

Once a market view has been developed, it is time to put a strategy in place. At the same time, the strategy may also mitigate against the view being wrong.

From a farmer's perspective, simply selling grain is a part of risk management. However, many are forced into spot selling due to cash flow or storage constraints at times when it is disadvantageous. For this, a forward plan to avoid 'forced selling' is a key tool; a straight forward cash flow forecast may help.

Many farmers will view their grain as something that can only be sold once. However, some may opt to manage their price risk with a combination of buying and selling, but each transaction does not result in physical movement. The concern is that the market will fall, so some forward sales are contracted.

		Nov-10 Call Option Strike Prices (£/t futures) (Nov-10 futures = £115/t = £110/t ex-farm)				
		115	117	120	125	130
		ATM*	£2 OTM**	£5 OTM**	£10 OTM**	£15 OTM**
		Nov-10 Call Option Premiums (£/t) (Expiry: 326 days, Volatility: 28%)				
		12.11	11.24	10.03	8.25	6.74
% of forward sold crop covered by Call Option	10%	108.79	108.88	109.00	109.18	109.33
	25%	106.97	107.19	107.49	107.94	108.31
	50%	103.95	104.38	104.99	105.88	106.63
	75%	100.92	101.57	102.48	103.81	104.94
	100%	97.89	98.76	99.97	101.75	103.26

*At-The-Money **Out-The-Money

Source: HGCA

		Precious Nov-10 Call Option Strike Prices (£/t futures) from Table 1				
		115	117	120	125	130
		ATM*	£2 OTM**	£5 OTM**	£10 OTM**	£15 OTM**
		Previous Nov-10 Call Option Premiums (£/t) from Table 1				
		12.11	0.00	11.24	10.03	8.25
% of forward sold crop covered by Call Option	10%	111.79	113.00	111.68	111.50	111.18
	25%	114.47	117.50	114.19	113.74	112.94
	50%	118.95	125.00	118.38	117.49	115.88
	75%	123.42	132.50	122.57	121.23	118.81
	100%	127.89	140.00	126.76	124.97	121.75

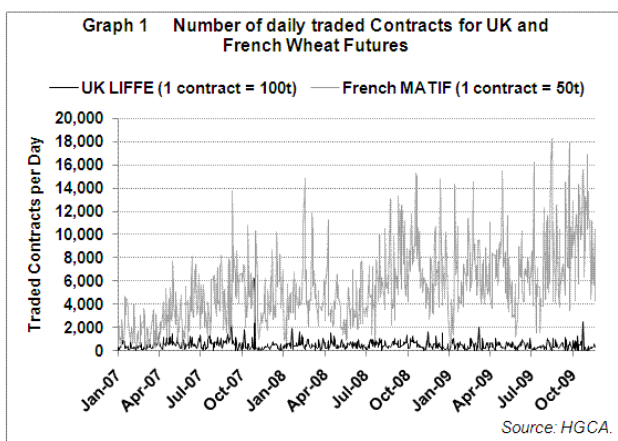
*At-The-Money **Out-The-Money

Source: HGCA

Grain Markets and Price Risk Management (cont.)

Later on in the season, the farmer's market view may change. So they may decide to buy back the previous contracts, exposing their grain price to market movements.

The UK LIFFE feed wheat futures is a useful tool for the arable farmer. It provides transparent forward pricing and allows sales to be made, via the merchant, even if there is no physical buyer in the market. It is rare for UK farmers to use futures directly as there are cash flow constraints, but for large agri-businesses it is becoming a necessity.



Options are best described as price insurance. Call options are most popular in a farmer / merchant relationship as they partner a grain sale. The sale sets a minimum price and the call option allows the net-price to improve, should the market rise. The strike price of the call option is the 'insured price'. So if the market moves above this level, the call option makes money. As with any insurance product, there is a premium payable.

Table 1 sets out current scenarios based on November 2010 call options. In this example various strike prices are used, effectively applying an excess to the insurance product and reducing the premium. Call options can also be used over different proportions of the forward sale. For November 2010, an at-the-money (ATM) call option would currently cost £12.11/t and if applied over 100% of the sale tonnage would give a minimum ex-farm price of £97.89/t regardless of how low the market would fall.

Table 2 shows the results for the same scenarios should the market rise by £30/t. The ATM call option

on 100% of the tonnage sees the strongest net-price of £127.89/t. The use of options allows the farmer to insure against their market view being wrong.

