



MI Prospects



Changing trade patterns

Changes to the wider economic climate

have seen exchange rates shift, which in turn now seems to be **impacting trade patterns for grain**. One of the key features has been a relative weakening of the US dollar, which has helped make US wheat prices more attractive. These more competitive prices have attracted buyers over the last week, with Egypt, Brazil and China both recently purchasing US supplies.

Conversely, the change has reduced the attractiveness of European wheat to importers, which may help reduce future export levels and preserve stock levels within the bloc. Although, there are some traditional buyers mainly from North Africa, that are likely to still buy EU wheat.

Currency fluctuations also impact the level of support UK farmers receive via the **Single Farm Payment**. Monitoring exchange rates can highlight potential opportunities to manage the inherent risk associated with the conversion from Euros into Sterling.

Rice is the staple grain in many countries around the world but where consumption patterns change there are implications for the demand for other grains. Stock levels are forecast to remain relatively comfortable this season – reducing the potential impact on other grain markets. However, as **policies continue to significantly affect global rice markets** there remains a risk from changes to government intervention.

Within the UK, imports continue to be a **key feature** of both the wheat and oat markets this season. For oats, UK quality concerns combined with the availability of large good quality crops in Scandinavia has been the main driving factor behind import levels. Wheat imports have continued to accelerate in December with the monthly total being the highest in recent times. Wheat has also been sourced from a wider range of origins than in a more typical season.

Monitoring information on demand and trade levels in the coming months will provide increasing insight into likely carry-over stock levels and potential import requirements for next season. With so much uncertainty over winter crops in the UK, **attention now turns to what the spring has to offer in terms of planting opportunities**.

Helen Plant

Growers can visit mills and maltings as part of Meet the Processor 2013 in a bid to get a commercial and practical insight into what happens to grain beyond the weighbridge. Click [here](#) for more and to view highlights from previous events.

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UK Usage Data - Six Month Review

In the first half of the 2012/13 season UK millers utilised an increasing proportion of imported wheat as they continue to tackle poor UK wheat quality. For animal feed production, there is evidence of substitution away from wheat towards imported maize, barley and by-products.

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Through the first six months of the season, there has been a clear shift away from UK wheat towards other grains due to the smaller crop and quality issues. With this in mind, it has become increasingly important to closely follow changing demand patterns from end users of grain. Monitoring usage data and trade flows will help gain a fuller appreciation of the UK supply and demand situation for the various grains.

Millers

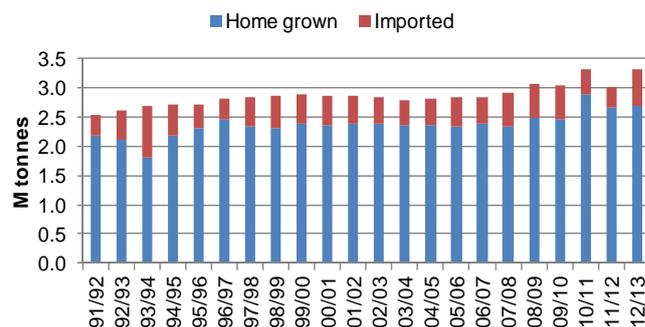
A total of **3.32Mt of wheat was milled** by flour, starch and ethanol producers from July to December 2012, a 9.8% increase year-on-year (Figure 1). December was the fourth consecutive month in which the milled tonnage exceeded record levels, as additional ethanol demand and poorer flour extraction rates supported wheat consumption. Stocks of wheat for milling purposes were 16% higher (330Kt) at end-December 2012 than 2011, reflecting higher usage and a need to store more imports.

Continuing the trend seen this season, the **proportion of home grown wheat used by millers declined further in December** to 73.5%, having started at 89% in July. Total imports for the season reached 1.34Mt by end-December, of which 625Kt has been used by UK millers. Most millers have now adjusted wheat buying strategies based on their experience of the 2012 UK crop, with the last of the major brands moving to higher levels of imported from January. Hence, the amount of imported grain used may settle at a more consistent level from January.

A large volume of the imported wheat has been sourced from Germany (418Kt) but the variety of origins is much wider than in a typical season with Poland, the Baltic States and Scandinavia all appearing in the data. The levels of Canadian and US wheat imported to end-December were at typical levels, although more US business may be done due to recent competitive prices.

