

# ‘Grain to meat, another value add option’

## Editorial, October 2021

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Data and insights provided by Thomas Elder Markets

Australia is a unique country in many ways, but particularly from an agricultural viewpoint, with vast plains of grain growing area, and a relatively small population around the coastal perimeter.

On a per-capita basis with wheat, Australia has averaged slightly over 1mt per person, per year since 2010. The highest per-capita volume in the world. In comparison, the United States, whose futures markets tend to set global pricing have produced <0.2mt per capita during the same period.

As Australia has a comparatively large production base versus our small population, a large proportion of Australian grain is exported. Typically Australia will contribute 10% to 15% of the global grade in wheat. However, in recent years the importance of Australia on the export market has declined.

The domestic demand for grain has increased, with domestic wheat consumption up 38% over 2015-2019 versus 2000-2005. This was exacerbated during the recent drought. The trend for increasing demand has been in place well before these recent drought years.

A large volume of this domestic demand has been centred around northern New South Wales and Southern Queensland, especially with the pork and cattle industries.

During a regular season, the majority of wheat and barley is exported. The exception is sorghum, which is an important crop for northern New South Wales and southern Queensland. There have been exceptional years, such as 2014 when 74% of production was exported; however, on average, it tends to see 30-40% shipped.

As we search for new ways to value add our core commodities in agriculture, the grain to meat pathway offers a profitable and sustainable option.

### Domestic Demand Drivers

As mentioned in the previous section, the majority of domestic feed demand in Australia is centred around Northern New South Wales and Southern Queensland, due to the high concentration of pig farms, and cattle feedlots.

The domestic feed industry is reliant on grain production and tends to follow very similar patterns of growth. In the time of drought, the number of animals on feed tends to drop due to the increased price of grain.

The trend has been on an upwards trajectory and is likely to continue at the current pace due to the strong demand for protein.

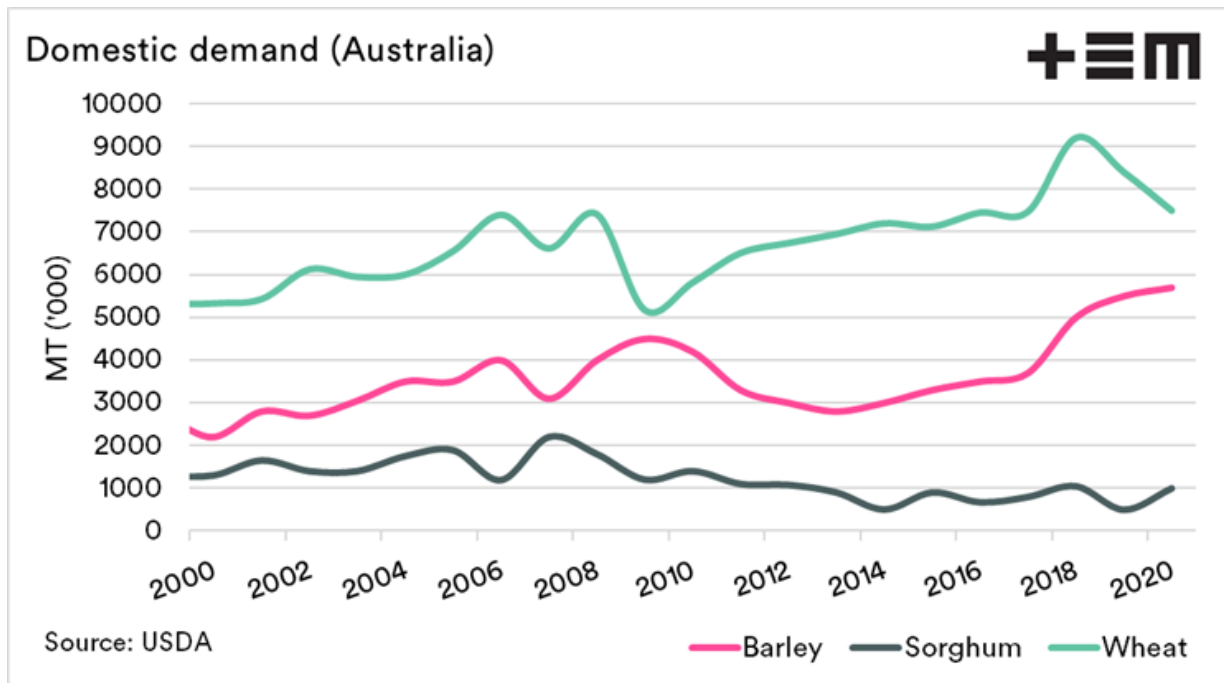
*Agribusiness Australia serves the Australian agribusiness sector, and our membership reflects the diversity of businesses in the sector.*

