

Circulation:

Date: 24th June 2010

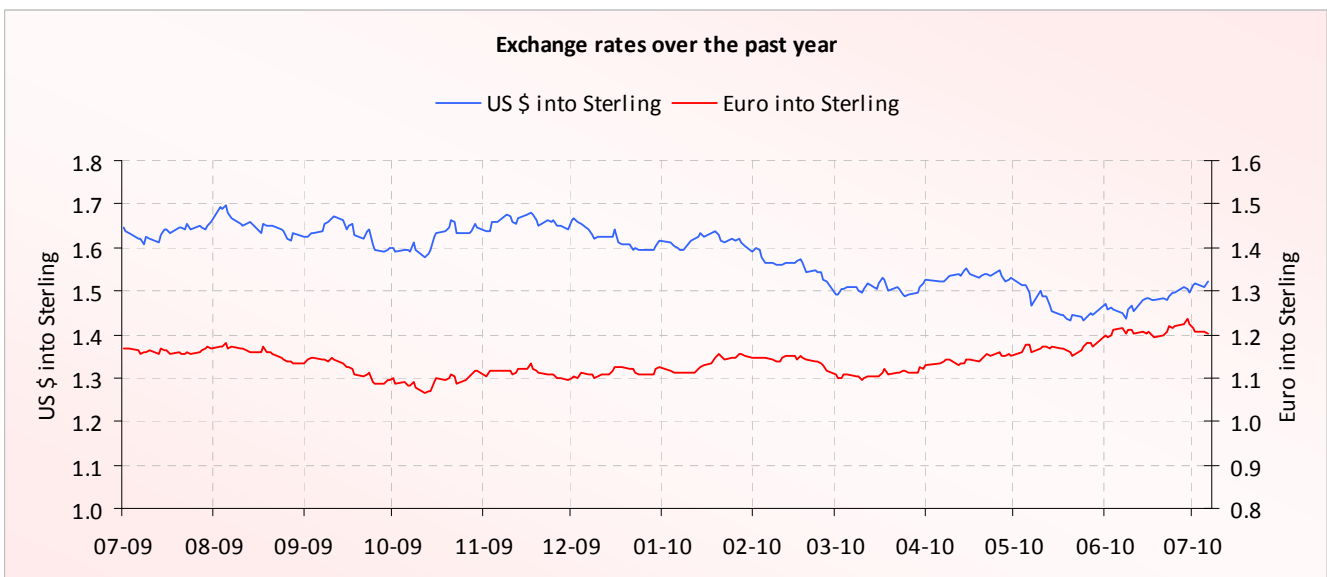
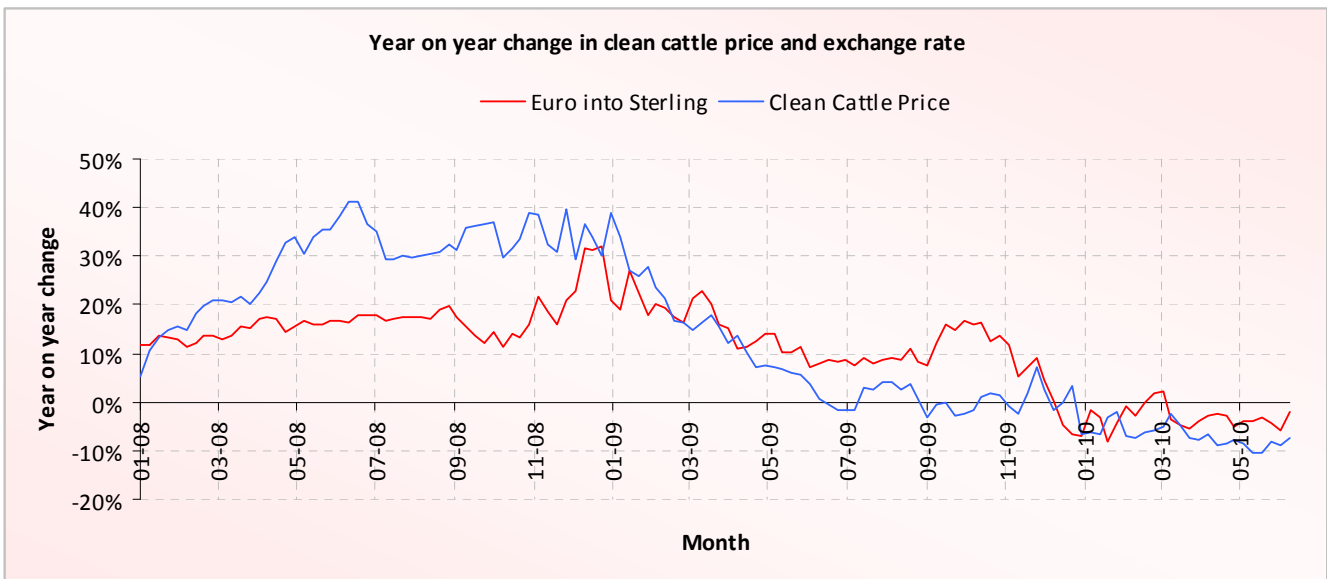
Ref: Exchange Rate Update

