MilkLines

Baker & Associates
(WAIRARAPA) LIMITED

PO Box 900 Masterton
Phone: 06 378 8174
Fax 06 370 8105

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"Between the lines"

- Spending the payout increase.
- Is Grass Enough?
- 50/50 Sharemilking – does the contract change?

PAYOUT CAUTION URGED

You cannot escape the point that a $6.90-$7.10 milksolids payout range for 2010-2011 is great news for dairy farmers. Media are hyping things up with the whisper of $8 but the prudent commentators are urging caution as the market is still volatile.

For the season now finishing (09-10) the total milksolids payment will be in the order of $6.60. Made up of a $6.10 milk payment, 20-30 cents of distributable profit (dividend) and the balance will be retained earnings. The latter adding strength to the balance sheet.

The forecast for the 2010-2011 season ranges from $6.90 to $7.10, which is made up from a $6.60 milk price and the balance of 30-50 cents as distributable profit. Fonterra chairman Sir Henry van der Heyden added that at current exchange rate and commodity prices the payout may end closer to $8, but stressed volatility in the market place dictates a cautious approach.

It must also be noted that while the milk price payment schedule has been published via the website, we don't know if all the distributable profit will be paid out. Fonterra might repeat the retentions for reinvestment.

Agrifax produced their monthly dairy publication soon after Fonterra's announcement. Their median price for next season is $6.65. This forecast is based on a profile of declining commodity prices. Perhaps by as much as 20%.

The message from the likes of Hayley Moynihan (Rabobank) and others is "don't count your chickens". It is early days and Fonterra have pointed out that a review and further announcement will be made late July.

HOW WILL THE EXTRA MILKSOLIDS PAYOUT BE SPENT?

It will be interesting to see how the next 15 months pans out if the higher end of payout forecasts is delivered on. Talking to farmers and agribusiness professionals they see the potential for this to do as much harm as good.

Historically we know that expenditure increases. In part voluntarily because dairy farmers will be less inhibited with operating costs. Then there is the involuntary change in expenditure when those supplying goods and services to dairy farmers increase their rates.

Discretionary expenditure will increase with overseas holidays and replacement of the family car. Some commentators denigrate this form of spending, but to be fair dairy farming is hard work and a certain amount of consumption when the business can afford it must be deemed reasonable. BUT … Providing the business can afford it.

Banks are already putting their hands up. The dairy industry has been over leveraged, and as the volatility is likely to stay in the market it is reasonable to suggest that indebted farmers should pay principal. If the dairy company does this to help the balance sheet then farmers might need to think along similar lines.

Will land prices go up? In the past it didn't take long for a rise in payout to be reflected in dairy farm sale prices. It is reasonable to expect a recovery in appetite for dairy farm land but financiers will only back this where genuine cash returns are demonstrated. As compared to sales based around the promise of capital gains.

More dairy farms will sell in the next twelve months but whether the prices fully recover to those seen two seasons ago seems unlikely. It will tend to be a slower recovery, reflecting a medium term improvement in confidence.

Conversions …. Those farmers with capital and suitable land for conversion to dairy must be taking a second look. The void between sheep, beef and arable farming and dairy returns is once again huge. If Fonterra gets the third part to the business restructure through then the cost of shares need not be a limitation. Further to that there are companies like Open Country offering alternate processor options without the need for shareholding.

A rush to conversions is unlikely due to the shortage of capital, high bare (flat) land prices, delays in delivering sustained production coupled with a volatile milk price and numerous case studies of financiers trying to extricate themselves from the last round of converted farms that proved to be lemons.

IS GRASS ENOUGH?

Ten years ago a client asked me if grass was enough? He was developing a view that 100% pasture in a cows diet was not sufficient to maintain a healthy cow and sustainable farm system. With absolute conviction I countered "of course it is!" That opinion is now wavering.

The average crossbred cow can do 450 kg of milksolids on pasture, but typical industry wide production is 325 kg or less, 38% behind potential.

To deliver high per cow performance you need a consistent level of prime quality pasture, at least 280 day lactation averaging 1.6 kg MS/cow/day, cows calving at score 5 and excellent animal health. A tight calving pattern must be maintained, minimal losses and cow numbers sustained throughout the season.

