Wairere

Romneys • Composites • Terminals

Client Newsletter
January 2011

Bouncing Back

Many sheepfarmers have had to deal with a five year cocktail of low prices, poor seasons, reduced or no fertiliser input, and a storm affected lambing in 2010. Many have seen their production fade from an average of 200 to 300kg product per hectare to as low as 150kg. The only thing that has increased is debt.

But the potential to do well is here and now. How do we bounce back fast? It won't be easy in areas where there has been a poor spring and a dry summer. However, the game has changed. The tropical cyclone has reignited hope for a good late summer and autumn in the North island. But growing better quality and quantity of pasture requires investment in lime and fertiliser. This reinvestment will test bank support.

Now that heavy lambs are well rewarded there is scope to run a lower number of capital stock. And finishers aren't committed to killing lambs below 18kg – they have a bigger margin to play with, to 23kg and more.

Hill country incomes have been screwed down to \$600-800/ha for many, and \$1,000+/ha for the best. At current prices, \$1,500/ha gross revenue is an achievable target, with an economic farm surplus of \$1,000/ha.


Caption

Wairere TefRom ram lambs, March 2010

What's happening around the globe?

Australia. A pen of 36kg carcase weight lambs sold at a record price of \$A220 in early January, or \$NZ289. Lamb price is around \$NZ6.90/kg plus a woolskin price up to \$NZ30, (compared to New Zealand's best woolskin price of \$9) giving a combined return of \$NZ 8.00 to 8.30/kg depending on exchange rate. These prices are now out of date: Lamb price + woolskin from mid-January has nudged \$NZ9/kg, and mutton price \$NZ6.30 + skin.

China. Massey University has had a close relationship with a university in the far west of China over the past decade. Massey staff have found that local sheepfarmers sell many of their lambs across the border to Kazakhstan. At the farmgate they were getting \$NZ7/kg for 14-15kg lambs in 2010.

Chile. The Chilean sheep population has reduced to 3 million, serving the local market. But the twenty year decline in sheep numbers has reached a point where lamb is in strong demand. A gross margin of \$NZ1,730/ha is being achieved on good country.

Are New Zealand sheepfarmers getting the lowest prices in the world?

Agri Commodity Update. (Commercial Bank of Australia Report)

Cotton. At over US¢150/lb, US cotton futures are more than 2.7 times higher their decade average of US¢55/lb and more than double the values of a year ago. The previous modern day record, set back in 1995, was way back at US¢117/lb.

Despite a forecast 14% increase in production demand is resilient.

Wool. Australian wool was up 41% through 2010 to a modern peak of $A12.42/kg. The strength in wool prices is due to two primary factors – the high price of cotton, and the dwindling supply of Merino wool (from 960,000t in 1989-90 to a forecast 335,000t in 2010-11).

Global stockpiles of many key commodities (wheat, maize, cotton, sugar, cocoa) have been eroded to historically tight levels. "**All** commodities are chasing increased area. **The "turf war" or "battle for acres", in 2011 is set to be the most intense in history."**

What is the competition up to?

Selwyn and Jenny McLachlan had a dry stony sheep farm near Masterton which they converted with centre pivots starting in 1996.Then they shifted to Canterbury for a year and converted another sheep farm. Those farms are now producing 1800 to 1900kg milksolids/hectare! North Island Intensive Sheep & Beef farms in 2008-09 spent $98 per ha on fertiliser and Southland Intensive $71.50 per ha. Dairy NZ data shows that overall in their more intensive production systems, owner operators spent $611 per ha on fertiliser. Six times as much as Sheep & Beef.

Selwyn thinks that his next step is herd homes.

He mentioned a friend who averages 670kgMs per cow with the help of accommodation for his cows- **more than double** the New Zealand average of 325kg. (What does that say for the public outcry against the housing of dairy cows in the McKenzie Basin? - a public who go home to their herd houses every night).

How we can we compete against a land use which can afford to use supplementary feed, and protect stock against cold stress or heat stress?

Wairere stud Romney two tooth, November 2010

The answer is that we won't, unless our product prices move higher. The best breeding flock production of sheep product per hectare in New Zealand is around 550kg. At today's prices, a mix of lamb/mutton/wool would average $5.50, so the top sheep farmer in the country would gross $3,000/ha. But the highest producing dairyfarmers do a gross margin of around $7,000/ha. And they don't do that with low inputs and skinny cows.

Underfeeding. A New Zealand habit.

Our history of being well rewarded for wool and lightweight lambs led to the evolution of high stocking rate regimes. Those stocking rates were eased as the price relationship between meat and wool changed in favour of meat. That is reflected in ewe body weights. Thirty years ago the average export ewe carcase weight slipped below 20kg. In recent years it has typically been 23-24kg. Perhaps it is time for another rethink. Poor seasons and reduced fertiliser input have reduced annual dry matter per hectare. Stocking rates and performance have suffered. Would the national ewe flock perform more efficiently with an average works ewe carcase weight of 28kg?

