

Monthly Meat Matters.

9 July 2020



Meat in the sandwich.

- So far over 2020, the meat sector has been sandwiched between drought on one side and COVID on the other.
- The net effect of these pressures has been a steep fall in farmgate prices and lower profits.
- Importantly, though, the meat sector maintained profitability through the lockdown.
- While the global recession and pandemic are casting a dark shadow over the outlook, we believe the sector is relatively well-placed to meet medium-term challenges.

Nathan Penny, Senior Agri Economist

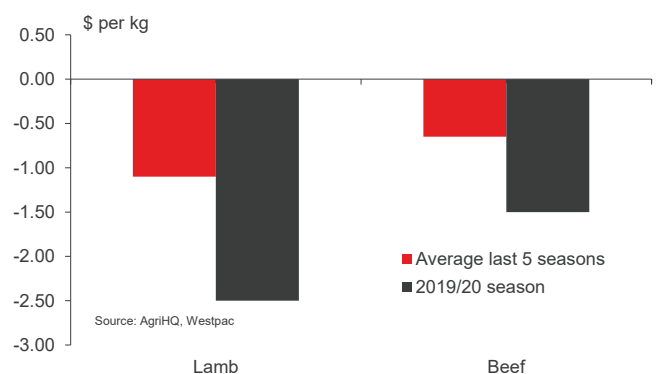
+64 9 348 9114

Welcome to the inaugural edition of Monthly Meat Matters. Each month we'll feature a topical development in the industry and follow that with three sector snapshots. The snapshots will cover lamb and beef price developments every month and one more sector. This month, we are taking a look at Venison prices, but in future months we will include commentary on mutton and wool prices (noting that wool isn't strictly a meat, but obviously it's the key associated product of the sector).

The proverbial 'meat in the sandwich'.

So far in 2020, the meat sector has been sandwiched between the drought on one side and COVID on the other. Throw in the peak sheep slaughter and the pressure on meat processing capacity over autumn became extreme.

Spring-peak to autumn-low price falls



While processing capacity pressures have, for the most part, eased, the damage has been done. Farmgate meat prices posted steep falls of between 20 and 30 percent at one stage this year. And to give you a sense of the steepness of the price falls, per kg lamb prices normally fall around \$1.10/kg from the spring price peak to the summer low. This season prices fell



around \$2.50/kg or over double the normal fall. It was a similar picture for beef prices (using P2 steer), with the fall of around \$1.50/kg, also more than double the normal \$0.65/kg fall.

The other upshot has been increased costs for farmers as they have held onto stock for longer than they would have otherwise. These additional costs and the steeper than normal farmgate price falls have combined to lower profits.

A saving grace for the meat sector has been that it was in a strong position prior to the drought and virus outbreak. Both beef and lamb prices sat at or near record prices at the end of 2019. Moreover, mutton prices were at levels normally reserved for lamb. The strong first half incomes offset the lower second half incomes, so that farmers were generally profitable for the season as a whole.

Price outlook is mixed...

More recently though, these combined pressures have eased. We've had rain in most places and the move to Level 1 has helped to increase meat processing capacity. Lockdown restrictions have also eased in key markets, improving meat demand, particularly from restaurants and the like.

As a result, farmgate meat prices have stabilised and begun to tick higher. On a monthly average basis, farmgate meat prices have recouped between 6% and 8% of their recent declines.

...with the global recession balanced by ongoing supply disruptions.

While this uptick has further to run, the medium-term outlook for meat prices is more mixed, with the impact of the global recession balanced by supply disruptions such as the ongoing impact of African Swine Fever.

We expect beef prices will come under relatively more pressure than lamb prices. We expect US beef production will eventually recover as meat plant capacity returns, putting downward pressure on manufactured beef prices in this key market. As for lamb, New Zealand and Australian lamb supply remains constrained on the long-established trend of falling sheep numbers, and on this basis, we expect lamb prices to remain relatively firm.

We also expect premium products to struggle more than more standard products as global households tighten their belts through the global recession. Those premium products may include meats like venison, prime beef or lamb cuts and finer wools too.

All up, the sector is relatively well-placed to meet medium-term challenges.

The meat sector has proved relatively resilient to date and by and large the sector remains profitable. Indeed, June lamb prices sat comfortably (13%) above the average of the past five Junes, while beef prices (P2 steer) were only 4% below on the same basis. And while the global recession and COVID pandemic are casting a dark shadow over the outlook, we believe the sector is relatively well-placed to weather the coming storms over the medium term.

