

# Agri Matters

Special Fodder and Cash Flow Edition



Autumn 2018



# Welcome



Shane Whelan

Welcome to this special edition of Agri Matters. This edition includes some practical insights and supports to help get through Winter 2018, both from an operational and financial perspective.

With both fodder reserves and farm cash flow, the first step is to identify how much you have to hand, and the second, how much you need. At least then you can start putting plans in place to address any deficits that may arise.

We include the Teagasc Winter Fodder Planner to help establish your fodder requirements for the Winter ahead, and have an interesting article from Philip Lynch, R&H Hall on the grain market and the outlook ahead.

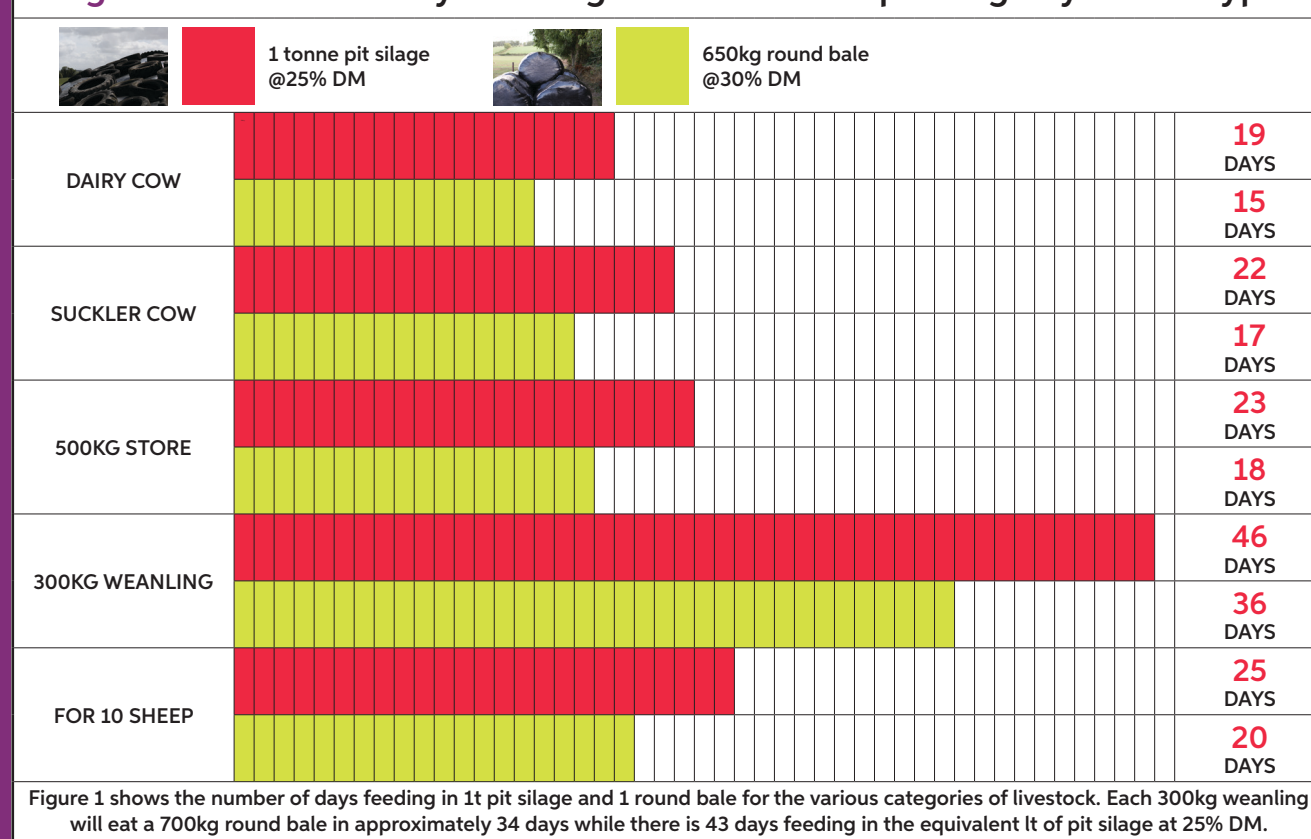
Bryan Doocey, AIB Agri Advisor provides some case studies detailing the impact of increased meal expenditure; fodder purchase; lower yields and higher input prices across a number of sectors, profiling also the suite of cash flow support options available from AIB.

