Bank of Ireland Sectors Team Agriculture Half year Insights and Outlook

July 2021

Bank of Ireland

Classification: Green

Summary: Agricultural commodity prices and hence farm gate prices have risen significantly over the past 12 months and are reaching near decade highs, lifted by the global economic rebound and improved growth prospects. The price trend is likely to continue through the rest of the year, however some uncertainty remains as various risks lie underneath the expectations of continued higher demand, from China to weather disturbances.

Agriculture: H1 2021 Review

- **Favourable weather:** Despite spring arriving later and being colder than expected, growing conditions for all crops including grass have been very favourable during the first half of the year. This should positively impact margins in 2021.
- **Rising commodity prices:** Global commodity prices for dairy, meat and grain have all risen consistently since the start of the year[1] and are now at near decade highs. The main drivers include the global economic rebound, the return of food service demand along with an increasing number of investors looking at agricultural commodities as investment assets.
- **Rising feed and fertiliser costs:** The price of key farm inputs (feed and fertiliser) has risen in line with rising grain prices. However the rise in farm gate prices will outweigh the rise in farm input prices.
- **Climate change becomes real:** The introduction of the new Climate Bill means the sector is now obliged to reduce its environmental footprint over the next decade.
- **Increased average farm incomes:** As a result of favourable weather and increasing farm-gate prices, average farm incomes are expected to increase in 2021 versus 2020[2].
- **Increased investment appetite:** While Covid-19 postponed development across farms in 2020, this activity has restarted in 2021, helped by strong sentiment and outlook.

H1 2021 Key Numbers

Irish milk volume growth Year To Date (Jan-May) 2021 (CSO) **8.3%**	Rise in Irish beef price in past 12 months (Bord Bia) **25%**
Rise in global dairy prices in past 12 months (Food and Agricultural Organisation) **22%**	Rise in Irish sheep prices in past 12 months (Bord Bia) **30%**
Rise in global cereal prices in past 12 months (Food and Agricultural Organisation) **34%**	Average Agricultural land price rise in 2020 v 2019 (Irish Farmers Journal) **15%**

H1 2021 Key Numbers

- **Pressure on sector to reduce carbon footprint:** The recently published Climate Bill, sets legally binding targets to ensure Ireland reaches net zero emissions by 2050. All eyes will now be on the sectoral targets that will be established to meet the 51% reduction set for Ireland by 2030. Given that agriculture accounts for one third of Irish emissions[3], unless new technology or emissions calculations are introduced, the national herd may need to be cut. Increased environmental and climate regulations will see an increased requirement for investment in areas such as slurry storage, animal housing and farm equipment.
- **New Agri Strategy launched by Government:** The 2030 Strategy signals significant changes in direction and policy for the sector, reflecting the changed context and challenges expected over the next decade. It places sustainability (economic, environment and social) at the core of Irish agriculture's future. By 2030 the sector aims to reduce emissions by 10%, reduce nutrient losses by 50% and prioritise 10% of farmed area for biodiversity. It also aims to increase afforestation, targets a 6 fold increase in organic farming and scale-up renewable energy, such as anaerobic digestion and solar energy. It is also likely that carbon farming will offer a potential new source of income for farmers over the next decade.
- **Evolution of EU Common Agricultural Policy (CAP):** With agreement on the next CAP in place, a lot of detail and negotiation around the implementation of the reforms by member states will take place over the remainder of the year. Eco-payments, convergence, and limiting the maximum level of payments look set to impact every farmer. It is likely that some farmers will gain, while others will lose out as the EU aims to redistribute funds in favour of small and medium-sized farms.
- **Little direct impact from Brexit:** 6 months on from Brexit, there has been little impact to farming. Although beef and sheep meat exports are down 80% and 33% respectively in the first four months of 2021 compared to the same period last year[4], this is mostly partly due to the stock piling that occurred in the latter months of 2020 in anticipation of a hard Brexit. The UK will begin implementing border controls from 1 October with full implementation scheduled from January 2022. This will see new requirements (veterinary certs) on all products of animal origin going into the UK from the EU.
- **Volatility on the horizon:** Price spikes across all farm gate products like the current one are a regular feature of the agricultural commodity cycle. It follows then, that after a period of high prices comes a period of low prices and farmers need to be prepared to weather the low price cycle.

2021 Agri Sector Outlook

Dairy

Summary: Stable prices but volatility on horizon. Global dairy markets are now at the highest level in 8 years[5] suggesting the peak is near. Farm gate prices look relatively stable for the remainder of the year helped by rising feed costs that may limit global supply growth coupled with improving demand. Downside risks depend on the reopening of food service, global economic growth and Chinese import demand.

