Agriculture
2020 H1 Insights

The first half of 2020 was dominated by the COVID-19 pandemic which caused unprecedented challenges for the global economy. Although the agri sector was more insulated than other sectors of the economy, the COVID-19 related disruption had a direct impact on global agri commodity prices as the closure of restaurants and cafes led to a collapse in food service sales.

As farming has no off switch and supply continued, a sudden drop in demand created a pronounced market imbalance which was felt all the way back to farm gate prices. Furthermore, challenging weather conditions, including an exceptionally wet winter followed by an exceptionally dry spring and early summer, have impacted crop yield potential and grass growth rates coming into the second half of the year.

Dairy

For the first four months of the year global milk supply has been strong (+ 1.3%) with Irish supply up by 3% (European Commission). April saw a slowdown in global supply growth, driven by reducing milk prices, measures to reduce supply over peak, dumping of milk in the US and UK and dry weather across Europe. The closure of food service (which consumes 20% of dairy volume in Europe) caused significant disruption to global dairy markets and while retail sales increased, they did not fully compensate for the losses in food service.

The onset of COVID-19 in China at the turn of the year and its subsequent spread across the world saw the upward movement in global dairy product prices, visible in Q4 2019, stall in Q1 2020. Irish milk prices in 2020 were forecast to remain similar to 2019, at 34c per litre (Teagasc, Annual Review and Outlook 2020), at average fat and protein. In mid-March when the pandemic was sweeping through Europe, global dairy commodity prices were reflecting a milk price 20% (6c/l) lower than the Irish farm gate price at the time. Dairy markets have since bounced back and actual average base milk prices have fallen less than 10% (3c/l).

Beef

Since autumn 2018, beef farmers have endured a prolonged period of exceptionally low beef prices. This is as a result of excess supply across Europe, on-going Brexit market uncertainty and sterling/euro exchange rate fluctuations. As a result the Government introduced the Beef Exceptional Aid Measure (BEAM) scheme which provided €100m of support for the industry.

COVID-19 caused major market closures and disruptions across the sector, including the important live export trade. The closure of livestock marts during the peak trading period severely disrupted the domestic livestock market. The closure of food service, which accounts for over half of sales of premium cuts (steaks), eliminated a key market overnight while also creating a carcass imbalance driving down prices.

This impact of COVID-19 caused the national kill to fall 6.5% to 804,508 head (DAFM) and live exports to fall 22% to 174,721 head (Bord Bia) in the first six months of the year. Before the impact of COVID-19, Cattle prices (R3 steers) were down 20c/kg or up to €100 per animal compared to the average of 2017 and 2018 levels. And when Europe went into lockdown cattle prices collapsed 40c/kg to €3.50/kg-€3.60/kg. They have since recovered c. 20c/kg to €3.65/kg-€3.80/kg but remain below 2018 levels. (DAFM)

Tillage

The first half of the year was one of two weather extremes. Firstly the autumn and winter of 2019 proved very difficult for Irish tillage farms, with above average rainfall leaving many farmers unable to complete their planned winter sowings and forcing them to switch to lower yielding spring crops. Overall the area planted to winter crops (wheat, barley and oats) declined by 40% while the area planted to spring cereals increased by almost 60% (DAFM). Then a particularly dry spring/early summer severely affected crop potential. The difficulties caused by the weather were somewhat compensated by low disease pressure helping reduce crop protection costs. Other input cost such as fertiliser and fuel were also lower.

Pigs

Asian demand drove a 25% year on year increase in European exports, helping offset COVID-19 disruption. There has been a significant and growing global deficit of pigmeat as a result of the African Swine Fever (ASF) outbreaks in China in late 2018 and into 2019. This has seen an increase in pig prices in late 2019 and early 2020 to a relatively high €2/kg which has helped pig farmers to rebuild reserves.

However, COVID-19 has severely disrupted supply chains and especially impacted exports from Ireland and the EU to China. Irish pig processors had a backlog of products in cold storage which has resulted in a decrease in the pig price of 20c/kg or €17 per head (DAFM). Plant closures and weak foodservice demand has also impacted negatively on the price.

Land Sales

The average price of land in Ireland last year remained steady (down 1% on 2018) at €8,971/acre (Irish Farmers Journal Land Price Report 2019). The number of acres offered for sale last year fell 13% 61,506ac, which continues the downward supply trend of the last three years. Since 2009, the average price has hovered between €8,700/ac and just under €10,000/ac (IFJ Land Price Report). Since the price collapse of 2009, markets equilibrium appears to have been reached. While prices may deviate in certain counties or regions, average prices are relatively stable.

Agriculture

2020 H2 Outlook

The speed of reopening the food service sector across the world is key to improving the supply-demand imbalance created by COVID-19. However many other factors such as global economic growth, weather and Brexit will determine the speed and extent of the recovery in global agri commodity markets.

The outcome of Brexit negotiations will determine the way in which Ireland will trade with the UK in future. Any outcome other than continued tariff free access to the UK market will present significant challenges for the sector. Brexit aside and assuming a normalisation of recent weather patterns, incomes are expected to reduce across all farms this year. A global recession may impact demand growth in the medium term and delay a recovery to pre COVID-19 levels for dairy and beef.