While not directly affected by the weather themselves, the pig and poultry sectors are also suffering as a consequence of the weather in the form of higher feed prices. Similar to the other sectors, and as outlined by Bryan, we have a number of support options available to support pig and poultry farming customers at this time. We are encouraging our customers to quantify the potential impact of the additional costs incurred this year, and to engage early with the bank if support is required.

I hope that this edition will be of practical help to you and I can only hope that 2019 will be a better year, from a weather perspective, for Irish Agriculture.

**Shane Whelan**  
Editor, Agri Matters

**Figure 1: Number of days feeding from baled and pit silage by animal type**



# Know where you stand – do a Fodder Budget

The Teagasc Winter Fodder Planner will help calculate levels of fodder in stock; fodder due to be preserved; and ultimately whether there is a fodder surplus or deficit on the farm. Once completed you have the information you need to take the appropriate action, if necessary. If a shortage does exist, it is likely that a combination of actions will be needed to help you deal with the shortfall - some options may include buying forage, buying concentrate feeds and/or selling stock.



## Fodder Plan-Winter 2018 Requirement

### Section 1. What Fodder is required on the Farm?

Animal Type	A	B	C	
	No. of Stock to be kept over Winter	Number of Months *(Include a 4-6 week reserve)	Pit Silage Needed tones / animal / month	Total tones of Silage Needed Multiply (AxBxC)
Dairy cows			1.6	
Suckler cows			1.4	
0-1 year old			0.7	
1-2 year old			1.3	
2+ year old			1.3	
Ewes			0.15	
Total tonnes needed			D	
Total bales needed (tonnes multiplied by 1.25)			E	

### Section 2. Calculate pit silage conserved & silage to be cut

<b><u>i. Silage in the pit</u></b>	Length x breadth x settled height) metres ÷ 1.35 =		Silage in the pit (t) F
	G	H	
<b><u>ii. Pit silage to be cut</u></b>	Area (Acres)	Yield t/acre	Total yield (t) (GxH*)
2nd cut			
3rd cut			
Total yield pit silage to be cut			I

	J	K	
<b><u>iii. Bales</u></b>	Number of bales	Yield/bale	Total yield (t) (JxK)
1st & 2nd cut bales		0.8 t / bale	
Surplus bales		0.8 t / bale	
Total yield baled silage			L

### Section 3. Calculate the surplus / deficit

Total silage demand (D) minus total silage produced (F, I, L) = D-F-I-L	<input type="text"/>
% deficit = (deficit in tonnes ÷ total demand in tonnes) x 100	

# Quantifying the Financial Impact of 2018 and Support Options Available



Bryan Doocey

**Bryan Doocey, AIB Agri Advisor, examines the financial impact of the past few months and outlines some of the options available to farmers who may need additional cash flow support this year.**

2018 will be remembered by most involved in the Irish Agri-Sector as the year of extreme weather events, prolonged workloads, in particular on livestock farms, and increased costs.

For most farmers their priority is to source sufficient fodder for the Winter if they do not have enough. We are also encouraging farmers to think about their cash flow requirements and to quantify the effect of this year on their farm by identifying the additional costs incurred (including any purchases that will be made to fill a deficit) and accounting for any production losses. I have included a number of sample case studies below for reference.

## Dairy Impact:



- Higher costs
- Reduction in milk production
- Reduction in silage stocks for Winter period
- Earlier selling of stock (empty cows, high SCC etc) to reduce feed demand

## Dairy Case study:

100 cow Spring calving herd (replacements contract reared). Cows are usually out to grass by day from early February (mean turnout date 15th February) but this year they largely remained housed until 16th March. The farmer only had silage stocks sufficient to 28th February, which meant he purchased 40 bales silage (average quality) at €30/bale.

Poor grass growth in late March/early April resulted in feeding an extra 8t of meal (€300/t). Combined, the total cost for extra inputs came to €3,600 (i.e. 40 bales x €30) + (8 tonne x €300/tonne).

Total silage demand for the Winter period is 600 tonne (750 bales). First cut silage delivered 450 bales but limited grass growth resulted in the farmer feeding all their ground earmarked for second-cut silage. In addition, the farmer fed an additional 14 tonne of meal in June/July/August as a result of the collapse in grass growth. Milk production per cow is expected to be 5% lower than budgeted for at the start of 2018 and there was an increased labour requirement on the farm due to the difficult conditions during the Spring.