Irish milk price

35c/L **20%** up in past year[6]

- Global dairy markets have risen consistently over the past 12 months. The FAO Dairy Price Index is up 22% in the past year. New Zealand's Global Dairy Trade (GDT) index is up almost 25% in the past year while the Ornua Purchasing Price index (PPI) is up 18% compared to this time last year. Farm gate milk prices have risen in line with global dairy markets and are currently returning 35-36c/l including VAT at standard constituents[7].
- Prices appear to be stabilising with some dairy commodity prices easing. This ends almost twelve months of uninterrupted increases and is largely driven by global milk supplies increasing against a backdrop of growing uncertainty regarding the pace of foodservice reopening and sluggish EU exports.
- It is expected that global supply will expand by 1.5% this year[8], though the rate of growth should ease as the year progresses. Rising feed costs will negatively impact farmer margins and restrict supply growth in the second half of the year.
- Demand will remain a key driver of dairy markets for the remainder of 2021. The return of foodservice demand will be important in maintaining current price levels. However the risk of lower Chinese import demand and increased availability of US products on global markets could limit further positive price movements.
- The evolution of stockholding policies, given the ongoing logistics and labour challenges because of Covid may see more stocks being held by companies and countries.
- Domestic milk supply has increased almost 300m litres (8.3%) for the first five months of 2021. Volume growth in the first 6 months of 2021 will now exceed that of the full year 2020. It is expected that supply growth will slow for the remainder of the year but will reach 5-6% growth for the full year – significantly higher than the 3.8% growth seen in 2020.
- Peak supply management looks set to become a key feature of the sector going forward, where farmers may be limited in the volumes of milk they can supply during peak months (April, May and June) and/or receive reduced prices during these months for milk over an agreed quantity.

Grain

Summary: Stronger prices but uncertainty remains. Global grain prices saw an unprecedented price rally during late 2020 and into 2021 as the world grappled with Covid-19. Global grain markets increased 20-30% between June 2020 and June 2021 reaching eight-year highs[9]. The drivers of the current rally include high global demand, particularly from China as it rebuilds its pig herd, along with political interventions from large grain exporting countries such as Russia.

Irish barley harvest price

€185/t **25%** up in past year[10]

- The FAO Cereal Price Index is now 34% higher than its June 2020 value driven by maize which has reached its highest level in 8 years. The grain price rally has so far been demand-driven, particularly from China as it rebuilds its pig herd and stocks up its grain inventories. Prices have also been supported by many large grain exporting countries such as Ukraine, Russia and Argentina implementing restrictions on exports. High demand for shipping, resulting in significant increases in freight costs impacting import prices also.
- The International Grains Council is expecting global grain production to reach record levels this season, as high prices encourage more plantings. Favourable weather and growing conditions across many key grain growing regions are set to produce large crops. However, the global grain market is finely balanced and adverse weather could drag down yield expectations, turning the market bullish again.
- Ireland's cereal crop area has increased 3.7% this year[11], driven by an increase in winter cereals due to the dry autumn and favourable sowing conditions. As a result of the higher winter plantings in 2020, spring barley has reduced in 2021 but is still ahead of 2019. Local supplies of feed wheat and barley have been tight since the early Spring which has ensured very little carryover, adding strength to prices.

- Dried wheat and dried barley prices are up €35/t and €45/t respectively over the past 12 months[12]. It is expected that harvest prices (green) for barley will be in the range of €175-€185/t with harvest wheat trading at €10 above these prices.
- The number of applications to the Department of Agriculture's new Straw Incorporation Measure scheme, which supports farmers to chop straw for soil incorporation, may result in a removal of up to 575,000 round (4x4) bales from the market[13]. This is having a knock on effect on straw prices which are expected to rise €5/4x4 bale to €18-20/4x4 bale ex field at harvest.

Beef

Summary: Tighter supplies and reopening of foodservice create positive situation for beef prices. Many key beef production and consumption regions around the world are currently experiencing high or record prices for beef or cattle. Irish finished cattle prices are up 25% over the past 12 months with prices now touching €5/kg- the highest level in 8 years[14]. As the EU market emerges from Covid, food service demand along with positive economic forecasts will provide strength to beef markets. Supply looks set to remain tight through to the end of 2021 however stronger supplies will come on stream in 2022.