'Other' flour production which includes starch and ethanol processors is the main area of growth due to an increase in operational plants. Some of this growth is mitigated by the use of a proportion of imported maize for ethanol production, although the precise figures cannot be published by Defra for confidentiality reasons.

Figure 1 Wheat usage by millers: Home grown and imported



Source: Defra

Brewers, Maltsters and Distillers

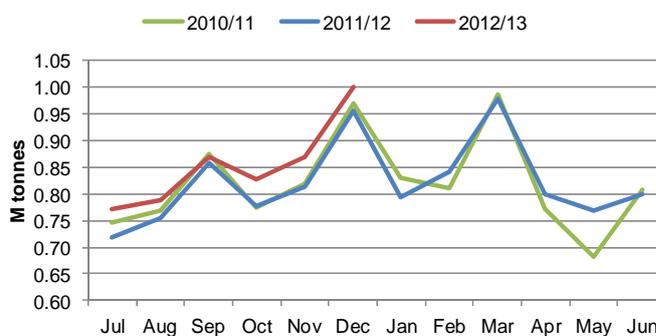
Brewers, maltsters and distillers (BMD) used 898Kt of barley and 318Kt of wheat in the season to the end of December. These figures are 2% and 6% higher than the same period in 2011/12 showing as the **distilling sector continues to drive gentle growth**.

Barley exports for the first six months of the season totalled 309Kt, 41% lower than last season, while imports were at a similar level of 89Kt. A year-on-year increase in the quantity of barley being used in animal feed is a limiting factor for export availability.

GB Animal Feed Compounders

In the first half of the season, total production of all **animal feedstuffs** by GB retail compounders was 5.12Mt, up 5% from July - December 2011 (Figure 2). Following the wet weather seen in summer/autumn 2012, cattle and sheep feed production has increased 7% and 20% respectively. Short grazing windows and poor forage quality/availability as well as low yielding grain crops means livestock farmers have required more bought in feed than during recent seasons. The weather for the rest of the season will determine whether the growth levels are maintained; if spring is more favourable then production could return to more normal levels.

Figure 2 GB Retail compound feed production (All feeding stuffs)



Source: Defra

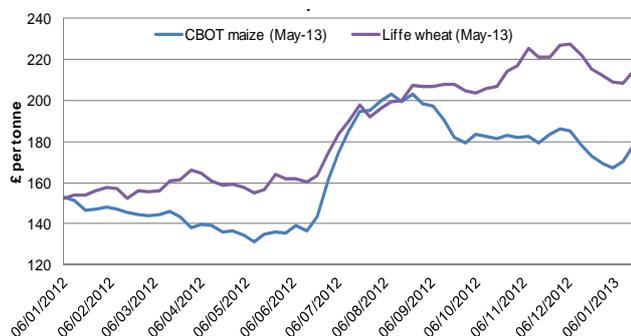
UK Usage Data - Six Month Review

Despite the general growth trend, consumption of wheat is up only 1% year-on-year at 1.50Mt, with year-on-year declines in November and December. **Barley usage is up 18%** on the year (405Kt), having been included at low rates in 2011, while **oats and maize usage are up 10%** (34.2Kt) and **80%** (93.9Kt) respectively. By-products, particularly wheat feed (a by-product of the milling sector), have also been produced and used in greater volumes (+13%) this year due to the crop quality issues.

Beyond nutritional limitations, price and availability are the main determinants of raw material inclusion in compound feed rations. The price drivers are most evident in maize this season with an increasing price differential between imported maize and UK wheat prices since the beginning of the season. Figure 3 shows the price relationship between UK feed wheat futures and Chicago maize futures prices illustrating the differential, which has increased approximately by £26.50/t over the season.

Maize imports for the July - December 2012 period are 63% higher at 760Kt, with large year-on-year increases from Ukraine and Poland. Price relationships will determine whether this trend continues through the rest of the season.

Figure 3 Price relationship between UK feed wheat futures and Chicago maize futures prices



Source: AHDB/HGCA

Integrated Poultry Units

Integrated Poultry Units (IPU's) **compound production is flat year-on-year** with slightly lower broiler and layer compound production offset by greater turkey and rearing bird consumption. Total grain consumption in the first six months of the season was 847Kt, of which 799Kt was wheat, 40Kt barley and 7Kt other grains.

