

WESTPAC MONTHLY MEAT MATTERS

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From tricky patch to purple patch.

- The very tricky patch is set to continue in the short term as farmers and meat processors navigate the Omicron outbreak, poor local growing conditions in some areas and surging on-farm costs.
- However, once the Omicron outbreak eases over coming months and as meat processing capacity rebounds back closer to normal, we expect a purple patch for farmgate meat prices to emerge.
- Beef and mutton prices are to set to crack \$7.00/kg, while we expect lamb prices to surpass \$10.00/kg for the first time on record.

From tricky patch...

The very tricky patch for sheep and beef farmers is set to continue in the short term. At its heart is Covid and the Omicron outbreak. The outbreak has spread across the country, but in the agriculture sector it has been felt most acutely in meat processing plants.

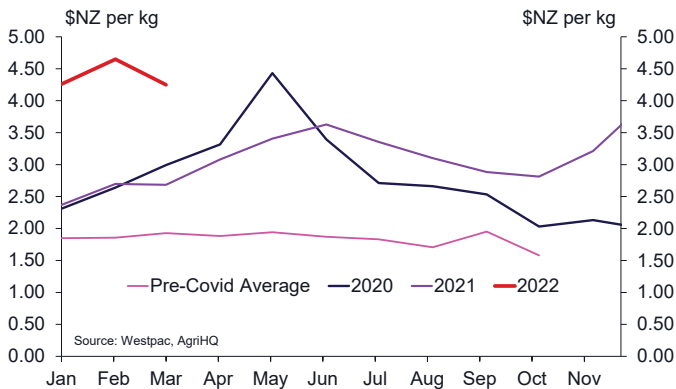
The upshot has been meat plants operating at very low operating capacity and in turn delays in processing. Some plants are operating at as low as 40% capacity. As a result, processing delays in some cases have blown out to up to around 8 weeks. Moreover, some bookings are being cancelled at the last minute as plants don't know how many workers are going to be available day to day.

For many farmers, these delays and cancellations have become a real juggling act. Holding stock for longer than normal for farmers is particularly tricky as feed becomes scarcer as winter approaches. And this inevitably has led to higher costs and some cashflow pressures. This juggling act has been compounded by drought in some areas, a general lack of both (imported) feed and labour, and the widespread surge in costs.

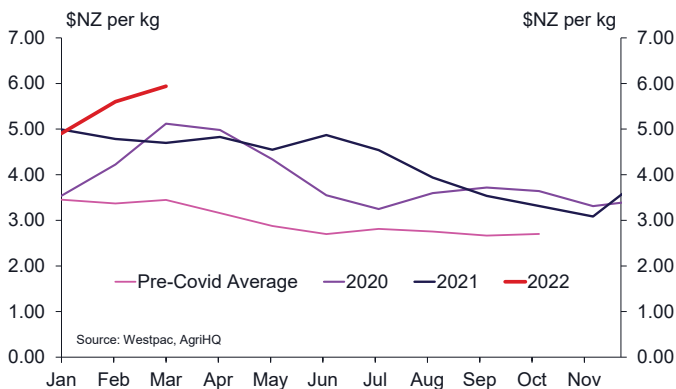
Notably, meat processing margins have reflected the impact of the Omicron outbreak. Bull beef processing margins, for example, shot up by over \$2.00/kg at one stage compared to the same time last year. This chiefly reflects the lost efficiencies or higher costs of operating plants at reduced capacity. It is a similar story, albeit at a smaller magnitude, for lamb processing margins.

Processing margins were already much higher than normal over 2020 and 2021 mainly due to things like very high shipping costs and other increases in costs. And there's probably an element of increased profits too as processors haven't necessarily passed on all of the lift in export prices.

Processing margins – bull beef



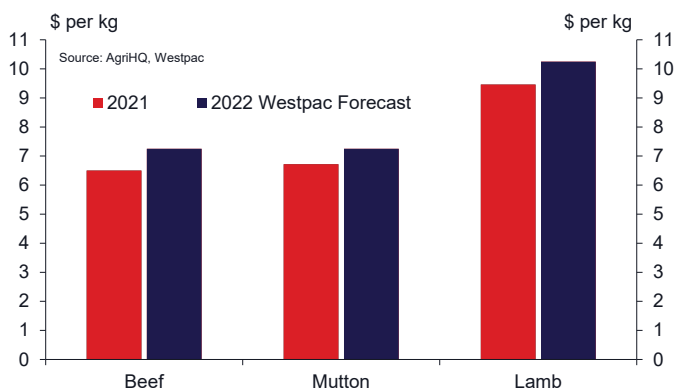
Processing margins – lamb



... to purple patch

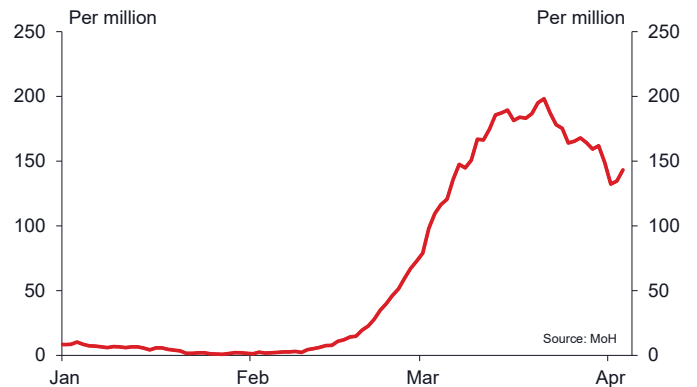
Once the Omicron outbreak eases over coming months and as meat processing capacity rebounds back closer to normal, we expect a purple patch for farmgate meat prices to emerge. Specifically, we expect beef and mutton prices will crack \$7.00/kg, while we expect lamb prices to surpass \$10.00/kg for the first time on record.

