



AgriHQ

LIVESTOCK

OUTLOOK

SOUTH ISLAND
APRIL 2023

KEY POINTS

- Beef upside likely but don't get carried away
- Autumn slaughter rates picking up
- Lamb markets positive, but cautious



M2 BULL - APR
\$/KG
5.30



P2 STEER - APR
\$/KG
5.45



M COW - APR
\$/KG
3.30



LAMB - APR
\$/KG (18.5KGCW)
7.25



NZD:USD
0.63



VIEWPOINT

Don't count your chicks before they've hatched

As autumn takes hold, and weather conditions settle, market activity is bubbling away. Domestically, it's the store markets walking the talk. With covid on the backburner and feed still ample in some regions, the need to secure stock remains a priority for a lot. Buyers focus has centred on store lambs and weaner calves. On the flipside, cooler mornings and increased access to flood effected regions has seen an uptick in stock movements to processors.

Overseas market demand is working in our favour as well as subtle increases in pricing over the last month, becoming more routine. But it should be noted that although markets seem in a more favourable head space that back in October, its not the time to simply expect prices will repeat last year's levels. While ultimately receiving record returns is

as therapeutic as tucking into a leg of lamb on Christmas Day, there's a lot more going on within markets this year. We have lost the attention of some consumers, who's back pockets are no longer bulging with excess cash.

The sky is not falling, nor are we anticipating it will, but its time to get realistic about future pricing expectations, so as to ensure prices paid now still enable a healthy margin at the other end. More so, given recent grass conditions have allowed buyers to stretch to an extra bid or two on livestock.

Average export returns for lamb and beef are significantly lower than this time last year. This means that even if we see a decent rally at some point, we are not anticipating a widespread return to last years levels. This should erase all thoughts of lamb pushing over



Mel Croad

The sky is not falling, nor are we anticipating it will, but its time to get realistic about future pricing expectations.

\$9.50/kg, even as we face the smallest export lamb slaughter on record.

Beef looks a slightly more safer bet. Farmgate beef prices are already where they were at this point last year, despite weaker market returns. There are clear signs of improving fortunes in the US beef market and hopefully further support from China. But higher production from Australia, which we haven't faced in years, could easily temper expectations. The same could be said for growing economic concerns globally.

► BEEF - PRICE PROJECTIONS

Beef upside on the cards but little chance to get carried away

Pressure on cow has dropped prices by over 60c/kg since the start of the year, more so as supplies started to surge. In contrast, average bull and steer prices lifted by 20c/kg since early February. Aside from cow, current prices are historically high for this time of the season but below where they were twelve months ago.

Surprisingly while farmgate beef prices are favourable, in a historical sense, average export values for the first two months of the year have dragged at levels lower than last year. While markets like the US are performing well, backed by support from China, this is yet to translate into meaningful upside in export values. Since October average export values for NZ beef had fallen from \$10/kg to \$8.35/kg, - far below year-ago values that were plumped up by the covid recovery and global spending.

Last year we saw 70-85c/kg added to bull and prime, between April and October. Cow prices recovered by \$1.30/kg. But we had support from much higher export returns. While tightening US supplies work in our favour, we can't underestimate what higher Australian supplies will have on market demand longer term, alongside growing concerns of a return to El Nino conditions. Global financial and economic pressures also remain an ever present concern.

Taking all these factors into consideration, we continue to forecast pricing upside, based on market demand firming in the short-term. If we see evidence of export values improving, beyond current expectations then we would look to adjust these outlook prices higher.

Tighter US beef supplies should favour import returns

April typically signals the start of pent up demand from the US and ultimately a surge in imported beef prices. These trends have been blurred in recent years as the US juggled covid and ample domestic supplies. US imported beef prices made early gains through March, but have since tracked sideways. Lower supplies and an early change to favourable spring weather conditions is allowing demand to develop naturally as consumers dust off their BBQ's.

