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# Cereal market outlook

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# Market overview

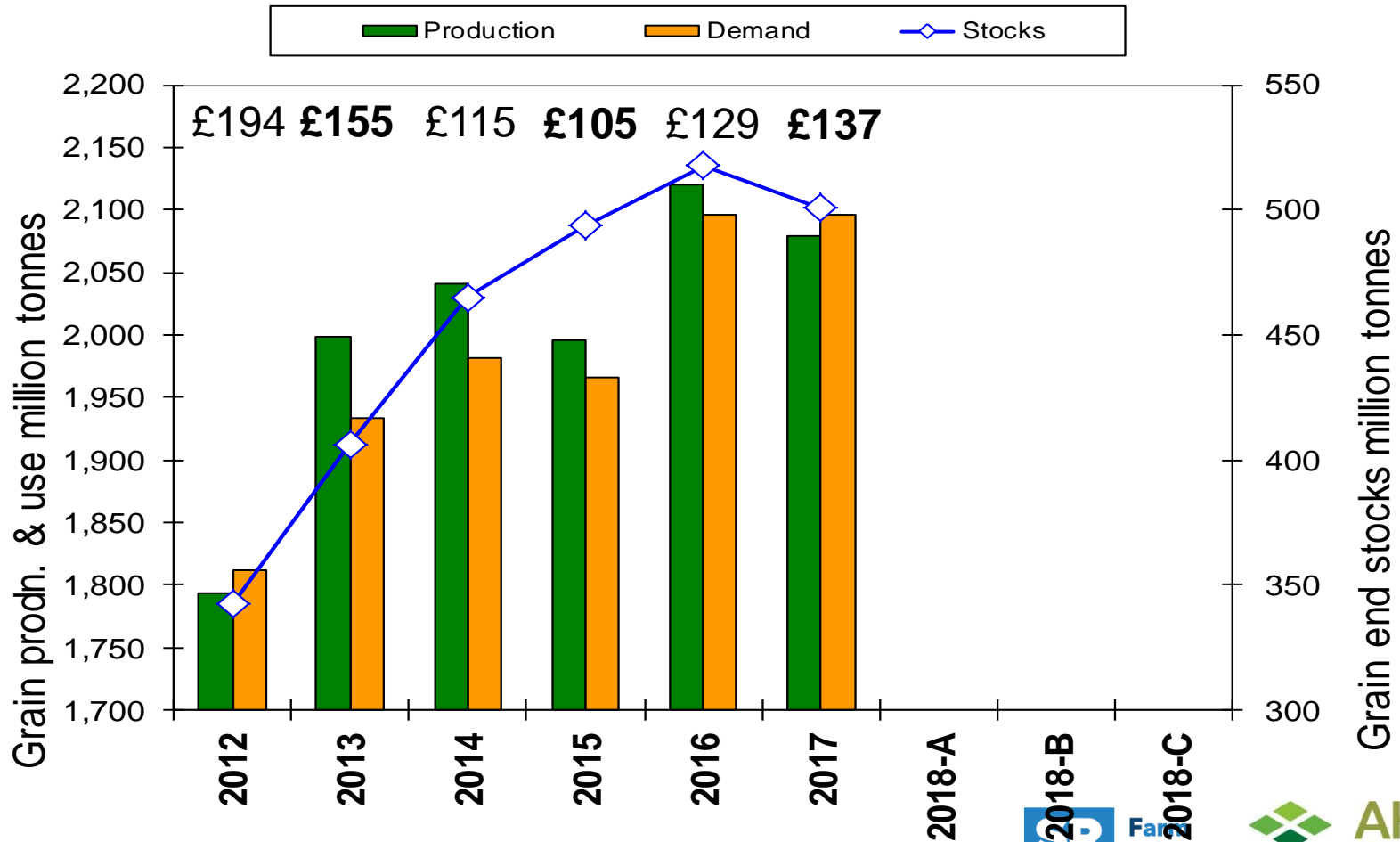
- Cereal Market Outlook
  - Global factors
  - UK and Scotland
  - 2017 harvest
  - 2018 prospects
- Brexit scenarios
- Long term contracts



