



MI Prospects



Analyst's Insight: Watch for volatility as price focus shifts forward

It's the time of year when the focus of markets very much starts to shift to the new crop. This is driven by increasing availability of information in relation to it (and less about the old crop) but is also reflected in the operation of the futures markets.

Over the last few months, the key contract month monitored across many of the major grain and oilseed futures markets has been May-15. This has been the most traded 'old crop' contract month in most of these markets, as has been the case in recent years, providing a key indicator for old crop prices. However, the May-15 futures contracts will also soon reach their conclusion.

The expiry dates for May-15 futures are:

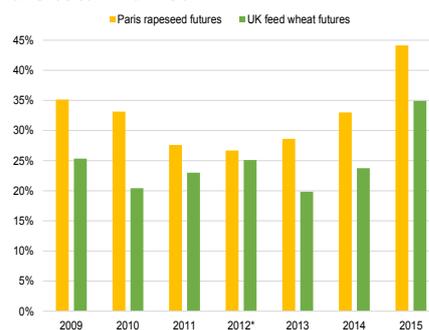
- UK feed wheat futures on 22 May
- Paris milling wheat No. 2 futures on 11 May
- Paris rapeseed futures on 30 April
- Chicago wheat (SRW) futures on 14 May

For these markets, apart from the UK feed wheat futures market, **all other contract months (after May-15 expires) then relate to the 2015 marketing year or beyond.** For UK feed wheat futures, there is one more 'old crop' futures month, July-15, although the volumes traded on July are typically limited. For Chicago soyabean and maize futures, due to the later timing of the US harvests, the last old crop futures months are the August and September contracts respectively.

The switch to new crop focused futures markets commonly gives rise to increased uncertainty for the

pricing of old crop grain and rapeseed, as there's no longer a comparable futures benchmark. However, this season the expiry of May-15 futures could also add to the volatility in the market. Currently, greater than usual quantities of contracts remain open on both the Paris rapeseed and UK feed wheat May-15 futures contracts (Figure 1).

Figure 1 Open contracts on May-15 futures as at 8 April, as a proportion of the total market.



*as at 10/04/2012 (due to timing of Easter)

Source: AHDB

Market participants who are still holding old crop futures contracts will need to either choose to deliver physical grain/oilseeds against the contract or close those positions before the expiry date. Should participants chose to close their positions, the higher than normal levels of open contracts **may increase the volatility in Paris rapeseed and UK feed wheat futures May-15 prices as the contracts' expiry date approaches.**

Helen Plant

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UK crops following the norm so far

Autumn 2014 drilling conditions were very good, with most winter cereals and oilseeds drilled within the optimum window. Spring plantings have also got off to a good start, with progress currently ahead of last year's pace.

Still questions on the future of Paris wheat futures

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UK crops following the norm so far

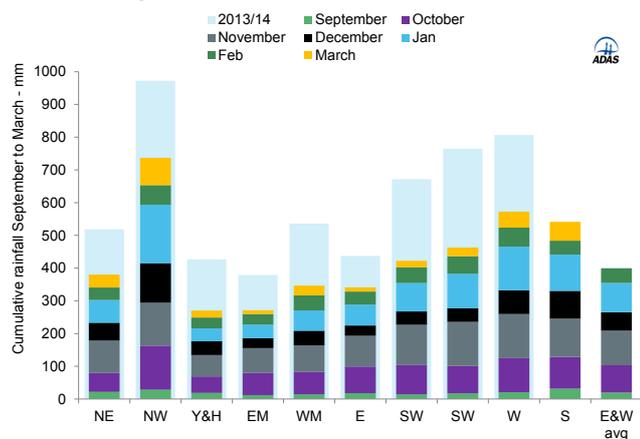
Autumn 2014 drilling conditions were very good, with most winter cereals and oilseeds drilled within the optimum window. Spring plantings have also got off to a good start, with progress currently ahead of last year's pace.

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Weather

Winter 2014/15 had near normal rainfall, with drier conditions across the eastern side of the country compared to the west (Figure 1).

