



AgriHQ

# LIVESTOCK OUTLOOK

NORTH ISLAND  
DECEMBER 2017

## Key Points

Prime and local trade prices set to slip

US beef demand expected to lift

Pressure on prices

China hunger to ease

↓ BULL - DEC  
(\$/KG)  
**5.45**

↓ STEER - DEC  
(\$/KG)  
**5.55**

↓ M COW - DEC  
(\$/KG)  
**4.25**

↓ LAMB - DEC  
(\$/KG CW 17KG)  
**7.05**

↓ NZD:USD  
**0.69**



## VIEWPOINT



Mel Croad

## Turning point for prices

The usual seasonal downside in pricing levels is underway. This wasn't unexpected, it just took longer to eventuate this season. The sudden change to weather patterns and a lack of further rain will mean that the pricing downside through January and February could be more than earlier expectations.

The slow flow of stock into processing plants combined with a significant lift in overseas demand and pricing for our lamb and beef allowed many the luxury of holding onto stock through November to get them to those vital finishing weights. For once as demand held on, farmers were in the box seat, procurement became a larger part of the equation and there was plenty of positivity from paddock to paddock.

Now as we enter into December, weather patterns have changed significantly. While no one complained of the warm weather to start with, good feed levels masked the damage the recent heat and lack of rain through November did. Conditions across the country vary and while some still have good feed levels, there is now a growing concern that summer could be shaping up as drier than expected.

This is already impacting slaughter rates and as a result we

have seen an immediate jump in supply pressures. Backlogs are evident and will continue to grow as processors have a much smaller window to process the usual volumes of stock pre-Christmas. This will lead to pressure through early January.

Not only is procurement falling, overseas markets are noting a larger offering out of NZ, more so for beef than lamb. Demand

**“Backlogs are evident and will continue to grow as processors have a much smaller window to process...”**

for lamb is still seeing product move swiftly through marketing channels. After a relatively easy mid to late spring, its now crunch time and on-farm decisions that have been put to one side are now front of mind.

Farm gate lamb prices are still in remarkable health. Those offloading in the next six weeks will still enjoy a larger than normal pay cheque for this period. Beef prices are already feeling stronger downward pressure. This will continue into the new year. However prices will remain above historical levels.

## BEEF - PRICE PROJECTIONS

### Downward pricing pressure underway

Farm gate beef prices are coming under pressure as supplies finally ramp up. The lack of cattle has underpinned beef prices over the last month. However for now we can expect the usual seasonal downside in pricing levels into the new year.

At this point in time, any downside is expected to be short term. There has been a significant mindset change with regards to demand for beef in global markets this year. This uprising in demand to levels not seen for some time has enabled prices to remain at the higher end of the pricing spectrum.

It still remains to be seen if this level of demand can withstand further lifts in global beef production that will be a feature of 2018. Demand will have its first real test early next year and will likely pave the direction for beef prices through 2018.

AgriHQ remains cautiously optimistic about the bigger picture, focusing on the economic improvement in key markets, a supportive NZD and tighter NZ supplies. While the market can expect seasonal downside in beef prices through December and January, the longer term picture still looks solid.

### US beef demand could support imported prices

Based on the strong performance in the US this year, the assumption is that demand will continue to strengthen in 2018. The view is that positive macro-economic conditions in the US will strengthen domestic and export demand to a level strong enough to offset further lifts in beef production.

US imported prices have started to track lower based on NZ's lifting production. The lift in supplies has been slow to arrive, which means a greater volume of cattle to kill over the next six to eight weeks. Australia is in the same boat.

This scenario will continue to see imported beef prices slide in the short term as importers pull back on prices aware of the large volumes particularly of NZ beef that are set to be offered to the market in the new year.

However if the US analysts have picked it right then, despite the current softer market, we may remain buffered from any strong downside in imported beef pricing through 2018. This is however, on the proviso that these strong demand fundamentals flow through to the import market.

### Prime and local trade prices set to slip

While both export and local trade prices managed to withstand any downside through November, the tide is now turning. Slaughter rates have lifted as the cattle start to finally flow out.

Prices into December will be lower than November and that downside will be felt into January, particularly as there is significant volumes of prime cattle

coming forward.

Export markets remain favourable, underpinned by growing demand from China. This is expected to continue however there will be some seasonal softening in prices into the New Year, more so for the lower priced items that compete more heavily with other export markets into China.

### NZD providing support

The NZD has managed to fluctuate below US70c since mid October. This is positive for beef returns. Looking out,

bank forecasts are picking more of the same in the coming months. This would place it US3c below January 2016 levels.