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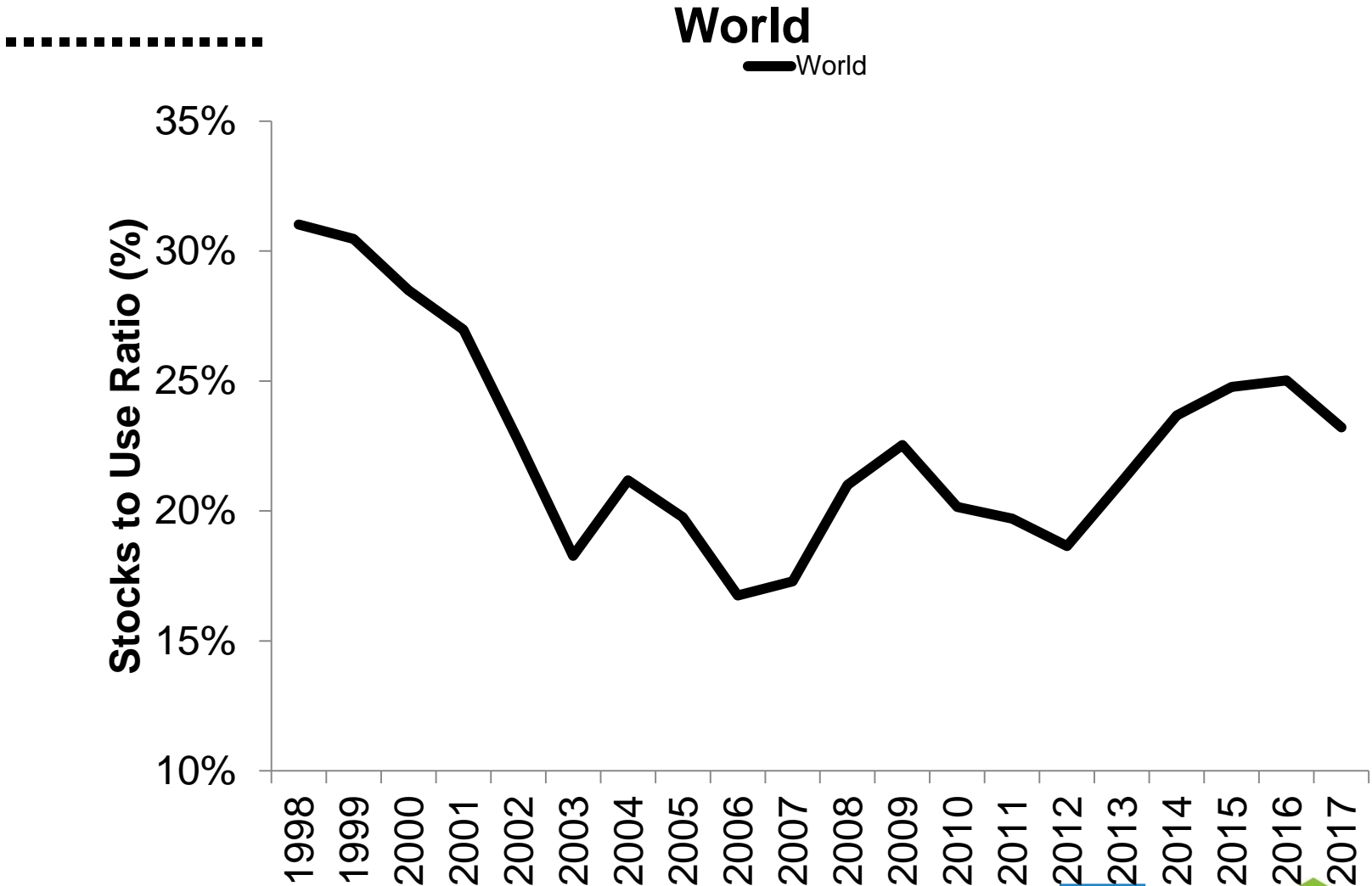
# 2017: first time world grain stocks fell in 5 years – crop **-41mt**, demand **unch**, stocks **-17mt**



Source: USDA, SAC Consulting



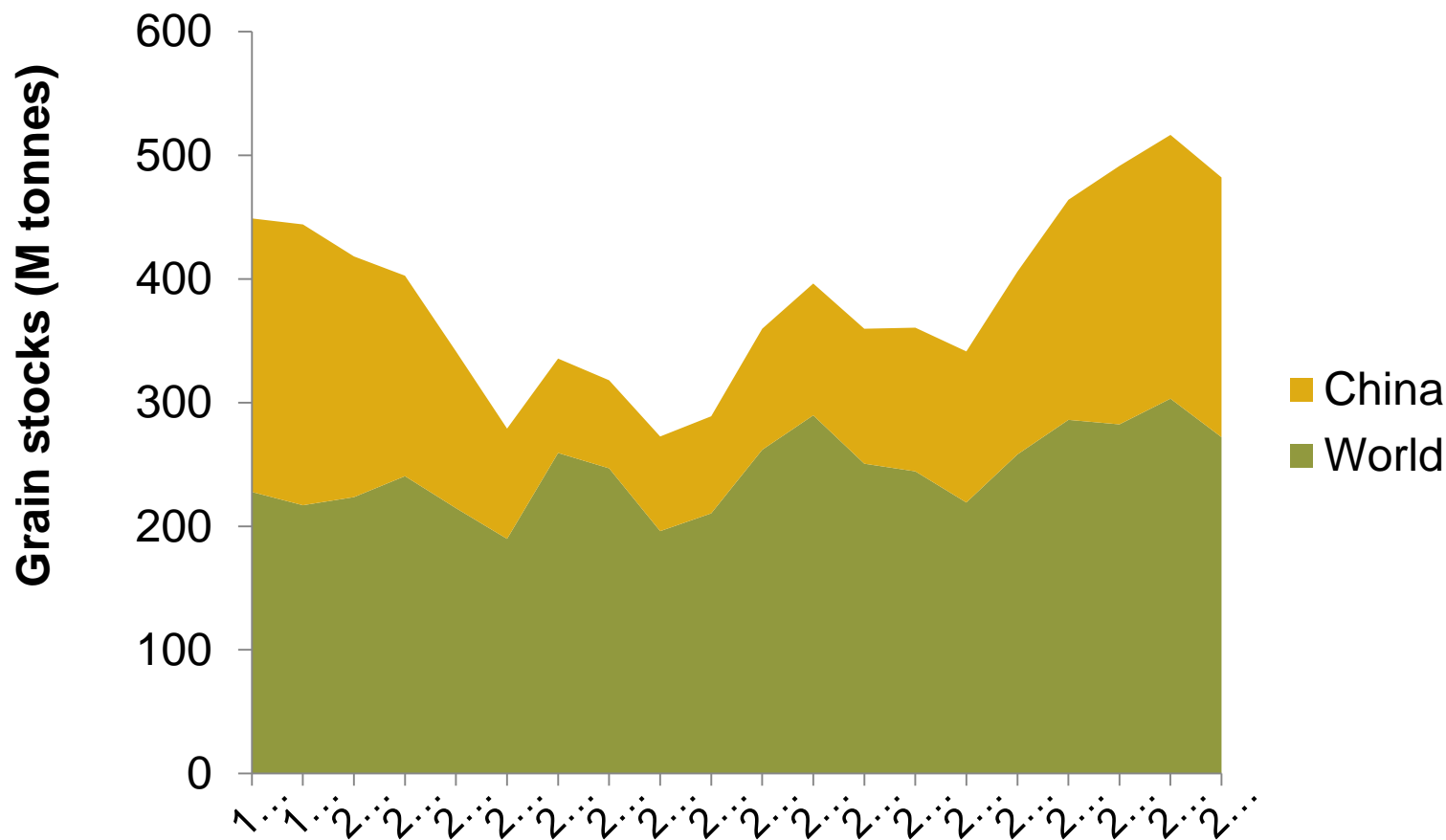
# Grain stocks to use falling but still close to 15 year high UNLESS



