farming people

HRL news

Hazlett Rural Limited

New Zealand: Not such a bad place to be a farmer?

Doug Steel

Doug Steel is a senior economist specialising in fixed income, currencies and commodities for HRL's bank, the BNZ. We asked Doug for a simple and straightforward assessment of where the bank thinks interest rates and the Kiwi dollar are headed, and the implications of those and other current economic trends for our farming people.

The outlook for what analysts would call 'short-end' interest rates (in other words, floating rates) is heavily dependent on what the Reserve Bank does to its official cash rate. The bank looks at that seven times a year. Over the last year it has been reducing it; it currently sits at 2% and in its latest statement in August it gave, as it usually does, some sort of guidance around its thinking on where it might go next. In that August statement it used the words "further policy easing will be required."

There were a few caveats around that – it is based on current projections and assumptions and it's very dependent on how the economy evolves over time — but that is quite strong language from a central bank, suggesting they do intend to lower the rate even further. Current thinking is that is likely to be in November this year, with possibly a further reduction early in 2017. That is likely to result in more downward pressure on the floating rates.

Fixed rates, especially out to the five-year tenure, are influenced a lot more by the international price of money and that in turn depends on the outlook for the biggest economy in the world, the US, and their central bank, the Federal Reserve; they are looking to lift their equivalent of the official cash rate, called the Fed Funds Rate, so the outlook for fixed rates is more "flat to up" into and through 2017.

Those are the wholesale rates. The extent to which trends in their movements come through to the retail rates still depends a lot on what the banks have to pay for funds — domestically for deposits, and internationally on money markets. Costs from both sources (relative to official cash rates) have been creeping up over the last year or so.

The BNZ sees the New Zealand dollar falling marginally further against the USD. One of the crucial influencers of this forecast is the likelihood of the US lifting their Fed Funds Rate, which in turn is likely to see some strengthening of the USD – and the NZD thus weakening against it.

It is important to note that such a weakening would not be due to any fundamental weakness in the New Zealand economy. Indeed the BNZ thinks that, while there have been some high-profile speed-bumps in areas such as dairy, our economy is trotting along pretty well, with construction, net immigration, tourism, horticulture and services sectors in good shape. In that light, the bank doesn't see the NZD falling too far against the greenback if and when the FFR is raised.

The NZD normally tracks in roughly the same direction against the currencies of our major trading partners, but Brexit (which the BNZ does not think will inflict a big hit on the New Zealand economy generally) has seen the British pound take a battering which has lifted the NZD about 15% against it, creating headwinds for those exporting into the UK at present. It's worth noting here that the UK takes around 19% of our sheepmeat, 24% of our wine and 12% of our apples.

Compared to many other places, though, New Zealand is very resilient to external shocks. The country's path through the GFC and its aftermath have brought it out the other side in better shape than most other countries. That is not to say the GFC didn't cause any pain but adjustment mechanisms were there to help.

From a farming point of view, one of the key factors is the floating currency. While it causes never-ending discussion around where it should or shouldn't be, and will never be all things to all people, the reality is, and history shows, that when international product prices decline, the NZD tends to fall, providing a degree of insulation. The opposite also occurs, with the currency strengthening when prices rise and so, while it may not feel like it, the volatility that is experienced at home on the farm is generally less than what is happening overseas.

You can see that when you look back at what has happened in the dairy sector over the last 18 months with the NZD going from over US80¢ down to the low 60s; now we are seeing dairy prices hopefully recovering and the NZD is starting to nudge back up again. BNZ is cautiously optimistic that the coming season's milk price will be higher, with a current forecast of $5.30.

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While dairy and associated sectors have had a really tough time in the last few years, the primary export sector as a whole has performed pretty well: total exports are actually about 2% higher than they were a year ago. It just shows that even though we've had a big hit to dairy, many other sectors are going really well, especially across the three main horticulture areas of wine, apples ... and kiwifruit which has bounced back strongly from the PSA issue.

In other commodities, the bank sees the above-mentioned Brexit pressure on our UK sheepmeat business being partly offset by tightening global production; the good run in the US beef market may be easing with more US production and the prospect of Brazil re-entering that market, but that could be offset to some extent by an easing of the high volumes that have been going to the US from Australia over the last couple of years, as drought is lifting across the Tasman and re-stocking is underway.

FROM THE GM

It's always hard to talk about the season at this time of year because you never know which way it's going to go, and it's even harder this year with all the volatility around us – in both market and climatic terms.

Market-wise we're sitting on a knife-edge with, as Doug Steel mentions, some downside and some upside on the horizon, but who knows where it will go – or what the likes of the US (with its bizarre presidential possibility), the Middle East or China will throw up in the coming months?

There's not a lot of spare stock around so it looks as if demand will be strong through the spring. Lamb survival has been good so far with the relatively settled weather but we all know that September and early October can be a snake in the grass... We just continue to hope that our drought-stricken mates get some relief before summer sets in, that we get some grass growth and that the dairy auctions keep delivering a measure of recovery.

