



Feed Grain Update

Current Situation on the Feed Grain Market (April 2008)¹

Information supplied by ProFarmer Australia - Australia's leading independent source of agricultural commodity market information and strategic advice. For further information: contact ProFarmer Australia on Ph: 61-8-6389 0722 or Fax: 61-8-6389 2538 or visit the website: www.profarmer.com.au

- Australia experiences severe ongoing drought conditions since 2003 with no ease in sight
- Available grain stocks are on a all-time low, while world market prices for wheat, soybean and corn are on all-time high
- Internationally: larger wheat (+5 per cent) and oilseeds (+18 per cent) plantings at expense of corn (-11 per cent) for 2008 reflect current market price situation
- Exploding input costs for oil, fertilizer, chemicals and land contribute to the existing supply shortage due to drought conditions
- Global demand for grain remains very strong, driven by growing demand for food in emerging economies (e.g. India and China) and biofuel production encouraged by Government policy's
- Weakness of the US\$ and increasing crude oil prices drive demand for soybeans for biodiesel production; soybean market very attractive for investors and financial speculation
- Australian wheat prices generally follow US prices. Average feed grain prices for Australian pig producers (consisting of wheat, barley and sorghum) were \$219/t in 2006 and \$309/t in 2007; this compares to an estimated \$334/t for the period January-May 2008.
- Looking for the AU\$ to ease by year's end as US\$ recovers (will start to recover prior to recovery in US)

Potential Impacts on Grain Prices 2008¹

Wheat international

- Increased production, global crop expected >646mmt vs 604mmt last year (will add about 20mmt or 20% to stocks)
- Export competition will intensify (larger crops in Canada +16%, Black Sea, EU +5%, US +5%, Aust +10%?)
- Wheat consumption is growing slowly, stock rebuilding will soften price impact
- Expect a range of US\$257-294/t with 'normal conditions', compared to current record heights of US\$530/t (Minneapolis Grain Exchange March 2008 price)

Wheat Australia

- Price AU\$290-\$300/t (forward price currently AU\$320-340/t)
- Other cereals will take lead from wheat (e.g. barley AU\$260/t)
- Impact of deregulation (positive for export states)
- East coast logistics may have a greater impact than deregulation on east coast

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¹ ProFarmer, *Are the days of cheap grain over?*, Presentation by Richard Koch MD ProFarmer Australia to NSW Farmer's, 24 April 2008



Soybean & Canola

- Larger US soybean plant (+18%) to offset impact of lower plantings elsewhere, but no effect on tight stocks
- Easing in crude oil prices (back under US\$80/barrel) to cool biodiesel demand and calm speculation of investors (currently own 40% of long soybean positions)
- Prices well above historical limits due to strong demand (India, China and Brazil): US\$440-550/t soybeans, US\$570-715/t canola (currently AU\$720-740/t)

Barley

- Larger crops in Europe (+8% in EU and +5% in Black Sea) and normal yields will bring prices back from current levels
- Attractive prices for other crops will limit production response (+2% plantings globally)
- Lower plantings in Australia (-10%?) and Canada (-14%)
- Barley prices will ease but not to same extent as wheat, expected to fall to AU\$260-280/t

Sorghum²

- Estimated Australian sorghum crop is 2.61mmt, down from April estimate of 2.78 million tonnes
- Clear exportable surplus of sorghum expected for QLD and Nth NSW for the first time in a number of years
- Sorghum prices still held historically high by record US corn prices
- Corn prices expected to stay firm, sorghum prices should not fall significantly below \$240/t
- The projected price outlook is \$245-265/t

Overview of the Australian Pig Industry

- At 30 June 2007 ABS recorded a total of 2.6 million pigs in Australia with biggest state herds in New South Wales (741,000 pigs) and Queensland (669,000 pigs)³. The national breeding herd in 2006-07 consisted of 278,000 sows⁴.
- In 2006 there was an estimated 1,500 pork producers compared to 1,923 in 2005.
- The average herd size was 159 sows⁵. It is estimated that the top 50 producers in Australia account for some 54 percent of production.
- Wheat, barley and sorghum are major feed ingredients used in pig production in Australia and can nutritionally amount up to 80 per cent of the diet. Total usage of wheat, barley and sorghum for pig production was 600 kilotons, 517 kilotons and 71 kilotons in 2006-07⁶ respectively.
- The amount of grains used for stockfeed varies considerably, depending on seasonal price differences between substitute grains and location of farm. In general feed cost amount to almost 60 per cent of cost of production for a pig,

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² ProFarmer, Newsletter Volume 18 Number 18, 8 May 2008 available at:

<http://www.profarmer.com.au/Content/1121>

³ Australian Bureau of Statistics (ABS): Principal Agricultural Commodities 7111.0 2006-07

⁴ Australian Bureau of Statistics (ABS): Principal Agricultural Commodities 7111.0 2006-07

⁵ APL 2006, *Australian Pig Annual 2005*

⁶ abare 2007, *Feedgrains – Regional Demand and Supply in Australia*, abare Report to Client, April 2007



and approximately 80 per cent of total feed costs are related to costs of grains; this share increases in times of drought.