Source: AHDB, SAC Consulting



**.. you exclude China which now holds 44% of world grain stocks – do they really count?**



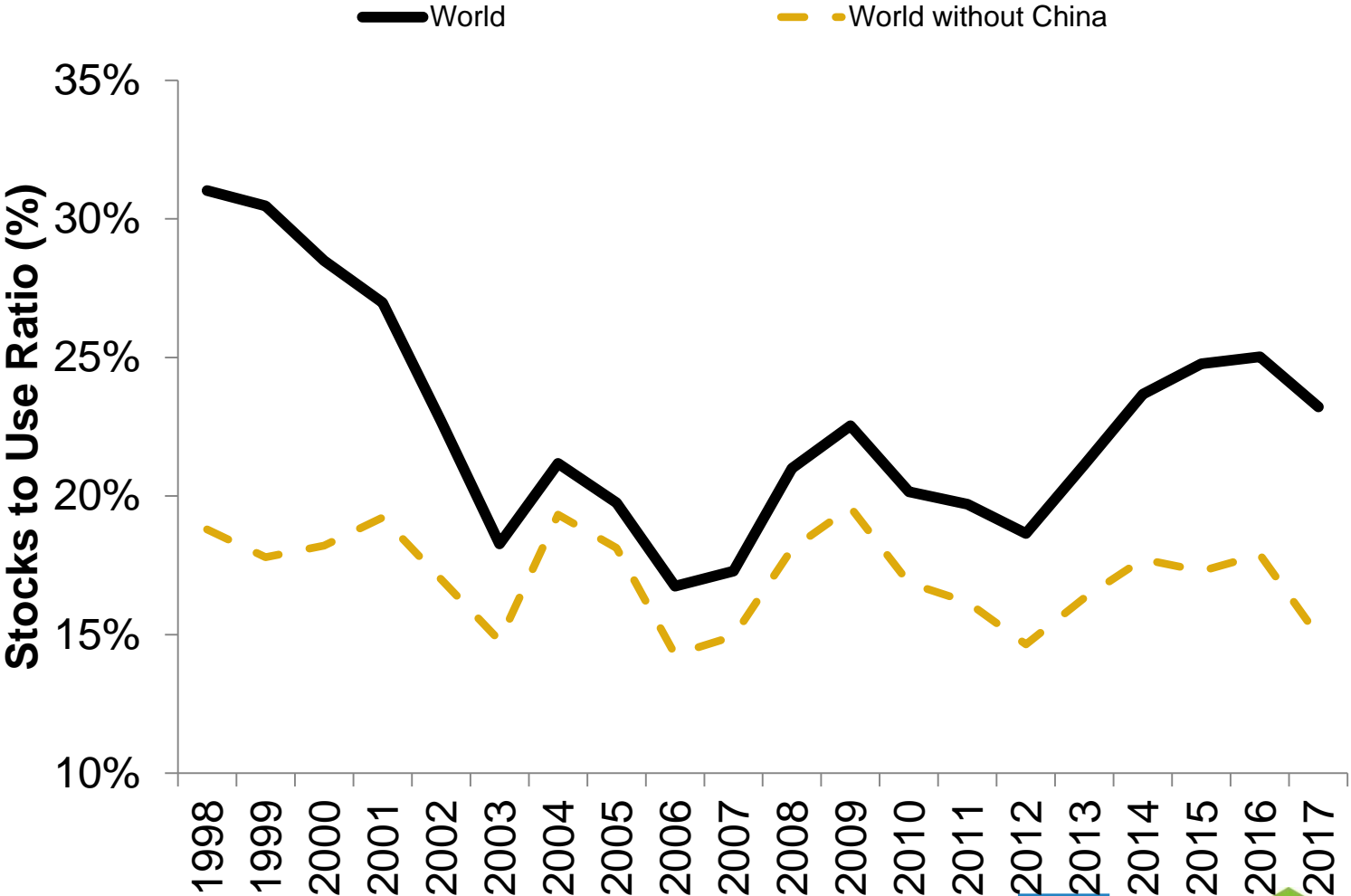
Source: USDA, SAC Consulting



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# Without China grain stocks to use **EXPECTED** to fall sharply