### Cattle starting to flow out for processing

The delayed start to the spring processing season is finally underway.

Processing plants have noted a significant lift in availability in recent weeks. This has led to delays in getting cattle away, which continue to grow.

While localised thunderstorms have helped some, many places are rapidly drying off and this has intensified the need to offload cattle.

Procurement rates up until last week were still well up on normal and tracking above 80%, however that will

change as processors look to improve margins as the supplies come on stream. A softening in overseas demand will also add support to processors keen to get prices back.

With many leaving their run later than usual to offload, it is expected this processing pressure will continue into the new year and this will be reflected in Farmer Operating Prices, more so if these current dry conditions are maintained.



\$5.61/kg

Average Nov  
bull price

-US7c

Drop in  
US95CL bull  
price to Feb

\$1590/hd

300kg cwt  
gross prime  
steer price in  
Jan

BULL - DEC  
(\$/KG)  
5.45

STEER - DEC  
(\$/KG)  
5.55

M COW - DEC  
(\$/KG)  
4.25

#### Beef price projections to May 2018

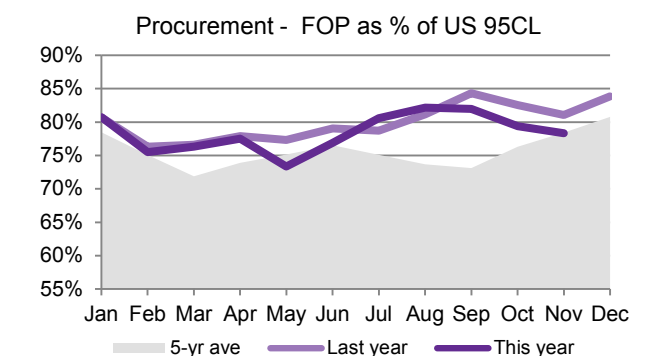
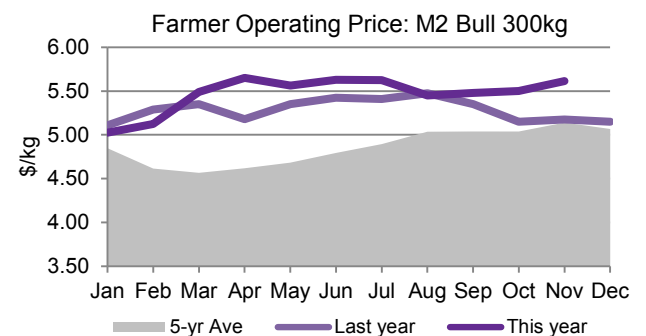
	Dec	Jan	Feb	Mar	Apr	May
95CL US/lb	\$2.12	\$2.07	\$2.05	\$2.08	\$2.12	\$2.15
\$NZ:\$US	\$0.69	\$0.69	\$0.69	\$0.69	\$0.69	\$0.69
CIF Price NZ/kg	\$6.77	\$6.61	\$6.55	\$6.65	\$6.77	\$6.87
FOP as % of CIF	80%	79%	77%	77%	77%	76%

#### NZ operating price

	Dec	Jan	Feb	Mar	Apr	May
Bull 295-320kg	\$5.45	\$5.20	\$5.05	\$5.10	\$5.20	\$5.25
Steer 295-320kg	\$5.55	\$5.30	\$5.15	\$5.20	\$5.30	\$5.40
Cow 195-220kg	\$4.25	\$4.10	\$4.00	\$4.00	\$4.10	\$4.20

#### Exchange rate effect on price projections for 300kg bull

NZD:USD	Dec	Jan	Feb	Mar	Apr	May
\$0.66	\$5.70	\$5.44	\$5.28	\$5.33	\$5.44	\$5.49
\$0.67	\$5.61	\$5.36	\$5.20	\$5.25	\$5.36	\$5.41
\$0.68	\$5.53	\$5.28	\$5.12	\$5.18	\$5.28	\$5.33
\$0.69	\$5.45	\$5.20	\$5.05	\$5.10	\$5.20	\$5.25
\$0.70	\$5.37	\$5.13	\$4.98	\$5.03	\$5.13	\$5.18
\$0.71	\$5.30	\$5.05	\$4.91	\$4.96	\$5.05	\$5.10
\$0.72	\$5.22	\$4.98	\$4.84	\$4.89	\$4.98	\$5.03
\$0.74	\$5.08	\$4.85	\$4.71	\$4.76	\$4.85	\$4.90



► BEEF - OVERSEAS MARKETS

## US beef demand expected to lift

Total US cattle slaughter continues to punch ahead of year ago levels. Beef cows have made a large contribution to slaughter rates in recent months, providing further support that herd expansion is coming to an end. Reports indicate it is still likely the 2018 calf crop will be larger than this year which will continue to underpin beef supplies into 2019-20.

