



MI Prospects



UK crop development challenged by late spring

With spring yet to materialise in the UK, a wealth of challenges exists for both growing crops and spring planting.

This month's [ADAS crop development report](#) gives a good overview of crop condition at the end of March, as well as the challenges being faced. Winter wheat plantings are now complete with spring varieties hoping to be drilled in the coming weeks. The area is somewhat lower than levels hoped for at the start of the season and yield potential is also under pressure from delays in crop development.

The **2013 wheat production matrix** on our website ([click here](#)) takes a range of potential areas and yields to give an indicator of potential production. This provides some food for thought, not least as the best case scenario still only produces a wheat crop of the same magnitude as 2012, at 13.3Mt.

For **spring barley and oats, planting is delayed** and that which has been drilled has struggled to emerge in the cold conditions. Drier weather in the last few days may have allowed drilling to recommence in some areas of the country, but low soil temperatures are still likely to be a concern for establishment.

Relating to demand, **UK livestock numbers** as at 1 December give a mixed picture with sheep higher, pigs lower and cattle stabilising after declining for a number of years. Although numbers are important, currently the weather is the main driver behind additional demand for animal feed which has been needed due to the cold and snowy conditions.

Also impacting wheat (and maize) demand will be the news that Ensus will pause production for an

undefined period. The bioethanol producer has been one of a limited number of consumers of UK wheat down to 60kg/hl meaning alternative users may need to be found for this lower quality grain.

Although the picture is currently gloomy in the UK, the **main price drivers are global**. Last week's USDA planting intentions and quarterly stocks reports created volatility, as higher than expected US maize stocks drove markets to fall. However, as seems to be typical with these reports, the reaction may be overdone as prices firmed yesterday over concerns for Northern Hemisphere weather.

Managing market volatility is a challenge and the third part in our pricing strategies series shows how seven different tactics have performed so far for the 2013 crop. With so many uncertain factors both globally and in the UK, **managing price risk must be as much of a focus as managing the yield** in the coming months.

Charlotte Garbutt

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Wheat Pricing Strategies for 2013

Part 3 of this series demonstrates how seven different price risk management strategies have performed during the six months since harvest 2012.

US Spring Planting Intentions

The largest US maize planted area since 1936 is forecast, as high pre-planting prices encourage planting of grains and oilseeds at the expense of cotton.

US Quarterly Grain Stocks

Despite being somewhat lower than a year ago, the USDA's estimates of maize and soyabean stocks as at 1 March pushed markets lower as commentators were expecting tighter inventories.

South American Harvest Progress

Larger maize and soyabean crops are forecast for South America following drought problems in 2011/12. Harvest of these crops is under way but exports have been slower than originally expected.

Mixed Fortunes for UK livestock

December survey results gave a mixed picture for livestock numbers with sheep higher, pigs lower and cattle flat year-on-year.

Wheat Pricing Strategies for 2013 (part 3)

In October 2012, AHDB/HGCA launched an evolving demonstration of Price Risk Management, following a series of strategies from planting through to final sale of the 2013 harvest. This article provides a six-month review of how each strategy is progressing, looking at their potential returns and the risks that remain.

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In developing a strategy, it is important to recognise that there is no 'one size fits all' approach. The appropriate strategy for an arable business should reflect appetite for risk, the nature of that risk and the potential impact to the business. Ultimately, it should meet individual needs and business objectives.

Emphasising this fact, AHDB/HGCA, pulled together several price risk management strategies that might be used on a real farm. The strategies included a range of both forward and post-harvest sales, as well as the use of risk management tools such as Options (for full description of the strategies, assumptions and costs see [Prospects Vol. 15 Issue 9](#)).

This article provides the second update on their progress, comparing returns based on the present-day value for each strategy using the latest price information as at 25 March 2013.