Feed Grain Use in the Australian Pig Industry

The intensive industries are a growing and valuable customer of the Australian grain industry. Total feed grain usage by the intensive industries has been increasing steadily since 1992-93, when 5.77 million tonnes were used doubling to 11.5 million tonnes in 2006-07⁷. Due to the ongoing drought, national feed grain demand in Australia has been trending lower as higher feed grain prices, lower returns from dairy and pig products, and reduced livestock numbers ration feed demand.

The pig industry’s usage of feedstuff has increased from 1.57 million tonnes in 1992-93 to over 2.13 million tonnes in 2002-03. This compares to 1.55 million tonnes of feedstuff used in 2006-07, comprising approximately 1,514 kilo tonnes of grain (predominantly wheat, barley and sorghum) and 41 kilo tonnes of oilseed meals. The declining volume of feedstuff used in pig production correlates with reduction of the national pig herd, which declined by 5.4 per cent from 2.76 million pigs in 2002-03⁸ to 2.61 million pigs in 2006-07⁹.

High feed grain cost is a key competitive disadvantage for Australian pork producers¹⁰. Globally the use of grains and oilseed meal for livestock feeding has increased by an average of two per cent a year over the past ten years. The total use of grains and oilseeds for livestock feeding is predicted to increase over the medium term.

The ongoing drought conditions across Australia are having a major impact on pork producers and APL is concerned that the long term viability of many businesses is at risk. The pork industry is faced with the double edged sword of high grain prices due to drought conditions and increasing international demand, and low pork prices, which are capped by high volumes of imported pig meat.

Weak pork prices resulting from high volumes of cheap imported pigmeat have undermined the ability of pig producers to cope with cost increases experienced over the last years. Due to the ongoing drought, costs for feed grain in Australia (Wheat, Barley and Sorghum) in December 2004 compared to December 2007 show a dramatic 112 per cent increase from \$162 per tonne to \$344 per tonne respectively¹¹. As at July 2008, feed grain prices are approximately \$407 per tonne wheat, \$348 per tonne barley and \$259 per tonne sorghum¹² (Compare Chart 1).

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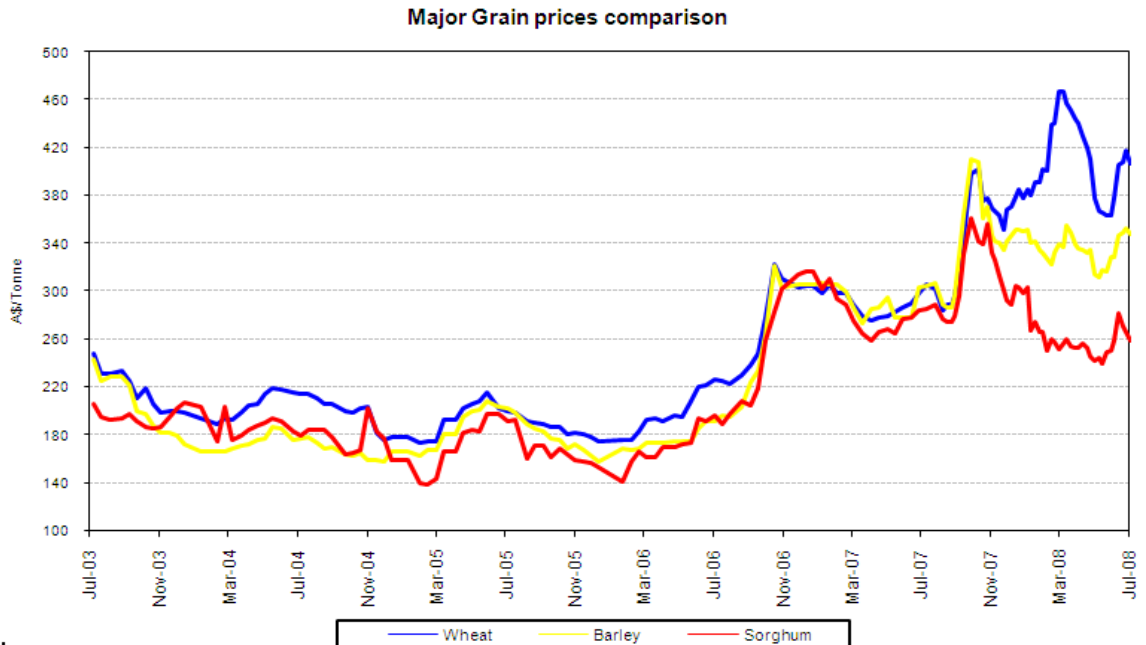
¹⁰ APL 2008, Submission #3 Productivity Commission Safeguards Inquiry into Import of Pigmeat 2007, page 72ff, available at: <http://www.pc.gov.au/inquiry/pigmeatsafeguards/docs/submissions>

