

'Failing to Plan, is Planning to Fail – Agricultural Inputs for 2022'

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Data and insights provided by Thomas Elder Markets

Like many businesses, agribusiness is the same in many ways. There is risk and uncertainty, there is profit and loss and there are inputs and outputs. Like purpose and pride, profit is also a motivating factor of farming.

The most straightforward formula for on-farm accounting of profit is income multiplied by yield, minus costs.

Income: The income component is the price received for the output of the farm. In cropping businesses, this is the income from sales of grain/oilseeds; in the livestock industry, it may be the sale of cattle.

Yield: The yield is the volume of grain/oilseed produced for the given area; in a cattle farm, it may be the weight of meat added.

Costs: The total costs of producing the crop are deducted from income. These costs comprise costs that are fixed farm costs such as depreciation and management and variable costs that relate directly to producing a product, such as chemicals, fertilizer and machinery running costs

It is important for agribusinesses to examine both sides of the ledger, from input to output.

Income

Multiplied

Yield

Minus

Costs

=

Profit

There is a tendency within the agricultural markets space to focus on the income side of the profit equation. The price of beef received at the sale yard, or the price of grain delivered to port. Discussions of input pricing rarely occur in the agricultural press.

Many base premises have changed over the two years of COVID, and as we come out of this period, a number of side effects are evident in the transition. One of these side effects is the

impact on global supply chains, manufacturing and logistics.

Agricultural inputs are under a great deal of pressure and are in the process of causing a cost-price squeeze at a farmer level. The cost of nearly every input has risen dramatically during the past 1-2 years.

The implications and impacts of these changes on a number of the main agricultural inputs including fuel, timber, freight, chemicals and fertilizer are considered below.

*Agribusiness Australia serves the Australian agribusiness sector, and our membership reflects the diversity of businesses in the sector. Our vision for the future is for a growing and thriving agricultural sector where individuals, organisations and industries can strive for, and reach, their full potential; in short, a **\$300bn Australian agribusiness sector by 2030**.*

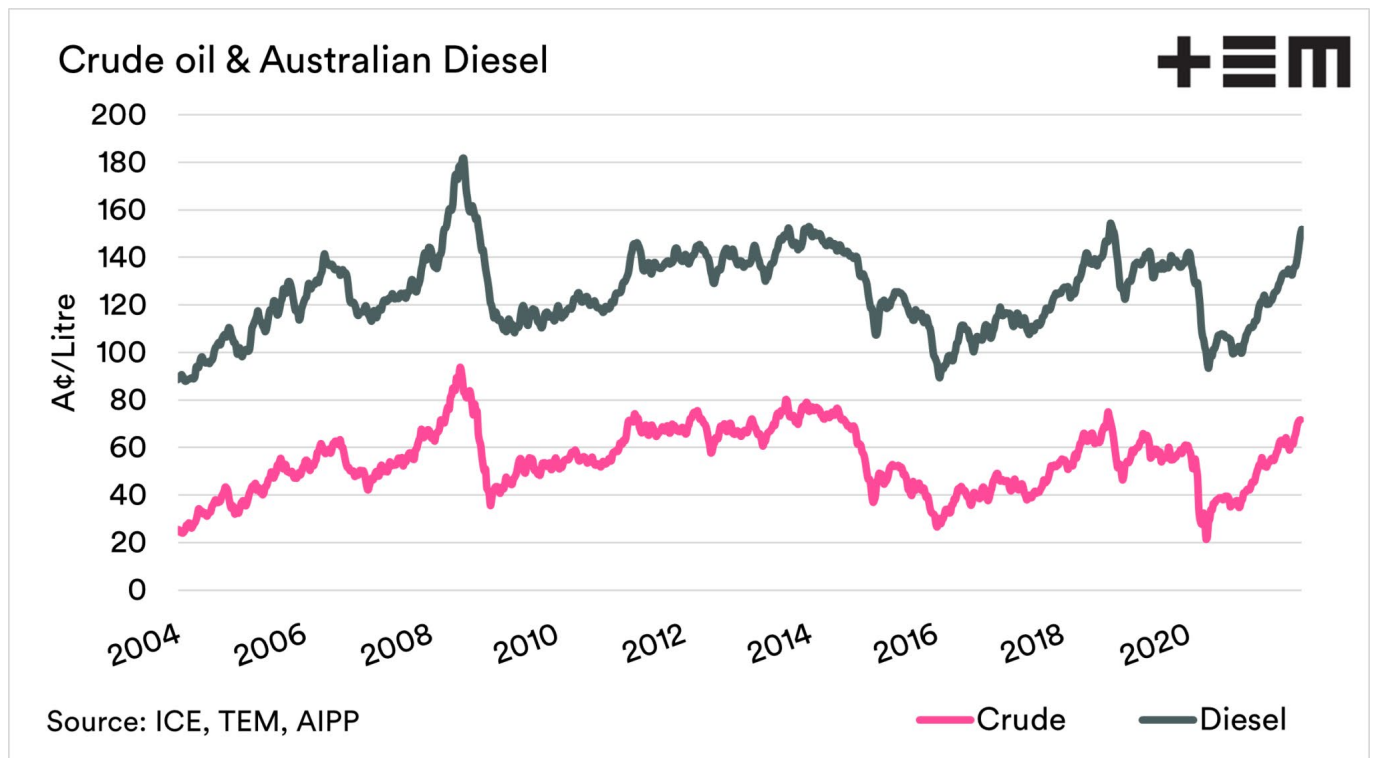
To achieve our vision we advance the interests of the Australian agribusiness sector through advocacy, promotion, and leadership, and we support our members and networks through events, services, and platforms for engagement.

