

Analyst's Insight: Bears in the China Shop

The uncertainty over China's economic growth has been affecting global markets recently, and grains and oilseeds are no exception. Though, perhaps the oilseeds complex is being affected more so than grains.

China is the world's largest soyabean importer, responsible for 64% of global imports (USDA). Even in years of record production, you can count on China's seemingly insatiable appetite for soyabeans to provide some price support during a season.

In 2015/16, we're looking at another large soyabean crop, which will put pressure on other oilseed prices, including rapeseed. So, the market needs sustained Chinese demand to help limit any price falls. However, it is reported that Chinese soyabean purchases for November 2015 delivery are only around 50% of what they were a year earlier (Reuters).

The devaluation of the yuan by the Chinese Central Bank is an attempt to make exports from the country more price competitive, but on the other hand, it has made imports relatively more expensive. Oilseed crush margins in China are not looking attractive at the moment, with soyameal prices in yuan not increasing relative to higher imported soyabean prices (in dollar terms).

The other main impact of China's recent troubles is a decline in crude oil prices. China overtook the US as the world's largest crude oil importer in April 2015. Since June 2015, when the Chinese stock market started its nose dive, the price of Brent crude fell

by around 35% and dropped below the levels we saw at the start of the calendar year. While the decline in crude oil prices can't just be attributed to China, given the oversupply that exists - it's no coincidence that prices fell again at the same time as the trouble in China became apparent.

Due to their price link with crude oil, vegetable oils have also been affected by the downward price movement. For example, palm oil prices hit a six year low last week. Apart from following the general direction of crude oil, the fear of lower demand from China is affecting market sentiments as palm oil is the main vegetable oil imported by China. Rapeseed oil prices (Dutch, fob, ex-mill) have also suffered, falling by around 9% between the start of June and late August. This puts pressure on crush margins and, hence, demand for oilseeds.

Although only around 2% of Chinese shares are in foreign hands, the panic resulting from falling Chinese share prices is having a knock-on effect on global stock markets. The issue for commodities is the uncertainty surrounding China's economic growth, as this sets the tone for the wider global economy, which is in some way detached from stock markets. This current uncertainty is in some ways causing the market to behave a bit like a bull in a china shop - except at the moment there doesn't seem to be many bulls around - mostly bears.

Amandeep Kaur Purewal

In this issue...

2014/15 wheat exports fall short of expectations

After a slow start, final trade data reveals that UK wheat exports fell short of expectations in 2014/15.

Better than expected wheat yields in Black Sea and the EU

As the harvest progresses in the Northern Hemisphere, yields have been better than expected in the Black Sea region and the EU.

Oilseed outlook: Shrinking supplies of high oil yielding oilseeds, does it matter?

The world is going to produce noticeably less volumes of high oil yielding oilseeds (oilseed rape (OSR) and sunflower) this season.

Two wheat pricing strategies to beat the average

The post-planting and post-harvest averages of wheat futures prices can be useful benchmarks to compare your average selling price against.

2014/15 wheat exports fall short of expectations

After a slow start, final trade data reveals that UK wheat exports fell short of expectations in 2014/15. In contrast, barley and oat exports saw multi-year highs last season; maize also remained visible competition for UK feed grains with the second highest imports on record.

Brenda Mullan, Market Specialists team
brenda.mullan@ahdb.org.uk, 02476 478862
 20 August 2015

Introduction

When we looked at how UK trade patterns were developing half way through 2014/15, the predominant message was that [UK wheat exports in the first half of the season were disappointing](#). Also, at that stage - time was running out to avoid a large wheat carry over. While wheat and rapeseed exports had struggled to find export demand as a result of wider-EU influences and currency trends, UK barley exports had got off to a much better start.

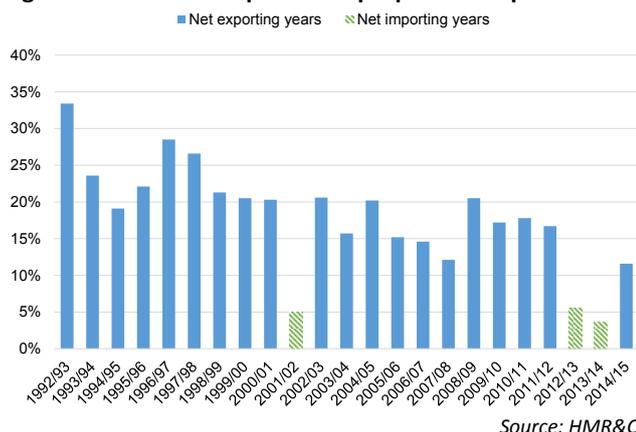
In this update, we look at how UK trade fared in 2014/15 as a whole. The latest HM Revenue and Customs (HMR&C) data, which was released for June on Friday 7 August, provided the last piece in the puzzle for full season trade.

Wheat exports proportion of production lowest in 12 years

Wheat trade saw a poor end to the season in June, with only 55Kt exported, the lowest since July 2014, and a drop of almost 60% on May 2015. While it is not unheard of to see a drop in export activity at the end of the marketing season, lacklustre demand in June did little to help full season exports reach [Defra's previous forecast](#) of 2.2Mt.