**Estimated combined cost of the weather is as follows:**

	Case Study	Your Farm
<b>Additional costs incurred during the Spring</b> 40 bales @€30/bale 8t meal @ €300/t	€3,600	
<b>Additional meal fed during Summer</b> 14t meal @€275/t	€3,850	
<b>Additional Silage purchased for Winter 18</b> 350 bales @ €30/bale	€10,500	
<b>Additional farm labour costs</b>	€1,800	
<b>Reduced milk production</b> (5% decline) 275 litres @ 34c/l (solids adjusted) x 100 cows	€9,350	
<b>Total Additional Costs</b>	<b>€29,100</b>	

The expected impact of 2018 relative to initial farm budget in this example is €29,100 (€19,750 of additional costs and €9,350 resulting from a reduction in output) equivalent to €291/cow which will have to be funded either by farm cash reserves and/or bank finance. For many dairy farmers, cash flow will also be impacted by an increased Revenue Liability due to the increased incomes experienced by the sector in 2017. This is an added consideration when estimating likely cash flow requirements for the coming months.

## Suckler Impact:



- Higher costs
- Reduced performance / liveweight gain
- Reduction in silage stocks for Winter period

40 cow Spring calving suckler herd selling weanlings in Winter. Cows calve from 17th of March onwards and in a normal year are out to grass as they calve. This year the cows and calves remained housed until the 15th of April, due to the poor grass growth and were turned out on a phased basis.



Silage stocks were sufficient up until the 17th of March, but earlier housing in 2017 meant increased usage and resulted in the using up of any surpluses held. The farmer purchased 64 bales of silage (average quality costing €30/bale) and fed 2 kgs meal for 30 days - 2.5 tonnes of meal in total costing €260/tonne.

To supplement grass growth which was restricted by Summer drought (5 week during June and July), the farmer fed an additional bale of silage per day, using 35 bales in total. In addition, as one field planned for second cut bales had to be grazed, the farmer now has a requirement to purchase an extra 50 bales for the Winter, costing €30/bale.

Combined with this, the weight of weanlings at sale is estimated to be c. 30kg on average lighter than previous years due to the delayed turnout of cows and reduced grass growth during the Summer.

### Estimated combined cost of the weather is as follows:

	Case Study	Your Farm
<b>Additional costs incurred during the Spring</b> 64 bales @ €30/bale 2.5t meal @ €260/t	€2,570	
<b>Additional silage fed during Summer</b> 35 bales @€30/bale	€1,050	
<b>Additional Silage purchased for Winter 18</b> 50 bales @ €30/bale	€1,500	
<b>Reduced liveweight impact</b> (30Kg x 38 weanlings X €2.50)*	€2,850	
<b>Total Additional Costs</b>	<b>€7,970</b>	

\* Case makes no assumption for divergent year on year market price trend

The expected impact of 2018 relative to the initial farm budget in this example is **€7,970** – equivalent to almost €200/cow. This is made up of €5,120 of additional costs and €2,850 of a reduction in sales which will have to be funded either by farm cash reserves and/or bank finance. The impact of reduced thrive will not be realised until stock sales in the Winter.

### Store to Beef Finisher impact:

- Higher costs
- Reduced performance / liveweight gain



Store to beef farming customer finishes 150 continental type bullocks, selling in the Autumn. In a normal year cattle are out to grass from 1st March onwards with an average turnout date of the 15th of March.

This year, the cattle remained housed until the 16th of April. Silage stocks were sufficient up until the 28th of March which resulted in the purchase of an additional 110 bales

of silage at €30/bale. To supplement the farmer also fed an additional 8 tonne of meal costing €240/tonne. Grass growth was restricted during the Summer which resulted in the farmer supplementing earlier at grass than normal. The farmer fed an additional 4kg of meal/head/day at grass, 35 days earlier than previous years.

Combined with the additional costs in the Spring and the Summer, the projected loss of thrive of the animals during the Spring, due to a delay in turnout was 0.4kg/day (0.6kg average daily gain (adg) in the shed vs 1kg adg/day at grass).

### Estimated combined cost of the weather is as follows:

	Case Study	Your Farm
<b>Additional costs incurred during the Spring</b> 110 bales @€30/bale 8t meal @ €240/t	€5,220	
<b>Additional meal fed during year</b> 4kg/day x 150 head x 35 days = 21 tonne (@ €240/t)	€5,040	
<b>Reduced liveweight impact</b> 0.4Kg x 150 head x 31 days (@ €2.30/kg)*	€4,278	
<b>Total Additional Costs</b>	<b>€14,538</b>	

\* Case makes no assumption for divergent year on year market price trend

Total impact of the weather on this farm was **€14,538**. While the extra costs of €5,220 from the Spring and €5,040 from the Summer are felt immediately, the impact of reduced thrive valued at €4,278 will not be realised until stock sales in the Autumn.

