



WESTERN

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GRDC™ GROWNOTES™



GRDC™

GRAINS RESEARCH
& DEVELOPMENT
CORPORATION

TRITICALE

SECTION 15

MARKETING

WESTERN FEED GRAINS – MARKET DYNAMICS AND EXECUTION

Marketing

The final step in generating farm income is converting the tonnes produced into dollars at the farm gate. This section provides best in class marketing guidelines for managing price variability to protect income and cash-flow.

GRAIN SELLING - Best practice in conversion of tonnes to dollars

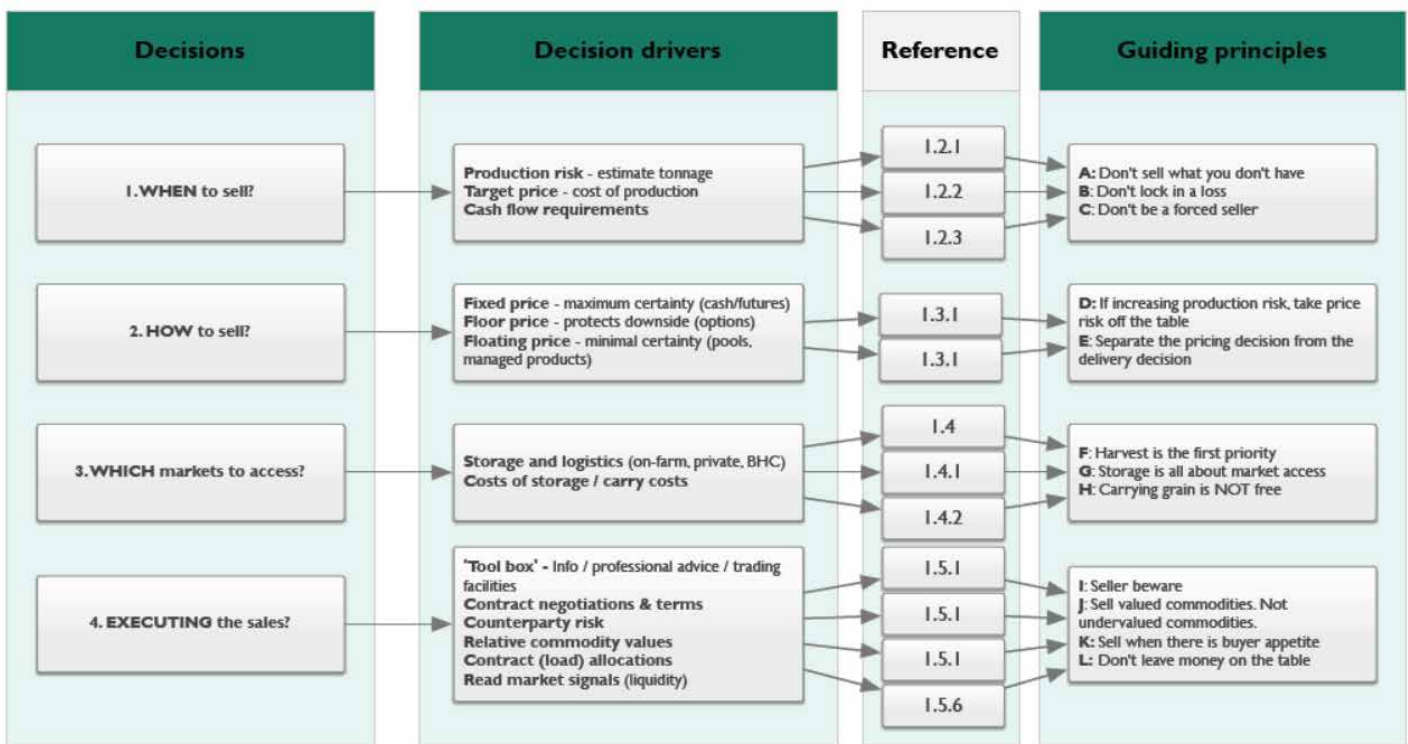


Figure 1: Grain selling flow chart

Figure 1 shows a grain selling flow chart that summarises:

- The decisions to be made
- The drivers behind the decisions
- The guiding principles for each decision point

References are made to the section of the GrowNote you will find the detail.