With full season exports totalling 1.9Mt, this equated to just 12% of production, the lowest for a net-exporting season in records going back to 1992/93 (Figure 1). During the season, wheat imports continued to flow into the UK, meaning that it took until January for the UK to become a cumulative net exporter, despite the high availability of wheat in the domestic market. At the end of the season, just 270Kt more wheat was exported than imported.

Figure 1 UK wheat exports as a proportion of production



There are a number of contributing factors as to why UK wheat struggled to secure export demand throughout 2014/15.

Looking at the breakdown of wheat exports to EU and non-EU destinations, it appears that UK wheat struggled to remain competitive into Europe. **Just 1.21Mt (63% of UK wheat exports) were destined to Europe in 2014/15, this compares with an average of 2.37Mt (92%) in the previous 10 net-exporting years.**

Along with an abundance of feed grain supplies in the EU, currency changes had the impact of keeping UK prices less competitive on an EU basis. A 12% weakening of the euro against the pound through the 2014/15 crop year had the impact of making UK exports more expensive in the European market.

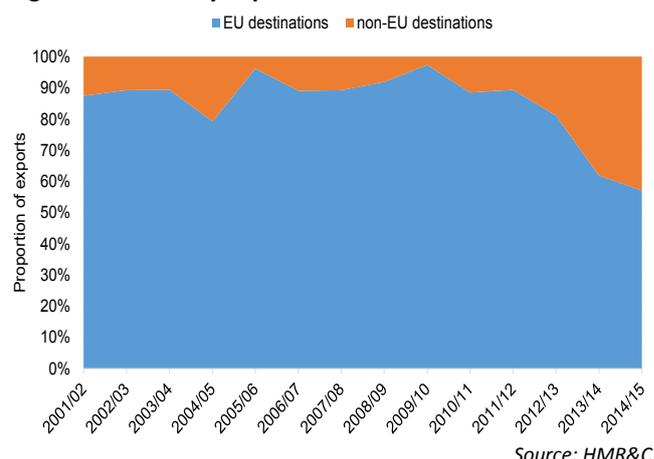
With UK exports falling short of the 2Mt mark, this suggests substantial wheat carry out stocks, which will have to compete with the 2015 crop for storage and demand. Clarification on the likely level of ending stocks for 2014/15 will be provided in Defra's final balance sheet, which will be published on the [AHDB Cereals and Oilseeds Markets](#) website in September. The current uncertainty around the volume of opening stocks in 2014/15 will also be addressed, following Defra's current investigation into the discrepancy between stock levels in their surveys and those calculated in the balance sheet.

Barley exports exceed expectations

In contrast to wheat, **the UK barley export campaign exceeded expectations, with 1.5Mt exported during 2014/15.** This was slightly more than Defra's May forecast and the highest volume exported in 15 years.

Similarly to wheat, the EU represented smaller demand for UK barley in 2014/15 (57%) compared with the previous 10-year average of 86% (Figure 2). While barley usually has stronger third country demand than that for wheat, the drop in 2014/15 exports also shows that the impact of wider-EU supplies and currency issues had an impact on UK barley demand into the continent.

Figure 2 UK barley exports to EU and non-EU destinations



In 2014/15 barley exports equated to 22% of total production, five percentage points more than in 2013/14, which was also a strong export year.

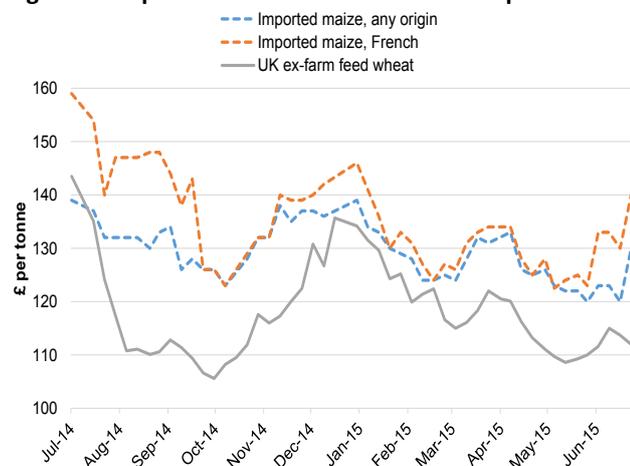
With high availability of good quality domestic barley, static demand from the brewing, malting and distilling sectors and a lower appetite for barley in GB animal feed rations, **import requirements remained low**. In 2014/15, 126Kt of barley was imported, mainly from the Republic of Ireland. This compares with a previous five year average for total UK barley imports of 140Kt.

Maize imports upheld strength

It was assumed at the beginning of 2014/15 that given the large wheat crop, maize imports into the UK would see a substantial reduction, mainly influenced by the animal feed sector. However, the final trade figures revealed that **maize imports in 2014/15 continued the momentum from 2013/14**, totalling 1.9Mt. This is higher than Defra's forecasts of 1.7Mt, and the **second highest volume of imports, after 2013/14's record**.

Considering the relative price of maize imported into the UK alongside UK feed wheat prices goes some way to explaining the continued appetite for maize consumption in the UK.

Figure 3 Imported maize and UK feed wheat prices



Source: AHDB

Figure 3 shows that, particularly during December to March, the price spread between imported maize and ex-farm UK feed wheat narrowed, leading to a continued appetite for maize. Anecdotal evidence suggests that maize particularly remained competitive in Scotland and Northern Ireland, leading to the animal feed sectors in both countries continuing to purchase maize to include in the feed rations.

