AUSSCAN FORUM

"Better Value for Feed Grains – Is NIR The Answer?"

24 March 2009

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Key Messages

- Feed grains largest market, yet under-serviced. Why?
- NIR is zero sum game, but are we under-valuing consistency?
- Who will change the game – buyers or sellers?
- Show me the money!

Feed Grain – under-serviced. Why?

- Dominant market position –
- Wheat.. Feed = 51% (East coast 54%)
- Barley.. Feed = 69% (East coast 85%)
- --
- YET, you buy product described and graded for a different purpose. You want energy; you get flour/malt specs.
- Utilise best practice in…..

  -animal/bird genetics

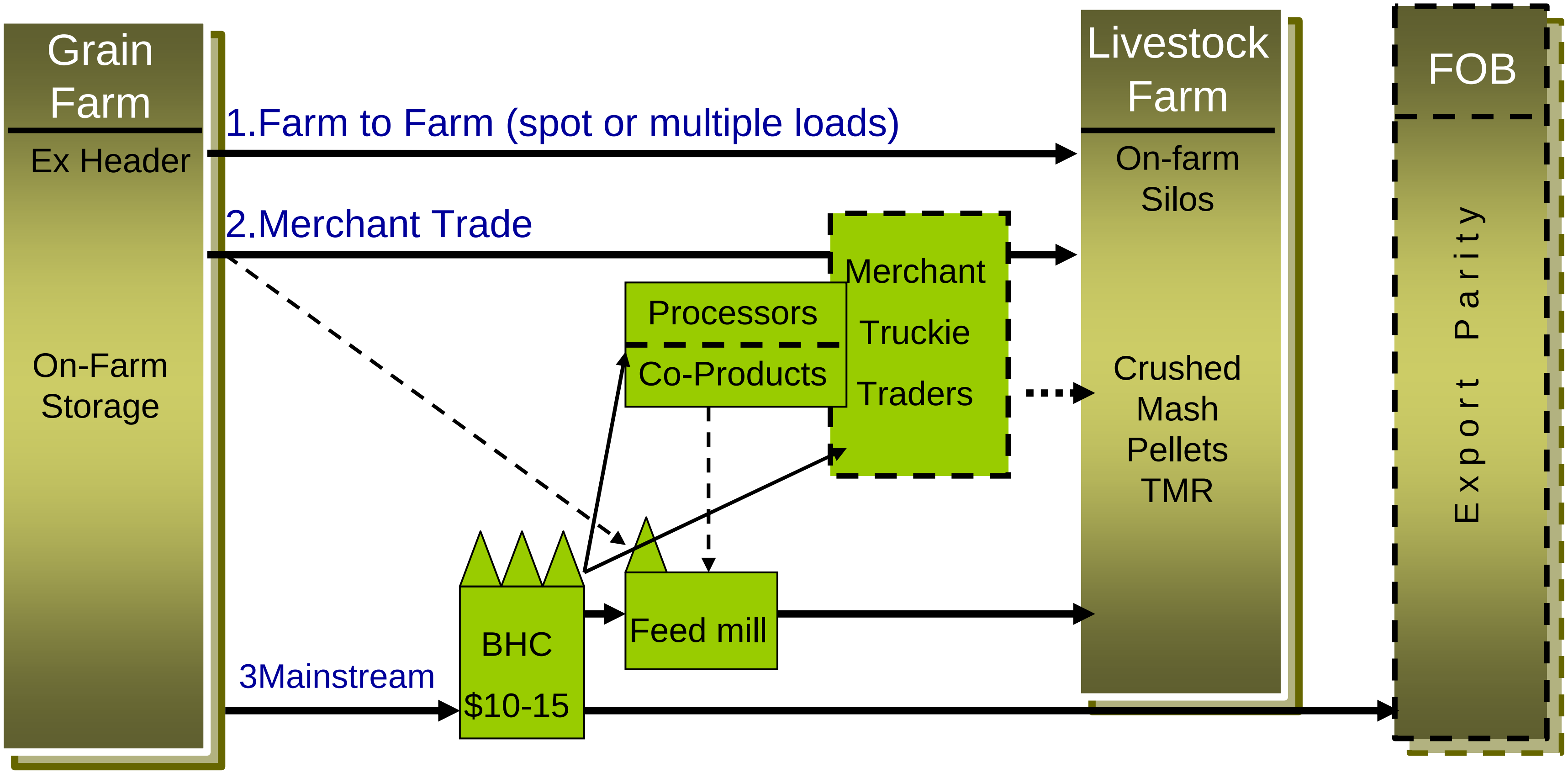
  -animal/bird welfare

  -yard/shed management
- YET "make do" with the feedstock delivered?? .. Residual buyer

With NIR Measurement, will things change?

- Not unless we remove the windfall gains and losses, and re-align the incentives
- Today, grain producer is ambivalent, as not paid to provide what you want
- Today, livestock user is winner/loser depending on the commodity-energy lottery, less the cost of the variability and inconsistency of animal performance.
- Does predictability and consistency have a value?