15.1 Western feed grains – market dynamics and execution

15.1.1 Price determinants for Western Australian feed grains

Stock feed markets are the biggest consumers of grain domestically in Australia. Whilst the majority of the grain produced in WA is exported, the domestic stock feed market consumes 600kt of feed grain per annum, representing ~5% of total Australian stock feed consumption and approximately 5% of average WA's winter grain production.

Whilst the Western Australian stock feed market is small relative to the rest of Australia it is growing as intensive pig and poultry industries in particular expand

their WA foot print. This trend is being driven by the availability of land, the regulatory environment and the availability of feed grains.

The largest market for stock feed in WA is the poultry market including eggs and chicken meat accounting for 30%, followed by pig meat production, dairy, beef and then sheep industries.

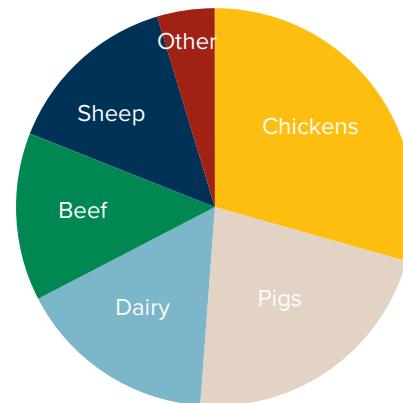


Figure 2: Sources of demand for stock feed in Western Australia

The key drivers of prices for feed grains in Western Australia include;

- Rate of exports and remaining supply of feed grains for domestic markets.
- Commodity prices in the consuming industry (ie meat prices)
- Consumption trends in domestic livestock markets.
- Livestock health
- Number of animals on feed.
- Seasonality / supply of pasture and fodder vs grains.
- Imports of alternate feed sources (ie soy bean meal)
- Rate of live export of sheep from WA.
- Prices of competing feed grains.

Demand for grain from stock feed markets tends to be steady throughout the year. However knowing there is strong competition from the export market for WA grain, some buyers will seek to secure requirements shortly after harvest when the supply of grain is more certain.

15.1.2 Executing tonnes into cash

When it comes to accessing domestic stock feed markets there are several ways this can be approached.

1. Sale to a feed miller or manufacturer
2. Sale direct to farm or end user.
3. Sale to a trader or merchant who on sells this grain to the stockfeed market.

Each organisation will differ in terms of how they manage grain purchases, the professionalism of the enterprise and management around grain requirements and grain purchases, documentation and record keeping.

Hence it is particularly prudent when making sales into these markets to be vigilant in maintaining records of contracts, even when they are executed by phone. It is strongly advised that the seller keeps a written record of the particulars of the contract including price, quantity, quality, delivery and payment terms to protect

yourself in the event of a dispute with your counterparty as to the details of the sale agreement.

It is even better practice to send a contract confirmation to the buyer in the event they don't provide one to you, or even as well as. Grain Trade Australia provide standard form contract documents which can be completed by either party and returned to the buyer by email as confirmation of the verbal contract. This way, any mis-understandings that may have taken place on the phone can be quickly identified and rectified immediately whilst the conversation is still fresh in both your minds rather than waiting until delivery to identify a problem.

How to sell for cash

Like any market transaction, a Cash grain transaction occurs when a bid by the buyer is matched by an offer from the seller. Cash contracts are made up of the following components with each component requiring a level of risk management:

- Price - Future price is largely unpredictable hence devising a selling plan to put current prices into the context of the farm business is critical to manage price risk.
- Quantity and Quality -When entering a cash contract you are committing to delivery of the nominated amount of grain at the quality specified. Hence production and quality risk must be managed.
- Delivery terms -Timing of title transfer from the grower to the buyer is agreed at time of contracting. If this requires delivery direct to end users it relies on prudent execution management to ensure delivery within the contracted period.
- Payment terms- In Australia the traditional method of contracting requires title of grain to be transferred ahead of payment; hence counterparty risk must be managed.