Some staff movements to report: Sandy Boyd has left us to be 2IC at the Oxford Workingmen's Club and Rebecca Stoop is off to Ilam Toyota. We wish them both well. Sandy was replaced in early August by Rochelle Castle-Wilson, a colourful and lively addition to the team! Near the end of the month Rebecca's replacement Daniel Loh will be joining us from Lumley, and Angela Scott brings 13 years of insurance experience to her new role as insurance broker support and claims administrator. We have made the appointment in South Canterbury I foreshadowed last time, with Andrew Scarlett joining David in the finance and procurement team soon – and Lisa Stephens brings solid industry experience to a new role in the office supporting that team. We warmly welcome these blokes and blokesses aboard.

My shoebox of inventive hat shots for our quarterly charity donation, and for next year's calendar, is decidedly bare so please get snapping – it doesn't even cost a roll of film anymore!

Here's wishing all our farming people improving fortunes over the coming months.

Ed Marfell **General Manager**

A NOTE FROM DH

We find ourselves in uncharted waters. We're certainly seeing positive signs on the dairy front but the past teaches us that we must not get ahead of ourselves. There is real evidence that we need to be planning harder for what we think tomorrow will bring.

There has been some soul-searching and repositioning of cost structures in the dairy sector – congratulations to those people. And there are some high-performing properties every day being redeveloped that, we are learning, also needs disciplined planning.

It would be wrong to think the ripple effect from the dairy sector downturn over the last two years has been confined to just the dairy sector. It is starting to dig its teeth into other farming businesses that have committed large parts of their operations to dairy support.

This has exposed a need, again, to draw on the expert agri-services relevant to each operation. At HRL we are striving to fill some of the gaps opened up by this current volatility to achieve more positive economic and emotional outcomes.

A learning at HRL is that there is scope to flesh out more and more ways to collaborate. Collaboration offers multiple opportunities to improve the positions of everyone in the agri-sector.

And let's not forget the positives: we are seeing an at least upward trend in dairy prices, and our red meat processors are doing their best to return what they can in a very volatile world economy (and of course the Olympics were a hit and the ABs are continuing to smash records).

To our drought-affected farming people: keep in touch!

David Hazlett

Broker Banter

Is your IWOF due?

Hey, I had to try and catch your attention!

If I opened with the word Insurance you would have glazed over and moved onto the next article. It's okay, I am under no illusions on how utterly exciting insurance isn't ...but we also both know just how important the role an insurance policy can play is.

I have had some time on the road with the livestock boys over recent weeks and the general feedback from our farmers is they haven't heard from their insurance company/broker in years.

So, when was the last time you sat down with your insurance broker and completed a Warrant of Fitness on your policies?

If it's time for your IWOF call me! ***What have you got to lose?***

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Another key to survival: no staff. "Just three and a half of us."
The Gilmores from left: **Deirdre (the "part-timer"), Melah, Peter and Helen. Peter's Dad Simon is the missing #3.**

The Gilmore family, Greenfields Farm, Burnham

Peter Gilmore started rearing bobby calves when he was still at school.

After a year working on a dairy farm, he came home to the family's small block on Sandy Knolls Road about 16 years ago and started what has become a serious enterprise for the whole family that sits neatly beside their baling business.

"We did about 200 that first year, then we bought this place and did a thousand." They now routinely do around 1300 –1500, although "...we did 2200 five or six years ago when milk was really good."

They buy the calves in at minimum four days old from about half a dozen dairy farms in, mainly, Mid Canterbury. To the casual visitor, it seems the fact they are fussy about what they buy in is one of the keys to their success — their 100 kg Friesian bulls are sought by finishers from the far north to the far south, usually the same buyers each year.

They found early on that if they bought bobbies remotely, sellers would toss in the odd one the agent hadn't seen, so now they personally pick up every calf in a purpose-built 50-head trailer, which Peter sees as good disease risk management as well.

"The farms we now go to are all pretty good; they don't put anything up that we won't take. We very rarely reject one now."

They buy 600 from one farmer. "In most cases, we take all their calves and they like that." His suppliers need to be very good calf rearers in that first four days: "They can have the biggest cows producing the biggest calves, but if those calves aren't well looked after in that first four days they won't do well."

They keep about 90 of the best Jerseys through to yearlings for service bulls on another property nearby, but the Friesian bulls all get sold at 8–12 weeks at 100 kg (remaining Jerseys at around 90 kg), all delivered to contracts signed early in the season through a stable of agents that includes HRL's Ben Lill.

"Pretty much every calf we do is covered by a contract. It's too risky otherwise because if it goes dry in November, we don't want to have to keep a thousand calves here."

It all happens under irrigation on the 40-ha Greenfields Farm at Burnham, which is well set up for the enterprise. They have a row of 41 semi-covered pens that hold 15 calves each. These are repopulated two and a half times during the season.