Source: AHDB, SAC Consulting

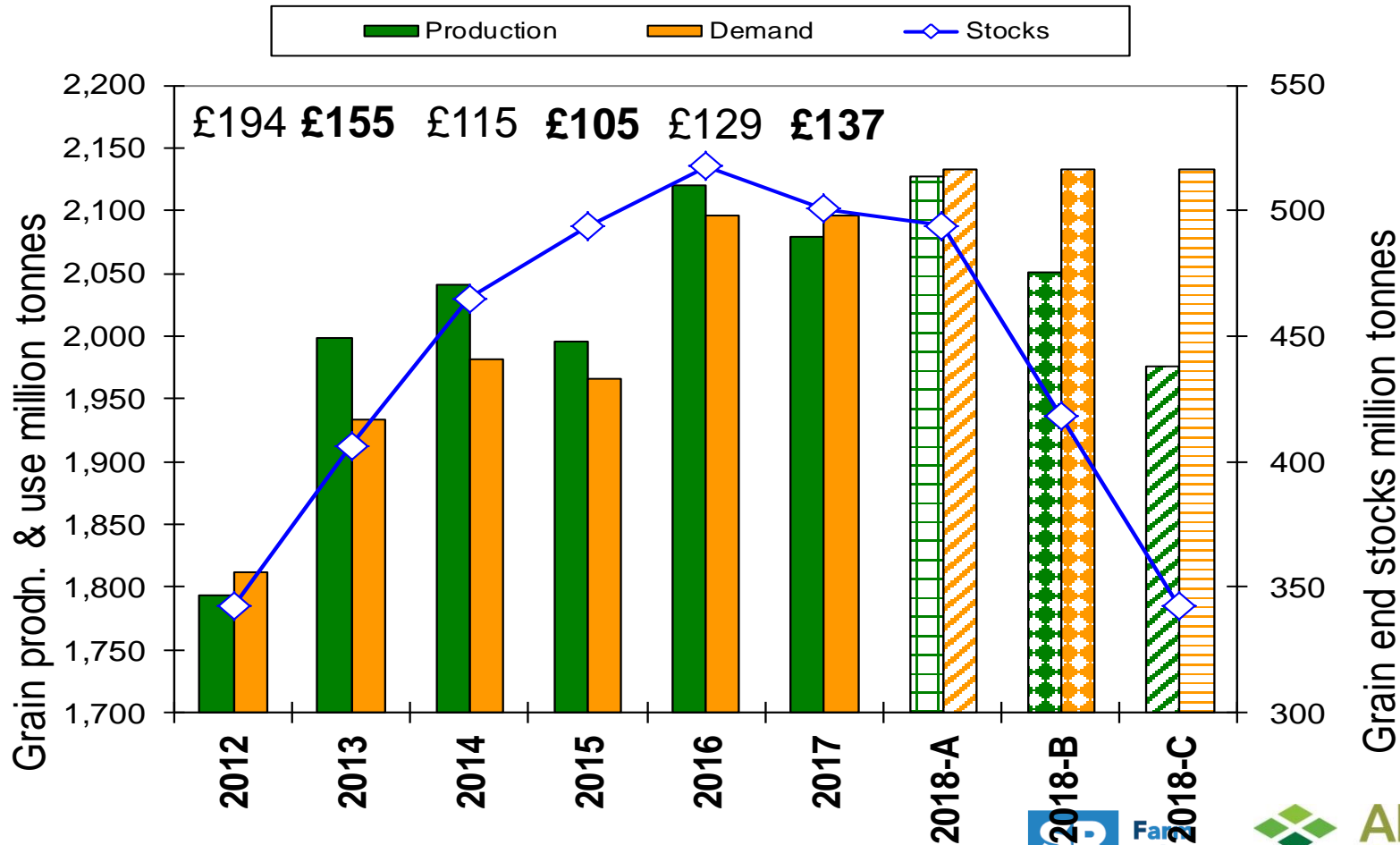


# 2018 world harvest; static area, 3yr av. demand +38mt

(A) Record crop needed to hold stocks ~steady

(B) 3yr average yields = 83mt fall in stocks

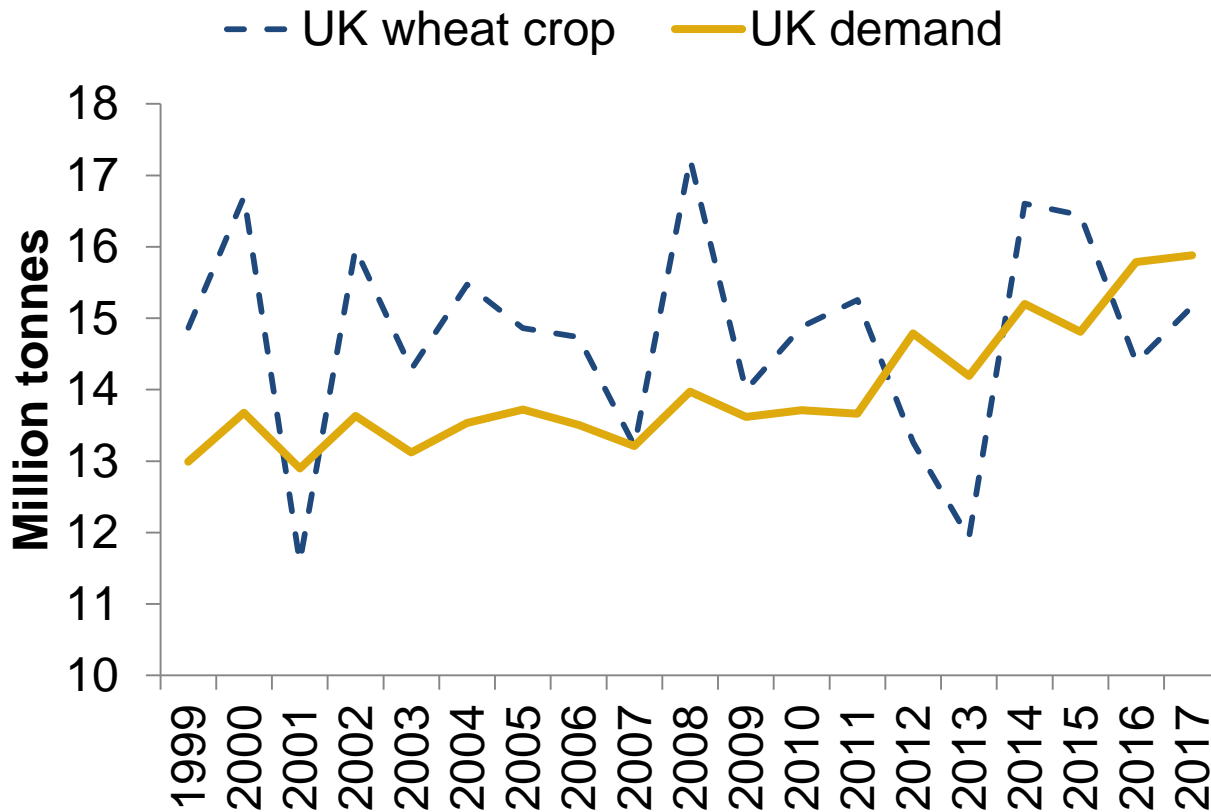
(C) 3yr low yields = 158mt fall in stocks



Source: USDA, SAC Consulting



# UK to be a wheat importer in 2017 – likely to become a permanent feature



- Starting season with lower stocks in 2017/18
- Ethanol demand key to import requirement – plant closure

