

### BACKGROUND

The 2011/12 AHDB Early Balance Sheets are the first to include an 'estimated operating stock requirement'. This figure aims to give an estimate of the minimum tonnage that processors of grain require to get through from 1 July to a point at which new crop can be utilised. The inclusion of this figure in the balance sheet provides greater clarity by allowing readers to understand what part of the balance between supply and consumption is required for early season operating and what could be available for export or free stocks. It also removes the need for the use of an assumption to estimate closing stocks.

Free stocks are those held over and above the operating stocks requirement for commercial reasons and are dependent on an individual's view on the market. The split between grain for export and grain held in free stock will be dependent on a number of factors including the price competitiveness and quality of UK cereals, the premium between old and new crop, and price development through the season.

This system calculates the estimated operating stocks requirement based on early season usage by grain processors, the typical length of time was agreed separately for each type of user and details of this are shown below. As the season progresses more detail will be provided on the split between exports and free stocks based on greater availability of data on both these elements in particular the Defra Stocks Survey data.

### METHODOLOGY

- Five years of usage data is compiled from the Defra/AHDB Statistical Notices.
- The five year average estimated operating stock requirement is calculated based on the number of months required for each type of user. The number of months used are as follows:
  - Millers: Usage from 1 July to 16 August (1.5months)
  - Brewers, Maltsters and Distillers: Wheat usage from 1 July to 7 August (1.25months), barley usage from 1 July to 31 October (4 months)
  - Animal feed usage: wheat usage from 1 July to 7 August (1.25months), barley usage from 1 – 31 July (1month)
  - Other usage: wheat usage from 1 July to 7 August (1.25months), barley usage from 1 – 31 July (1month)
- The figures from each user are amalgamated to provide the estimated operating stock requirement. Current estimates do not allow for new production but an allowance will be made for any new plants expected online during the season.