Fuel

One of the highest costs in the agricultural supply chain is fuel. This is a cost that impacts all stages of the supply chain, from powering combine harvesters to the ships transporting our goods overseas. As fuel prices increase, then so does the cost of logistics.

Crude oil is the feedstock for diesel, and it has been travelling in an upward direction since the crash in prices during 2020. As you can see in the chart below, there is a strong relationship between both Australian diesel pricing and crude oil.

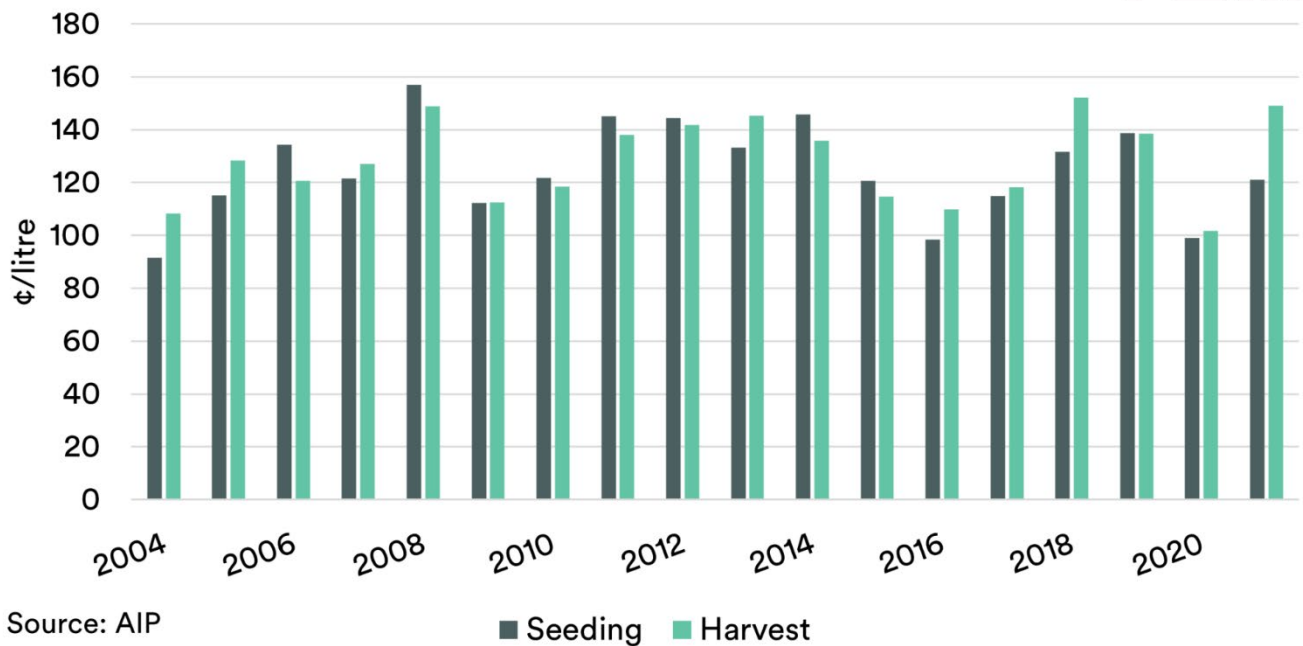
This makes sense, as diesel is a derivative of crude oil. As oil prices move, that is generally felt in the local price of diesel.



The second chart below shows the average cost of diesel in Australia for the seeding (April) and harvest (October) purchase periods.

Last year was the cheapest for harvest diesel since 2004 (in nominal terms), whereas this year has become the 2nd highest. The current October average is 149.12, versus 2018 at 152.11. The jump in pricing between seeding and harvest this year has also been the highest at a 23% rise.

