



LIVESTOCK INSIGHT

Key Points

Not looking good for manufacturing beef

US beef market deteriorating

Old season's lambs face price downside

Lamb continues to lose favour for UK consumers

↓ M2 BULL
\$/KG
5.25

↓ P2 STEER
\$/KG
5.80

↓ LOCAL TRADE
\$/KG
5.90

↓ LAMB
\$/KG
8.40

↓ NZD:USD
0.66

Lack of supply a key driver of confidence for lamb



Rachel Agnew

Despite the negative price signals coming from meat companies, there is actually quite good confidence in the global lamb market. While the market may have eased slightly for some items, overall it has not been significant and has not been the driver in the drop in farmgate prices. This is more of a case of processors getting procurement back in line. The recent lift in killable lamb supplies has enabled this to happen faster than expected.

There are two key drivers of the confidence in the market. Firstly, dry conditions in Australia continue to severely restrict lamb production; eliminating any competitive pressure. Secondly, demand from China continues to be robust. Product is moving well, with no sign of inventories building.

Export price downside maybe inevitable when supplies start to increase from NZ, but it will be far from being a sharp correction, as some have been concerned about, given the current price level.

Feed getting a bit tight for some

Spring has delivered another cold snap this week. Temperatures have fallen and some central areas experienced snow fall, that has not been great for lambing.

Feed is tight enough for central and northern regions, who believe it or not, could do with a light shower of rain, as well as some heat. The east coast is in a better condition feed wise, as is Manawatu, where reports suggest grass is bolting.

The growth will come to all eventually, and that will leave some farmers forced to make decisions on store cattle they have been trying to avoid given the current prices. It may be that the downside that has started to appear in schedule prices will be reflected in the store market, however as often happens in spring, a grass market can prove to have a mind of its own.

Slaughter prices for all species are on the downwards slope this week.

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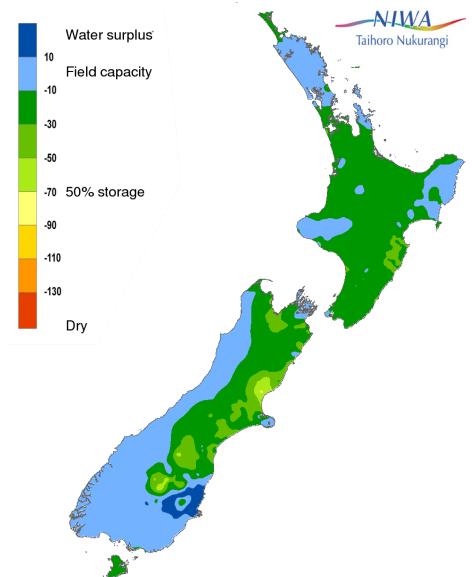
We have an open mind on location and whether this is a full or part time role.

WEATHER & CURRENCY

Weather	Rainfall (MM)			Soil Temp		
	TW	LM	LM vs ave	TW	LM	Trend
Northland	24	80	Low	13.6	12.7	Up
Waikato	16	56	V.Low	13.3	12.3	Up
Bay Of Plenty	7	66	V.Low	12.1	10.7	Up
King Country	19	60	V.Low	13.4	12.2	Up
Taranaki	16	67	V.Low	10.5	9.7	Up
Gisb./Wairoa	4	188	V.High	13.4	11.9	Up
Hawke's Bay	3	115	High	12.4	11.2	Up
Mana./Wang.	16	50	Ave	12.5	11.2	Up
Wairarapa	10	69	Ave	10.1	9.4	Up

Currency	Change	TW	LW	LM	LY
NZD:USD	-1.3%	0.661	0.669	0.664	0.721
NZD:GBP	+0.1%	0.505	0.504	0.510	0.538
NZD:EURO	-0.2%	0.567	0.568	0.569	0.612
NZD:AUD	-0.2%	0.916	0.918	0.916	0.920

Soil moisture deficit (mm) at 9am on 27/09/2018



▶ CATTLE

Not looking good for manufacturing beef

Things are not looking too flash for manufacturing beef prices. Printed schedules have started to show decent chunks of money being taken out, signalling processors lack of appetite for continuing to absorb the losses of a rapidly declining US market.

Supply may not be large, particularly of bulls, however, it is only a matter of weeks before numbers start to lift. Processors will be aiming to get operating prices to a level that does not see them incurring huge losses from the outset. There is, of course, the odd processor who is still willing to pay above the odds to secure scarce

supply, despite a lack of margin - such is the nature of the procurement model.

