

# Buying grain – it's a world market



**Australian dairy farmers are competing in a world market for grain. An understanding of how the global grain market operates will help you appreciate where you fit in the global grain scene and enable you to develop a grain buying strategy that meets your needs.**

## The global grain market

### Where do I fit in the big picture?

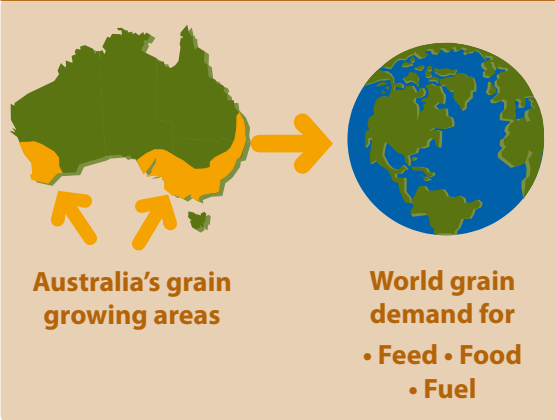
You are competing for a share of Australian grains produced in the major grain growing regions of Australia. However the market in which you are competing is a global one (Figure 1). Not only are you competing with other domestic dairy farmers and livestock producers who use grains for feed, but you are also competing with those who use grains for human consumption (food) and fuel (new age energy of ethanol and biofuels).

This is all occurring in a global marketplace where grain production is barely keeping pace with rising grain demand for feed, food and fuel. From 2002 to 2010, world grain production exceeded consumption in only three of those eight years. As a result, world grain stocks remain sensitive to any production shortfalls (Figure 2).

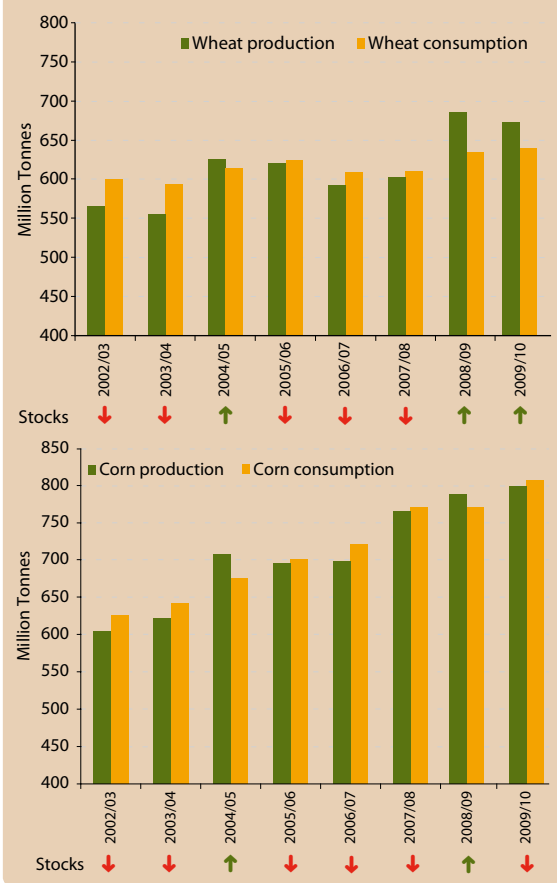
### Key tips

- Australian grain users operate in and are influenced by the world grain market.
- The introduction of biofuels has changed the way the grain market operates.
- The current world market is driven by the volatile relationship between consumption and production.

**Figure 1: The world market for grain.**



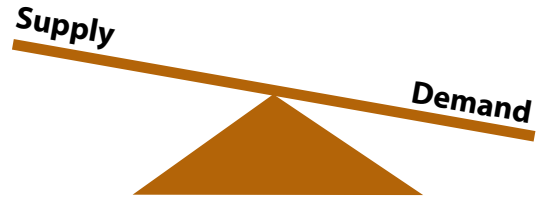
**Figure 2: World wheat and corn – production vs consumption 2002-2010.**





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*The addition of fuel (energy) as a new customer for grains has changed the world grains supply/demand balance in the past seven years.*



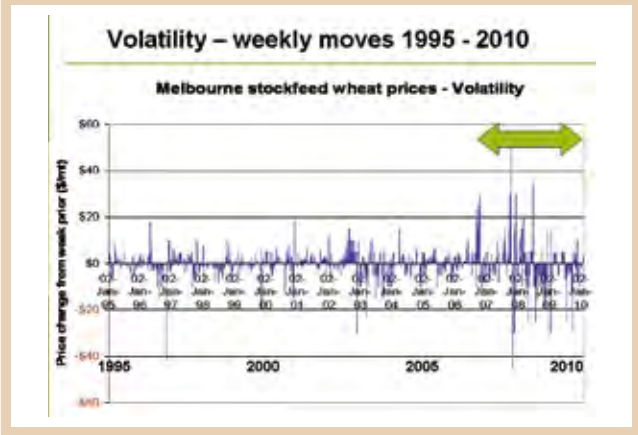
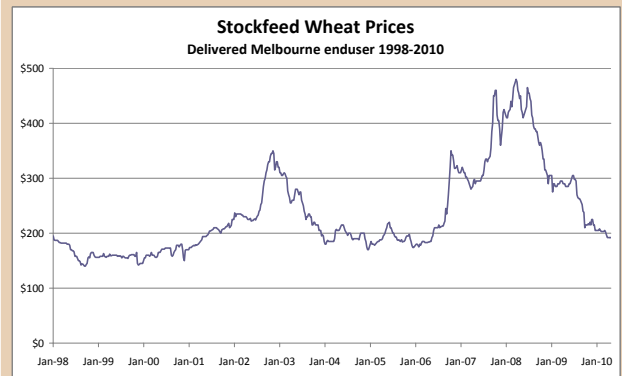
## What does this big picture mean for me, an Aussie dairy farmer?