Defra data shows **broiler and layer chick placings up 3% and 12% respectively** for July - December 2012 compared with the same period in 2011. However, parent broiler placings were 1% lower following significant year-on-year declines in November and December. Slaughtering of broilers during the July - December 2012 period were up 2% compared to 2011, and although small in market terms, turkey consumption is also seeing a revival with slaughtering up 10%.

Poultry rations include a fairly consistent level of grain so following placings is a good indicator of demand, however, producers are able to react relatively quickly to new drivers due to short production cycles so trends can change.

Closing comments

The first six months of the 2012/13 season have been characterised by millers struggling with UK wheat quality. While producers of animal feed are including more barley, maize and by-products in rations, mirroring price competitiveness. December data has confirmed the continued growth in wheat imports into the UK, but it is possible that many end-users have now established their requirements for the year and usage patterns may start to find a more consistent level in the second half of the season. The use of imported maize in a number of sectors has scope to limit consumption of wheat to some extent, although this is building from low levels. **The biggest determinant of future patterns is likely to be the weather during the spring** both in the UK and abroad. Favourable weather not only has scope to alter consumption by livestock but can also change global price relationships.

The next estimates of UK cereal supply and demand will be published on the 27 March.

Key Points

- Millers have used 75% more imported wheat year-on-year
- Following price incentives a certain proportion of wheat is being substituted by other grains in various supply chains
- The incorporation of maize into animal feed is at the highest level since 1992/93

Oat Market Update

UK 2012 oat crop was confirmed at 627Kt, 2% larger than in 2011 but lower than provisional estimates. Imports are a key feature of the UK oat market this season, reflecting both domestic quality and good availability from major exporters Finland and Sweden.

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UK

The **UK 2012 oat crop was confirmed at 627Kt** by Defra in December, 35Kt smaller than the provisional figure due to lower than estimated yields. The average yield for 2012 was 5.1t/ha, down 9% from the average of 5.6t/ha in 2011, although much larger falls were seen for the Scotland, South West England and the North of England. The difficult growing season also adversely affected specific weights. However, the crop is still 14Kt larger than that harvested in 2011 – mainly due to a 12% expansion to the planted area to 122Kha.

Figure 1 UK oat supply and demand

000 tonnes	2010/11	2011/12	2012/13
Opening Stocks	94	65	63
Production	685	613	627
Imports	18	57	65
Total Availability	797	735	755
Human & Industrial Usage	456	474	480
Animal Feed	202	164	176
Seed & other	20	18	20
Total Domestic Usage	678	656	676
Exports	54	16	12
Commercial Closing Stocks	65	63	67

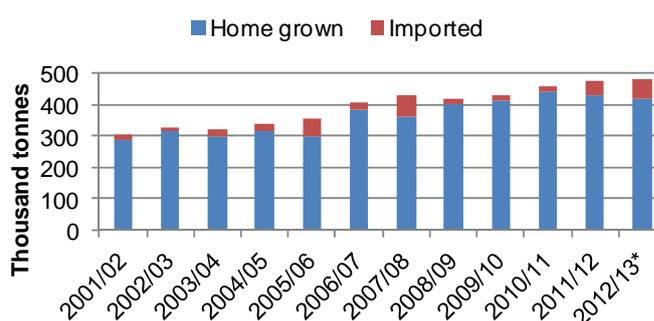
Source: Defra

Demand from the UK oat milling industry **remains firm** (figure 1) with continued demand for oat products and lower flour extraction rates for millers. In the first six months of the season, the industry milled 235Kt of oats, slightly higher (+0.3%) than the same period in 2011/12. For the season as a whole, Defra currently forecasts that human and industrial usage of oats will reach 480Kt – an increase of 1% on last season. Usage in the first six months equates to just under half (49%) of this total.

However, **imports are playing a greater role this year** due to domestic quality concerns and the availability of high quality oats from some of the major exporting nations (see below).

Forecasts made in late January by Defra, suggest that imported grain will account for 13% of oats used for human and industrial purposes (mainly the oat milling industry) – figure 2. If realised, this will be the highest proportion since 2007/08 when 15% of oats used for these purposes were imported and a total of 66Kt were imported.

Figure 2 UK oat millers total season usage



* forecast made January 2013

Source: Defra

Animal feed usage of oats is also forecast to increase from last year's low level with some larger volumes being used in compound rations (see page 2 and 3 for more).