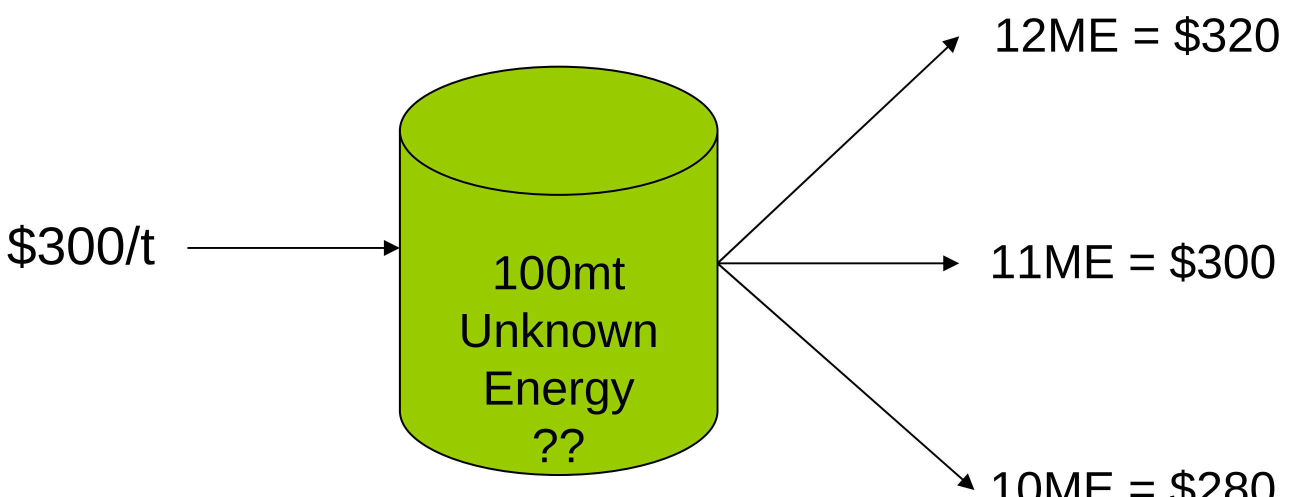
Supply Chain Channels – Consistency Impact?



Message: Approx $10-15 avoidable storage/freight costs in the supply chain.. But what happens to consistency?

Zero Sum Game?

- Feed Grain version of “Golden Rewards”?



To get more/better energy, what can we change?

- Grain Production? – can we identify what producers need to do to grow high energy grain? Is it controllable? Unlikely at this stage.
- On way into silo? – segregate at source? Possible, but will the energy payment incentive/disincentive pay for the segregation cost of hi/med/lo bands of energy?
- On way out of silo? – Can measure, but is this too late if hi/lo is blended?
- On delivery to animal? – current model, where we wear the cost of inconsistency, variability

To capture the value of AusScan through better specified energy grains….

- Grain contract and payment scale needs to specify energy requirements
- Storage practices need to reflect ability and market capacity to pay the segregation cost
- Out-turn specs need to reflect buyer needs, and ability of storer to measure
- Otherwise .. Status quo prevails

My hunch?

- Growers will move to fill the gap
- Will offer grain, ex-farm, with energy gtee
- Will blend and arbitrage quality between contracts to optimise value to them
- Livestock user will benefit from improved consistency, predictability of feedstock
- Visibility of energy value will be the driver

Summary

- Show me the money!
- Once the supply chain sees the value of grain energy, it will respond with suitable supply arrangements, relative to the current grain supply chain alternative to human consumption markets.

Any Questions?

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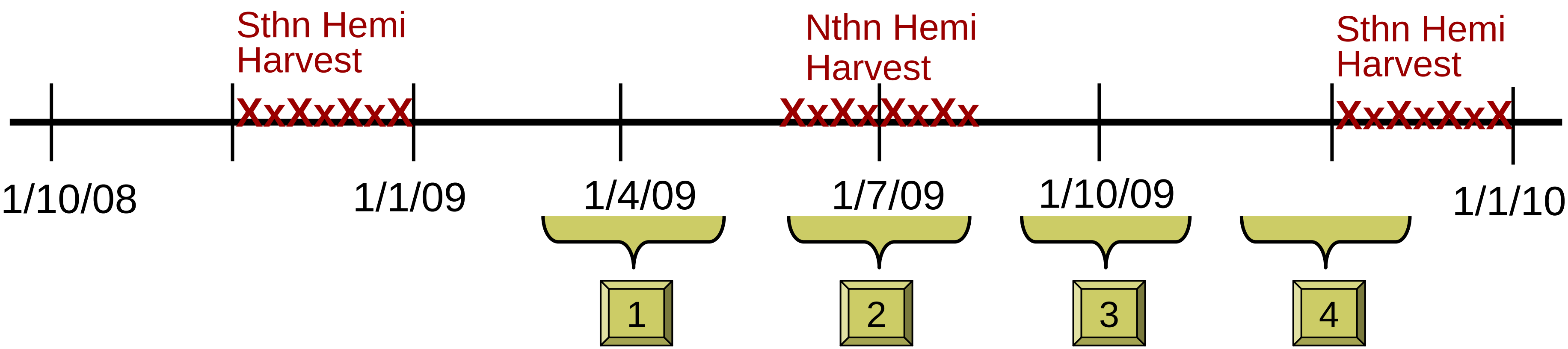
2009/10 Grain Calendar - what might happen?