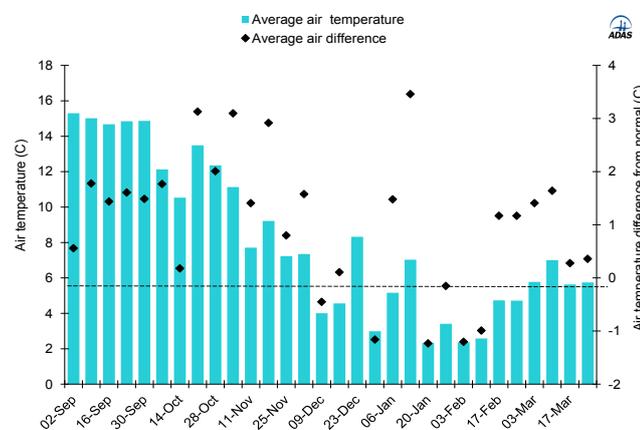
Figure 1 Cumulative regional rainfall from September - March, comparison of 2014/15 with 2013/14*



* 2013/14 - pale blue NB - no Scottish data was collected in 2013/14

This is in sharp contrast to winter 2013/14 when there were extremely wet conditions from January to March, and a total of 30% more rain during the September-March period in most regions. Most soils reached field capacity during winter 2014/15, with some localised water logging and saturated soils, but **a relatively dry and mild March allowed most soils to dry out for spring cultivations.**

Figure 2 Average air temperature from drilling through to February 2015 and difference from normal



Air temperatures over winter were around normal. The autumn was relatively mild with air temperatures in the September to December period typically 2-3 degrees warmer than normal (Figure 2).

However, the period from mid-December through until mid-February tended to be cooler than normal (one degree below normal), with the exception of a brief mild spell in early January. Temperatures in early March were relatively mild, being near to or slightly above normal for the time of year. March days were characterised by some good periods of sunshine resulting in some high day time temperatures, but under clear skies there were a number of overnight frosts.

Crop Areas

Dry conditions in the autumn allowed farmers to complete most autumn drilling within the optimum window, with few changes to plans. The AHDB/HGCA winter planting survey suggested a decline in winter cropping, which may result in a higher emphasis on spring plantings this year ([read more here](#)). A number of factors may be behind this change including; the changing CAP requirements e.g. diversification (three crop rule) and Ecological Focus Area (EFA) requirements; the changes in crop economics; and moves to tackle black-grass in the rotation through increased use of spring cropping. Current indications are that the spring barley area will be similar to 2014 although there are some regional variations.

Winter cropping

At the end of March, winter wheat and barley were typically tillering, with the most forward crops starting stem elongation (GS 30-31). Oilseed rape was typically at GS 3,1-3,2 (early stem extension) which is in line with most normal years, while the most forward crops were at green bud (GS 3,3).

The key issues this season were black-grass control, early development of yellow rust in cereals and the impacts of neonicotinoid withdrawal.

Black-grass control

Black-grass is an increasingly challenging weed to control, with resistance widespread throughout the population. An estimated 40-50% of arable fields are affected by black-grass, with heavier clay soils in the south and east of England tending to be worse affected, although the weed is an increasing problem elsewhere too. The lack of new chemistry and widespread resistance to existing herbicides is leading farmers to use an increasing number of cultural control options to manage black-grass including changing cultivation practices, stale seedbeds, delayed drilling and move to spring cropping or fallow.

Seed return from black-grass infestations in 2014 was fairly high, with the seed having moderate dormancy (resulting in a variable germination period). However, the autumn conditions provided a good opportunity for integrating herbicide use with cultural control methods such as ploughing, stale seedbeds and delayed drilling.

UK crops following the norm so far

In all but the early September drilled cereals, there was adequate soil moisture to maximise the efficacy of pre-emergence herbicides. Post-emergence herbicides on cereals and oilseed rape were mainly applied during October to December when black-grass plants were small, aiding efficacy. **Overall the level of black-grass present appears to have been less than in previous years, however there are still fields with high burdens that may cause some yield impacts.**

Early disease in winter wheat

Disease pressure is currently moderate in wheat crops. Yellow and brown rust appeared early in susceptible wheat varieties, but the recent cold nights have slowed development. There is **septoria present on older leaves in most crops, and this will provide a source of infection if there is wet weather during stem extension.** Given the current levels of disease it is expected that standard fungicide programmes should give good levels of control, provided there are no delays to applications due to weather or soil conditions. Crops are being monitored for early disease development, which may trigger a need for earlier fungicide applications.