The first update from January can be viewed here [Prospects Vol. 15 Issue 14](#)

The strategies – summarised in Figure 1

Do Nothing – “Nerves of steel”

With all sales made post-harvest, “Nerves of steel” represents one of the most extreme strategies, maximising both the risks and potential rewards from the market. An overall strengthening of the market over the course of its life will be to the overall benefit of the strategy, but any fall in market value leaves “Nerves of steel” heavily exposed.

Between mid-January and the 25 March, the overall strengthening of the market has been to the advantage of this strategy. The appreciation has resulted in an increase in the average profit/loss per tonne from £8.70/t recorded in January to £12.30/t in March. However, with 100% of the crop unsold, the strategy remains exposed to any downward price movements.

Despite the overall strengthening in the market since January, since early February prices have been on a downward trajectory. As a result, returns have fallen meaning this strategy does not appear as strong as previously and if markets continue to fall may lose its current fourth position in the rankings.

Averaging I – “Steady”

The aim of this strategy is to reduce market volatility by making a series of sales over the strategy's lifespan, with half the production forecast sold forward and the remainder sold post-harvest. Almost 30% of the production forecast has been sold since the

strategy was implemented in September 2012. The strategy is currently ranked second with the market strengthening since January resulting in an increase in the average profit/loss per tonne from £9.50/t to £13.00/t.

Averaging II – “Average Joe's”

The second 'averaging' strategy started in January 2013. Unfortunately, market prices have fallen since peaking in early December. As such, this strategy currently receives a slightly lower average price per tonne than “Steady” and is ranked third.

Compared with the last update in January, the overall strengthening of the market has resulted in an increase in average profit/loss from £9.40/t to £12.80/t. Nevertheless, with 75% of the crop still unsold, “Average Joe's” is at risk from any downturn in the market.

Minimum Price Contract (based on Options) – “Full metal jacket”

In this strategy, the entire production forecast was sold in September at £166/t (ex-farm) and covered with an at-the-money November 2013 Call Option to benefit from any strengthening in the market, at a premium of £16.30/t.

In the last update, “Full metal jacket” saw an average loss of £6.40/t; the only strategy to record a negative profit margins, primarily due to the added cost of the Option. “Full metal jacket” remains the only strategy to record negative profit margins, though market strengthening over the last two months has reduced the degree of loss. Exercised at 25 March, the Option nets a loss of approximately £1.30/t (current worth if exercised on 25 March of £15.00/t less the £16.30/t premium), which compares with a loss £4.30/t in January. The strategy currently results in an average loss per tonne of over £3.00 and is ranked last.

Options II – “The city boy”

This strategy also incorporates the use of Options. A quarter of forecast production was sold forward in September 2012, covered with a November 2013 Call Option at £16.30/t. A further 25% was sold forward for May 2014 delivery, covered with a May 2014 Call Option, at a premium of £20/t. Since the last update, a further 25% was sold at the start of March, with the remaining production scheduled to be sold post-harvest.

Similar to the previous example, this strategy has been hindered by the proportion of forecast production sold forward in September when prices were at their lowest in the past seven months. The additional cost of the Options has further restricted profit margins. Positive profit margins are due to crop sold in early March and the proportion of crop that is yet unsold, and therefore able to take advantage of the overall increase in prices since September - without the added cost of the Option.

Average profit margins have increased since the update in January, from £2.30/t to £5.60/t, reflecting the overall strengthening in the market over the last two months.

It is worth noting that the use of options in these two previous strategies are acting as an insurance policy

Wheat Pricing Strategies for 2013 (part 3)

Figure 1 Summary of returns and risks

	Strategy	Current Average Price (£/t)	Current Average Profit/Loss (£/t)	Current ranking	Proportion of crop		
					Sold	Exposed to upside	Exposed to downside
1	"Nerves of Steel"	180.2	12.3	4	0%	100%	100%
2	"Steady"	180.9	13.0	2	29%	71%	71%
3	"Average Joe's"	180.7	12.8	3	25%	75%	75%
4	"Full metal jacket"	164.5	-3.4	7	100%*	100%	0%
5	"The city boy"	173.5	5.6	6	75%**	75%	25%
6	"Simplicity"	176.4	8.5	5	33%	67%	67%
7	"Trigger happy"	182.5	14.6	1	50%	50%	50%

*Covered by Option.