Holiday shortened processing weeks feature heavily in NZ and Australia in the weeks ahead. The reduction in beef offerings from either market will have importers on close watch, as their own domestic supplies tighten. But they are far from letting the market run away,

talking down any chance to push US domestic cow prices to US\$3/lb.

The US's domestic lean beef supplies are set to literally grind to a halt. It's been a long time coming, but this year will favour an increased reliance on imported lean beef to fill the gaps. The US manufacturing beef market remains vitally important to NZ. In recent years China has also become invested in our offerings and while they have added a competitive element, they tend to run hot and cold. Right now the US is leading the charge on pricing, having drawn down cool store supplies and facing reduced supply from NZ until later next month. This will keep farmgate prices here on an even keel but will allow for upside once the cow kill reduces.

Expect prime prices to firm and hold above 5yr averages

Recent comments from some NZ exporters point to steady conditions in our key prime markets. A clear indication of this is prices holding despite backlogs of cows at processing plants right now.

Typically prime prices start to firm from May/June through to early spring.

Based on BLNZ figures, there is still more prime to process over the balance of this season compared to last. That combined with softer export returns currently, may slow the speed of upside in prime beef prices.

Bubble of supply as cull cows finally make their move

The South Island cattle kill is making up lost ground. March kill rates have spiked with offloads of cows leading the charge. Steer and heifer numbers have also picked up, but the bull kill continues to languish. Good, late summer feed levels in some regions also assisted with slower slaughter and cooler temperatures now are also causing some to reduce stocking rates.

With the cull cows flowing in abundance, short processing weeks means the bubble of supply will last well into May. But the general sentiment is that the cows are moving well and any backlogs are unlikely to drag. This is pushing bull and prime loads to the wings but firm overseas markets and a favourable exchange rate means no reduction in farmgate prices.



\$5.23/kg

Average March bull price

US\$2.85/lb

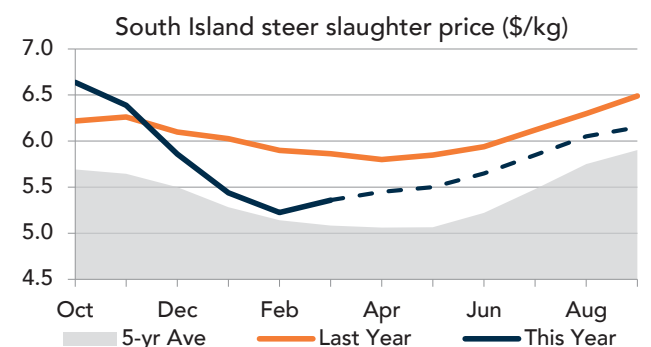
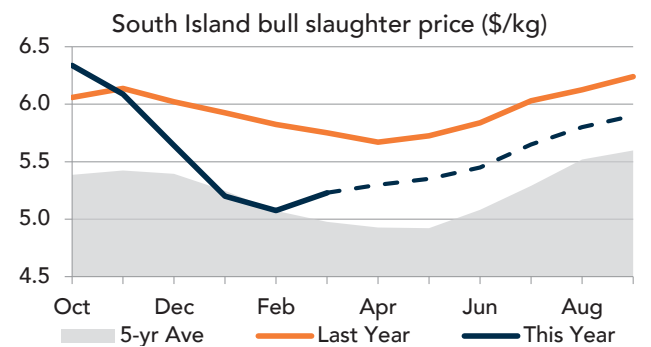
Forecast 95CL bull price for Apr

\$1650/hd

300kg cwt gross prime steer price in May

Beef price projections							
\$/kgCW		Apr	May	Jun	Jul	Aug	Sep
Imported 95CL US\$/lb		2.85	2.87	2.91	2.93	2.90	2.88
NZD:USD		0.63	0.63	0.63	0.63	0.63	0.63
Imported 95CL NZ\$/kg		9.97	10.04	10.18	10.25	10.15	10.08
Sched. as % of 95CL		53%	53%	54%	55%	57%	59%