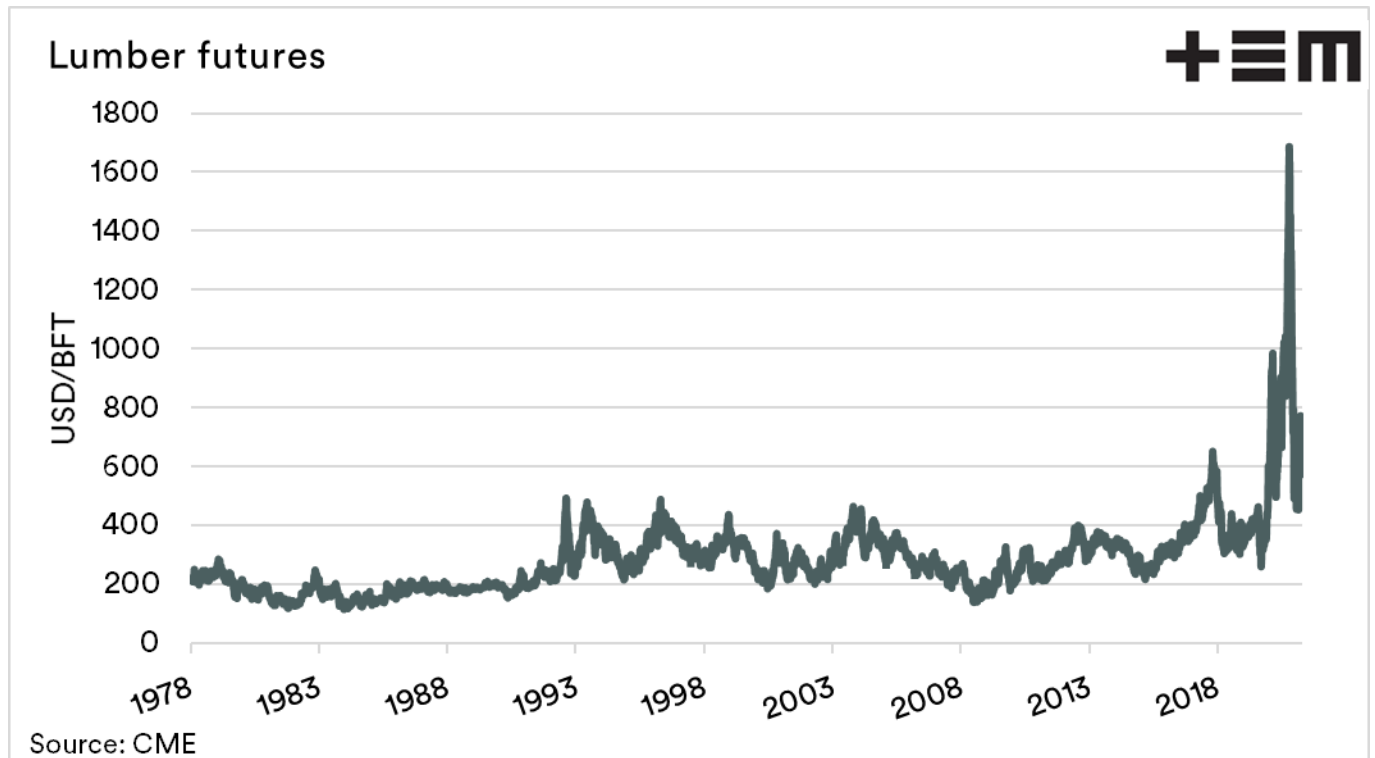
Diesel - Seeding & Harvest



Lumber

We don't often think of wood as being an input for the agricultural space. Timber is not as important overall as other inputs such as fuel or fertilizer. There are some indirect inputs produced from wood. For example, fencing posts in the livestock industry, shearing sheds and pallets/fruit boxes are made from wood.

The market for lumber has gone barking mad. The chart below shows the price for lumber futures from 1978 to the present. The lumber price increased to unthinkable levels, however has seen a correction to more traditional levels recently.

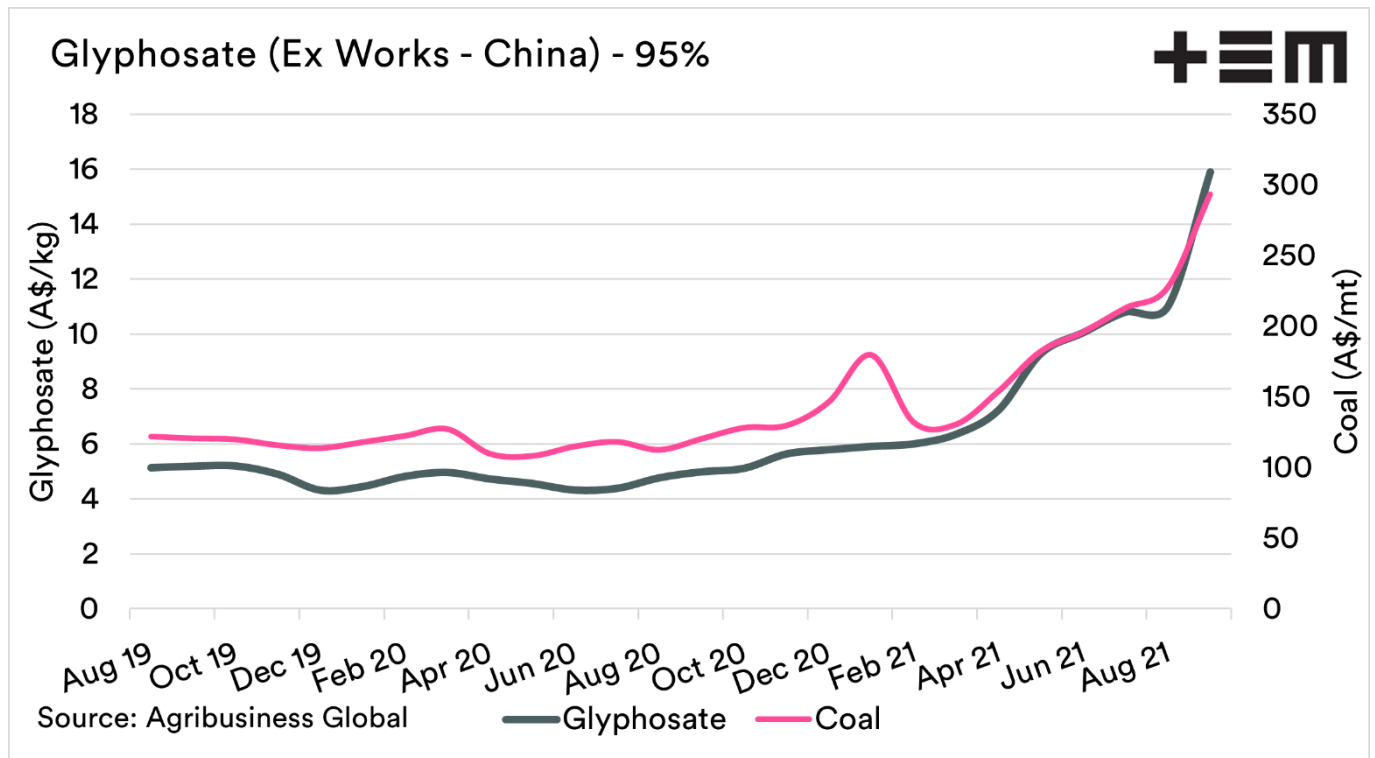


The root cause has been Covid-19 (yet again), resulting in strong demand for DIY projects and new build houses. The result is that the cost of housing is increasing, potentially pricing some buyers out of the market.

