



# LIVESTOCK INSIGHT

## Key Points

Cattle chains maxed out on limited capacity

Massive week in the yards for cattle

The slide continues on lamb

Lamb continues to lose favour for UK consumers

↓ P2 STEER  
\$/KG  
**5.75**

↓ LOCAL TRADE  
\$/KG  
**5.85**

↓ LAMB  
\$/KG  
**8.10**

↓ MUTTON  
\$/KG  
**5.05**

↓ NZD:USD  
**0.66**

## It's all about Christmas and light lambs



Rachel Agnew

September is normally far too early to talk about Christmas, but in the lamb industry, Christmas is a key focus point. Production for the EU/UK chilled Christmas trade has begun this week. So begins a six week window of peak demand by processors for lambs. Not just any lambs, however. Processors are making it clear that the heavier lambs seen in recent weeks do not meet the specifications for the chilled trade.



Reece Brick

New season lamb supply is expected to lack any depth until mid-October. 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. The signals also indicate that old season's lambs are going to face downside price pressure, regardless of supply. New season's lambs are likely to see a premium over old season's through October.

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 Australian 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 is likely to be inevitable when supplies start to increase from NZ, but it will be far from being a sharp correction, as some have been worried, given the current price level.

### Some lamb losses in Otago

A bit of extra moisture was just what the doctor ordered for large parts of the South Island. Rain gauges read 15+mm through the majority of areas below Christchurch, though few got too much more than this. Paddocks are all prepped to take-off, they just need temperatures to push above the mid-teens as well as a healthy dash of sunshine.

North Canterbury and Nelson are still due for a bit of what their neighbours received, but there's good grass coverage and growth for nearly everyone.

A rough week of weather in Otago was unwelcome at lambing, and a few farms suffered lamb losses, due to the cold wind. Losses weren't large, but did hurt given the region has managed to dodge bad weather the past two years.

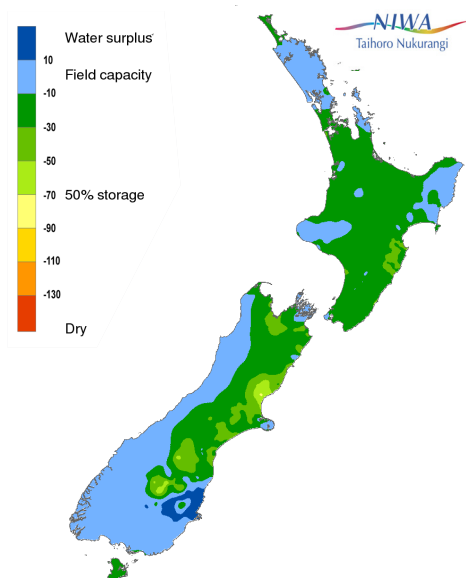
Stocking rates, solid lamb survivability and a shortage of supplementary feed will see many particularly reliant on spring growth this year.

### WEATHER & CURRENCY

Weather	Rainfall (MM)			Soil Temp		
	TW	LM	LM vs ave	TW	LM	Trend
Buller/Westld	14	69	V.Low	9.9	8.7	Up
Nelson	1	24	V.Low	11.6	9.9	Up
Marl./Kaikoura	7	28	Low	9.6	8.6	Up
Nth Canterbury	3	28	V.Low	9.2	7.7	Up
Mid Canterbury	22	63	High	8.7	7.8	Up
Sth Cant/Nth O.	16	20	Ave	8.7	7.8	Up
Central Otago	20	42	V.High	6.9	6.2	Up
Clutha	17	38	Ave	8.4	8.0	-
Southland	24	64	Ave	6.9	6.8	-

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

### Cattle chains full on limited capacity

Processors are keeping a lid on the market via limiting the chains they are running. The wave of cattle coming forward isn't massive in the scheme of an entire killing season, but it's still more than enough to create some backlogs. A short kill-week in Canterbury is also to blame.