NZ cattle slaughter price projections								
			Apr	May	Jun	Jul	Aug	Sep
M2 Bull	295 - 320kg	\$/kg	5.30	5.35	5.45	5.65	5.80	5.90
	300kg	\$/hd	1590	1605	1635	1695	1740	1770
P2 Steer	295 - 320kg	\$/kg	5.45	5.50	5.65	5.85	6.05	6.15
	300kg	\$/hd	1635	1650	1695	1755	1815	1845
M Cow	195 - 220kg	\$/kg	3.30	3.25	3.45	3.75	4.00	4.05
	200kg	\$/hd	660	650	690	750	800	810



► BEEF - OVERSEAS MARKETS

US beef slaughter tanks, leaving gaps in supply

Assumptions that the US beef cow kill would retreat in 2023 are falling into place. The weekly beef cow slaughter has fallen to 60,000 head - below the five-year average and significantly lower than this time last year. In 2022, the US beef cow slaughter only dropped below 70,000 head per week on five occasions.

Lean beef supplies are tight including cold storage stocks. Fed cattle production is also declining, with supplies current and slaughter weights dropping behind last year levels. Six months of declining feedlot placements is a clear sign that cattle numbers outside of feedlots is falling. This is a direct impact of the extreme beef cow slaughter in 2022 and slumping calf numbers. Overall US beef production is forecast to decline by 4-6% year-on-year. This should limit any seasonal price weakness in the months ahead.

However its not completely full steam ahead for beef prices. Concerns over consumer demand are simmering below the surface. Adding to these concerns are falling prices for competing proteins, especially chicken, which could limit just how high beef prices can push, despite tighter supplies.

NZ benefits from China demand

Chinese beef demand continues to bubble away. NZ's March shipments were the largest this season. Whether that was due to limited volumes of Brazilian beef or just improving demand is hard to gauge. Access for Australian beef also appears a lot easier. Export stats confirm this with Australia shipping their largest volume of beef to China last month, since April 2020. With Brazil's suspension wiped, volumes may dip in the months ahead. However with Uruguay and Argentina both signalling reduced exports to China, demand for NZ beef looks promising.

Good interest from Asia

NZ exporters note good supporting interest in NZ beef from other key Asian markets, namely Japan, Korea, Malaysia. While still not big volume markets, its important to have these outlets to spread pricing risk and keep product moving. This is more prominent at this time of the year as domestic slaughter rates increase and we have more product to offer global markets.

► BEEF - COMPETITOR WATCH

Surging cattle kill in Australia fuels beef export rates

Australian beef exports have risen through the first quarter of 2023, on the back of much higher beef slaughter rates. While current slaughter rates aren't even close to the drought-induced offload in early 2018 and 2019, weekly kill rates have pushed above 100,000 head for 9 consecutive weeks. Eclipsing 100,000 head per week only occurred 4 times last year. Recent rain through heavily populated cattle regions recently, combined with short processing weeks in April is likely to drop killable supplies. Current feed conditions are enabling some to hold significantly more cattle on for longer which will spread out winter kill rates potentially through to spring. The big unknown is if and when weather patterns transition to El Nino. The depth of intensity could start to unravel these cattle numbers, especially if dry

conditions build from late winter, without any respite.

Brazilian beef returns to China

China has resumed beef imports from Brazil, following the suspension due to one atypical case of BSE. Exports to China are expected to surge through April, after posting two very restricted volume months.

A delay in Brazil's president from visiting China has held up any approval of further Brazilian beef plants to export there. It has also delayed expectations of changes to rules surrounding suspension following an atypical case. If approved, it would reduce the chance of future suspensions to the export trade. Any increased reliance on Brazil does potentially mean limited room for market share growth within China.