If you use the analogy of climbing Mount Everest, it can be done but the track is extremely narrow and the drop off very steep.

Why is the "modern" cow essentially not delivering? Is it a lack of "modern" management, or is there more to it? Smart dairy farmers are awake to this failure to perform, and to use another analogy, they feel caught on a roundabout, looking for possible exit route or solution.

How did we approach and get onto the roundabout? Where the problem starts is that we have progressively bred an animal that will partition more energy into milk ahead of other priorities, and the full impact of these genetics has been realised over the last ten years.

Unless there is a "surplus" of energy, or nutritional balance in the diet our modern cow will lose weight, and struggle to regain it.

It is an extremely difficult process to maintain pasture at the desired standard in terms of quantity offered and quality. How much effort and time is put into the task of having ~~good~~ … great pastures – a skill New Zealand dairy farmers are famed for, and a skill we can enhance further.

But consider this, the breeding of our cow has escaped our immediate capacity to grow and manage pasture.

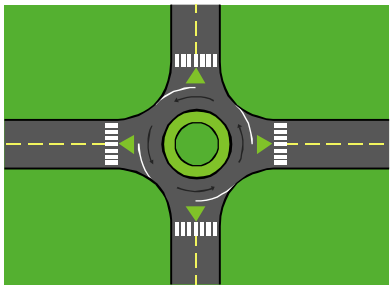
Lincoln university dairy farm has the best reputation for managing and feeding grass. It achieves high per cow production on pasture. Yet it suffers from a history of mediocre reproductive performance, … you have to ask "why?"

A classic viewpoint on this remains.

- High ME pasture is invariably high protein and low fibre.
- Significant weight is lost between calving and mating, and even beyond this point.
- Return to oestrous is delayed or erratic, and conception rates are less than they should be as the cow is stressed by the diversion of energy.
- Right at the point AB commences ryegrass is going to seed, which means lower ME and often a shift from too little fibre to a point of too much fibre.
- Intakes are often restricted at this point to control the excesses of pasture production.
- Even with very tight mating management in-calf rates are challenged, i.e. as demonstrated by Lincoln.
- Continuing the very high protein diet throughout the lactation can make it difficult to recover cow condition before drying off.
- This is turn places pressure on winter management where the New Zealand cow usually has to gain one condition score – but the average animals would struggle to exceed a quarter score gain.
- From here the problem compounds or establishes an equilibrium at less than desirable performance.

Lets return to the roundabout analogy with circling farmers trying to navigate their way forwards. Three different exit routes are typically being explored.

Exit Route 1: There are those that are pursuing rainbows – they are striving for the pot of gold of high per cow production and efficiently managed pastures, but will constantly struggle with variable pasture performance and conflicting cow demands. Especially when the cow is bred to put the finishing post beyond the delivery point of ryegrass and white clover.



Exit Route 2: Then there are those that have chosen to switch off, actually turn the dial down on the milksolids productive potential of the cow by putting the cow on once-daily milking. With less production demanded, the cow sustains a higher bodyweight and this breaks the cycle of complications related to lower cow condition.

Exit Route 3: Our alternate pathway is to shift away from a pasture based diet – not necessarily losing good grazing management skills in the process, but

adding feeds where energy or nutrition is lacking. This group has said "grass is not enough". There are numerous shades of gray as the level of supplementation will vary – but the principal is the same.

In one and a half pages we have summarised the situation – but where is utopia? Why breed a cow with such potential then not utilise it?

For those farmers circling the roundabout and not sure which exit route to take, it would pay to go through a "strengths and weaknesses" listing exercise, as it uniquely applies to you and your farm. As follows are some thoughts from one consultant's perspective.

The future in Route 1 will be about bridging the difference between cow potential and ability to year round harvest quantity and quality pasture. The management of grass must be lifted to an ever higher standard. If you have heat, irrigation, nitrogen, weekly monitoring and finely tuned management responses you can deliver on route 1, … aka Lincoln.

Route 1 is about a reliable environment with a pasture management and animal husbandry skill set that s right at the top of the industry.

Route 2 and once daily milking is about dialling down the milk production demands. The top farmers are producing 400 kg MS on once daily milking and have found an equilibrium at that point. Prof Colin Holmes, well known advocate for once daily milking believes farmers need not be any worse off financially.

