mecardo EXPERT MARKET ANALYSIS

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Wednesday, August 10, 2016

Cheaper feed can upend the trend

By **Angus Brown** | Source: **MLA, Trade**

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Dual sheep and grain producers will no doubt be aware of declining grain prices, which are showing no inclination to rise any time soon. Given that grain is likely to be cheaper this harvest, we thought it prudent to take a look of how this might impact the cost of producing lambs in feedlots, and how this might affect the usual price seasonality.

Readers of our grain market analysis will know that prices are in the doldrums. New crop feed wheat and barley are currently priced 15% cheaper than back in January (figure 1). Protein sources are also likely to be cheaper in the coming harvest, with old crop lupins currently priced 10-20% lower than last harvest.

Back in summer grain rations for lambs were priced between $320-400/t, depending on feed type and location. This year the range is likely to be $260-340/t. We can assume straw or hay will be of similar value to last year.

If we take the midpoint of these values we can calculate the difference in the cost of gain, and total feed cost, for lambs for last year, and the coming year. For the 2015-16 summer and autumn lambs going from 35 to 45kgs live weight cost around $1.60/kg lwt, for a total of $23.80 per head. For the coming year the cost of gain is likely to fall to $1.36/kg lwt, giving a total of $20.37 per head.

So this year the cost of feeding lambs from 35 to 50kgs is going to be around $3.50/head cheaper, but it's hard to assess whether there will be any more money in feeding this year. This requires us to take a stab at both lamb buy and sell prices, but we'll give it a go.

Figure 2 shows how lamb feeding margins will look at a range of sale values if restocking lambs cost 550¢/kg cwt. The 'net margin' number only deducts feed costs, and doesn't account for labour, drench, vaccination, infrastructure, deaths or finance. The cheaper feed costs this year does mean feeding can be profitable with a fall in price from buy to sell.

Key points

Grain prices have been falling and are likely to be around 20% lower than last harvest over summer.

Lower grain prices make feeding lambs cheaper, which will add to profitability.

The last time grain was this cheap we saw prices track sideways though spring and summer.

Figure 1. ASX Milling Wheat and Feed Barley

Figure 3. Eastern States Trade Lamb Indicator

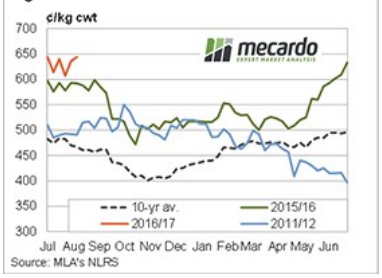

Figure 2. Lamb trading scenarios mecardo EXPERT MARKET ANALYSIS

	Current value	Steady price	Average rise	Strong rise
Weight	35	50	50	50
Dressing %	0.43	0.45	0.45	0.45
Cwt	15.05	22.50	22.50	22.50
Price	$ 5.50	$ 5.00	$ 5.50	$ 6.00
Skin	$ 5.00	$ 5.00	$ 5.00	$ 5.00
$/head	$ 87.78	$ 117.50	$ 128.75	$ 140.00
Gross Margin		$ 29.73	$ 40.98	$ 52.23
Cost of Feed		$ 20.37	$ 20.37	$ 20.37
Net Margin		$ 9.36	$ 20.61	$ 31.86

What does this mean?

The last time we had grain prices this low was during the 2011-12 spring and summer. Interestingly, that year also saw a very good spring, with abundant grass adding to the cheap feed situation. Figure 3 shows that in 2011-12 cheap feed saw lambs held through the spring, and subsequently there was not the usual spring price decline. In fact, prices didn't decline until the autumn when lambs finally came to market with a rush.

The coming season seems to be shaping in a similar fashion to 2011-12 with cheap feed encouraging producer to put weight on lambs rather than selling earlier as trade lambs. There is one critical difference, which is the fact lamb prices are very strong, and potential downside larger, which might encourage quitting of lambs in fear of a price fall, which could lead to a price fall!