

Monthly Meat Matters.

30 September 2020



Wool wears it.

- Wool prices have dived over September.
- Wool has been on the wrong end of Covid trends.
- With these trends likely to be in play for some time, we expect wool prices will remain weak well into 2021.

Nathan Penny, Senior Agri Economist

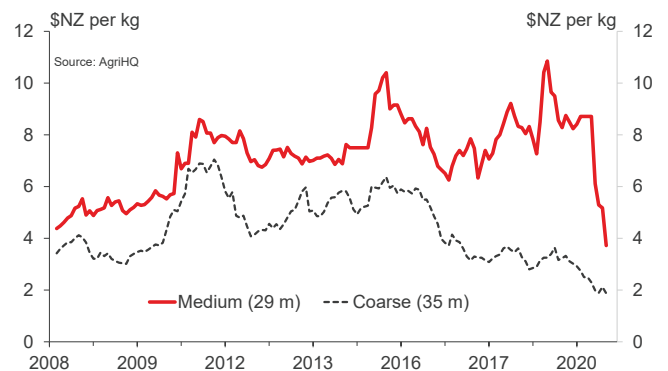
+64 9 348 9114

Wool prices have dived over September.

In this edition of Monthly Meat Matters we venture outside the realm of meat and into wool markets.

While global meat markets have been relatively stable recently, the global wool market has been under immense pressure. Since February (prior to Covid), wool prices have dived. Mid-micron prices have been the worst hit, plunging from over \$8.00/kg to below \$4.00/kg. But no wool types have escaped. Even normally resilient fine wool (18m) prices have plummeted over 33%, and the remaining wool types have fallen by between a third and a half over this period.

Farmgate wool (clean) prices



Wool has been on the wrong end of Covid trends.

So what's driven the falls? Well, wool has been on the wrong side of the very factors that have underpinned meat prices.

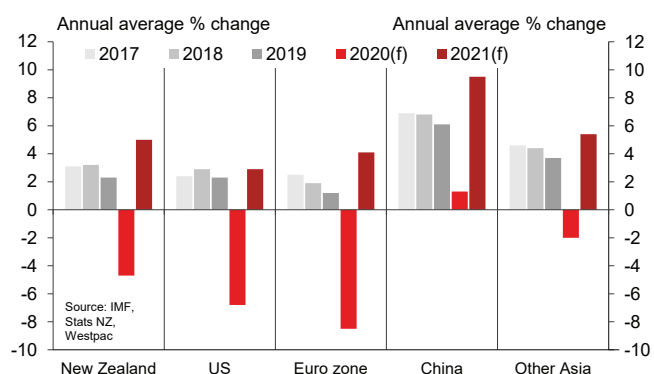
First off and to state the obvious, wool is not food. By and large New Zealand's food export volumes and prices have proved resilient this year post-Covid. Essentially, people are still eating and while their incomes may have taken a hit their basic food demand has been relatively unchanged.



Secondly, some wool types are often premium products. Indeed, with the world economy in recession, consumers have cut back on luxury goods. To give an example, with household incomes squeezed, consumers in some cases may have traded down from say a merino jersey to a cheaper (perhaps synthetic) alternative.

Medium and fine wools also depend heavily on the struggling European and US apparel market. Those economies have been hit harder by Covid compared to some other markets like China and the rest of Asia (see chart). Note while wool is often exported to China, it is then manufactured into apparel and re-exported to the US and Europe. Thus, it's the final demand in those markets that ultimately matters for wool markets and prices.

Global GDP growth



Lastly, the price of synthetic wool substitutes has fallen in line with lower oil prices this year. This has put a further squeeze on wool demand and prices as manufacturers have been incentivised to switch production out of wool and into these alternatives.

We expect wool prices will remain weak.

With these factors likely to persist, we expect wool prices to remain weak well into 2021. All up, this points to tough times ahead for New Zealand wool producers.