Glyphosate

Glyphosate is one of the most important crop protection products in Australia and globally, and supply has been impacted through natural events and plant capacity reduction.

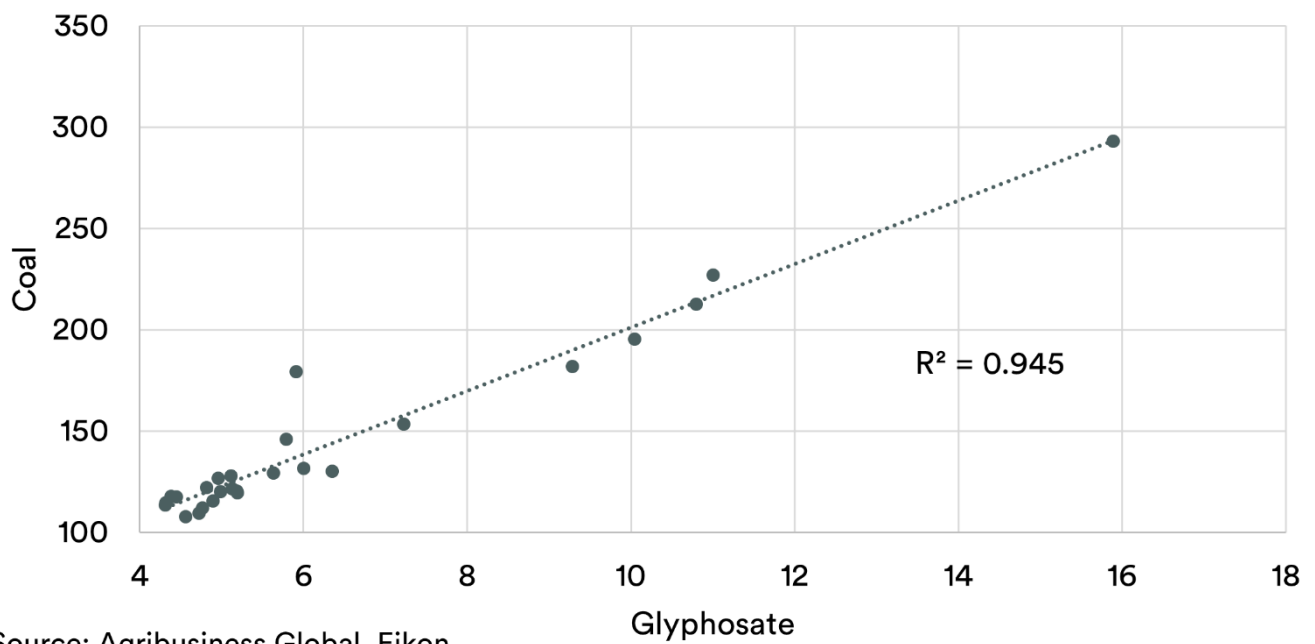
Glyphosate pricing has increased dramatically over recent months. Typically 95% glyphosate has traded around the A\$4 to 5 level. At the end of September, Glyphosate had risen to A\$15.8, ex-works in China.



The production of glyphosate is energy intensive and there is a close relationship between the price of coal, and the price of glyphosate. The rising price of energy in recent months globally will see glyphosate remain expensive until energy prices stabilize.

The majority of glyphosate imported into Australia is produced in China, although the global supply and demand provides a significant pressure on other manufacturing countries such as the US and Europe.

