

NZ Forecast Update: Farmgate sheep & beef prices

25 June 2020



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Contact

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Winter trade margins low

Key points

- Winter premiums for lamb and beef are expected to be minimal this year.
- International market prices are trending down for lamb and beef in virtually all markets.
- The NZD is expected to remain stubbornly strong for the rest of the year.

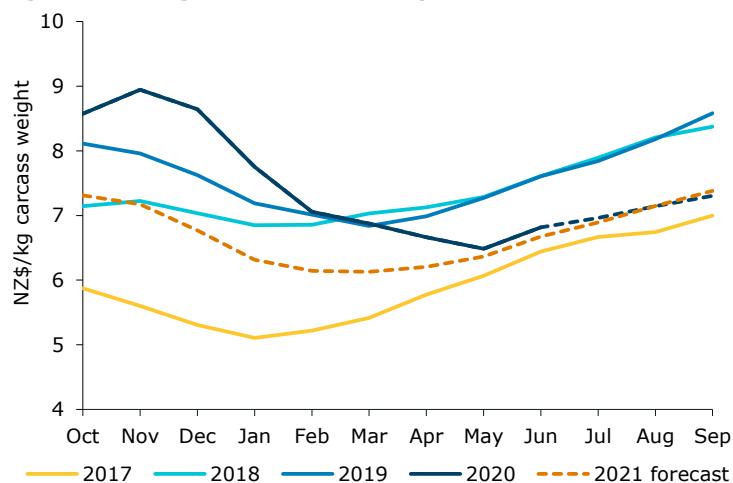
Softer global markets will curtail winter premiums

Farmgate prices for lamb and beef are expected to be softer than normal through the winter months due to subdued demand from global meat markets. The strong NZD is also curbing potential returns at the farmgate level. Winter premiums will exist for both lamb and cattle but these will not be as large as we have seen in recent seasons. In fact, prices are not expected to lift substantially from their current levels unless we see aggressive procurement activity from the processors.

Little upside for lamb

Schedule prices for lambs are currently trending up, but are already nearing their maximum level relative to overseas market returns, although procurement pressure could push prices a little higher yet. We anticipate schedule prices will peak at an average price of \$7.30/kg CW, although North Island prices may slightly exceed this level.

Figure 1. Farmgate lamb schedule price trend and forecast

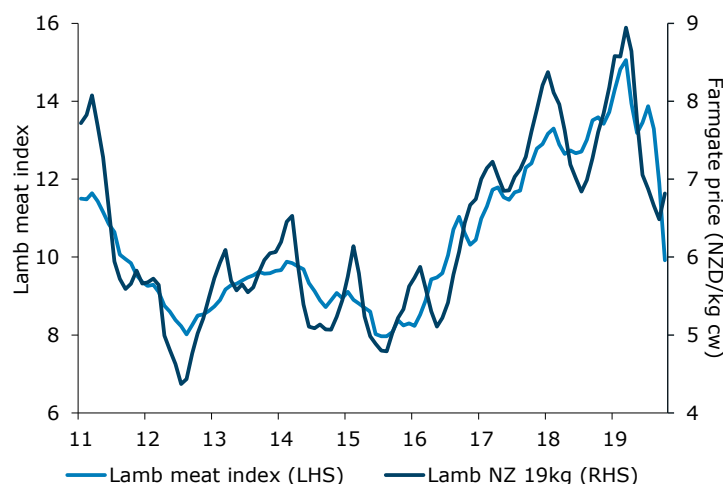


Source: AgriHQ, ANZ Research

Farmgate lamb prices have trended up since mid-May and the gap between overseas market prices and schedule prices has now closed. North Island prices are now at \$7.00 while in the South Island \$6.75/kg CW is the going rate. The price differential between the North and South is slightly larger than normal. The processing backlogs that built up during the lockdown period took longer to clear in the South Island than in the North Island and have limited how quickly prices have increased in the southern regions.

Winter processing margins are expected to be significantly leaner this season due to the high levels of market uncertainty. The price of lamb cuts is trending down in all markets at present.

