

Mike Stephens and Associates Newsletter December 2009



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Fertiliser Trends

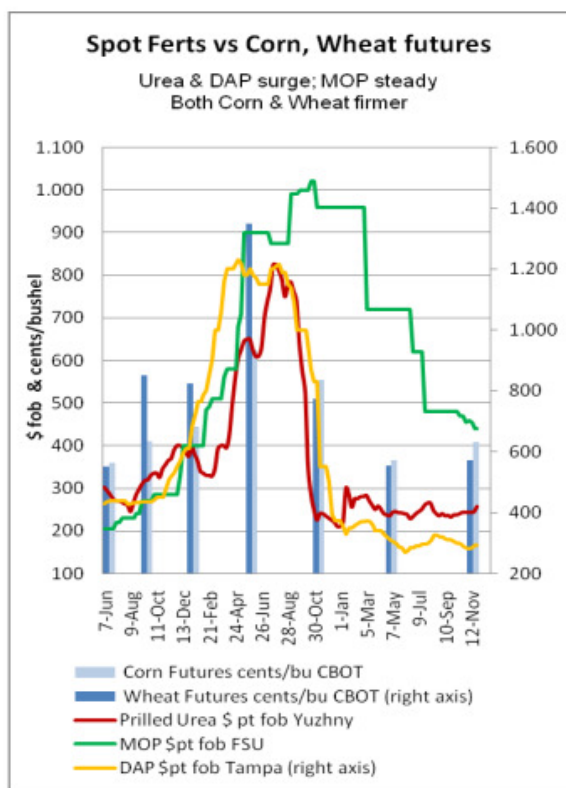
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Fertiliser prices on the world market have fallen dramatically from the highs of last autumn on the international market, when MAP/DAP were above US\$830 per tone ex Tampa, Urea above US\$800 and muriate of potash (MOP) above US\$1100.

MAP and DAP are now trading between US\$320 and \$390 ex manufacturing plant, but prices have risen over the past few weeks and there appears to be an upward trend, with many distributors across the world working with very low inventories.

Urea is now trading in the range of US\$265 - \$340 and trending up and MOP is now trading in the range of US\$420 - \$500, ex manufacturing plant. This price range appears to be stable or trending down slight as several countries including China and India are only taking product on an as needs basis.

Elemental sulphur prills have dropped dramatically from highs of more than US\$500 to now be trading in the range of US\$30 - \$55. The decrease in cost has had a very positive effect in lowering the cost of producing phosphates because sulphur is used to make phosphoric acid.



CBOT intraday: Dec Corn \$4.08/bu; Dec Wheat \$5.78/bu

Australian fertiliser prices have also changed dramatically, however many sellers have been left with high-priced product due to reduced sales in 2009.

Currently pricing is quite competitive, with MAP/DAP trading below \$600 per tonne, urea below \$500 per tonne, MOP at \$860 per tonne and single super below \$300 per tonne (all prices are ex works, without GST and guides only). Pricing will vary depending on what stock suppliers are holding from 2008 when they had to buy in at higher prices, but many have written down their stock to be competitive in the current market.

The key point for you to consider is what your soil nutrient levels are now. Some farmers have reduced their nutrient inputs over the past couple of years so it is likely they will need to use more fertiliser this year. Soil testing over the next few months will help you make the correct decision when buying inputs for either pasture or crop production for 2010.

Some early signs in some pasture soil results are showing quite low soil sulphur levels, resulting in the need to apply phosphorus and sulphur not just phosphorus. In some areas potassium levels are low, possibly as a result of potassium not being applied in 2009 or rates having been reduced over the past few seasons.

The figure below is taken from the FMB group weekly report (26 November 2009). It shows, graphically, the spot pricing trend of Urea, MOP and DAP from June 2008 until November 2009.

Forget the labels and remember the Johnson Bros

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Many people will breathe a sigh of relief at the fate of the Governments Emissions Trading, or Carbon Pollution Reduction Scheme Bill, and they will be relieved for many reasons...

- The bill did not go far enough in reducing emissions.
- The whole notion that human activity contributed to global warming is ridiculous.
- The scheme was simply a way for Government to tax and traders to trade.
- If you want to reduce carbon you should limit it, not tax it.
- In all the horse trading the bill became hopelessly compromised.

