Lotfeeding

with Martin McDonald
Grazier Services Manager, Mort & Co
Ph: (07) 4639 6049
Email: martin.mcdonald@mortco.com.au

Market overview

RESTOCKING competition from areas that have experienced seasonal improvement and a gradual shortening of supply of quality feeder cattle continue to underpin strong feeder cattle prices.

The Eastern Young Cattle Indicator has improved by nearly 25 percent since the start of January, although it has eased back slightly over the past week or so. Current Futures indicate this has the potential to strengthen another 8-10pc between May and September. However, the EYCI is highly unlikely to hit the highs of 2005, due to the current prohibitive cost of grain and general lack of feed.

Feed challenge

AT present the margin challenge for lotfeeders has all players restricted to focusing on core business and an inevitable reduction in overall pen space utilisation is under way. Serious feedlot operators can buy only to their current limits, with only those involved with the most efficient and better-quality custom feeding yards and those closely aligned in the supply chain having any real chance of maintaining turnover.

The grain market has softened to some extent and new crop price expectations provide a potential benchmark down the track, although forecast production volumes and expectations of rainfall are little more than assumptions at this stage. We have seen the short fed spot market soften in the north as unplaced cattle find a home, and this is keeping a lid on the domestic market. The ability of backgrounders to hit export feeder weights will continue to be a challenge unless they are the lucky ones who have seen some of the rain, making it easier to supply domestic weight feeders (albeit challenging).

US experience

A BACKGROUNDING seminar held recently in Warwick by Riverina Australia featured a number of quality presenters. US nutritionist **Bob Lee** provided an interesting insight into recent US beef market and feedlot issues. Riverina is to be commended on its organisation of this seminar, which struck a chord for many producers, given the distances some of the 120-plus attendees travelled to be there.

While many of us had read about record low feeder cattle placements for January in the US and similarly low placements for February, Mr Lee discussed the two main drivers as being the harsh winter and high corn prices.

The implications for the US feedlot industry of the worst winter on record were quite incredible. In Mr Lee's home town of Garden City, Kansas, which has a population of 35,000 people, there was an eight-week period when the temperature rose above 0C for a total of only 12 hours. At one point, the town was without power for four days straight. Reported cattle on feed death losses were stomach churning, with one example given of a 5000 head yard losing 4500 head within 48 hours. Relatively speaking, this makes Australia's current lotfeeding challenges seem quite pleasant. Loss of production, huge weight losses and damage to infrastructure were no doubt unbearable for most, if not all. Then if the winter wasn't enough, the sight of the feed bill, driven up by ethanol-fuelled corn prices, made the decision not to place cattle quite simple.

An explanation of the impact of ethanol was quite interesting to hear from the US perspective:

- US government subsidies for ethanol production means those building ethanol plants have a likely payback period on plant development of just 2.5 years, and thus an easy decision for an investor to make (possibly an oil company, fuel company or equity group closely linked to similar). Small wonder there is something like 70 plants and a number of expansions on the drawing board.
- Significantly higher prices for corn.
- Significantly higher cost of production for producers of all meat protein, particularly pork and chicken, due to their relatively higher reliance on grain and lesser ability to utilise the growing source of ethanol by products in feed.
- Lower demand and prices for feeder cattle.
- Lower supply of beef due to high cost of production.
- Higher retail prices for all sources of meat and other corn-derived products.

Mr Lee commented that higher prices for corn-based stock feed and retail beef were there to stay in the US, and that consumers and industry would simply have to adjust and get on with life. He also said the feed price influence might also increase world parity prices for grains to some extent.

Quite simply, it seems that ethanol has increased meat prices for all consumers in the US (reinforcing comments and expectations made by our own industry body ALFA on the ethanol debate). There is a fair chance of reduced return on investment for those involved in intensive feeding for meat protein production, lower prices for feeder suppliers and obviously a massive opportunity (currently) for those closely linked to ethanol production.

As with all markets, there are far-reaching influences and forces that come into play. Understanding them for their relevance and context to the specific industries we are focused on and the broader community and political goals is a massive undertaking. It is extremely pleasing that the leadership body of our own industry, ALFA, continues to take the required steps to point out to key influencers in this country the likely ramifications of similar government undertakings.

Ethanol influence

RECENT comments by MLA senior market analyst **Peter Weeks** about the "existing, probable and possible" growth in ethanol plants, and its impact on corn prices, beef production and beef prices in the US, highlight this new phase of market influence we are entering, the true impact of which is yet to be measured with any real accuracy.

Mr Weeks said two of the primary sources of market commentary in the US were still coming to terms with this. USDA is indicating beef production will trend down and prices will trend up, while Cattle-Fax has a differing view, indicating that production will trend up and prices down, relatively speaking. MLA projections have been based in the middle of the two.

The impact of higher costs of production for the US feedlot sector are said to lead to restockers and backgrounders holding stocks to higher weights and feedlots feeding for reduced days. Consequences of this are a reduction in quality grade and overall production. When combined with lingering market access issues and the Asian market's negative perception of the US voluntary cattle ID system, this can only be positive for our industry. US pressure on our high value South East Asian markets is likely to be less than expected, which hopefully means the wonderful gains in Australian beef volumes going to Japan and Korea over the past three years and dramatic advancement in relationships with some customers can be maintained.

One operator advised some relationships have advanced the equivalent of 20 years in just three years. Reduced production in the US should also lead to greater opportunities for Australian exports of certain primal cuts into the US market and this has been supported by recent MLA projections. USDA has forecast global import demand for beef to remain strong and to grow by about 27pc over the next 10 years. Obviously, a considerable volume of this will be taken up by countries with a lower cost of production, such as Brazil.

The pressures of protecting new and existing customers, non-traditional market forces, increasing costs of production, food safety issues and extremes of seasonality continue to drive market adjustments in all sectors of the global beef industry.

New division and staff

AS Mort and Co's feedlot management and marketing system expands and commitment to feedlot ownership and development continues, so, too, has the staffing requirement to support this business. We now have a new Graziers Services Division managed by myself, **Martin McDonald**, based out of our Toowoomba office working in conjunction with **Sam Ditchfield** (based in Armidale, NSW). Sam and I joined Mort and Co in December and January respectively. Our focus is to work closely with graziers and interested parties on feeder cattle supply, management and logistics in retained ownership feeding programs, and forward contracted (and spot) grainfed cattle marketing options within the existing and proven management and marketing framework of Mort and Co.

We are also extremely pleased to have recently welcomed former commission buyer **Jimmy Coleman**, based at Dalby to our team on a full-time basis to assist our livestock manager, **Geoffrey Harris**, with feeder cattle purchasing and supply in southern Queensland. Anyone interested in retained ownership opportunities and or feeder cattle supply with Mort and Co should contact our Toowoomba office for more information.