Source: AHDB, SAC Consulting



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# UK to be a wheat importer in 2017 and 2018 – even with loss of ethanol demand (Vivergo shut down)

UK wheat '000 t	Ex-Vivergo				
	2015/16	2016/17	2017/18	2017/18	2018/19
<b>Open Stocks</b>	2,434	2,787	1,767	1,767	1,600
<b>Production</b>	16,506	14,347	14,840	14,840	14,400
<b>Imports</b>	1,509	1,866	1,500	1,500	1,500
<b>Available</b>	<b>20,449</b>	<b>19,000</b>	<b>18,107</b>	<b>18,107</b>	<b>17,500</b>
Human Use	7,360	8,120	8,132	7,632	7,500
Animal Feed	7,094	7,308	7,396	7,396	7,500
Seed etc	360	358	354	354	365
<b>Domestic Use</b>	<b>14,814</b>	<b>15,786</b>	<b>15,882</b>	<b>15,382</b>	<b>15,365</b>
<b>Exports/surplus</b>	<b>2,848</b>	<b>1,447</b>	<b>625</b>	<b>1,125</b>	<b>684</b>
<b>End Stocks</b>	<b>2,787</b>	<b>1,767</b>	<b>1,600</b>	<b>1,600</b>	<b>1,451</b>
<i>Net trade</i>	<i>1,339</i>	<i>-419</i>	<i>-875</i>	<i>-375</i>	<i>-816</i>

Source: AHDB, DEFRA and SAC

Source: AHDB, SAC Consulting



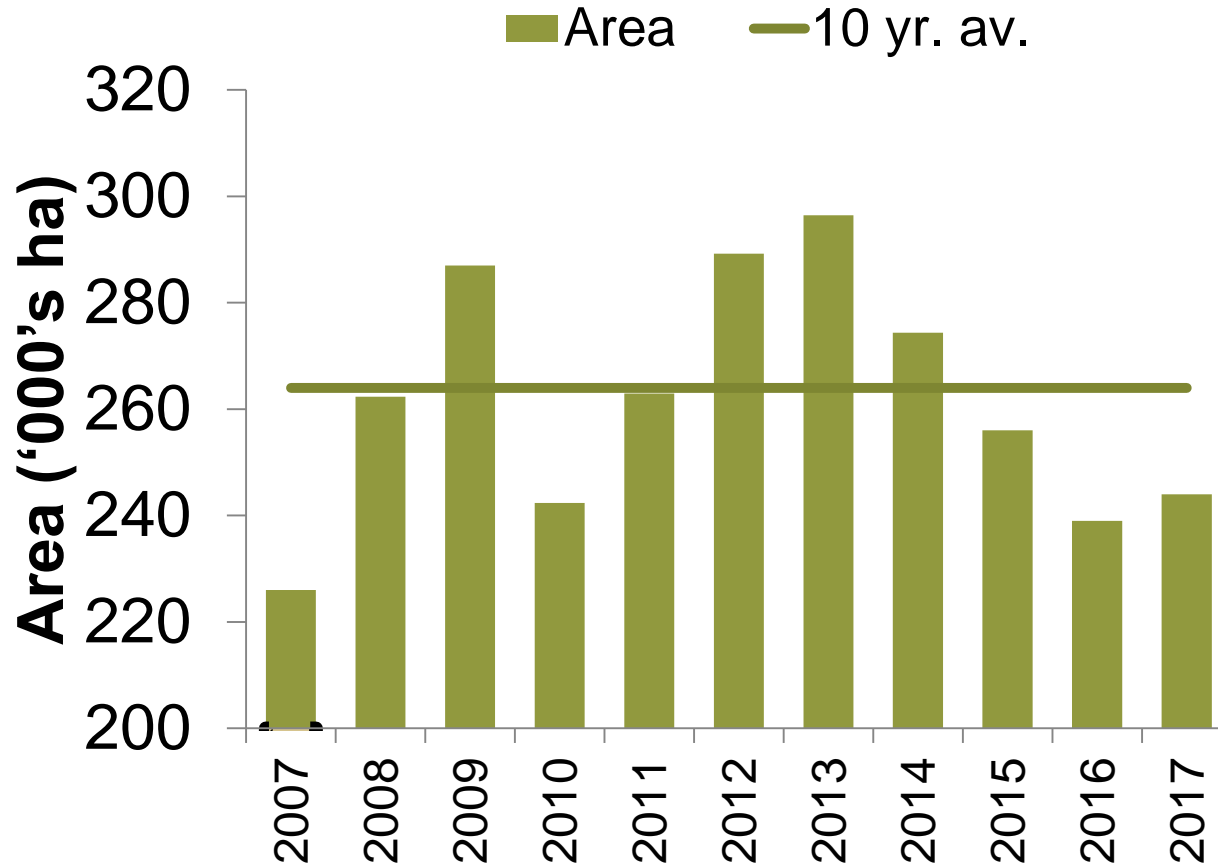
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# Spring barley – lower area main driver – Three Crops Rule

- **52k ha (-18%)** vs. 2013 high
- **27k ha (-10%)** vs. 10yr average



Source: Scottish Government



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# Scottish spring barley area limited by three crops rule + oats, rye for AD

		<b>Three crops rule</b>					000's ha <b>No 3 CR</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Change</b> <b>'17 vs '14</b>	<b>?</b>	
Spring barley	274.3	255.9	238.9	244	<b>-30</b>	270	
Wheat	109	110	110	109	<b>0</b>	109	
Winter barley	52.5	51.8	48	48	<b>-5</b>	48	
Oats	25	26	31	33	<b>8</b>	33	
W. rye	0.4	0.9	3.7	5.5	<b>5</b>	10	
<b>Total cereals</b>	<b>462.1</b>	<b>443.6</b>	<b>432.1</b>	<b>439.6</b>	<b>-23</b>	<b>440</b>	
Rapeseed	37	36	31	34	<b>-3</b>	34	
Fallow	11.9	33.1	43	38.56	<b>27</b>	12	
<b>Total combinables + fallow</b>	<b>515</b>	<b>519</b>	<b>510</b>	<b>516</b>	<b>1</b>	<b>516</b>	
<b>Total crops</b>	<b>589</b>	<b>592.7</b>	<b>582.2</b>	<b>591.5</b>	<b>3</b>	<b>592</b>	

