

The Marketing Newsletter Prograss special edition



Optimism is back!



By Søren Halbye
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In recent years, we have seen that consumption of grass seed has gone up remarkably and not only in the European markets. This, combined with small productions in 2010 and 2011, will result in a reduction of the European stocks. Prices for grain and oil seed rape are instrumental in terms of reducing the interest for production of grass seed in many countries and all this put together will result in increasing prices.

Fortunately, the autumn consumption has created a lot of optimism within the grass seed industry. There has been significant increases, not only in essential markets like Germany and UK but also markets like France, Poland and Russia. In these markets sales have been much better in autumn 2010 compared to the same period in 2009.

The first half-year of the present season is better than last year in terms of sales and this is likely to create a good balance for most species.

Whereas the forage and private turf markets really have regained their balance, the professional market (construction industry and golf courses, etc.) has taken its time to get out of the crisis and sales within this segment are not yet back on track. However, we see a positive trend.

As you will see from the projection in the chart below to the left, the European stocks are being reduced – and fast. We have not planned a big new production for 2011 and as a result stocks are expected to be reduced to an all-time low level.

We have in all our core markets noticed an increasing consumption of especially Perennial Ryegrass and other European suppliers seem to experience the same.

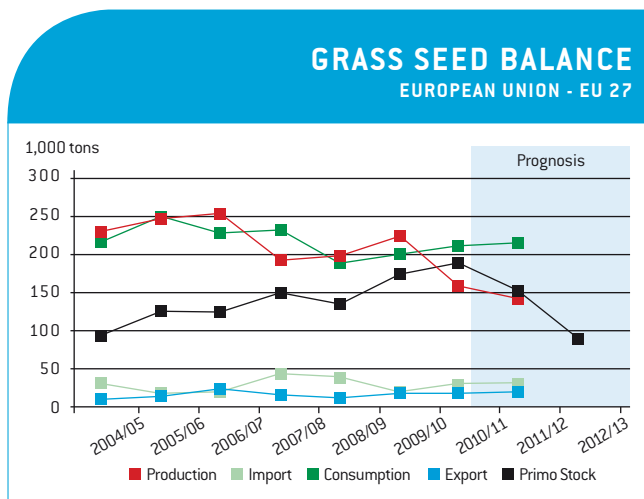
Since customers now recognise the benefits of over-seeding and focus more on catch crop products, among others the use of Perennial Ryegrass, we have seen an increased consumption. Perennial Ryegrass is thus the first species where we have seen an increase in prices.

It is, of course, difficult to predict the future. However, it is certain that foodstuff prices are at an all time high, oil prices have been increasing during a longer period of time and crops like grain and oil seed rape are traded at 2007 and 2008 levels. Naturally, this creates an uncertainty as to where grass seed prices will end up and how much and when you ought to purchase or sell grass seed.

Nobody wants a situation where high prices are followed by low prices and especially not as seen during the last 12-16 months. What everybody really wants are high, stable prices that will produce good earnings for all parties involved in this farm-to-table production.

DLF-TRIFOLIUM would like you to be in close dialogue with your DLF contact person and, in co-operation, secure a good and stable sales season for the mutual benefit of both parties.

Please turn the page and read the article by Mr Henning Otte Hansen, Market Analyst at the Danish Institute of Food Resources and Economics, Copenhagen University. The article describes what consequences the foodstuff and financial crises have on the grass seed production.



Grass seeds – during and after a foodstuff crisis and financial crisis



By **Henning Otte Hansen**
Market Analyst, specialised
in Foods and Economics,
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Copenhagen University

The grass seed market was highly influenced by the foodstuff crisis of 2007/08 as well as by the financial crisis in 2008/09. The foodstuff crisis and the increasing grain price made grass seed prices go up, whereas the financial depression has curbed the demand for grass seeds.

While a new foodstuff crisis – on a larger or smaller scale – may be on its way again, the financial crisis as well as the economic depression seem to be a thing of the past. Both factors may cause grass seed prices to rise. It is a fact that grass seed prices are affected by grain prices, the stock size and the financial state of the market. In light of the above, we are bound to see increasing grass seed prices in the near future.

A new foodstuff crisis on its way?

The foodstuff crisis in 2007/08 had a major impact on grass seed markets. It is therefore imperative to evaluate whether a new foodstuff crisis is on its way.

As shown in figure 1, the international wheat price increased by nearly 60% from July to August 2010.

As a consequence we are likely to see price increases on grass and clover seeds:

- The international cereal prices have increased by 75% since July 2010. History shows that cereal prices have an impact on grass seed prices, even in the short term.
- Higher cereal prices will give rise to larger acreages and relatively smaller acreages for grass seed. As a result supplies will decrease and prices will go up in the longer term.
- Stocks are low for some of the major grass seed species. History shows that decreasing stocks or small stocks will result in higher prices.
- The financial crisis as well as the economic crisis is about to cease. Demand will thus be stimulated again, which will encourage prices to rise.

INTERNATIONAL WHEAT PRICE 2010-11

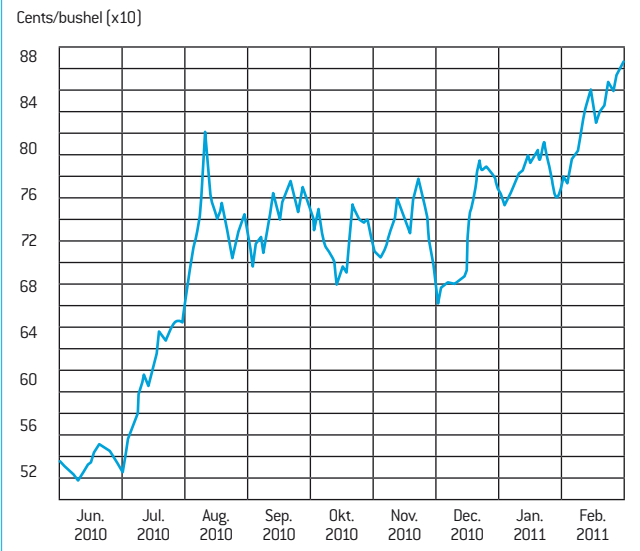


Figure 1: Development in international wheat price in 2010-2011.
Source: CME Group (2011).

Grass seed prices follow cereal prices

Even though grains and grass seeds are used in very different areas and sold in different markets, one product still has a major impact on the other. Cereal and grass seed markets are thus inextricably linked.

During the last 5 to 6 years - characterised by fluctuating prices and a big foodstuff crisis - it is not surprising to see that cereal and grass seed prices follow one another. However, grass seed prices follow 6–24 months after cereal movements.

Due to impending stock reductions in the EU, expect increased pressure in terms of firming grass seed prices. Even though grain and grass seed are sold on different and separate markets, the increasing cereal prices will no doubt influence the grass seed prices, both in the short term and the long term.

A new market balance will result in grass seed prices increasing. At the same time indicators like decreasing grass seed stocks and increasing demand as a result of the improved economic situation will also be instrumental in terms of driving up the price of grass seeds.

Read the full article by Mr Henning Otte Hansen, Market Analyst on www.dlf.com.