Lotfeeding

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

The reshuffle of cattle out of the Queensland North and North West has seen pen space in the larger, more efficient feedlots become scarce.

Sorghum stabilisation

THE March quarter Australian Lot Feeders Association (ALFA) survey presented no real surprises. The 23 percent and 17pc reduction in sorghum and barley prices respectively since the end of 2007 has halted the decline in numbers on feed to be at the same level (51pc) at the end of December. MLA reports that grainfed exports to Japan, Korea and the US declined 22pc, 27pc and 52pc respectively compared with the same period in 2007. Interestingly, it was reported elsewhere that shares in Brazil-based global beef processor JBS surged by 7.2pc on the back of positive news relating to the US free trade agreement with Korea. Their shares have risen a total of 39pc this year. The strength of the Brazilian economy is having a similar impact as the strength of our own with strengthening currencies and less competitive exports on the world stage.

Store market

OUR expectations of a post-Easter store market price decline is yet to be reflected in the market place. The average of the EYCI for March pre-Easter and the post-Easter period to date is virtually the same. The better feedlots on the Downs are filling fast, which to some extent has not been reflected in the ALFA survey and also has not had a major impact yet on the store market due to a combination of direct consignments and retained ownership at custom feedlots. Queensland Rail reported it had handled 100pc more cattle out of the North West as a result of the failed wet season this year compared with last and this, along with other signs of the flow of cattle, indicates that not only are the store cattle heading south, but the price is trending that way also.

Grassdale full

TWENTY-ONE weeks, or about five months after Grassdale feedlot inducted its first cattle, the complex is full. Grassdale manager **Ben Maher** and his team have been busier than many feedlots in the industry, with the initial start-up phase requiring plenty of new staff and the ironing out of all the expected issues associated with a new facility. The reshuffle of cattle out of the Queensland North and North West has seen pen space in the larger, more efficient feedlots become scarce. Both of Mort & Co's Queensland feedlots (Grassdale and Pinegrove) are operating at capacity. Gunnee feedlot in Northern New South Wales, also operated by Mort & Co, has been put up for sale. This strategic decision will allow the group to consolidate its lotfeeding position in Queensland.

Tax-effective investment

MORT & Co operates an investment fund, the Mort & Co Cattle Fund, which is a public unit trust available for investors looking to diversify into the cattle industry with an investment of as little as $5000. Recently Mort & Co developed the Mort & Co No.5 Project, which is an Australian Tax Office-approved managed investment scheme (MIS) available for wholesale investors. Investment in a single herd engages Mort & Co to turn over 100 head of cattle 15 times over five years on behalf of the applicant. The cattle are usually fed for between 70 and 120 days, allowing up to at least three stock turns a year. Investing in the project prior to June 15, 2008, allows the applicant a significant up-front tax deduction of up to 100pc of the application fee. Once the application fee is paid, the first cattle are purchased and the feeding program starts. Any costs incurred prior to the end of the financial year could also potentially be claimed as a tax deduction subject to tax planning advice. Last year the Government indicated it would not approve any more non-forestry MIS projects beyond June 2008. Although the new Federal Government has indicated it will review these agribusiness MIS arrangements, the path beyond June 2008 is yet to be clarified. For those interested in this type of investment, this year could potentially be the last opportunity to diversify their portfolio away from forestry-type MIS investments. The Mort & Co No.5 Project is the only cattle-specific tax-effective investment project available in the market place at this time.

Global demand

INFORMATION from DWS Investments, a division of Deutche Bank, supports the well-understood changes to Asian incomes. Subsequent lifestyle changes are seeing hundreds of millions of people reshaping their diets in developing countries, moving preferences from cereals to meat and dairy products. The world's population is predicted to grow by 26pc from 2001 to 2030, primarily driven by developing countries in Asia, where it expected inflation adjusted incomes will double between 2001 and 2020. They noted that in 1980 China's annual per capita meat consumption was 14.6kg, today it's close to 60 kg. Per capita annual meat consumption in east Asia is likely to increase to 59kg by 2030 from current levels of 37.7kg. Fast food sales in China more than doubled from 1999 to 2005 and sales from western-style supermarkets have increased almost six fold in value from US$16 billion to US$91 billion over the same period. They make reference to estimates of feed-grain requirements per kg of pork production in the range of 3kg to 4kg and for beef production in the range of eight to 10kg of feed grain. With this in mind the obvious impact on global grain demand is magnified significantly. Food prices have increased from their lows in 2000 by nearly 75pc and the agribusiness specialist from DWS believes the bull run in the agricultural arena is just in its infancy. The Australian feedlot industry is well positioned to gain from these increases in demand but must continue to concentrate on all things that will enhance the delivery of production and supply chain efficiency in as low a cost of production environment as is possible.