Neonicotinoid withdrawal

The lack of neonicotinoid seed treatment available for use in winter oilseed rape caused a lot of concern. The two main pests that neonicotinoids target in oilseed rape are Cabbage Stem Flea Beetle (CSFB) and the peach potato aphid, the vector of Turnip Yellows Virus (TuYV).

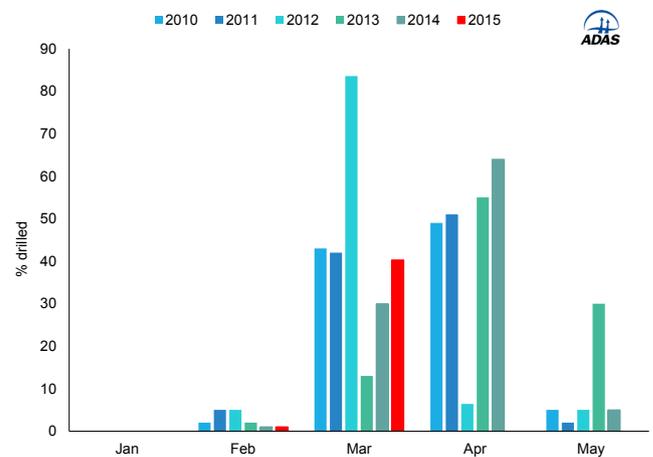
An [HGCA survey in autumn 2014](#) estimated that **3% of the winter oilseed rape crop was badly affected by adult CSFB grazing**, with more damage in the eastern regions, along with a reported increase in the area treated with foliar insecticides. The worst affected crops tended to be drilled into poor seedbeds that resulted in slow germination. A number of crops were lost, but **viability of winter oilseed rape crops in autumn 2014 was no worse than it has been in previous years**, where typically 3-5% of the crop area is re-drilled for a range of reasons (poor establishment, pigeon grazing, slug damage etc). CSFB larvae are now being found in crops with some high numbers in hotspots typically in the east of the country and could result in localised yield losses.

There may also be an impact from the transmission of TuYV by peach potato aphids. These aphids are resistant to a number of foliar insecticides and require repeat treatments for season long control, so there may be increased virus levels which will be seen in the next few months. However, further research is needed to understand the impacts.

Spring cropping

Relatively dry conditions in late February and throughout much of March, especially in southern and eastern England, allowed soils to dry out sufficiently for spring drilling to begin. Small areas of spring barley were drilled on the lightest land during February. During early March, drilling of light land got properly underway, with drilling starting on the medium and heavy soils as the month progressed. There were odd showers that caused localised disruptions, but overall progress was good, with an **estimated 40% of the spring barley (80% of English area), 50% of spring wheat and 50% of spring oats drilled by the end of March**, along with a start to spring oilseed rape and peas. Although soils are drying out, there is still sufficient moisture for good germination with the earliest drilled crops starting to emerge.

Figure 3 Spring drilling progress



Key Points

- The majority of winter crops are in good condition with crop development around normal
- Black-grass resistance in some areas and loss of neonicotinoids in CSFB hotspots are reported as problems
- Almost half of UK spring barley drilled by end of March with many parts of England nearing completion

Still questions on the future of Paris wheat futures

Recent changes to Paris milling wheat futures, including the launch of the Paris Premium milling wheat No. 3 market, give greater clarity as to what the markets represent. However, longer term there is still uncertainty as to which market to monitor.

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7 April 2015

Questions raised over Paris wheat futures

The wet summer and harvest of 2014 had a severe impact on wheat quality in France ([read more here](#)), which consequently raised questions as to what the Paris wheat futures (No. 2) market represented. Although commonly referred to as a milling wheat contract, the quality criteria in the specification arguably did not reflect this - shown in Figure 1 (contracts up to May 2017).

