



Agriculture & Horticulture
DEVELOPMENT BOARD



Market Prospects

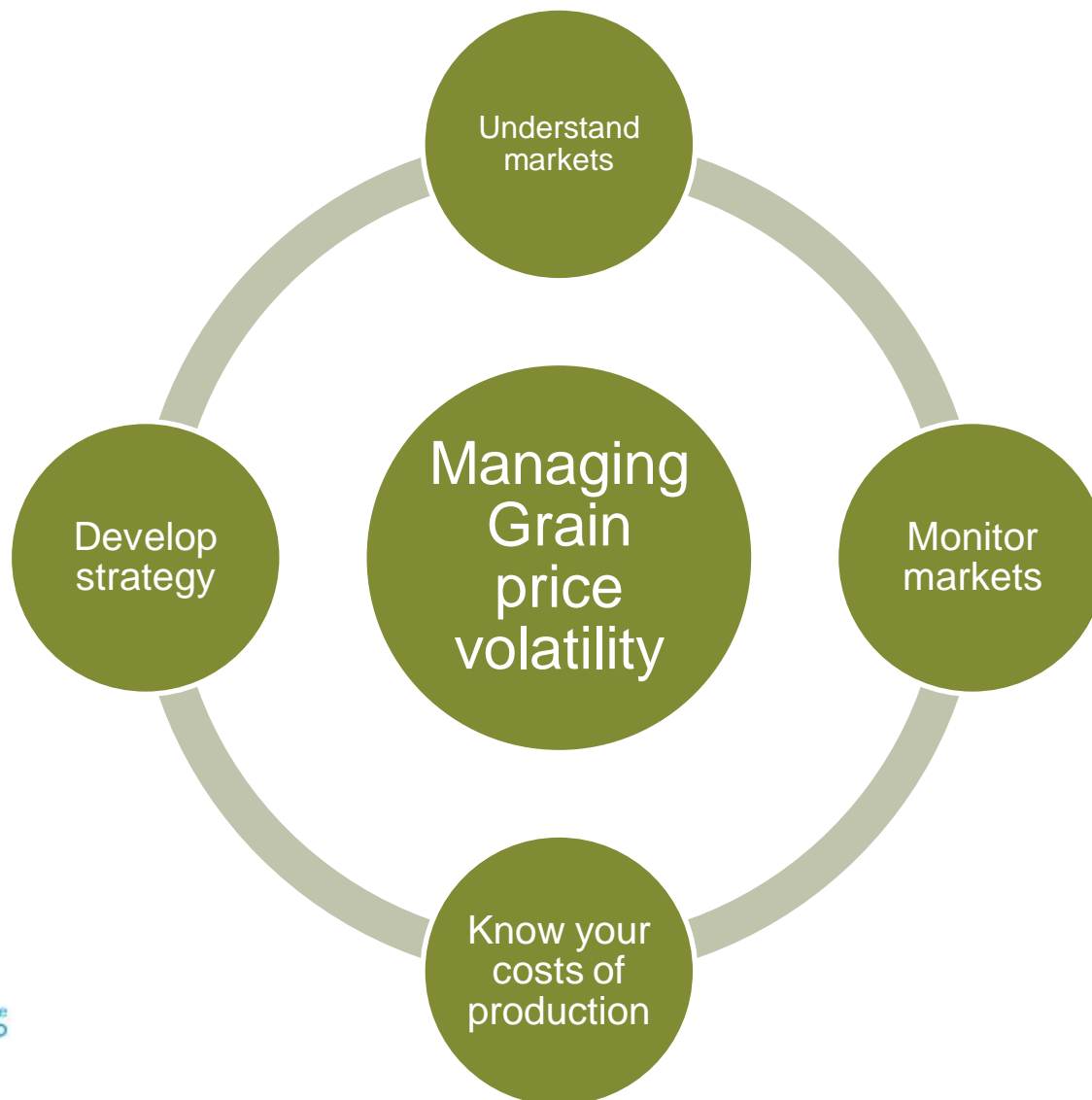
Ulster Arable Society, February 17th 2011

Michael Archer

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Market Intelligence – Cereals and Oilseeds, AHDB

Structure – *the key elements of managing grain price volatility*





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Understanding and Monitoring Grain Markets

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The new era for grain markets continues