In the season to date (July- December) a total 34.5Kt of oats were imported, compared with 27.8Kt in the same period last season. The main origins for oats were the major oat exporting countries Finland (18.3Kt) and Sweden (5.1Kt) but there have also been more unusual imports from Estonia (6.9Kt). Imports to date equate to 53% of the season forecast.

Exports have been limited by the domestic situation with just 5.97Kt exported so far, down on the 10.7Kt last season (July – December) and equates to half of the total season forecast.

Overall, the **UK oat market remains tightly supplied for a third consecutive season** with end of season stock levels forecast only slightly above last year's level at 67Kt.

EU-27

The International Grains Council (IGC) forecast the EU -27 crop at 7.76Mt, down 1% on 2011/12 (Figure 3). However, from a UK perspective there are some countries within the bloc which are more important to monitor than others. These include the major oat exporters Finland and Sweden, and Germany, which has one of Europe's largest oat milling industries so competes for supplies.

Figure 3 Oat Production in selected EU-27 countries

M tonnes	2009	2010	2011	2012
Germany	0.83	0.60	0.63	0.76
Finland	1.11	0.81	1.04	1.07
Sweden	0.74	0.56	0.69	0.74
EU-27	8.41	7.37	7.81	7.76

Source: Agricultural Ministries, IGC

Finland

The final estimates from the Finnish Agriculture Ministry show the 2012 oat crop at 1.07Mt; an **increase of 3% from last year's harvest**. However, this estimate is lower than provisional estimates as the late harvest meant that some fields could not be harvested before the onset of winter. The Agriculture Ministry reports that it was not possible to harvest almost 6% of the oat (planted) area.

However, despite conditions being wetter and cooler than average, **quality is good** with just 2% of the crop estimated to have a specific weight below 52kg/hl (10% last year). Further, 63% of the Finnish oat crop is estimated to have a specific weight of 58kg/hl or above, compared with 22% last year and 25% on average over the last 5 years.

Forecasts by the Finnish Cereal Committee (VYR) made in November showed similar export levels to last season but lower domestic animal feed usage, potentially enabling an increase in stock levels.

Sweden

The Swedish oat crop was downgraded to 745Kt in the final estimates (Ministry of Agriculture), from the provisional November estimate of 758Kt. The reduction reflects a difficult autumn with 'large' areas left unharvested before the onset of winter in northern parts of the country, where oats are widely grown. Yields were also impacted, with the 2012 average of 3.82t/ha below the 2011 average (3.94t/ha). However, the crop is **still nearly 8% larger than the 2011 harvest** due to a larger planted area, giving improved export potential.

Germany

The German oat crop is confirmed at 0.76Mt by official statistics, above provisional estimates and 21% larger than in 2011 (0.63Mt). Although a larger area was harvested (up 3Kha), the majority of the increase came from higher yields; the 2012 average of 5.20t/ha is considerably up from 2011 levels (4.38t/ha) and the highest since 2004.

Outlook

There is a considerable amount of uncertainty over the oat area for harvest 2013. The first insight into planted areas will be provided by the AHDB winter plantings survey due to be released in early March, which will show the area planted by 1 December.

In the rest of Europe, oats are primarily a spring sown crop so there is little information yet available. In Finland and Sweden, difficult autumn planting conditions have reduced the area planted to winter cereals so there is likely to be a small increase in the land available for spring cropping.

In Germany, favourable autumn planting conditions has meant the winter cereals and oilseed rape area is similar to that for harvest 2012. However, in 2012 higher winter kill levels led to many fields being re-sown with spring crops. So far winter conditions have been generally favourable, which could potentially reduce the area available for spring planting.

Concluding comments

The UK oat market remains tightly supplied for a third consecutive season with little recovery in stock levels expected. Imports are much larger feature than in recent seasons altering the supply and demand balance. The requirements and buying patterns of end users, relative to import levels are the main factors shaping supply and demand in the second half of the season.

Looking forward, little is yet known about the situation for harvest 2013. However, with tight stock levels, repercussions of 2012-2013 are likely to be felt next season. With so much uncertainty over winter crop areas, attention is now turning to what spring has to offer in terms of planting opportunities - weather permitting.