### Tillage impact:

- Reduced yields



Tillage farmer, farming 300 acres - 150 acres of Winter Cereals (50% Wheat & 50% Barley) and 150 acres of Spring barley. In comparison to 2017:

#### Winter Barley:

2017: Yielded 4t/acre at €145/tonne plus 14 bales straw/acre at €10/bale (after baling costs) - €720/acre.

2018: Yielded 3.5t/acre at €200/tonne plus 14 bales straw/acre at €20/bale (after baling costs) - €980/acre (+36% YoY).

#### Winter Wheat:

2017: Yielded 4.5t/acre at €155/tonne plus 10 bales straw at €7 per bale (after baling costs) - €767/acre.

2018: Yielded 4.0t/acre at €205/tonne plus 10 bales straw at €16/bale (after baling costs) - €980/acre (+28% YoY)

Reduced yield of Winter crops in 2018 negated by higher price. Differential of Winter cereals of +€35,475

## Spring barley:

2017: Yielded 3t/acre at €145/tonne plus 7 bales of straw per acre at €10/bale (after baling costs) - €505/acre.

2018: Yielded 1.8t/acre at €200/tonne plus 3 bales of straw per acre at €20/bale after (baling costs) - €420/acre (-17% YoY).

Differential Spring Cereals: -€12,750. Higher prices of Spring crop not sufficient to negate lower yield.

	Case Study	Your Farm
+ / - Value of Winter Crops	+ €35,475	
+ / - value of Spring Crops	- €12,750	
+5% increase in input costs	- €5,775	
<b>Total Differential</b>	<b>+ €16,950</b>	

The differential of €16,950 equates to €56.50/acre. The impact at farm level for tillage farmers varies substantially depending on sowing date, rotation, soil type and location. The variation in impact from farm to farm for tillage farmers is probably more pronounced than in other sectors.

## Support Options Available:

In the case studies outlined, it has been estimated that the effects of the poor weather has reduced cash flow by close to €200/suckler cow and up to €300/dairy cow in some of the affected areas. For a 100 cow dairy farm there could be a reduction of €30,000 in cash flow from a combination of reduced milk yield and increased costs which can have a significant effect on a farm's ability to meet all costs, including family drawings/salaries, tax and bank repayments.

To help identify whether there will be a short fall between income and all expenditure it is necessary to create a simple cash flow budget. A cash flow budget can be as complicated or as simple as you make it – often the best ones are those that are done using a pen and paper once all the information is accurate.

If a cash flow deficit does exist, there are a number of options available to support your business. Every case is different and will be looked at on an individual basis. In most instances there will be no single solution, rather a combination of options will be available to support customers. Some of these options may include:

**1) Increase in working capital facilities.** In many cases this is the most appropriate starting point where additional cash flow support is required. Additional working capital provides an immediate cash injection to the farm business to meet increased costs and expenditure. Additional working capital can be in the form of an increased overdraft or other similar 12-month loan facilities. Working capital facilities typically will need to meet 30 days credit in any 12-month period.

**2) Replenish spend from cash flow.** 2017 was a good year for Irish farms which resulted in a lot of farm investment taking place on items such as sheds, concrete and machinery from cash flow. In most instances where receipts are available for the work this can be refinanced over a more appropriate period, for example 7 years, with the loan used to fill the expected cash deficit in 2018. Also I am seeing a lot of farmers who have increased their breeding stock organically, which effectively means they have financed this increase from cash flow and often this can put a strain on finances if a tough year is experienced. In most instances they can be refinanced over a more appropriate term.

**3) Spread tax liability over a longer term:** 2017 was a good income year for some sectors which will result in an increased tax liability falling due this October. AIB offers short term facilities which can be used to pay tax liabilities and other fees such as accountancy fees over the following 11 months period.

**4) Defer capital repayments.** In some cases people seek interest-only in order to help with cash flow difficulties. Although in some cases it is a good solution, in other instances, as per example below, it does not offer the same liquidity benefits as some of the other options outlined.

