

Buying fodder – it's a domestic market



Australian dairy farmers are competing in a domestic market for fodder.
An understanding of how the fodder market operates will enable you to
develop a fodder buying strategy that meets your needs.

The Australian fodder market

Where do I fit in the big picture?

Although a lot of fodder is produced in the major fodder growing regions of Australia (Figures 1 and 2), the quantity of fodder traded is actually quite small (about 30% of total production). Most fodder produced in Australia never leaves the farm gate, as it is more difficult to accumulate, store and transport than grain.

Figure 1: National fodder production

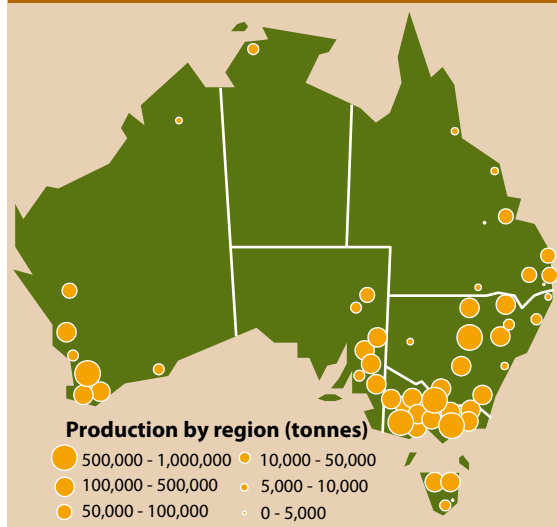
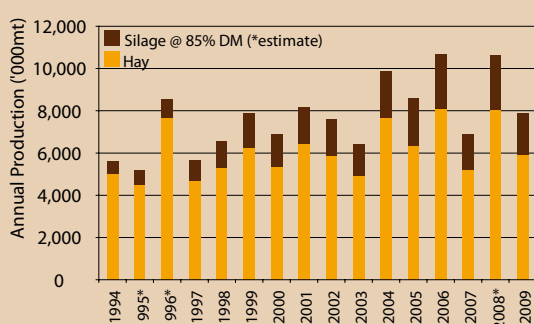


Figure 2: Annual hay and silage production, 1994-2009.

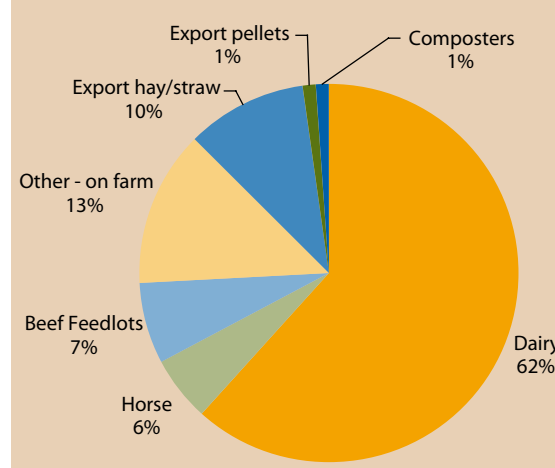


Key tips

- Unlike grain, fodder is a domestic market.
- Hay prices are less transparent than grain prices.
- Consider your on-farm fodder buffer.
- Be proactive in developing a relationship with a professional hay producer

When you enter the fodder market for hay, silage or straw, you are competing mainly with other domestic dairy farmers, but also with other livestock producers such as beef feedlotter and with horse owners. 8-10% of the fodder traded in Australia is exported, mainly from Western Australia and South Australia (Figure 3). About 90% of this is shipped to Japan for use in dairy farms.

Figure 3: Typical hay, silage and straw demand by sector (expressed as dry matter).



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Hay gets around!

When trying to make sense of the fodder market, it is useful to understand the movements that occur between regions (See Figure 4).

Figure 4: Hay movements, region to region.

In 2006/07, very poor fodder production led to hay movements like this:



In a more typical year, hay movements look like this:



How hay prices take shape

Compared to grain, hay prices are much less transparent because a greater proportion of hay is traded directly from farmer to farmer, and hay marketing tends to be more by word-of-mouth.

Even so, an increasing proportion of total hay production is being traded, and an identifiable hay market does exist.

As we pass through the yearly calendar of autumn planting, fodder users start to develop expectations about the size of next season's hay crop and its quality in each region. In spring, when the quantities of pasture production in each region become apparent, and it is clear whether or not grain crops will successfully yield grain, expectations about new season hay volumes and possible prices further develop. However, it is not until crops are cut and baled that the initial hay price benchmark is determined. This is usually based on what hay and straw exporters are willing to pay in mid-September.

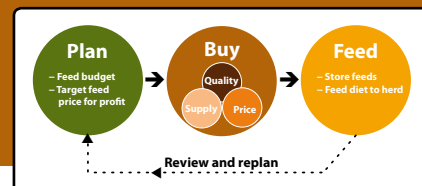
Domestic hay prices usually settle in excess of export prices due to competition between domestic buyers in south-eastern Australia.

Other factors that then influence hay prices include:

- quantities of hay in storage and % sold within the year;
- livestock users' demand and capacity to pay;
- substitute costs (other fibre sources, other energy sources such as grain, other protein sources such as lupins); and
- payment for quality.

See Fact Sheet 4 for information on how to compare alternative feeds on a cost per unit of energy and protein.

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Yearly fodder trading pattern

Fodder prices follow the domestic demand pattern each year. After baling in late spring, there is an initial period of fodder trading, when much hay is bought out of the paddock by dairy farmers and other users to cover summer / autumn needs. The fodder market then slows and prices tend to increase marginally to cover additional storage and transport costs. Trading activity then increases again in autumn as forage reserves may be consumed before the autumn break. Users also buy stocks to cover their winter / early spring requirements.