** 50% of forecasted production sold forward in September 2012 and covered by Option. 25% sold forward in March 2013.

should prices rise significantly after forward sales have been made. In reality the use of call options can give farmers more confidence in selling forward to take advantage of strong forward prices. In addition, the Call Options also provide some default protection if the final level of production fails to meet forward price commitments and prices subsequently rise. Forward selling without the use of options does not come with this protection and can in some cases increase the risk of default charges being incurred.

Three thirds – “Simplicity”

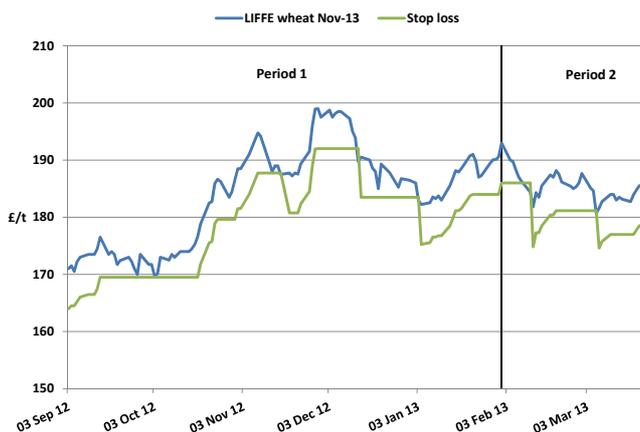
With sales split between three equal lots in September, June and the remainder post-harvest, the fundamental position of this strategy has not changed since January. The strategy remains low in the rankings due to sales in September, when ex-farm prices were slightly below budgeted costs of production. Positive profit margins have been due to the increase in overall prices over the last half year. The increase in prices since January has resulted in a further increase in average profit per tonne, from £5.90/t to £8.50/t.

Target pricing: floating stop-loss – “Trigger happy”

The floating stop-loss strategy (see [Prospects Vol. 15 Issue 9](#)) remains the highest ranked, although the margin of difference between “Trigger happy” and the other strategies has declined.

As of 25 March, 50% of forecast production in this strategy had been sold. The first selling period (September 2012 to January 2013) saw the stop-loss/trigger price hit three times, with the remaining lot sold on 1 February. The second selling period started in February and will allow up to 4 lots of 150 tonnes to be sold up to September 2013. The falling market since February has already resulted in two of the four allocated February-September lots being sold. Figure 2 shows the floating stop loss in operation.

Figure 2 The “Trigger happy” strategy



Compared with the last update in January, average profit per tonne has increased from £13.60/t to £14.60/t, with half the production forecast still exposed to market forces.

The next update

This exercise will follow these strategies over their respective life-spans, updating the returns and risks associated with each. The next update is scheduled for June 2013.

Spring Planting Intentions

The largest US maize area since 1936 is forecast, as high pre-planting prices encourage planting of grains and oilseeds at the expense of cotton. Wheat plantings are expected to increase by 1% while the soyabean area is mostly unchanged.

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Maize

Maize is forecast to be planted over 39.37Mha, slightly up from the 39.32Mha planted last year, and the highest since 1936 when 41.28Mha were sown (Figure 1). Forward prices are around \$217-\$238/t for September movement, compared with \$225/t at the same time last year (as at 2 April). Although these prices are similar from year to year farmers could well have already locked into prices as high as \$273/t if they sold earlier in the season.