Route 3 if taken seriously requires an additional skill set. If supplementation is going to be used to cost effectively boost production it requires sound nutritional knowledge and disciplined financial monitoring. Dumping large quantities of relatively expensive high fibre, low ME feed is not the solution for the modern cow. New Zealand dairy farmers invariably have bucket loads of protein and fibre. What we lack is cost controlled inputs of soluble carbohydrate or starches.

If you take this systems review far enough you will carve New Zealand up and the exit route taken will largely be driven by geography.

- If you cannot control the climate and pasture production dynamics you will be frustrated by Route 1. This system will be best managed in places like Canterbury.

- If Route 3 is being explored, care is needed with cost effective sourcing of starch and carbohydrate. This will typically mean maize silage or grain. Making it a system that can be supported in most of the North Island and the grain growing parts of the South Island. Imported feeds and bypass vegetable /brewing waste is valid but often tied up in terms of supply, and/or represents price variability. Palm kernel can fit into this system but has its limits being another protein and fibre based feed.

- Those selecting Route 2, have to be sure they are doing it for the right reasons and are in a position to absorb the (initial) negative financial features. It pays to be well briefed on the transition issues as well. Note; the mounting environmental pressure of running more cows for lower productivity per cow, current science suggests it is not a nutrient efficient way to farm. Regions most likely to suit once daily milking will be the un-irrigated dry regions, locations with cold variable spring conditions and districts that cannot cost effectively source high ME supplements.

The author of this article is regularly confronted by clients trying to steer their way down some kind of middle ground. Without taking the helicopter perspective these farmers don't realise they are navigating themselves by circling the roundabout – in same cases not even considering the exit routes.

One day we will re-engineer the modern cow genetics and customise it to system type. For the interim period we have this cow with a great deal of untapped potential, and to get the best out of it farmers will need to be more definite about their desired pathway. With this known they will then find the exit route and have a clear and defined pathway.

This article will hopefully serve as a catalyst to some essential lateral thinking and strategic planning. Otherwise they will never answer the question of why their cows are not doing better.

For some this will mean the realisation that "Grass is Not Enough"!

WINTER COW MANAGEMENT

How quickly conditions under foot can change and winter has certainly arrived! Gypsy day has been and gone and cows have started to head out to run-offs and grazing.

Now is the time to focus on setting up for calving. This includes a plan for achieving target pasture covers, getting cows to condition score 5 and making sure you have supplement on hand to get through spring.

With cow condition lighter than we would like (average <4.25) and pasture growth rates recovering with recent rain there is a reasonable challenge ahead of us. So be proactive get out there and monitor, don't leave things to chance.

FEED BUDGET

Make sure a feed budget for the winter is in place, is being actively implemented with monitoring of actual versus predicted results. Being prepared to change tact is part of the plan. Make sure you account for utilisation of feed. This will vary hugely depending on conditions - an 80% utilisation figure through winter is as good as it gets and 70% might be more realistic.

COW CONDITION

Cow condition has been of a concern through the latter part of last season so in order to get maximum condition score gains it is imperative that you are able to fully feed cows.

To do this effectively you may find that drafting cows on condition score and then feeding them based on required condition score gains i.e. light cows get fed the most and cows that are already at score 5 are on a maintenance is a worthwhile exercise. Doing this does not necessarily mean you are feeding more on a daily basis but rather reapportioning it.

To get the good gains in condition light cows should be getting offered at least 12kgDM/cow/day with grazing residuals not falling below 1300kgDM/ha. This figure is based on a high energy feed (11MJME) and any variation to feed quality will have a direct impact on the cow.

SUPPLEMENT TYPE AND TIMING

Supplement feeding should be done in conjunction with the feed budget – you need to make sure you have sufficient supplement to get you through spring. If you have reasonable amounts and types of supplement on hand then feeding the high energy supplement through June and early July should also see those early calving cows make reasonable condition score gains.

If you need to feed supplements such as hay or straw now, try and limit the amount cows are receiving. These feeds are high in fibre and low in ME. This might mean settled cows, but intakes are limited and the condition score gains will be compromised. Keep more of the low quality high fibre supplement for the transition period in spring.

MAGNESIUM

Getting magnesium into the cows is crucial as part of a program preventing metabolic issues through spring. This should be supplemented not later than 3 weeks prior to the start of calving. For the mid July calving this means commencing in the last week of June.