Rebuilding might be accelerated by:

- luck: the tropical cyclone downpour in the North Island.
- use in some flocks of Ovastim or Androvax product to boost lambing percentage.
- a well timed fertiliser/lime boost.
- a friendly bank manager

A confession.

Unseasonal rainfall of 236mm at Wairere in January 2010 rescued us from yet another drought. Romney ewes scanned well (176% without triplets, 188 with), the ewe hoggets not so well (94%) because feed quality and quantity was declining after a dry February to 19th May.

I made the mistake of trying to carry too many stock, 780kg liveweight/hectare at 30th June. But there are no prizes for having the highest stocking rate in the local farm discussion group. The ewes were worked too hard, and lost too much condition, revealed when they were shorn in early August. The two thousand ram hoggets were light at the end of August. Cows copped it too. We had deaths two to three months before calving (12th October). These cows were in adequate condition – a shortage of magnesium is exacerbated when there is week after week of grey skies and wet, windy cold.

Of course, we were idealistically committed to not drenching ewes . . . . And in an individually recorded flock, drenching a percentage of ewes favours those ahead of the undrenched ewes, so it is better to treat everything the same. Lambing in September was wet and unpleasant, though not as tough as some areas. October was cold, followed by six weeks of hot, dry weather, quelling any chance of compensatory lamb growth. Poorer condition ewes have poorer lamb survival and lower weaning weights – the old lesson relearned.

In my observation, the farmers who did well through this volatile period were those who had a conservative stocking rate, or adjusted that stocking rate down as the season tightened up. At a Monitor Farm meeting in the south Wairarapa in mid- November, 120 farmers in the audience were asked how many had NOT drenched any ewes in the past three years- only three hands went up.

Our ram clients appreciate the hardiness of Wairere sheep. But breeding hardiness is a fine line. It is easy to penalise our own flock performance. And the best rewards accrue to those who feed stock well, be they sheep, dairy cows, or deer.

The opportunity is bigger now – better prices and no penalty on heavyweight lamb, widening the scope for making higher profits. A top hill country property now has the potential to gross $1,500/hectare and net $1,000. To achieve that we need to consider the equation: kg/hectare x $/kg, e.g. 300kg x $5/kg average product price = $1,500/ha.

Wool you? Won't you?

Sheepfarming needs profitable wool and pelt/woolskin returns to support sheepmeat.

Successful coops deliver better returns to producers

- Fonterra (versus meat industry)
- Zespri (versus apples)
- Ravensdown/Ballance .These co-ops have virtually removed competition in their sector.
- Farmlands/CRT/RD1. These co-ops are dominant in their sector.

The Alfredton farm discussion group visits Wairere, September 29, 2010.

Wool expenditure in the past: some of it did work.

- Woolmark was the second most recognised brand in the world, after Coca Cola. What happened after NZ farmers stopped promoting their wool? A 1.6 times premium over branded nylon became a .9 discount. Our premium over British wool (35% on average) became a discount.
- Wool Services International was set up in the early 1990s, with levy payer money. It is now a successful company, trading 45% of NZ's strong wool, and owning two of four scours operating in NZ. A bid of $50m to buy the company last year was declined. Unfortunately farmer shareholding has reduced from 60% at the start to 20% now.

Good things take time.

- The Dairy Board was set up by statute in the 1930s, to put an end to undercutting on the export market by individual dairy companies. It has taken nearly 80 years to morph into New Zealand's largest company, Fonterra.
- Zespri was not a runaway success in year one. It continues to go from strength to strength, because it has some grunt to apply on behalf of New Zealand growers.
- The value of our farmland goes up by multiple times the value of our produce – this is the **BIG** return for landowners. An extra dollar on 40,000 kg of wool would have a multiplier effect of around 20 in land value, i.e. $800,000 extra for that farm.

Most commentators have focused on the downsides:

- "There are old faces around the board table". Actually, most of the board have not been part of a commercial wool company. And there are directors such as Keith Sutton and Theresa Gattung from outside agribusiness who have committed a huge amount of time to trying to find a future for woolgrowers. Directors can be changed by shareholders.
- "The management may not be up to speed". If not, change the CEO.
- "It could cost me an arm and a leg". Really? The cost is nothing compared to the cost of producing a low value commodity, because sheep have to be shorn every year regardless.
- "It is a leap of faith, because there is no precise budget for 2011." A leap of faith and gut feel is a hallmark of many successful startups.

