

Monthly Meat Matters.

27 August 2020



Go less West.

- Eastern countries are generally managing Covid-19 better than Western ones.
- Importantly, this better Covid management is also translating into relatively stronger economies.
- Stronger Eastern markets like China are likely to help underpin lamb and mutton export demand and, in turn, prices.
- Meanwhile, weaker Western markets like the US and Europe bode less well for export beef and venison demand and prices.

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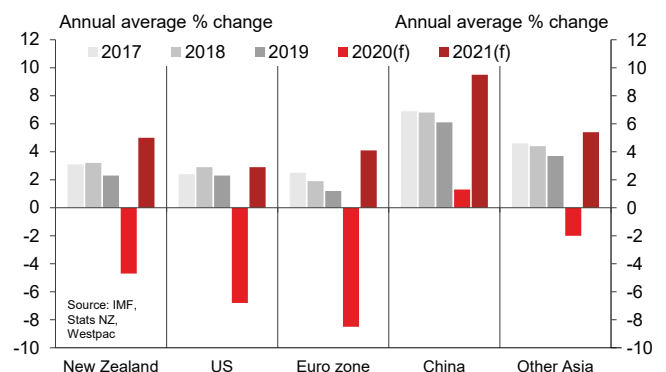
An East-West Covid split...

A stark divergence has opened up across economies in the wake of Covid-19. Countries like China, Taiwan and Japan, which acted early and implemented successful lockdowns, now find their economies on firmer footing. In contrast, those countries that had less stringent lockdowns, like the US and to a lesser degree Europe and the UK, are facing continuing outbreaks and/or lingering weakness in economic conditions.

... is increasingly also an economic split.

The chart below shows that economies in China and the rest of Asia have taken relatively smaller economic hits post-Covid. In fact, we expect that the Chinese economy will continue to grow over 2020, unlike most of the rest of the world. With the virus under more control, Eastern economies are also poised to rebound more strongly over 2021, particularly when compared to the US and European economies.

Global GDP growth



This returning strength in the Chinese economy is flowing through to the parts of the economy that matter for the

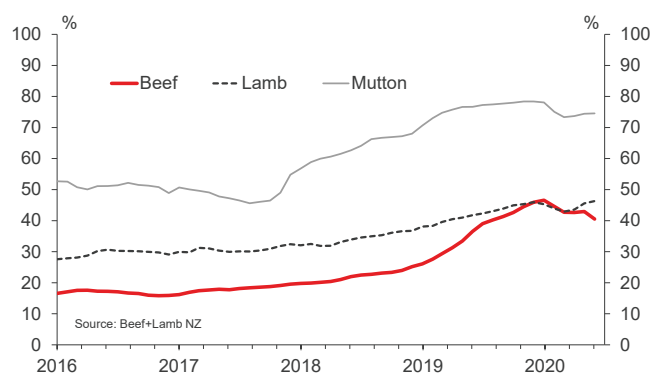


demand of New Zealand exports, including meat. That is, the Chinese consumer is beginning to benefit from better job security, if not outright income growth, compared to early 2020 when the Covid outbreak was at its peak. Similarly, loosening Covid restrictions have allowed consumers to gradually return to restaurants and cafes. Together these shifts are boosting food demand and thus helping to underpin prices, including for (many) New Zealand meat exports.

Boding well for products with a high share of exports to the East...

This returning strength bodes well for lamb and mutton demand as China accounts for a large share of New Zealand's exports. Specifically over the past year, China took nearly three quarters of New Zealand's mutton and over 46% of New Zealand's lamb. On the flipside, the US accounts for very little of New Zealand's sheepmeat exports, with a little over 6% of our lamb and an even smaller share of our mutton exported to the US over the last 12 months. Accordingly, we expect Chinese demand to help underpin mutton and lamb prices over the rest of 2020 and into 2021.

Share of exports to China



... and less well for products with a high share going to the West.

The news is less rosy for beef and venison exports. For beef, the US accounts for over a third (37.3% or only marginally less than China's 40.5%) of New Zealand's exports, with a high proportion of manufacturing beef going to the US. Meanwhile, the EU and the US account for over 70% of New Zealand's venison exports. As a result, we expect venison and beef prices to be on relatively less stable footing over the remainder of 2020 and into 2021.

All up and given China and broader Asia's importance as meat export markets, we expect the relative strength in demand from these economies to underpin overall New Zealand meat export prices. Of course there are other factors in play aside from Covid (and we explore the broader suite of factors in the *Sector snapshots* over the page). Generally, these factors are limiting any push higher from around current levels. In other words, while we expect overall meat prices to remain at or above historical averages over coming months, prices are still likely to sit well back from the record levels we saw a year ago.

