

Monthly Meat Matters.

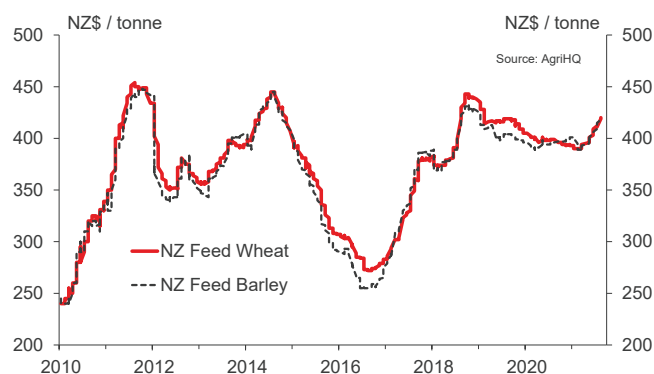
17 August 2021



Getting worse, before getting better.

- Farm input prices are rising fast.
- A broad range of both demand and supply factors are pushing these prices higher.
- On this basis, we expect that much of this upward price pressure will be sustained at least over the season ahead.

Selected feed prices



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Farm input prices are on the up. And we think it's going to get worse before it gets better.

First up, key feed prices have risen. On this front, we've had the autumn drought and now a cold winter in some parts putting a squeeze on feed availability and pushing (local) feed prices higher. At the same time feed demand has been strong with very high farmgate meat and dairy prices.

Looking forward, feed demand will lift further on the back of additional lifts in farmgate prices relative to last season. Accordingly, and with real momentum in feed prices (see chart), we expect feed prices to lift further this season. That said, the weather remains a wild card and could tip feed prices either way to some degree.


Meanwhile, offshore feed grain supply is tight, and prices remain high. For New Zealand, that means high prices for things like palm kernel. And we don't expect global grain prices to turn around anytime soon.

Similarly, fertiliser prices are on a tear. Urea prices, for example, have reportedly jumped by up to 70% this year. Notably, shipping costs are adding around another 10% to the farmgate fertiliser cost. On the shipping cost front, with the peak shipping periods at Christmas and the Chinese New Year around the corner, little price relief is in sight before autumn.

Labour costs are also on the rise. The shortage of migrants has been well-publicised, but the New Zealand economy is humming, and labour shortages have emerged across all sectors of the economy. The unemployment rate is already at a low 4.0%, and we expect that to drop further to 3.5% over the next year or so. And with general inflation rising we expect that to flow to wage demands and higher wages overall.

Lastly, interest rates are rising and they're also likely to go higher. We now think that the Reserve Bank will start lifting





the Official Cash Rate this month, taking it 75 basis points higher by year end and another percent higher by the end of 2023. Essentially the economy has rebounded very well from last year's covid lockdown and no longer needs a leg up in the form of extremely low interest rates. As a result of the Reserve Bank hikes, we expect other interest rates, including those faced by farmers to lift this year and in subsequent years.

No doubt farmers have picked up on rising prices over the year to date. The message from us is that farmers should be planning for the possibility that farm input prices continue to rise over the coming year ahead.

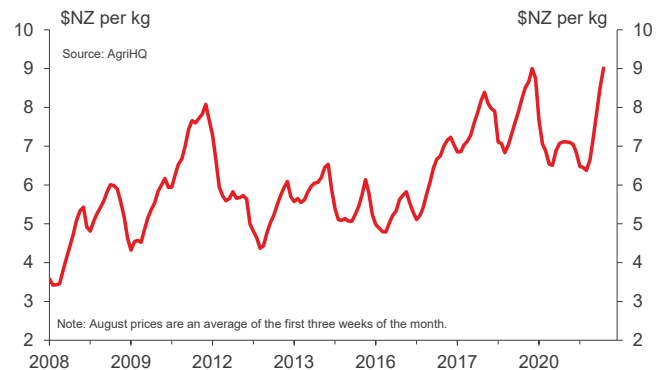
Meat unpacked.