Figure 1 US Planting Intentions

Million Hectare	2011		2012		2013	
	Actual		(f'cast)	% change		
Maize	37.2	39.3	39.4	0%		
Soyabeans	30.3	31.2	31.2	0%		
Total Wheat	22.0	22.6	22.8	1%		
of which, Spring (exc. Durum)	5.02	4.97	5.14	3%		
of which, Winter	16.45	16.72	16.99	2%		
of which, Durum	0.55	0.86	0.71	-17%		
Barley	1.04	1.47	1.47	0%		

Source: USDA

Record areas are forecast for a variety of peripheral states which have not suffered from the effects of drought, although the actual areas are comparatively small. **Minnesota and North Dakota are the only major states forecasting record areas.** It is important to note that these are intended plantings, and weather and price movements could mean the final areas, reported in June, may differ. Last year the **difference between intended and actual maize plantings was 0.60Mha.** Dry, cold weather across the US Corn Belt is currently delaying early fieldwork, although further south in Texas crop planting is ahead of average.

Wheat

The total wheat area is forecast to rise by 1% to 22.84Mha, slightly higher than the USDA's previous estimate. Of this 16.99Mha are winter varieties, a 2% increase on 2012. The durum wheat area is expected to fall by 18% to 0.71Mha, while the common spring wheat area is to increase by 3% to 5.14Mha.

Of the winter areas (figure 2), the Hard Red Winter wheat area is to be down by 0.40Mha to 11.70Mha, while the Soft Red Winter area is forecast up by 0.51Mha to 3.91Mha. Soft Red Winter wheat is grown in more Eastern states, which have avoided much of the drought and are seen to have better soil moisture

than Hard Red Winter wheat areas. The White Wheat area is forecast at 1.37Mha, down by 0.04Mha. However, the major White Wheat growing states of Washington and Oregon have the best crop conditions so have potential to perform well.

Figure 2 Main Winter Wheat States

Million Hectare	2012		2013	
	Area	Crop condition (% good/excellent)	Area	Crop condition (% good/excellent)
Kansas	3.84	3.76	60	31
Texas	2.31	2.31	34	16
Oklahoma	2.19	2.19	75	27
Colorado	0.95	0.89	41	12
Montana	0.93	0.85	24	50

Source: USDA

*as at 1 April

Soyabeans

The soyabean area is forecast to be similar to 2012 at 31.21Mha, 0.03Mha down from last year. Illinois and Iowa are expected to plant 3.8Mha a piece, while North Dakota is forecast to sow a record 1.98Mha. States in the east of the Corn Belt are forecast to increase plantings while those through the Great Plains region, where the drought has been more severe, have cut back on acres.

Canadian Planted Areas

To complete the North American picture, Agriculture and Agrifood Canada released plantings information this week. The Canadian common wheat area is forecast to increase by 7% to 8.3Mha, with the wheat area including Durum increasing to 10.21Mha. If the forecast harvest area is realised (9.99Mha) this would be the largest area since 2008/9 and the second largest in a decade. Canola (rapeseed) area is forecast slightly lower at 8.6Mha, although a higher yield than last year's damaged crop will mean production is forecast considerably higher. Good returns for alternative crops as well as rotational concerns were seen as the main reasons for a lower area. The soyabean area is increased by 15% to a record 1.94Mha after record yields last year and strong prices have incentivised farmers to plant on land previously not considered suitable for soyabeans. The barley area is forecast to increase 5% to 3.15Mha. For more on Canadian Supply and Demand for 2013/14 [click here](#).

Implications for the market

Strong planted areas provide a basis for a rebound in supplies across all the main grains and oilseeds. In their recent Outlook Conference, the USDA indicated that they expect consumption of grain for feed and biofuel use to rebound if larger crops are realised, but also for stocks to recover considerably. The weather continues, as always, to play a key role in determining the ability of farmers to carry out their cropping plans and the final yield achieved.

US Quarterly Grain Stocks – as at 1 March

Despite being somewhat lower than a year ago, the USDA's estimates of maize and soyabean stocks as at 1 March pushed markets lower as commentators were expecting tighter inventories.