At least one company is only killing to orders, which is essentially keeping them out of the spot-market on prime cattle entirely. Their limited competition has yet to cause any major downturn in export prime values, but it is clear that we have passed the peak for the

year. The range on these was once again \$5.80-\$6.00/kg, though very few are making the top-end of this range anymore. Local trade didn't budge either, still consistently \$5.90/kg.

Manufacturing cattle are tracking downwards quicker. Some of this is related to the poorer US beef market, which is eating into already slim margins. Increased availability of these lines is leading the market to find more of a sure level, with less variation around than past weeks. Bulls are mainly making \$5.00-\$5.20/kg, whereas cows are more like \$4.20-\$4.30/kg.

### Massive week in the yards

It's a very busy spell for sales. Nearly 3000 head were offered between Temuka and Palmerston this week, and multiple sales next week will see more than 2000 straight beef yearlings offered.

The balance of supply and interest is definitely swinging into buyers favour. Solid pricing and a few nerves around dryer-than-usual conditions are keeping availability firm. Finding buyers can be hard work in some areas, particularly for lines with dairy blood.

It's not getting any easier shifting 1-year Friesian bulls. Vendors are often asking for \$3.00-\$3.10/kg, but actual sales are happening around \$2.90/kg more often than not. There is some demand from North Island buyers, as Mycoplasma worries lessen with time. Steers and heifers are faring well enough, especially traditional and good exotic steers which are selling for \$3.70-\$4.00/kg in the paddock.

Temuka was host to 1450 mainly

part dairy store cattle. Two-year beef-Friesian steers, 355-480kg, made \$2.90-\$3.00/kg, while the 335-455kg heifers were \$2.60-\$2.75/kg. Good yearling beef-Friesian steers, 190-255kg, mainly made \$3.25-\$3.45/kg whereas 255-340kg sold for \$2.85-\$3.15/kg. There were big discounts on off-types though. Beef-Friesian heifers were similar as the better 200-260kg lines claimed \$3.00-\$3.25/kg while 265-325kg were \$2.85-\$3.00/kg. Various lines of 190-310kg Friesian bulls were often just \$2.40-\$2.60/kg.

The annual Palmerston cattle fair had buyers come in from Southland South Canterbury, and locally. Two-year steers were \$3.00-\$3.40/kg, the lower-end reserved for beef-Friesians, while the heifers made \$2.80-\$3.00/kg. Yearling steers in the mid-300kgs were \$3.50-\$3.70/kg and lighter cuts made \$4.00-\$4.40/kg. Heifers were \$3.40-\$3.80/kg, with exotics the most popular.

### Record volumes of protein in US cold storage

Reports coming out of the US beef market seem to be getting more negative each week.

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 unlikely to impact the market in 2018.



**\$5.00-\$5.20/kg**

Bull slaughter price following the US market down

↓ P2 STEER SCHEDULE \$/KG **5.75**

**\$4.00-\$4.40/kg**

Medium straight beef 1-yr steers at Palmerston

↓ 1YR STORE BULL \$/KG **2.85**

**\$3.25-\$3.45/kg**

Beef-Friesian 1-yr steers, 190-255kg, at Temuka

↓ US 95CL BULL US\$/LB **1.92**

#### Slaughter cattle prices

\$/kg		+/-	NW	TW	Range	LM	LY
M2 Bull	300kg	-10	5.00	5.10	5.00 - 5.20	5.30	5.10
P2 Steer	300kg	-10	5.75	5.85	5.70 - 6.00	5.80	5.35
P2 Cow	230kg	-10	4.15	4.25	4.20 - 4.40	4.50	4.25
M Cow	200kg	-10	4.15	4.25	4.20 - 4.40	4.50	4.25
Local Trade	230kg	-5	5.85	5.90	5.90 - 6.00	5.95	5.70