Key Points

- UK oat crop confirmed at 627Kt – up 2% from 2011
- Imports a key feature this season – forecast to account for 16% of milling usage
- Larger crops and potential export availability from key exporters, Finland and Sweden

Rice Market Update

Global rice production is forecast at a record 465.8Mt in 2012/13 but falls just short of global consumption requirements. While there will be some drawdown in stocks, these are still seen to be relatively high at around 22% of usage by the end of 2012/13.

Sarah Nightingale, External Contributor

Production

Global rice production is forecast at a record 465.8Mt in 2012/13; figure 1 shows the main rice producing countries in the world. **China** is the largest producer, forecast by USDA to harvest 143.0Mt in 2012/13. Rice production in China has increased each year over the last eight years from 125.4Mt in 2004/05 to meet the growth in domestic consumption in the country. The increase in China's production in 2012/13 is offset by a decline in production in **India**, where a late monsoon adversely affected the sowing of the main "*khari*" (summer) crop. While the late rains replenished water reserves and allowed expansion of the "*rabi*" (winter) crop, total production, at 99.0Mt, is 5.3Mt down on the previous season.

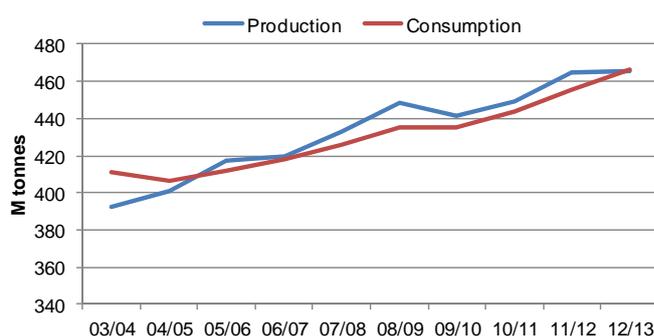
Figure 1 World rice production - milled basis

M tonnes	2010/11	2011/12	2012/13
China	137.0	140.7	143.0
India	96.0	104.3	99.0
Indonesia	35.5	36.5	36.9
Bangladesh	31.7	33.7	34.0
Vietnam	26.4	27.1	27.7
Thailand	20.3	20.5	20.5
Philippines	10.5	10.7	11.0
Burma	10.5	10.8	10.8
Brazil	9.3	7.9	8.2
Japan	7.7	7.6	7.8
Pakistan	5.0	6.5	6.8
USA	7.6	5.9	6.4
Egypt	3.1	4.3	4.7
Cambodia	4.2	4.3	4.2
South Korea	4.3	4.2	4.0
Nepal	2.7	3.0	3.0
Others	37.3	37.1	38.0
World Total	449.1	465.0	465.8

Source: USDA

Indonesia is expected to increase rice production in 2012/13 due to government targets to increase self-sufficiency in rice. Production for 2012/13 is estimated at 36.9Mt, up from 36.5Mt last season. **Vietnam** is also seen to increase its production from 27.1Mt in 2011/12 to 27.7Mt this season due to a record sown area. While production increases are seen for **Philippines, Brazil, Pakistan, USA** and **Egypt**, both **Burma** and **South Korea** are forecast with slightly lower production levels than in 2011/12.

Figure 2 Global rice production and consumption



Source: USDA

Consumption

Global consumption is put at a record 466.3Mt and as Figure 2 shows, this is the first season since 2004/05 that global consumption is forecast to exceed production. Figure 3 shows the main rice consuming countries in the world.

China and **India** are the largest consuming countries by far, and despite the increase in production, China's forecast consumption requirements still exceed production by 1Mt. India on the other hand has produced rice surpluses since 2003/04, and has become an important exporter in recent seasons. Growth in demand in both India and China is a function of population growth, as per capita food usage of milled rice remained fairly static in both countries between 2004 and 2009.

Figure 3 World rice consumption - milled basis

M tonnes	2010/11	2011/12	2012/13
China	135.0	139.6	144.0
India	90.2	92.3	94.6
Indonesia	39.0	39.6	40.0
Bangladesh	32.4	34.3	34.5
Vietnam	19.4	19.7	20.1
Philippines	12.9	12.9	13.0
Thailand	10.3	10.4	10.6
Burma	10.1	10.2	10.4
Japan	8.2	8.1	8.3
Brazil	8.2	8.1	8.0
Nigeria	5.0	5.2	6.0
South Korea	5.2	5.0	4.8
USA	4.3	3.5	4.0
Egypt	3.3	3.6	3.9
Cambodia	3.4	3.5	3.5
EU	3.3	3.3	3.4
Others	53.4	56.0	57.4
World Total	443.6	455.1	466.3

