Harvest Agents and Advisory

Agriculture Investment Update

As we wrap for the year, here's what we see are some of the biggest influences in the ag investment market for the past year.

Interest rates - this year will be remembered for the steep move in interest rates. The moves are yet to fully filter across agribusiness but it will make a resounding impression in the coming year. Cost of funds has moved up circa 6% with now commercial Bank debt being circa 7-8% for low-risk, strong equity assets. Banks further sensitise rates at circa 2% (on top) and hence hurdle rates for loans are around 10% and on a conservatively levered agri asset, these rates are hard to cover. Hurdle rates for institutional investors have also moved higher which means some assets will be recycled or disposed of. As for the outlook, there's no spread margin between the current Australian 10-year Bond Yield and the Cash Rate which indicates a very flat yield curve...or as some say higher for longer...

Cattle prices plummeted from a year high on the EYCI in January or 850c/kg cwt to rebound off the October low of 349 c/kg cwt to finish at 456c/kg cwt or a 46% drop over the year. Expectations are for higher cattle prices based on better seasonal conditions and export prices for pastoralists. Interestingly, In a year where our cattle herd reached a 10-year high of 28.7 million head, the US had its lowest since 1962 of 28.9 million head of beef cows.

China's lifting bans on barley and hay exports has reflected an improving relationship with our largest trading partner. Bans remain in place for some meat export facilities and wine which are expected to be removed in 2024.

El Nino on the East Coast was declared in September supported by a positive Indian Ocean dipole. The dryer conditions were well entrenched across most of the East Coast before the announcement. Livestock sales then increased markedly further suppressing livestock prices. Since, we have had good rain across the East Coast through November and December with the outlook now indicating a move to neutral and possible La Nina in late 2024. Whilst the BOM has taken some heat for calling the El Nino, they were indicating drier conditions for the year, early in 2023. Many cropping operators used this information and planted accordingly, not planting or wisely planting and managing for dry conditions. Growers then had some of the best returns per mm of in-crop rain ever...

Carbon. Australia has 6 years to meet the 2030 targets for a 43% reduction in baseline emissions. The Federal government now must deliver and will support decarbonisation of which agriculture will play a pivotal role. However, policy, structures, markets and knowledge are still in their infancy and much is yet to be understood across the market. One can only assume capital and markets are set to make enormous returns for those well placed whilst there is a situation of opaque and reactionary measures made to meet what is going to be a difficult target to achieve.

Supply chain ownership. Continued demand for buyers to own the supply chain with notable transactions such as QUBE buying Kalari Transport, Stevenson Logistics, and Viterra's Narrabri grain terminal. Louis Dreyfus has made a bid for Namoi cotton and CHS Broadbent announced the build of a new export terminal in Victoria. Minerva Foods purchased ALC for $400M and Coles proposed the acquisition of Saputo's milk processing facilities. There is still clearly strong demand to own and operate the supply chain so owners can manage supply, own the integrity of the product, and provide specialised commodity or product solutions to customers.

Returns. Investment returns for Australian Farmland returns dropped to their lowest level in eight years. The 12-month annualised combined income and capital growth index dropped to 2.01%. Income was -1.22% and capital growth was 3.21%. The index is compiled by the Asian Association for Investors in Non-listed Real Estate Vehicles of which several noted investors in Australia provide data. Interestingly the index has averaged 10.42% over the past 5 years.

Artificial Intelligence / Tech has made its mark across Australian agriculture and will continue to change how we operate and make decisions within agriculture at a rapid pace. Decisions on cropping and livestock operations will be influenced by huge productivity gains to be made across the industry. The CSIRO sees AI as "turning data into useful insights" however one can only see the application of AI much more for the ag sector.

Here's to a great safe break and a fantastic 2024 ahead.....

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