SECTION 15 TRITICALE

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FEEDBACK

Typical cash contracting
as per Grain Trade Australia standards

GTA Contract No.3
CONTRACT CONFIRMATION

GTA Trade Rules and Dispute Resolution Rules apply to this contract

This Contract is confirmation between:

<p>BUYER</p> <p>Contract No: _____</p> <p>Name: _____</p> <p>Company: _____</p> <p>Address: _____</p> <p>Buyer ABN: _____</p> <p>NGR No: _____</p>	<p>SELLER</p> <p>Contract No: _____</p> <p>Name: _____</p> <p>Company: _____</p> <p>Address: _____</p> <p>Seller ABN: _____</p> <p>NGR No: _____</p>
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The Buyer and Seller agree to transact this Contract subject to the following Terms and Conditions:

Commodity: _____	GTA Commodity Reference: _____
Grade: _____	Inspection: _____ (Origin - Destination)
Quantity: _____	Tolerance: _____ (Refer only)
Packaging: _____	Weights: _____ (Origin - Destination)
Price: _____	Excl/Incl/Free GST _____
Price Basis: _____	
Delivery/shipment Period: _____	(Delivered, Shipped, Free In Store, Free On Board, Ex-Plant, etc.)
Delivery Point and Conveyance: _____	
<p>Payment Terms: The buyer agrees to pay the seller within _____ in the absence of a declaration, payment will be 30 days end of week of delivery.</p> <p>Levies and Sundry Charges: Any industry, statutory or government levies which are not included in the price shall be levied as required by law.</p> <p>Disclosure: Is any of the crop referred to in this contract subject to a mortgage, Encumbrance or lien and/or Plant Breeding Rights and/or EPR liabilities and/or registered or unregistered Security Interest? <input checked="" type="radio"/> NO <input type="radio"/> YES (Please <input type="checkbox"/> appropriate box) If 'yes' please provide details: _____</p> <p>Other Special Terms and Conditions: _____</p>	

All Contract Terms and Conditions as set out above and on the reverse of this page form part of this Contract. Terms and Conditions written on the face of this Contract Confirmation shall overrule all printed Terms and Conditions on the reverse with which they conflict to the extent of the inconsistency. This Contract comprises the entire agreement between Buyer and Seller with respect to the subject matter of this Contract.

Recipient Created Tax Invoice (RCTI).
To assist with the processing of the Goods and Services Tax compliance, the buyer may prepare, for the seller, a Recipient Created Tax Invoice (RCTI). If the seller requires this service they are required to sign this authorisation.

Please issue a RCTI (Please ...)

Incorporation of GTA Trade & Dispute Resolution Rules:
This contract expressly incorporates the GTA Trade Rules in force at the time of this contract and Dispute Resolution Rules in force at the commencement of the arbitration, under which any dispute, controversy or claim arising out of, relating to or in connection with this contract, including any question regarding its existence, validity or termination, shall be resolved by arbitration.

<p>Buyer's Name: _____</p> <p>Buyer's Signature: _____</p> <p>Date: _____</p>	<p>Seller's Name: _____</p> <p>Seller's Signature: _____</p> <p>Date: _____</p>
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This Contract has been executed and this form serves as confirmation and should be signed and a copy returned to the buyer/seller immediately. 2014 Edition
GTA. For GTA member use only.

Timing of delivery (title transfer) is agreed upon at time of contracting. Hence growers negotiate execution and storage risk they may have to manage.

Quantity (tonnage) and Quality (bin grade) determine the actuals of your commitment. Production and execution risk must be managed.

Price is negotiable at time of contracting.

Price point is important as it determines where in the supply chain the transaction will occur and so what costs will come out of the price before the growers net return.

Whilst the majority of transactions are on the premise that title of grain is transferred ahead of payment this is negotiable. Managing counterparty risk is critical.

Grain Trade Australia is the industry body ensuring the efficient facilitation of commercial activities across the grain supply chain. This includes contract trade and dispute resolution rules. All wheat contracts in Australia should refer to GTA trade and dispute resolution rules.