*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.***

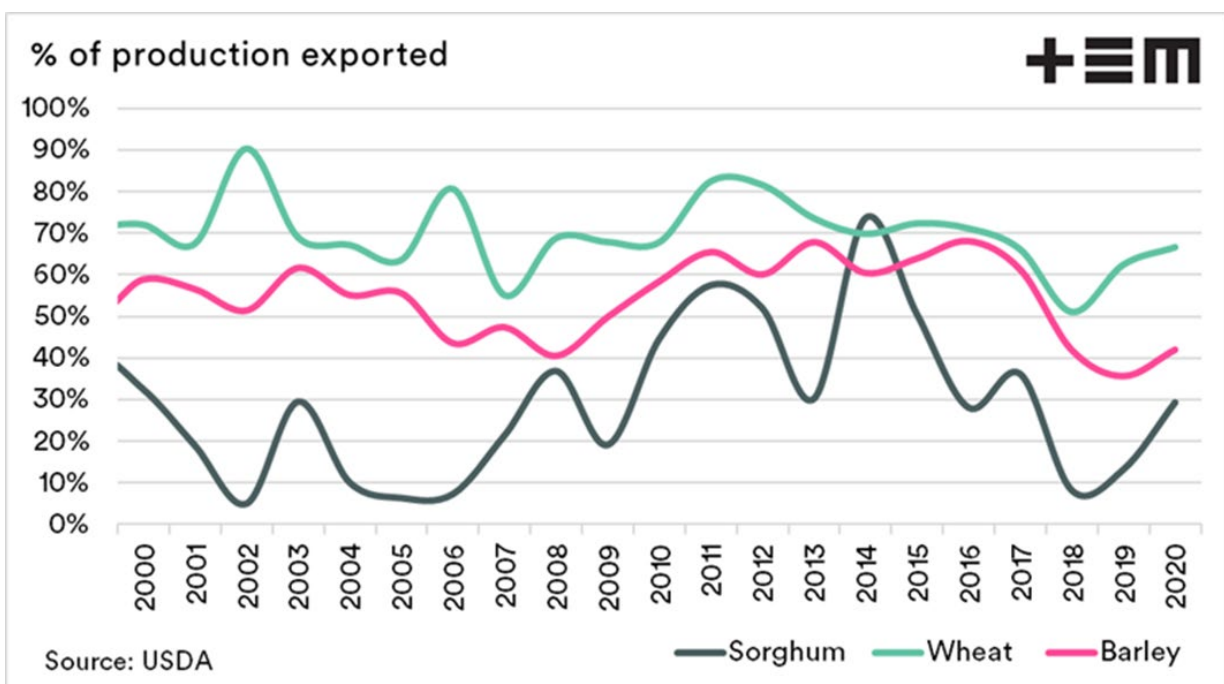
*To achieve our vision we advance the interests of the Australian agribusiness sector through advocacy, promotion, and leadership, and we support our members and networks through events, services, and platforms for engagement.*