Figure 1 Quality specifications for Paris milling wheat futures

	Milling wheat No. 2 futures		Premium milling wheat No. 3 futures
	Contracts up to and including May 2017	Sept 2017 contracts onwards	
Protein content	n/a	min. 11% dry matter	min. 11% dry matter
Hagberg Falling Number	n/a	min. 220 seconds	min. 220 seconds
Specific Weight	76 kg/hl	min. 76 kg/hl	min. 76 kg/hl
Moisture content	15%	15%	15%
Broken grains	4%	4%	4%
Sprouted grains	2%	2%	2%
Impurities	2%	2%	2%

Source: Euronext

Addressing the issue

In response, criteria on protein content and Hagberg levels were added to the Paris milling wheat (No. 2) futures. However, the new rules only apply for the September 2017 contract (launched on 11/11/2014) and subsequent contract months. They could not be added to existing contract months as these had already traded based on the previous specification.

To answer questions about what happens in the meantime, a new milling wheat futures market was launched on 2 March; the first contract month for the market is September 2015. The Paris premium milling wheat (No. 3) futures uses the same specification as the No.2 contract for September 2017 onwards, with one difference, two additional delivery points at Nantes and Bordeaux.

So what does this mean?

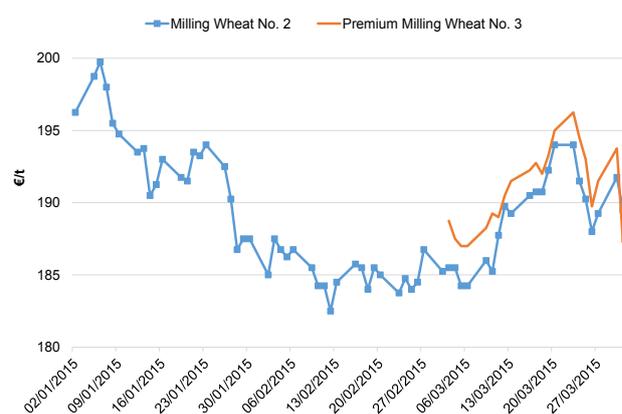
In the longer term, these changes add certainty i.e. for harvest 2017 onwards it is clear what the Paris milling wheat No. 2 futures represent. However, they also add uncertainty, particularly in the shorter term.

Will it be important to monitor one (and if so, which) or both markets? With the No.3 market only a month old, the answer will likely depend on two things:

- **Will the No. 3 futures reach 'critical mass'?** Once a futures market grows, it attracts more participants to use it – "I'll go if you do". However, there is a relatively high failure rate for new markets as they often never reach a sufficient size. To support the No. 3 market, users of the No.2 market were offered the option to move open contracts. However, as at 31 March, the No.3 wheat futures market was still very small with just 225 open contracts. In comparison, the UK feed wheat futures had nearly 11,000 open contracts and the Paris No.2 wheat futures had over 258,000.
- **Will French wheat quality return to 'normal' in 2015?** Prior to harvest 2014, no criteria on milling quality were in place and the No. 2 futures were assumed to represent 'typical' French wheat (11% protein, 220 Hagberg and 76kg/hl). Arguably, if the major quality issues are not repeated in 2015 or 2016, then market participants may again be happy to return to these assumptions.

So far, the No. 3 contracts have generally traded at a premium to equivalent No.2 contracts (Figure 2). This echoes the firmer quality specifications of the No. 3 contract, up to May-17. If further quality issues are seen and the price differential increases between the markets, it could increase the chances of the No. 3 contract reaching a sufficient size.

Figure 2 Paris milling wheat futures for Dec-15



Source: AHDB/HGCA

Concluding comments

Longer term, Euronext (the operator of the markets) have indicated they will be unlikely to operate two Paris milling wheat markets with almost identical specifications. This points to one of the markets being discontinued – the question is which? The slow start is not supportive of the new (No. 3) market reaching 'critical mass', but there is still time for this to change. **If the new market does not grow sufficiently, it will likely remain only important to monitor the original (No. 2) market – as is the case currently.**

What could US planting intentions mean for production?