4-6%

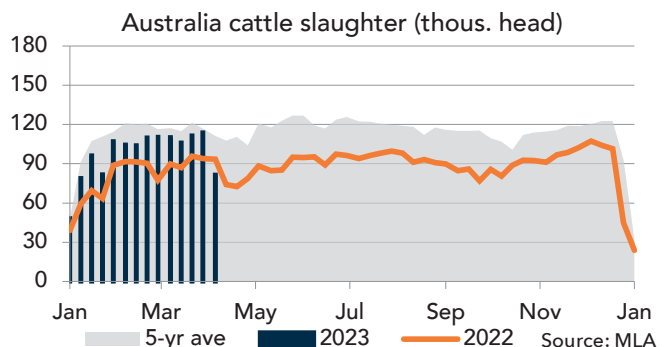
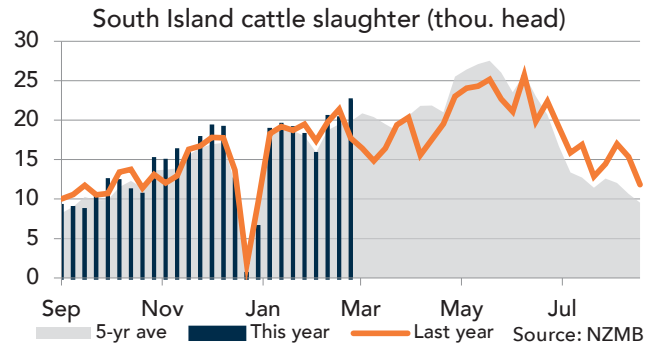
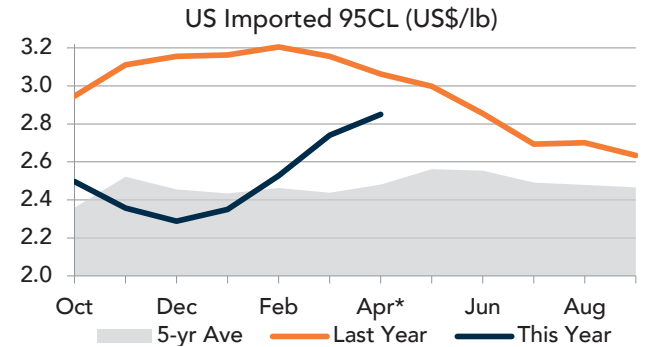
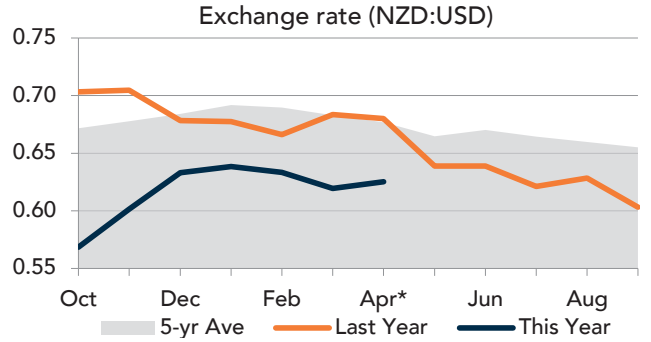
Expected decline in US beef production in 2023

US\$2.74/lb

Average US 95CL bull price in March

100,000

Aussie beef kill punches over 100,000hd per week



LAMB - PRICE PROJECTIONS

Time to set some realistic pricing expectations for lamb

If we exclude the covid lockdowns of 2020 and the covid recovery phase of 2021 that fuelled prices, farmgate lamb prices typically lift by \$1.25-\$1.55/kg between May and late September. If we apply the same logic to this season, it would take farmgate prices to around the \$8.45-\$8.75/kg mark by late winter, noting that current farmgate prices are already sitting \$1/kg behind last year.

The question is however if overseas market demand will support a lift in farmgate returns of over \$1/kg over the next five months. Average export values for NZ lamb are roughly \$3/kg behind this time last year. The market is stable right now and exporters appear positive. But there are some underlying concerns about the strength of lamb demand in the face of global economic turbulence.

Key markets are mixed with varying

levels of upside. China continues to take the lions share of our lamb, but we're are still awaiting a boost to their demand as covid restrictions subside. The slowing pace of their economy may stretch that timeframe out. A surge in Australian lamb supplies could also saturate global markets - a factor we haven't had to contend with for a number of years.