How much did currency impact on rapeseed trade?

At 316Kt, UK rapeseed exports equated to 13% of total production in 2014/15, unchanged from a year earlier. In the last two years, UK rapeseed has found relatively more demand from non-EU countries than

previously, with 10% of UK exports going to third countries in 2014/15.

Given the higher price of rapeseed per tonne in comparison with cereals, it is impacted more, in absolute £/t terms, by currency than the grains. This suggests that while rapeseed trade was in line with the pace of last year, the currency situation may have held progress back somewhat due to its relative competitiveness in the EU market.

Highest oat exports since 2008/09

At 77Kt, 2014/15 represented the highest year for oats exports since 2008/09. Over 40Kt more oats were exported in 2014/15 than a year earlier, when production was actually higher but quality was lower. Substantial demand for oats originated from the EU in 2014/15, specifically from Belgium, Germany and Spain. Despite the strength of the oat export campaign in comparison with recent years, Defra anticipated that up to 85Kt of oats could have been exported.

Concluding comments

A review of the 2014/15 trade data reveals that the UK wheat struggled to remain competitive, especially into key destinations in the EU. Currency remained a constant hurdle for UK grains and oilseeds to try to jump over last season, and this factor has not gone away yet. With another potentially large wheat supply year ahead given an elevated carry-over and promising yields so far, competitiveness is likely to remain a continued theme for the 2015/16 marketing season.

Key Points

- Wheat exports in 2014/15 were just 12% of production, the lowest on records for a net exporting year
- UK barley and oats exports reached multi-year highs in 2014/15 and there is a question mark around how much the currency situation impacted on rapeseed exports
- Maize imports in 2014/15 continued the momentum from 2013/14, to the second highest on record

Better than expected wheat yields in Black Sea and the EU

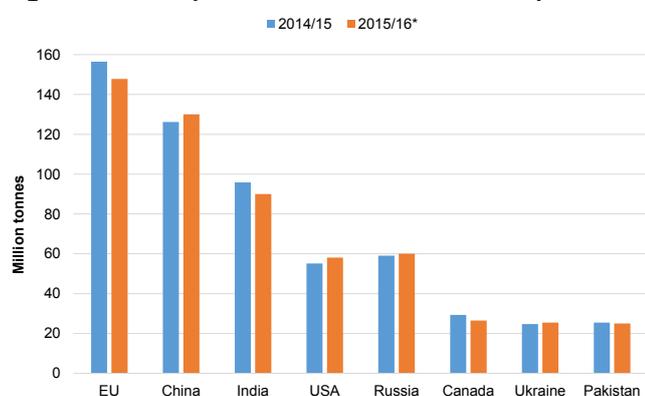
As the harvest progresses in the Northern Hemisphere, yields have been better than expected in the Black Sea region and the EU. It is unclear however, whether recent rains came too late for many of Canada's crops. Some concerns also remain about the potential yields of EU maize crops, which will start to be harvested in September.

Sarah Nightingale, External contributor
25 August 2015

Introduction

Good harvest progress has been made in recent weeks in the important grain producing regions in the Northern Hemisphere. This article summarises the latest harvest progress from the leading global producers.

Figure 1 Wheat production the Northern Hemisphere



* forecast

Source: USDA

Russian winter wheat harvest now complete

The winter wheat harvest is now complete in Russia. A total of 44.3Mt of wheat is reported to have been harvested by 20 August, from 14Mha (52% of the total area). The average yield is likely to be around 3.17 t/ha, (3.47 t/ha last year). Yields were higher than last year in the south of the country, but average yields have been dragged lower by results in central regions, which were hit by drought.

Spring wheat harvesting has begun in the Volga District, with yield prospects looking favourable so far.

USDA forecasts a slight increase in Russian wheat production from 59Mt in 2014/15 to 60Mt in 2015/16 (Figure 1). It also forecasts a slight increase in exports, though this will depend very much upon government policy. **So far this season, Russian wheat exports have been much lower than last year, a likely consequence of the export tax in place.**

A total of 11.9Mt of winter barley had been harvested from 4.9Mha (55.5% of the total area) by 20 August, yielding an average of 2.44t/ha (2.66 t/ha last year).

Around 17.1% of the rapeseed area had been harvested, yielding an average of 1.72t/ha.

Wheat and barley harvests now complete in Ukraine

The wheat and barley harvests are now both complete in Ukraine. According to the Ministry of Agriculture, by 20 August a total of 36.7Mt of grain had been harvested from an area totalling 10.1Mha.

Wheat and barley production amount to around 26.8Mt and 8.5Mt, respectively. Around 1.7Mt of rapeseed has also been harvested. The proportion of milling quality wheat may be lower this year than last, but no significant quality concerns have been expressed. **Following high temperatures and little rainfall across many of the main maize growing areas during July and August, some forecasters are adjusting downwards their figures for the maize crop.** Harvest is likely to start in September.

There is also some concern about the effects of the recent dry weather on the sowing of rapeseed crops and winter wheat for the 2016 harvest, which began around 19 August.

Excellent prospects are foreseen for wheat in Kazakhstan

The government reported that by 18 August the country had harvested 1.5Mt of grain from 0.91Mha, (6.2% of the total area). Grain yields are up from an average of 1.2t/ha last year, to 1.6t/ha in 2015/16.