Forms of Magnesium pre calving

Research carried out by DairyNZ has shown that supplementing with Magnesium sulphate or magnesium chloride before calving is more likely to prevent milk fever than using Magnesium oxide. However getting sufficient Magnesium into the cows can be an issue if only trough treating.

One way to achieve the required magnesium but still trough treat is to put 60grams of Magnesium chloride or magnesium sulphate into the trough and dust 50 -70grams of Causmag per cow onto the pastures.

Recommended Rates

DairyNZ recommend that dry cows receive a diet containing 0.35% Magnesium and lactating cows 0.28% Magnesium. In order to do this cows require the amounts in the following table.

(The tables below taken from DairyNZ FarmFacts).

Mg requirement (% of diet)		**Supplementary Mg (grams/cow/day)**		
		Jersey	**Crossbred**	**Friesian**
Dry	0.35%	12	16	20
Lactating	0.28%	15	17	20

Depending on what magnesium supplement you plan on using the cows will need the following amounts of the different products. It is important to note that this is down the cows throats.

Magnesium source (%Mg)	**Example product**	**Magnesium required (grams/cow/day)**				
		12 gm	14 gm	16 gm	18 gm	20 gm
Mg Oxide (55%)	CausMag	22	25	29	33	36
Mg Sulphate (10%)	Epsom salts	122	142	162	182	202
Mg Chloride (12%)	Mag chloride	100	117	134	151	167

Note: That if you are dusting Magnesium oxide to double the rate to allow for field losses.

METHODS OF SUPPLEMENTING

The following methods of supplementation are in order of effectiveness:

- Drenching – avoid using Magnesium oxide as it is not very water soluble and will making drenching with it difficult.
- Pasture dusting – watch field losses and only dust 2 – 3 days ahead if you know conditions are going to allow it.
- Hay treatment – mix the slurry and apply it over the top of the hay. Adding molasses to the slurry will make it more appealing to the cows.
- Trough Treatment – use a dispenser to avoid too much being in the trough and lift the amount slowly. Cows will not drink if the water is unpalatable.

What method you use will depend on what resources you have and where the cows are, the most important thing is to start supplementing on time.

Blood tests are recommended to determine what levels such as magnesium, selenium and B12 are like. This will be especially important if cows are out grazing and arrangements need to be made with the grazier.

CHECK WINTER GRAZING

If cows are out winter grazing get out there regularly to make sure cows are getting fed according to your agreement and that there is still sufficient feed ahead of them.

As stated at the start of this article there is a lot riding on this being a good winter and being able to set up for calving. Don't leave this to chance get out there and make sure things are heading in the right direction. To make the most of next year's payout you need to be in the position at the start – those that are will benefit the most.

50/50 SHAREMILKING AGREEMENTS

What will 50/50 contracts do now in terms of revenue sharing now that the milk price and distributable profit (dividend) have now been split out. There are a couple of adjustment options.

Let's start by using the payout information for 09-10 as it is a more certain example.

- Milk price $6.10 and distributable profit 25 cents (20-30 cents suggested).
- The parties of a 50/50 agreement keep $3.10 each.
- Where production meets shareholding the owner may elect to distribute the distributable profit (DP) as 12.5 cents each. This has happened in most cases this season and everyone is happy.

- In a future season if the same occurred but the owner kept the DP – then the owner has received $3.35 of a $6.35 payout, 52.7% of the milk revenue. The sharemilker gets 47.3%. For every 100,000 kg MS the farm owner has $25,000 more revenue.

Options

1. The parties could agree to allow the above example, continue to share the milk price 50/50, the owner takes the DP. The sharemilking agreement may not require any alteration and everyone carries on farming.

2. Sharemilkers can negotiate for a sharing of the DP, where milk supply meets shareholding. DP returns on dry shareholding is the property of the party that owns the shares or rights to the DP.

3. The 50/50 split on the milk price can be altered so that the owner keeps the DP but the sharemilker gets 50% of the total pool of revenue. In the case above the sharemilkers would want a 52.8% agreement – but the DP portion of the total milk revenue pool will vary. Do the parties agree to vary the percentage on a year by year basis? Gets a little messy but can be reconciled.