Softer export returns mean processor margins aren't as strong as they were this time last year. Less fat in the system now, doesn't necessarily reduce the chance of heated procurement pressure later on. But it does mean that those higher prices paid by processors to secure lamb need to be recouped at some point down the line, especially if export values don't move in tandem. And as we saw last year that will come at the expense of new season lambs leading into Christmas.

Average export values for lamb need a boost

Average export values for lamb have tracked in a very tight range so far this year. Export values dropped to a near 20 month low in January but have made subtle improvements in the two months since. But the upside has been far from record breaking. Early indications from Beef+LambNZ suggest March export values won't be far off the \$10.77/kg that was attained in February. To put it in perspective, March 2022 values were \$13.60/kg, but that was the best it got with values succumbing to weaker demand over the remainder of 2022. That was unusual as typically export values firm from March, chances are last years result was a reaction to the

unsustainable values NZ lamb reached.

There are definite signs of caution within the lamb market. Most are wanting to see further upside to in-market prices, especially if farmgate prices start to shift high through winter. But there is a realisation that consumer demand isn't as solid as we have seen in recent years and that could slow upside. If economic conditions improve in China it will be positive for lamb returns, given our significant reliance on this market now. Given the lower starting point, we are not ruling out some upside to average export values in the months ahead, but we are trading with caution.

NZ lamb numbers plummet

The 2022 lamb crop has suddenly dropped by over 2 million head, based on revised numbers from Beef+LambNZ. Since the new season report, further information has been collected, leading to breeding ewe numbers dropping by 900,000 head. On top of that average scanning percentages have dropped by 5%, essentially eroding the lamb crop from initial expectations.

With the lamb crop barely hanging on to 20M head, surprisingly, the report expects the export lamb slaughter to only pull back by 500,000 head. But that figure includes the 2M old season lambs that were carried over into this season. Either way you look at it, the demise of breeding ewe numbers is having an impact on lamb production and essentially lamb exports.

Feeding these changes into our models, suggests the remaining lamb kill aligns with similar trends to last year,

but given the wide variance in industry forecasts, wriggle room is a necessity. What will be crucial is how many lambs are carried into October. This will be determined by the release of winter contracts, if any, as that will shape kill trends. However contract won't take into account the potential arrival of El Nino weather patterns, so keep that in mind.

There's a growing expectation that finished lambs will attract the same price as last winter when offloaded, but this looks unlikely, based on current market wariness. Stronger store lamb prices now, mean even if prices do lift, gross margins are going to be at least \$12/hd smaller than last year. This is purely due to the higher buy in store price right now. If farmgate prices push higher than mid \$8/kg the margin will extend. On the flipside if store lambs values continue to push higher then it increases the risk of even tighter margins.