- volatility remains at the heart



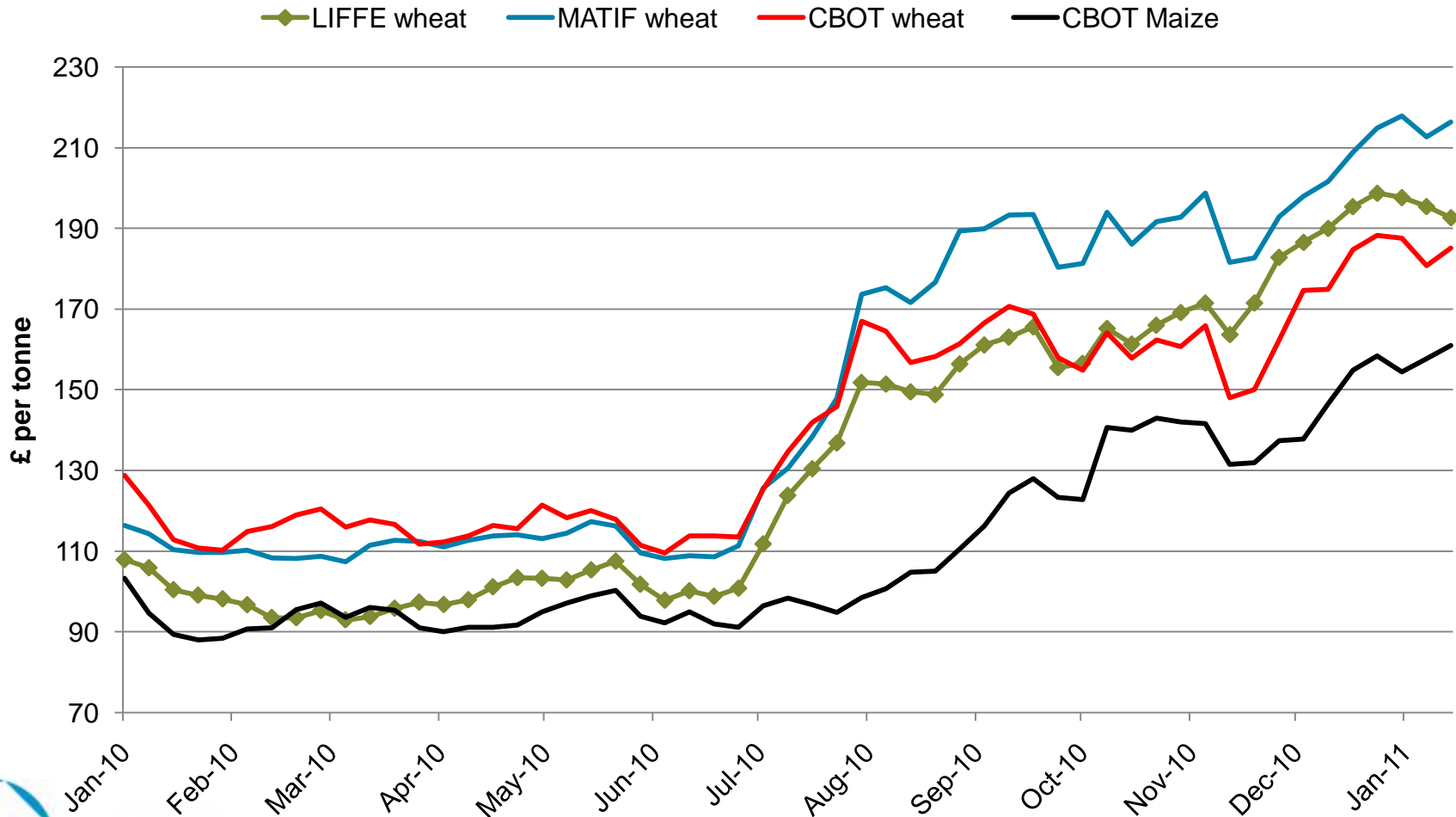
2007/08 – *the beginning – this is what markets can do*
Movement: £75/t

2008/09 – *the supply response – given a price, this is what agriculture can do*
Movement: £64/t