Figure 3: Typical cash contracting

Counterparty risk

Most sales involve transferring title of grain prior to being paid. The risk of a counterparty defaulting when selling grain is very real and must be managed. Conducting business in a commercial and professional manner minimises this risk.

Principle: “Seller beware” – There is not much point selling for an extra \$5/t if you don’t get paid.

Counterparty risk management includes:

- Dealing only with known and trusted counterparties.
- Conduct a credit check (banks will do this) before dealing with a buyer they are unsure of.
- Only sell a small amount of grain to unknown counterparties.
- Consider credit insurance or letter of credit from the buyer.
- Never deliver a second load of grain if payment has not been received for the first.
- Do not part with title of grain before payment or request a cash deposit of part of the value ahead of delivery. Payment terms are negotiable at time of contracting, alternatively the Clear Grain Exchange provides secure settlement where-by the grower maintains title of grain until payment is received by the buyer, and then title and payment is settled simultaneously.

Above all, act commercially to ensure the time invested in a selling strategy is not wasted by poor counterparty risk management. Achieving \$5/t more and not getting paid is a disastrous outcome.

Read market signals

The appetite of buyers to buy a particular commodity will differ over time depending on market circumstances. Ideally growers should aim to sell their commodity when buyer appetite is strong and stand aside from the market when buyers are not that interested in buying the commodity.

Principle: “Sell when there is buyer appetite” – When buyers are chasing grain, growers have more market power to demand a price when selling.

Buyer appetite can be monitored by:

- The number of buyers at or near the best bid in a public bid line-up. If there are many buyers, it could indicate buyer appetite is strong. However if there is one buyer \$5/t above the next best bid, it may mean cash prices are susceptible to falling \$5/t if that buyer satisfies their buying appetite.
- Monitoring actual trades against public indicative bids. When trades are occurring above indicative public bids it may indicate strong appetite from merchants and the ability for growers to offer their grain at price premiums to public bids.

Know the specifications of your grain

- Feed ‘grades’ of grain as defined by bulk handler receival standards can have very broad quality specifications. For the lowest grades there is often no minimum tolerances on screenings or protein hence no two parcels are the same.
- The important factor for the stock feed market however is not what ‘grade’ the grain is but its energy and protein components which ultimately determine conversion in to meat or other animal products. Hence by having your grain tested and knowing your specifications helps the buyer to know exactly what the value of the grain will be in the production system.
- Without this information the buyer may base their pricing on the ‘minimum’ specification or likely worst case scenario, to protect themselves in the event they receive grain of the lowest quality allowable in the grade specifications. However knowing why your grain was downgraded and the specifications of

the load, the buyer may be able to pay premiums for the exact quality you are offering, above the minimum specification.

15.1.3 Ensuring access to markets

Planning on where to store the commodity is important in ensuring access to the market that is likely to yield the highest return.