\$6.96/kg

Average lamb price in March

\$134/hd

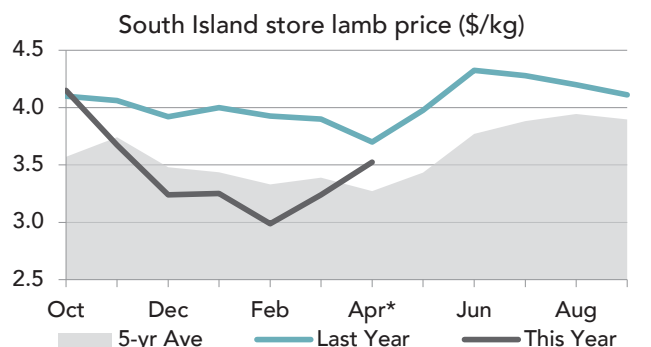
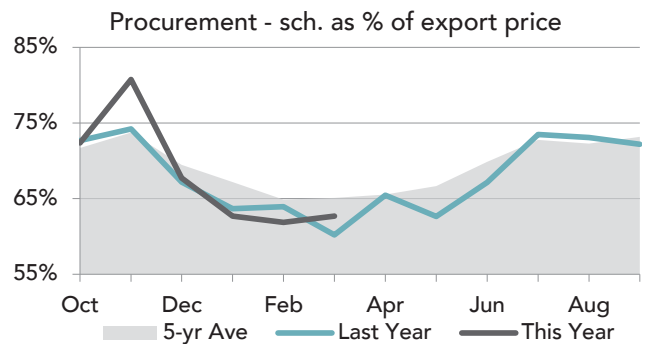
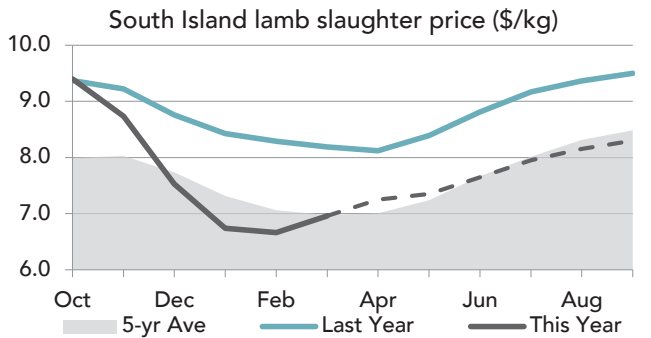
Average Apr price for a 18.5kg lamb

\$8.30/kg

Average forecast lamb price for September

NZ lamb slaughter price projections

\$/kgCW		Apr	May	Jun	Jul	Aug	Sep
P/Y Lamb	\$/kg	7.25	7.35	7.65	7.95	8.15	8.30
P/Y Lamb	\$/hd	134	136	145	159	171	178
	kg	18.5	18.5	19.0	20.0	21.0	21.5



LAMB - OVERSEAS MARKETS

UK becomes last resort many for many

Ten years ago, the UK lamb market was a solid destination for NZ lamb. In the first six months of the export season, NZ would ship around 40-45,000t of lamb to UK shores. This season that volume dropped to a paltry 13,500t. The writing has been on the wall for at least the last five seasons, but year, low demand and pricing from the UK has seen NZ exporters look to other markets.

The UK's domestic lamb supplies are well up on normal, with a large carry over of lambs into 2023 alongside an increasing sheep flock. Admittedly this has kept domestic lamb prices low this year, which prevents imported prices from gaining any traction. Easter and Ramadan celebrations have recently boosted UK domestic prices but lamb availability will still be high as their new season gets underway. Aside from availability, a bigger concern is lamb consumption, with sales avenues failing to show any improvement.

Surprisingly export volumes to our key EU markets has held relatively steady over the same ten year period. Volumes are even rebuilding from 2020 where global covid lockdowns knocked demand. France, Germany, Belgium and the Netherlands appetite for NZ lamb continues, albeit values have fluctuated in recent years. Current export values to these markets has edged back slightly

but it still remains a valuable market to target.

US market stable

NZ shipments to the US are struggling to match levels shipped through early 2022. Fortunately NZ exporters are noting in-market prices for Frenched racks have improved by over US\$1/kg since the start of the year, further supported by favourable exchange rates. But other cuts continue to butt heads with cheaper Australian lamb. Interestingly, volumes and values of Australia lamb into the US are mixed with little year-on-year improvement.

US domestic production remains high, leading to increased cold storage stocks, amid slower consumer demand.

Awaiting boost from China

Whilst slightly in between seasons in terms of demand, China remains a relatively stable market for NZ lamb. There have been noticeable improvements in prices received for key cuts since the start of the year.