Irish cattle prices

€4.70/kg **25%** up in past year

- While the FAO Meat Price Index is now 16% higher than 12 months ago, it is still 8% below its 2014 peak. China is underpinning the market along with some recovery in food service sales in major exporting countries. Tightening export supplies are also providing price support across all meat products, as a result of lower meat stocks due to plant shut downs in the US last year, and a limited supply of slaughter-ready animals in South America.
- Irish cattle numbers are tight currently. Bord Bia is forecasting that this year's total slaughter level will be 1.69m head - down 110,000 head (-6.2%) on 2020, making it the lowest number slaughtered in 5 years. The supply drop is due to lower numbers of cattle coming through, more cattle slaughtered late last year and lower births going back to 2019. It is expected that more cattle will gradually come through the system in the first half of 2022.
- Exports to the UK are back 30%[15] in the first four months of the year, due to stock building at the back end of last year in anticipation of a hard Brexit. Since April demand has been strong with supplies relatively tight which has boosted prices. Live exports of cattle have also increased significantly, mainly driven by live exports to Northern Ireland where there is a shortage of finished cattle.
- The recently announced UK-Australia trade deal gives unlimited access for Australian beef and sheep meat to Ireland's largest export market. The complete removal of tariffs and quotas on imports is expected to be phased in over a 15 year period but for Irish farmers it means export prices of Irish cattle to the UK will progressively become more dictated by global prices in the future.
- It is just over one year since Irish beef exports to China were suspended due to an atypical BSE case. The sector is still awaiting access and engagement is ongoing between the Chinese authorities and Irish Department officials.
- As countries ease restrictions and re-open food service, demand for beef will rise. The return to economic growth across the EU will boost confidence and should support ongoing demand for beef. However increasing grain prices will drive feed costs higher. This is likely to impact on farmer margins, however the increase in cattle prices will soften the impact of increased feed costs.

Sheep

Sheep prices are running 30% ahead of the equivalent levels during 2020, with average sheep prices of €7/kg year to date[16]. The price rise is driven by tighter supplies and strong demand. Globally there is a shortage of sheep meat due to a combination of flock building in New Zealand and Australia, and strong import demand from China. The UK, which is Ireland's largest competitor on the EU market exported 20% less sheep meat to the EU in the first 4 months of 2021[17]. This is a result of increased focus to supply its domestic market along with additional costs and barriers in trading with the EU post Brexit. Sheep prices are expected to drop as Irish supplies pick up however EU supplies will remain tight in the short term. The recently signed Australian-UK trade deal will allow greater volumes of sheep meat come into the UK which could impact Irish sheep meat exports to the UK and the EU in the longer term.

Pigmeat

Irish pig prices are down 7% in the first 6 months of 2020 but have recovered in recent weeks[18]. Current prices are around 167c/kg which is in line with average prices received in 2019[19].

China is continuing to drive prices as it slowly rebuilds its herd following the African Swine Fever outbreak. However Covid is still dampening demand across Europe due to the failure of the traditional summer tourism season. Higher feed costs will provide support to prices in the near term however it will negatively impact margins.

Poultry
Irish poultry meat output hit a record in 2020 and is expected to increase marginally in 2021[20]. The re-opening of food service will increase global demand, which, on average, makes up one-third of global poultry demand. It is likely that poultry prices will increase over the second half of the year as supply is usually slow to react to increased demand coupled with higher feed prices and avian flu disrupting the global trade of breeding stock.

Land
The Irish Farmers Journal land price report, found that farmland rose by 15% to €10,316/ac in 2020 as sellers held off selling due to the Covid-19 pandemic. The reduction in supply, saw 29% fewer farms (25% fewer acres) put up for sale in 2020 compared to the previous year. Since the start of 2021, land prices have been increasing driven by strong demand where farm gate prices across all agri commodities have provided renewed confidence for investment. Dairy has been the big driver of demand. However there is significant interest from non-farmers turning to land as an investment in the current economic climate. Future environmental regulations are also a factor driving demand as farmers look to future proof their businesses.

Bank of Ireland

- With 52% of new lending to the sector, we recognise that we have a unique opportunity to support our customers and to enable Irish farmers and rural communities to thrive. Lending terms and conditions apply, Over 18s only.
- We understand the farming cycle, agri commodity price volatility and the regular need to invest to maintain growth and profitability in this dynamic sector. We have a strong appetite to support progressive, innovative and efficient farmers.

1. *Food and Agricultural Organisation*
2. *Teagasc*
3. *Department of Agriculture, Food and Marine*
4. *Bord Bia*
5. *Food and Agriculture Organisation*
6. *Irish Farmers Journal*
7. *Irish Farmers Journal*
8. *Food and Agricultural Organisation*
9. *Food and Agricultural Organisation*
10. *Irish Farmers Journal*
11. *Department of Agriculture, Food and Marine*
12. *Irish Farmers Journal*
13. *Department of Agriculture*
14. *Irish Farmers Journal*
15. *Central Statistics Office*
16. *Bord Bia*
17. *Bord Bia*
18. *Bord Bia*
19. *Bord Bia*
20. *Bord Bia*

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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.