Lamb – silver medal.

Farmgate lamb prices have cracked \$9.00/kg and at the same time set a fresh record high.¹ Indeed, it has been a spectacular turnaround in prices. Since the low back in March, prices have jumped over \$2.60/kg or by over 40%.

And we expect more to come. Lamb supplies are tight, and demand is strong, with both showing ongoing momentum in the direction of higher prices. Normally prices don't peak until well into the spring and we are only halfway through August. On this basis, we anticipate that prices could test the \$9.50/kg mark over the next few months. Importantly, with that high tide water mark, we expect prices this autumn will also set record highs relative to previous autumns.

Farmgate lamb prices

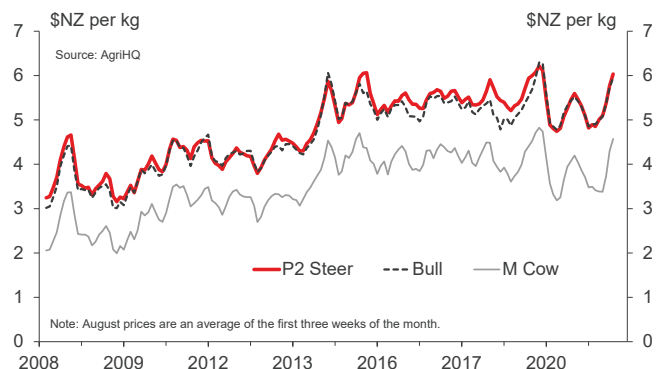


Beef – bronze medal.

Farmgate beef prices are on a tear. However, they still are one or two steps behind sheepmeat prices. P2 steer prices, for example, have jumped around \$1.20/kg or 25% since January. Beef prices are also still shy of the record highs set back in 2019.

From here, we expect beef price records to tumble. Demand is strong in China and US demand is rising as the US economic recovery gathers pace. Meanwhile, high grain prices are still crimping global beef supply. As a result, and over the remainder of 2021, we expect beef prices to continue to lift and set record highs across most, if not all grades. Although, if anything, we expect prime cuts to outpace broader gains as more people get vaccinated in key markets and head back to restaurants, pubs and cafes.

Farmgate beef prices

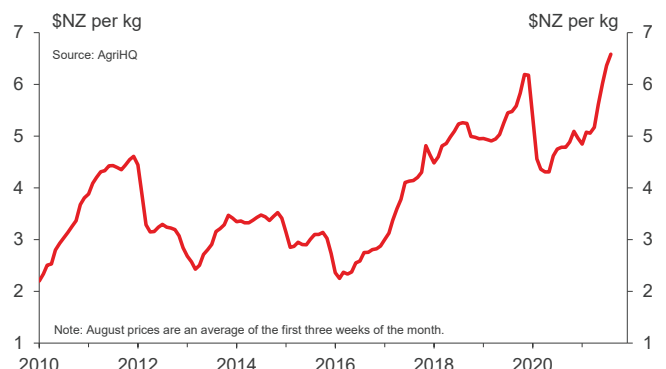


Mutton – gold medal.

Mutton's star continues to shine brightly. August prices have set a fresh record high, after July prices had broken the previous record. Moreover, it has just dawned on us that mutton prices have surpassed beef prices in per kg terms. Obviously, some beef cuts will still be higher, nonetheless, this fact is startling.

We expect this remarkable run to continue. Demand, in the key Chinese market remains firm. Meanwhile, the supply of competing proteins is tight. African Swine Fever remains an ongoing issue for the Chinese pork industry, while high feed costs are a challenge generally for all protein producers. In Oceania, the declining trend in sheep numbers continues to underpin prices. All up, we expect prices to continue to rise and wouldn't rule out prices hitting \$7.00/kg at some stage.

Farmgate mutton prices



¹ Note we use AgriHQ prices which are based on a survey of multiple meat companies. As a result, and at any one time, some meat companies may be offering higher or lower prices than the prices we show.

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