Glyphosate vs Coal



Source: Agribusiness Global, Eikon

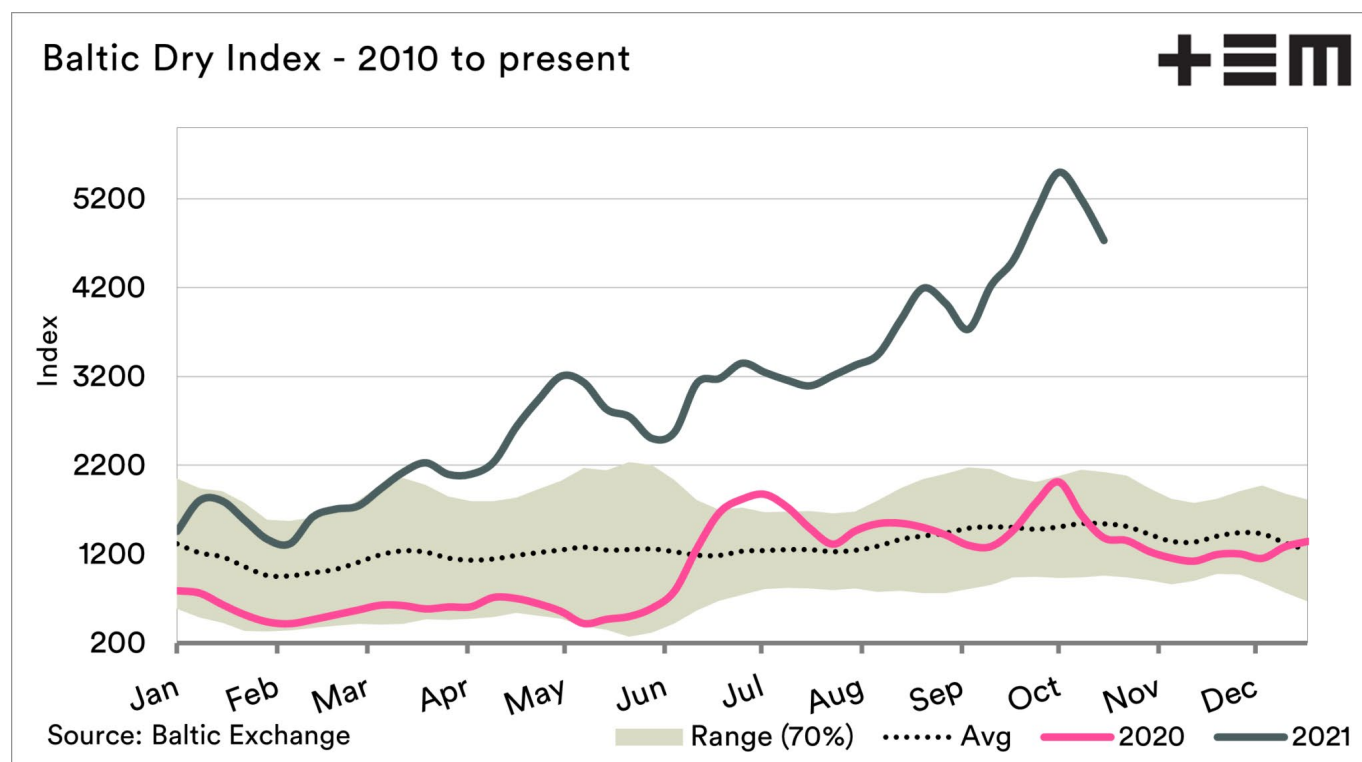
Freight

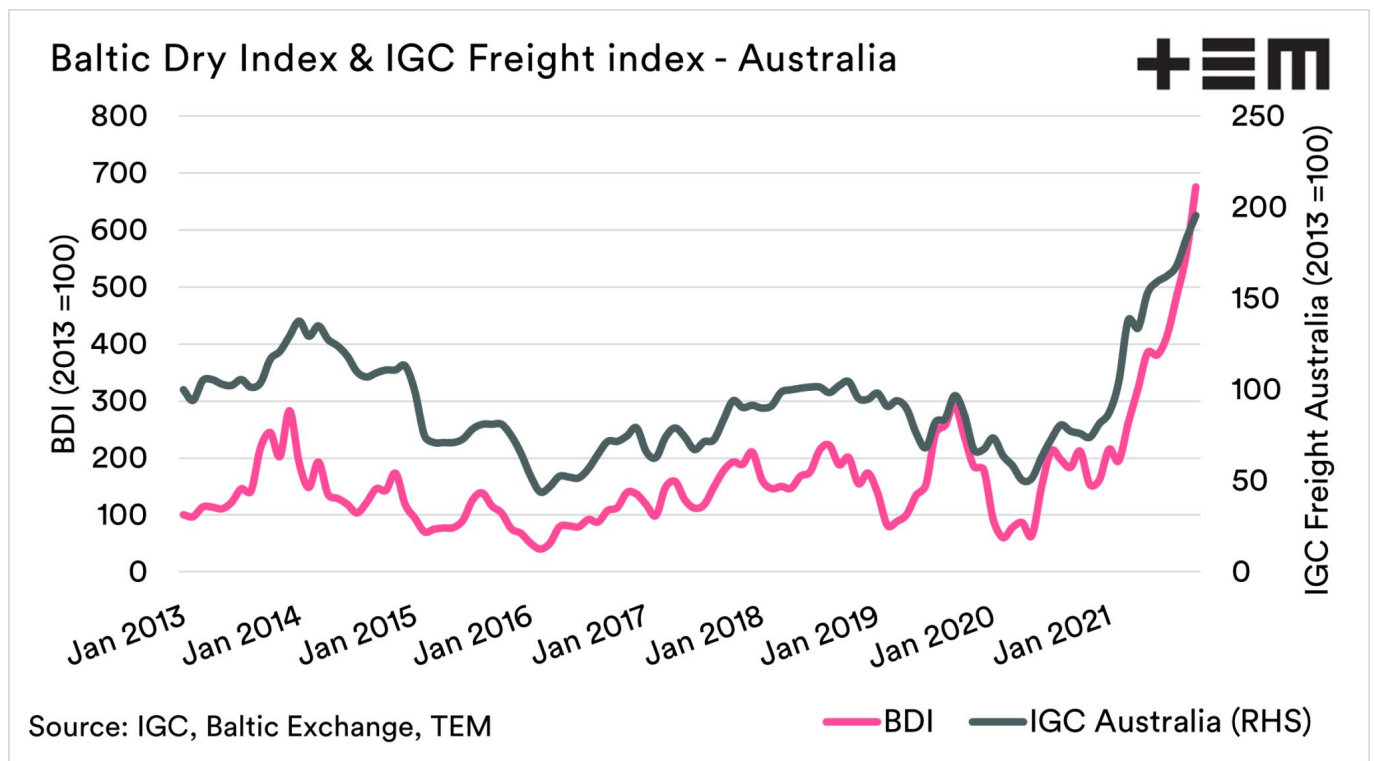
The freight market has been quite frightening in recent months, as both bulk and container freight increase massively. However, in recent weeks we have seen a welcome downward movement in both markets, albeit still remaining at very strong levels.

Bulk

The baltic dry index is a good indicator of the trend of bulk freight, and in recent weeks it has experienced a fall in levels. Only three weeks ago, the BDI was at the highest level in ten years, although lower than the mid-2000s.