2009/10 – *the power struggle – dealing with another surplus*
Movement: £22/t

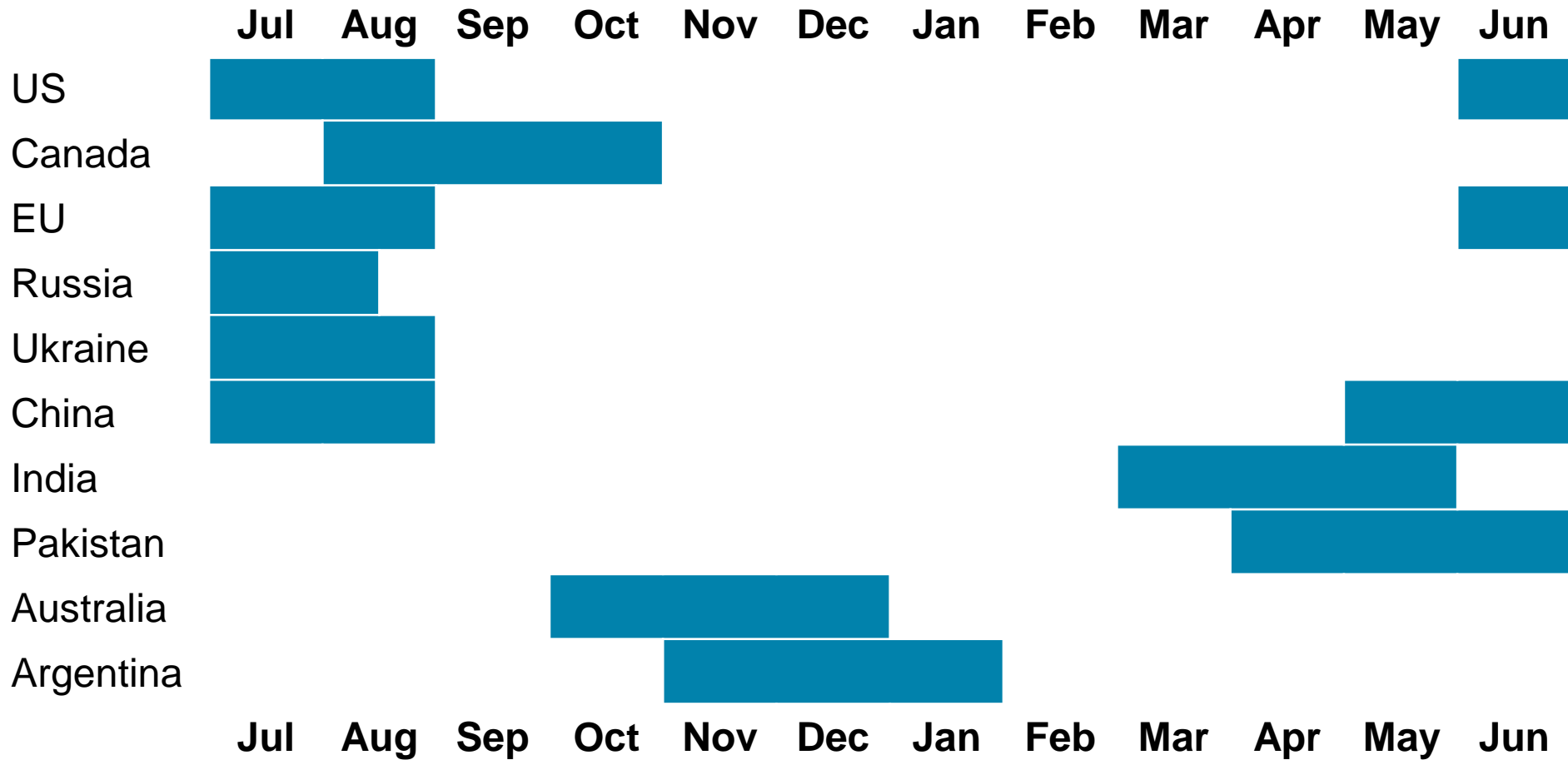
2010/11 – *the unexpected – mother nature returns with politics*
Movement: over £100/t so far!

Global grain pricing – wheat markets interact with other grains, mainly maize



Wheat harvest calendar: Main producers

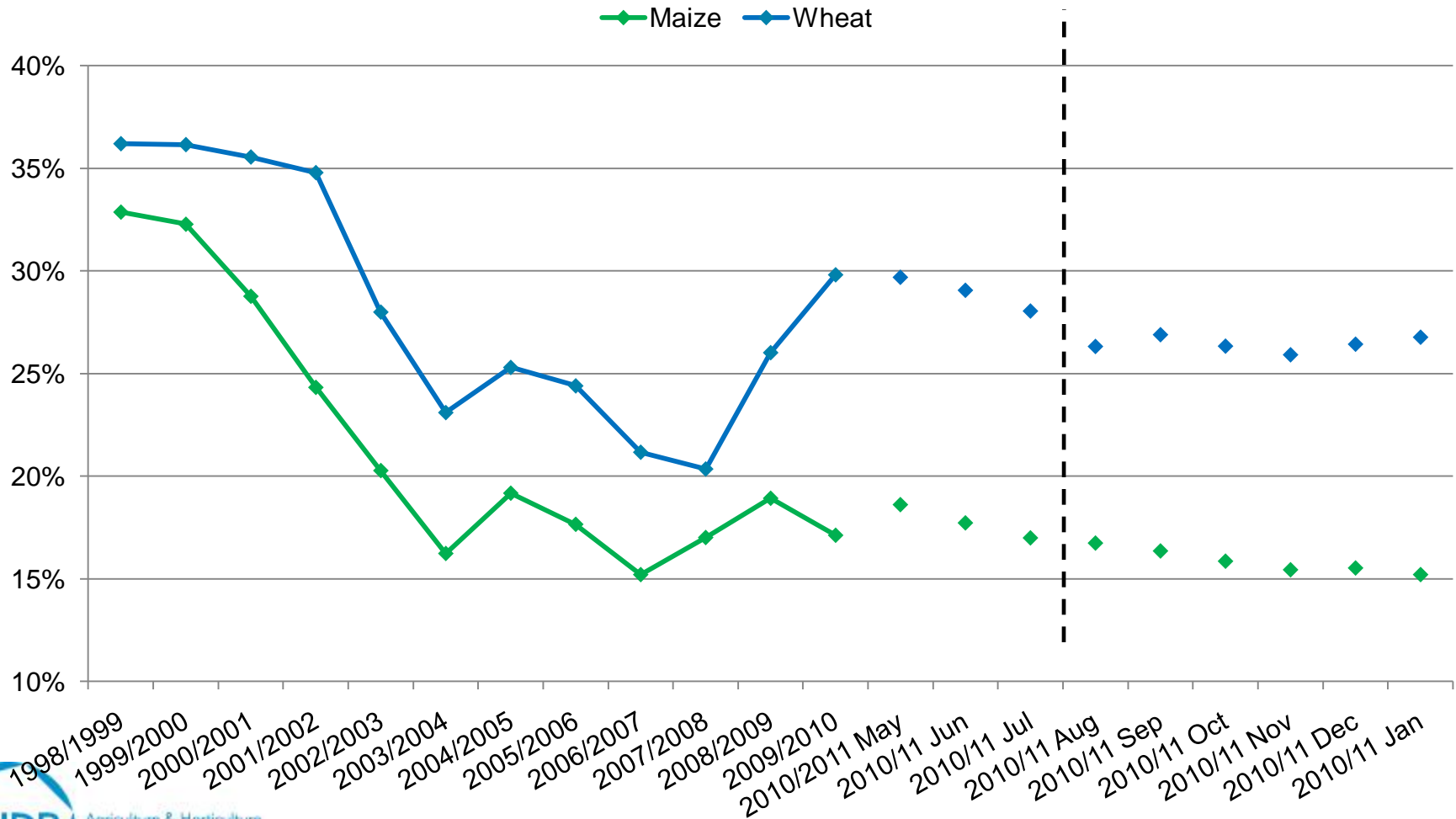
May – September a key time for wheat markets



Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun

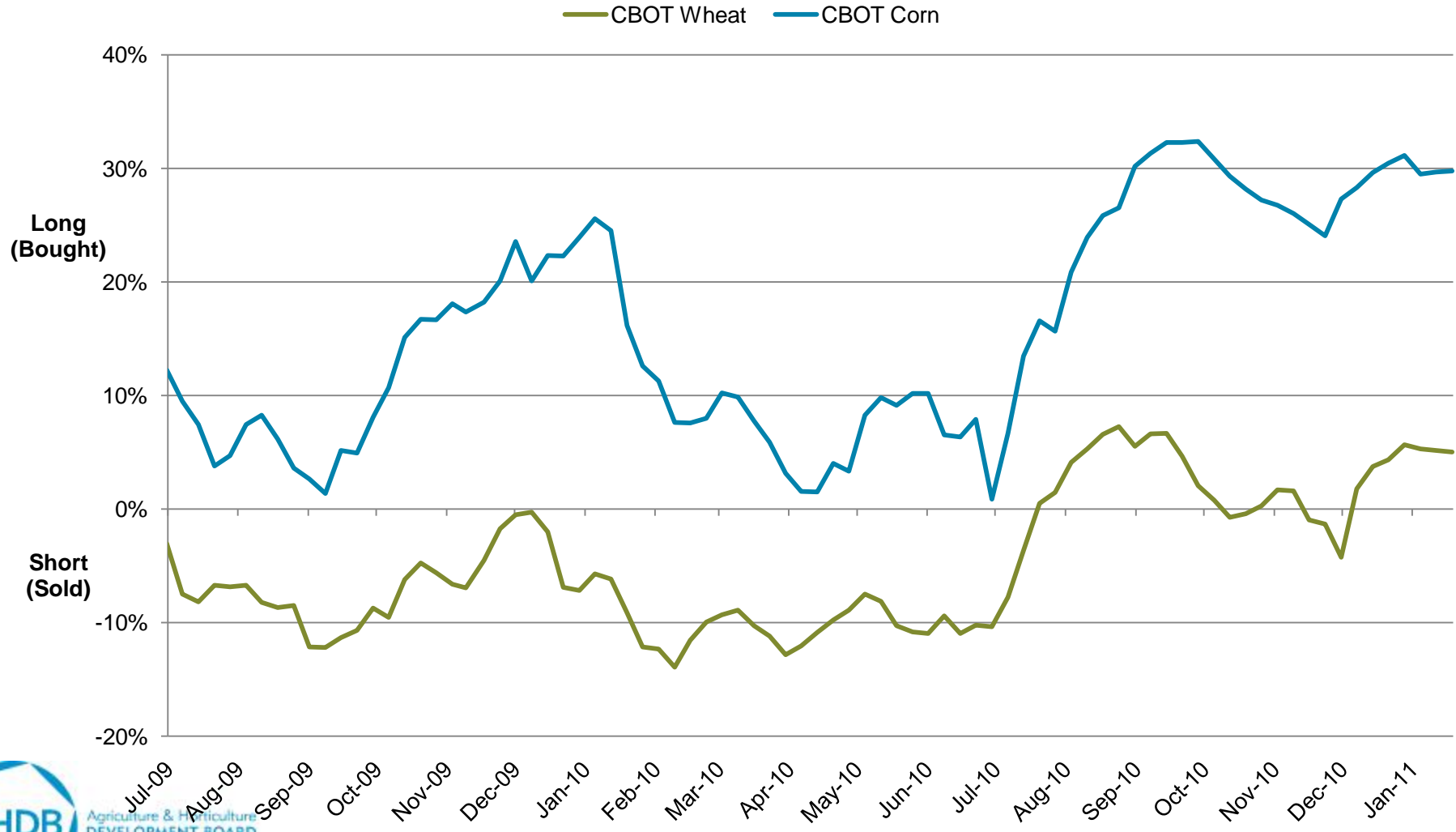
Global stocks-to-use ratios pulled lower

- maize remains tight, wheat is less comfortable



Fund activity

- bulls return to the market, sell off risk?