## The Story in Pictures

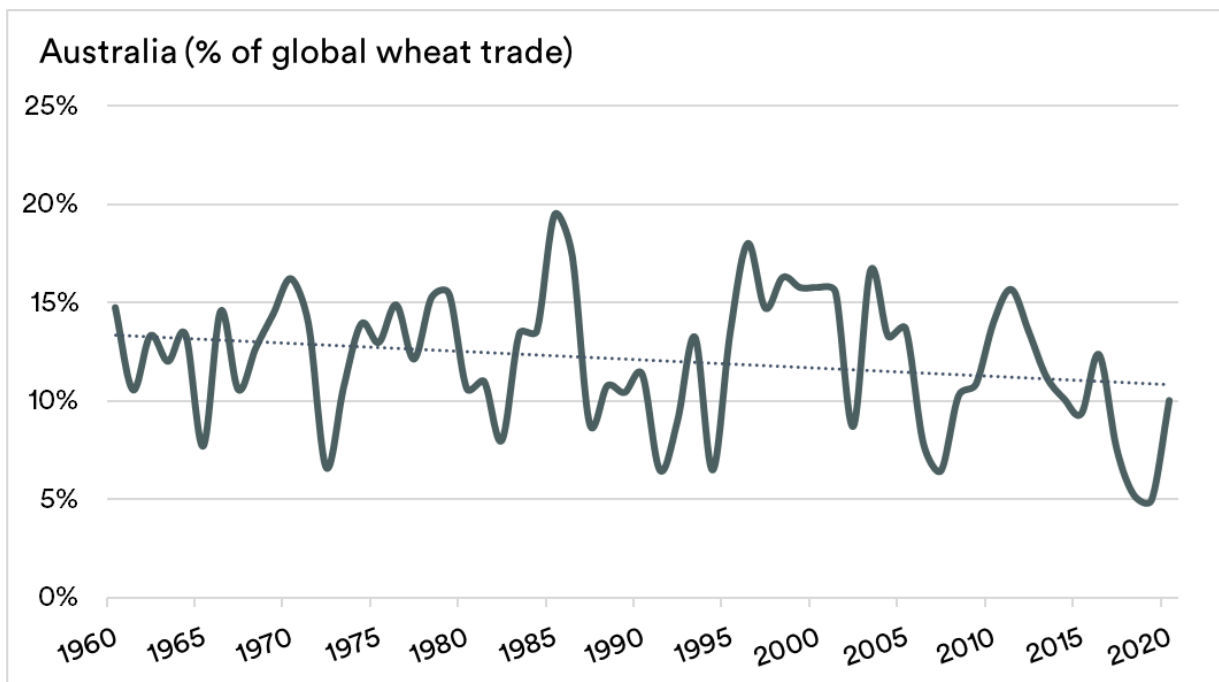
The domestic demand for wheat and barley has increased substantially in recent years. During times of drought it increases further with 'new' demand from farmers due to lack of pasture. The increased demand is from feed, not human consumption (i.e. flour).



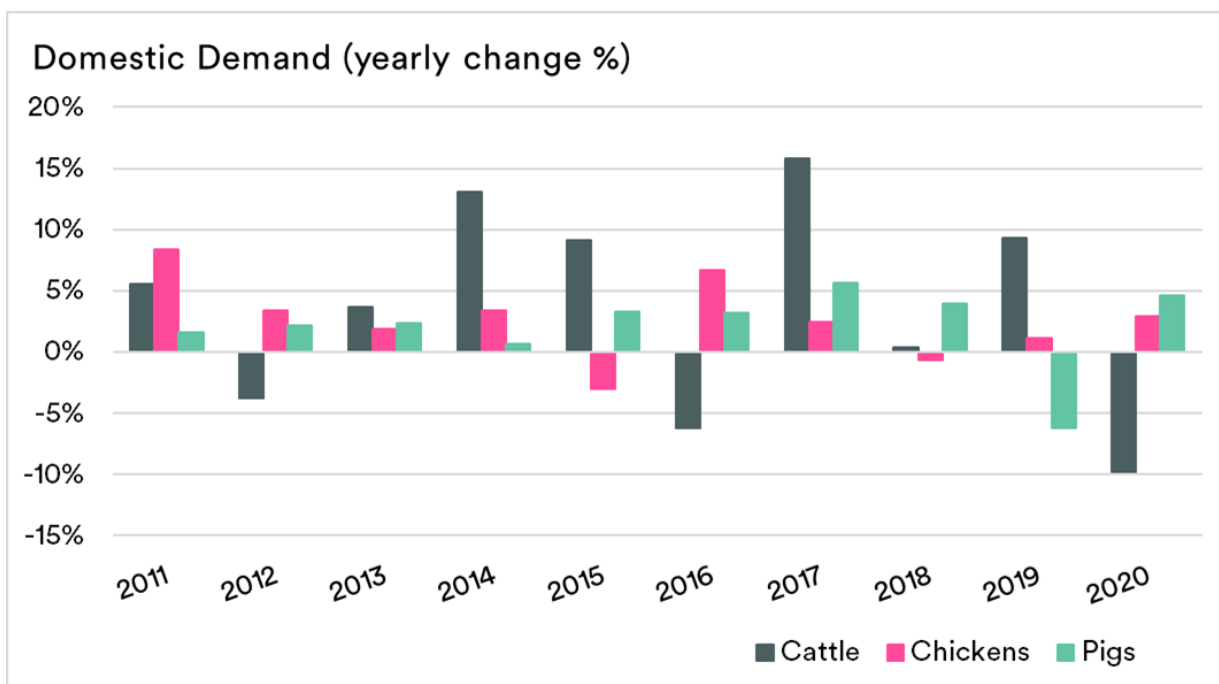
The majority of our production of wheat and barley will be exported however we see years where the percentage exported drops. This tends to occur during our drought years when domestic consumers pay up.