Contact: James Edwards

Tel: 02476 858548

Exchange Rate Update

The value of Sterling continues to influence the farming sector. Since March Sterling has been strengthening against the Euro and has now started to strengthen against the US Dollar. This is providing some insulation to input price inflation however output prices are already weakening. The correlation between the value of the Euro and Sterling means the current price of clean cattle is 7.3% lower than at the same point last year and it is not only red meat where prices and exchange rates are correlated. If Sterling continues to weaken the output price on many farms across all sectors will fall.

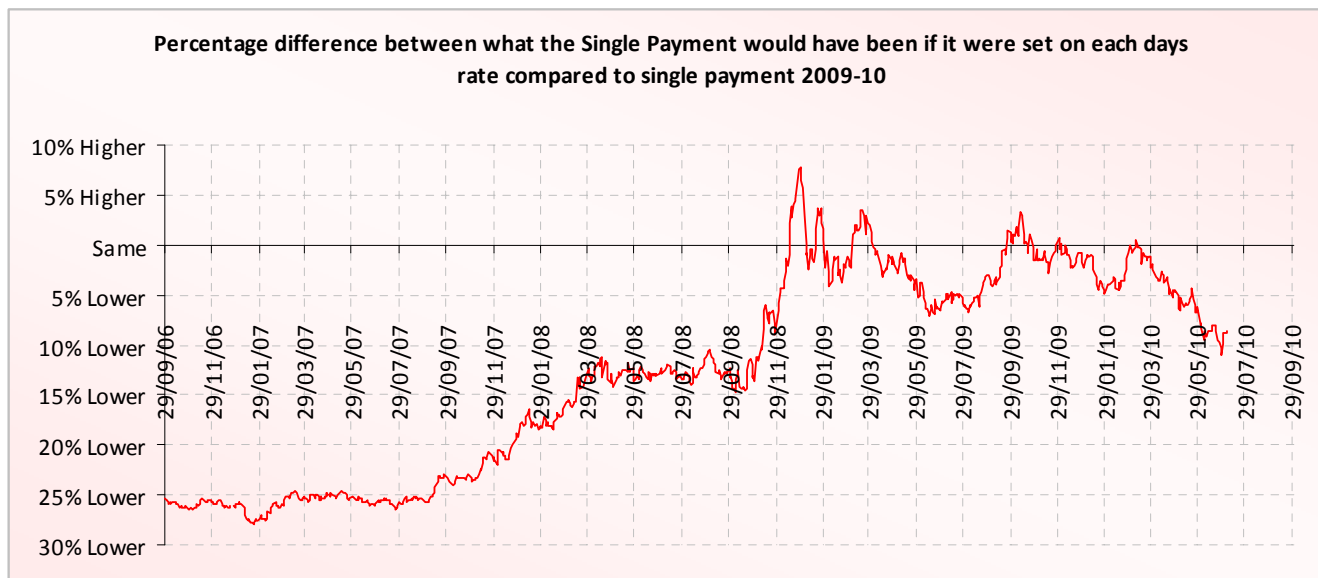


Sterling strengthened consistently in June against many major currencies however so far July has seen some stabilisation. It appears all the skeletons in Euro-zone closets have been exposed and many governments across the EU have announced austerity packages. The UK government announced details of its austerity package during the emergency budget <http://www.nfuonline.com/Our->



[work/Economics-and-International/News/Chancellor-will-speed-up-deficit-cutting/](#) the response by currency investors indicates that it was inline with their expectations.

It is clear looking at currency movements over the past decade how fortuitous farmers were with last years single payment rate. Since September 2006 the Sterling Euro exchange rate would have yielded more UK Single Payment than on only sixty four occasions out of nine hundred and fifty four days than farmers achieved in 2009-10. It is extremely likely Single Payments will be lower than last year. If the single payment is set against the current exchange rate of 0.831 payments will be 8.6% lower than the last single payment when the exchange rate was 0.909.



The exchange rate could still change with just over two months to go until the main Single Payment rate is set. Over the past year Sterling has weakened by as much as 9% or strengthened by as much as 7% over a two month period. This would mean if Sterling were to strengthen by 7% the Sterling into Euro exchange rate would be 0.785, payments would be 13.6% lower than last year or if Sterling were to weaken by 9% the Sterling into Euro exchange rate would be 0.898, payments would be 1.2% lower than last year.