UK wheat supply and demand



'000 tonnes	2008/09	2009/10	2010/11
Opening Stocks	1,720	2,756	1,859
Production	17,227	14,084	14,878
Imports	1,305	1,241	1,085
Availability	20,252	18,081	17,822
Domestic Demand	13,973	13,795	14,495
<i>H&I</i>	6,836	6,855	7,502
<i>Feed</i>	6,729	6,580	6,628
Exports	3,523	2,427	1,327
Closing Stocks	2,756	1,859	2,000

Markets

HGCA provides economic analysis to aid marketing decisions. Up-to-the-minute prices, supply and demand, trade and policy information are online. Find out about market outlook to risk management events. Free services for levy payers include the weekly market report, Knowledge Centre, Market Data Services, and e-Newsletters.

► Grain Market Workshops

Managing Risk in Volatile Markets – What's your plan?

In these volatile times farmers are asking what market drivers should I watch out for and what pricing tools could work for my business? How can I build a plan that suits my business? To help answer these questions and provide an update on what is happening in the markets HGCA is running a programme of **free half-day Grain Market Workshops across the country.*

[Click here to find your nearest workshop](#)

*Free for levy payers only, non-levy £41.13 (inc vat)

► Market news in brief

■ Midweek market update

21 Oct 2010

Grain markets and prices over the first half of this week

[more »](#)

■ Latest UK Trade Data

20 Oct 2010

Jul-Aug exports 200kt ahead of last season

[more »](#)

■ Strategic Grains EU Supply and Demand

15 Oct 2010

Wheat and barley output up, but feed grain situation tight

[more »](#)

■ HGCA Early Balance Sheet for wheat

► Market Analysis

■ Indicative Option Premiums for UK LIFFE Wheat

21 Oct 2010

Option premiums for May 2011, November 2011 and May 2012

[more »](#)

■ Sensitivity analysis tool

20 Oct 2010

Price and yield are key variables when it comes to arable farm profitability. This tool enables farmers to quantify this variation, as demonstrated at this season's Grain Market Workshops.

[more »](#)

■ In the latest issue of Prospects

14 Oct 2010

A summary of the HGCA Market Outlook conference and analysis of the UK

► Full Section Menu

[View Markets Submenu ▾](#)

► Futures Prices

(as at 25 Oct 2010, 10:23)

LIFFE Wheat £ / tonne

Nov 10	161.75 (unch)
Jan 11	164.40 (unch)
Mar 11	165.75 (unch)
May 11	170.75 (+2.00)
Jul 11	168.75 (unch)
Nov 11	138.25 (unch)
Nov 12	131.65 (unch)

MATIF Wheat euro / tonne

Nov 10	210.75 (+1.25)
Jan 11	209.00 (+1.25)
Mar 11	208.50 (+1.50)
May 11	208.25 (+1.75)
Aug 11	180.00 (unch)

MATIF Rapeseed euro / tonne

Nov 10	388.50 (+1.75)
Feb 11	398.00 (+3.00)
May 11	397.25 (+3.00)
Aug 11	382.00 (+2.50)
Nov 11	383.00 (+2.50)

MATIF Malting Barley euro / tonne

Nov 10	222.50 (unch)
Jan 11	223.25 (unch)
Mar 11	227.75 (unch)

Keeping you up to date on markets markets@hgca.com & MI publications



November 22 2010 / Vol 5 Issue 20

HGCA **Market Report** AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Latest HMRC trade data shows September wheat exports at 0.25MT, the highest monthly figure for two years. This brings exports in the first 9 months of the season to 0.95MT, the highest since 1999/00. Export levels have been supported by a stable discount to French values that existed for much of the season plus the good level of UK quality, as confirmed in the final HGCA Cereals Quality Survey results ([click here](#)). The Cereals estimate of 2010/11 UK wheat exports, underpinned by an assumption of healthy stocks set at the five-season average of 2.1, is 1.3Mt, meaning that 66% of the current total season estimate was achieved with only a quarter of the season gone. A discount to French values of nearly 6% still exists in the nearby market but future positions show more traditional discount levels - the discount is only 2% for current May contract values.