Cattle on feed numbers are the

“it is still likely the 2018 calf crop will be larger”

highest they have been since 2012. This will increase supplies of market ready cattle through February and March, at a time when beef demand is known to be weaker. Feedlots will need to market aggressively through this period in order to prevent any back up in supplies which would ultimately pressure prices.

There has been a clear mindset change with regards to beef demand in the US. After a solid performance from demand this year, the industry is feeling more positive about the future direction and less concerned about

increasing beef supplies. Indications at this point suggest demand will play a significant role in offsetting the increase in beef production next year on the back of higher export volumes and greater domestic consumption. This is being backed up by improving macro-economic indicators.

### China market likely to soften

China has been a solid market throughout 2017. In recent weeks buyers have been actively sourcing beef for CNY needs.

Indications from other global beef exporters point to softer asking prices post Chinese New Year (CNY) buying orders. NZ exporters have yet to feel any downside in asking prices from China, however it will likely ripple through, particularly for the lower priced commodity cuts from late December.

### Korea still solid

While China has been one of the stronger Asian markets in this period, Korea has also performed well. Exporters note favourable conditions there. The high tariffs in Japan means exporters continue to look to other markets. By early next year orders should resume for April shipments.



131,000 hd

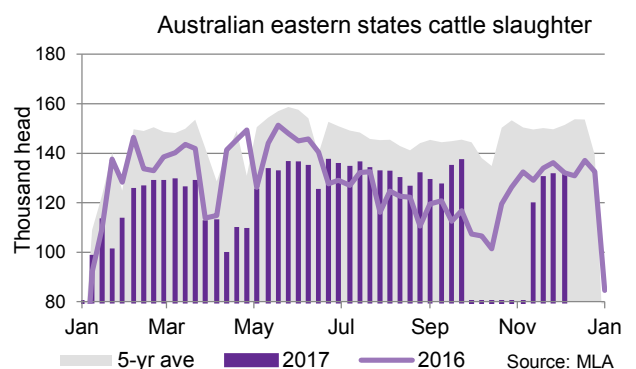
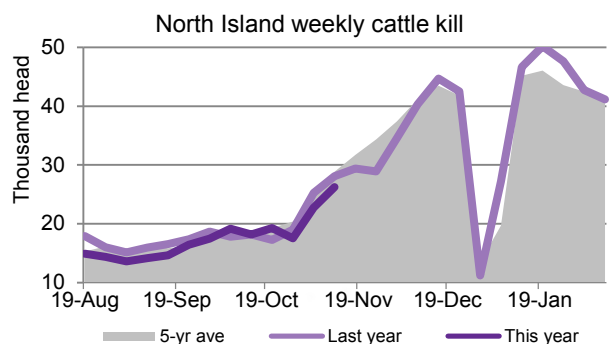
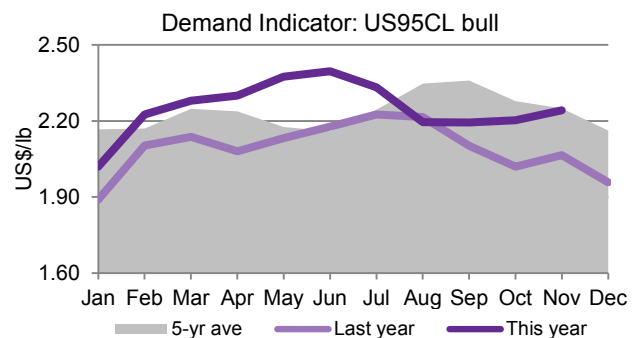
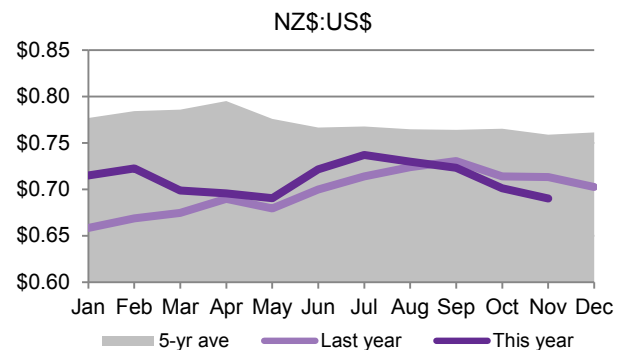
Weekly Australian beef kill

11.3 million

Number of cattle on feed in the US

40%

Brazilian beef exported to China in Oct



► BEEF - COMPETITOR WATCH

### Cattle supply tight in Australia

With slaughter data back on line, it shows that supplies remain tight. Weekly kill rates are holding around 131,000 head per week, which is down on this time last year.

