Planning at least a season ahead is key to reducing

When is the rig

Increasing volatility is pushing up feed prices but forward buying – with care – could help to mitigate the impact on your business. We spoke to two market analysts and a producer to find out more.

text **Roly Marks**

Volatility within the feed markets has increased significantly during the past decade, with price movements now routinely exaggerated by the buying and selling of commodity contracts by investment funds looking to make a quick profit. On top of that, there's steadily growing worldwide demand competing for a supply that's increasingly affected by changes in global weather patterns and politics.

Figure 1 (page eight) shows just how much the situation has changed, with pre-2006 wheat prices affected by supply shortages such as drought, but with low volatility. And while the impact of any price swing can be positive or negative for UK producers, the extent of the volatility and rapid rate of change have dramatically increased the risks associated with feed buying.

Reducing risk

Feed is the biggest variable costs on most dairy units and the potential for prices to quickly rebound, by as much as between £30 and £40 per tonne, has huge implications for overall profitability, according to KW nutritionist Matt Witt. "For a 200-cow herd expecting to feed at least 200 tonnes of bought-in feed through the winter, that sort of movement has the potential to add between £6,000 and £8,000 to feed costs," he says.

"What's needed is a feed buying strategy that's aimed at reducing this risk. And this requires planning much further ahead than many realise."

While the most forward-thinking producers are routinely planning 18 months or more in advance, a good starting point is to always be thinking at least a season or season and a half ahead, advises Dr Witt.

"The key is to know what you're likely to need well in advance and then to work closely with a supplier who can track the markets, understand the factors affecting prices and give good, honest advice on when to buy.

risk and securing supplies at an optimum price

ht time to buy?

Philip Cooke: "It's a balance between price, risk and securing supplies"

"So in addition to finalising ration plans for this winter, based on what's currently in the clamp and expected cow performance, producers also need to be working out rough estimates for next year's grazing season and maybe even next winter."

Previous turnout dates, grazing areas and grass growth will provide a starting point for calculations, combined with expected post-winter silage stocks and any changes to cow numbers and yields. The area set aside for silaging will give an indication of volumes for next winter and this should be compared to current figures to indicate how much feed requirements might change.

"Then update the figures every few months as actual silage use or grass growth becomes known," Dr Witt adds. "Be proactive, work out what's needed and when, and then set about securing those feeds as the price comes right."

Monitoring markets

And this doesn't automatically mean buying everything in advance on forward contract. Not only is it important to leave room to adjust final feed volumes when rations are finalised, but sometimes the price trend is downwards, so 'holding off' is the right thing to do.

"There's no doubt that it's getting increasingly difficult to always buy feeds 'right', with each type of feed and even individual products affected differently by the factors affecting prices," says KW senior trader Chris Davidson. "For example, covering soya bean meal forward through the first part of this summer wasn't the right thing to do, but covering wheat was. And rape meal meal has very much been a spot buy for a long time now."

Figure 2 shows that there have been regular points during the past five years when taking forward cover on soya bean meal, for between two and six months, was the best move. But the overall trend has largely been downwards. What is just as

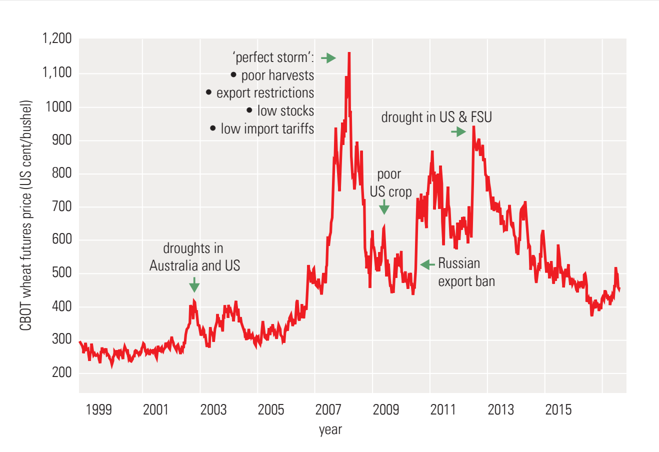

Figure 1: Chicago wheat prices (in US dollars) since 1999 (source: Reuters)