A falling bulk freight makes our exports cheaper to get to the destination and reduces the cost of our landed fertilizer price.





Containers

Whilst still freight, containers operate in a completely different market from bulk freight. The high cost of containers worldwide is impacting our cost of export goods such as meat, wool and pulses. They also impact the cost of importing parts and chemicals.

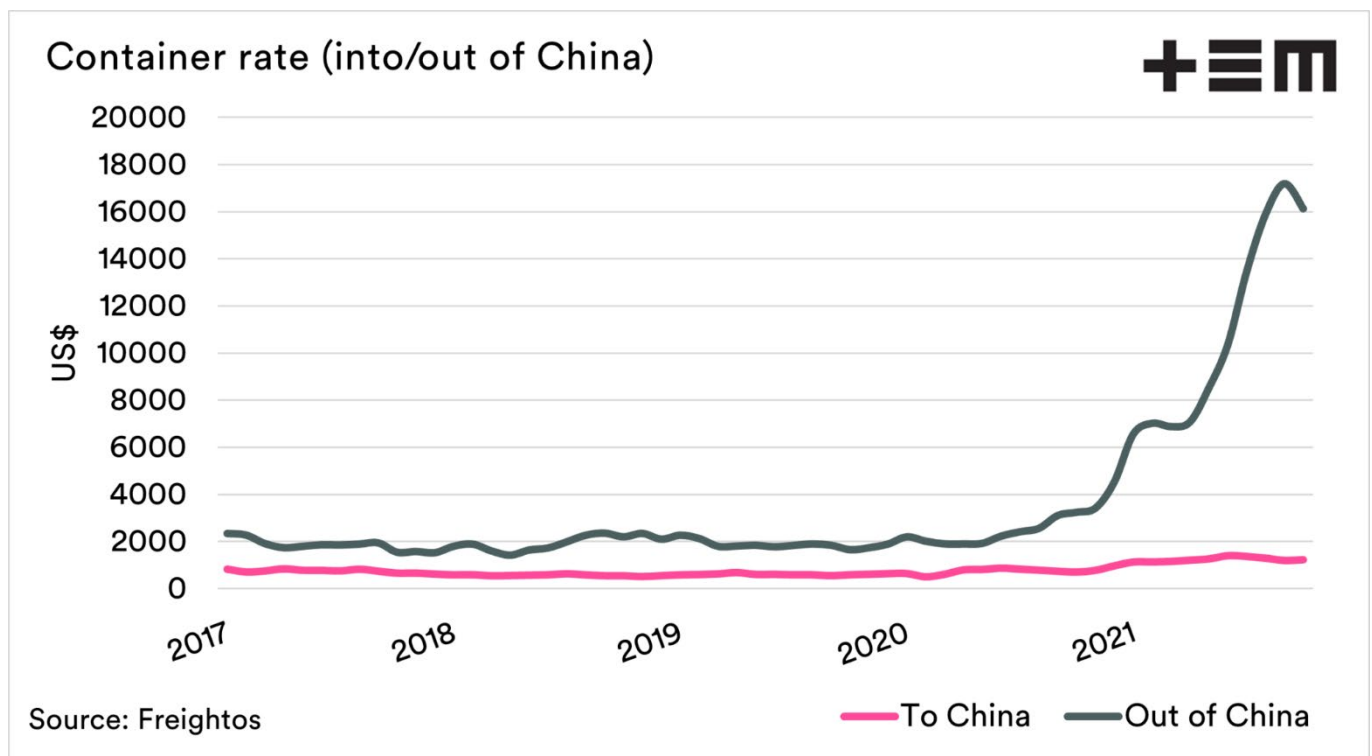
There are two distinct markets in the global container trade at the moment. The cost of containers into and out of China.

The first chart below shows how the price of containers out of China has diverged massively from normally expected levels. Containers into China are moving at not far off normal levels, whereas into China has moved from the US\$2's to averaging >US\$16K.

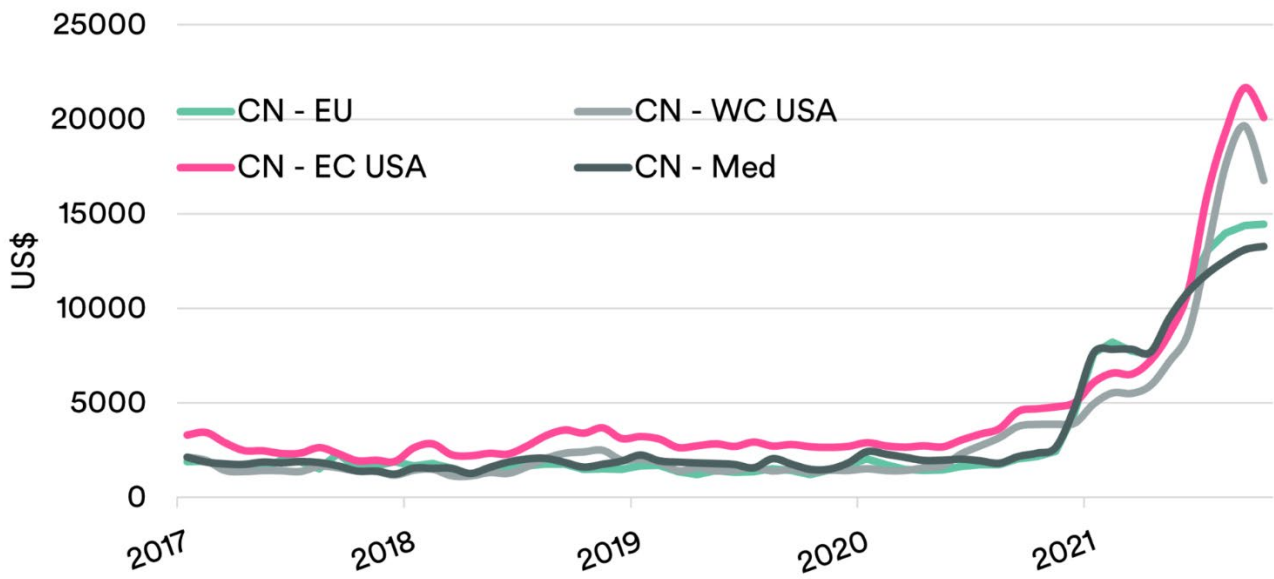
The market has fallen in recent weeks, due to a reduction in demand, although when looking at the monthly average for October, we see that price still remain extremely inflated.