Solid rain through October has continued on and off through November, holding cattle back. There is an expectation that cattle held back will start flowing out for processing, having since reached slaughter weights.

Processors appear to be in little hurry to reopen capacity therefore drawing out the supply into the new year. A significant volume of grain fed cattle

are also expected to be offloaded over this period. As these higher supplies flow through the system, it is expected prices will ease into early 2018.

### Brazil banned from Russia

Brazil is currently dealing with a ban placed on their beef into Russia. While it is expected it will be temporary it is impacting some of their markets.

November was a strong month for Brazilian beef exports. It's expected exports lifted by forty thousand tonnes on year ago levels to over 110,000t.

China remains their go-to market with 40% of October export volumes heading there.



## LAMB - PRICE PROJECTIONS

### Pressure on, but not too bad yet

It's almost hard to fathom, the lamb prices is still sitting above \$7/kg into December. Indications are prices will still be close to \$7/kg at Christmas.

Demand for lamb in overseas markets remains strong. It has been well documented that Chinese demand has been solid but other markets remain active underpinned by a need to rebuild inventory levels.

North Island lamb slaughter rates for the first six weeks of the new season totaled just over 1 million head, slightly up on last year and five-year average levels. This was fueled by a high kill through early October with slaughter rates sliding through November.

Dry conditions have now seen lamb supplies pick up but not to the extent of cattle. This will see downward pressure into January, although at this stage the sentiment is for prices to still be averaging in the higher \$6/kg range. This is partly a reflection of Easter trade demand occurring earlier as well as AEV's remaining well above average.

The two areas of concern to be aware of are. If dry conditions intensify it will push slaughter rates higher. We also have to be realistic about consumer demand in key markets and their capacity to absorb these higher prices. Both these factors have the ability to provide short term pricing pressure.

### Downside for Average Export Values

The high AEV's underpinned by weakening exchange rates are still enabling a healthy margin between what processors are receiving and what they are returning to farmers. This is based on AgriHQ's AEV calculation.

October AEV's peaked at \$10.20/kg, just 37c/kg shy of the record achieved in 2011. Until the November export stats are released it is estimated AEV's would have fallen in November based on the usual assumption of increasing frozen shipments. However we are aware

some companies continued to airfreight chilled cuts to meet orders as supplies tightened. This may have gone some way to prevent the usual 50c/kg fall in AEV's between October and November.

Either way November and December values will be lower, however it is usual for January AEV's to lift. An early Easter trade will provide support but with China buying reduced, supplies increasing and AEV's already historically high, the lift maybe more muted.

### Pricing pressure for UK/EU markets?

Frustrations are growing amid on-going Brexit talks. The two countries have yet to get close to talking trade deals minimising any impact on NZ exports at this point.

Trade with the UK and EU remains positive. November export volumes are expected to be down on the back of tighter production however pricing

points did maintain current levels.

There is an awareness of NZ's growing supplies - given the recent jump in slaughter rates. This is likely to be factored into pricing levels for some cuts into 2018.

An earlier Easter will support chilled cuts from Jan, however demand will need to be maintained further out.

### Exchange rate moves in right direction

The GBP is currently reacting to Brexit issues and has fallen to a seventeen month low against the NZD. Bank

forecasts peg the GBP to fall further and the USD to stabilise. This will provide valuable support to export returns.

### Lamb numbers there, but slow off the mark

B+LNZ recently released Lamb Crop report indicates the same amount of lambs on the ground this season, despite record lambing percentages. This is a reflection of the continued reduction in breeding numbers.

While seasonal conditions improved for most in the second half of November, the report indicates the flow of lambs to North Island processing plants in three months to 30 December will be lower than last year. This prevented any significant downside in farm gate prices through this period last year.

However some parts of the island are contending with drier conditions to last

year. Then there are those with plenty of feed and little pressure to offload.

With weaning getting underway in the earlier regions and farm gate prices finally showing some downside, its easy to assume space at processing plants will tighten over the coming weeks.