This week \$5.30-\$5.40/kg is a more common operating range for bull, compared to \$5.40-\$5.50/kg last week.

Operating prices for both export and local trade steers and heifers have held their own price wise this week but also have a softer feel to them from next week. Sufficient numbers of prime are coming forward, enough for processors to relax their competitive stance a little.

\$5.80-\$6.00/kg is still achievable in these markets, however, the days of \$6/kg (not including Angus premiums) may be numbered.

US beef market fundamentals deteriorating rapidly

Reports coming out of the US beef market seem to be getting more negative each week. Imported prices continue to decline and importers are showing absolutely no appetite for imported product in the near term.

Not only has beef production been tracking consistently above historical averages for quite some time, but inventories are rapidly accumulating.

Beef coldstore stocks at the end of August were up 5.6% on last year and 14.4% on the five year average. Some of this may be attributed to beef moving through the export channel, but with imports down on last year, the overall implication is that supply is well exceeding demand.

The number of cattle being placed on feedlots in the US also continues to break records every month. August placements were up 6% on July, and were the highest August placements since 2011; 7% up on last year.

It is not only beef inventories that are growing either. Chicken appears to be clogging up the cold stores with inventories up 18% on last year and close to 30% up on the five-year average. Pork inventories are not too far away from historical levels, however pork production is expected to hit record highs this year.

It is going to be difficult for such large volumes of protein to be absorbed without some adverse impact to price. We have previously discussed the weaker outlook for imported beef prices for the remainder of 2018. Analysts do note, that the growing spread and risk of African Swine Flu could impact pork demand and supply, and result in increased demand for beef. However, any potential benefits are likely to be more long term. It would take a substantial shift in demand to provide some balance to the current situation of oversupply.

Store cattle activity not rushing anyone off their feet

It would be a push to say that demand for store cattle is keeping agents rushed off their feet. While there are some areas that are busy enough, typically Hawke's Bay and Wairarapa, the market in general is in a bit of a no-mans land. Prices are high enough, particularly given the negative signals around spring schedules, and there are also some regions that are on top of feed just now.

Yearling Friesian bulls are beginning to trade in bigger volumes. There are more coming up from the South Island as time and/or price, appears to have lessened the concern around Mycoplasma bovis. Heavier types at 350kg are making around the \$3/kg mark in the paddock. While \$3.60/kg was the level at Feilding last week for

225-260kg Friesian bulls, the money in the paddock is not quite at this level, with \$3.30-\$3.40/kg more common. \$3.10-\$3.15/kg was the money in the saleyards for 300kg types this week.

2 year Friesian bulls made \$3.26/kg at Stortford for 425-445kg. The money is more like \$3.10/kg in the paddock for this weight. This market may get the jitters if bull schedules start falling steadily from here.

There are plenty of yearling steers on the market, particularly beef-Friesian types. Prices can be variable with \$3.25-\$3.50/kg the range for 265-300kg types in the paddock and saleyards this week. Traditionals in this weight range are more like \$3.70-\$3.90/kg in the paddock. 300-330kg Angus steers were \$3.90-\$4.00/kg at Feilding.



90% \$3.26/kg +14%

% of market return on bull paid as operating price

425-445kg 2 year Friesian bulls at Stortford

US beef coldstore stocks up on 5 yr average

M2 BULL SCHEDULE \$/KG
5.25

P2 STEER SCHEDULE \$/KG
5.80

US 95CL BULL US\$/LB
1.92

Slaughter cattle prices

\$/kg		+/-	NW	TW	Range	LM	LY
M2 Bull	300kg	-15	5.25	5.40	5.30 - 5.50	5.50	5.50
P2 Steer	300kg	-10	5.80	5.90	5.75 - 6.00	5.90	5.70
P2 Cow	230kg	-15	4.20	4.35	4.30 - 4.50	4.60	4.30
M Cow	200kg	-15	4.20	4.35	4.30 - 4.50	4.60	4.30
Local Trade	230kg	-10	5.90	6.00	5.80 - 6.10	5.95	5.90