Effective storage decisions

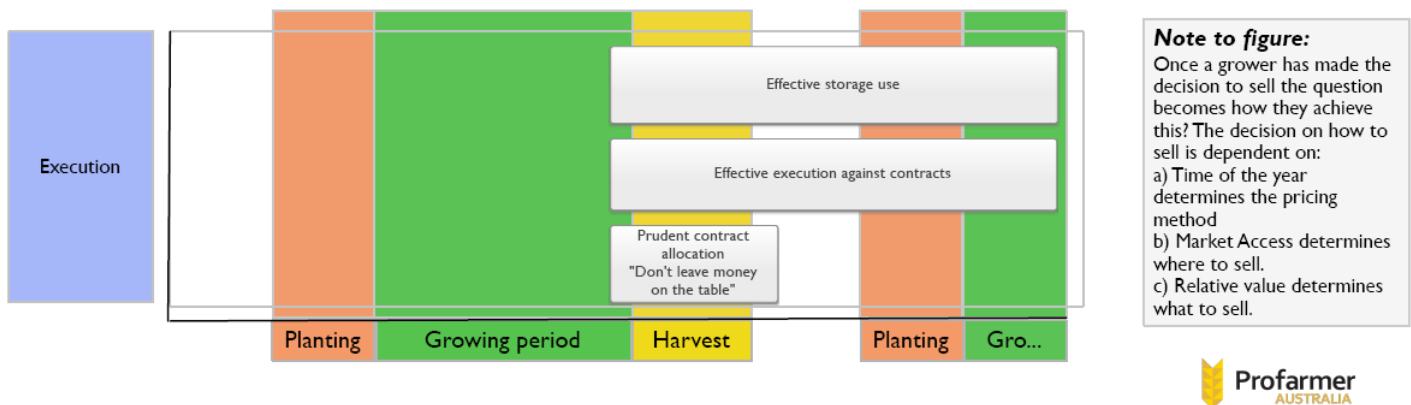


Figure 4: Effective storage decisions

Storage and Logistics

Return on investment from grain handling and storage expenses is optimised when storage is considered in light of market access to maximise returns as well as harvest logistics.

Storage alternatives include variations around the bulk handling system, private off farm storage, and on-farm storage. Delivery and quality management are key considerations in deciding where to store your commodity.

Commodities destined for the domestic end user market, (e.g feed lot, processor, or container packer), may be more suited to on-farm or private storage to increase delivery flexibility.

Storing commodities on-farm requires prudent quality management to ensure delivery at agreed specifications and can expose the business to high risk if this aspect is not well planned. Penalties for out-of-specification grain on arrival at a buyer's weighbridge can be expensive. The buyer has no obligation to accept delivery of an out-of-specification load. This means the grower may have to incur the cost of taking the load elsewhere whilst also potentially finding a new buyer. Hence there is potential for a distressed sale which can be costly.

On-farm storage also requires prudent delivery management to ensure commodities are received by the buyer on time with appropriate weighbridge and sampling tickets.

Principle: "Storage is all about market access" – Storage decisions depend on quality management and expected markets.

MORE INFORMATION

For more information on on-farm storage alternatives and economics refer Section 13. Grain Storage.

For more information on on-farm storage alternatives and economics refer GRDC Western Region - Wheat - GrowNote, Section 13 Grain Storage