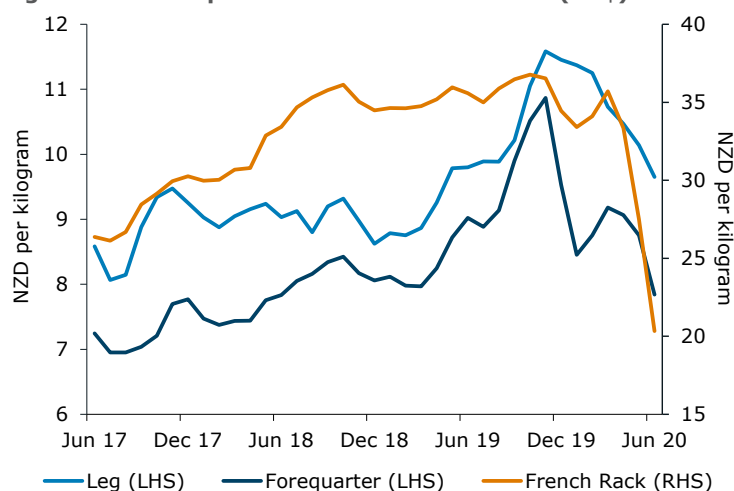
Figure 2. Farmgate lamb prices vs overseas market prices (NZ\$)



Source: AgriHQ, ANZ Research

The higher-value cuts have suffered the most as restaurants are closed in many markets due to restrictions to limit the spread of Covid-19. Even as restaurants start to reopen demand from most markets remains subdued, and this is reflected in current market prices.

Figure 3. Market prices for selected lamb cuts (NZ\$)

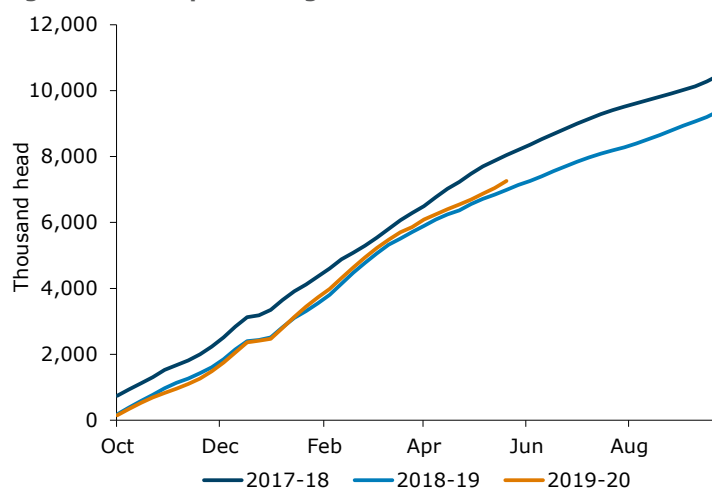


Source: AgriHQ

The prices shown in Figure 3 are all in NZD terms so take into account the recent strengthening of the NZD. But even in global currency terms in-market prices for lamb cuts are softening.

The number of lambs processed this season to date is marginally ahead of last season. Numbers are slightly up in the North Island (+3.6%) but a little behind in the South Island (-2.4%). Based on latest data published by the Meat Industry Association, just over 15 million lambs have been processed since the season commenced on 1 October 2019.

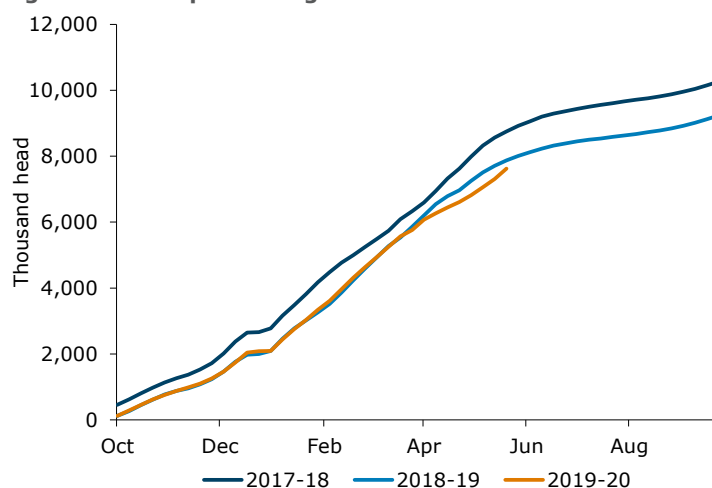
Figure 4. Lamb processing North Island season to date



Source: MIA, AgriHQ, ANZ Research

Lamb slaughter weights are marginally lower than last season when compared over the entire season. Lamb weights were lower than normal in recent months due to the impact of drought. South Island lambs have been processed at heavier weights this season, largely offsetting the lighter North Island lambs.