One of the most unfortunate side effects of the whole carbon/global warming/greenhouse debate so far is that people have labelled groups and allowed themselves to be labelled. If you labelled the positions listed above, in the same order they would be something like Green, Sceptic, Cynic, Pragmatic and Disillusioned.

The labels are given to and accepted by the extremes in the debate. There is no middle ground label, even if the middle is the vast majority.

So where are we up to?

The vast majority of climate scientists tell us that global warming is occurring. Scientists, no matter how revered, who are not up to date with climate research could help the debate by keeping their un-informed opinions to themselves. Climate scientists tell us there is a problem.

Common sense and intuition also tells us there could be some problems. Within two or three hundred years we have dug up much of the organic carbon laid down over hundreds of millions of years and released it to the oceans and atmosphere. Fossil fuels are a scarce resource and we should start to use them wisely. One day they will run out. There also have an increasingly large world population to feed, cloth, house and transport with limited resources.

Does that point to renewable energy as a solution?

Do those reasons say we should back off?

Does backing off mean reducing co2 emissions?

The answer to all these is YES, whether you believe in climate change or not.

To put it simply you can take one of three positions. For the sake of simplicity, let's name each position after people - McCram, Flanery and the Johnson Bros.

The McCram position is that human activity is of no consequence and everything that happens is part of a natural cycle.

The Flanery position is get on the life raft; you need to be there as sea levels rise.

And the Johnson Bros? Do you know the Johnson Bros? Probably not! The Johnson Bros, aged six and eight are the elder of my grandchildren. I want to be able to look them in the eye in ten years time when they ask me what I did about global warming and climate change.

I want to be able to say that I took it seriously, that I tried to get people to use less energy, that I supported the concept of renewable, that I tried to move the debate from labelling people to get them to think and that I believed that a Carbon Pollution Reduction Scheme was essential to their future.

What will you say to your grandchildren?

To sell now or not to sell – That is the question

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With harvest either underway or completed in most parts of south eastern Australia, many people will be tossing up the options of what to do with this year's grain.

If last year is any indicator grain marketing decisions are driven more by a desire to pick the top of the market than by any formal decision-making process. As a result thousands of tonnes of old season crop sat in silos as grain prices depreciated by more than 30%.

Why didn't people sell? The main reason was an expectation that prices would go higher despite strong evidence to the contrary. We all know that 20/20 hindsight is a wonderful thing but we can still learn something from it. If prices are at an all time high is it logical they will fall; nothing cures high prices like high prices.

However, the decision to sell must be based on something. Most people when asked what price they will sell will happily offer up a number. The determination of this price is often arbitrary and bears little relation to what it cost to produce the crop. It is much more likely that the price will reflect the person's opinion of the next market peak.

There is also a tendency to hold onto a price until grim death. How often have you heard somebody say they'll sell when wheat hits \$250/t after it has already rallied from \$235/t to \$248/t? In the big picture what's that \$2 add to the bottom? Not much. What does failing to sell potentially cost the business? Plenty.

So how do you calculate an acceptable price for grain? The answer is really simple - anything greater than your cost of production plus a profit margin is OK. In calculating your cost of production (CoP) it is important to build in all costs, not just those associated directly with the crop.

Cost of production is a simple concept central to the success of many industries but one that is often overlooked in agriculture. The true cost of production includes all overheads and capital items as well as the direct costs. The simplest way to calculate the true cost of production is to convert all costs on a per-hectare basis.

Obviously the aim is to maximise the margin between the CoP and income but doing so is often problematic as the impact of your decisions is not always clear. Warehousing is a good example of this.

Warehousing, or any storage for that matter, can let you take advantage of post harvest price increases but you won't know if this is a good deal or not unless you know the costs involved. To make the decision to sell you must know what the crop owes you and what not selling is likely to cost you in the future.

The message is simple - you can't determine an acceptable sale price unless you know the cost of production. This information is also important for locking in forward prices or working with derivatives.

The table below demonstrates the impact of storage on CoP. Once you understand at what price you can sell and make a reasonable return on investment, you can develop a marketing strategy. This will almost certainly involve taking advantage of a number of the different options available such as cash sales, pools, forward contracts and derivatives.

The important thing is not to be concerned about picking the top of the market. Sell when there's a profit in it, hold when there isn't but always be conscious that the longer you hold it the more it owes you.

Wealth is created through consistent profitability, not windfalls. Keep this in mind and talk to a professional grain marketer about your marketing strategy, managing price risk and matching income to your cashflow requirements.