The latest USDA Prospective Plantings report suggests another record US soyabean area, but record level yields would be needed to match last season's production. US maize planted area is expected to decline for the third year running.

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Introduction

The USDA Prospective Plantings report is released annually at the end of March and is one of the first indicators of the US planted area for the coming harvest. As a result, the survey data release has been eagerly awaited.

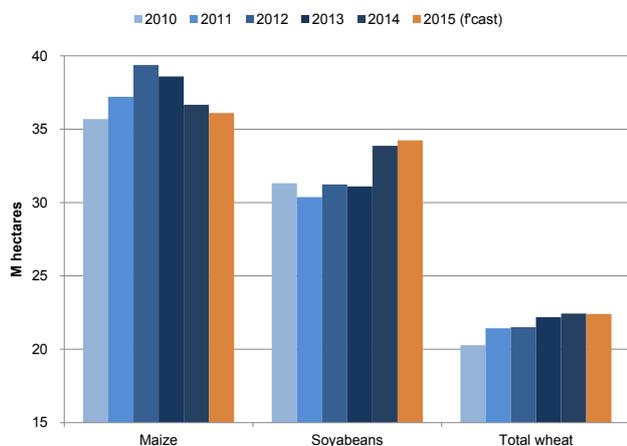
With this in mind, the following analysis looks at just how useful this report has been in the past by comparing the estimates published in the report with the actual planted areas for a given season. It also makes a first assessment of the 2015 survey results and what they may mean for production.

For the 2015 Prospective Plantings report, the USDA surveyed around 84,000 farmers from across the US between 27 February and 18 March.

US planting intentions

US farmers intend to plant 36.1Mha of maize for harvest 2015 (Figure 1). If the reported area is realised, plantings will be down by 2% on the previous year (2014), a third consecutive annual decline and 8% lower than the peak seen in 2012. The maize area is generally expected to be lower as a result of increasing growing costs and weaker prices. In a Reuters' poll, conducted before the report was released, the average estimate for the area sown to maize was 35.9Mha - only 0.2Mha below the figure published in the USDA's Prospective Plantings report.

Figure 1 US Planting Area by Crop



Source: USDA

According to the USDA report, US soyabean planted area for 2015 is estimated at 34.2Mha. If realised, this would be a new record and 1% higher than last year.

An increased planted area may come as a surprise given the high US soyabean stock levels ([read more here](#)) and

the recent pressure on prices. However, the published soyabean area in the USDA report was still 0.6Mha below the average area a range of analysts were expecting in a pre-report Reuters' poll.

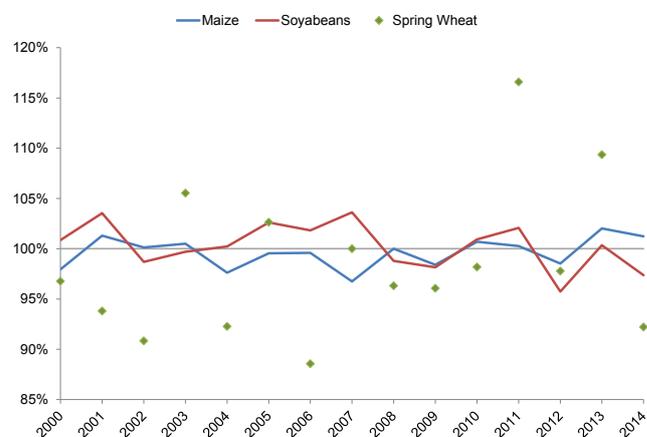
Total US wheat area is estimated at 22.3Mha, down 0.1% on last year. Of this area, 4.9Mha of spring wheat (excluding durum) is expected, compared with the 5.3Mha planted last year.

How reliable are the USDA's Prospective Planting estimates?

The majority of survey data is collected in early March, while the bulk of planting is carried out in April. This gives a considerable period in which changes in market and weather conditions may influence growers' final decisions. It is, therefore, worth looking at just how accurate a gauge the planting intentions survey actually is.

