

H1 2018 has been dominated by weather events. Storms and arctic type conditions have been followed by the most severe drought in Ireland in 40 years. Farmers are incurring extra costs and are focused on maintaining their herds and crops. Despite these challenges, Dairy, beef, sheep and pig-meat production increased during H1.

Agriculture Sector H1 2018 Review

Key Trends

- ▶ Weather events have created significant fodder deficits across the country. Latest Teagasc estimates (mid July) forecast a 28% winter feed deficit.
- ▶ Tillage farmers have also seen their yields impacted by difficult and late sowing conditions, and more recently drought has reduced crop yields.
- ▶ Intensively stocked dairy and beef farmers are incurring significant additional feeding costs to compensate for reduced grass growth.
- ▶ Free trade across the world is coming under increased pressure with the introduction of trade tariffs between the US and China / Europe during H1.

Dairy

- ▶ Milk production growth in the main global exporting regions, detailed below, slowed in H1 2018. Irish farm gate milk prices fell from 37 cent per litre in Jan 2018 to 32 c/l in May 2018. Some Co-Op's have increased milk prices for June deliveries in response to strengthening Dairy commodity markets. Cold and wet weather in Q1 in Ireland and the rest of Europe reduced milk production growth to 2% Y.O.Y. Drought conditions in late Q2 are also now having a major negative impact on production levels and costs. EU intervention stocks of skim milk powder are reducing but remain high at c.300,000 tonnes. New Zealand dairy farmers responded to improved forecast prices by increasing end of season production during H1 and while the price outlook for the 2018 / 2019 season is also favourable, the industry in N.Z has herd health and environmental concerns that will make further dairy expansion / conversion difficult.

Regional Dairy Markets – H1 2018

EU	Milk production in H1 has grown Y.O.Y. despite challenging weather conditions. Ireland and the UK were worst impacted by bad weather. Phosphate restrictions are also limiting Dutch output growth potential.
US	US milk output continued to increase during H1 but varies between states. Increased milk prices are being offset by an increase in feed costs. The US herd continues to grow in line with growth in domestic demand for dairy products and exports are also increasing from the US.
New Zealand	The 2017 / 2018 milk production season in NZ was badly impacted by drought but recovered in H1 to broadly match the 2016 / 2017 season. New Government policies are threatening further farm conversions to Dairy while the outbreak of the M. Bovis disease will increase costs to Dairy farmers in N.Z.
China	Despite increases in domestic milk production volumes in H1, Chinese Dairy demand growth of c. 2% continues to exceed local supply capability and requires up to 12% of dairy products to be imported.

Beef

- ▶ The growth of the Irish dairy herd has strengthened beef supplies in recent years and Irish beef supplies in H1 grew by 2.7% Y.O.Y. Despite increased supplies Irish prices are tracked

ahead of 2017 levels by > 2% for most beef classifications. Production across Europe also increased during H1 as surplus heifers not needed to replenish the dairy herd were slaughtered for beef. Two thirds of European beef production comes from the dairy herd.

- ▶ China opened its markets for Irish beef exports in H1 and the recently agreed trade deal between the EU and Japan is another positive step for beef, cheese and other Irish food exports.
- ▶ Live cattle exports were also up 27% (37,461 hd) in H1 2018, driven largely by calf exports to Spain and the Netherlands for the veal market. Live exports are considered vital to providing a market for increased supplies of dairy calves into the future.

Pigs

- ▶ Average Irish pig prices of c. €1.40 / kg during H1 2018 have fallen by 13% Y.O.Y. During this time, feed prices have increased and based on current harvest outlooks, are set to increase further in H2.
- ▶ Margin over feed costs are now < €0.40 / kg, and significantly below target levels of €0.50 / kg.
- ▶ Irish Pig-meat production increased by almost 8% (130,000 hd) during H1. Production also increased across Europe following the expansion of the pig breeding herd in Europe in 2017.
- ▶ China remains a major pig meat export market however exports to China from Europe have declined during H1 as Chinese domestic supply recovers. Increased exports to Japan, South Korea and the Philippines have offset the Chinese decline.

Tillage

- ▶ Wet and cold weather in Q4 2017 and Q1 2018 prevented planned winter crop sowings and delayed spring planting, resulting in a 5% decrease in crop sowings this year in comparison to 2017. Planted areas of winter wheat, winter barley and winter oats are 11%, 13% and 30% lower respectively, with farmers preferring maize, spring barley and beet when conditions allowed.
- ▶ Recent dry conditions have seen an early harvest of winter crops with winter barley yielding 0.5–0.75 tonnes per acre lower than last year. Late sowings and lack of moisture are giving rise to significant concerns over spring crop and potato crop yields. Vegetable farmers relied on irrigation to ensure crop survival.
- ▶ Drought conditions across Europe are expected to give rise to generally lower crop yields. Grain prices are hardening as a result. Straw availability is also at a premium and prices are increasing as farmers look to source winter bedding and some will use straw as a replacement winter feed.