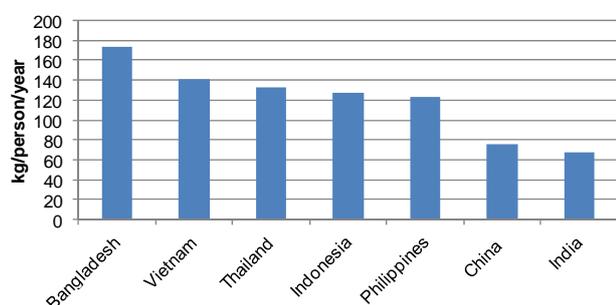
Source: USDA

Rice Market Update

Nigeria is also seen to increase rice consumption by 14% to 6.0Mt in 2012/13. The government has announced various initiatives to try to increase domestic production of rice, as imports currently account for 45% of consumption requirements. It has introduced incentives to farmers to grow rice and imposed levies on imports of milled and polished rice, with the aim of becoming self-sufficient in rice by 2015.

Figure 4 shows per capita supply of milled rice in the main consuming countries. Bangladesh has the highest per capita usage, and in general per capita food consumption of rice is inversely correlated with economic development.

Figure 4 Per capita food supply of milled rice, 2009 (kg per year)



Source: FAO

Trade

World trade in rice in 2012/13 is forecast at 37.1Mt, down from the record 39.0Mt in 2011/12 due to lower demand in Indonesia, China and West Africa.

Nigeria is the largest rice importing country and imports are forecast by USDA at 2.7Mt in 2012/13, down from 3.4Mt in 2011/12 mainly due to a new government policy to restrict rice imports. **China** imported more rice than expected in 2011/12 due to high domestic prices and competitively priced supplies from Vietnam and Pakistan. In 2012/13 Chinese imports are seen lower at 2.2Mt (from 2.6Mt in 2011/12). However, domestic stock levels and thus potential import demand, remains unclear. The latest USDA report argues that domestic prices remain high within China, encouraging imports and reducing the prospects for exports this season.

While rice imports are seen up for 2012/13 in the **EU** at 1.4Mt (1.2Mt last season), this is more than offset by a reduction in imports by **Indonesia** (down 250,000 tonnes to 1.45Mt), **Nigeria**, **Cote d'Ivoire** (down 300,000 tonnes to 1.15Mt) and **Senegal** (down 200,000 tonnes to 1.0Mt).

Thailand is currently forecast by USDA to recover its position as the top exporter, with exports seen rising from 6.9Mt in 2011/12 to 8.0Mt in 2012/13. The actual quantity will very much depend on government policy. The Thai government has been stockpiling rice since

October 2011 when it set up its Paddy Pledging Programme buying paddy rice at prices well above world market levels. As a result of this, both **India** and **Vietnam** increased their exports to record levels (10.3Mt and 7.7Mt respectively) in 2011/12 taking advantage of firm import demand from China and West Africa. Assuming the Thai government releases some stocks for export, the USDA forecasts Thai rice exports to rise in 2012/13, with India exporting 7.5Mt and Vietnam exporting 7.4Mt. **Pakistan's** rice exports have also been increasing in recent years, and are forecast at 3.8Mt in 2012/13 (3.5Mt), while **USA** is the fifth largest exporter, currently forecast at 3.5Mt (3.3Mt).

Stocks

Based on the current forecasts for supply and demand, there is expected to be some **draw down in global stock levels**. The USDA currently forecast global stock levels at the end of the 2012-2013 season at 101.9Mt, down from 105.5Mt at the end of the 2011-2012 season. However, this is still a relatively high level at around 22% of annual usage (23% last season).

Outlook

The quantity of rice produced and traded worldwide is very dependent on government policies, as witnessed in 2011-2012 when Thai government support prices led to the build up of domestic stocks and a significant reduction in exports. India, which had stockpiled rice in previous seasons, was able to export significant quantities as a result.