Figure 5. Lamb processing South Island season to date



Source: MIA, AgriHQ, ANZ Research

In recent weeks this differential has become even more pronounced. North Island lambs have averaged just under 18.5kg while South Island lambs shot up to 19kg. The heavier lambs down south were primarily due to lambs being slaughtered later than normal due to processing capacity being compromised during the lockdown.

It is difficult to accurately assess how many lambs are yet to be processed this season. Assuming B&LNZ estimates of lambs available for processing this season are reasonably accurate, then there will be 245,000 (7%) fewer lambs available for processing from June-Sep this year compared with last year. Given the North Island kill is already running ahead, this would mean 16% fewer lambs left in the North Island, while South Island lamb numbers are running 10% ahead.

Store lamb prices have lifted in recent weeks as pasture conditions improve in some regions. Lambs are currently trading at approximately \$3.50/kg live weight (LW) in the North Island and \$3.30/kg LW in the South Island.

Store lambs are starting to look reasonably expensive relative to schedule prices given the heightened global risks, and the relatively strong NZD means we are unlikely to see the usual uplift in schedule prices this winter. But the procurement factor does remain the wildcard in forecasting farmgate prices.

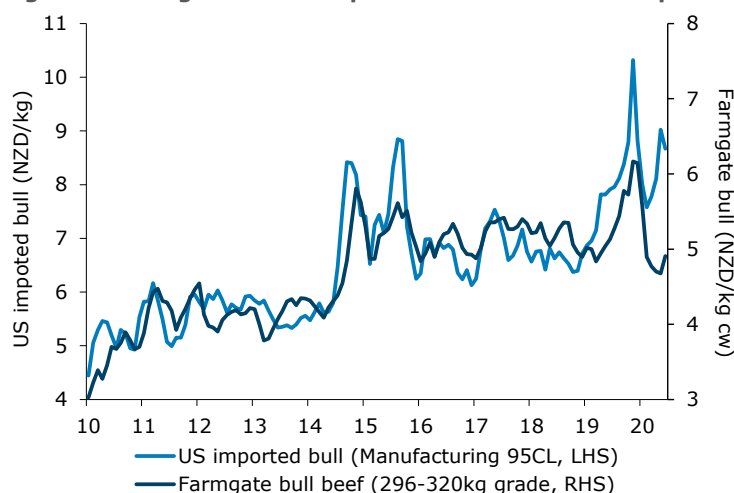
Beef markets ease while schedules firm

Manufacturing beef prices are expected to firm a little further at the farmgate level, but this will be limited as international prices for beef are now trending down. Farmgate prices are expected to peak at about \$5.35/kg CW this winter, with schedule prices in the North Island nearly at this level now.

International prices for manufacturing beef have been relatively resilient thus far, but this has been driven by reduced global protein supply rather than strong underlying consumer demand.

The processing of beef, pork and chicken has been compromised in many markets due to temporary closures of processing facilities or a reduction in processing capacity as facilities implement measures to reduce the potential spread of Covid-19. This resulted in a backlog of cattle to be processed in some markets such as the United States.

Figure 6. Farmgate bull beef price vs overseas market price



Source: AgriHQ, ANZ Research

Demand for meat cuts that are simple to cook at home, such as mince, has remained strong during lockdown periods. Demand for cheap takeaway food such as hamburgers has also been strong, meaning demand for manufacturing grade beef has been maintained.

When Covid-19 first emerged in China, New Zealand exporters were able to divert meat away from this market into the United States. Then when issues emerged in the US, a relaxing of regulations in China made it logistically easier to get meat into this market.

However, now we have reached the point where processing of cattle in the US has increased and demand for imported beef has started to ease again. However, the situation remains volatile and unpredictable. Another wildcard is current Chinese demands for certification that meat imports are not contaminated with Covid-19, which could possibly give New Zealand a relative advantage if sustained.