Grain storage decision making

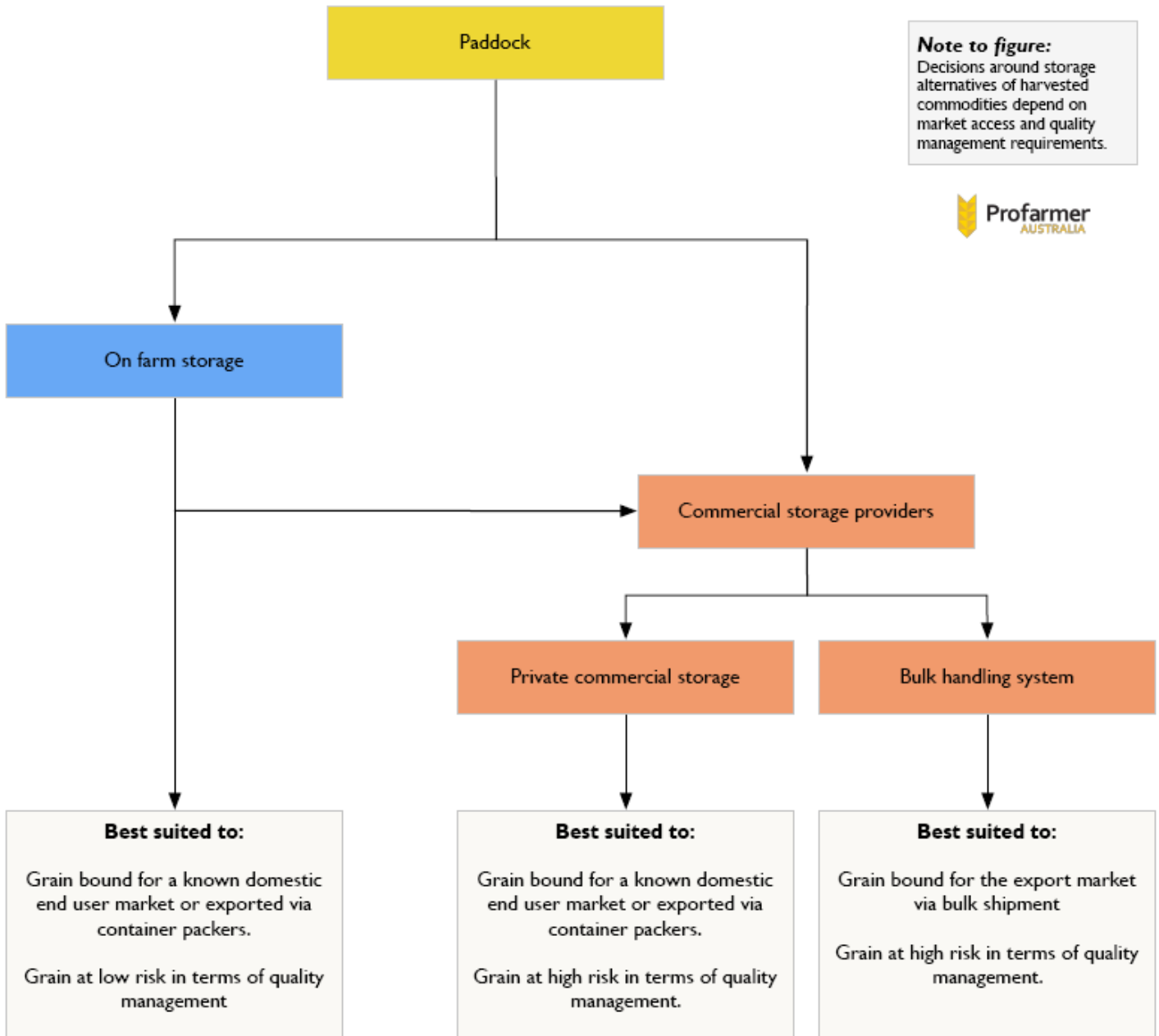


Figure 5: Grain storage decision making

Separate the delivery decision from the pricing decision

Organised stock feed buyers, with a clear outlook as to what their grain requirements will be across the season may seek to purchase their grain in advance of delivery. That is they may purchase grain in March for delivery between May and July. This provides the seller the opportunity to obtain price certainty immediately whilst delivery may not take place until some point in the future.

The benefit of this is that a seller can capture strong value when it presents, even though it may not be a convenient time to arrange delivery. Or you can create cash flow certainty for a known future commitment at today's price.

Cost of carrying grain

Storing grain to access sales opportunities post-harvest invokes a cost to "carry" grain. Price targets for carried grain need to account for the cost of carry.

Carry costs for canola are typically \$4-5/t per month consisting of:

1. monthly storage fee charged by a commercial provider (typically ~\$1.50-2.00/t per month)
2. the interest associated with having wealth tied up in grain rather than cash or against debt (~\$2.50-\$3.00/t per month depending on the price of the commodity and interest rates).

The price of carried grain therefore needs to be \$4-5/t per month higher than what was offered at harvest.

The cost of carry applies to storing grain on farm as there is a cost of capital invested in the farm storage plus the interest component. \$4-5/t per month is a reasonable assumption for on farm storage.

Principle: "Carrying grain is not free" – The cost of carrying grain needs to be accounted for if holding grain and selling it after harvest is part of the selling strategy.

Principles revised

1. "Always keep written records" – thorough record keeping is everyone's responsibility not just the buyers.
2. "Seller beware" – Know your counterparty
3. "Know your specs" – grades don't always convey quality
4. "Separate the delivery decision from the pricing decision"
5. "Sell when there is buyer appetite" – When buyers are chasing grain, growers have more market power to demand a price when selling.
6. "Storage is all about market access" – Storage decisions depend on quality management and expected markets.
7. "Carrying grain is not free" – The cost of carrying grain needs to be accounted for if holding grain and selling it after harvest is part of the selling strategy.