



Key Points

Processing space harder to find for cattle

NZ exports less beef in 2016/17

Prime ewes a talking point this week

New season lambs hit the store market

P2 STEER
\$/KG
5.45

LAMB
\$/KG
7.10

MUTTON
\$/KG
4.30

↑ STAG
\$/KG
10.15

↓ NZD:USD
0.70

VIEWPOINT

Composition of beef production changing



Rachel Agnew



Reece Brick

NZ beef production for the 2017/18 season is forecast by B&LNZ to be static on 2016/17. The composition of production is expected to change, however, with a growing number sourced from the dairy industry. New season bull and cow production is expected to respectively lift by 2.8% and 1.6%. Prime beef production, however, is expected to decline significantly. Steer production is picked to drop by 6.5% and while heifer production is only expected to fall by 1.6%, a lift in the dairy heifer kill offsets declining beef heifer production.

It is no secret that the number of traditionally bred cattle is on the decline with breeding cow numbers showing no signs of growth for close to ten years. The shortage of traditional cattle is notable in the store market, where intense competition for all ages has pushed prices to record highs and placed them out of kilter relative to schedule prices. As the supply of dairy cross cattle exceeds

the traditional breeds, a two-tier market between breeds is becoming more notable in the store market. The growing proportion of NZ's steer production that originates from the dairy industry will also impact the quality of product we export. Demand for a limited supply of NZ's traditionally bred beef production may act to push global prices up. It will also have an impact on the level of procurement competition for these types of cattle from both local trade and export processors. Demand may force a larger price differentiation between the crossbred and traditional prime cattle.

While there are some signs of increased heifer retention this season, it will take time for this to have an impact in the store and slaughter markets, and production lifts are not likely to be significant. In contrast, the influence of the dairy industry will continue to lift which will bring with it new challenges for the beef industry.

Politics the talk of the country

Politics may just have topped weather as a talking point today, with Winston's long anticipated decision announced last night. It is difficult to know exactly what policies have survived the coalition negotiations and what haven't, so the full impact on the primary sector is unclear. We do know the water tax has been canned as has further foreign ownership of farming land. The coalition has also decided to renegotiate the TPP, delaying any outcome here considerably. It appears a shake-up of MPI and the Reserve Bank are also on the cards.

Winston Peters has declared his support for the primary sector and exporters, but given the make up of government anything could happen.

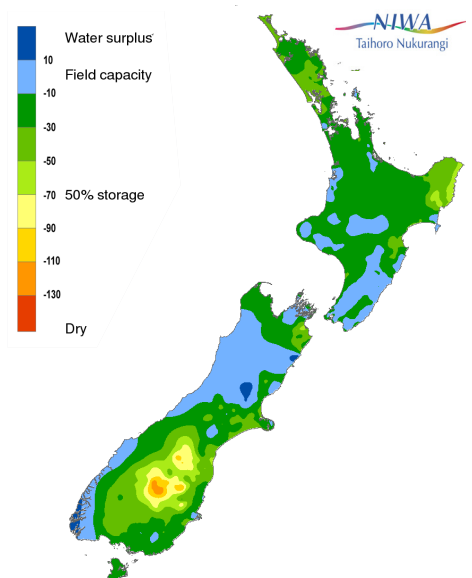
The NZD weakened following last night's decision, however what direction it takes from here is unclear until there is more certainty surrounding policy details.

WEATHER & CURRENCY

| Weather | Rainfall (MM) | | | Soil Temp | | |
|----------------|---------------|-----|-----------|-----------|------|-------|
| | TW | LM | LM vs ave | TW | LM | Trend |
| Buller/Westld | 38 | 177 | Ave | 11.4 | 11.4 | - |
| Nelson | 0 | 126 | High | 13.8 | 13.3 | - |
| Marl./Kaikoura | 1 | 80 | Ave | 12.4 | 12.2 | - |
| Nth Canterbury | 8 | 104 | V.High | 10.6 | 10.9 | - |
| Mid Canterbury | 2 | 21 | V.Low | 10.3 | 6.6 | Up |
| Sth Canterbury | 3 | 43 | Ave | 11.0 | 10.7 | - |
| Central Otago | 4 | 16 | Low | 9.8 | 9.2 | Up |
| Clutha | 8 | 22 | V.Low | 9.9 | 9.9 | - |
| Southland | 13 | 40 | V.Low | 9.5 | 9.3 | - |