Furthermore, good weather with some showers has been reported for the maturing spring crops in central and northern parts of the country. **Both production and exports of wheat are now seen higher than last year.**

The substantial devaluation in the country's currency in recent days (over 30% since 19 August) is likely to increase the competitiveness of Kazakh wheat on the world markets.

Spring wheat harvest well ahead of 'normal' in the US

The winter wheat harvest is complete in the US. Final samples of soft red winter (SRW) varieties confirm a lower Hagberg Falling Number (HFN), which averages 267 seconds (315 last year). There is also a slightly higher percentage of damaged grains and dockage in this year's SRW crop, and millers have reported some problems with DON mycotoxin contamination.

Hard red winter (HRW) samples however, show high HFN results (401 seconds) and low moisture content. Specific weight and protein content are also both looking good.

The **harvesting of spring wheat is well ahead of normal** (Figure 2), with 53% of the area completed by 16 August. Plants have matured early, and hot, dry weather across the region has aided harvest progress.

Specific weight and protein content are higher year on year for hard red spring (HRS) varieties so far.

Figure 2 Condition and harvest progress for US crops (as at 16 August 2015)

	Proportion rated "Good" or "Excellent" condition		Proportion of total area harvested	
	2014	2015	2014	2015
Spring wheat	68	70	15	53
Barley	62	65	29	66
Maize	72	69	n/a	n/a
Soyabeans	71	63	n/a	n/a

Source: USDA

By 16 August, 79% of US soyabeans had reached the pod setting stage, similar to the 5-year average. Overall, 63% of the crop is reported to be in "good" or "excellent" condition.

The maize crop is slightly ahead of last year, with 21% at the denting stage; this is however seven percentage points behind the 5-year average. Overall, 69% of the maize crop is reported to be in "good" or "excellent" condition.

The USDA increased its US maize production forecast in August ([read more here](#)) to 348Mt (361Mt last year), based on its own survey. Yield forecasts currently vary quite significantly, so early harvest results, particularly from important producing states such as Illinois, are eagerly awaited.

Rain has returned to Canada

Moisture returned to many of the parched Prairies areas in Canada in August although it is still unclear whether this will have helped crops. Recent forecasts by Statistics Canada, based on a survey to 3 August, put the 2015/16 wheat crop at 24.6Mt (29.3Mt in 2014/15) and the canola (rapeseed) crop at 13.3Mt (15.5Mt). The most recent USDA forecast reduced Canada's 2015 wheat production by 1M tonnes to 26.5Mt.

Overall, varied results are being reported for Canada's harvest. Saskatchewan's harvest is ahead of normal, with 9% of crops harvested by 20 August, including 59% of winter wheat area.

Harvest in Alberta is progressing, with 6% of crops now gathered. However, there are some quality concerns in this Province, which produces a large proportion of Canada's spring wheat. Only 30% of its spring wheat area was reported to be in "good" or "excellent" condition.

Reports from Manitoba suggest good harvest progress, with quality generally good. Yields have been very variable in Ontario, and DON mycotoxin contamination has been reported as a problem in some areas.

Record wheat crop expected for France

Early worries about effects of hot, dry weather during July on the wheat crop have been dispelled in France, where a record crop is now expected. The soft wheat harvest was completed around 10 August and FranceAgriMer report excellent yields.

The latest estimate is for a wheat crop of 40.4Mt, up from 37.5Mt last year. Sample results so far, show protein content averaging from 10.5% to 11.5%, and quality is generally much better than last year, with most specific weights exceeding 80kg/hl (Figure 3).

Figure 3 Proportion of French wheat meeting quality parameters in 2014* and 2015**

Protein content		
%	2014	2015
<10.5	11	14
10.5-11.0	32	40
11-11.5	34	34
11.5-12	15	8
>12	9	4
Specific weight		
kg/hl	2014	2015
<76	40	1
76-77	26	3
77-78	17	5
>78	17	91
Hagberg Falling No.		
Seconds	2014	2015
<170	35	0
170-220	19	2
>220	46	98

*final figures

Source: FranceAgriMer and ARVALIS

**Early results as at 20 Aug-15, based on 73% of total samples due to be tested

Winter barley production is also seen up from 8.4Mt last year to 9.6Mt in 2015/16. While spring barley was affected by the dry conditions in the summer, the quality is reported to be good. Similarly, better than expected results are reported so far for the wheat harvests in Germany and UK.

Concluding comments

Apart from some downgrading to the forecasts for Canadian production, yield prospects for the main grain producing regions have generally improved through August.

This is highlighted by the increase in the USDA projected figure for combined wheat production in Kazakhstan, Russia and Ukraine from 94.5Mt to 99.5Mt in August.

Within the EU, French production, and thus export prospects look much more promising than last year.

Key Points

- Improved production prospects for Black Sea and EU on better than expected yields
- A slow start to Russia's grain exports this season shows that volumes could be hampered by tax this season
- Extent of recovery in Canada from August rains remains unclear

Oilseed outlook: Shrinking supplies of high oil yielding oilseeds, does it matter?

The world is going to produce noticeably less volumes of high oil yielding oilseeds (oilseed rape (OSR) and sunflower) this season. Despite this, OSR prices remain uninspiring for UK farmers, with global prices depressed by big supplies of soyabeans.