But there is still some caution from buyers with larger stocks on hand. Additionally there is yet to be a sense of an economic rebound in China's post-covid recovery and this may just hamper how high lamb prices can go

High lights

13,500t

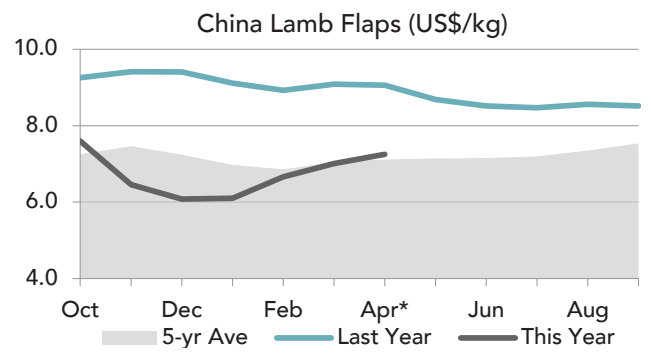
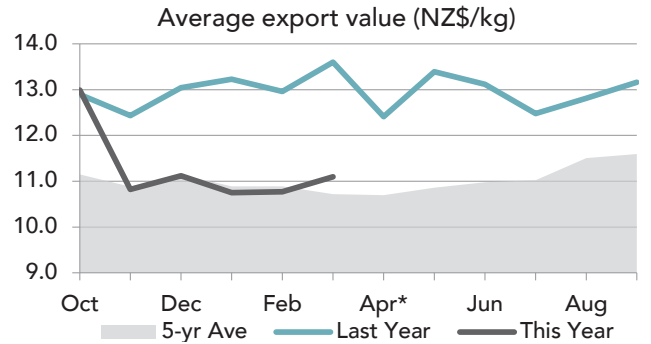
NZ lamb exports to UK in six months to March

\$10.77/kg

Average export value of NZ lamb in February

+\$1/kg

Lift in US Frenched rack prices this year



LAMB - COMPETITOR WATCH

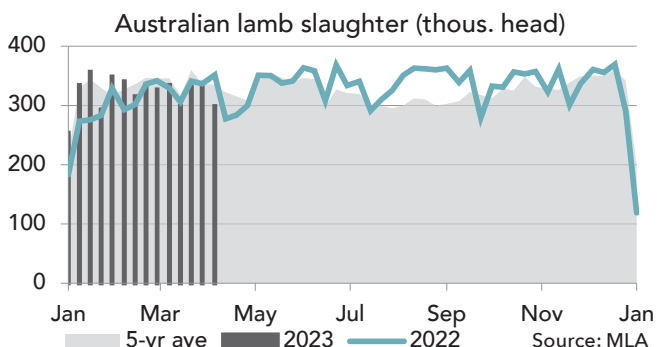
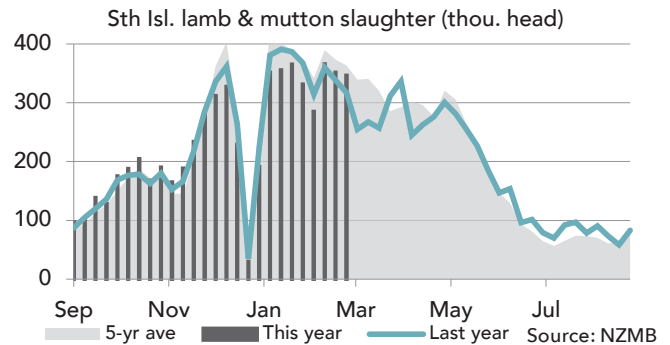
Australia forecasts wall of lamb to hit global markets

A readily available supply of cull ewes is compensating for fluctuating lamb supply in Australia. This has seen slaughter rates soar to 1.58M head since the start of 2023 - a lift of close to 500,000 head on last year. This has dampened farmgate ewe prices but led to high mutton exports. These exports have been pouring into China, the US and UK, at competitive rates compared to NZ mutton.

Australia lamb slaughter has picked up but not to the extent it was expected to by now. Still export volumes are

plentiful in comparison to this time last year. Month-on-month gains to markets such as the Middle East and China have been noted in recent export data.

If Australia is to hit slaughter tallies forecast by Meat and Livestock Australia over the balance of 2023, then weekly slaughter rates are going to have to power ahead of current trends. If it eventuates, expect an even greater presence of Australian lamb on export markets which will have a direct impact on dampening returns for NZ lamb.



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