| Currency | Change | TW | LW | LM | LY |
|----------|--------|-------|-------|-------|-------|
| NZD:USD | -2.0% | 0.698 | 0.712 | 0.729 | 0.717 |
| NZD:GBP | -0.8% | 0.532 | 0.537 | 0.537 | 0.586 |
| NZD:EURO | -1.8% | 0.591 | 0.601 | 0.610 | 0.658 |
| NZD:AUD | -2.3% | 0.889 | 0.910 | 0.920 | 0.941 |

Soil moisture deficit (mm) at 9am on 19/10/2017



▶ CATTLE

Processing space harder to find for cattle

Cattle processing space is a bit harder to find this week. Cattle numbers, particularly in the top half of the island, have lifted, and prices look set to ease in response.

Good feed conditions in the upper South Island have meant that cattle have done well in recent weeks. Many farmers are making the decision to take the money being offered now, knowing that downside is inevitable in coming weeks. Further south the cattle are close to coming forward, with supply expected to lift from November.

There has been some easing in local trade prices as cattle supply increases.

This follows the historical trend for local trade price trends.

With local trade prices underpinning export in recent weeks, the downside in local trade will be closely mirrored in export prices. Processors have been signaling that export prime margins are weak, and with supply on the rise, they will be quick to drive prices down.

Supporting the increased supply through the works is a steady stream of cattle through prime auctions. While prices at Temuka were steady on recent levels, the market at Canterbury Park eased on the back of larger numbers.

Yearling cattle the focus

Yearling cattle continue to be the focus in the store market this week. The market for these varies, with feed conditions in different regions driving demand. The upper half of the island has plenty of feed, and there has been some evidence of a grass market kicking in for some trades. Cold, windy weather in Otago is keeping a lid on feed and demand. The yearling market started off firm, but has plateaued as feed tightens.

Traditional types remain as rare as hens teeth, and premiums are being paid to secure what is available. A beef only sale scheduled in Canterbury has had to be opened up to all breeds due to the lack of entries. Good quality Hereford-Friesians can achieve similar

prices to traditional, but there is far less consistency in prices and quality.

The Blenheim sale on Thursday offered 700 traditional cattle. 1 year steers were making \$3.40-\$3.80/kg and 1 year heifers \$3.10-\$3.50/kg. Some of the buying power was from the North Island, however good feed levels in Nelson/Marlborough ensured most lines stayed local.

The yearling Friesian bull market has become slightly sticky. Heavier types are hard to move with \$2.90-\$3.00/kg for 300kg types the money this week.

It remains difficult to get locals to commit to contracts for 100kg calves, with many opting to try their luck on the spot market.

Softer tone to US imported beef market

Reports indicate US imported beef prices have moved slightly lower again this week. This typically happens at this point of the season.

NZ hasn't been pushing product into the US which is understandable given our low beef slaughter right now. However the market continues to pre-empt a changing situation and expects that NZ volumes will start to lift in the coming weeks.

The big change however has been

the lack of offers out of Australia following significant rainfall through Queensland. Processors are taking out capacity following a sharp drop in cattle availability. This is now causing delays in shipments out of Australia.

This has the potential to take some of the sting out of the further downside expected, particularly if cattle supplies in Australia remain tight for the remainder of the year.

NZ exports less beef in 2016/17 season

A shortfall of over 100,000 head of cattle processed in the 2016/17 season contributed to much lower beef exports for the season.

September export data shows that NZ exported 430,000 tonnes of beef in 2016/17, down by 36,000t on the previous season. A 15% reduction in the national cow kill resulted in a smaller flow of manufacturing beef to the US.

Exports there were down by 20,000t to 183,000t. This is the smallest volume of NZ beef sent to the US since the

2012/13 season when 175,000t was exported. It is also a far cry from the record volume of 230,000 sent in the 2014/15 season. The US remains our largest market, they accounted for 43% of our exports last season, down 1% on the previous season.