4. Does the farm owner take on more costs to offset the revenue differences? Such cost might include the spreading of fertiliser, fodder cropping costs, nitrogen, and electricity.

With the splitting out of the milk price and DP it will be interesting to see if the culture of 50/50 sharemilking changes tact. Arguably there has been no change in the capital invested into the farm business, so why change the split of revenue?

There remains the natural ebb and flow of the asset value; land, shares and livestock. Sharing the DP and absorbing the fluctuating returns on assets would be the simplest way of keeping a balance in the relationship.

DAIRY SYSTEM MONITORING OR DSM – END OF SEASON PRESENTATION

Masterton Club, Monday June 14th

- **3.30 to 5pm - Free presentation to parties interested in taking part for the 2010-2011 season. An informative session – how it works, what you can get from DSM and a few key messages from our analysis of over 100 farms this season. Anyone taking part in this session is welcome to stay on for the evening presentation.**

- **6.00pm dinner and End of Season presentation for those who participated in the 2009-2010 season. A full seasons results with SWOT feedback. Guest speaker Jeremy Savage of Macfarlane Rural Business. Dinner $30 and a cash bar.**

RSVP: Jane Murray or Delwyn Pringle on 06 3788174 or jane@bakerag.co.nz

BAKER & ASSOCIATES WINTER SEMINAR – PERHAPS THE BEST EVER.

Have you thought about gathering up a small group, booking a table and take advantage of a group discount in order to attend one of the most informative farming events held in the Wairarapa.

The agenda for this year's Baker & Associates Winter Seminar is confirmed, see attached.

Copthorne Solway Park, Masterton

Theme: Bigger or Better

Hot Start Speaker: Jacqueline Rowarth of Massey University

After Dinner Speaker: Al Brown of Logan Brown Restaurant, Hunger for the Wild and Go Fish

Book a group of 10 for the day: $1,300, single tickets $165 per head.

For more information contact Delwyn on delwyn@bakerag.co.nz or ph 063788174

ADVERTISEMENTS

Winter Grazing – Western Lake, Featherston

Suitable for 150 head on flat ground, break feeding pasture and self fed grass silage.

Rate negotiable according to expected performance.

For more information contact Charlie Mathews on 06 3077740.

You're Joking Mate

A shop that sells New Husbands has opened in Salthill, Co Galway, where women can go to choose a husband. Among the instructions at the entrance is a description of how the shop operates:-

You may visit this shop ONLY ONCE! There are six floors and the value of the products increase as the shopper ascends the flights. The shopper may choose any item from a particular floor, or may choose to go up to the next floor, but you cannot go back down except to exit the building!

So, Siobhan goes to the Husband Shop to find a husband. On the first floor the sign on the door reads:-

Floor 1 – These men Have Jobs

She is intrigued, but continues to the second floor, where the sign reads:-

Floor 2 - These men Have Jobs and Love Kids.

'Dat's nice,' Siobhan thinks, 'but Oi want more.'

So she continues upward. The third floor sign reads:-

Floor 3 - These men Have Jobs, Love Kids, and are Extremely Good Looking.

'Wow,' she thinks, but feels compelled to keep going.

She goes to the fourth floor and the sign reads:-

Floor 4 - These men Have Jobs, Love Kids, are Drop-dead Good Looking and Help With Housework.

'Praise be to God!' she exclaims, 'Oi can ardly stand it!'

Still, she goes to the fifth floor and the sign reads:-

Floor 5 - These men Have Jobs, Love Kids, are Drop-dead Gorgeous, Help with Housework, and Have a Strong Romantic Streak.

Siobhan is so tempted to stay, but she goes to the sixth floor, where the sign reads:-

Floor 6 - You are visitor 31,456,012 to this floor. There are no men on this floor. This floor exists solely as proof that women are impossible to please. Thank you for shopping at the Husband Shop.

PLEASE NOTE:

To avoid gender bias charges, the owner of the shop has opened a New Wives shop just across the street, next to O'Connor's famous pub.

The first floor has wives that love sex.

The second floor has wives that love sex and have money and like Guinness.

