Coarse grains

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Growing demand to support coarse grain prices

World coarse grain prices are forecast to rise in 2018–19 as a result of world demand exceeding supply. Growing world demand for coarse grains for feed and industrial use, particularly in China and the United States, is expected to result in a significant reduction in world stocks.

World consumption to reach record level

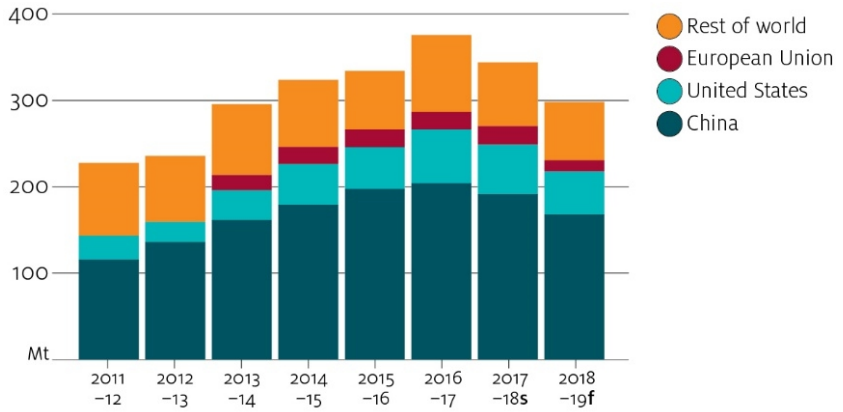
World coarse grain consumption is forecast to increase to a record high. This is due to increased livestock production and corn consumption. Corn is increasingly being used in livestock feed as a cheaper substitute for feed wheat and barley. Higher world prices for wheat and barley are a result of reduced production following hot and dry weather in Australia and Europe.

To boost industrial demand for its excess corn stocks, the Chinese Government has initiated policies to promote the use of corn-based ethanol. This includes a minimum 10% blending mandate for ethanol (to come into effect in 2020) and the construction of 15 new ethanol-producing plants. Until 2016 Chinese corn producers received more than twice the international price, leaving China with substantial corn stocks.

World stocks expected to fall

Coarse grain production is forecast to grow slightly in 2018–19, largely because of a forecast increase in corn production. Larger corn crops in Argentina, Brazil, Ukraine and the United States are forecast. Hot and dry conditions have adversely affected barley production in Australia, the European Union and the Russian Federation. As a result, world closing stocks of barley are forecast to fall to their lowest level in 34 years.

World coarse grain stocks, 2011–12 to 2018–19



f ABARES forecast. **s** ABARES estimate.
Source: International Grains Council

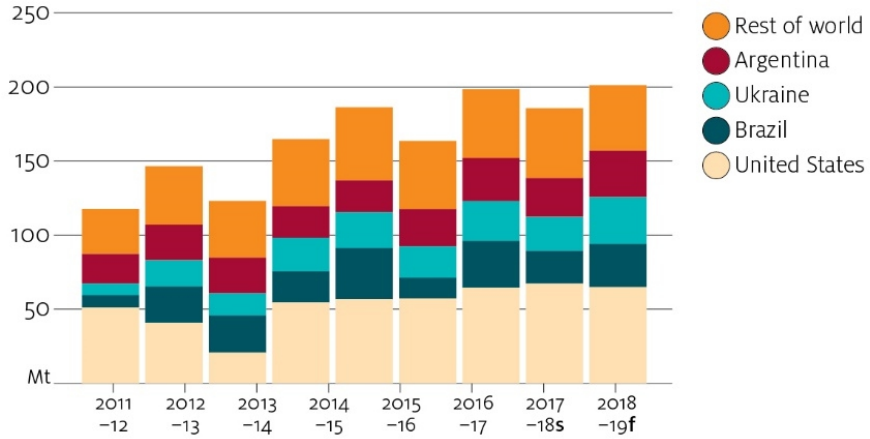
The drought affecting eastern Australia has reduced coarse grain production substantially and increased livestock feed use. In 2018–19 Australian production and exports of coarse grains are forecast to fall by around 15% and 44% respectively.

Challenges and opportunities

Trade dispute creating opportunities for non-US exporters

The ongoing US–China trade dispute presents opportunities for coarse grain exporters outside the United States. China has imposed an additional 25% tariff on corn and grain sorghum and a 15% tariff on ethanol imported from the United States.

Coarse grain exports, by country, 2010–11 to 2018–19



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Source: International Grains Council

China is expected to import a higher volume of Australian barley while it looks for alternative grain suppliers. Chinese monthly grain sorghum imports from the United States fell by 77% in September 2018 compared with the same period in 2017. If this trend continues, it may present an opportunity for Australian barley producers.

However, this could be compromised if China's Ministry of Commerce finds against Australia following its investigation into claims by China's barley industry that Australian barley imported between 1 October 2017 and 30 September 2018 was sold below the cost of production (known as dumping). If this occurs, Australian barley could be subject to anti-dumping duties, which would compromise the competitiveness of Australia's barley in the Chinese market.

China is Australia's largest export market for barley, accounting for an average of 68% of exports in the 5 years to 2017–18.

China's proposed ethanol blending mandate is expected to increase demand for industrial-use corn by 40 million tonnes per year. However, additional tariffs have made US import prices relatively high compared with other suppliers, limiting imports of US corn and ethanol. China will need to look for alternative suppliers to meet its ethanol target. This move is likely to support corn prices outside the United States.

Feed and food costs

Australia's rising domestic grain costs are the result of lower supply due to drought conditions and increased demand for feed, milling and malting. Constraints resulting from restrictions on whole-grain imports are also contributing to increasing costs.

Australia's biosecurity requirements are designed to minimise threats to agricultural production and farm incomes by guarding against the introduction of exotic pests, diseases and weeds. Regulation mandates the processing of imported grain and fodder and restricts its movement. This adds to the cost of imported feed. Given current technologies, the development of more responsive and cost-competitive biosecure import pathways remains a significant challenge.

Outlook for coarse grains

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
World					
Production	Mt	1,414	1,357	1,373	*1.2*
barley	Mt	147	144	141	*– 1.9*
corn	Mt	1,122	1,076	1,099	*2.1*
Consumption	Mt	1,328	1,374	1,400	*1.9*
Trade	Mt	199	186	201	*8.3*
Closing stocks	Mt	262	370	343	*– 7.2*
Stocks-to-use ratio	%	19.7	26.9	24.5	–
Corn price **a**	US$/t	157	160	171	*6.7*
Barley price **b**	US$/t	158	192	215	*12.0*
Australia					
Area	’000 ha	6,359	5,285	5,041	*– 4.6*
barley	’000 ha	4,834	3,878	3,719	*– 4.1*
grain sorghum	’000 ha	368	531	572	*7.7*
Production	kt	17,352	11,991	10,196	*– 15.0*
barley	kt	13,506	8,928	7,312	*– 18.1*
grain sorghum	kt	994	1,439	1,524	*5.9*
Exports	kt	10,760	8,824	4,990	*– 43.4*
value	A$m	2,821	2,577	1,795	*– 30.4*
Feed barley price **c**	A$/t	174	253	359	*42.1*
Malting barley price **d**	A$/t	188	262	362	*38.0*

a US no. 2 yellow corn, fob Gulf, July–June. **b** France feed barley, fob Rouen, July–June. **c** Feed 1, delivered Geelong. **d** Gairdner Malt 1, delivered Geelong. **f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; International Grains Council; ITC Trade Map; UN Commodity Trade Statistics Database (UN Comtrade); US Department of Agriculture