

Monthly Meat Matters.

14 June 2021



Wild East.

- Drought has led slaughter levels higher this season, which in turn has kept farmgate meat prices relatively subdued.
- Looking ahead to the new season, production will fall, however prices will rise.
- On balance and with export demand also rising, we expect higher prices to offset lower slaughter levels so that overall incomes are higher next season.

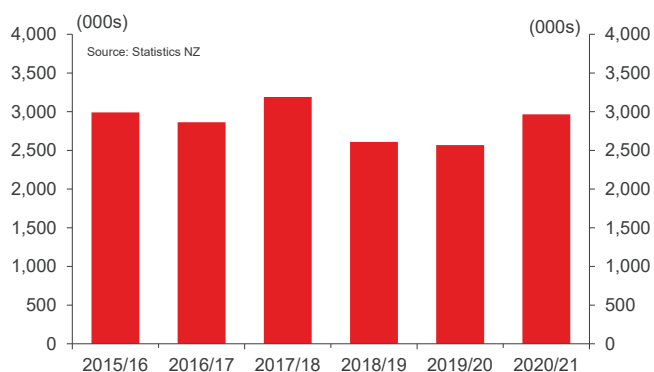
The east of the country has certainly had some wild weather this year, with first drought and then the Canterbury floods. While the flood impact on Canterbury farmers will be acute, the drought has had a larger and longer-lasting impact on meat market dynamics.

The immediate drought impact has been a jump in slaughter levels this season. This season's ewe kill, for example, is nearing 3 million head. That's up around 15% on the same stage last season as farmers have brought forward slaughter or slaughtered more than they normally would during the season. The resulting increase in meat supply has held prices lower than they would have been had slaughter levels been closer to normal levels.

The implications also extend into next season. Notably, with fewer breeding stock, we expect the lamb crop to be down materially in the new season. And on this basis, we expect lamb prices to lift compared to this season.

And with strengthening demand from key global markets, we expect lamb and meat prices more generally to surge over the remainder of 2021 and into the new year. On balance, we expect that the net effect on farm incomes over the new season will be positive. That is, we expect higher prices to offset lower production.

Ewe slaughter – 8 months to April



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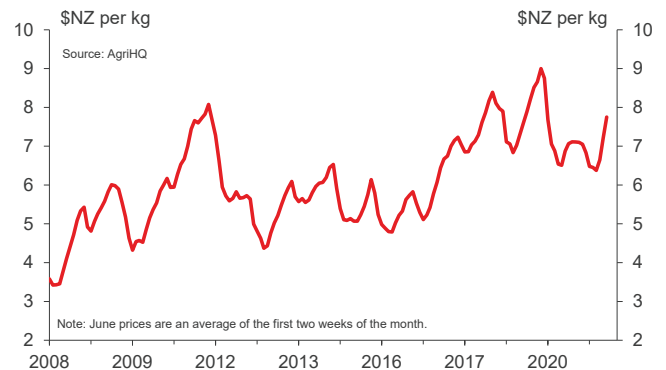
Meat unpacked.

Lamb – onwards and upwards.

Farmgate lamb prices continue to push higher. Prices jumped \$0.56/kg (8.4%) to an average of \$7.21/kg over May and look set for a similar or bigger jump over June.

From there, we're picking for the surge in lamb prices to continue. As we've discussed in previous Meat Matters, we expect key the US, EU and UK markets to progressively strengthen over the year. And as we highlighted above, tight supply next season will add further upward impetus to prices. Accordingly, we expect farmgate lamb prices to lift comfortably above \$8.00/kg, and could even crack \$9.00/kg at some stage during the season.

Farmgate lamb prices

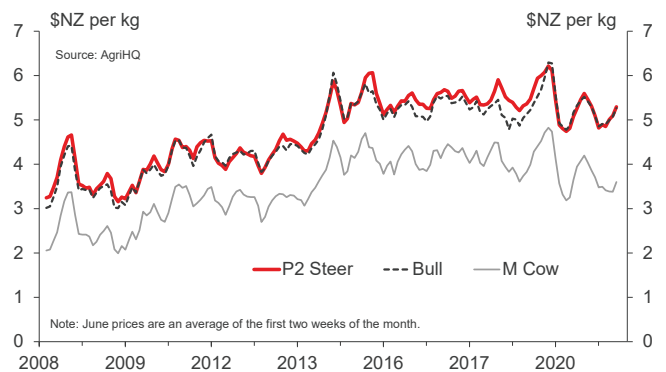


Beef – picking up the pace.

Farmgate beef prices have ticked higher over recent months. Steer and bull beef prices lifted by 1.8% and 1.6%, respectively in May. And, the price increases appear to be picking up pace. In fact, steer and bull prices have jumped by around 4% already in June.

Over the remainder of the year, we expect farmgate prices to ratchet up further. 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 constrain the supply response to higher prices. With this in mind, we expect P2 steer and M bull prices to at least reach \$5.50/kg, if not give \$6.00/kg a nudge over the spring.

Farmgate beef prices

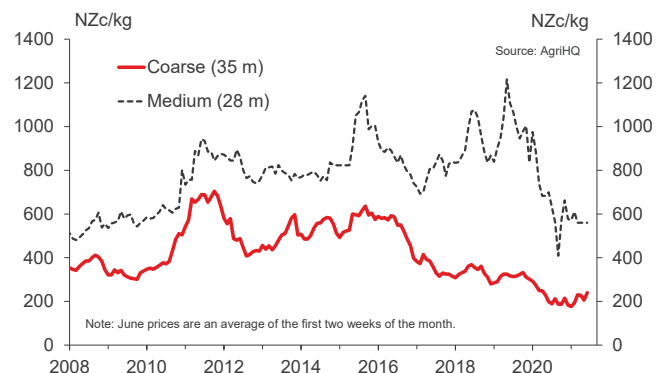


Wool – hinting higher.

Wool prices are hinting that the worst may be over. So far over 2021, coarse wool (37m) prices have jumped by 32% to \$2.40/kg. Although admittedly, even after the price jump, prices remain at historically low levels.

From here, we expect the price gains to continue. The world economy is picking up and thus demand for wool products will continue to rise. However, the structural issues for coarse wool remain. As a result, we expect prices to top out at around at around \$3.00/kg, which is still historically low. In comparison, we see relatively more upside for mid-micron and fine wools on the back of recovering global apparel markets.

Farmgate wool prices



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