

Monthly Meat Matters.

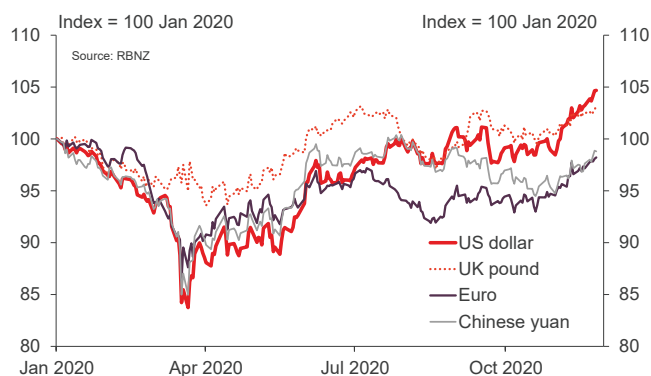
1 December 2020



Dollar dampener.

- The New Zealand dollar jumped over November, cracking US\$0.70 last week.
- The stronger New Zealand dollar is dampening farmgate meat prices.
- Heading into 2021, we expect the New Zealand dollar to push higher, meaning further downward pressure on farmgate prices.

NZ dollar exchange rate vs major countries



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The New Zealand dollar strengthened over November and last week it cracked US\$0.70 for the first time since mid-2018. For the month, the NZD/USD lifted around four cents or 5.8%.

The dollar also picked up against other key currencies over the month. It lifted 3.7% against the euro, 3.6% against the Chinese yuan and 2.5% against the pound.

Of course, the stronger New Zealand dollar is putting downward pressure on farmgate prices, particularly compared to earlier in the year. For example, in March the NZD/USD was as low as US\$0.56, providing a large boost to farmgate prices.

There are several factors pushing the New Zealand dollar higher. Firstly, the likely approval and rollout of Covid vaccines over coming months has boosted financial market sentiment and investors' appetite for riskier currencies like the New Zealand dollar. Secondly, financial markets have begun to factor in a lower probability that the Reserve Bank cuts the Official Cash Rate (OCR). And lastly, currency markets have been factoring in the relatively strong performance of the New Zealand economy into the value of the New Zealand dollar.

Looking ahead, we expect the New Zealand dollar to push higher as these factors continue to play out. We forecast the NZD/USD to lift to 0.74 by mid-2021 or nearly 6% from the level as we go to press. We also expect the New Zealand dollar to rise significantly against the pound, the euro and the Chinese yuan.

If our forecasts prove correct, then the higher New Zealand dollar will put further downward pressure on farmgate prices over 2021. To date we have been relatively positive on the outlook for farmgate meat prices. However, the stronger New Zealand dollar outlook is enough for us to move to a 'glass half empty' view for farmgate prices.



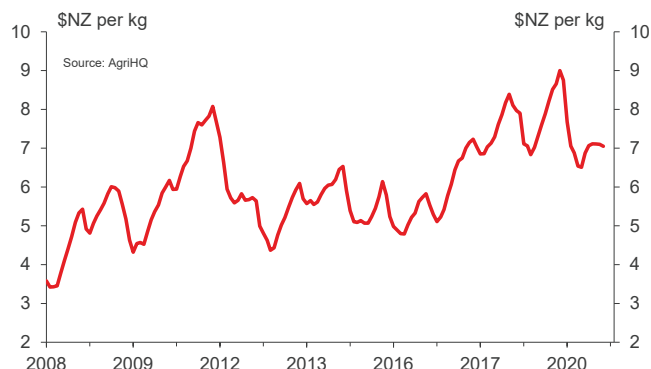
Sector snapshots.

Lamb.

Farmgate lamb prices drifted a little lower over November. For the record, prices fell 0.6% over the month. Interestingly, prices have largely been flat at or around \$7.10/kg for five consecutive months.

Looking over the remainder of the season, we remain cautiously optimistic. Normally, farmgate prices fall around \$1.00/kg from the spring peak to the autumn trough, implying prices of around \$6.10/kg come autumn. We don't think it will quite get that low, as firm Chinese demand is providing a floor for prices and New Zealand and Australian supply remains tight.

Farmgate lamb prices

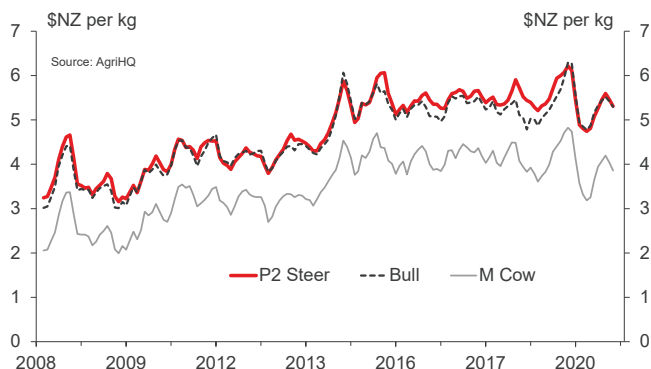


Beef.

Farmgate beef prices dipped for the second consecutive month over November. The falls were moderate, ranging between 2.3% (for M bulls) and 4.5% (M cows).

In contrast to our lamb price view, we continue to take a glass half empty view on beef prices. The recent Covid outbreaks in the US and Europe are likely to translate into weaker beef demand. Meanwhile, supply from the US and Brazil remains firm. All up, we expect prices to remain under pressure, with prime cuts likely to feel the pinch the most.

Farmgate beef prices



Mutton.

Since we last discussed mutton prices back in August, farmgate prices have posted solid gains. Per kg prices have lifted 30 cents or around 6%. And notably, prices have jumped back above the \$5/kg mark, since dipping below \$5/kg back in January.

Of all the meats, we are most bullish on mutton. China is our key market and demand there is strong as the Chinese economy gains speed. Moreover, supply is tight both here and in Australia as both flocks rebuild after drought and/or bushfires. All up, this combination should continue to push prices higher into the new year, although the strong New Zealand dollar may temper the gains.

Farmgate mutton prices



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