US exports (MT): Wheat pace needs to increase to meet forecast, whilst maize is on track so far (USDA)

Wheat: Season Forecast 2008-10
Maize: Season Forecast 2008-10

In China, concerns over demand being slowed by tighter monetary controls has led to an outflow of investors from perceived risky assets. Chinese domestic inflation reached 4.4% last month, a 25-month high, and with food price inflation at over 10%, the Chinese government has been moving to alleviate spiralling price rises. This has led to a long-term global bullishness by strengthening (aided by the weaker Euro and so US commodities have fallen - CBOT wheat was down \$9t at \$237t; CBOT soybeans were down \$25t at \$447t.

Price Effect
Bullish
Bearish
Bullish (Milling Premiums)

Possible Impact
Tightening UK S&D
Lower than expected demand?
Quality affected?

Event
Strong UK export pace
Tighter Chinese food price controls?
Rain hampers Australian wheat harvest

Summary of the week

Feed Wheat £/t Price Summary	ex-farm	del EA	milling prem	fob EC	LJFFE (Jan)
spot	£156.10 down	£167.50 up	£27.00 (N West, Feb)	£165 down	£168.65 up

The Rural Payments Agency (RPA) has announced details of the forthcoming tender sale of UK intervention barley. The first closing date for the submission of tenders will be 10:00am on 24 November 2010. For more, please [click here](#) or visit the RPA website by clicking [here](#).

UK delivered wheat prices were mostly lower last week with lower volumes of bread wheat traded and most demand for spring delivery. Bread wheat delivered to London/Essex in Feb was £26.15/t, down £0.50t. Spot E Anglian feed wheat was slightly (£11t) higher on export demand at £167.50t.

	E Anglia		North-West		Avon		Yorkshire		C. Scotland	
	Spot	change	Spot	change	Spot	change	Spot	change	Spot	change
Bread Wheat	169.00	+1.00	173.00	-0.50	183.00	nil	170.00	-2.50	348.00	-
Feed wheat	158.00	-0.50	164.00	-0.00	189.00	-0.50	180.00	-4.00	174.50	-
Feed Barley	162.00	-0.50	164.00	unch	172.50	-1.00	172.50	-	363.00	35t
Oilseed Rape	164.00	-0.50	176.00	-	172.50	-2.00	363.00	-4.00		
Bread Wheat	172.00	-		-4.00						
Feed Wheat	165.00	-4.00	367.00	-						
Feed Barley										
Oilseed Rape										

November 24 2010 / Vol 13 Issue 11

HGCA **MI Prospects** AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Time to think New Crop

The recent Global Grain Conference in Geneva provided a summary of the market dynamics for the 2010/11 leading grain analysts. Dan Basse, HGCA attended the conference and saw Mr Basse paint a picture of a world grain market which is likely to remain volatile for the foreseeable future. The record crops next year if further depletion of stocks is to be avoided. Coming up to Christmas, an emerging picture of plantings for 2011 starting in the Northern Hemisphere is seen up by 3% by the IGC while UK wheat area was also seen 3% higher in the recently released HGCA Early Bird Survey (Prospects Vol 13 No 10). The Russian area and thus 2011/12 crop prospects will gain particular interest over the rest of this season, given the current export ban and concerns over winter plantings. The Russian winter grain area is seen down by 10% with spring area still to be planted. The combination of instal help focus the market on the potential 2011/12 supply side position with yield information still some way off. The grain supply position for the current 2010/11 is largely set, thanks to the Northern Hemisphere's dominance of production. Demand and external market factors still have the potential to provide volatility for the remainder of this season.

But it is the new 2011/12 season which is garnering interest at the moment. All-in-all there is a greater deal of uncertainty surrounding potential supply in 2011/12 than normal. Given the need for record crops next year, market participants across the grain chain have started focusing on the new crop. They have started actively planning their supply and demand for 2011/12, using new crop 2011 prices, which are available on LIFFE and other futures markets and have been for some time. Prices are currently quite strong in relative terms (at around £142t on LIFFE November '11 contract) as uncertain supplies and strong demand support values. It will be important to monitor new crop prices and relate these back to costs of production as risk management strategies are devised over the coming months.

Michael Archer 0247 647 8763

In this issue...

- US Wheat Quality 2010**
Sufficient quality wheat is reportedly available from the US to fulfil higher export demand this season
- Northern Hemisphere Winter Crop Plantings**
Global wheat area for harvest 2011 is projected 3% higher than in 2010
- New Crop 2011 Pricing**
Strong demand and supply uncertainties support new crop grain and oilseeds prices
- Grain Markets and Arable Land Rents**
Linking land rents and grain market values could aid farmer's profitability
- Summary Global Grain Conference 2010**
Key issues affecting grain markets in the short and long term

MI - prospects fortnightly - November 24 2010

And especially for you . . . *the NI Market Report*



NI Northern Ireland Market Report



Market News

UK wheat futures prices closed at their highest levels for two years on Friday at £177/t and moved a further £2.25t higher on Monday due to concerns over availability. Concerns have arisen partly due to a strong export pace (0.85Mt Jul-Sep), fuelled by good quality and a relatively large discount to French (MATIF) prices. For much of September, LIFFE (feed) January futures traded at a discount to the MATIF (milling) January contract of over £25/t. By Friday this had closed to £7.35/t, with the LIFFE May contract £2.36t less than the MATIF equivalent as the UK market tries to regulate exports. Also, the US dollar strengthened to its highest levels for two months as investors seek 'safe havens' in response to European debt concerns.