Nobody goes broke making a profit.

Cost of Production for Grain							
At Harvest				Stored			
Farm Area	2000 Ha	Months in storage	6				
Crop	Wheat	Est harvest price	\$ 200.00 /t				
Crop Area	500 Ha	% Harvest stored	60%		1,050 t		
% of total area under mgn	25%	Receival	\$ 10.00 /t		\$ 35.00 /Ha		
		Storage	\$ 2.00 /mth		\$ 42.00 /Ha		
Yield	3.5 /Ha	Outloading	\$ 5.00 /t		\$ 17.50 /Ha		
Tonnage	1750 t	Interest	8%		\$ 28.00 /Ha		
Growing Costs	\$ 400 /Ha	Total			\$ 122.50 /Ha		
Overheads (total)	\$ 250 /Ha						
Overheads (proportional)	\$ 63 /Ha						
Total operating exp	\$ 463 /Ha						
Capitall exp	\$ 80 /Ha						
Total cost exc storage	\$ 543 /Ha				\$ 543 /Ha		
Storage exp					\$ 74 /Ha		
Total cost inc storage	\$ 543 /Ha				\$ 616 /Ha		
Cost of production	\$ 155 /t				\$ 176 /t		

Utilising out of season moisture for crops

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Again in many areas there has been rainfall in October/November and further on which is of limited value to the present crop. We thought it was timely to remind people of the value in conserving as much of this moisture as possible for the 2010 crop. For many this will mean spraying as the header leaves and before the sheep go in.

In many areas the hot dry late spring has had a dramatic effect on the final yield of many crops. People who received and conserved summer rainfall in 2008 have (mostly) benefitted significantly in grain yields this season, with up to an extra 0.5T/ha of canola or 1T/ha of wheat. This increase in yield has come at very little cost; however it requires timely spraying in sometimes difficult spraying conditions and with time pressures.

Controlling summer weeds while they are small gives two key benefits: firstly while they are small it is much easier to kill them and secondly they have used very little of the water which has fallen.

What percentage of summer rainfall can be counted towards next year's crop? With rainfall events over 25mm in a fall approximately 30% of this moisture could be available to the crop assuming summer weeds are controlled promptly.

Calculating the yield benefit

Assuming the area has a total rain fall of 425 mm with 125mm of summer rain falling from November to March.

Using a modified French-Schultz formula and modifying it to included 30% of summer rain plus April to October minus evaporation (110mm), what yields are probable?

Assuming the area has a total rainfall of 425mm with 125mm between November and March in falls greater than 25mm.

The potential yields are below.

Crop available moisture = $((125\text{mm} \times 30\%) + 300\text{mm}) - 110 = 228\text{mm}$

A potential yield			
	Potential kg grain/mm	Potential without moisture conserved	Moisture conserved
Canola	8	1.52T	1.824T
Wheat	15	2.85T	3.42T
Barley	18	3.42T	4.10T

Based on the above calculations there is an extra 0.57T/ha of wheat, assuming a price of \$180 per tonne it is worth more than \$100/ha (\$102.60), for spraying cost, chemical only of less than \$15.00/ha.

- What other benefits of controlling summer weeds earlier are:
- Extra nitrogen due to mineralization of organic matter
- More timely planting in a bigger window
- Better seedbeds and crop establishment
- Improved certainty of minimum yields because you are starting with more moisture
- Less insect and disease pressure because of the removal of the green bridge.

Overall there are very good reasons to control summer weeds early where possible.

Why spray? Won't it dry out anyway? In part this is true (but) many experienced croppers know that in a moist fallow or stubble there are increased opportunities to push moisture below 30 cm where it is protected and stored until a crop needs it.

What about the lost sheep feed? This is a folly as most summer weeds are of limited value and stress easily. In fact, unsprayed hairy panic is toxic to sheep as is Heliotrope or Patterson's Curse.

Points to be mindful of when spraying –

- Observe Delta T guidelines

- Use AIXR or Hardie Minidrift nozzles for a coarse to very coarse droplet
- Broadly speaking, oils are not to be used for summer spraying unless it is garlon by itself or with amicide

Seasons greetings

Whether you are reading this before or after December 25th, the Mike Stephens and Associates team wish you and your family a happy, safe and productive Christmas season.

We look forward to working with you throughout 2010 and seeing your business continue to reach it's goals.



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