Dairy

Dairy markets remain delicately balanced. While tighter supply growth combined with increased buying activity has helped firm global commodity prices for the moment, it is likely that supply will outweigh demand in the second half of the year. Furthermore, once government aid programs unwind, the economic impact of COVID-19, coupled with a global recession, will likely weigh on global dairy demand.

Nonetheless, 2020 offers the prospect of strong, continued growth – albeit at lower levels than seen in the last few years. Dairy farmers have some capacity to reduce their production costs in response to lower milk prices. The COVID-19 driven reduction in oil and energy prices will see reduced fuel, energy, fertiliser and feed costs. Despite reduced production costs, lower milk prices in H1 will mean lower profit margins on dairy farms in 2020. It is expected that conversions of dry-stock and tillage farms to dairy will continue to be a feature of the sector given its relative profitability and lower reliance on the EU funded Basic Payment.

Beef

It was expected beef prices would improve in 2020 as a result of increased demand from China following a cull of almost half its pig herd last year due to African swine fever. While this may support prices in the longer term, the reduced kill and lower live exports numbers as a result of COVID-19 (an extra 100,000 animals remain in the system), will likely keep prices lower in the medium term. The overhang on farms may act as a drag on prices in the coming months, until markets achieve more balance.

A contraction of supply is expected over the longer term which will stabilise prices. This is in the context of heightened competition globally due to increased output from the US, Brazil and Argentina in particular.

A new €50m compensation scheme for beef farmers to compensate for a fall in prices due to COVID-19 could see a payment of €100/hd for cattle slaughtered during February to June. With almost 50% of Irish beef exports going to the UK market, Brexit uncertainty continues to present challenges for the sector, as do supply side pressures at national and EU level and the potential impact of ongoing trade negotiations. Lower inputs costs (feed and fertiliser) will help margins however will not make up for the drop in factory prices meaning lower profit margins on beef farms in 2020.

Tillage

The switch to spring cropping coupled with the prolonged dry weather is expected to significantly impact on Irish grain supply in 2020 and could reduce it by as much as 17% (Teagasc). Straw yields are expected to fall by 25% due to a combination of lower yielding spring crops and drought (Teagasc).

Record low maize prices (as a result of low oil and ethanol prices) are dragging down all grains. While this could lower prospects of recovery, other factors such as global weather events could have a larger impact on prices in the medium term.

Alcohol sales have fallen 30% (Drinks Ireland, IBEQ) as a result of COVID-19, leading to a reduced demand for grains destined for the brewing and malting industries. This will push more grains onto the feed market.

Locally, feed demand could increase, reducing carryover stocks and giving some strength to native grains later in the year as an increasing number of mills opt to use Irish grains The straw price is expected to double (from a low base) in 2020 given the reduction in supply and low carryover stock.

November futures indicate a price of €180/t for dried wheat and €165/t for dried barley (MATIF/LIFFE). Prices are currently available for green wheat at €155/t and green barley at €135/t for harvest 2020 which puts them €20/t lower than Harvest 2019. A price of €172/t is currently available for malting barley for harvest 2020.

Despite reduced input costs (lower fertiliser and fuel prices), lower grain prices and yields will mean lower profit margins on tillage farms in 2020.

Pigs

Irish pig prices are currently running at €1.64c/kg – €1.68c/kg (DAFM). The outlook for the remainder of 2020 looks more positive albeit there is some uncertainly as to when a recovery in prices to levels seen pre COVID-19 will start. As restocking will take time, it is expected that there will be a further drop in Chinese production in 2020, which will reduce overall pork production. An improvement in prices will be driven by the underlying worldwide shortage of pigmeat.

Feed prices are the other main determinant of pig farm margins and it is expected there will be some stabilization in pig feed prices in the second half of the year driven by weaker grain and oilseeds prices.

Summary

Bank of Ireland remains optimistic about the prospects for the Irish agricultural sector. The sector has a global competitive advantage from its low cost grass based system. The sector overall is lowly geared and has been deleveraging over the last decade.

Challenges remain, including the threat of a hard Brexit and our dependence on the high value UK market for many of our key commodity exports. Ireland remains heavily self-sufficient in beef and dairy products in particular and producers will continue to be exposed to international commodity markets that will remain cyclical and volatile. The industry has become familiar with price volatility over the last decade and has introduced tools and measures to allow farmers better manage sustained periods of low commodity prices.

Our stability, proven track record and investment in people with agricultural know how, provide us with a strong platform to support existing and new customers through these cycles and continue to meet the funding and investment requirements of Irish farmers and agri-businesses.

Eoin Lowry
Head of Agri

Email: eoin.lowry@boi.com
Mobile: 087 223 4061

Eoin joined Bank of Ireland in 2020 as Head of Agri, from the Irish Farmers Journal, where he served as Agribusiness Editor upon joining the paper in 2014 and served as Deputy Editor from 2017 until his departure. He also has extensive experience in Irish and international Agri business, including 5 years as Managing Director of Target Fertilisers. Eoin holds a Masters in Agricultural Science from UCD along with an MBA from Smurfit School of Business.

Sources: Irish Farmers Journal, Teagasc, Central Statistics Office (CSO), Department of Agriculture, Food and the Marine (DAFM), Bord Bia, Euromonitor, European Commission, Drinks Ireland (IBEQ), Marché a Terme International de France (MATIF), London International Financial Futures and Options Exchange (LIFFE)

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