Other considerations:

- WPC: "Despite suggestions by our opponents to the contrary, industry players we have talked with at the Domotex 2011 Carpet Trade Show in Hanover are very supportive of a NZ grower –owned co-operative. Even the prospect of having to pay higher prices for wool is not an issue for them ……but the speed with which the price has increased was".
- Elders Primary Wool, The Primary Wool Co-operative would not exist without the largesse of one dedicated farmer, who has injected millions of dollars. Is a channel 50% owned by a stock agency going to be as suitable longterm as a 100% farmer owned business?
- **Non-farmer ownership.** Swifts , once an American company now Brazilian owned, has snapped up eleven meat processing plants in Australia. What will happen to farmgate prices if that company gets a stronghold on Australian processing facilities?
  The Chinese company Agria's bid for majority ownership of PGGW is one of a number of plays to remove agri-servicing out of farmer hands – others include milk processing companies and wool processing. It is rumored that there are a number of Chinese companies lining up to buy wool Services International.
  Competition is great, but a monopoly or duopoly beyond the farm gate might be bitterly regretted in the long term.

No other party has as much longterm interest in the profitability of wool and meat as we do.

We strongly urge

- woolgrowers to get behind this co-operative.

Client Success Stories.

It is always intriguing to observe how successful farmers find a system to fit their environment.

Amid the mayhem of lambing last spring there were some who escaped the bad weather, and who had adjusted stocking rate to cater for reduced pasture growth.

Grant and Diana Baird. Wool – it can be good for you!

In 2008-09, Grant and Diana Baird made $37/sheep stock unit from wool. They have a Drysdale flock, but have also used some top index strong wooled Wairere rams over the past few years. Grant is currently negotiating a price for January shorn wool, at well over $6 clean. Drysdales have another great plus – the long wool at birth protects lambs from hypothermia. Grant lambed 138% in 2010 in the Mangaweka district,(near Taihape) where many lambings were reduced to 100% or less. "I often achieve 150% with lamb weights averaging over 17kg in good seasons. We had several hundred Romney ewes mated to blackface rams this spring – their lambing was decimated. It was the 2,000 Drysdale ewes which held the lambing up to 138%."

Grant and Diana Baird

Tim and Sarah Coop, Banks Peninsula.

"2010 was the second time we have lambed 150% from our 5,300 ewes. Singles and early lambers are weaned in December, twins in January. We complete weaning around 20th January, and sell all surplus lambs store through Silver Fern Farms. Average weaning weight this year was 29kg, slightly lighter than normal.

Tim & Sara Coop

The 1600 replacement ewe lambs are grazed off farm until May, then brought back home to mate.

Taking all lambs off allows our steep hill country to run a lower stocking rate through the normal summer dry. It keeps our internal parasite burden low too, and reduces the labour input required with young stock. A forty per cent cattle ratio helps as well.

I am still a fan of composites. Crossing our Romney flock with Wairere Multiplier gave a one-off boost to growth rate and fertility. I am maintaining that by crossing back to Romney then out again to composite".

Ian, Shirley and Dayle Lucas - CMP Waitrose Producer of the Year.

The Lucas family farm is nestled at the base of the Southern Alps on the Canterbury Plains. Ian and wife Shirley farm in partnership with son Dayle on their 312ha property.

Together they run 3,000 Romney ewes, 800 hoggets and graze up to 100 Angus cattle which they contract to CMP's sister company, Five Star Beef. They have been members of the CMP Waitrose Producer Group for over 10 years and were proud to be awarded the title of CMP South Island Waitrose Producer of the Year for the 2008/09 season.

In recognition of their success and dedication to CMP, the Lucas' won a trip for two to the UK.

At a farm field day held after their return, Ian's drafter commented that the "Lucas's Romney lambs were as meaty as anything around here, including lambs sired by terminal sires."

Dayle, Shirley and Ian Lucas

Snippets.

- The widespread drought through the North Island in the late spring was a remainder of the adage that the early bird catches the worm. Sell early, and look after capital stock. Find grazing early, because the competition for winter grazing will include dairy farmers.
- A recent change to Vodafone through Ravensdown has been a very significant saving on mobile phone use.

Mystery buyer.

In November we received a booking form for "five strong wool Romneys at $850", but with no name on the form. The rams were selected, and are still at Wairere. We just need to know who wanted them!

Congratulations.

To the Wairere clients who topped recent ewe fairs. Roger McMillan's 1068 2ths made $174/173 at Dannevirke. White Rock Station's top pen of 5 year ewes made $133 at Masterton, but were just nudged out of top spot by a small pen.

Wrapup.

It looks as though we are witnessing a step change in product prices. The signs point to five good years of farming ahead.

A booking form for February/March ram sellng is enclosed for all those who have just bought another farm, or sent the dairy grazers home!

Thank you for your support, and best of luck for a better season ahead.

Warm Regards  *and the Wairere Team*

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