Slaughter values are gross operating prices in the NI including premiums

Store cattle prices

\$/kg		+/-	NW	TW	Range	LM	LY
R1 Fr Bull	300kg	n/c	3.10	3.10	3.00 - 3.25	3.30	3.15
	250kg	n/c	3.35	3.35	3.10 - 3.45	3.35	3.40
R1 Steer	300kg	n/c	3.95	3.95	3.80 - 4.00	3.95	3.65
	250kg	n/c	4.05	4.05	3.90 - 4.10	4.05	3.80
R1 Heifer	280kg	n/c	3.25	3.25	3.20 - 3.40	3.50	3.50
	250kg	n/c	3.40	3.40	3.30 - 3.50	3.60	3.60
R2 Fr Bull	500kg	n/c	3.05	3.05	3.00 - 3.15	3.00	3.00
	450kg	n/c	3.10	3.10	2.90 - 3.15	3.05	3.10
R2 Steer	500kg	n/c	3.20	3.20	3.00 - 3.30	3.20	3.10
	450kg	n/c	3.25	3.25	3.00 - 3.30	3.25	3.20
R2 Heifer	450kg	n/c	2.90	2.90	2.85 - 3.00	2.95	3.00
	380kg	n/c	3.00	3.00	2.90 - 3.10	3.00	3.05

Store values are average gross on-farm prices available on a line

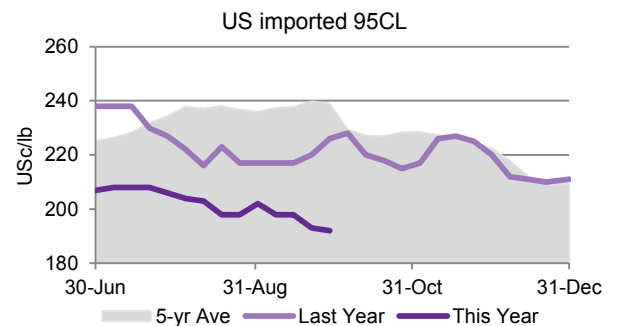
Beef export demand and procurement indicators

	+/-	TW	LW	LY	LM	LY	5yr-ave
US 90CL \$/lb	-1	1.82	1.83	2.06	-4%	-12%	-17%
US Dom Cow	-6	1.94	2.00	2.20	-8%	-12%	-18%
US 95CL \$/lb	-1	1.92	1.93	2.26	-5%	-15%	-19%
NZ\$/kg	+5	6.41	6.36	6.91	-5%	-7%	-10%
Margin CIF-FOP	+15	1.01	0.86	1.41	-20	-40	-92

Procurement Indicator - Schedule as % of US 95CL price

% Returned	+3	89.3%	86.5%	79.6%	+7	+10	+15
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NW= Next week, TW = This week, LW = Last week, LY = Last year, LM = Last month



► LAMB

Old season's lambs face price downside

Production for the chilled Christmas trade in the EU and UK market has begun for some processors this week, with others beginning over the next two weeks. This begins a window of peak demand by processors for lambs. Not just any lambs, however. Processors are making it quite clear that the heavier lambs that have been flowing into the works in recent weeks do not meet the specifications for the chilled trade.

New season lamb supply is expected to lack any depth until mid-October in the North Island. This may put some supply pressure on Christmas orders, however given the signals processors are sending about margins, it is likely they will sit on their hands and wait for

the supply to come forward rather than compete for it. New season's lambs are likely to see a small premium over old season's through October.

Meanwhile, old season's lambs are coming thick and fast into the processors, providing the opportunity to pull procurement rates back. Teeth and turning over paddocks for crops are the drivers of supply now.

Most processors have now signalled price reductions in printed schedules, and we expect to see prices for old seasons lambs soften steadily from here.

This week the spot market for lamb has ranged between \$8.30-\$8.50/kg.

Plenty of ewes with LAF on the market

Ewes with lambs at foot (LAF) found increased popularity at Stortford Lodge this week. Last week's \$110 all counted lifted to \$120-\$124 all counted for the top cut and \$115-\$119 all counted for the bulk of the remainder.

Feilding yarded over 600 ewes with LAF. The top price of \$119.50 went to MA Romney ewes. \$110-115 all counted claimed the middle cut, with \$90-\$109 all counted the money for the remainder.

There are also plenty of ewes with LAF trading in the paddock with \$100-\$115 all counted the price range.

A small offering (23) of new season's store lambs provided a talking point at Stortford Lodge this week. The blackface

mixed sex lambs made \$4.15/kg for 31kg; just under 20c up on the first of last year's new seasons stores. It is difficult to make any real assumptions about the market on this number. Decent numbers of new seasons store lambs remain about a month away.

Numbers of old season's store lambs just topped 1000 at Stortford. Prices held up relatively well with 32-34kg mixed sex averaging \$4.15/kg and 44-46kg good quality ewe lambs at \$4.30/kg, sold for breeding. There were 1500 store lambs at Feilding. Cryptorchids 41-43kg returned \$4.15/kg and ewe lambs 44-46kg made \$3.80/kg.