The importance of Australia to the global wheat trade has been declining in recent years. At its height in the period 1960 to present, nearly 20% of the global trade of wheat came from Australia. In recent years it has been closer to 10%.

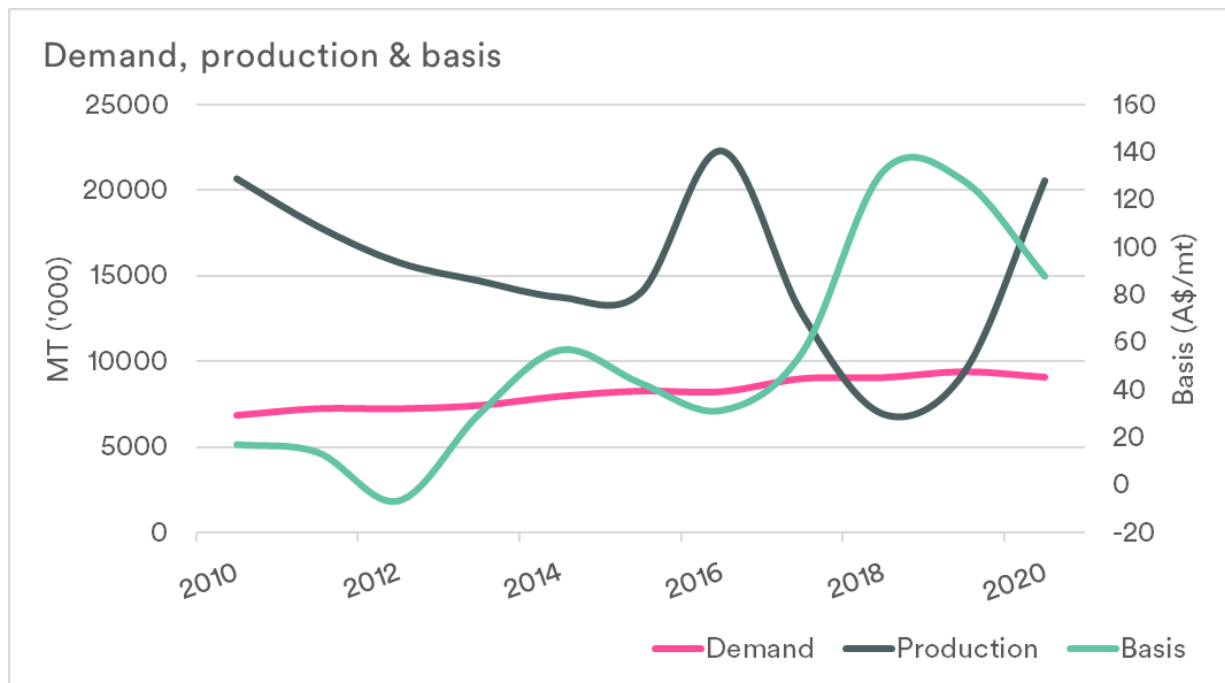


The chart below shows the annual yearly change in domestic demand in Australia for the three main feed industries. As we can see over the past decade, there is rarely a period when the domestic demand for grain has fallen.



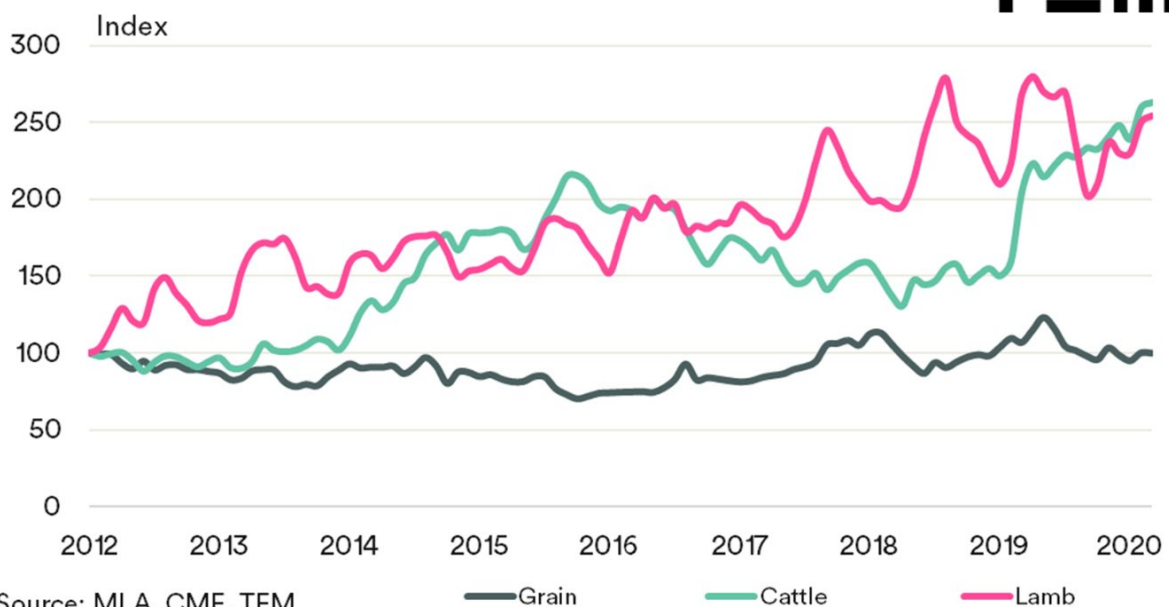
The chart below shows the production and demand. We have seen over time a gradual increase in domestic demand. The basis is also overlaid on this. Basis is the premium (or discount) which Australia gets for its wheat. As we can see, the basis tends to be lower than we have more significant production, and vice versa.