The third, fourth, fifth and sixth floors have never been visited

SITUATION REPORT May 10 - June 10

PASTURE GROWTH (Pasture growth figures include the use of nitrogen)

		May-10	May-09	Forecast June
Manawatu	**Irrigated**	25	20	20
	Non-irrigated	25	28	20
Tararua		25	19	15
Wairarapa	**Irrigated**	25	22	20
	Non-irrigated	25	29	20
Canterbury		25	13	12
Otago		20	9	6
Tasman		40	16	10
Southland		22	N/A	10

PASTURE COVER (End of month)

		May-10	May-09	Forecast June
Manawatu	**Irrigated**	2100	2000	2200
	Non-irrigated	2000	2000	2100
Tararua		2100	2018	2150
Wairarapa	**Irrigated**	2050	1998	2150
	Non-irrigated	1950	2075	2100
Canterbury		2200	1994	2200
Otago		2100	1941	2150
Tasman		2400	2093	2300
Southland		1950	N/A	2050

DAILY MILK PRODUCTION (MS / cow)

(Derived from DSM data, typically representing upper quartile performance)

		May-10	May-09	Forecast June
Manawatu	**Irrigated**	1.20	1.21	
	Non-irrigated	1.00	1.14	
Tararua		1.15	1.09	
Wairarapa	**Irrigated**	1.20	1.19	
	Non-irrigated	0.90	1.04	
Canterbury		1.20	1.24	
Otago		1.20	0.96	
Tasman		1.00	0.98	
Southland			N/A	

SITUATION REPORT May 10 - June 10

FEED MARKET

Lower North Island		Now		Last Month		Last Year
Barley - delivered	$/tonne	330		350		300 - 350
Palm Kernel	$/tonne	260	On contract	260		277
Maize - standing	c/kg DM	N/A		N/A		N/A
Grass - standing	c/kg DM	N/A		N/A		N/A
Baleage	$/round	70-80		60-80		90 - 100
Straw	$/round	55		50		45 - 50
Hay	$/round	60-70		50-70		70 - 75
Calf grazing	$/hd/week	4.00 - 4.50		4.00 - 4.50		4.00 - 4.50
Yearling grazing	$/hd/week	6.00 - 7.00		6.00 - 7.00		6.00 - 7.00
Winter cow	$/hd/week	18-20		18		14 - 20
South Island						
Barley	$/tonne	280	ex silo	260	ex silo	315 ex silo
Palm Kernel - delivered	$/tonne	270		270		220
Maize - standing	c/kg DM	N/A		N/A		28
Grass - standing	c/kg DM	N/A		N/A		N/A
Baleage	$/round	N/A		N/A		N/A
Straw	$/round	N/A		N/A		45
Calf grazing	$/hd/week	6		6		7.00
Yearling grazing	$/hd/week	9		9		9.50
Winter cow	cents / kg DM	21-23		20-21		18.50 - 21

LIVESTOCK

Lower North Island				
Cull Cow		400-600	450-550	N/A
Weaner Bull	Quality dependent	400-520	360-480	N/A
Incalf Cows	Quality dependent	1000-1700	1000-1700	N/A
Budget Cow		600-800	600-800	N/A
Recorded yearling hfr (R2)		1000-1300	1000-1300	N/A
Weaner heifer calf (R1)	Export mkt	500-1000	500-800	N/A
Bobby Calves		N/A	N/A	N/A
South Island				
Cull Cow		450-550	400-450	250 - 280
Weaner Bull		400-500	350-420	N/A
Incalf/milk Cows		1400-1800	1500-1850	1400
Budget Cow		800-1000	800-1000	600
Recorded yearling hfr (R2)	1st June del	1300-1500	1400-1500	1100
Weaner heifer calf (R1)		650-750	600-800	550
Bobby Calves		N/A	N/A	N/A

FERTILISER

Prices as of 1 December 2009

Urea @ 100 kg/Ha	$/Ha applied	70	70	74
Superphosphate @ 500 kg/Ha	$/Ha applied	190	190	220
DAP + Potash Blend @ 200 kg/Ha	$/Ha applied	195	195	220

EXCHANGE RATE (US)	0.682	0.725	0.63

NOTE

All prices are exclusive of GST and provide a guide on the current market.
Actual prices can and will vary.
(N/A - insufficient market evidence at this point)

Dairy System Monitoring provides a guide on upper quartile performance and is a service provided by Baker & Associates and Macfarlance Rural Business