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Introduction – why do US stock reports create so much hype?

Four times a year (January, March, June and September), the USDA publish estimates of quarterly grain / oilseed stocks in the US. These reports give insight into US stock levels, but also demand for the last quarter.

Often these reports are seen as 'game changers' for the market place, with noticeable impacts on price and US futures markets often trading at their daily limits on the day of release – essentially reaching the maximum permitted daily price movement.

Even before these reports are released, market participants will be preparing for their arrival. This is particularly true for speculators, who may move their investments to a more neutral position to reduce the risk of exposure to unexpected stock figures. Of all the reports published by USDA, the stocks reports are of the most unpredictable.

The latest Report – US stocks at 1 March

For the three main commodities (wheat, maize and soyabeans), the USDA stock estimates came in above pre-report expectations – most notably for maize.

Figure 1 US Wheat, Maize and Soyabean Stocks as at 1 March

M tonnes	2012	2013 Pre-report expectation	Actual	year-on-year change
Wheat	32.6	32.0	33.6	2.9%
Maize	153.0	127.3	137.1	-10.4%
Soyabeans	37.4	25.5	27.2	-27.3%

Source: USDA, Reuters

US maize stocks as at 1 March are estimated at 137.1Mt, down 10% from a year earlier and almost 10Mt above the average pre-report expectations. The higher than expected stock level could be down to weaker than anticipated demand in the December 2012 – February 2013 period, which was estimated at 66.8Mt – down 27% on a year earlier. Relatively high US maize prices are likely to have curbed demand from livestock units, biofuel producers and international buyers.

US wheat stocks were less interesting, although slightly above levels seen a year ago. The pre-report expectation was a drawdown in stock levels, but it

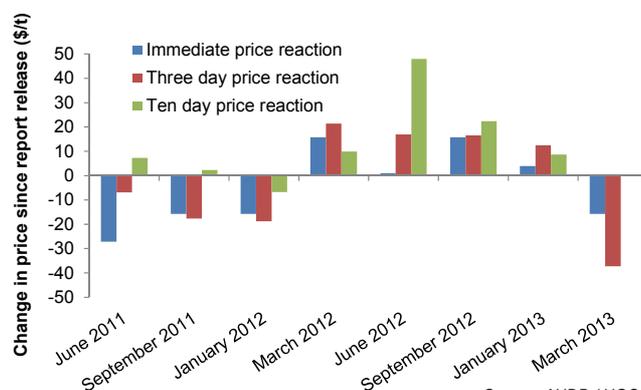
seems that both export and domestic demand could have been below that anticipated. US wheat stocks are currently acting as a cushion for the world market should any production issues occur in 2013. The same can also be said for Indian wheat stocks now that some exports have been permitted. However, Indian wheat is likely to be less appealing to a number of destinations on quality grounds.

US soyabean stocks also came in above expectation, although much lower than a year ago. Demand rationing was much less pronounced than in maize with demand 3% below levels a year ago. Strong crush margins and Chinese consumption have driven demand during the season but more recently this has been dampened by the price impact of record South American crops.

Price impact

The March stock report didn't disappoint and created volatility with the US maize market closing limit down (40 cents/bushel lower) on Thursday 28 March. Further declines have been seen since. However, on many occasions markets over react to stock reports. Figure 2 shows the immediate, three and ten day price reactions to the last 8 stock reports. The reports in June and September need to be treated with caution as the markets are likely to be reacting to the condition of the growing crop as well as stock information. The ten day price reactions to the most recent January and March reports are shown to be less severe than the three day.

Figure 2 Price Reaction in Chicago Maize Futures Following Quarterly Stock Reports



Source: AHDB / HGCA

Although the latest stock report indicates that there was more than expected maize inventory the feed grain situation does continue to be tight. There remains a high dependence on the 2013 crops coming off unscathed.