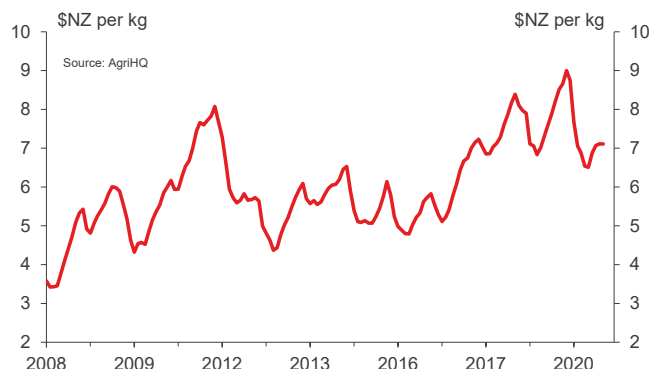
Sector snapshots.

Lamb.

No news has been good news for lamb markets. The lack of developments has led to farmgate lamb prices remaining stable over September. AgriHQ reports that the EU and the UK have bought good volumes for the Christmas trade, although this appears to have kept prices at current levels rather than pushing prices higher.

In the last edition of Monthly Meat Matters, we signalled that spring lamb prices may peak at or around \$7.25/kg. With the above in mind, so far this view appears close to the money. Also, as we stated last month and with all things Covid considered, that would represent a healthy return on a historical basis.

Farmgate lamb prices

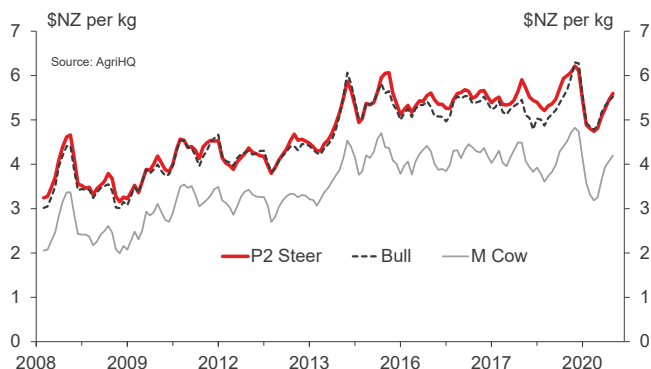


Beef.

Farmgate beef prices have continued to grind higher. Over September, prices rose by between 1.5% and 3%, building on similar gains over August. Moreover, prices are comfortably back above pre Covid levels.

Digging into the detail shows that prime beef is struggling a little. This fact is most obvious in the lack of a price premium for steers relative to bulls. With this in mind, we are changing our view slightly. That is, with global demand weaker for premium products, we expect prime beef prices to remain at or below average over the coming season. Meanwhile, we expect cheaper cuts to prove more resilient, with bull and cow farmgate prices remaining near average for the season ahead.

Farmgate beef prices

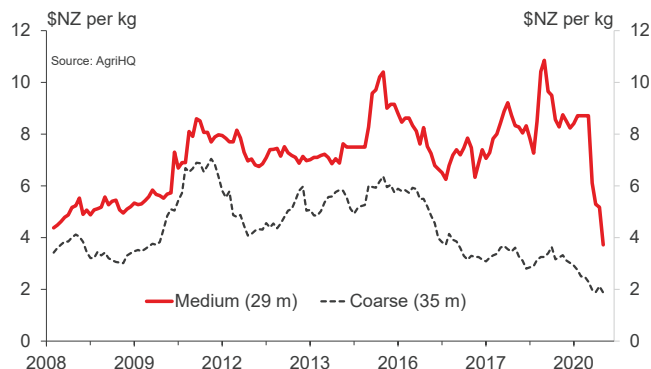


Wool.

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With the factors weighing on wool markets likely to persist, we expect wool prices to remain weak well into 2021. All up, this points to tough times ahead for New Zealand wool producers. *See full discussion in main section above.*

Farmgate wool (clean) 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

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