Jack Watts, Market Specialists team
Jack.watts@ahbb.org.uk, 02476 478760
 27 August 2015

Introduction – the economic demise of high quality oilseeds

It could be argued that vegetable oil has been the trend setter for broader commodity markets, by being one of the first categories to enter into price downturn. Low crude oil prices (reducing the economics of free market biodiesel blending) and plentiful supply are just two factors behind the price depression. The impact has hit prices for high oil yielding oilseeds, such as oilseed rape (OSR) and sunflower hard – as is being felt by UK farmers with planting of the 2016 OSR crop well underway.

With oil content around the 40% mark, the OSR price is more dependent on the value of the oil than soyabeans, whose oil content is approximately 20%. Relative to prices for the other oilseed component, the protein meal, oil prices have fallen much faster – impacting high oil yielding oilseeds the most.

To demonstrate the nature of the price falls, we have examined the Chicago soy oil and meal futures for December 2015 delivery and since the beginning of 2014:

- The oil price has fallen by around 30%, whereas.....
- The meal price has fallen by less than 5%

The response – less high oil yielding oilseeds produced in 2015/16

Figure 1 World supply and demand balance sheet for high oil yielding oilseeds

M tonnes	2013/14	2014/15	2015/16 f'cast	Year-on-Year change
Production	113.0	109.8	105.7	-4.2
of which OSR	69.6	68.9	63.8	-5.1
of which sunflower	43.3	41.0	41.9	0.9
Demand	110.4	110.9	107.2	-3.7
of which OSR	67.6	69.9	65.3	-4.6
of which sunflower	42.7	41.1	42.0	0.9
Stocks	9.9	8.8	7.3	-1.6
of which OSR	7.1	6.1	4.6	-1.5
of which sunflower	2.8	2.7	2.6	-0.1
Stocks-to-use ratio (%)	9.0%	7.9%	6.8%	
OSR	10.5%	8.7%	7.1%	
Sunflower	6.5%	6.6%	6.2%	

Source: Oil World (www.oilworld.de)

Poor production economics and specific weather issues have reduced the expected level of both OSR and sunflower production for harvest 2015. This has had ramifications for the supply and demand this marketing season, as set out in Figure 1.

Specifically on OSR, production declines are seen across all the major producing countries, with harvest bringing some certainty for Europe and Former Soviet Union. Uncertainty remains though with the Australian crop yet to be confirmed – about 5% of global OSR production.

Canada, which is set to account for about 20% of global production, has experienced dry weather and faces a late crop, with frost becoming a key risk in some areas from early September. On 21 August, the first official Canadian crop estimates for the 2015 crop were published. Wheat production was forecast at 24.6Mt, slightly lower than expectations and below the 29.3Mt produced in 2014/15. It is likely that the actual production figure could be slightly higher, due weather conditions improving since the survey was conducted July. Canadian canola (OSR) production was pegged at 13.3Mt, fairly in line with expectations, but down from 15.6Mt seen last year.

The sunflower supply situation may in fact get worse than depicted in Figure 1. Since Oil World (www.oilworld.de) published the full world supply and demand on 31 July, conditions for the EU's sunflower crop have deteriorated. As a result, the EU crop may not reach the current July forecast from Oil World of 8.46Mt (8.86Mt in 2014). This will further constrict the supply of high oil yielding oilseeds, possibly increasing the EUs import requirements.

In line with lower production, demand for OSR and sunflower seed is expected to be lower, with consumption shifting in favour of soyabean. It is widely anticipated that soyabeans alone will have to meet the growth in demand for oilseed derived oils.

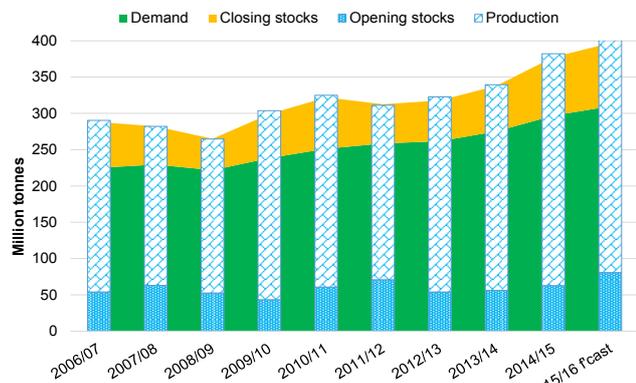
That said though, competition from palm oil will remain a critical factor, with a low crude oil price making discretionary (non-mandated/subsidised) blending into transport fuel more challenging. This, combined with depreciation of the Malaysian ringgit, puts palm oil in a competitive position on the world market. However, the market will want to keep a close eye on how El Nino develops over the coming months, which has been attributed to drier than normal conditions in parts of Malaysia.

The upshot is, that OSR is not in control of its own price destiny right now – although the tightness in the supply of high oil yielding oilseeds is helping stem the fall in price. As and when prices begin to rise, especially if veg oil markets see a change in fortune, OSR should be one of the first to respond.

Soybeans causing a lethargic oilseeds market

As Figure 2 shows, global soyabean production is continuing to increase with the USDA anticipating another record crop in 2015/16 of 320Mt – just above 2014/15 levels. However, there are two key things to be aware of in order to full appreciate these numbers.