In many cases farmers docked more lambs than last year. If a large majority are holding on to utilise feed then at some point they will have to be offloaded. Weather will play a significant role in determining offload times. Summer is already turning dry and it is unlikely we will see another autumn like this year.



\$7.29/kg

Average Nov  
lamb price

\$114/hd

Average Jan  
price for 17kg  
cwt lamb

-\$12/hd

Average fall in  
value of 17kg  
lamb between  
Dec and Feb

LAMB - DEC  
(\$/KG)  
7.05

LAMB - JAN  
(\$/KG)  
6.70

NZD:GBP  
0.50

#### Lamb price projections to May 2018

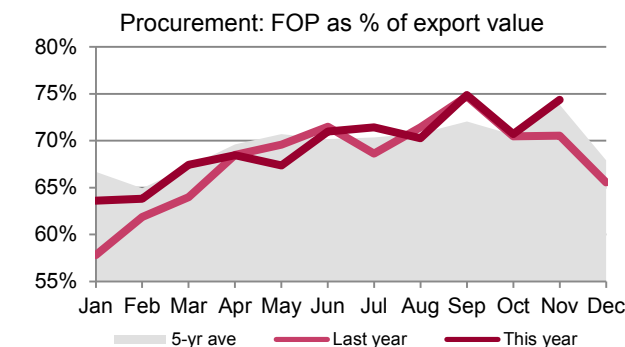
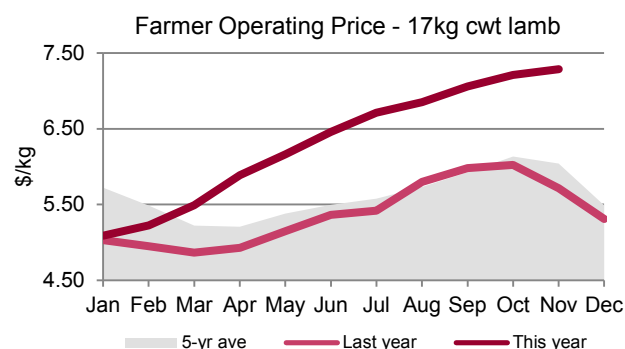
Export Market	Dec	Jan	Feb	Mar	Apr	May
UK CKT Leg £/lb	2.25	2.24	2.23	2.23	2.24	2.25
\$NZ:£UK	0.510	0.510	0.510	0.500	0.500	0.500
\$NZ/kg	\$9.73	\$9.68	\$9.64	\$9.83	\$9.88	\$9.92

#### Operating Price - 17kg CW lamb

\$/kg	\$7.05	\$6.70	\$6.35	\$6.05	\$6.10	\$6.20
\$/hd	\$120	\$114	\$108	\$103	\$104	\$105

#### Exchange rate effect on price projections for 17kg CW lamb

Exchange Rate	Dec	Jan	Feb	Mar	Apr	May
£0.490	\$7.34	\$6.97	\$6.61	\$6.17	\$6.22	\$6.33
£0.500	\$7.19	\$6.83	\$6.48	\$6.05	\$6.10	\$6.20
£0.505	\$7.12	\$6.77	\$6.41	\$5.99	\$6.04	\$6.14
£0.510	\$7.05	\$6.70	\$6.35	\$5.93	\$5.98	\$6.08
£0.515	\$6.98	\$6.63	\$6.29	\$5.87	\$5.92	\$6.02
£0.520	\$6.91	\$6.57	\$6.23	\$5.82	\$5.87	\$5.96
£0.525	\$6.85	\$6.51	\$6.17	\$5.76	\$5.81	\$5.90
£0.535	\$6.72	\$6.39	\$6.05	\$5.65	\$5.70	\$5.79



► LAMB - OVERSEAS MARKETS

## UK lamb prices rally

UK lamb production has slipped below this time last year, resulting in lifting prices. Despite the expectation production rates would increase this year, monthly UK sheep meat production has slipped below last year's levels since July. There is some concern that recent colder weather conditions

“Monthly UK lamb production has slipped below last year's levels.”

could lead to more lambs being carried over into 2018. Higher domestic sheep meat production combined with softer consumption rates could mute demand for lamb in the first few months of the year. Fortunately this period coincides with an earlier Easter this year, which may provide the boost to demand, the market needs.

In terms of the import market, NZ targeted the UK through October - coinciding with the lucrative chilled trade period. Export statistics show NZ sent their largest October chilled volume in over six years to the UK. This lessened the need for frozen product

which dropped away, leaving export volumes on par with previous years and slightly above the five-year average. The EU market was mixed with chilled volumes to Germany up while France was down.

