Growing demand and volatile supply make feed buying a priority

If the price is right...

Do you think that it's too early to be thinking about buying feed for next winter? Then think again. We find out why the Livestock Event could be the perfect opportunity to find out more about forward buying feed.

text **Rachael Porter**

Volatility within the feed markets has risen dramatically since the mid 2000s, as increasing worldwide demand competes for a global supply that's constantly in flux. Weather and politics, as well as the state of the economy in key growing regions around the world, are constantly changing export volumes and subsequent availability and price in the UK.

Feed expenditure is the largest of the variable costs on most dairy units, so an effective and strategic approach to feed buying is critical if budgets are to be regularly met and the risks from feed market volatility are to be minimised. And according to KW senior trade Paul Roberts, that process starts with an understanding of factors driving the markets.

"We've seen some big changes during the past 10 years and there are trends affecting the feed markets today that simply weren't an issue in the past," he explains.

"Demand from China is now a major influence, for example, as its emerging middle class chooses more meat in its diet and additional livestock feed is imported to help meet that demand."

There's also the impact of an overall growth in world population that's predicted to hit nine billion by 2050 and peak at around 11 billion in 2100.

Global supply

"To put that into perspective, the expected rate of population increase during the next 80 years is virtually identical to that seen since the 1920s," he says.

The factors affecting global supply have also changed. Abnormal weather patterns now typically affect at least one key growing region each year – sometimes positively, sometimes negatively – and the behaviour of certain exporters has evolved.

In the past, a lack of storage facilities meant that countries like Brazil and Argentina generally had to sell harvested crops quickly each year, regardless of the price. But that's now changing, with South American exporters now much more price sensitive, leading to delays between harvest and crop availability if

Forward buying pays dividends for Devon-based producer

Philip Cooke

For Philip Cooke and his family forward buying has been a routine part of feed purchasing for many years. Their unit, based at Sutton Barton Farm near Honiton, joined the KW Compass Farm Programme three years ago and improvements to cow nutrition have gone hand-in-hand with reduced feed costs.

Of the 500 Holstein Friesians in the herd, 430 are currently in milk and averaging 38 litres per cow per day at a feed cost of just 12.2 ppl. Annual milk sales per cow have hit 11,500 litres and are still rising, on a system based around simplicity and straightforward, no-nonsense feeding.

"Keeping things simple and easy to manage is extremely important to us, so apart from the moist feed Traffordgold, we have all the straights delivered as a single KW custom blend," Mr Cooke says.

The feed buying strategy involves close contact with KW's Al Harris, who keeps the Cookes updated with the latest information regarding market trends, and any factors that could potentially affect prices and availability going forward. The custom blend is produced to a fixed specification (13.2MJ ME/kg DM, 22.6% crude protein, 18% starch), allowing some flexibility in composition depending on market fluctuations and which feeds represent the best value.

"We try to keep the blend as consistent as possible to avoid upsetting yields," he continues. "It's another advantage of booking forward – we can secure the feeds we need for the blend, know if the mix is going to alter well in advance and introduce any changes gradually if necessary.

"We're currently looking to book feeds through to next summer, and I'm constantly in contact with Al Harris to make sure we can lock in chunks of what we need at good points in the market. During the past three years, working closely with Al, as well as our vet and nutritionist, has seen feed costs drop. Yet yields have risen by almost 4,000 litres per cow."

world prices are low, or if high inflation – a problem currently in Argentina – makes producers wary of converting crops into cash.

Price volatility

"All these factors together mean that across the various feed markets, the current level of price volatility is likely to continue, and any overall price trend is more likely to be up than down," Mr Roberts adds.

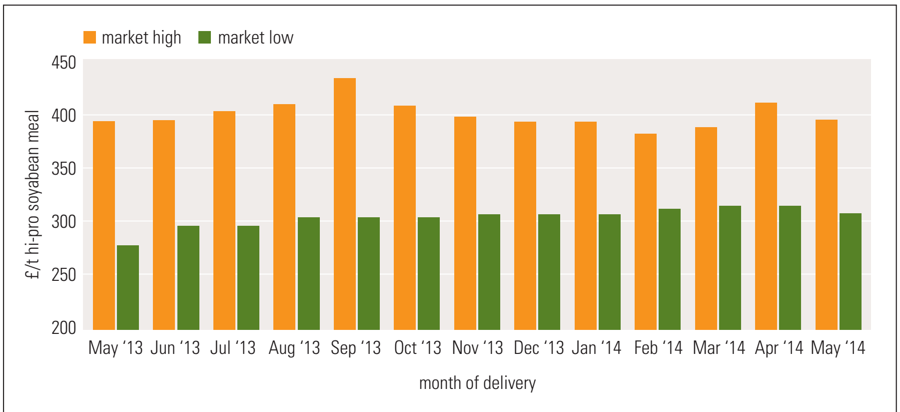
Analysis of historical Chicago Board of Trade wheat prices highlights the scale of the challenge. During the period from 1999 to 2006, wheat traded within a tight range equivalent to £50/t to £86/t, yet since then prices have peaked at £240/t and spent the rest of the time fluctuating dramatically between £78/t and £222/t.

"That's a huge shift in the level of volatility and peak prices," says Mr Roberts. "An effective and well-planned feed buying strategy is therefore critical if the worst of both the market highs and any availability shortages are to be avoided.

"It's also the best way to regularly keep to budget, as the risks associated with not thinking about feed until just before it's needed are simply too great. Just as risky is trying to aim for the bottom of the market – holding out to save maybe £10 per tonne can too easily backfire as the market rapidly rebounds by between £20 per tonne and £30 per tonne."

The key to success is to take a more considered approach, paying close attention to feed market trends and budgeting for a realistic price that locks in a sustainable margin for the business. Forward planning is essential, with the most forward-thinking dairy units typically looking up to 18 months ahead – that means potentially booking contracts on winter 2015 feeds now if the price is right.

Figure 1: Market highs and lows for hi-pro soya during the past 12 months



Target price

Figure 1 shows the market highs and lows for hi-pro soyabean meal delivered onto farm during the past 12 months. And while the highs typically occur within five months of delivery, the best prices were achieved on forward contracts booked between seven and 13 months in advance.

"If you've got a good strategy in place, with volumes required and a budgeted target price in mind, then you can look ahead with confidence," Mr Roberts explains. "Book a proportion of your requirements each time feeds come within your budgeted range, and aim to spread risk by booking perhaps three or more separate contracts over time.

"Alternatively, if market conditions are more challenging, booking the majority of a feed's tonnage in one hit might be the best option, leaving just a little room to fine tune requirements later on.

"Or if availability looks uncertain, even securing 100% regardless of the price could be the right move – a consistent ration will often be worth more than any minor price saving if milk production is adversely affected by having to switch feeds unexpectedly," he adds. ❙