Spreading the risks

Better buying, better selling

Spikes in the price of global grain markets followed by months of decreases have left the market feeling flat, but sitting on grain waiting for more bullish days might not be the answer. *CPM* takes a closer look.

By Melanie Jenkins

A tumultuous 12-18 months has seen grain markets spike dramatically, with feed wheat hitting over £300/t, but now prices have settled it can be easy to mistake this for stagnation and to sit on grain in anticipation of further steep price hikes however, a risk averse approach isn't necessarily the right one.

According to Openfield's member services director, Richard Jenner, the past few years have demonstrated that volatility in grain markets can be massive. "It can come down to local supply and demand within the UK, but there are lots of geopolitical events that will drive grain prices.

"The previous 12 months have shown just how drastically these events can impact markets — be it issues with production around the world, avian influenza or the Russian invasion of Ukraine. And now we're in the midst of an unforeseen conflict between Israel and Hamas."

Market impacts

When the markets move so strongly it leads to second guessing, says Openfield's head of sales and trading (barley), Ed Hodgson. "We ask whether now is the right time to sell or should we hold off until tomorrow, or should we wait even longer. It's created a challenging period of trading but has also brought one of the best opportunities to the industry for a long time in terms of making money for the farm and throughout the supply chain. It's been a blessing and a curse."

However, initial logistical challenges to move grain out of Ukraine were overcome quite quickly through deep water and overland exports, and the current fighting in the Middle East is unlikely to impact markets, explains Richard. "So since the peaks experienced last year, prices have subsequently declined almost in a straight line from the start of October 2022."

As a result, markets have appeared pretty flat and unpalatable, which is especially noticeable when combined with higher input costs, meaning selling ▸

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▸ anything might only result in breaking even, or perhaps making a loss, he comments. "It appears that a lot of farmers are now sat on their grain waiting for something to cause another spike, but we just don't know whether this will be the case."

Timing trades is a notoriously tricky endeavour, says Ed. "Fundamentally it's about finding a day that works for you and having confidence that whatever happens tomorrow, the decision you made today suited your business."

Watching out for risk cues can help guide the selling of grain even if these won't indicate when the best time is to do it, says Richard. "However, we can learn how to manage the risks on an individual basis."

Marketing plans

And while marketing grain might sound like a simple and straightforward procedure, watching for all the cues and fluctuations alongside running a farming business can be a challenge for an individual farmer trying to get the best return on investment, he says. "Therefore, it's important to think about the risks you're facing each year and come up with not just a plan A, but also a B and C.

"The first place to start is to establish your cost of production to understand where your break-even point is. From here, you can establish a break-even plan and a minimising loss plan, and not just for Harvest 2023 but for 2024 as well, which should present a year where cost of

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Barley and OSR

Recent rallying of the barley markets is an opportunity which might not appear for another 20 years, so it has to be seized when it comes along, says Ed.

"Barley prices have noticeably drifted off since the highs of last year but appear to have finally flattened for the first time since just after harvest. Prices are still ranging a bit, but we've found a period of stability. Prior to this, selling was about knowing your cost of production and committing if you were going to be making a profit. It's about learning to attack the opportunities when they come along because it avoids sitting and asking when another bounce is going to come."

Ed highlights that feed barley largely trades in line with but at a discount to other commodities. "Knowing your cost base is the biggest thing to be aware of but you also have to expect markets to look relatively flat or similar to how they did in the 10 years prior to the Russia-Ukraine war. We have to see €10 moves on the Matif as normal, rather than something to dismiss. If a small move is in line with your cost of production and cashflow, then it's an opportunity worth taking."

This year's feed barley crop is anticipated to be similar in size to last year, says Ed. "Although the country exported just over 1M tonnes then, based on the current pre-Christmas exports it would be incredible if we hit that figure this year. Because Black Sea origin grain is so much cheaper than ours and has been aggressively sold to our key markets of Ireland and Spain, we can't compete."

Malting barley is already in a challenging situation, but for different reasons, explains Ed. "In many ways, last year was the perfect malting barley year, with a great growing season, good quality, a big crop and strong exports. We thought this year would be similar but the weather at harvest wasn't conducive to producing a good malting barley crop.

"Luckily, end users had a large stock of old crop which they only had to start blending with new grain in November, but there are now substantial quality concerns in the UK and Europe," stresses Ed.

"Many farmers sold at harvest, getting record highs of £80-£90 premiums, something we're seeing again because of the quality concerns. But knowing your quality and holding onto it has never been more vital. If you sold something committed forward, you have to keep moisture down, keep it cool and check germination — have regular tests done on your stores because there are already reports of pre-germination."

With this in mind, it's poignant to expect higher rejections from UK deliveries than have been seen over the past five years, he adds. "When we're talking about £60-£70 premiums, the cost of rejections is going to be massive. If you know you have a problem, tell your grain sales partner as soon as possible in case stocks can be sold early. Or in the case of a default, have the conversation early to see if there's a

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possibility to reduce contracts.