*Example: A farmer has loan repayments of €20,000/year including capital and interest with seasonal repayments between May and October. If the farmer applies to commence interest only from September the farmer will not receive any cash flow benefit between November and April, a key cash flow period on most farms.*

It is important to plan ahead for both the feed and the finance requirements of your farm to avoid causing a long term negative impact to the farm business due to a lack of planning. You are better off to know today that there will be a feed deficit next February, rather than hoping it won't be an issue and eventually paying too much for poor quality feed as it was all that was left to purchase at the time.

If you need help completing a cash flow budget, Teagasc, an Agricultural Consultant or your Accountant can all help. A cash flow budget template can also be downloaded from [www.aib.ie/farming](http://www.aib.ie/farming).

Warning: The cost of your repayments may increase

Warning: The entire amount you borrowed will still be outstanding at the end of the interest only period

Warning: You may have to pay charges if you repay early, in full or in part, a fixed credit facility.

# Grain & Feed Outlook



Philip Lynch

**Philip Lynch, Senior Trader, R&H Hall discusses the grain market outlook and how it is likely to impact on the Irish feed market.**

Politics, tariffs, currencies and of course weather have ensured a challenging time in global grain markets. In recent years, successive record world grain harvests enabled market prices to trade at multi year lows as global stocks recovered to ample levels. However, the prevalence of drought conditions in many of the world’s major corn and wheat producing regions has curtailed this season’s grains production sharply, resulting in an unexpected reduction in global stocks. In its latest estimates, USDA project current year global grain end stocks to decline from 640 million metric tonnes (mmt) to 585mmt. This has caused a sharp appreciation in global grain values as the market realigns to reflect a less comfortable stocks scenario.

Wheat has been worst affected particularly across the Black Sea region and Northern Europe. Total wheat production in the EU-27 is expected to decline to 137mmt from last season’s 151mmt total with French and German production severely impacted due to excessive heat and dryness. However it is in Russia where we have seen the most significant losses. This year’s crop has suffered from drought and will reach just 68mmt, a sharp drop from last year’s 85mmt total. This is of significance for world grain values and market sentiment as Russia is typically the world’s lowest cost grains seller. The benchmark European wheat futures contract has rallied €25/t since early July as the drought impact became apparent.

Despite a slightly lower global harvest, corn remains extremely competitively priced against other grains and non-grain feed ingredients. With disappointing Irish wheat and barley harvests, in a year of significantly higher feed demand, corn has continued its dominance as the main feed ingredient in ruminant rations. We expect grain markets to remain supported around present levels. However we must be cognisant of the times we live in, particularly the heightened sensitivity of grain markets to political interference and this will ensure a volatile path ahead.

Of course, price uncertainty is unfortunately only one of many challenges facing Irish livestock farmers this Winter. Even in normal times, the Irish market has a significant feed ingredient import requirement, with a large port, transport and storage infrastructure in place to serve this demand. Depleted forage supplies will ensure a significant increase in concentrate feed requirements from the

ruminant sector in the months ahead. Securing adequate supplies of necessary feed ingredients and the logistics involved will be a recurring theme over the coming months.

The logistics of shipping large volumes of feed ingredients and the delivery times involved are under the microscope more than ever. With delivery times from the point of sailing up to 4 weeks for some of the most popular straights, (see table 1), there is always scope for supply issues to develop in the event of a sudden spike in near term feed demand. The industry has responded quickly in securing additional volumes of ingredients for the Winter ahead but who knows how much is enough? Popular straights such as soya hulls and palm kernel expeller can take up to 4 weeks to reach these shores from the port of loading. When you factor in the time to deliver the product to the loading port before it departs for Ireland you can understand the lead time involved in sourcing raw materials for this market.

An added challenge we are facing is competition from other countries in Northern Europe experiencing drought related challenges which means they are in the market for greater volumes of the same ingredients the Irish market requires. This is a major reason for the sharp increase in straights prices in recent times. Given the demand outlook ahead, prices are unlikely to drop significantly from present levels. In this scenario it is advisable to cover your feed needs for the Winter ahead if already identified.

**Table 1: Sailing times of selected feed ingredients**

Ingredient	Major Origins	Sailing Times
Maize	EU, Black Sea, Canada, Brazil	5-21 days
Soya Hulls	Argentina, US, Russia	12-23 days
Corn Gluten/ Corn Distillers	US	14 days
Palm Kernel	Malaysia, Indonesia	26 days
Soymeal	Argentina, US	12 – 23 days
Beet Pulp	EU, Russia, US	3-12 days



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