Figure 2 Global Soyabean supply and demand



Source: USDA

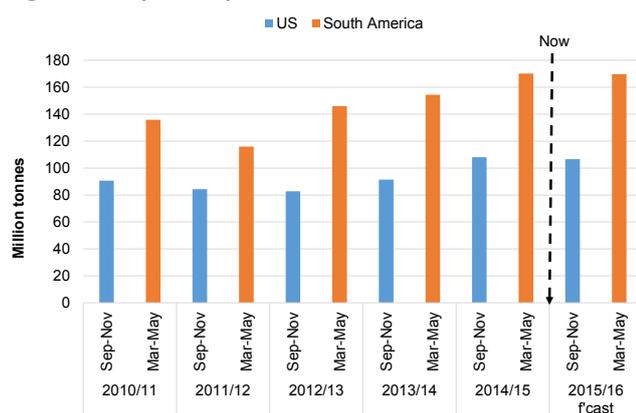
Are US soyabean yields over-egged?

Earlier this month, the USDA shocked global oilseed markets by raising expectations for the US soyabean crop. Part of this lies in the yield, which was raised to 3.16t/ha against the previous view of 3.09t/ha, but below the 3.21t/ha of 2014. It remains to be seen how this pans out, but certainly this goes against the thinking of many in the area. Thant said though, there is little to gain from procrastinating about it with the market reacting to the USDA yield data and moving on.

How will South American farmers react to low prices?

The US soybean yield debate will be put to bed in the autumn when harvest gets underway. At the same time, South American farmers will be planting their 2015/16 soybean crops, with the USDA forecasting production just below the record 170Mt seen in 2014/15. However, unlike for grains, there is much more balance in production between northern and southern hemisphere.

Figure 3 Soyabean production in the Americas



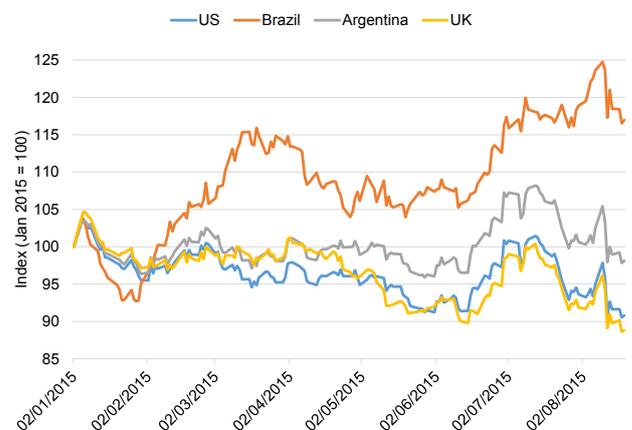
Source: USDA

It's hard enough for forecasters to call the size of a growing crop before harvest, let alone before the crop has even been planted. As a result, expect these estimates to change. This is especially true with a back drop of El Nino, which typically brings wetter conditions to South America, but will it get too wet for soyabeans?

Despite the slump in global prices, Brazilian farmers are expected to increase the acreage of soyabeans. Oil World (www.oilworld.de) anticipate the Brazilian planted area to rise by 3% to 32.8Mha for harvest in early 2016, but at this stage major weather caveats must be kept in mind. The area rise comes amid tightening margins, and according to the *Soybean & Corn Advisor* website, a much higher proportion of the crop (c25%) has already been sold than a year ago (c7%). The website also echoes the expectation that the Brazilian soyabean area will expand.

Figure 4 looks at how the May 2016 US soyabean futures price has evolved through 2015 when converted into local currencies.

Figure 4 Evolution of May-16 Chicago soyabean futures in local currencies



Source: Reuters

Whilst in global (US dollar) terms prices have fallen, for Brazilian farmers, prices have been going up as the Real has continued to depreciate. Prices though are still lower year-on-year and some of these gains will likely be negated by higher input costs. When a currency weakens, both commodity outputs and inputs rise in price.

It's a slightly different story for Argentina, where the area of soyabeans is expected to remain static. Although devaluing in 2013 and 2014, the Argentine Peso has been more stable than the Real in 2015, so Argentine farmers are more exposed to the fall in global prices so have less incentive to plant. Recent heavy rainfall is raising concern for the viability of some wheat crops, which could lead land being diverted into later sown soyabeans (Oil World, www.oilworld.de).

Closing comments

It's fair to say that OSR remains a passenger of the oilseeds market and is unable to drive its own price destiny. The tighter supplies of high oil yielding oilseeds, could create an opportunity for prices to rise as and when veg oil markets become more robust.

For the time being though, these remain the poor relation of soyabeans, whose production in Brazil looks set to remain strong following currency movements. However, the market is advised not to get too confident of global soyabean production until the US yield debate is settled and South American crops are at least planted!

On 10 September, we will look in more detail at the price relationships and just how much premium OSR can build over soyabeans in light of the contrasting supply and demand situations.

Key Points

- Despite low prices, supply of high oil yielding oilseeds is tightening which may help lend support to prices when veg oil markets become more robust
- Soyabeans are acting as a weight on oilseed prices, but debate surrounds US production levels
- Currency movements are expected to incentivise Brazilian farmers to plant more soyabeans, but an awful long way to go until this is realised as production

Two wheat pricing strategies to beat the average

The post-planting and post-harvest averages of wheat futures prices can be useful benchmarks to compare your equivalent average selling price against. Here, we look at two pricing strategies that could be used to try to achieve a better-than-average selling price for your grain.