Lamb continues to lose favour for UK consumers

Lamb has been steadily losing favour in the eye of the UK consumer over the past two years.

Data from the Kantar Worldpanel show that sales volumes dropped 11% year on year from July 2016 to July 2017 and then a further 6% from July 2017 to July 2018. Lamb leg sales, accounting for 42% of the lamb market, have dropped 4% in the 12 months to July 2018.

Lamb is becoming a much harder sell to consumers. The retail price has lifted 5% over the last 12 months. Data shows lamb is \$1/kg cheaper compared to beef and \$4/kg and \$5/kg cheaper than pork and chicken respectively.

In a struggling economic climate consumers have switched preferences to the cheaper forms of protein, with chicken sales in particular gaining substantial market share in the past 12

months.

The price of lamb appears to have seen it removed from the weekly menu, now featuring more as a special occasion meat. This is evident in the spikes in demand seen at Christmas and Easter.

Lamb has also failed to gain the attention of the younger consumer in comparison to other proteins. Nearly half of all lamb sales in the UK are by consumers over 55 years.

NZ exporters have long been reporting the difficulty of sales into this market. Reliance on the market has declined in response, with UK exports in the past 11 months making up 17% of total export production, compared to 22% for the same period two years ago. This recent data suggests that things aren't going to get any easier for lamb in the UK in the short term.

high lights

ewes with LAF at Stortford this week

↓ LAMB SCHEDULE \$/KG

8.40

\$120-\$124 all counted

31kg blackface new seasons lambs at Stortford

↓ MUTTON SCHEDULE \$/KG

5.00

\$4.15/kg

41-43kg cryptorchid lambs at Feilding

VENISON SCHEDULE \$/KG

11.50

Slaughter sheep prices						
\$/kg		+/-	NW	TW	Range	LM LY
Lamb M	17kg	-5	8.40	8.45	8.30 - 8.60	8.45 7.10
Lamb X	19kg	-5	8.40	8.45	8.30 - 8.60	8.45 7.10
Mutton MX	20kg	-10	5.00	5.10	5.10 - 5.30	5.30 4.20

Slaughter values are gross operating prices in the NI including premiums

Store sheep prices						
\$/kg		+/-	NW	TW	Range	LM LY
Male	35kg	-10c	3.60	3.70	3.60 - 4.00	4.40 3.55
	32kg	-10c	3.80	3.90	3.60 - 4.00	4.50 3.65
Ewe	35kg	-10c	3.60	3.70	3.60 - 4.00	4.40 3.65

Store values are average gross on-farm prices available on a line

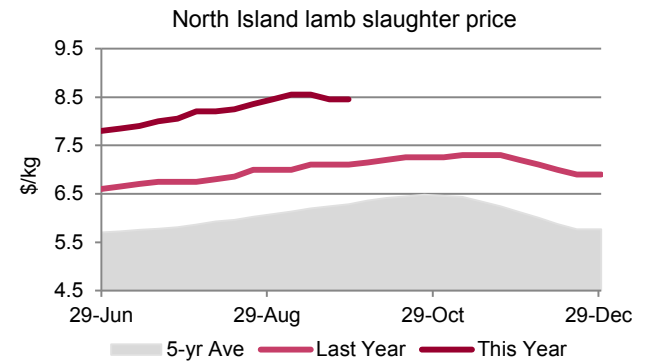
Lamb export demand and procurement indicators						
	+/-	TW	LW	LY	LM	LY 5-yr-ave
US F/Rack \$/lb	n/c	10.70	10.70	9.35	0%	+14% +42%
UK Leg p/lb	n/c	2.04	2.04	2.25	0%	-9% +6%

Monthly Average Export Value (AEV)						
	+/-	TW	LW	LY	LM	LY 5-yr-ave
NZ\$/kg	n/c	10.90	10.90	9.43	+1%	+16% +27%
AEV vs FOP	n/c	2.45	2.45	2.33	+10	+12 +15

Procurement Indicator - Schedule as % of demand indicator (NZ\$/kg)						
% Returned		TW	LW	LY	LM	LY 5-yr-ave
% Returned	0%	77.5%	77.5%	75.3%	n/c	+3 +5

Venison price						
\$/kg		+/-	NW	TW	Range	LM LY
AP Stag	60kg	n/c	11.50	11.50	11.40 - 11.50	11.30 9.70

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