The Challenges

Lack of understanding in the supply chain, aversion to option premiums and poor liquidity in UK futures and options markets are major challenges in the UK. Good liquidity i.e. number of trades per day within futures and options markets is important to guarantee their usefulness as pricing tools. Poor liquidity often dissuades participants. This is a particular problem for UK LIFFE wheat futures. Since 2007, MATIF has clearly outclassed LIFFE in improving liquidity and so increased its usefulness as a pricing product (Graph).

Closing Comments

Recent seasons have shown that price management is as important as yield management. Farm management time needs to be set-aside for developing up-to-date and informed market views. Using the right information is key rather than relying on rumours or random price predictions.

For the arable farmer, the biggest risk is falling prices, a risk which starts at planting. The secondary risk is a rising market after a sale has been made. It is the responsibility of the farmer to develop a market view and strategy. Other parties can only provide the necessary information needed.

Limited understanding amongst farmers and lack of liquidity in UK markets are two big issues. Poor liquidity is a threat since without a UK futures market, transparency would be lost and the ability to trade becomes more difficult for all in the supply chain.

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Key Points

- Price demands more farm management time
- Informed view of the market is key
- Pricing strategy should be based on market view
- Improving knowledge of available tools is important
- Lack of liquidity in UK markets needs to be addressed

Early Bird Planting Intentions, England

Early English planting intentions for harvest 2010 indicate a rise in wheat and oilseed rape area, while the barley area is expected to fall sharply from last year's high.

The Andersons Centre undertook an assessment of planting patterns and intentions on behalf of HGCA in collaboration with the Association of Independent Crop Consultants (AICC) this autumn. The survey covered over 160,000ha of arable land, identifying the change in rotation from 2009 to 2010 harvest on each farm. In total, 27 AICC members provided usable data with actual crop areas for the 2009 harvest and cropping plans for the same fields for 2010. Although initially intended as a GB survey, limited response meant that the data only covered England. The percentage change from the survey is applied to the provisional English June Survey data to give a forecast of English area for 2010 harvest.

Results

The **wheat** area is seen to rise by 6% for harvest 2010, which would mean an English wheat area of about 1.8Mha. This is near the lower end of various other unofficial forecasts; some of these see the area at nearly 1.9Mha.

Barley is showing a major fall in area with both winter and spring crops down by 17% and 26% on the 2009 harvested area respectively.

This would lower the English winter barley area to 288,000ha and the spring barley area to 314,000ha. It is likely that these figures are exaggerated, firstly by the current low old crop price. Secondly, the bulk of the surveyed area covers proportionately less mixed farms. Mixed farms are more likely to grow barley to provide straw and grain for cattle. Thus many farms which usually grow barley may be under-represented here. The drop in spring barley area is less of a surprise. However, by February, a greater disconnect between old and new crop barley values may encourage more planting than is indicated here.

The **oilseed rape** area is seen to rise by 9% on 2009. Although a higher oilseed rape area was anticipated following the poor drilling conditions in autumn 2008, the forecast 9% rise would raise the area to a high of 623,000ha. This is a level only ever seen once before for harvest 2007.

The **pulse** area, which rose by 59% in 2009, is forecast to fall back. However, the area is seen to be 9% lower, which would leave the English pulse area for harvest 2010 at a relatively high level compared to previous years. Other crops grown on arable land show minimal change compared to last year. With drilling conditions being good this autumn, less area has been left fallow.

The results show an interesting change in rotation and provide a useful guide to cropping intentions for the 2010 harvest, but they should be carefully interpreted. Given that the assessment was completed on 1 November, planting patterns and intentions are very provisional and may change throughout the year, depending on changes in economics and weather conditions.

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**Table 1 Planting Intentions Harvest 2010
England**

	Harvest 2009	Harvest 2010	% Change
<i>1000 Hectares</i>			
All Wheat	1,679	1,780	6.0
Winter Barley	347	288	-17.0
Spring Barley	424	314	-25.9
Oats	100	92	-8.0
Other Combinable Cereals	22	17	-22.7
Oilseed Rape	539	587	8.9
Other Oilseeds	31	33	6.5
Pulses	227	207	-8.8
Arable Fallow	220	191	-13.2
Other Arable Crops	560	554	-1.1
Total Arable Area	4,149	4,063	-2.1

Source: The Andersons Centre.