

**HD** Agricultural prices are crashing too

**BY** By The Canberra Times

**WC** 896 words

**PD** 24 September 2014

**SN** Canberra Times

**SC** CANBTZ

**PG** B012

**LA** English

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he **mining** commodity price squeeze was making headlines again on Tuesday as **iron ore** fell to a five-year low and BHP Billiton announced that 700 Bowen Basin coalmining workers would go, but the miners are not alone in feeling the pressure. The price of wheat, Australia's sixth biggest export, has fallen by about 31 per cent since May, and is at a four-year low. The price of corn, a key industrial food and drink- making raw material, has fallen by 28 per cent since mid August, and is also at four-year lows. The price of sugar has fallen by 25 per cent since mid-year, and soybean prices have fallen by 39 per cent. Agricultural commodity price declines don't feed into Australia's economy as heavily as our biggest mineral exports. We exported \$6.1billion worth of wheat last year and \$69.5 **billion** worth of **iron ore**, for example. The 41 per cent **iron ore** price slide from last year's average of \$135 a tonne to \$US79.80 a tonne on Tuesday and an average of \$US105 a tonne this year cuts export income by about \$US15 **billion**, more than twice last year's wheat export receipts. The weakness in agricultural commodities is another weight on the economy, though, and it has similar roots. Economic growth and rising living standards in Asia in particular create a long-term demand growth scenario for agricultural producers that is similar to **mining** commodities, but all commodities are affected by changes in supply and demand, and agricultural production can be volatile: the weather is crucial but also anyone's guess. Farmers can also respond more quickly than miners to price moves by changing what they grow, and the price weakness in key agricultural commodities follows a rapid supply-side response to booming prices in 2013.

Growing conditions have been favourable in Australia and overseas, and the wheat price weakness is tied to booming US and European summer production, for example. Strong US production has driven corn and soybean prices down, and sugar's price strength is linked to strong South American production despite dry conditions. Prices are not down to disastrous levels, but the price shifts and the forces behind them are having an impact on producers and the companies that supply them. The 7.4 per cent rise in underlying earnings before interest and tax to \$200.6 **million** that Australia's Nufarm group reported on Tuesday included, for example, a 51 per cent, \$21.5 **million** slide in earnings on the **sale** of crop-protection chemicals in North America caused by depressed demand during an usually cold US winter season, and a 76 per cent, \$31million rise in crop-protection

earnings in South America, including Brazil. The group has taken the recent crop price weakness into account by issuing more downbeat guidance for high single-digit earnings growth in South America in 2014-15. It knows that if prices stay down, plantings and demand for its products in that market will fall (US production is subsidised, and less price-sensitive). Nufarm's attempts to protect the business as far as possible from seasonal sideswipes appears to be getting traction, though, and investors rewarded the group by pushing its shares up by 12.2 per cent, or 49½¢, to \$4.52 on Tuesday. Nufarm's shares have been in the doghouse since 2010, when booming **Chinese** production effectively commoditised its biggest weed- killing product, glyphosate. Its shares were trading above \$17 in 2008, and were still above \$10 when

2010 began. They bottomed at \$3.25 in July of that year, and have averaged \$4.72 since then. It is beginning to show that it is controlling its inventories more tightly, however, and after building up its business in South America, and Brazil in particular, it has a better geographic spread, and a better hedge

against bad weather, which is impossible to avoid but also impossible to predict. The group generates 94 per cent of its sales from crop-protection products including weed-killers, and glyphosate is still a key product, accounting for just over 30 per cent of revenue. Nufarm lost the distribution rights to one of the best-known glyphosate brands, Monsanto's RoundUp last year but continues to sell the chemical under other brand names. In 2014, North America and Europe accounted for 21 per cent and 22 per cent respectively of crop-protection sales. Australia and New Zealand accounted for 24 per cent of crop-protection sales. South America accounted for 27 per cent, establishing itself as another southern hemisphere sales centre after two years of solid growth. Nufarm is also developing new higher-margin lines, including a seed technology business that boosted earnings before interest and tax (EBIT) from \$32.4 million to \$37.2 million in 2014 and generated an EBIT margin of 37.2½ in the dollar of sales. Chief executive Doug Rathbone says Nufarm is still on a restructuring journey. A rationalisation of Australian production capacity that is absolutely essential, for example, is not yet complete. But, based on Tuesday's trade, there are at least some investors who believe now that Rathbone and Nufarm are going to get the restructuring job done.

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**IN** i83103 : Commodity Contracts Dealing | i831 : Financial Investments | ifinal : Financial Services | iinv : Investing/Securities

**NS** c21 : Output/Production | mgroil : Grains/Edible Oils Markets | ccat : Corporate/Industrial News | m14 : Commodity Markets | m141 : Agricultural Commodity Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter

**RE** austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

**PUB** Federal Capital Press of Australia Pty Ltd

**AN** Document CANBTZ0020140923ea9o00020