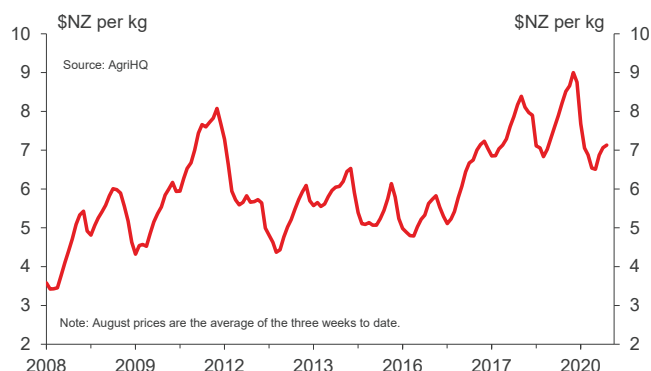
Sector snapshots.

Lamb.

After a crazy ride over the first half of the year, lamb prices have stabilised and then lifted over recent months. Prices are up around 10% since the low back in May, helped higher by improving Chinese demand as well as slowing slaughter and an easing in processing constraints. However, prices remain well down (13%) from the record levels a year ago.

Looking ahead, we expect a fairly subdued spring. Normally, lamb prices lift about \$1.50/kg from the autumn low to the spring peak. However, with spring peak prices driven by demand from Europe, the UK and the US where demand is currently weak, we expect only about half the normal price lift this spring. That equates to a spring price peak in the ballpark of \$7.25/kg. All things considered though, that would still represent healthy returns on a historical basis.

Farmgate lamb prices

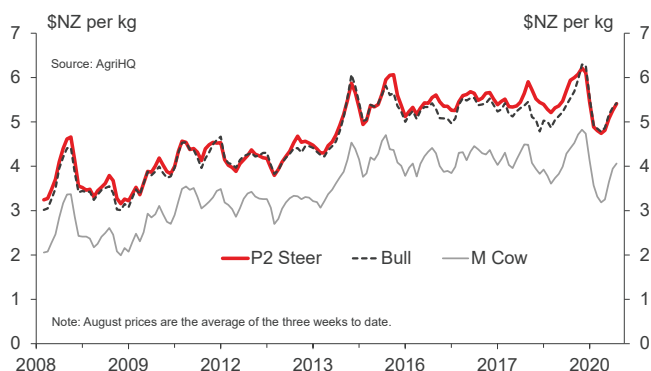


Beef.

Beef prices have staged a sooner and more robust recovery from their Covid lows. Steer and bull prices have lifted 14% and 13% respectively from their April lows. While improving (Chinese) demand has helped, supply disruptions, notably in the US and more recently in Australia, explain much of the price improvement.

On the beef price outlook, however, we remain cautious. As noted in the discussion above, we expect US demand to remain weak. Moreover, we expect global supply to firm over coming months and for some of the supply that was held up over previous months to eventually come to market. All up, we expect farmgate beef prices to sit at or below long-run average levels over the remainder of 2020.

Farmgate beef prices

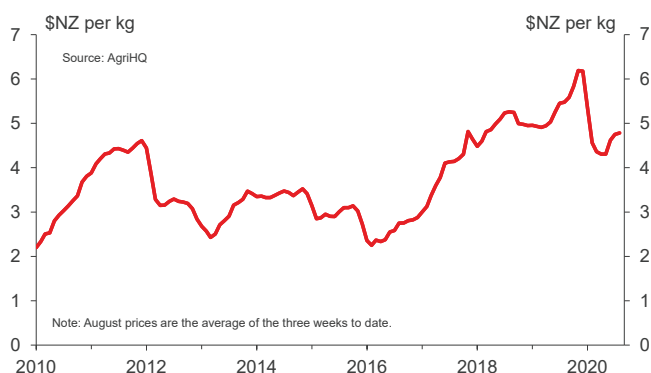


Mutton.

Similar to beef and lamb above, mutton prices have recovered some lost ground of late. Prices have lifted 11% from the April-May lows.

We are bullish on the mutton price outlook for the new season. On the demand side, China's market dominance and improving economy bodes well for further price support. Meanwhile, supply will remain tight both locally and from across the ditch as both countries restock after droughts and bushfires, respectively. And with an absence of competing supply, we expect good returns this season, with prices topping out in 2020 at or around the \$5.50/kg mark.

Farmgate mutton prices



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