Slaughter values are gross operating prices in the SI including premiums

#### Store cattle prices

\$/kg		+/-	NW	TW	Range	LM	LY
R1 Fr Bull	300kg	-5	2.85	2.90	2.70 - 3.00	3.05	3.25
R1 Steer	300kg	n/c	3.80	3.80	3.60 - 4.00	3.80	3.60
R1 Heifer	250kg	n/c	3.40	3.40	3.30 - 3.60	3.45	3.50
R2 Fr Bull	450kg	n/c	2.80	2.80	2.70 - 2.90	2.80	2.65
R2 Steer	450kg	n/c	3.15	3.15	3.00 - 3.25	3.10	3.05
R2 Heifer	420kg	n/c	3.00	3.00	2.85 - 3.10	3.00	2.95

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

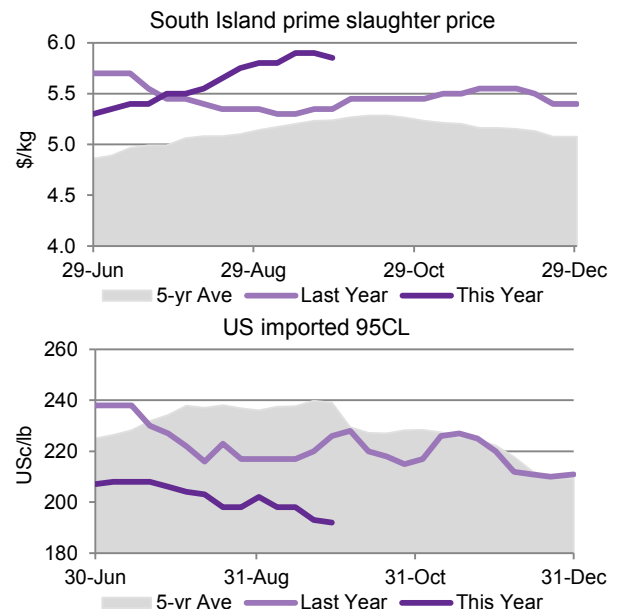
#### Beef export demand and procurement indicators

	+/-	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	1.31	1.16	1.81	-10	-50	-105

#### Procurement Indicator - Schedule as % of US 95CL price

% Returned	+3	84.3%	81.8%	73.8%	+5	+10	+15
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NW= Next week, TW = This week, LW = Last week, LY = Last year, LM = Last month



► LAMB

The slide continues

Anyone who locked themselves onto September and October contracts are being rewarded for their loyalty. Spot-market rates were cut back another 10c/kg this week as processors try and recover the margins they've been unable to make in past months. The main range was \$8.10-\$8.20/kg for lamb.

As with last week, there's not a massive number of lambs coming forward, on contracts or otherwise. However these numbers are out of kilter with the number of chains in operation. All information to date points towards this downward trend holding, Mutton's

receiving similar treatment too, also back another 10c/kg to a range of \$5.00-\$5.20/kg. Processors are pinning the market back while they have the opportunity, before numbers pick-up post-weaning.

At least one lamb contract is available for the new season, beginning at \$7.30/kg before bottoming out at \$6.60/kg by Christmas. New season lambs are mainly growing well, and early-born lambs have suffered few losses. Expect a good run of lambs to the works early in the season, particularly if the dry arrives in late-spring/early summer.

What store lambs?

It's dead quiet on store lambs. Only the odd Merino or other fine-wool type lambs are trading in any volume.

Three large pens of 36-42kg Merino lambs were a solid \$3.85-\$3.95/kg at Canterbury Park, rising to \$4.15-\$4.20/kg for some 28-32kg lambs. Other standard crossbred lambs in the 32-43kg band were more like \$3.50-\$3.90/kg.

If ewes with lambs-at-foot are any indication then new season lambs should begin on a strong note. It looks

as though the falling lamb schedules hasn't led to any adjustment in budgets as \$110-\$125 all counted continues to cover anything half-decent. Three small lines at Canterbury Park sold for an impressive \$122-\$128 all counted.