In a drought year, consumers pay large prices to secure grain to stop it going overseas. This causes us to have a larger premium than other origins.



The index before was created to calculate the value and trend of grain, cattle, and lamb pricing. As we can see, grain prices have shown little improvement during the past decade, whereas meat prices have risen substantially. The demand for meat protein is driving this high, whereas grain prices are stymied by increased production around the world.

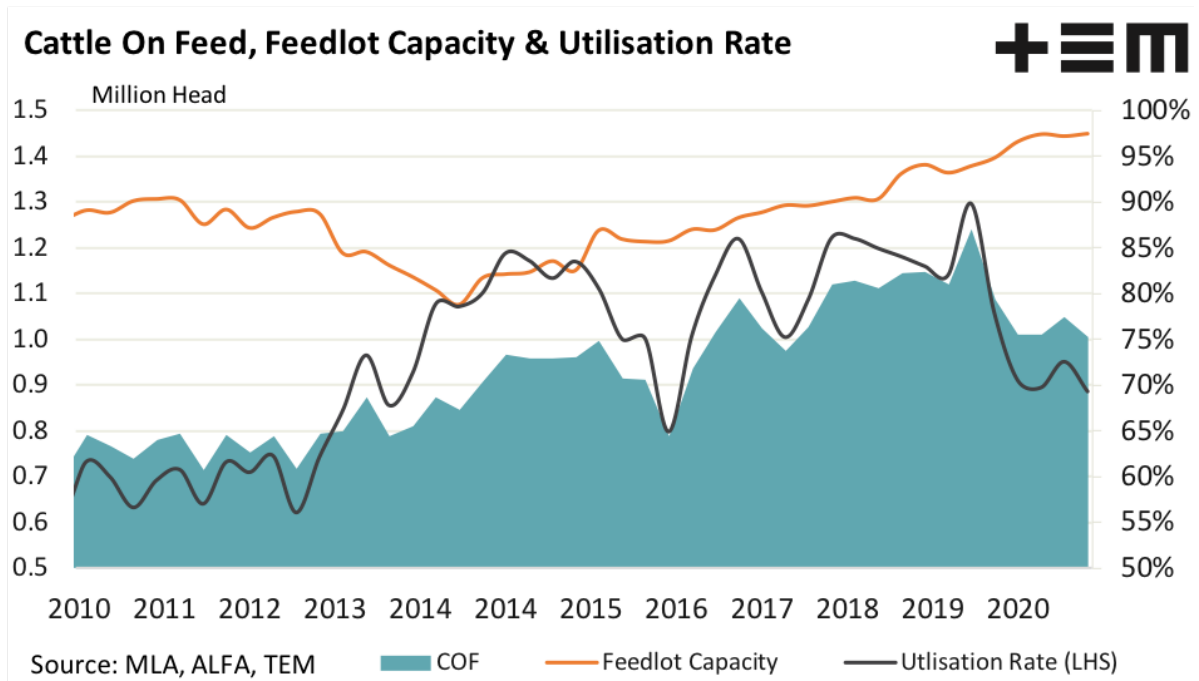
### Commodity Indices



Source: MLA, CME, TEM



The chart below shows the advance of cattle on feed, which has increased to record levels in recent years.



The chart below shows the composition of cattle on feed around the country. As we can see it is heavily skewed towards NSW/QLD. During a period of lower production in NSW/QLD this places a huge pressure on pricing due to centralisation of demand.