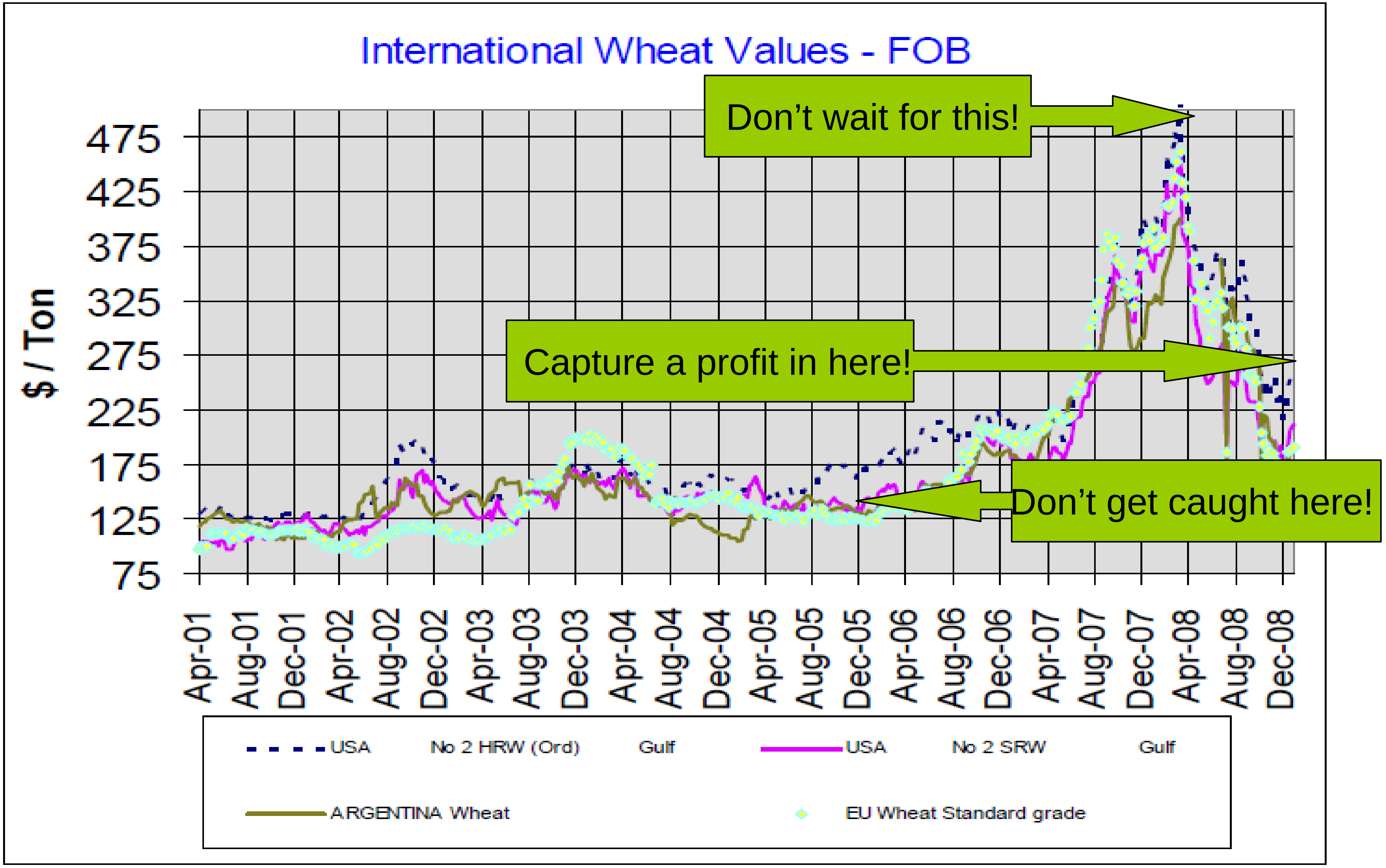


Hurdles to negotiate:-

1. Mar/Apr/May – Nthn hemi spring, US corn/soybean/spring plant, Aust sorghum harvest, Aust cereal planting– silly season!
2. Jun/Jul – Nthn hemi harvest.
3. Sep/Oct – Aust spring (last 3 failed!), US corn/soybean/spring wheat harvest.
4. Nov/Dec – Nthn hemi plant, Aust sorghum planting, Aust cereal harvest.

Message: With “normal” global weather for hurdles 1,2 & 3, prices could be A$50 lower by end 2009; if not, buckle up for the ride!

Lessons for 2009??



Stockfeed Wheat Prices for Melbourne 1998 - 2010