Source: Scottish Government, SAC



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# Better barley varieties for distilling – dominant Concerto outclassed, higher yielding varieties could raise yields 10% and boost plantings due to higher profitability (all else equal)

Spring barley Scotland	2017 Distilling (Concerto)	2017 Distilling (Laureate)	2017 Export Brewing (Planet)*	2017 Feed
<i>Movement</i>	<i>Sep ex-farm</i>	<i>Sep ex-farm</i>	<i>Nov ex-farm</i>	<i>Sep ex-farm</i>
<b>OUTPUT</b>				
Yield grain (t/ha)	6.25	6.80	7.50	7.50
Price grain (£/t)	155	155	149	110
Straw (£/ha)	100	100	100	100
<b>Total output</b>	<b>1153</b>	<b>1239</b>	<b>1302</b>	<b>1010</b>
				£/ha
<b>VARIABLE COSTS (£/ha)</b>	<b>274</b>	<b>274</b>	<b>366</b>	<b>314</b>
<b>GROSS MARGINS</b>	<b>879</b>	<b>965</b>	<b>936</b>	<b>696</b>
<b>Total costs (£/ha) (Incl £711 Fixed C.)</b>	995	995	1087	1035
<b>Profit/Loss (before SFP) (£/ha)</b>	158	244	215	-25
<b>Costs of production (£/t)</b>	<b>159</b>	<b>146</b>	<b>145</b>	<b>138</b>

Source: SAC Consulting

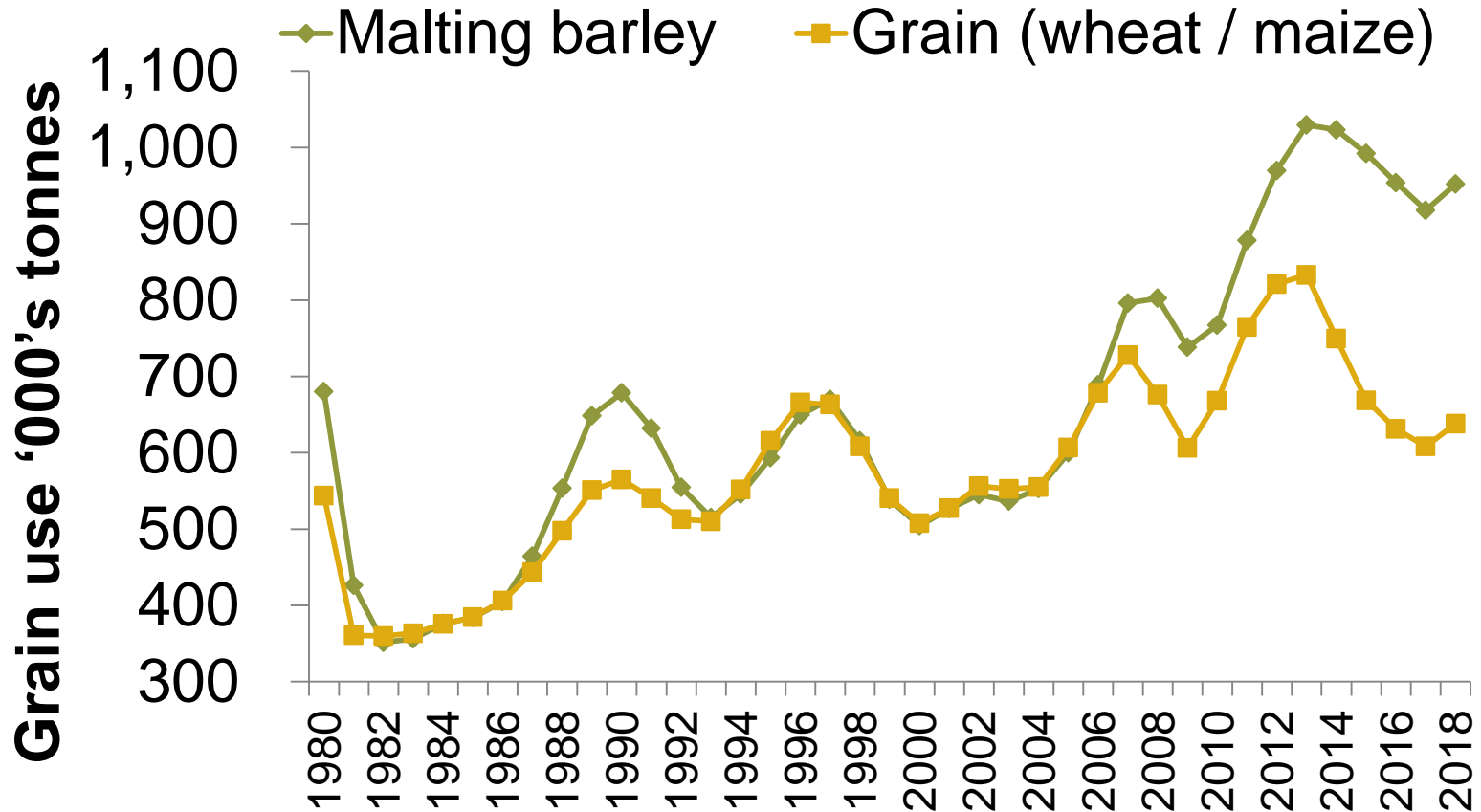


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# After four years of decline an upswing in the whisky cycle is expected in 2018;

- malting barley + 34kt in 2018?
- grain (wheat and maize) + 30kt in 2018? (wheat more)