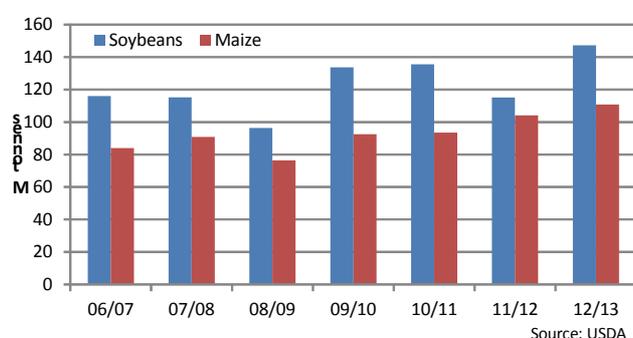
South American Harvest Progress

Larger maize and soyabean crops are forecast for South America following drought problems in 2011/12. Harvest of these crops is under way but exports have been slower than originally anticipated.

Sarah Nightingale, External Contributor

The USDA forecast significantly higher soyabean (up 28%) and maize (up 6.5%) production for South America in 2012/13 (figure 1). However, final yields will remain unclear for some time following difficult weather conditions in recent months. This article looks at the latest harvest reports from the two major producing countries, Argentina and Brazil.

Figure 1 Soybean and maize production in South America



Argentina

On 21 March, the Argentine government released its first official forecasts for maize and soyabean production for 2012/13. Following poor crop performance last year due to drought, **production of maize and soyabeans are seen up 21.2% and 27.9%** respectively compared to 2011/12 (figure 2).

Argentina saw one of its wettest autumns ever during August, September and October 2012, which affected the wheat harvest and early maize sowings. This was

then followed by dry weather in January and February 2013, which affected some soya and maize crops.

Maize production is put at a record 25.7Mt in 2012/13 despite an 8% reduction in sown area. As at 28 March 25% of the crop had been harvested, compared with 21% at this time last year. Much of the maize crop was sown later than usual because of the sodden soils in October and November, but new GMO varieties, developed for later sowing, mean that yields should not be significantly affected.

Some crops were badly impacted by the drought at the beginning of 2013 but rains in early March brought relief at the critical flowering and seed setting stage. Rains are expected in the south-west for the next week, which may slow harvest but beyond this a dryer period is forecast.

The government announced in September 2012 that 15Mt of maize would be authorised for export in 2012/13. This is a change from recent years when it has gradually authorised much smaller amounts throughout the season. This development has been welcomed by farmers and the trade.

Soyabean production, based on early harvest yields, is put by the Ministry of Agriculture at 51.3Mt, up from 40.1Mt last season. Some soyabean crops suffered stress from the drought at the beginning of the year, with rain coming too late for early planted crops in southern Santa Fe, Cordoba and northern Buenos Aires. In the first part of March there were also concerns about low temperatures affecting late-sown crops in Buenos Aires.

Overall, the Ministry reports that almost **80% of first crop soyabeans and 74% of the second crop are in good to excellent condition**, although harvest is expected to finish later than usual. Despite the larger crop, reports suggest that farmers could be reluctant

Figure 2 Balance sheet for soybeans, maize, wheat and barley in Argentina (Mt)

	Soybeans		Maize		Wheat		Barley	
	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13
Opening stocks	4.23	4.33	4.05	0.30	5.10	1.40	0.78	0.31
Production	40.10	51.30	21.20	25.70	14.50	9.00	4.08	5.05
Total supply	44.33	55.63	25.25	26.00	19.60	10.40	4.86	5.36
Dom. consumption	33.80	41.13	7.90	7.90	6.80	6.60	0.95	1.10
Exports	6.20	11.50	17.05	17.60	11.40	3.50	3.60	3.80
End stocks	4.33	3.00	0.30	0.50	1.40	0.30	0.31	0.46

Source: Argentine Ministry of Agriculture, March 2013 report

South American harvest progress

sellers this season with high inflation and economic uncertainty having an impact.