Arthur Marshall, Market Specialists team
Arthur.marshall@ahdb.org.uk, 02476 478956
01 September 2015

Introduction

Benchmarks in wheat futures, such as rolling post-planting and post-harvest averages, can be used to gauge the performance of wheat pricing strategies. Furthermore, averaging itself can be built into pricing strategies to help spread the risk of falling prices – as demonstrated in a number of our [example pricing strategies](#).

However, if you are attempting to sell at a price that beats the average then you might want to use a strategy that encourages you to sell when prices are above this level. In practice, it can be difficult to decide how much to sell each time without knowing where prices will go in the future. In this article we look at two strategies with different ways to overcome this, and that attempt to beat the post-planting average.

Averages

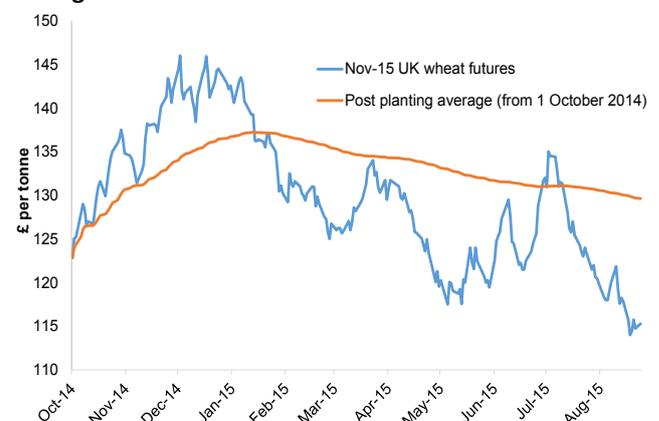
By using a strategy of making regular sales (for example, 1 load per month), you would typically be able to obtain an [average selling price close to the average of all closing prices in the period](#). If using an alternative strategy, you can benchmark performance against this – essentially, measuring whether the

strategy performs better compared with one which involves making regular sales.

Important note: In these examples we use futures prices and averages. In order for this to be comparable to ex-farm prices, it is important that sellers have a firm grasp of how their physical price relates to the futures price - the 'basis'.

The post-planting (shown in Figure 1) and post-harvest averages are two common averages to use. These are the average of all daily closing prices from the end of planting and the average of all closing prices from the start of harvest respectively.

Figure 1 UK Nov-15 feed wheat futures and post-planting average



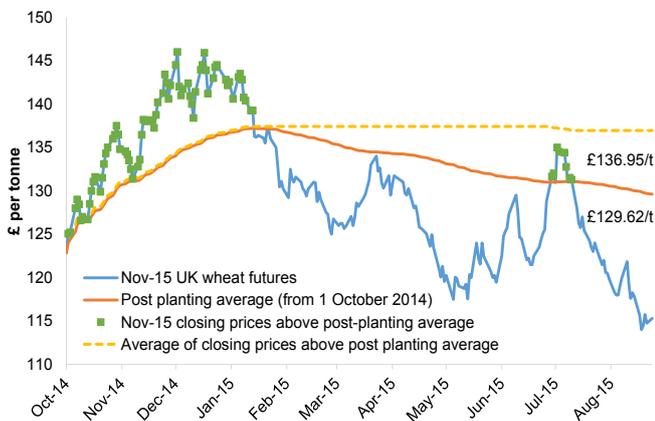
Source: AHDB

Averaging above the averages

One way to try to ensure your average selling price is above the post-planting or post-harvest average is to

use these as an indicator for when to sell. As shown in Figure 2, the average of all UK Nov-15 wheat futures closing prices that were above the post-planting average, as at 24 August, was £136.95/t, £7.33/t higher than the post-planting average.

Figure 2 UK Nov-15 feed wheat futures and prices above post-planting average



Source: AHDB

This is easy to see in hindsight but more difficult to achieve in practice – without knowing how many sale opportunities there will be, it is impossible to know how much to sell at any one time.

Two example strategies that could help get around this are outlined below:

1. A strategy to average the prices above the post-planting/post-harvest average, using a stop-loss to ensure all loads are sold.
2. A strategy to average the prices above the post-planting/post-harvest average, using options to ensure all loads are sold.

Neither of these strategies are guaranteed to exceed the post-planting or post-harvest average – they only demonstrate how it may be possible. Always ensure you know the risk appetite, cash flow requirements and cost of production for your business to create a marketing strategy that meets your needs.

With the Nov-15 contract drawing towards a close, the opportunities to use it as a basis for an averaging strategy are reducing. However, these methods are equally relevant for use on the May-16 contract and the post-harvest average – and indeed for use in future seasons.

Strategy 1

In this example, we are attempting to exceed the post-planting average for the Nov-15 UK feed wheat futures contract i.e. since 1 October 2014.