Sheep

- ▶ H1 sheep prices were almost 12% above 2017 levels with strong demand evident in the marketplace. Prices have reduced by c. €1 / kg in recent weeks as supplies of spring lamb increase. Supply year to date is in line with 2017 with fewer lambs and more ewes being presented for slaughter.
- ▶ Mandatory electronic tagging of sheep is set to be introduced from October 1st but is meeting significant resistance from farm organisations who maintain that current proposals are unworkable.

H2 2018 cash flow and profitability will continue to be impacted by the cost of the mid-summer drought. Availability of fodder and imported feed remains a key priority. Bank of Ireland remains committed to supporting customers throughout this period.

Agriculture Sector H2 2018 Outlook

Dairy

- ▶ Continued growth in dairy consumption demand should see Irish farm gate prices stabilise and potentially increase during H2.
- ▶ Profit margins will be challenged by increased feed costs and usage. Herd performance is also being impacted as farmers deal with the implications of prolonged drought conditions.
- ▶ Irish Farmer's appetite for on farm investment has been impacted by the difficult weather conditions. However strategic investment projects to support growing herds will continue in H2 in advance of the 2019 production season.
- ▶ Changes to foreign trade policies have the potential to dramatically impact current price and profit expectations. Aside from Brexit implications, the approach of the US to trade deals with neighbouring countries could cause an oversupply in a key exporting region that would swiftly and negatively impact dairy commodity prices.

Beef

- ▶ Increased supplies of surplus stock are forecast to be a continued feature of beef markets during Q3 as Dairy and Beef farmers cull less productive animals to preserve winter feed stocks, with the potential for this additional supply to reduce prices from current levels as the year progresses.
- ▶ Britain remains the main export market for Irish beef emphasising the importance to Ireland of a post Brexit Free Trade Agreement for agricultural commodities between the EU and the UK.
- ▶ The potential for a free trade agreement between the EU and the Mercosur trading block remains in question. Negotiators failed to reach a deal in July and while some commentators suggest that an agreement may be reached in September, others are skeptical. Should a deal be agreed, it could provide access for up to 100,000 tonnes of South American beef imports to the E.U. and potentially displace Irish beef exports in key EU markets.
- ▶ Suckler cow numbers in Ireland are likely to continue to decline in 2018. Recent calls for a coupled support payment of €200 per suckler cow have been rejected by Government. The underlying profitability challenges in the Suckler sector will encourage farmers to assess other options including calf to beef and contract rearing systems.

Pigs

- ▶ Pig farmers are likely to face a difficult Q3 as warm weather has impacted feed intakes and carcass weights. Feed price increases will need to be met with increased pig prices if current margins which are already below target levels are to be maintained.
- ▶ Coming so soon after what was for most pig farmers a profitable year in 2017, this current challenge to profitability is typical of the volatility that is ever present in the pig industry.

- ▶ Bank of Ireland takes a medium term view of enterprise profitability and will look to support cash flows during short term price troughs.

Tillage

- ▶ Reduced yields and increased demand for livestock feed will likely see grain prices increase in H2. Wheat and barley future prices for Q4 are c. €30 per tonne higher Y.O.Y. and green barley @ 20% moisture is likely to command prices over €175 per tonne.
- ▶ On-going fodder deficits and low stocks of straw following last winter will support continued demand for straw in H2. Prices of over €25 per bale are likely to be maintained throughout the remainder of the year.
- ▶ Early harvesting of crops are providing opportunities for farmers to consider sowing a catch crop that can be cut and ensiled prior to planned winter cereal sowing dates and may make up some of the fodder deficit on livestock farms.

Other Sector News

- ▶ The replacement for the EU funded Basic Payment Scheme continues to be discussed and debated by EU member states. The size of the EU budget to fund the Common Agricultural Policy post 2020 remains a critical point of debate at EU level. Agriculture is competing with new priorities including Defence and Migration for funding and a cut of 5% has been proposed for the overall EU CAP budget. Capping of individual farmer payments at €60,000 has also been proposed. The timeline for agreeing a new CAP framework in time for implementation in 2021 is challenging and could result in an extension of the current Basic Payment Scheme beyond its intended conclusion in 2020.
- ▶ Concerns are growing that a trade deal won't be agreed between the EU and the UK in advance of the March 2019 deadline for the UK to leave the EU. Member states including Ireland are making plans for this eventuality, with the October meeting of the European Council considered a critical date by which agreement needs to be reached on a number of issues including avoiding a hard border on the island of Ireland.
- ▶ Bank of Ireland wants to support customers who will require additional funding to manage their farming businesses in H2. We anticipate that the increased cost of feeding livestock as a result of current drought conditions means customers will need extra working capital this year. Customers should call to their local branch or relationship manager to discuss their needs or call 1890 365 222 to arrange support for their farm business.

Bank of Ireland

- ▶ As Ireland's leading business bank, we recognize that we have a unique opportunity to enable Irish farmers, business and communities we jointly serve to thrive.



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Sources:

Bord Bia, EU Commission, Irish Farmers Journal, Rabobank, Teagasc.