When intended areas are taken as a percentage of the actual areas planted (Figure 2), it becomes apparent **how close the planting intentions are to reality.** Soyabean and maize areas show a similar level of accuracy with spring wheat displaying much more variation in percentage terms.

Figure 2 US planting intentions survey results as a percentage of actual plantings



Source: USDA

The intended 2014 area was 1.2% higher than the final planted area for maize and 2.6% below for soyabeans, which equates to differences of just 0.45Mha and 0.89Mha respectively. Furthermore, **10 year averages show the difference between the intended area and planted area to be 1.2% for maize and 2.1% for soyabeans.**

The 10 year average difference of 1.2% for maize equates to an area of 0.43Mha for the recent 2015 estimate. The same calculation for soyabeans yields a potential area difference of 0.72Mha. Using five year (2010-2014) average yields, these areas would equate to 4Mt of maize and 2Mt of soyabeans.

However, it is worth noting that **larger differences have been seen in some years.** The largest difference

What could US planting intentions mean for production?

between planting intentions and final area in the past ten years was 1.23Mha for maize (2007) and 1.33Mha for soyabeans (2012). In 2007, the maize area reached a new record supported by low stocks and strong demand. The year on year increase in maize area in 2007 was particularly large (19%), and the final area swing into maize (away from soyabeans) was far greater than was anticipated ahead of planting. In 2012, the warm and early spring favoured the earlier planted crops, mainly maize, at the expense of soyabeans.

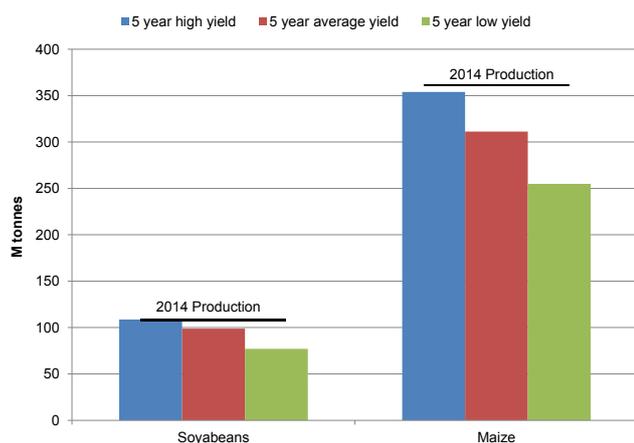
For spring wheat the story is slightly different. The prospective area in 2014 was 92.2% of the actual planted area – far less accurate from a percentage perspective. On the other hand, in terms of area discrepancy this is comparable to maize and soyabeans, a 0.41Mha difference. Even when looking at the “least accurate” year for spring wheat plantings (2011) when the planting intentions survey equated to 116.4% of the actual area, the difference in area was only 0.83Mha.

Production potential from prospective planting areas

Production scenarios have been proposed using the data published in the USDA 2015 Prospective Plantings report, plus five year high, low and average yields to indicate potential harvest sizes for US maize and soyabeans in 2015 (Figure 3). These scenarios assume average area losses between planting and harvest.

Figure 3 2015 US production scenarios

Produced using the intended area, average area losses by harvest and selected yields



Source: AHDB/HGCA from USDA data

The scenario in which yields match the five year average (9.43t/ha) suggests a US maize harvest of around 311Mt. This would be nearly 50Mt lower than in 2014 but only 12Mt below the five year average as at 2014.

Using the five year average yield (2.92t/ha), US soyabean output would be nearly 99Mt, just over 9Mt less than last season. However, this would still be the

second largest crop recorded and 7.4Mt above the five year average to 2014.

Closing Comments

The USDA's Prospective Plantings report provides a reasonably accurate early indication of US planted areas for a given season. The market response following the data release is likely to settle as further news of planting conditions and the South American harvest filter through. The longer term implications of the data release remain bearish, with the potential for another large harvest in 2015, on top of already high stocks ([read more](#)). Markets will now be watching planting conditions and price relationships to see if the intended areas are realised. The USDA's Acreage report, released on 30 June will provide further clarity on the US planted area, while the USDA will release its first projections of supply and demand for next season (2015/16) on 12 May.