Farmgate beef, lamb and mutton forecasts – season peak



Already, we are past the Omicron peak. And as the outbreak eases further and fewer workers are sick or isolating, we expect meat processing capacity to return. Accordingly, with more capacity, processors will be prepared to pay more to procure stock. As this happens processing margins will fall closer to the range that prevailed over 2020 and 2021. All up, we estimate that this development could add around \$1.00/kg to both current farmgate beef and lamb prices over coming months.

Covid hospitalisations per capita

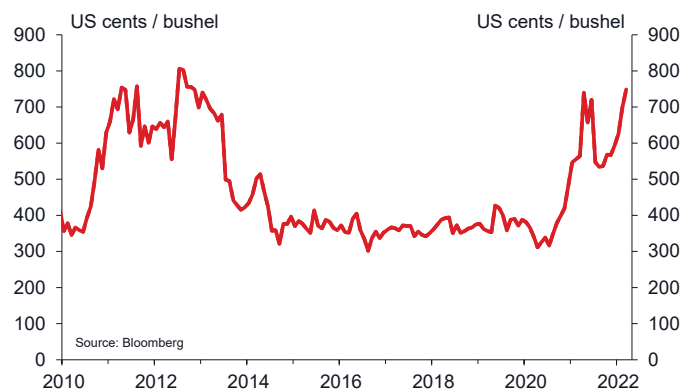


Meanwhile, global supply factors continue to underpin both global meat prices and our view that a purple patch for farmgate prices lies ahead. These factors include the ongoing fallout from Covid, poor weather in key grain-growing regions and more recently the Ukraine-Russia conflict.

Indeed, the squeeze is on global meat producers. In the US, for example, corn prices have spiked to ten-year highs. In some cases, the increase in feed and other prices means that some US beef producers are operating at a loss.

In the short term, this dynamic may suppress global beef prices as some farmers increase the slaughter of breeding stock to both reduce costs and to generate cashflow. But in the medium term, and with less breeding stock, US beef production will fall and in turn less production will push global beef prices higher. As most global meat producers rely on grains, this dynamic is likely to be similar in most meat exporting regions.

Corn prices

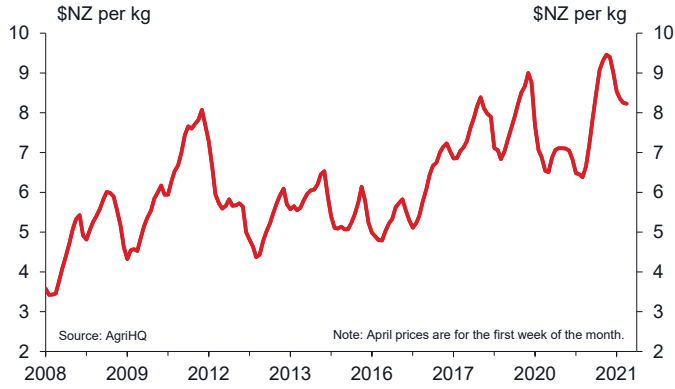


There are some risks to the farmgate meat price outlook, however. The Covid outbreak in major Chinese cities, including Shanghai, is likely to dampen meat demand in the short term, particularly for cuts that are destined for food service outlets

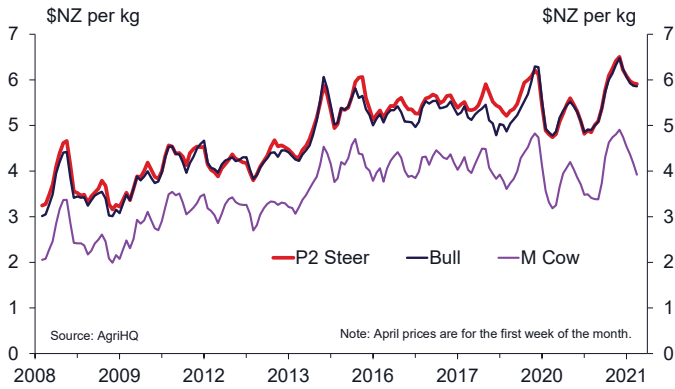
like restaurants. In addition, if the New Zealand dollar lifts by more than we anticipate, then farmgate meat prices may not reach the highs we expect. Lastly, we expect the pressure on farm input prices to continue well into next season.

Meat unpacked.

Farmgate lamb prices



Farmgate beef prices



Farmgate mutton prices



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