It means three things:

1. The grain prices you pay here in Australia will be reflected by prices on the world market – just like milk prices!
2. With fully deregulated grain markets in Australia, any domestic grain buyer is in competition all year round with both domestic users and export buyers.
3. There is now increased volatility in the world grain market, as illustrated in Figure 3. This is likely to remain a feature each season.

Note: Unlike many other grain-producing countries, Australia has not had a dedicated feed grains industry. This is changing, but the quantities of feed-grade grains available often depend on downgrading of food-grade grains. This competition between feed grain and food-grade grain users adds to price volatility.

**Figure 3: Volatility of wheat prices.**



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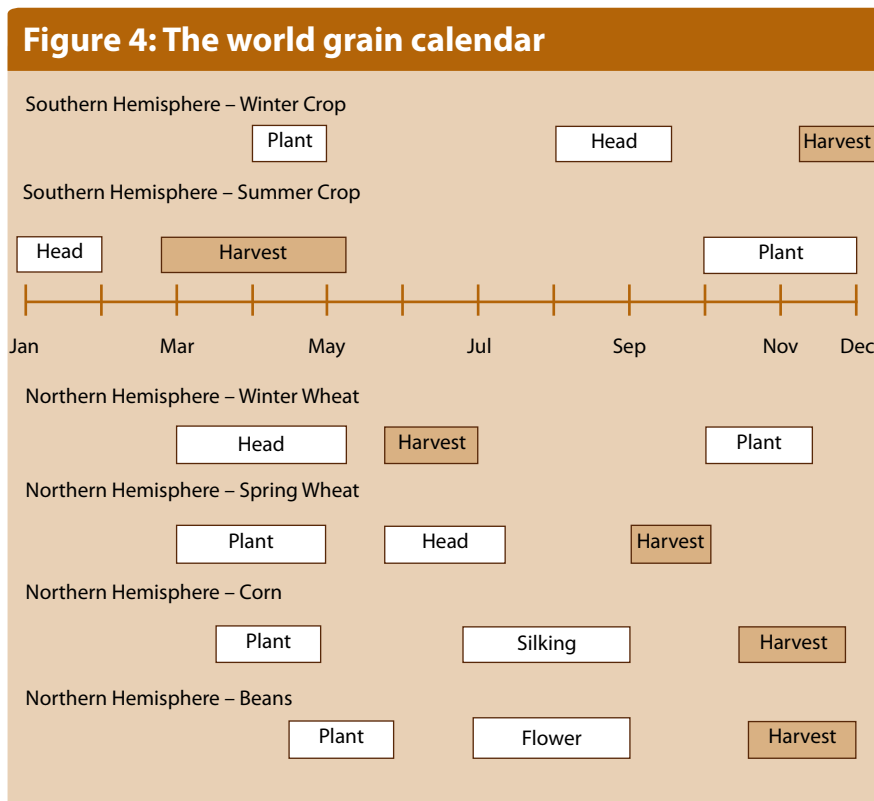


## Determine your strategy

Every year, the major grain growing regions in the southern and northern hemispheres progress through their regular production cycle of planting, heading and harvesting. Each of these events in each region can be considered a hurdle to be crossed. If climatic conditions are favourable, and the hurdle is crossed successfully, this helps improve the world grain supply outlook and ease pressure on grain prices.

On the other hand, if the grain growing region stumbles at the hurdle and the world grain supply/demand balance is threatened, this puts increased pressure on grain prices right around the world.

**Figure 4: The world grain calendar**



Even the experts can’t predict what the world grain market will do more than a few months ahead. We need to take things one hurdle at a time.

For an up-to-date assessment of the current year’s world grain calendar, keep in touch with your local grain/feed merchant and suppliers, and also see information at [www.dairyaustralia.com.au](http://www.dairyaustralia.com.au).

Another source of information and market intelligence is an independent grain broker who has a minute-by-minute awareness of the latest local grain prices. Offering services in most states, grain brokers source grain from a wide geographic area, so they can help minimise supply problems. They have no vested interests (usually taking a small commission from both buyer and seller). Some offer forward contract programs and some will arrange logistics such as transport.

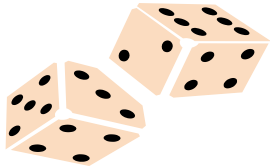
*Garry says: “Keeping in touch with my merchant with an eye on the world grain calendar gives me a good feel for how grain prices are likely to be tracking in the months ahead, and helps me with my grain buying decisions.”*



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## The strategy you develop will depend on your attitude to risk



You may be comfortable ‘rolling the dice’ and prepared to buy grains / concentrates at the spot price, as needed, and accept the associated wins and losses this will bring.



If, however, you prefer to sleep soundly at night, you will develop a sound feed budget and a pre-determined target grain / concentrate price, and use a feed buying plan that controls your dairy business’s feed costs. See Fact Sheet 12.

For more information go to [www.dairyaustralia.com.au](http://www.dairyaustralia.com.au)

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