Key Points

- Planted area for soyabeans forecast at a new record
- Maize area to fall for a third consecutive year
- The USDA's Prospective Plantings report generally provides a reliable indication of US planted areas
- The latest estimates indicate potentially lower US maize and soyabean production compared with 2014, although still historically high

What is a good price?

Success in grain marketing might mean different things to different farmers. Profit is clearly an important factor, but can only be identified if costs are known. Another way of looking at it could also be to ask "how well am I extracting and securing value from the market?"

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Introduction

Grain markets can often appear to be a myriad of information, rumour and uncertainty. As a result, with everything else going on in a farming business, making sense of grain markets and marketing can be a challenge. This is one of the motivations behind why I wanted to write [a recent insight article on STAG \(or Stop, Think, Analyse, Go\)](#).

The reality is that grain marketing can be as straight forward or as complicated as you want to make it, but it must **compliment what you are trying to achieve via your business objectives**. The purpose of STAG is to allow you to take some time to isolate yourself from the fast pace psychology of the market, remind yourself what you want to achieve and implement plans or back-up plans.

A common objective among arable businesses should, of course, be profitable crop production. This can only be established with a firm grasp of costs – [HGCA's Regional team can help with this](#).

However, are profit signals alone enough to inform a robust grain pricing strategy? I would argue, no. Let's consider two scenarios to illustrate this point:

- Firstly, the scenario that farmers are currently experiencing – **low prices** and anecdotally thin, if any, profit margins. A farmer relying on just profit signals, would wait to make sales and without a rally in price is at increased risk of becoming a forced seller when storage and/or cash flow become an issue. This can often occur, as it did in September 2014, when the market price was at its lowest for the current season.
- Secondly, a scenario of **rising prices**. In a rising market, profit targets may well be reached triggering sales to be made. On the one hand the business has achieved its objective but, without appreciating the market intelligence, it may have wasted an opportunity by selling in response to a profit signal alone.

So, what is a good price?

To complement the profit objective, perhaps it's time to consider the current price in the context of the wider marketing period. This can help make informed selling decisions when profit potential is both low and high, as well as dealing with fear and greed psychology.

So, what is the market context to which we compare today's market price? Again, let's keep this simple and look at the market in the context of some rolling averages or benchmarks.

Decision time – pick your benchmark

In this article, we consider three averages calculated from the daily closing prices of the November UK feed wheat futures. On expiry of the November futures contract, the rolling averages draw on the May, then July contracts to build the rest of the rolling average – you'll see these in action later.

- The **complete** average starts as soon as the November futures contract opens. The appetite to use this as a benchmark might be limited given that it starts over a year before the related crop is even planted. Also, bear in mind that in the early days of trading, these contracts see very little activity so this rolling average is at risk of becoming theoretical.
- The **post-planting** average, which in this example starts on 1 October.
- The **post-harvest** average, which in this example starts on 1 August.

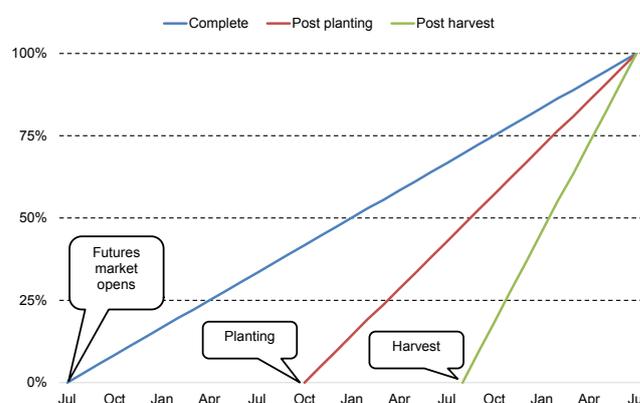
As we will see later, we can use these rolling average 'benchmarks' to help put the current market price in context. Ultimately it will help answer if sales made today would increase or decrease the current farm average relative to the chosen benchmark.