The latest IGC 2010/11 estimates show tighter total grain stocks compared to last month and '09/10, a result of lower production coupled with higher consumption. Wheat production was unchanged at 644Mt (577Mt '09/10), with consumption up 2Mt to 693Mt (650Mt '09/10) based on additional usage due to attractive prices. Maize production is estimated down a further 4Mt from last month at 810Mt taking it below the 2009/10 crop estimate of 811Mt. Lower consumption for animal feed (down 3Mt) is offset by increases in usage for US fuel ethanol (up 3Mt) leaving consumption unchanged from last month at a record 840Mt (813Mt '09/10). As a result, global maize stocks are seen tighter than last month at 1.21Mt, 20% below last season and giving a stocks-to-use ratio of 14.4%.

Delivered Prices As at Thursday	Prices on Friday: November 26, 2010				Basis HGCA
	Feed Barley	weekly change	Feed Wheat	weekly change	
Delivered into Belfast	171.00	+2.50	183.50	+4.00	Imported/Home-grown

Belfast Imported Prices As at Tuesday	Prices on Friday: November 26, 2010				Basis (HGCA)
	Feed Barley	weekly change	Feed Wheat	weekly change	
EU	175.00	+4.00	181.00	+2.00	CIFFO

Proteins	Offered Price	weekly change	Delivery	Basis (HGCA)
	Soyameal - FEMUS Standard (Hi-pro)	350.00	n/c	Nov
Soyameal - Brazilian (48%)	307.00	n/c	Nov	Ex-store Liverpool
	307.50	n/c	Jan	

Nearby Futures Prices Settlement Prices	Friday 26-Nov-10	Friday 19-Nov-10	weekly change
	LIFFE Wheat (£/tonne)	177.00	168.65
MATIF Wheat (€/tonne)	218.25	212.00	+6.25
MATIF Rapeseed (€/tonne)	425.00	412.00	+13.00

Currency	Friday 26-Nov-10	Friday 19-Nov-10	% change
	US Dollar \$/euro	1.3225	1.3674
Sterling £/EURO	0.8447	0.8552	-1.2278

This report is FREE to levy payers on the HGCA Web site and aims to meet the demands of its users.

Please contact HGCA if you have any relevant questions, comments or suggestions

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- Belfast Imported grain prices
- Imported soyameal prices
- Nearby futures prices summary
- Currency rates





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Developing an effective strategy

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What is a good price?



	Farmer 'A'	Farmer 'B'
Average price achieved	£130/t	£110/t

	Farmer 'A'	Farmer 'B'
Cost of production	£140/t	£90/t

	Farmer 'A'	Farmer 'B'
Margin	-£10/t	+£20/t

For assistance, use available **benchmarking** tools . . .

www.hgca.com/cropbench

<http://www.countrysiderural.co.uk/benchmarking/>

Appreciating risk



HGCA Feed Wheat Sensitivity Calculator

Step 1: Enter your planted area and expected average yield

Area ha	Av. Yield t/ha
200	9.00

Total crop tonnes
1,800

Step 2: Enter your range of average yields from the last 5 years t/ha

low	high
8.00	10.00

Step 3: Enter your expected variable costs £/ha

400

Step 4: Enter your expected fixed costs £/ha

600

Step 5: Enter the latest Nov-11 LIFFE futures price £/t

135

Step 6: Enter your ex-farm basis to futures (default = -£5/t)

--

Step 7: Enter amount of the 2011 crop already sold and at what price

tonnes	£/t (ex-farm)

2010 Feed Wheat Margin (£ per Ha)

		Yield: tonnes per hectare							% Variation in Gross Margin caused by price, accounting for any sales made
		8.00	8.33	8.67	9.00	9.33	9.67	10.00	
Open market price: £ per tonne (Ex-farm)	90	-280	-250	-220	-190	-160	-130	-100	-212%
	100	-200	-167	-133	-100	-67	-33	0	-159%
	110	-120	-83	-47	-10	27	63	100	-106%
	120	-40	0	40	80	120	160	200	-53%
	130	40	83	127	170	213	257	300	0%
	140	120	167	213	260	307	353	400	53%
	150	200	250	300	350	400	450	500	106%
	160	280	333	387	440	493	547	600	159%
170	360	417	473	530	587	643	700	212%	
% variation in Gross Margin caused by yield		-76%	-51%	-25%	0%	25%	51%	76%	

What is your current strategy doing for you? - *does your strategy.....*



Give you a profitable price?

Allow certainty – cash flow, budgets and bank

Give flexibility to markets i.e. allow you to change strategy

Provide downside protection – what % of the crop is at risk?

Provide upside opportunity – what % of the crop has upside?