The Argentine wheat and barley harvests finished in Nov/Dec, and the Ministry has recently reduced its **wheat** production estimate to 9Mt, down 37.9% on last year. Consequently, exports will be lower, currently forecast at 3.5Mt although the government has plans to simplify the wheat exports system in order to encourage wheat plantings for next year. **Barley** production, on the other hand, continues to grow and is seen at a record 5.05Mt, up from 4.08Mt last season.

Brazil

Total area sown to the main crops in Brazil increased by 4.1% for 2012/13, and total crop production is forecast by the government agency, CONAB, up 10.5% compared to the previous year. Forecasts are for record maize and soyabean production.

Brazilian maize production is seen at 76.1Mt, up from 73.0Mt last year. A significant switch from maize to soyabeans was seen in the spring but a large increase in second crop maize plantings (sown after the soyabean harvest), from 7.6Mha to 8.3Mha, has offset the change. **More than half of the first maize crop has now been harvested with yields better than expected in many regions.** Second crop maize plantings are nearly complete with production currently forecast at 41.2Mt (39.1Mt 2011/12) despite sowings in Feb/March being hampered by heavy rainfall in the main producing state of Mato Grosso.

The area sown to **soyabeans** in Brazil for 2012/13 increased year-on-year by 10.4% to 27.6Mha. The largest increase was seen in the western central state of Mato Grosso. **Total production in Brazil is seen up 23.6% to 82.1Mt** due to the larger sown area and much better yields than the 2011/12 crop.

There has however, been a large variation in the growing conditions across the country. The north-eastern states of Piaui and Bahia have seen **potential yields reduced due to lack of rain**, as have some areas in south-east Parana. For the main central states however, where planting was somewhat delayed due to dry weather in September and October, yields have been favourable, though heavy rainfall disrupted the harvest of early maturing varieties in January and February. The rain is reported to have affected the quality of soyabeans in some areas.

Due to the slow start of the harvest (which was reported to be 50% complete by mid-March), the government reports that **soyabean exports for January and February totalled 0.96Mt, well down on the 2.13Mt** exported during January and February 2012. Total soyabean exports for 2012/13 are seen up over 4Mt on

2011/12, and the export season is expected to continue well into the second half of 2013 due to the late harvest. Logistical problems are also expected to affect Brazilian crop exports with port loading delays adding to movement costs, see [Prospects Vol 15 Issue 18](#) for more.

The majority of Brazil's **wheat** harvest was completed in November 2012. A greatly reduced sown area (down 12.5%) plus poor weather conditions in the states of Parana and Rio Grande do Sul led to **a harvest of only 4.3Mt, down from 5.8Mt in 2011/12.** With a domestic consumption requirement of 10.5Mt, and a production shortfall in neighbouring Argentina, the Brazilian government approved a measure on 5 January to allow up to 1Mt of non-Mercosur wheat to be imported exempt from the 10% import duty. This measure is due to be valid from April to July 2013.

Summary

Production of soyabeans and maize in South America is seen significantly higher in 2012/13, compared to the drought stricken 2011/12 crop. However, there have been harvest delays and weather-related problems in some of the main producing regions. Due to the late harvest, logistical problems in Brazil and economic uncertainty in Argentina, the export season is expected to extend into the latter months of 2013. This means that South American export sales are likely to coincide with the harvest of 2013/14 crops in the US.

Key Points

- Large increases in production of soyabeans and maize in South America
- Wheat production is significantly down in Argentina and Brazil
- Brazilian soya harvest is hampered by rains
- Argentine late-sown soya crops have been threatened by frosts in some areas
- Large exports forecast but hampered by logistical issues in Brazil and economic uncertainty in Argentina

Mixed fortunes for UK livestock sector

December Survey results gave a mixed picture for UK livestock numbers with sheep higher, pigs lower and cattle flat year-on-year. However, it is the detail behind the data that gives the best insight to future developments.

