

# Triple whammy perfect storm

CLM towers are usually home to a happy band of positive thinkers but we see clouds on the horizon. It could simply be the effects of too much Christmas cheer but it looks pretty gloomy from here. There are dangers in making January predictions but a number of indicators are pointing firmly in the direction of a perfect storm.

The three pronged attack on UK agriculture comes collectively from pressure on wheat prices, likely interest rate rises and the much discussed reduction in pillar one payment within the new Basic Payment Scheme.

Pronumber one comes in the form of thoughts about the wheat price. The FT recently reported bumper harvests in Canada and Australia which significantly depressed the corn and soya-bean price and put pressure on the US wheat market. European prices remain strong by comparison with slow off farm sales and recent exports to China and Egypt helping to maintain the position. There is no disconnect between wheat as a global commodity and an easy autumn in Europe will bring pressure to bear on the UK wheat price during 2014. The trend during 2013 has been downwards – Feed Wheat twelve months ago stood at around £212/tonne and is now nearer £160, a twenty five percent drop. Nothing looks like bucking that trend, with harvest 2014 prices already weakening. A very unscientific straw poll of grain merchants does nothing to improve the forecast with the general opinion being a weakening price.



The second and possibly sharpest prong comes from the likely increase in interest rates. Each small increase – they are unlikely to shift too dramatically – will challenge the available cash within many farm businesses. Banks are encouraging modelling longer term loans on the basis of rates at 5%. In terms of monthly cash commitment, a typical £100,000 farm loan repayable over 20 years would increase from £544 per month to £793 per month. This is an extra cash demand of £3,000 a year. Recent overdraft negotiations on behalf of clients have been on the basis that businesses can service higher interest rates and service them comfortably. As a sector agriculture has been a safe haven for the banks with very low levels of default but that does not change the way the credit teams within all the lenders think. You may know your local man very well but the credit team in their ivory tower have no idea who you are nor do they care. Can you service the borrowing – yes or no? This aspect has become increasingly important as far as Banks are

concerned – they are obliged by their regulators to show that they are lending responsibly i.e. that you have the ability to meet your commitments. For arable farmers the second prong has a hard edge with the cash impact of the “lighter” than normal harvest and reduced prices probably being felt in Q2 and onwards next year when crops have been sold and costs for 2014 harvest are gaining pace. Gloomy stuff.

The third prong is the hot and much publicised topic of the reduced payments we are likely to receive under the Basic Payment Scheme and its effect on English Farmers in particular. This is no surprise. The only surprise at CLM is the amount of negative PR the NFU are generating on behalf of the farming industry. Owen the Reformer has been telegraphing his stance on modulation since December 2012 when we reported that ‘DEFRA are determined that pillar one will go whilst pillar two delivering public benefit will stay’. At the same Whitehall event Peter Kendall said that ‘the NFU accepted CAP reform cuts’. He

did ask for a level playing field and no Green plating too but surely if the writing was on the wall in 2012 why are they only campaigning vigorously and loudly now? King Canute had as much chance of stopping the sea as the NFU has of affecting policy now. It is done. The moment has passed and we will have to manage the consequences.

Managing the consequences of change is an everyday occurrence, which as an industry farming does reasonably well. Allowing ourselves sufficient time to plan and mitigate those changes is less common. In the calm weeks that follow Christmas spend a moment with a calculator and the cashflow. Ring the grain merchant, bank manager and the chap that does your SPS form. Get a sense of whether there is storm coming or whether we simply have post-Christmas blues.



▶ by **MARK WEAVER**  
Managing partner,  
CLM  
01892 770339



## COMPLETE LAND MANAGEMENT FOR EVERY SEASON

- Farm & Estate Management
- Rent Reviews
- Environmental Stewardship
- Ecological Surveys for Planning
- Renewable Energy



Call us on **01892 770339** or email **info@c-l-m.co.uk** [www.c-l-m.co.uk](http://www.c-l-m.co.uk)