"What we're hoping to see is bigger claims rather than increasing rejections, whereby a portion of the premium is reduced when a load is slightly off specification. It might be the case that you have to be more flexible in terms of the claim structure you're happy to accept to get your grain tipped," he says.

"But ultimately, if you have good quality malting barley in store and can keep it that way, then the premium structures are likely to hold."

Along a different thread, oilseed rape area has been in decline for several years across the UK, something that's likely to continue, says Ed. "The UK imported 700,000t last year and it's likely to be similar this year. The big consumers in the UK have become used to importing and are less reliant on a domestic crop, meaning our prices will be led by imports.

"From a marketing point of view, if there's profit in the crop and you know your cost structure. then taking a profitable price is the right thing to do."

production is lower and therefore returns are better based on current new crop values."

As time progresses, it's important to keep abreast of risk cues, such as the weather, which will impact plantings and harvest which will affect quality, he advises. "And also keep an eye on what's going on around the world. There are a lot of resources for this, such as from the AHDB. But you can't watch everything, so you have to decide which are likely to be most important — and these change throughout the year.

"Working with a trusted partner — such as your grain trade partner — helps you to navigate these issues and means you don't have the impossible task of trying to keep abreast of everything.

"There are a number of ways of implementing risk management strategies, some involve forward selling, others using trackers, or min/max contracts and pools. It's not just having to sell flat pre- or post-harvest, because there are various tools available. So instead, use the different options at your disposal to help manage some of that risk."

Trackers, in essence, are very simple, explains Richard. "Whatever you're tracking — say that's wheat on the London futures market — then you're committing a volume of grain and part of that's sold on your behalf every day. At the end of the set period, the tracked value is converted into a physical ex-farm price.

"During the past couple of years, an average of the market performance would have been quite a good outcome. So although trackers might not sound exciting for those who want to play the market, they can de-risk your business."

According to Ed, trackers can be exceedingly useful in a bearish market. "I'd also use a tracker as a benchmarking opportunity. If you have a large farm, putting down 25% of your grain where you're poised to not get less than the average price means you don't lose out — trackers guarantee you don't lose to the market."

On the other hand, pools can be open to misinterpretation whereby the assumption is they work like a tracker, says Richard. "These might work slightly differently in each organisation, but at Openfield a pool works on the basis of whatever commodity is involved, members commit themselves to market in a pool period, which tends to be around harvest, autumn, spring or summer — the standard movement periods. Once these commitments have been received, the marketing team spend time devising plans to market the commodity and then go about enacting these.

"As a farmer, you're collectively benefiting from not flat selling and also have the advantage of a team whose entire job is selling a commodity to get the best outcome. However, these do require some flexibility around movement."

Pools are useful tools for those who are unsure of what to do every day, says Ed. "Selling grain through pools means the people who live and breathe trading are helping to make those decisions for you.

"So there's an argument for selling some forward or post-harvest flat, having some in a tracker and some in a pool, because across those three instruments, you should be able to manage your risk quite well," says Richard.

Global influence

Openfield's head of research, compliance and shipping, Cecilia Pryce points out that because UK production only accounts for 1.8% of the global wheat crop, domestic prices will follow rather than lead in terms of world market movements. "We import more than we export these days and can't forget how lucky we are to have a large domestic demand on our doorstep.

"But because of this position as an importer, if you're looking to market your own cereal grain, you have to look at where global maize prices are, and if you're growing oilseed rape you can't afford not to look at the soya meal and soya bean situation," she explains. "But because we don't grow maize, we often don't realise that we have to worry about it."

But she says the whole structure of UK agriculture is about to change. "One of our biggest domestic issues is the lack of data on what's being grown, so we don't know what UK food security looks like and whether we should be planting more wheat and reducing oats and pulses, for example. We could also be running the risk that the push for environmental land use takes too much area out of food production, which could push prices up again.

"The key message is to know what you're good at doing and to not follow the crowd unless you're confident. But if you only have time to market your grain one day a month, that's just 12 days a year to make decisions on a market that moves every day, and this is when it could be worth getting someone to market your grain for you," concludes Cecilia. ■.

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To remain at the forefront of arable farming and to maximise the value from every hectare of crop grown requires a keen understanding of the grain market, the seed to supply it, and the fertiliser to feed the crop.

Through this series of articles, *CPM* is working with Openfield to provide a market insight and help farmers to focus on these major business decisions to ensure better buying of inputs, and better selling of the produce.

Openfield is Britain's only national farming grain-marketing and arable inputs co-operative, owned by over 4000 arable farmers. Openfield's team works with a total of 6000 farmers to supply some of the biggest and best-known names in the British food and drink manufacturing industry.

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