In the second chart, the cost of containers ex-China to US (east & west), the EU and Med are shown. We can see that the discount is occurring to the USA, but with very little movement to other destinations.

On a local level, it is still hard to get access to empty containers for export, but we are also impacted by strikes at QUBE, one of the country's major container port operators. We can hope that things return to normality, but don't expect to see this occurring soon.



Container rate (ex China)

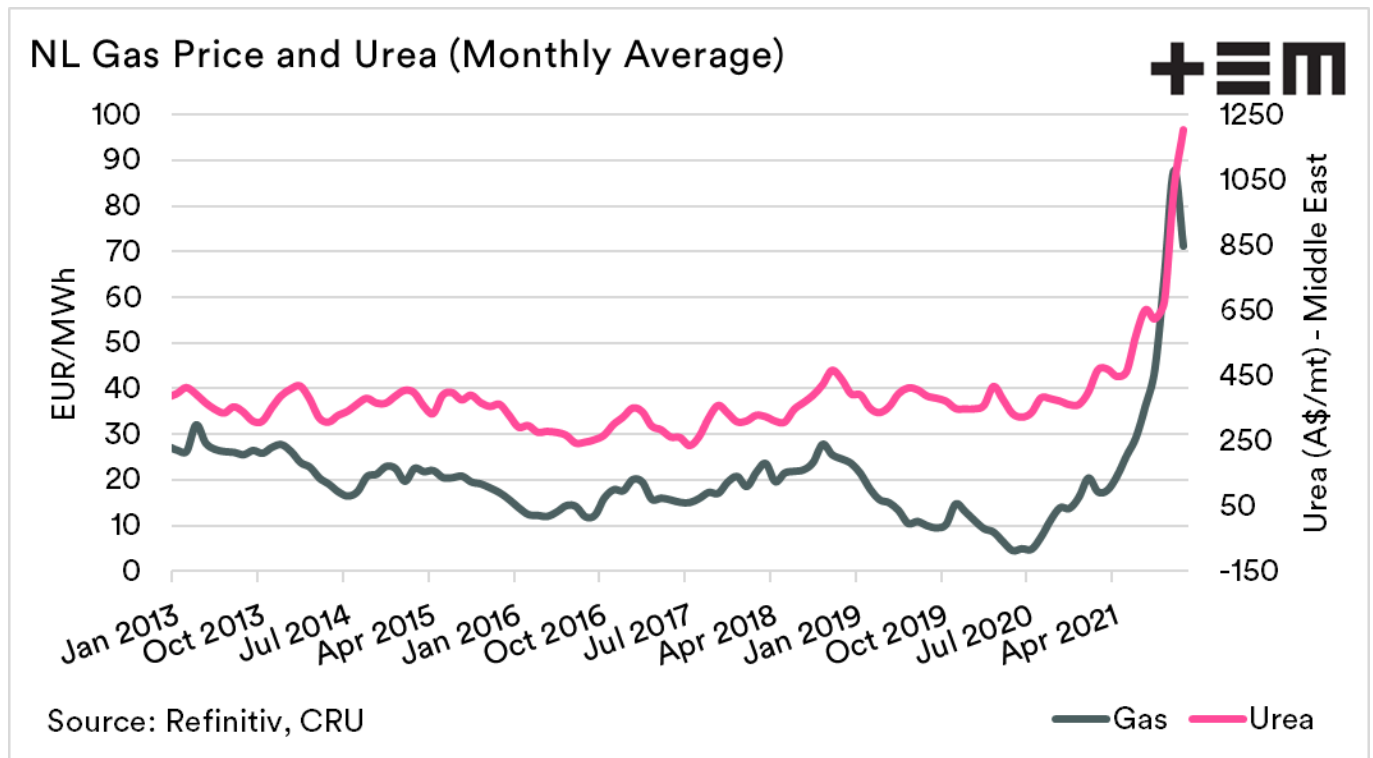


Source: Freightos

Fertilizer

The global fertilizer market has seen very strong spikes in pricing in recent months. The main reason for increasing fertilizer pricing levels is the current energy woes. The world is struggling to power itself, with countries from China to Lebanon having issues with both supply and the incredibly high price of coal and gas.