China has stepped up to the plate and now accounts for 18% of NZ beef exports. This equates to just on 80,000t of beef annually. In the 2011/12 season NZ beef exports to China totaled just over 7,000t.

high lights

\$3.40-\$3.80/kg
Traditional 1 year steers at Blenheim

\$2.90/kg
300kg yearling Friesian bulls at Coalgate

-36,000t
2016/17 NZ beef exports down on previous season

P2 STEER SCHEDULE \$/KG
5.45

LOCAL TRADE \$/KG
5.60

1YR STORE BULL \$/KG
3.20

| Slaughter cattle prices | | | | | | | |
|-------------------------|-------|-----|------|------|-------------|------|------|
| \$/kg | | +/- | NW | TW | Range | LM | LY |
| M2 Bull | 300kg | n/c | 5.10 | 5.10 | 4.80 - 5.30 | 5.10 | 4.90 |
| P2 Steer | 300kg | n/c | 5.45 | 5.45 | 5.30 - 5.80 | 5.35 | 5.50 |
| P2 Cow | 230kg | n/c | 4.25 | 4.25 | 4.00 - 4.40 | 4.25 | 4.00 |
| M Cow | 200kg | n/c | 4.25 | 4.25 | 4.00 - 4.40 | 4.25 | 4.00 |
| Local Trade | 230kg | n/c | 5.60 | 5.60 | 5.50 - 5.60 | 5.70 | 5.50 |

Slaughter values are gross operating prices in the SI including premiums

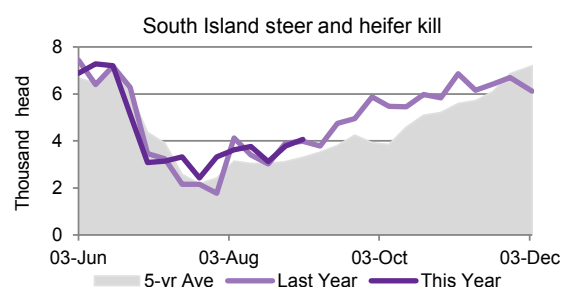
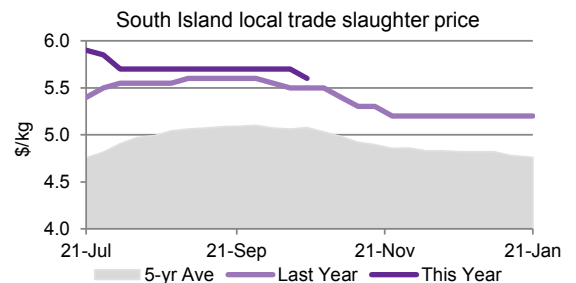
| Store cattle prices | | | | | | | |
|---------------------|-------|-----|------|------|-------------|------|------|
| \$/kg | | +/- | NW | TW | Range | LM | LY |
| 1yr Bull | 280kg | n/c | 3.20 | 3.20 | 2.90 - 3.25 | 3.30 | 3.00 |
| 1yr Steer | 280kg | n/c | 3.55 | 3.55 | 3.45 - 3.75 | 3.65 | 3.30 |
| 1yr Heifer | 250kg | n/c | 3.45 | 3.45 | 3.30 - 3.65 | 3.55 | 3.10 |
| 2yr Bull | 450kg | n/c | 2.70 | 2.70 | 2.60 - 2.80 | 2.65 | 2.70 |
| 2yr Steer | 450kg | n/c | 2.95 | 2.95 | 2.80 - 3.05 | 3.05 | 3.00 |
| 2yr Heifer | 400kg | n/c | 2.85 | 2.85 | 2.75 - 2.90 | 2.95 | 2.90 |