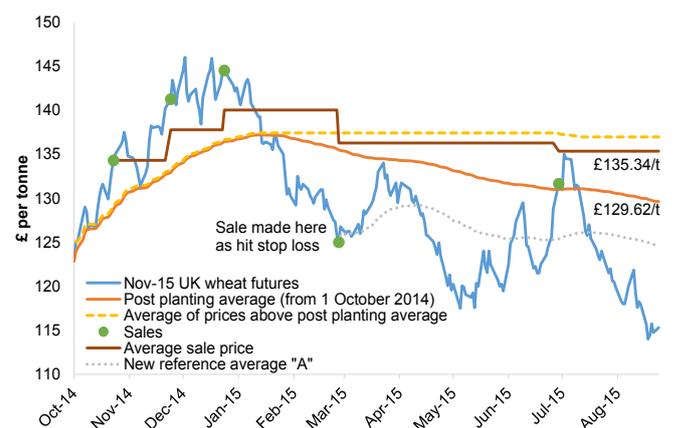
- As with all strategies, you need to know in advance how many sales you will need to cover cash flow. For example, let’s say we choose to make five sales of the 2015 crop between Oct-14

and Nov-15 – so each load here is equal to 1/5 of the anticipated total wheat to sell.

- Sell a load each time the Nov-15 futures price exceeds the post-planting average by a chosen amount. We’ll choose +£5/t.
- In order to spread risk and retain some openness to gains, set a minimum period between sales – otherwise all loads could be sold in the first few days of the price exceeding the post-planting average. This example will wait at least one month between sales.
- There is a risk that the market falls and never moves back above the post-planting average, leaving one or more loads to be sold at the end at a low price. Here, a stop-loss could be used to avoid becoming a forced seller.
- The stop-loss here is to sell a load, then ‘reset’ the average if the price falls by a chosen amount below the post-planting average. In this example we’ll select £10/t for our chosen amount. So, if the Nov-15 price moves £10/t below the post-planting average, first sell a load, then a new reference average (“A” in Figure 3) is used starting from that point. Any time the market moves £5/t above this new average is a time to sell.
- This would continue until all loads are sold.

Figure 3 shows when sales would have been made based on this strategy; as a result, the average sale price would have been £5.72/t above the post-planting average.

Figure 3 Strategy 1 - sale points and performance



Source: AHDB

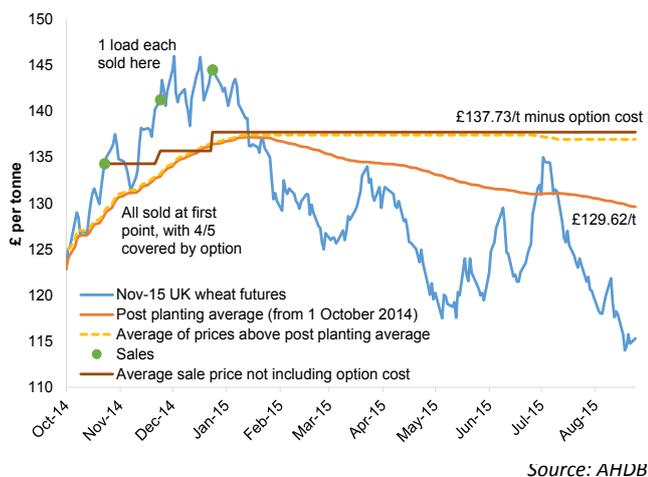
Strategy 2: Adding options

For the second example, we are again attempting to exceed the post-planting average in UK Nov-15 feed wheat futures. Options are used instead of the stop-loss in the first strategy.

- As before, we will have a maximum of five sale points – however, by using options, cash flow is covered by selling all the wheat in the first sale.

- Sell all loads when the Nov-15 closing price first exceeds the post-planting average by the chosen amount – again, £5/t here. Simultaneously, purchase call options on all except one load (e.g. to cover 4/5 of the wheat) – this gives you the right to buy back that amount of wheat at the price you sold it. The final 1/5 will remain sold at the original price.
- Waiting at least one month between sales again:
 - If the market never rises above the first sale price (whether or not it exceeds the average), all wheat has been sold at a higher price so you will not be exposed.
 - If the market rises, each time the price next exceeds the post-planting average by £5/t exercise the option(s) on a load. This allows you to buy back the load of wheat at the price you originally sold it and re-sell at the higher price.
 - Continue this pattern, spacing sales at least a month apart.

Figure 4 Strategy 2 - sale points and performance



Concluding comments

If you manage to sell only when prices are above the post-planting or post-harvest average, you would likely achieve an above-average sale price for your crop. Doing this is difficult, however, as without knowing where prices will go in the future, it is hard to know how much to sell at any point.

To avoid these difficulties, two example strategies may be employed which use the post-planting or post-harvest average as a signal to sell, and have a pre-decided amount to sell each time. The first strategy builds in stop-losses to help ensure all grain is sold, while the second uses options.

It is essential that any pricing strategy you use suits the needs of your business. Alongside the other strategies we have demonstrated, these examples should be seen as a starting point to develop a grain marketing strategy that offers your business the desired balance of risk, cash flow and openness to market rises.

It is important to use these rolling averages correctly in decision making. The market being above a rolling average can be a useful sell signal, if the objective is to beat the average. However, the market being below the average shouldn't be used as a reason not to sell.

Key Points

- The post-planting and post-harvest averages are useful benchmarks for your grain marketing performance
- Aiming to sell when the prevailing price is above these averages can help you achieve an above average price
- Doing this in practice requires a tool to ensure all grain is sold, which could be a stop-loss or an option