Source: Scotch Whisky Industry Review  
2017, SAC Consulting



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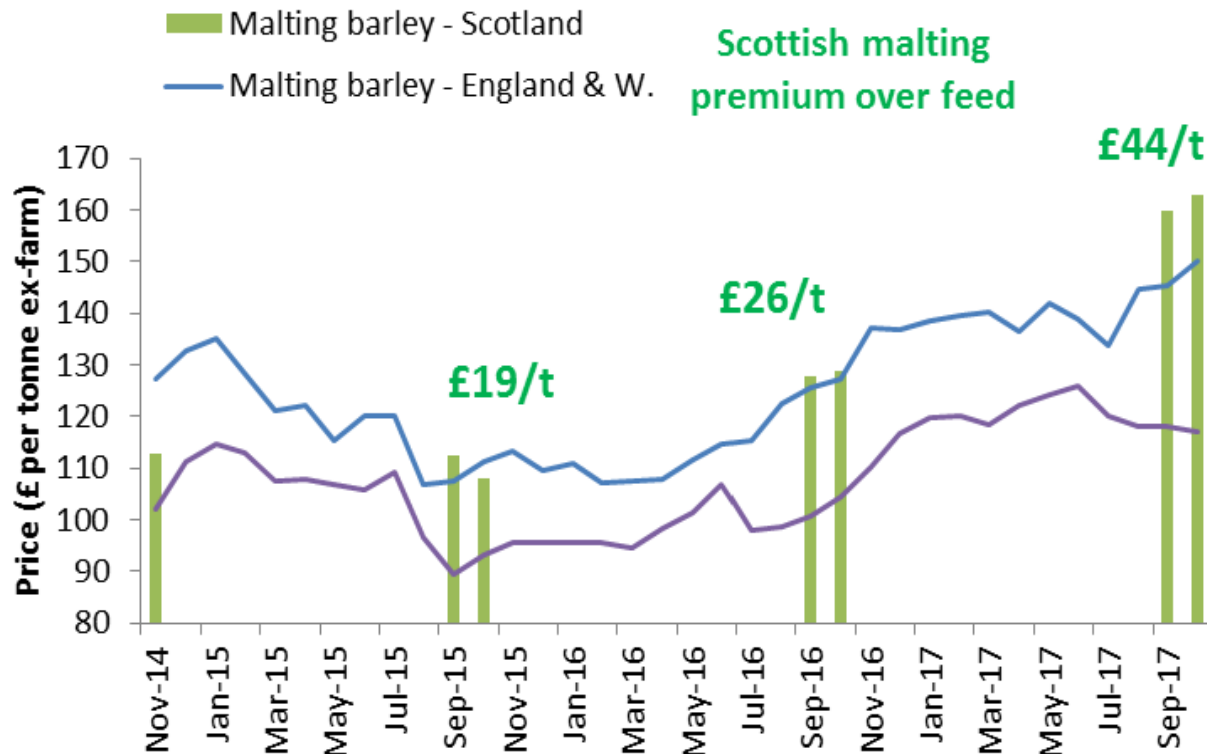
# Distilling grain use in Scotland – distillery switch from maize to wheat boosting demand

Distillery	Location	Grain use at capacity, of which;		
		Total 000's t	Wheat 000's t	Maize 000's t
<b>Cameronbridge</b>	Fife	278	278	
<b>Girvan</b>	Ayrshire	278	278	
<b>North British</b>	Edinburgh	182		182
<b>Strathclyde</b>	Glasgow	99	99	
<b>Invergordon</b>	E. Ross	91		91
<b>Starlaw</b>	W. Lothian	63		63
<b>Loch Lomond</b>	Dumbarton.	46	46	
<b>2016 total capacity</b>		<b>1,038</b>	<b>701</b>	<b>337</b>
<i>Use at 70% utilisation</i>		<i>727</i>	<i>491</i>	<i>236</i>
<b>2018 total capacity</b>		<b>1,038</b>	<b>884</b>	<b>154</b>
<i>Use at 72% utilisation</i>		<i>747</i>	<i>636</i>	<i>111</i>
<b>difference</b>		<b>21</b>	<b>145</b>	<b>-125</b>

Source: SAC Consulting analysis using data from DEFRA, Scotch Whisky Industry Review 2016, Scottish Government

# Malting barley prices in Scotland – premium rises over feed barley, over England

Malting barley prices in Scotland and England & Wales



Source: AHDB Corn Returns

Source: AHDB, SAC Consulting,



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# Malting barley use in Scotland – demand set to rise in 2018

	Scottish / Berwick malting Spring barley purchases ('000's t)	Scottish Spring Barley Crop ( '000's t)	Est. Malting varieties (%)	Est. Malting varieties ( '000's t)	Scottish malting purchases as % of malting varieties	Malting premium over feed £/t
<b>2012</b>	<b>795</b>	1,447	74%	1,071	<b>74%</b>	<b>31</b>
<b>2013</b>	<b>883</b>	1,714	79%	1,354	65%	19
<b>2014</b>	<b>908</b>	1,745	72%	1,256	<b>72%</b>	<b>26</b>
<b>2015</b>	<b>775</b>	1,521	76%	1,156	67%	14
<b>2016</b>	<b>765</b>	1,296	64%	829	<b>92%</b>	<b>28</b>
<b>2017</b>	<b>775</b>	1,433	72%	1,030	<b>75%</b>	<b>41</b>
<b>2018</b>	<b>810</b>	1,500	72%	1,080	<b>75%</b>	<b>40</b>

Source: SAC Consulting  
MAGB, Scottish Government,



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# Brexit - trade patterns and Scotland

## - varies by cereal and product

	EU tariff	Scotland EXPORTS			Scotland IMPORTS		
		To rUK	To EU	non-EU	From rUK	From EU	non-EU
Wheat - bread	Low						
Wheat - feed	High		occasional				
Maize	Low						
Barley - malting	High		occasional			occasional	
Malt	High						
Barley - feed	High						
Oats	High						
Oat products	High						
Rapeseed	Zero						

### Exports key

Low      High



### Imports key

Low      High



Source: SRUC



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# Brexit - evolution or revolution? AHDB trade & agricultural policy scenarios