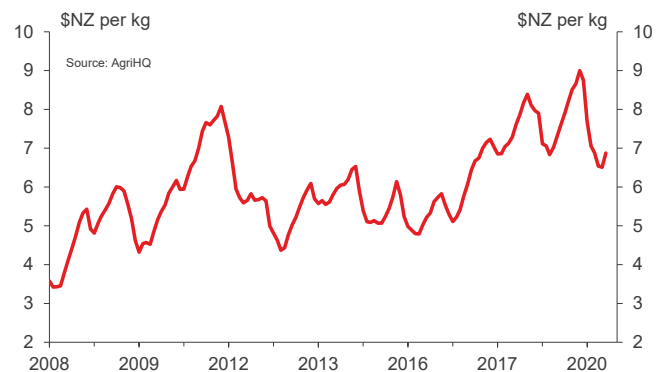
Sector snapshots.

Lamb.

From record highs in 2019 to a record seasonal price fall, lamb prices have been on quite the rollercoaster ride over 2020. From December 2019 through May, per kg prices fell over a quarter, while the drop from the spring peak to autumn low was a massive \$2.50/kg. More recently, though, lamb prices have begun to rebound, with prices up 6% over June.

Looking to the spring, we expect relatively healthy prices, albeit well down on last spring's record \$9.00/kg high. Over the next two or three months, easing lockdown restrictions globally are likely to translate into improving demand and further moderate lifts in lamb prices. However, we expect prices will not kick on from there over the spring as the global recession weighs on incomes and household demand, particularly in Europe and the US.

Lamb farmgate prices

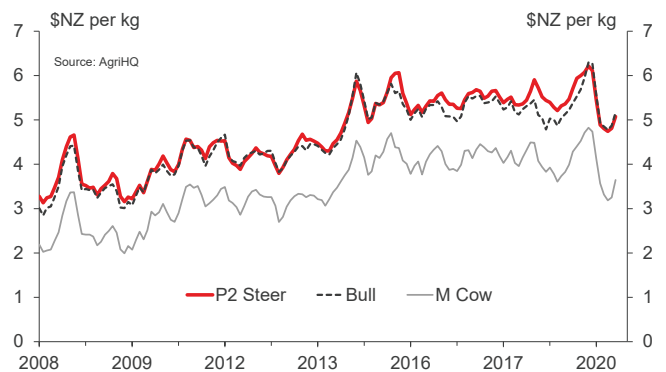


Beef.

Beef prices have ridden the same rollercoaster ride over the past year. Steer and bull prices fell by 22% and 24% through April, respectively, while the spring peak to autumn low was by beef standards a massive \$1.50/kg. Meanwhile, the beef price rebound kicked in a little earlier than lamb's, with steer and bull prices up 7% and 8%, respectively, over May and June.

On the beef price outlook, however, we are relatively circumspect. As noted above, we expect US beef production will recover as meat plant capacity returns, putting downward pressure on manufactured beef prices in this key market. Also, with prime beef cuts heavily reliant on the restaurant trade and the global economy in recession, we expect these prices to remain subdued. All up, we expect farmgate beef prices to sit at or below average levels over the spring.

Beef farmgate prices

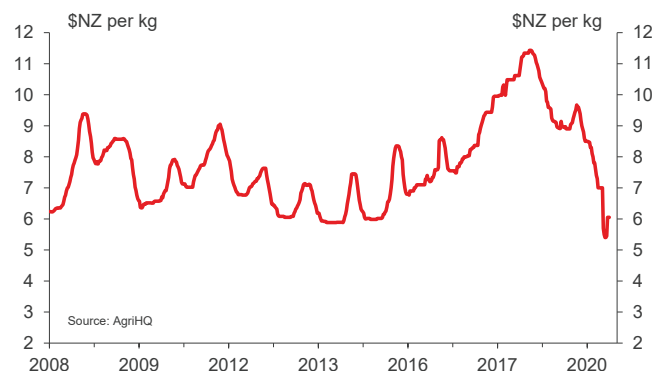


Venison.

Venison prices have been hard hit over 2020. From a relatively healthy \$8.50/kg, stag prices have fallen 29% to \$6.05/kg. Indeed, the golden period for venison – prices hit \$11.43/kg in October 2018 – is now well and truly over.

The short-term outlook offers some respite. The key German market has managed the pandemic relatively well to date, and as lockdown restrictions there subsequently ease, demand should improve and prices too. However, in the medium term, we expect the global recession will weigh on household incomes, and as households tighten their belts, demand for premium products like venison is likely to soften once again. As a result, we expect venison will post below average prices this spring.

Venison prices



Contact the Westpac economics team.

Dominick Stephens, Chief Economist

+64 9 336 5671

Michael Gordon, Senior Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Paul Clark, Industry Economist

+64 9 336 5656

Any questions email:

economics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Disclaimer.

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QF Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed,

directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts of interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.