

Monthly Meat Matters.

1 April 2021



Trouble on the high seas.

- While the stranding of the Ever Given has grabbed headlines recently, the snarl up in global supply chains is a much bigger issue.
- The snarl up has led to a spike in shipping costs and constraints on shipping capacity.
- In the short term, we expect these issues to continue. However, the Covid vaccine rollout will allow global supply chains to start normalising from the second half of 2021.

Nathan Penny, Senior Agri Economist

+64 9 348 9114

The blocking of the Suez Canal, one of the busiest waterways on earth, by the stranded Ever Given, one of the largest ships in the world, captured more than a few people's imaginations. However, while this event grabbed headlines, the broader snarl up in global supply chains, with spiking shipping costs and incredibly strained capacity, is ongoing and a much bigger issue. Indeed, rising shipping costs impacts all exporter returns. And while tight shipping capacity may not impact frozen meat exports unduly, it may constrain meat exporters' flexibility in moving more perishable items like chilled meat.

So why the snarl up?

Well it all goes back to Covid and the almost perfect shipping storm it has created as outlined below:

- Firstly, people being stuck at home during lockdowns has seen an unprecedented reshaping of spending patterns away from services and into goods. Think things like gym equipment, home office furniture, breadmakers and Xboxes. All these goods have had to be shipped on top of the usual volume of goods that are shipped globally.
- Covid has also laid low port workers as they have been sick or at home caring for someone that is. That has meant that ports have been operating at reduced capacity for a prolonged period.
- Meanwhile, the rebound in the Chinese economy from the middle of 2020 was surprisingly rapid and large. As the Chinese economy has surged so too has demand for imports, in turn leading to a similar surge in demand for shipping capacity.
- Supply chains have also had to readjust. Some producers struck down by Covid have been unable to fill orders. This has sent buyers looking for alternatives often from different markets. These changes have also flowed through to



supply chains as the alternatives have sometimes required different shipping routes and/or supply channels.

- Finally, in the early stages of Covid medical supplies were shipped to all corners of the globe, but as demand surged for household goods, shipping containers were stranded in places where they weren't needed.

So how does this resolve and when?

Ultimately, it all boils down to the Covid vaccine. On the vaccine front, the rollouts in the US and UK, for example, are on track, if not exceeding targets. The good vaccine news in the US is key as the US-China trade route is particularly important for global shipping, and freeing up this route will help alleviate bottlenecks globally.

As more people are vaccinated port workers will return to work, helping ports get back to full capacity. People will also gradually start to go back to the pub, the movies and going on holiday. This will see an unwinding in the unprecedented demand for household goods and thus lighten the load on global shipping.

In terms of timing, our estimate is that these issues will normalise over the second half of 2021. In other words, some more short-term pain in order to see longer term gain.

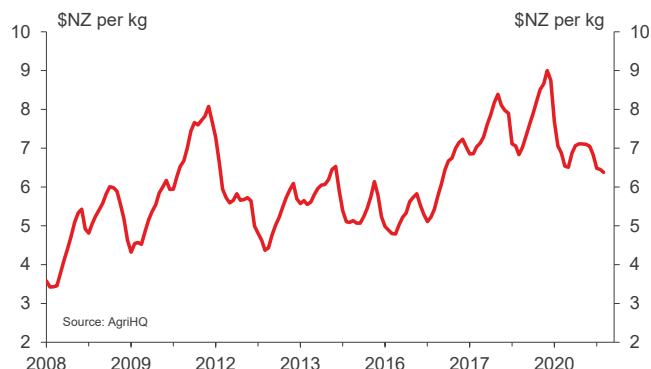
Sector snapshots.

Lamb.

Farmgate prices are showing signs of stabilisation. After falling 25 cents per kg in January, prices fell a more modest 10 cents over February and March. Moreover, and looking at March specifically, weekly prices actually rose over the month.

While we wouldn't rule out further modest price falls over April and May, we anticipate that firming global demand will drive prices higher over the remainder of the year. Recall that as the vaccine is rolled out globally, consumers are likely to return to restaurants and thus again begin eating more prime lamb cuts. On the vaccine front, the rollout is progressing very well in the US and the UK, with Europe lagging a little. But all up, this points to light at the end of the tunnel for farmgate lamb prices.

Farmgate lamb prices

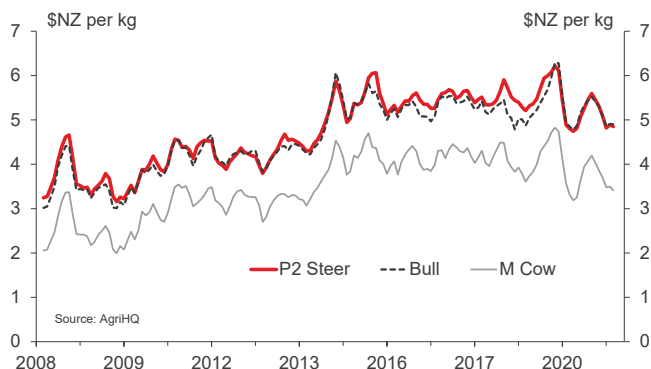


Beef.

Farmgate beef prices dipped a touch over March. Putting the month-to-month movement aside, prices over the year so far have been relatively stable.

From this base, we expect prices to lift over 2021. In the key US market, the vaccine rollout is going well, and this should boost the economy and in turn meat demand. Meanwhile, the Chinese economy remains strong, further underpinning beef demand. On the supply side, grain (feed) prices are high which will keep a lid on global beef supply. Also, more recently the New Zealand dollar has fallen, so this may support farmgate prices, at least in the short term.

Farmgate beef prices



Mutton.

Mutton remains the meat star. Farmgate mutton prices stayed above \$5.00/kg over March. The month's prices also sit around 16% higher than March 2020.

Over the remainder of 2021, we expect mutton prices to edge higher. The Chinese economy has a head of steam up, so Chinese meat demand will continue to rise. Also, there are fresh anecdotes that African Swine Fever has once again reared its head, meaning buyers may be back looking for pork alternatives. However, there is a limit to the upside for mutton prices. That is, buoyant consumers may increasingly look to more prime meats like beef and lamb instead of mutton over the year.

Farmgate mutton prices



Contact the Westpac economics team.

Michael Gordon, Acting Chief 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.

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.