Caution: As we are dealing with simple averages of daily futures prices in these benchmarks, they must be treated as generic indicators, rather than anything more specific.

Where does the time go?

When comparing the market to the context of a rolling average and making a marketing decision, it is important to understanding how much time has elapsed. The concept of time lapse is illustrated in Figure 1 for the three rolling averages.

Figure 1 Time lapse



Source: AHDB/HGCA

Comparing how much time has elapsed to how much grain has been committed for sale will give a physical

What is a good price?

representation of the business's market view. The key question being: Is this physical representation of the market view in line with current market signals?

Let's illustrate this with a new crop (harvest 2015) example for a business that is benchmarking against the post-planting average. **As at mid-April 2015, around 30% of the post-planting period has elapsed.** So, if this business had a neutral market view and is aiming to extract the post-planting average, around 30% of anticipated production would be sold by now. Below this level the business would be exerting a bullish view and above it, a bearish one.

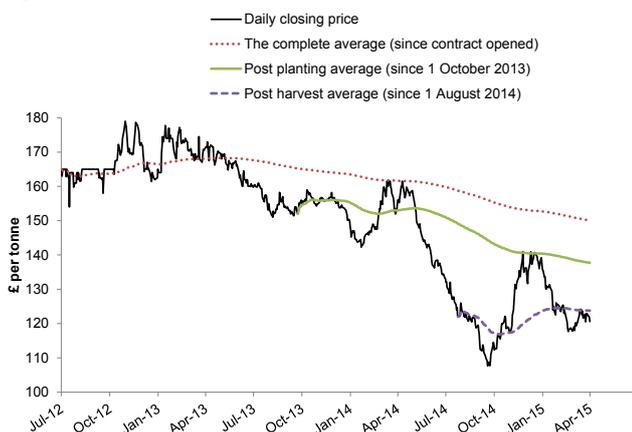
Please note, it is advisable to consider a range of yield scenarios when anticipating production levels and considering what volumes to commit ahead of harvest.

Current standings for the 2014 crop

Given the bearish nature of the market for the 2014 crop, it's been almost a year since the market was in excess of the post-planting average (Figure 2). The autumn price rally was an opportune period for post-harvest sellers to secure prices ahead of the respective average.

Some might be gambling on a late season rally to take the market back over the post-harvest average. However, caution is advised here, as in the event of the market not rallying there is the risk of becoming a forced seller, especially if grain has to be moved to free up cash or storage.

Figure 2 Nov-14 / May-15 UK feed wheat futures



Source: AHDB/HGCA

How is 2015 shaping up?

The autumn 2014 price rally enabled the new crop price to advance ahead of the post-planting average (Figure 3). This presented an opportunity for early sellers to get ahead of the rolling market average and be on course to extract a high level of value relative to the benchmark.

Figure 3 Nov-15 UK feed wheat futures



Source: AHDB/HGCA

Going forward, the 2015 market remains uncertain given the sheer amount of weather that growing crops have to pass through over the next six months. If a weather event occurs then the market may be pressured to move above the post-planting rolling average – creating opportunity to 'beat the average'.

However, if the weather has little detrimental impact on production then the market could struggle to breach the benchmark level.

Closing comments

Keeping abreast of the market in the context of rolling averages can be useful to inform selling decisions in partnership with market news and profit targets. This can be a useful check against the farm average to see how well the business is extracting value from the market.

Critically, when the market has moved ahead of a desired benchmark this should act as a catalyst for putting a plan into action. However, on the flipside, if the market is below a desired benchmark this is no reason to convert yourself from a STAG to an ostrich and bury your head in the sand.

In the coming weeks you will be able to keep abreast with the key benchmarks discussed in this article via the Grain Market Daily email – [click here to subscribe](#).

Key Points

- Profit signals alone may not be enough to fully inform a marketing strategy when prices are low, as this risks the business defaulting into a forced seller
- Rolling market averages allow the market to be put into context, against which the value of today's price can be assessed
- Similarly to being cost competitive, it is important for an arable business to assess how much potential value of the market it has been able to extract