## Impact of AHDB Brexit scenario on Cereals Farm Business Income

### Scenario 1:

#### Evolution

Free Trade Agreement made with EU

Agriculture support, labour costs and regulation unchanged

### Scenario 2:

#### Unilateral liberalisation

No trade deal with EU, but UK unilaterally lowers all tariffs to zero

50% reduction in agricultural support

Permanent labour costs rise

### Scenario 3:

#### Fortress UK

No deal with EU

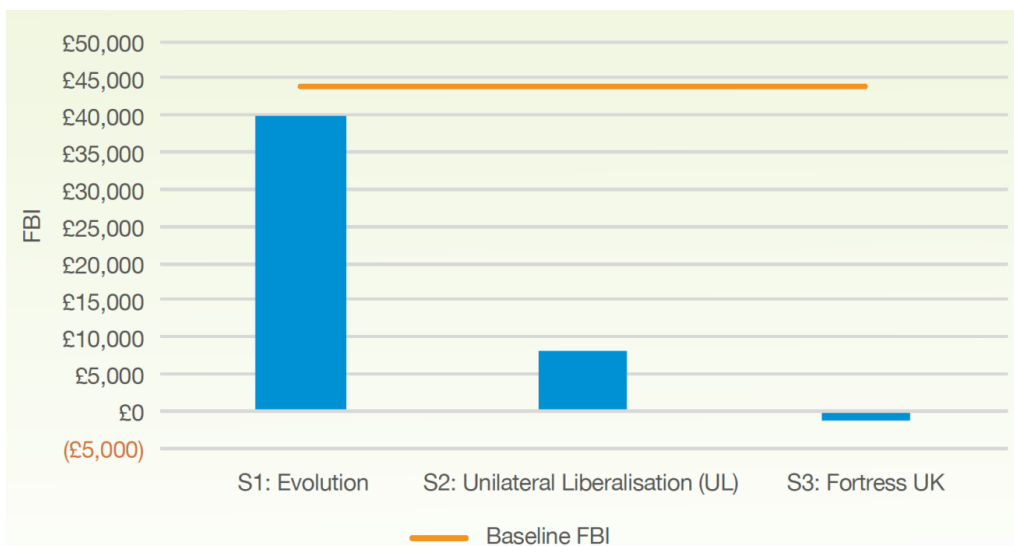
WTO tariffs apply

75% reduction in agriculture support

Labour (permanent and seasonal) costs rise

Source: AHDB

# AHDB analysis indicate farm incomes suffer most under hard Brexit – depends on assumptions used, impact in Scotland may differ



<b>Baseline FBI</b>	<b>£43,796</b>
Scenario 1: Evolution	£39,788
Scenario 2: Unilateral Liberalisation	£8,216
Scenario 3: Fortress UK	- £1,341

# Brexit and Scotland – key issues

## Trade

- Scotland trades less directly with EU but linked through UK
- Maintaining current market access to EU important
- If trade restriction imposed will be winners and losers by sector.
- Import substitution – e.g. +ve wheat for maize in distilling
- Fate of beef and other livestock key as over 50% of cereal use

## Subsidy

- Direct support essential to current profits - lower direct payments assumed

## Industry priorities

- Improve competitiveness – benchmark, share costs
- Work with supply chain



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# Why is this a good time to strengthen long-term supply agreements?

## 1) Brexit uncertainty

- only UK based buyers can guarantee frictionless market access
- only UK farmers can guarantee frictionless supply
- Expected UK reduction /removal of area subsidies (BPS) – expected to make growing crops without an end market and price guarantee increasingly unsustainable

## 2) Scotch Whisky – malting barley requirements

- Specific (non-GN) malting barley varieties and lower N levels
- Both increasingly hard to source outside Scotland

## 3) Scotch Whisky – grain distilling requirements

- High spirit yields and good processing – maize or soft wheat
- Non-GM grain requirements
  - Only EU maize – at risk from Brexit
  - All wheat non GM but only UK grows right soft wheat varieties



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# What is needed to make this happen - malting barley and distilling wheat?

## Buyers

- A sustainable price for growers, competitive with other crops without subsidies
- Investment in increased malting capacity in Scotland
- Investment in remaining maize distilleries to enable them to use wheat

## Farmers and supply chain partners

- Better co-ordination – Producer Groups one potential route
- Investment in production, harvesting, handling and storage
- Growing the right varieties, segregating and delivering them
- Higher yields, more consistent quality
- Competitive production costs – likely to need restructuring



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# Cereal market outlook – 2017

- 1) 2017 – world grain outlook flat given high stocks
- 2) 2017 – UK likely to be a net wheat importer for 2<sup>nd</sup> yr
  - Keeping UK prices above world values
- 3) The Scottish wheat premium is back
  - as distillers switch from maize to wheat
- 4) Distilling barley in Scotland and UK was tight this harvest
  - Scotland - low area, weather affects on quality BUT better yields
  - England – poor quality, area down

# Cereal market outlook – 2018

5) 2018 – without record yields world cereal stocks likely to decline further

6) 2018 – UK likely to be a net wheat importer for 3<sup>rd</sup> yr  
- Ethanol use main wildcard

7) The Scottish wheat premium expected to stay  
– If distillers stick with wheat

8) No major increase in Scottish spring barley area expected -

- Autumn sowings maybe down, but not much
- Main constraint on spring barley area remains
  - Three Crop Rule
- More Laureate may help raise yield



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# Cereal market outlook - Brexit

- 9) Crops in the ground may be marketed post Brexit
  - If hard Brexit, AHDB see lower cereal income
    - Much depends on assumptions made, as a deficit region, Scotland outcomes may differ
- 11) Brexit uncertainty affects the whole supply chain
  - a good time to strengthen supply contracts
- 12) Understand your costs, increase your flexibility
  - Lower likely subsidies mean growing to order or switching crops or fallow if price not enough
- 13) Use the next two years as a window of opportunity
  - Trial new crops and cost sharing ideas
  - Test new markets and contracts



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# Thank you