Production increases in Southeast Asia are likely to be lower in the next decade than in the previous one, according to a recent USDA report. This is mainly due to budgetary constraints and a consumer preference for lower-yielding varieties. However, a slowdown in consumption growth is also forecast, due to changing dietary patterns and a reduction in the rate of population growth in the region. As a result net-exports from the Southeast Asia region are forecast to increase from an average of 11.2Mt in 2009-2011 to 14.5Mt in 2019-2021. Government policies with regard to stock levels and trade will continue to affect the availability of rice, and its market price, from year to year.

Key Points

- Global rice production in 2012/13 is a record 465.8Mt
- Consumption is put at a record 466.3Mt
- World trade is seen down 1.9Mt due to lower demand in Indonesia, China and West Africa
- World stocks of rice are put at 22% of usage
- Government policies continue to significantly affect the global rice markets

Currency Fluctuations and the Single Farm Payment

Changes to the Pound / Euro exchange rate represents a risk to the size of Single Farm Payment UK farmers receive. Over recent weeks the Pound has weakened against the Euro to levels not seen since late 2011.

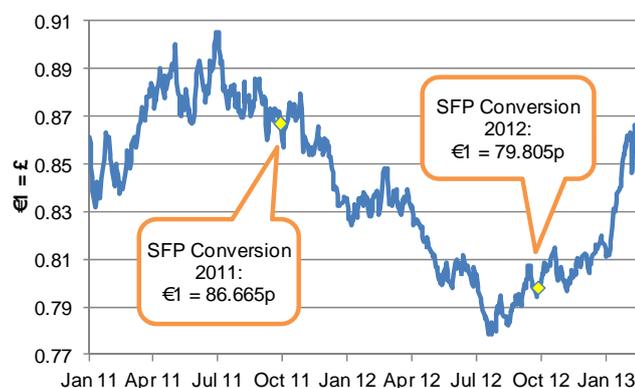
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In recent years the level of **Single Farm Payment (SFP)** UK farmers will have received has been impacted by the volatile Pound / Euro exchange rate.

Currency fluctuations

Figure 1 shows how the exchange rate has fluctuated since January 2011. A key reason for changes to the relationship in the past two years has been the **Eurozone debt crisis**. Between April and July 2012 the Euro weakened against the Pound because of uncertainty about the financial stability of several EU nations, such as Greece and Spain.

Figure 1 Euro Sterling Exchange Rate



Source: European Central Bank

In recent weeks, the **Pound has weakened against the Euro** to levels not seen since late 2011. Although the problems in the Eurozone have not been completely solved, the flow of negative news has reduced. At the same time the outlook for the UK has become less positive. Domestic borrowing levels remain high and there has been heightened questioning of the government's austerity measures.

The last time the Pound weakened against the Euro was in the first half of 2011. This was when the announcement of rescue packages for Greece and Spain saw the Euro rise to €1 = 90.23p at the end of June. However, since July 2011 the predominant trend had been for the Euro to strengthen against the Pound.

Impact on Single Farm Payments

Regardless of how much the exchange rate fluctuates throughout the year, the exchange rate used to calculate SFP is taken from the last working day in September every year. This means that the level of SFP will depend on the exchange rate at that time and thus **currency changes represent a risk to the level of SFP farmers receive**.

During 2012, the value of the Pound against the Euro fluctuated by nearly 7p per €1 with an annual high of 84.82p per €1 set in February and an annual low of 77.84p per €1 set in July.

There was also nearly a 7p per Euro variation between the rate used to convert the SFP in 2011 compared with 2012.

Figure 2 Value in pounds of Single Farm payment to 100ha farm in England

	Exchange rate €1 =	Converted payment (per hectare)
2011 Conversion	86.67p	£28,072
2012 Conversion	79.81p	£25,850
Difference	+6.86p	£2,222
2012 Annual low	77.84p	£27,472
2012 Annual high	84.82p	£25,213
Difference	+6.98p	£2,259

Figures calculated on SFP of €323.91 per hectare, for a non-SDA area

Source: Rural Payments Agency

A variation of 7p per Euro might not sound like a large sum at face value, but its impact can be significant when multiplied up to reveal its **cost to a farmer's business**. Figure 2 shows that a 100 hectare farm in England would have received a SFP approximately £2,200 lower in 2012 than 2011 due to the less favourable exchange rate.

Concluding Comments

Whether the current changes in exchange rates are a short term market reaction or a longer term adjustment is difficult to say. Farmers who wish to mitigate the risk of a lower SFP from currency may view the current weakening of the Pound as an opportunity to hedge their 2013 SFP.