### US market stable

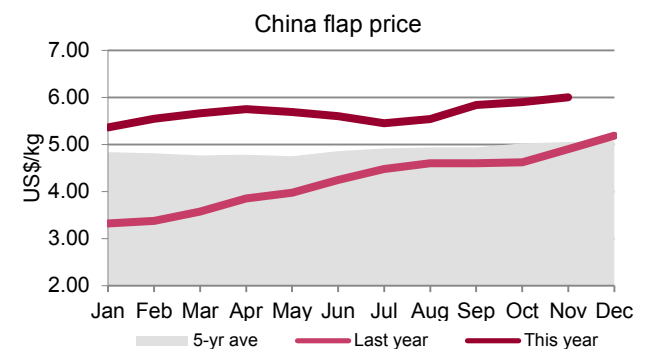
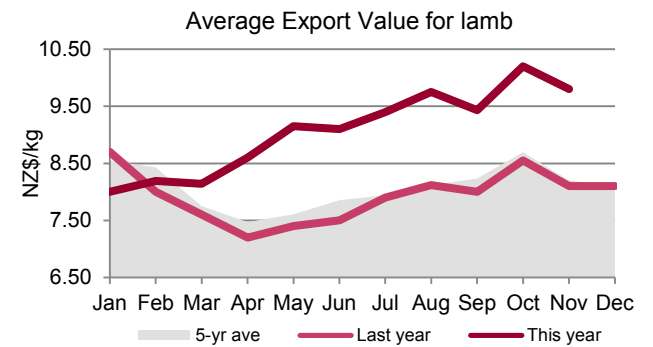
The US market remains in a strong demand position. French Rack prices are maintaining their current pricing level of well over US\$9/kg. However this is still not strong enough to match EU prices with some product being diverted there.

There is a realisation that the market has reached a ceiling. Prices have failed to lift in recent months. Although Australian supplies have picked up, they have yet to pressure prices.

### Chinese hunger to ease

China's buying requirements for the Chinese New Year are set to draw to a close mid December. This will have some impact on farm gate prices.

Indications point to softer asking prices when the Chinese resume buying in the new year. If the higher kill rates are maintained into the new year it will support this expectation.



► LAMB - COMPETITOR WATCH

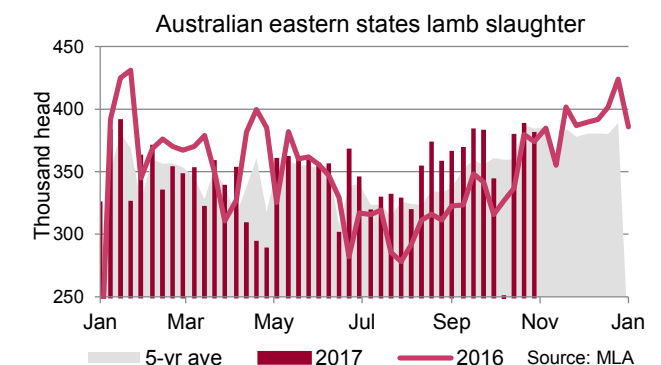
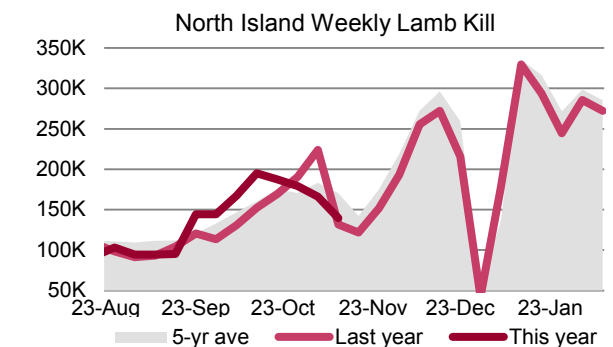
### Australian lamb supply peak

Lamb slaughter rates have lifted well above this time last year and five year average levels. By the end of November the weekly kill posted a near record for 2017. These higher kill rates continue to cut into the supply of lamb for the next six months.

Despite the higher supplies of lambs coming to the market, farm gate prices

have maintained their strength. This is a clear indication that demand for lamb remains strong.

NZ exporters note they have yet to see any impact of higher Australian supplies in key markets. Recent rain however is likely to slow slaughter rates over the coming weeks. This may elevate any pressure on key markets, as will the break in processing through the Christmas period.



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