Store values are average gross on-farm prices available on a line

| Beef export demand and procurement indicators | | | | | | | |
|---|-----|------|------|------|-----|------|---------|
| | +/- | TW | LW | LY | LM | LY | 5yr-ave |
| US 90CL \$/lb | -5 | 2.00 | 2.05 | 1.88 | -1% | +6% | -6% |
| US Dom Cow | n/c | 2.14 | 2.14 | 1.92 | -4% | +11% | -4% |
| US 95CL \$/lb | -2 | 2.18 | 2.20 | 2.01 | -1% | +8% | -3% |
| NZ\$/kg | +8 | 6.89 | 6.81 | 6.18 | +4% | +11% | +6% |
| Margin CIF-FOP | +8 | 1.79 | 1.71 | 1.28 | +24 | +51 | -4 |

| Procurement Indicator - Schedule as % of US 95CL price | | | | | | | |
|--|----|-------|-------|-------|----|----|----|
| % Returned | -1 | 74.3% | 74.9% | 79.3% | -2 | -5 | +1 |

NW = Next week, TW = This week, LW = Last week, LY = Last year, LM = Last month



▶ LAMB

Prime ewes a talking point this week

Old season lambs continue to flow steadily through the processors this week. The imminent arrival of teeth is pushing more out, as are the good prices achievable while the Christmas chilled trade lasts.

The market is steady this week with the range largely between \$6.80-\$7.20/kg. Competition in the upper half of the island is driving the top end of this range, with the lower regions under the \$7/kg mark.

Prices for lambs at auction continue to be competitive, and often above schedules. At Canterbury Park and Temuka the top end of the market sold

between \$180-\$195 with \$160-\$175 claiming a large proportion.

Prime ewe prices continue to be very well sought after, with prices very strong. Heavy ewes at Canterbury Park sold to \$150-\$167 with medium-good lines returning \$126-\$147. At Temuka three quarters of the ewes traded between \$130-\$177.

Demand for mutton overseas is very strong. Processors will be looking to fill any gaps in lamb supply with ewes in coming weeks, however the bulk of the South Island ewes won't come out until mid-late November.

New season lambs hit the store market

There has been very little action on the store sheep front this week as the market transitions to the new season, however a handful of new season lambs at Coalgate generated some interest.

Just under 300 crossbred mixed sex lambs sold in two lines to make \$104-\$108/hd. The top line was estimated to be 30-32kg, making them approximately \$3.40-\$3.50/kg.

Merino's are the main feature in the hogget pens. At Canterbury Park mixed sex Merino-cross at 40kg made \$3.05/kg

or \$121/hd, and lighter types at 32kg averaged \$3.52/kg. At Temuka male Merino hoggets at 31-34kg made \$3.02-\$3.12/kg and 35kg made \$3.31/kg. Other mixed sex hoggets 35-40kg returned \$3.22-\$3.33/kg.

Numbers of ewes with lambs at foot (LAF) in the saleyards were well down this week. Quality, age and size determine this market. The top of the small offering at Temuka managed \$117 all counted, and \$113 was the top at Coalgate.

Expect \$10-\$15/head more for your December lambs

Farmers will be satisfied with the expected pricing levels for new season lambs through to Christmas.

Regardless of the predetermined downside in market prices from November, Agri HQ's latest Livestock Outlook indicates farmers stand to make an average \$10-\$15 per head more for lambs processed through December compared to last December.

The report indicates South Island farmgate lamb prices will be averaging \$6.70/kg in November, easing back to an expected average of \$6.15/kg in December. The strength of the market through this period is a reflection of the stronger demand for lamb seen throughout 2017. New season lamb

prices have only started the season at a higher level once before and that was in 2011.

These forecasts are on the proviso that the flow of lambs into processing plants is relatively smooth. Any sign of backlogs or processing delays will have a negative impact on farmgate prices and will see procurement competition reduced and farmgate prices pulled faster.

While not everyone can target the early months of the season due to lambing dates and climate conditions, the fact the market looks set to remain above \$6/kg through December will have positive benefits for those processing lambs through early 2018.

Store market will reflect positive slaughter prices

The store market mirrors the slaughter market tending to be stronger through November before store numbers start to really pick up and pressure prices lower.

25-32kg male lambs in the South Island track at 45% of farmgate prices through November on average. Based on the Livestock Outlook forecasts of \$6.70/kg in November, a 25kg store lamb would be averaging \$3.00/kg or

\$75/hd. A 28kg store male lamb at 45% of schedule would be closer to \$84/hd based on the forecast farmgate prices through November.