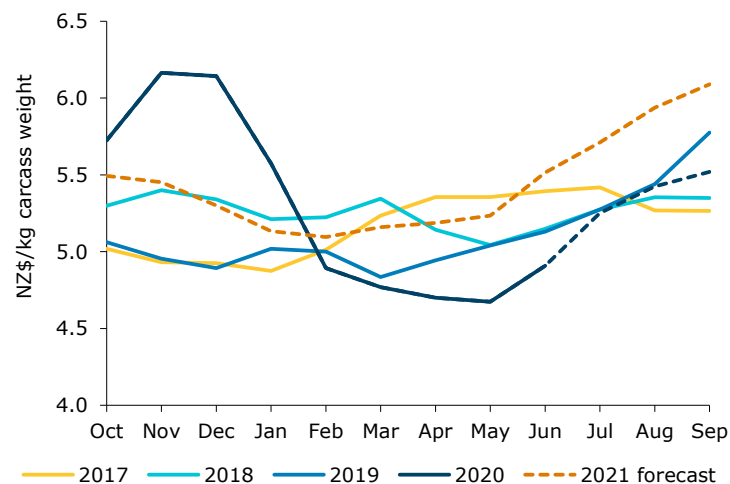
In the past few weeks the international price of New Zealand bull beef has eased by about 10%, with approximately half of this movement due to a weakening in the underlying market and half of the gain due to the stronger NZD.

Stocks of meat in China are reported to be elevated, and at the same time demand from the US has waned. As a result prices have started to rapidly retreat as without strong demand from these markets there is little to support prices.

That said, there is still room for farmgate prices to lift further as the earlier strength in prices was not fully passed on by processors. This can be seen in Figure 6 – the gap between overseas prices and farmgate price has been wider than normal.

This situation is now starting to reverse: farmgate prices have started to lift, while in-market prices are now trending down. The downward trend in overseas market prices will limit the seasonal lift in farmgate prices this winter, but we anticipate there is still room for some upward movement.

Figure 7. Farmgate bull beef price trend and forecast



Source: AgriHQ, ANZ Research

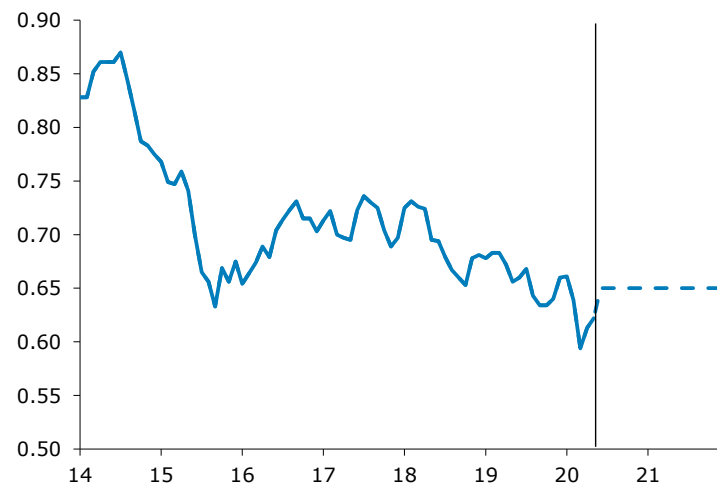
In the North Island the bull beef schedule is now at about \$5.35/kg CW, while in the South Island prices have only lifted to about \$4.60/kg CW. A price differential of about 25c/kg in favour of the North Island is about normal. We anticipate average schedule prices across NZ will lift to about \$5.35/kg CW in the coming months, with North Island prices reaching about \$5.50/kg CW. A stronger lift in prices now seems unlikely given international prices are already trending down.

Beef slaughter rates for the season to date are marginally lower than last season across New Zealand. The number of cattle processed in the North Island this season is up 1.1% as the drought resulted in more capital stock being culled. In the South Island numbers are tracking behind last season by 6.6%.

Volatile NZD

The New Zealand dollar has found more support in the current market environment than we were anticipating. Partly it reflects the good news that we beat back Covid-19 and so are in a better position than most, but it is not good news for farmers as overseas returns are eroded by a stronger NZD in farmgate terms.

Figure 8. NZD/USD



Source: RBNZ, ANZ Research

How long this dynamic will last is extremely difficult to know, but the recent strength seen in the NZD now looks like it will hang around for some time. We therefore no longer anticipate a significant fall in the NZD in the months ahead. We now anticipate the NZD will maintain a value of near USD0.65 through into 2021.



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