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Results from the 1 December survey, carried out by Defra and the devolved regional governments, show UK livestock numbers. Tracking changes in livestock numbers is a major factor in understanding demand for feed; this article covers the highlights from the survey with the data summarised in Figure 1.

Cattle

The total number of cattle and calves in the UK increased marginally on the year and reversed the trend of declining numbers at this time of the year since 2005. While the UK's dairy breeding herd was stable, the beef breeding herd continued to shrink, reflecting continued concerns over profitability. This decline over time has resulted in tighter cattle supplies, reduced slaughterings and lower domestic beef production.

The number of female cattle between 1 and 2 years of age was higher on the year. However, it is likely that the majority of these may be destined for slaughter (increasing beef supply) rather than retention for breeding. In addition, the number of male cattle recorded was higher, with a 2% increase in both males between 1 and 2 years of age and those less than one year old.

Pigs

UK pig numbers on the 1 December were just over 2% lower compared with the same period last year, this represents the smallest pig herd since the early 1950s, when the herd was still recovering following the Second World War. The latest numbers, released on Thursday, **reflect the impact of higher feed costs since last summer which have hit the profitability of pig producers** and led some to leave the industry or reduce the size of their herds. The majority of the decline was a result of a 3% reduction in the number of fattening pigs, which fell to 3.7 million head in the latest survey.

There was also a **2% contraction in the active female pig breeding herd**, although this is in comparison with a figure for December 2011, which was lower than expected. The latest figure represents a fall of 6% compared with the number for June 2012, mainly due to a sharp fall in lactating/dry sows. In contrast, **in-pig sows and gilts were both higher**. This may suggest that **producer optimism is returning**, reinforced by the number of maiden gilts increasing by almost a quarter.

Sheep

Overall the UK sheep flock as of 1 December rose by over 4% on year earlier levels. Female breeding sheep numbers rose by less than 1% but this was the third consecutive year of growth. The number of ewe

lambs put to the ram was considerably lower than year earlier levels due to poor weather conditions. This is also the reason for increased numbers of ewe lambs expected to be used for future breeding.

The considerable overall growth in the flock was driven by a near 12% rise in the number of 'other sheep and lambs'; the vast majority of animals in this category are lambs under the age of one year. In actual terms this rise equates to an extra 900,000 head in this category. This rise can again be largely attributed to the adverse weather meaning that lambs were not finished as quickly as might have been expected so fewer were slaughtered before December. Added to this was the fact that the 2012 lamb crop was larger than in 2011, so there were significantly more lambs left on farm as of December.

Concluding Comments

The main livestock species impacting cereal demand for feed are poultry, pigs and cattle. For the next season, pig numbers will be closely watched to assess whether the growing trend in in-pig sows and gilts can continue; this would be supportive to cereal demand. For the meantime, compound demand is being driven far more by poor weather and forage difficulties than livestock numbers, and this is likely to be an issue until spring conditions improve.

Figure 1 Livestock numbers on UK agricultural holdings, 1 December

000 head	2011	2012	% change
Total cattle and calves	9,675	9,726	+1
Breeding cows	3,442	3,432	-
<i>Dairy herd</i>	<i>1,800</i>	<i>1,802</i>	-
<i>Beef herd</i>	<i>1,642</i>	<i>1,629</i>	<i>-1</i>
Other female cattle	3,619	3,633	-
Male cattle	2,614	2,661	+2
Total pigs	4,326	4,221	-2
Breeding pigs	499	509	+2
Fattening pigs	3,827	3,711	-3
Total sheep	21,951	22,913	+4
Female breeding sheep	14,208	14,265	-
Other sheep and lambs	7,743	8,648	+12

Source: DEFRA, Scottish Government, Welsh Government, DARDNI