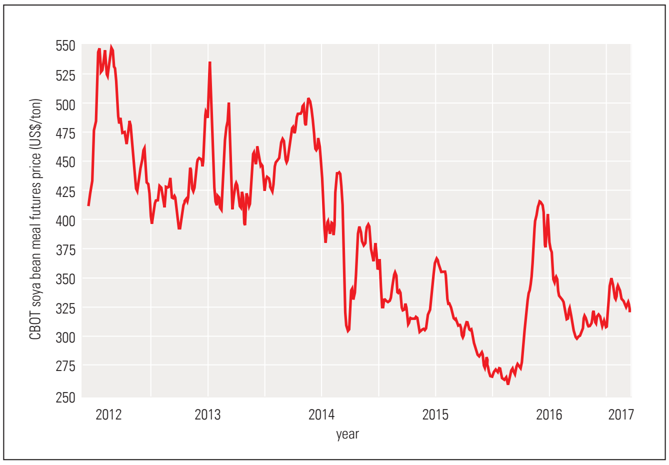

Figure 2: Chicago soya bean meal prices (in US dollars) since 2013 (source: Reuters)

important, however, is how low recent prices have been compared to historic highs.

"It's easy to see that if poor weather, short supply and high demand were to line up at some point, soya bean meal prices really could jump by between £100 and £150 per tonne," Mr Davidson continues. "Weighed against a potential downside, limited to between £10 and £30 per tonne, that's a considerable risk.

"Constant monitoring of the markets is, therefore, essential. But it's also time-consuming, so many customers are now placing feed buying in our hands. We keep them updated on market trends and feeds contracted, but are able to react quickly to secure feeds when the price is right."

Buying options

The options available for managing feed buying are also no longer limited to just forward contracts on bulk commodity feeds. It's now possible to buy a blend in advance if prices are low, for example, then effectively exchange it for an alternative if specification requirements change, while still maintaining the original savings.

More sophisticated still is the option to forward buy individual blend ingredients, building up a portfolio of feeds over time that will form the core of the final blend needed. It's a relatively recent development, but one that's generating a lot of interest.

"There's already a strong trend for those feeding TMRs to buy all the concentrates as a single custom blend. It eases the pressure on storage and cashflow, and reduces the errors in mixing," says Mr Davidson. "Being able to flexibly secure the main blend ingredients as the price comes right makes it even more attractive."

He says that the key is to consider each basket of feeds – such as proteins, fibres, starches – as a unit. "This makes it easier to 'lock in' portions of what's required to spread risk and secure potential cost savings without having to split cover for every single feed."

For Philip and Andrew Cooke, based at Sutton Barton Farm near Honiton, extended forward plans have formed a routine part of feed purchasing for several years. Key changes to management, nutrition and feed buying five years ago saw yield increases of around 4,000 litres per cow go hand-in-hand with reduced feed costs.

Close contact

Annual milk sales per cow currently stand at 11,800 litres, using a feeding system that's focused on simplicity and good feed buying. The 560-strong Holstein Friesians herd is averaging 38.8 litres per cow per day and achieved an income over feed costs (IOFC) for the month of July of £7.11 per cow.

"Keeping things simple and easy to manage is extremely important to us, so apart from some rape meal, soda wheat and the dry cow blend, we have all the straights delivered as a single KW custom blend," explains Philip Cooke.

Feed buying involves close contact with KW's Al Harris, who keeps the Cookes regularly updated 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," Mr Cooke continues. "It's another advantage of planning well ahead. As well as monitoring prices and being able to secure the feeds we want, we also know in advance if the mix is going to change and can introduce those changes gradually.

"I keep in contact with Al to make sure we can lock in chunks of what we need at good points in the market, and so we can achieve the balance between price, risk and securing supply that we're looking for." |