¹¹ Source: ProFarmer

¹² Source: ProFarmer



Chart 1 Prices of major grains (\$A/tonne), July 2003 – July 2008



Source: APL

Because of the dramatic increase in cost of production and average prices received by pig producers at unprecedented lows, pig producer encounter mounting losses¹³. Table 1 below compares pig prices in relation to grain prices, cost of production and net profit or losses per kilogram pigmeat produced in 2004 and 2007.

Comparing calendar years 2007 and 2004, producers were receiving an average of 2 per cent higher prices for baconer pigs, but paying 69 per cent more for feed grain. In 2007, assuming the cost of production was approximately \$2.64 per kilogram (a 17 per cent increase on 2004), at a current baconer pig price of \$2.34 per kilogram, producers lost 30 cents per kilogram (approximately \$22 per pig). This compares with a profit of 4 cents per kilogram in 2004. It is estimated that for every \$10/t increase in feed grain price, cost of production (COP) will increase by an average of 3ct/kg carcass weight.

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¹³APL 2008, Submission #1 Productivity Commission Safeguards Inquiry into Import of Pigmeat 2007, page 42ff, available at: <http://www.pc.gov.au/inquiry/pigmeatsafeguards/docs/submissions>



Table 1 Pig & Feed Grain Pricing, Cost of Production & Profit estimates, 2004 and 2007

Time Period (Calendar Year)	Average Baconer Pig Price*	Average Feed Grain**	Cost of Production***	Net Result (Profit)
2004	\$2.29/kg	\$184/t	2.25/kg	0.04/kg
2007	\$2.34/kg	\$311/t	2.64/kg	-0.30/kg
Percentage change	+2.18%	+69.0%	+17.3%	

Source APL

* NOTE: Pig prices are Eastern seaboard, (VIC, QLD, NSW, SA)

** Yearly average taken from monthly averages of total feed grain, consisting of wheat, barley and sorghum.

*** Assumes COP to be \$2.60/kg with feed grain prices at \$300/t. Assumes COP to be \$3.00/kg with feed grain prices at \$400/t

This cost squeeze is affecting all farm sizes. Many large and mid-size producers are destocking their breeding herds and closing sites in an attempt to remain viable, whereas many smaller producers leave the industry.

Feed Grain Availability and Price (ABARE forecast)

The ongoing drought conditions across Australia have highlighted the importance of security of feedgrain supply to the livestock industries. The drought sharply shortened winter grains production in 2007-08 and has had severe adverse effects on Australian summer grain crops (Compare Chart 2 and Chart 3).

ABARE data¹⁴ shows that compared with 2005-06, production of wheat and barley in 2007-08 fell by almost 48 per cent and 38 per cent respectively, while good summer rains increased grain sorghum production by 27 per cent. Average feed grain prices in 2007-08 compared with 2005-06 increased by 117 per cent (wheat), 60 per cent (feed barley) and 49 per cent (grain sorghum). The drought also had significant negative impacts on pasture growth, which has placed pressure on stocks of both grain and fodder.

ABARE forecasts for the 2008-09 harvest predict a 98 per cent and 51 per cent increase for wheat and barley. The forecasted 21 per cent reduction in the grain sorghum harvest will bring production back on 2005-06 levels. Average feed grain prices in 2008-09 are forecasted to decline by 21 per cent (wheat), 15 per cent (feed barley) and 4 per cent (grain sorghum) compared to average 2007-08 levels. However, given the worldwide increasing demand for grain as food, feed and for industry needs such as ethanol production, grain prices are projected to stabilize on a comparably higher level than in 2005-06 (Compare Chart 2 and Chart 3).

