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Market-savvy approach needed for farmers to manage fertiliser price volatility – Rabobank

Farmers will need to become more market-savvy in order to minimise their risk exposure to fertiliser trade volatility, according to a visiting global strategist on farm inputs.

Currently touring regional Australia to speak with farmers about the changing dynamics in the farm input supply chain, Dirk Jan Kennes, Netherlands-based farm inputs global strategist for Rabobank, says fertiliser market dynamics have changed significantly in recent years.

“There is more volatility in pricing because of the changes in markets, therefore the decision making of buying and selling across the various links in the supply chain has also changed,” Mr Kennes says.

“This leads to shorter physical sale cycles, so more volumes need to be processed in a shorter period of time often causing supply chain bottlenecks. This puts immense pressure on pricing due to the logistical challenges of moving fertiliser goods from the manufacturers to the farmgate.”

Mr Kennes says there has been evidence of this ‘pressure squeeze’ on logistics and pricing which took place in the United States in recent weeks and in due course, has impacted Australian farmers looking to buy nitrogen fertiliser.

This means that the Australian farmer is exposed to global dynamics in fertiliser trade to the point where now, farmers of the future need to be aware that they are part of a ‘global playing field’, he says.

“Farmers need to understand the workings of these dynamics to make informed purchasing decisions for their businesses.”

Presenting to local farmers, Mr Kennes outlined that the fertiliser supply chain is adjusting to meet farmers’ needs to manage fertiliser price and inventory risk. Producers are looking at ways to prevent farm input suppliers from eating into their margins through increased fertiliser prices – upstream fertiliser players should also be aware of these changing margin conditions, adjusting their supply models in order to maintain market sales.

“With the shorter trading cycles due to farmers purchasing later in the season and manufacturers holding tight on stocks and production rates, a lot of risk management of price and inventory shifts towards the farmgate – now it’s the farmers who wear most of the risk,” Mr Kennes says.

“Farmers should be aware of this and importantly, they must take measures to mitigate this risk. Now there is much more liquidity in fertiliser futures markets than two years ago so there are more hedging opportunities.”



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In his presentation, Mr Kennes also questioned if a production response will adequately meet the additional global agricultural commodity demand by the year 2020.

There is a need for an additional 140 million hectares of agricultural land globally, considering current yield levels, or a 30 per cent yield increase, considering current agricultural land in use, to meet additional demand, he says.

“It is likely that the increasing demand for agricultural commodities will be mainly met by yield improvement and to some extent by land expansion. A possible production rebound – assuming weather circumstances will be normal – will likely result in a future average price trading range that will be above historic average but below current heights,” Mr Kennes says.

“Overall, gains must come from productivity improvements and we need a significant supply response in a short period of time but we need to do it more cleverly than ever before because we have a sustainability issue.

“A lot of innovation is required to bring new technologies to the market. In order for farmers to apply new technologies, the chain partners – the suppliers, sellers and marketeers – need to understand they should allow farmers the room to invest in those productivity-increasing concepts for the benefit of all,” he says.

“This needs to be offered in a commercially attractive way so farmers are encouraged to remain in the agricultural business instead of choosing to find alternative income streams .”

Mr Kennes is the global strategist of the Food and Agribusiness Research and Advisory (FAR) farm inputs team in Rabobank's global head office in Utrecht, The Netherlands.

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