In December the correlation eases back with the store prices only tracking at 43% of the farmgate price reflecting the market signals. Based on the forecast price of \$6.15/kg as a December average, a 32kg store male lamb has the potential to be worth \$2.65-\$2.70/kg or \$85-\$86/hd.



\$104-\$108/hd First of the new season store lambs at Coalgate

\$150-\$167 Heavy prime ewes at Canterbury Park

\$6.15/kg AgriHQ's outlook price for lamb in December

LAMB SCHEDULE \$/KG **7.10**

MUTTON SCHEDULE \$/KG **4.30**

VENISON SCHEDULE \$/KG **10.15**

| Slaughter sheep prices | | | | | | | |
|------------------------|-----|------|------|-------------|------|------|--|
| \$/kg | +/- | NW | TW | Range | LM | LY | |
| Lamb M 17kg | n/c | 7.10 | 7.10 | 6.85 - 7.20 | 7.00 | 5.75 | |
| Lamb X 19kg | n/c | 7.10 | 7.10 | 6.85 - 7.20 | 7.00 | 5.75 | |
| Mutton MX 20kg | n/c | 4.30 | 4.30 | 4.00 - 4.50 | 4.25 | 2.75 | |

Slaughter values are gross operating prices in the SI including premiums

| Store sheep prices | | | | | | | |
|--------------------|-----|------|------|-------------|------|------|--|
| \$/kg | +/- | NW | TW | Range | LM | LY | |
| Male 35kg | n/c | 3.05 | 3.05 | 2.80 - 3.20 | 3.40 | 2.65 | |
| 32kg | n/c | 3.10 | 3.10 | 2.80 - 3.20 | 3.50 | 2.90 | |
| Ewe 32kg | n/c | 3.10 | 3.10 | 2.80 - 3.20 | 3.45 | 2.90 | |

Store values are average gross on-farm prices available on a line

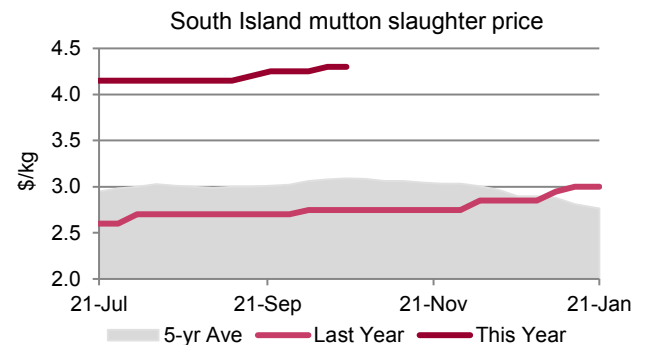
| Lamb export demand and procurement indicators | | | | | | | |
|---|-----|------|------|------|-----|------|----------|
| | +/- | TW | LW | LY | LM | LY | 5-yr ave |
| US F/Rack \$/lb | n/c | 9.35 | 9.35 | 7.00 | 0% | +34% | +19% |
| UK Leg p/lb | n/c | 2.25 | 2.25 | 1.88 | +1% | +20% | +29% |

| Monthly Average Export Value (AEV) | | | | | | | |
|------------------------------------|-----|------|------|------|-----|------|------|
| NZ\$/kg | +/- | TW | LW | LY | LM | LY | |
| NZ\$/kg | n/c | 9.75 | 9.75 | 8.55 | 0% | +14% | +12% |
| AEV vs FOP | n/c | 2.65 | 2.65 | 2.80 | -10 | -15 | -11 |

| Procurement Indicator - Schedule as % of demand indicator (NZ\$/kg) | | | | | | | |
|---|----|-------|-------|-------|----|----|----|
| % Returned | | | | | | | |
| % Returned | 0% | 72.8% | 72.8% | 67.3% | +1 | +6 | +5 |

| Venison price | | | | | | | |
|---------------|------|-------|-------|--------------|------|------|--|
| \$/kg | +/- | NW | TW | Range | LM | LY | |
| AP Stag 60kg | +10c | 10.15 | 10.05 | 9.70 - 10.05 | 9.70 | 8.90 | |

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