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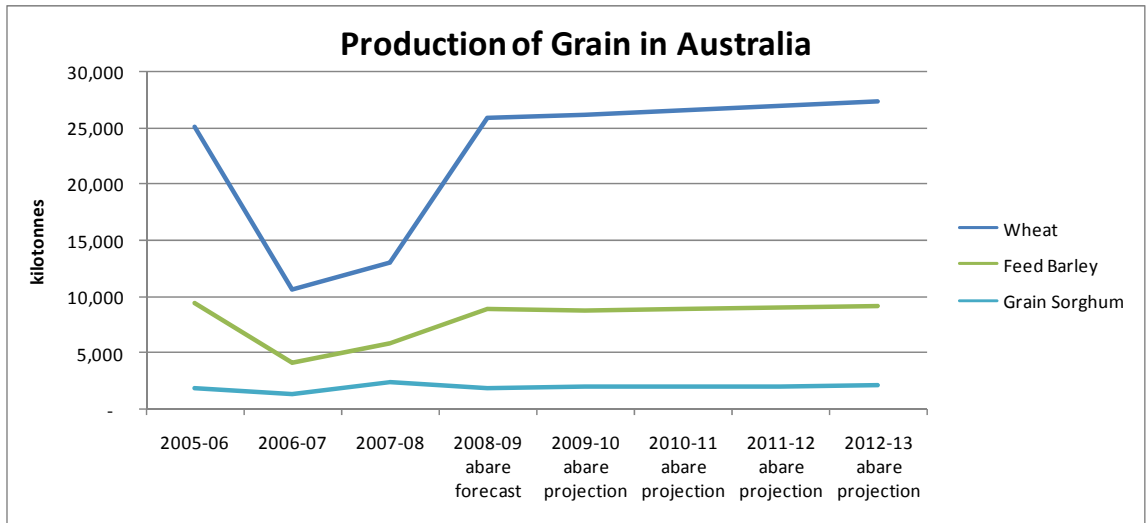
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¹⁴ abare 2008, *Australian commodities march quarter 08.1*, outlook2008 conference publication

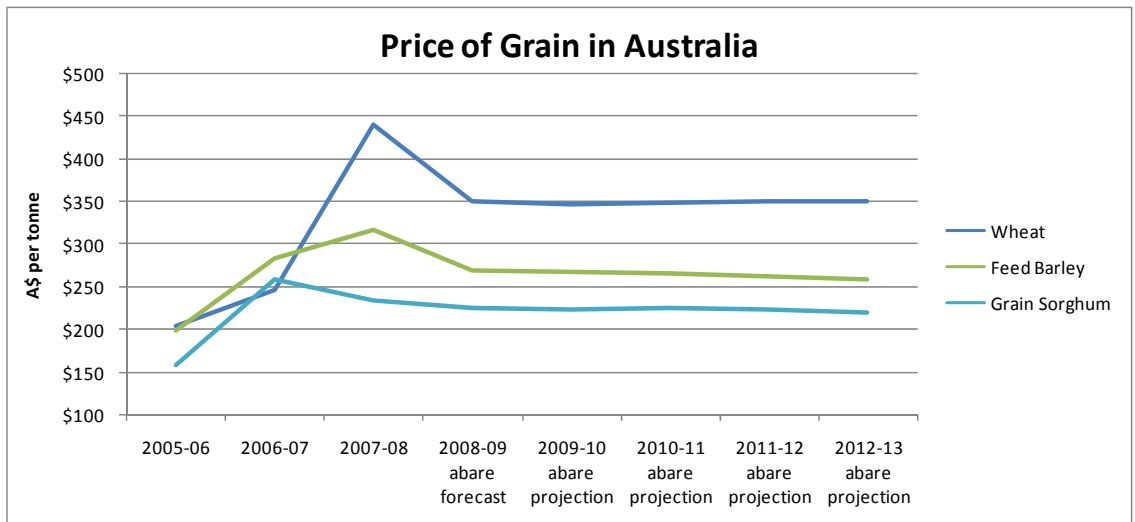


Chart 2 Production of Grain in Australia (Retrospect and projection)



Source: ABARE 2008

Chart 3 Price of Grain in Australia (Retrospect and projection)



Source: ABARE 2008

To improve the economical sustainability and be competitive on the domestic and global market the Australian pork industry requires access to feed grain at world competitive prices.

Last updated: July 2008

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