Prime auctions have trended downwards with schedules. The average rate for prime lambs in Canterbury fell to \$188/hd, while ewes dropped to \$143/hd, though quality was holding this market back to a point.

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% from July 2016 to July 2017 and a further 6% from July 2017 to July 2018. Lamb leg sales, accounting for 42% of the 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.

Wool prices see correction at this weeks auction

Prices at this weeks South Island auction experienced a correction. Wool volumes on offer have lifted on the back of pre-lamb shearing in the South Island and this was a contributing factor in the market correction. Reports also suggest that short-term buying orders are a driver in the recent volatility.

Fine wools have experienced the largest correction, following several

weeks of very positive demand. 25-27 mid micron wools lost 6-10% this week compared to the previous auction and Merino wools were 2-4% down. However prices for these remain at historical highs. Crossbred wools lost the gains they made earlier in September. The South Island strong crossbred indicator lost 16c per kilogram on mid-September levels.

**high lights**

↓ LAMB SCHEDULE \$/KG  
**8.10**

**\$6.60-\$7.30/kg**

New season lamb contract available for December

↓ MUTTON SCHEDULE \$/KG  
**5.05**

**-10c/kg**

More taken out of lamb schedules

VENISON SCHEDULE \$/KG  
**11.40**

**\$22.50-\$26.80/kg**

Small decrease for 19-22 micron wool at auction

Slaughter sheep prices							
\$/kg		+/-	NW	TW	Range	LM	LY
Lamb M	17kg	-5	8.10	8.15	8.10 - 8.30	8.25	7.00
Lamb X	19kg	-5	8.10	8.15	8.10 - 8.30	8.25	7.00
Mutton MX	20kg	-5	5.05	5.10	5.00 - 5.20	5.30	4.25

Slaughter values are gross operating prices in the SI including premiums

Store sheep prices							
\$/kg		+/-	NW	TW	Range	LM	LY
Male	35kg	-10c	3.60	3.70	3.60 - 4.10	4.30	3.30
	32kg	-10c	3.80	3.90	3.70 - 4.10	4.40	3.55
Ewe	35kg	-10c	3.60	3.70	3.60 - 4.10	4.40	3.55

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

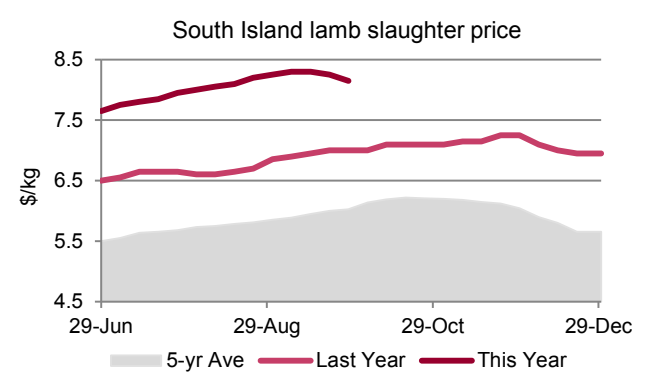
Lamb export demand and procurement indicators							
	+/-	TW	LW	LY	LM	LY	5yr-ave
US F/Rack \$/lb	n/c	10.70	10.70	9.35	0%	+14%	+42%
UK Leg p/lb	n/c	2.04	2.04	2.25	0%	-9%	+6%

Monthly Average Export Value (AEV)							
	+/-	TW	LW	LY	LM	LY	5yr-ave
NZ\$/kg	n/c	10.90	10.90	9.43	+1%	+16%	+27%
AEV vs FOP	+10	2.75	2.65	2.43	+20	+32	+20

Procurement Indicator - Schedule as % of demand indicator (NZ\$/kg)							
% Returned	+/-	TW	LW	LY	LM	LY	5yr-ave
	-1%	74.8%	75.7%	74.2%	-1	+1	+5

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

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