Meet storage and cash flow requirements

Match the available management time and knowledge

Some “*Golden Rules*”



Avoid making forced spot sales

Budget cash flows

Forward plan harvest movements if storage is a constraint

No “one size fits all” strategy for all farmers or all seasons

Consider a combination of strategies

And if you don't understand it, don't do it!

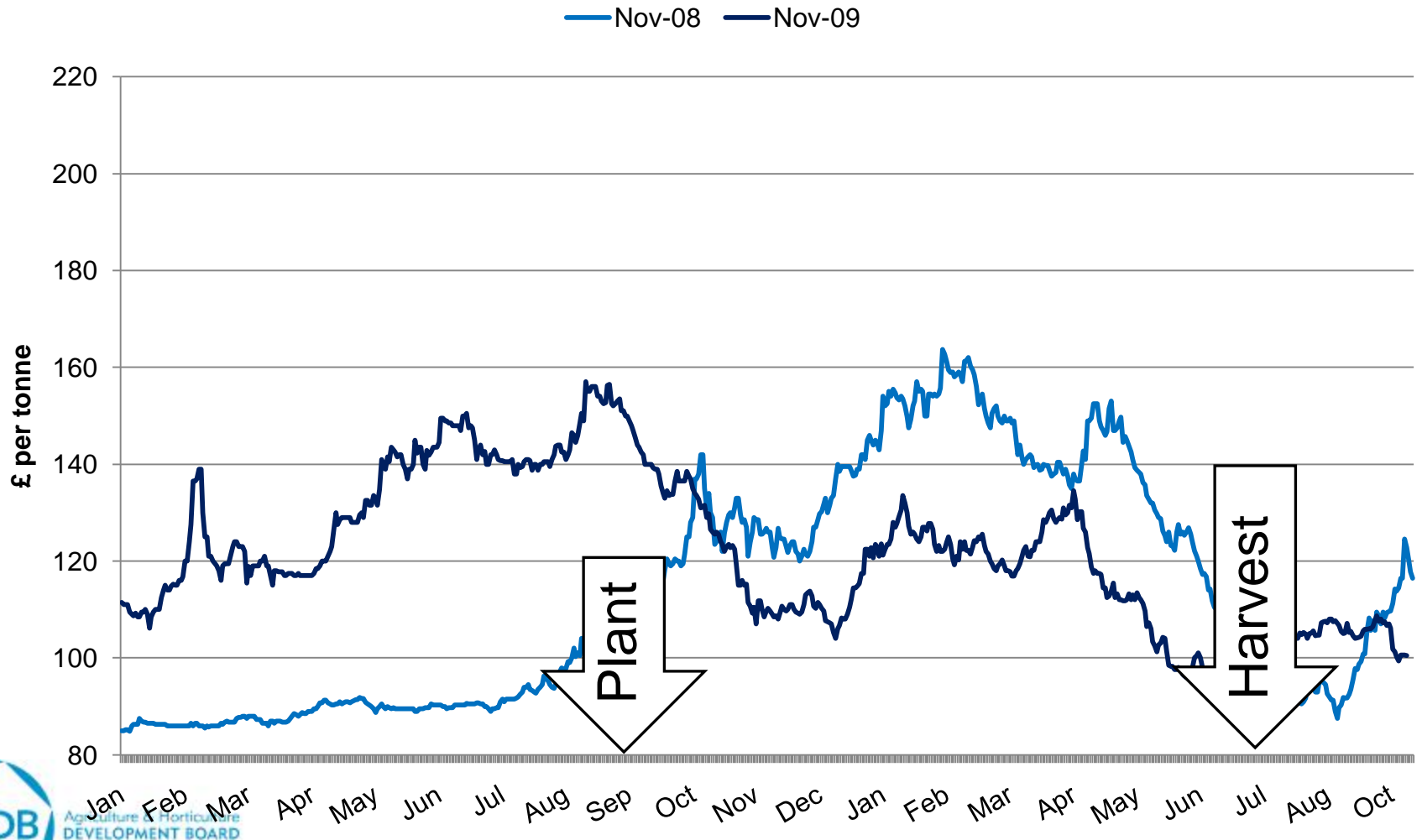
General strategies available

- discussion



Strategy	Pros	Cons
Selling forward	Limiting downside Price certainty	Limiting upside Default
Averaging	Achieve average price Time efficient	Selling below cost? Non-responsive to market
Target pricing	Removes psychology Reacts to protect profit	Will markets reach target Non-responsive to market
Pools	Someone else's responsibility Saves management time	Little certainty No control
Tracker products	Minimum price Some upside opportunity	Cost Can not lock-out upside
Options	Absolute minimum price Controllable upside opportunity	Cost Time and expertise required

Up to 3 years to price a season's crop - *multi season price and market monitoring is key*



Conclusions – *and how HGCA can help*



- Understand the markets – www.hgca.com/markets
- Monitor the markets – www.hgca.com/markets
- Know your costs of production – www.hgca.com/cropbench
- Developing your strategy – Down to you!
- Any questions – markets@hgca.com