Figure 5: Typical hay consumption – dairy farmers in south-east Australia.

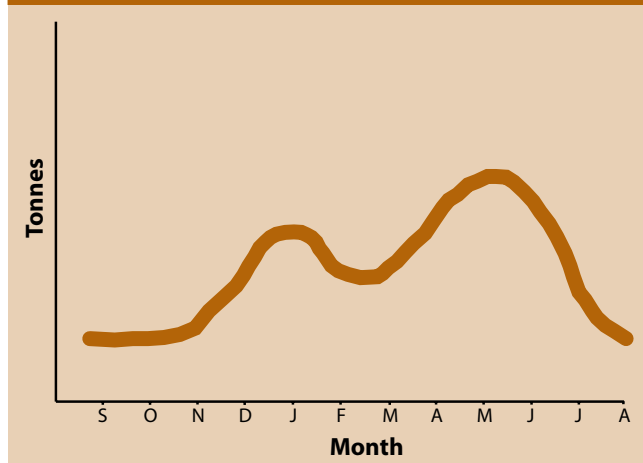
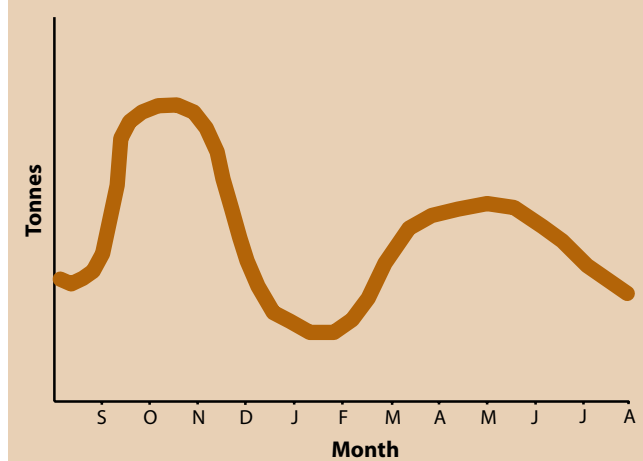


Figure 6: Typical hay volumes traded – all livestock industries.



Fodder pricing presents two additional challenges compared to grain:

- You can't really be sure of fodder's physical feed quality and nutritional value until it is cut and baled or ensiled.
- Fodder quality and nutritional value is far more variable.

Hay buyers can apply price premiums or discounts for fodder that is higher or lower than average in dry matter, energy and protein. Fact Sheet 4 provides a method you can use to determine how many \$ / tonne a megajoule difference in ME and a % difference in crude protein are worth.

When buying fodder:

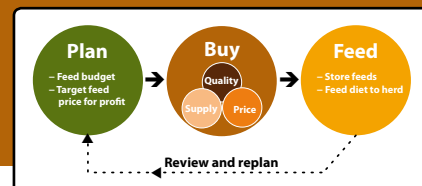
- Always buy according to weight (tonnes not bales).
- Always ask for a feed analysis to determine its nutritional value. This will also assist in feed budgeting.
- Consider using a sliding scale to match price with quality (see Fact Sheet 4).
- Consider forward contracting in your feed buying plan as an alternative to buying at the spot price to manage price risk (see Fact Sheet 12).
- Always use a contract to secure supply (see Fact Sheet 10). The 'Contract Confirmation' form produced by Grain Trade Australia (GTA) can also be used for fodder purchases. Copies of this document can be obtained from the GTA website (www.graintrade.org.au)
- Obtain Vendor Declarations or use QA-accredited suppliers to satisfy your milk company's QA requirements (see www.afia.org.au).

Relationships are the key!

Good relationships with fodder suppliers and traders are critical to your ability to manage your quality, supply and price risk.

Time invested in nurturing these relationships is time well spent!

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How big is your on-farm fodder buffer?

Following the severe fodder shortage over winter 2007, many dairy farmers have reconsidered how much fodder they should conserve and hold on farm as a 'buffer' against poorer forage growing seasons in future years.

Many farmers are now more prepared to incur the cost of conserving more fodder in good years and storing greater stocks of fodder for use long-term use in poorer pasture-growing seasons.

Is it better to conserve surplus fodder as hay or silage?

Hay is a good, flexible and transportable method for forage conservation. However, unless it is stored under ideal conditions, hay will deteriorate in quality over time. Silage is therefore the better option for long-term storage. Provided it is well conserved and sealed, it is very stable and can be stored in pits for many years with minimal deterioration. For more information, go to the Top Fodder 'Successful Silage' manual on the Dairy Australia website (www.dairyaustralia.com.au).



Benefits of bought-in hay

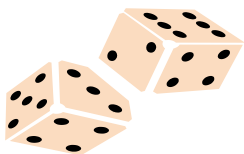
When considering the cost of bought-in hay, remember, included in every tonne is the hay producer's:

- labour; and
- fertiliser.

As well as saving time and fertiliser inputs, using purchased hay may offer you greater control over nutritional quality:

- The weather provides a major challenge to the production of high-quality hay. The quality of hay from large properties inland is regularly higher than that produced in more southern and coastal areas.
- While the quality of grazed pasture varies with the weather conditions, the quality of purchased hay from a single source should remain fairly constant for balancing diets.

The strategy you develop will depend on your attitude to risk



Run your fodder stocks down to nil each year, and accept the risk that you will have to pay high spot prices if you need to buy more fodder than expected.



Maintain fodder stocks in reserve for lean forage growing seasons. In good years, conserve extra forage as silage.

For more information go to www.dairyaustralia.com.au

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