East coast feed grains – north to south

By *Profarmer* Australia

What a difference a year makes. In the past two years the northern region has produced a sorghum crop in excess of three million tonnes (the largest ever by far) followed by the second largest crop of another 2.3 mt. This resulted in a large exportable surplus of sorghum and significant tonnages moving south into the south NSW and Victoria markets.

More recently though this large surplus of coarse grain on the eastern states has come to an end and the market is now more balanced, particularly in the north. In fact that 2010 winter crop is extremely important to the domestic market as feed grain stocks will tighten considerably ahead of next harvest on the east coast.

North NSW and south Queensland

South Queensland is traditionally a feed deficit region and drags grain from north NSW and at times Central Queensland and/or other east coast states (and sometimes requires grain imports). Large sorghum crops in the past two years has meant an abundance of feed grain and significant exports, but the sorghum crop this summer will be one of the smallest, if not 'the' smallest, in living memory.

While our numbers are very preliminary we peg the Australian sorghum crop at 1.12 mt off an area of 400,000 hectares.

This, if accurate, would represent the lowest planted area since 1990 and the smallest crop since 1988. The crop breakdown is 420,000 tonnes in south Queensland and 328,000 tonnes in north NSW with the balance in CQ.

Our initial concern is that our crop estimate may be too high!

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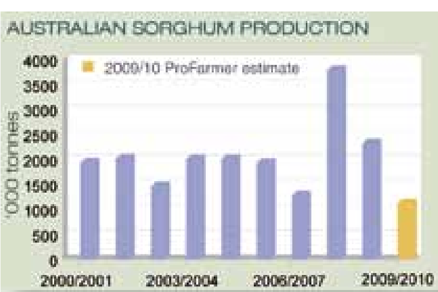

IN BRIEF...

- Record sorghum production in the past two years and an abundance of feed stocks will be history this year as the north comes to terms with very low planted sorghum area and production estimates.
- Feedstock supplies will tighten, with questions on both sorghum and barley stocks, leaving wheat to fill the void.
- Wheat will become the price setter locally as there is little scope for an export driven price lift – for example the international cash market is stable and the $A is firming.

◁25…EAST COAST FEED GRAINS

A significant reduction in feed availability from the sorghum crop means that wheat – there is not much barley around – will have to fill the void. This will continue to support stock feed wheat values through the first half of 2010 and stocks could tighten considerably in the second half of 2010 leading into harvest.

Recent weather patterns have helped set the north up for a good start to a winter crop program – although planting is still four months away.

The demand side of the equation (as always) in this region is a little more difficult to assess. Good rains in much of the grazing country will tighten feeder cattle supply (perhaps lift the price) and could see a reduction in cattle on feed numbers.

While feedlot numbers may look strong for the December quarter, it is generally felt numbers will decline over the first quarter of 2010.

Overall, despite good rain over the Christmas/New Year period, the feed wheat market has been relatively stable. While there may not be significant upside in the coming months (more likely second half of 2010), downside also appears limited.

Current values are around A$235–240 per tonne delivered Darling Downs for stockfeed wheat and A$220–225 per tonne into north NSW and feedlots along the Queensland/NSW border. In terms of bread wheat, gradually the feed market will consume higher grades. Already from an ex-farm perspective, the feed market is paying better than export parity for all grades with the exception of APH1. With this, exports out of the northern region will slow once current shipping commitments are met.

Central West NSW

The Central West is an interesting part of the market as initially it was reported that the region could end up being in deficit. But the lack of container trade has taken the sting out of the demand.

With the recent rain in the northern part of the region, growers are likely to begin to market on farm stocks and reduce their overall risk profile.

Demand from the region remains into local locations as well as into the Tamworth and Newcastle markets. Feed wheat is the driver domestically with values around $235–240 per tonne Newcastle delivered by road and $220 per tonne delivered into Liverpool Plains locations.

Wheat shorts into north NSW and border feedlots will look to this region for supply, although growers are resisting current ex farm offers of $185–190 per tonne.

Feed barley is seen as tight in the region (as it is in north NSW and south Queensland) and prices will trade very close to or above wheat values. Most likely the barley will find its way north in north NSW and border feedlots where the delivered bid is $220–$225 per tonne.

South NSW and Victoria

Despite inclement harvest conditions and larger quantities of feed barley and lower grade wheat, south NSW, Goulburn Valley and Melbourne feed markets remain relatively strong with prices holding firm on weak grower selling.

Apart from weak grower selling, there are other factors at play in keeping prices firm:

- The absence of a traditional sorghum flow from the north;
- The export market paying reasonable money for APW (Victoria and south NSW APW wheat has much higher protein than SA or WA); and,
- Generally disappointing production across southern regions.

At Victorian ex-farm values of $100–125 per tonne southern barley is close to working into north NSW feedlots and potentially onto the Downs and this should help keep values firm at least.

The quoted feed barley bid is $155 per tonne into the Goulburn Valley, $160 per tonne Melbourne and $172 per tonne Riverina feedlot (although actual trades are occurring nearer $175–180) has been pretty steady and should compete relatively well against north NSW bids.

Southern feed wheat is bid $210 per tonne delivered Riverina, Melbourne and $200 per tonne Goulburn Valley.

While these are below north NSW and south NSW values they are more than strong enough to keep wheat in their location.

TO SUM UP

There is still likely to be a significant grain export program out of the east coast this year.

This will tighten supplies available domestically in the second half of the year. Given feed wheat values are similar in all regions, it might be assumed that local wheat will be consumed locally, while barley out of Victoria (and parts of SA) may move into south NSW and north NSW over time. Wheat will generally be the price setter and the domestic market will work to ensure available supply is adequate.

Barley in northern regions should trade around wheat values and sorghum should move up very close to wheat values over the next few months.

Overall, with the international grain market weakening and the $A firming again there appears – for the next few months at least – little scope for an export driven lift in prices.

This means that domestic market dynamics will set east coast grain prices over the next few months.

From *Profarmer* Australia Newsletter, January 14. ■

This summer's sorghum harvest could be the smallest in living memory which will tighten feedstock supplies as the year progresses.