The chart below shows Urea vs Gas in recent years. The current gas price in Europe has fallen after hitting record levels ahead of the northern hemisphere winter. Gas is the primary feedstock for Urea, and these pricing levels of gas are not conducive to cheap Urea



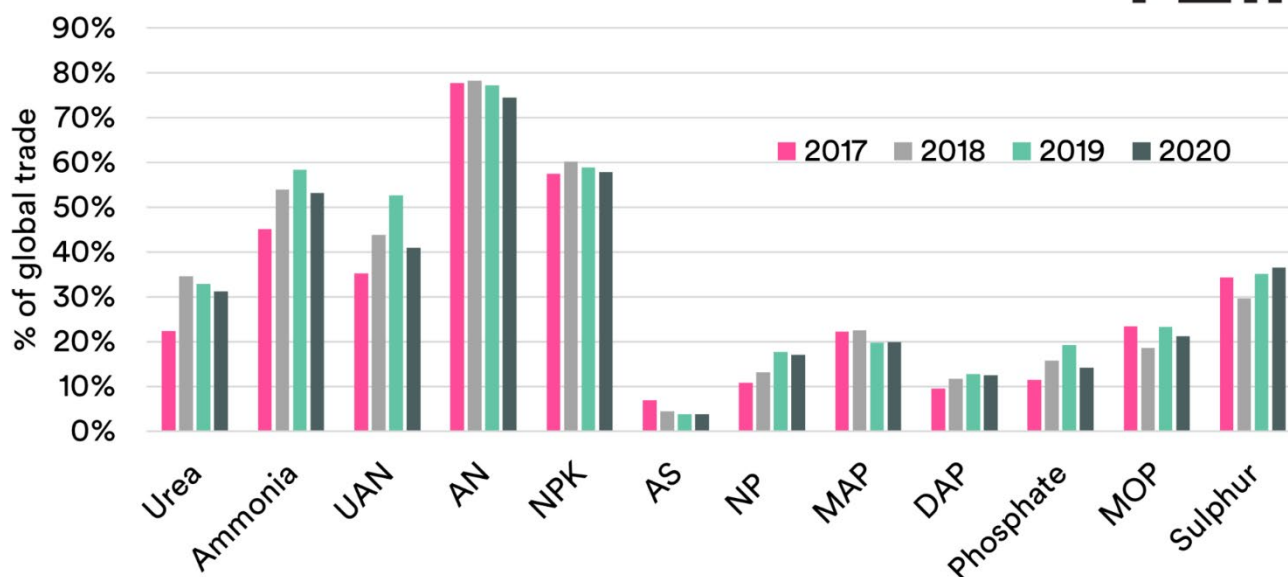
The result of these high energy prices, and the corresponding increase in the price of fertilizer, there has been a move to government intervention in a number of fertiliser manufacturing countries.

We have seen the introduction of export bans in China, and an export quota in Russia. This has been implemented on the basis of overriding domestic need for fertiliser in both China and Russia. These decisions are both set to continue through the main Australian purchasing periods.

The Russian and Chinese governments are doing this to keep a lid on increasing fertilizer pricing to keep prices lower for the domestic market and as such has taken volume from the global fertilizer market.

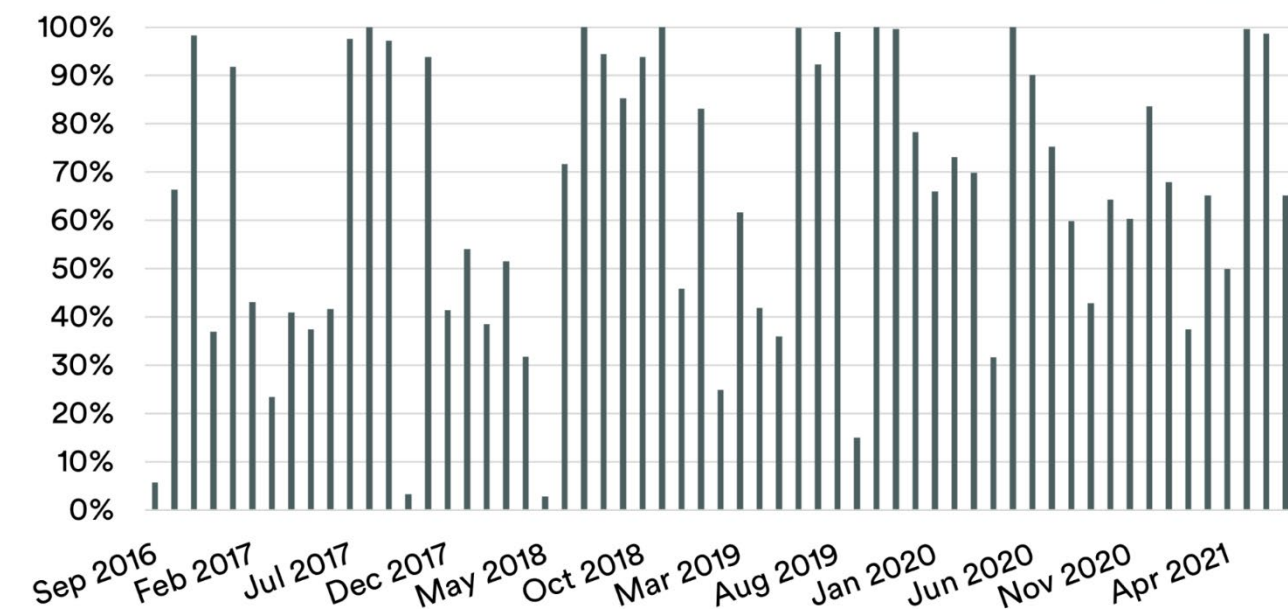
Russia and China are both large contributors to the global trade in fertilizer. From an Australian point of view, the limitation on MAP/DAP exports from China is of some concern given that China is a major source of imported product.

Russian Contribution to Global Fert Trade



Source: IHS, CRU, Comtrade, TEM

MAP to Australia (% ex China)



Source: CRU