The calves start arriving in late July, with Peter aiming to get them all in by the end of August. Upon arrival each calf is tagged with a traditional fold-over sheep eartag, the colour indicating the farm they came from. That has proved a very useful management tool and Peter says the buyers like it too. "We try to keep everything from one farm in one pen but we always end up with mixed pens."

The family has feeding down to a fine art, using a milk trolley and two feeders so they can feed two pens at a time. The day we visited they had fed 220 in an hour. They start at 5:30 am and are usually finishing by 10 am at the height of the season.

"We feed them twice a day for the first seven days and then once a day after that. They'll go outside after about three weeks. They are weaned off milk at 75kg – normally about six weeks – onto ad lib straw, grass and 20% calf pellets (some 1.5–2 kg pellets/head/day)."

The milk in question is colostrum for as long as it is available, usually until late August. And then it's powder mixed in a 1500 litre milk vat.

When they're about a month old, they are gas-dehorned, and 5-in-1 and pinkeye vaccinated. They get another 5-in-1 about a month later.

Each calf will consume about 100 kg of pellets; they are introduced to them from day one: "Getting them onto pellets as fast as we can is important for rumen development."

Outside, they start in one of seven small 'trainer paddocks' that have a hut in them, and once they have learned about fences they move into one of six one-hectare blocks that are regrassed every year. All these paddocks are completely surrounded by trees.

"Because they get two kilos of pellets and they might eat half a kilo of straw a day, they're probably only eating two to three kilos of grass dry matter a day."

"We weigh them twice a week and anything that's lower we just drop it back to the next mob and vice versa." Anything not doing well is diverted to the 'sick bay' where Peter's Mum Helen says they get "... plenty of penicillin and plenty of Biopect!"

The first of them start going out around the 10th of October; a decent chunk leaves around the 20th of October and some big lots are loaded in November (four units parked in the yard at once is not unheard of), with tail-enders going in December.

Seasonal values peak in October and through November it drops away. "If we can get them away before November it's better for the buyer as they can finish them before the second winter, and it's better for us because they're costing us money while they're here."

As far as returns go, Peter says the market used to follow the schedule – when it was $3.30, a 100 kg calf would be worth $330. "But now the bull schedule's $5 something, we're still only getting $380-$400. It dropped back about four years ago."

That drop coincided with a jump in calf meal and milk powder values but Peter is optimistic that the situation will improve, given the newly reduced competition from dairy grazing and lower grain prices. When you're buying 150 tonnes of meal a year, the grain price matters.

Staff profile:

Steve Ludemann

Livestock Admin

Steve's career has given him as much knowledge of the nooks and crannies of rural Canterbury as, probably, anyone working in the industry today.

Born and bred in Darfield, he lived on the family-owned Woodstock Downs near Oxford for about six years during his primary schooling. He spent four years at St Bede's in the early 1980s before joining the PGG mailroom in 1984. Three years later he was out on the road, first in Darfield for 18 months then back at Oxford for a year. The rest of his 19 years with the company was spent in livestock sales admin.

In 2003 he was back in Oxford again, this time with Frew's Transport in livestock sales and despatch. After three years he went to Rural Livestock in Christchurch, doing admin for that company's Otago operation.

Then it was back to Frew's, in Darfield, for six and a half years. It was from there that he joined HRL eighteen months ago — in a livestock admin role perfectly suited to his vast experience, and where he rejoined a good number of old Pynes workmates.

"It's a great company to work for."

His work now is a far cry from the paper-intensive days of old, with everything arriving on his computer via the Livestock Office package, either from the agents' laptops or Sally Graham's computer at Coalgate. NAIT hasn't made his job too much more difficult — providing all information is supplied.

Coalgate gives him welcome respite from the office for a day and a half a week, where he helps out yarding stock for sale days.

Steve and Marg have two children, Georgia (21) and Jacob (19).

Through all his working life, Steve has remained domiciled in Darfield where he played all his senior rugby. Nowadays he plays tennis on a Thursday night; the family moved onto a small block right next-door to the township's new tennis courts just over two years ago.

The Blokes' Diary…

29 Sep	*Coalgate*
06 Oct	*Coalgate*
07 Oct	*Annual Surplus Gear sale*
07 Oct	*Culverden Cattle Sale*
13 Oct	*Coalgate*
20 Oct	*Coalgate*
27 Oct	*Coalgate*
03 Nov	*Coalgate*
08 Nov	*Coalgate*
15 Nov	*Glenmark Lamb Sale*
16 Nov	*Putiki Lamb Sale*
17 Nov	*Coalgate*
23 Nov	*Highfield Lamb Sale*
24 Nov	*Coalgate*
01 Dec	*Coalgate*
08 Dec	*Coalgate*
15 Dec	*Coalgate*
19 Dec	*Coalgate*

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