



Sheep & Beef Report

September 2010

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Editorial

Hello and welcome to the Agrifax Sheep and Beef Report. This report is produced MONTHLY in the first week of the month.

Future reports will be sent out as an email attachment much like this one, as is the case with most of our products. From next month we will be encrypting this report using FileOpen software. This software only allows those that are subscribed to the report to be able to view it.

If you are interested in subscribing to this report, please email info@nzxagrifax.co.nz and request subscription details. Or if you know someone who may be interested in subscribing, you are welcome to forward this version to them.

We welcome any feedback on this report, which can also be emailed to the above email address. We look forward to hearing from you.

This month, New Zealand lamb production has hit its seasonal low-point and overseas prices are at an all time high. Normally at this time of year, New Zealand exporters have product available in frozen storage. However this season it is not the case and this is reflected in export data for June and July.

Foreign exchange rates continue to erode returns from New Zealand's main lamb export market, Europe. Meanwhile exports to the US, Asian and Middle Eastern markets are on the rise.

Globally, production remains on the decline and this, along with the lack of product in storage, is helping lift farm gate prices for lamb and mutton. A 17.5kg lamb is now approaching \$100/head and is expected to maintain strong pricing into the 2010/2011 season.

On the beef side, a shortage in supply of lean beef in the US is the main factor currently affecting global beef markets, with prices skyrocketing.

We are continuing to see huge growth in the Indonesian markets, despite buyers there having to match the high prices in the US. This, combined with exceptionally low slaughter numbers, has seen schedule prices also heading upwards, and things are showing little sign of easing.

Coming Soon...

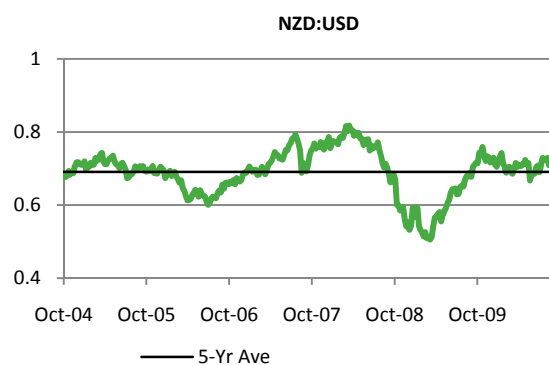
Lamb and Beef Price Prediction and market indicator

	This month	Last month	6 mnth ago	Last year
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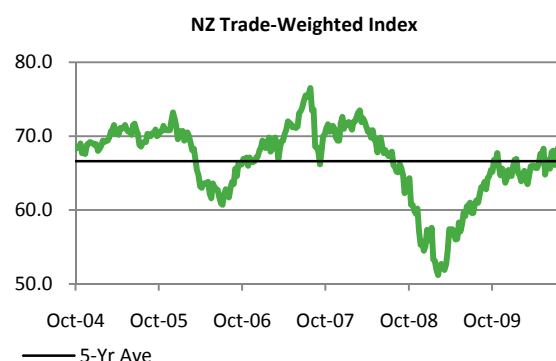
FOREIGN EXCHANGE RATES

NZ TWI	65.9	68.4	63.5	63.8
NZD/USD	0.704	0.729	0.686	0.688
NZD/EUR	0.553	0.563	0.505	0.479
NZD/GBP	0.453	0.472	0.456	0.423
NZD/AUD	0.793	0.825	0.762	0.819

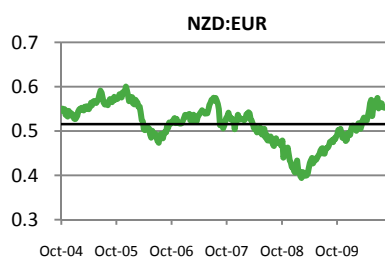
The past month has been one of retracting risk in global foreign exchange markets. Very poor macro economic data produced out of the US has sent much of the global speculative cash back into the safe-haven US currency. However, comments this week from the Chairman of the US Federal Reserve indicate that they are ready to consider 'unconventional measures' should the current policies in place fail to provide stimulation to the US economy. This, as anticipated, saw global markets rally, including the New Zealand and Australian currencies. However, softer than expected New Zealand trade data, a sharp fall in local business confidence and the recent activation of the New Zealand Government Deposit Guarantee Scheme, has limited any gains by the New Zealand Dollar (NZD).



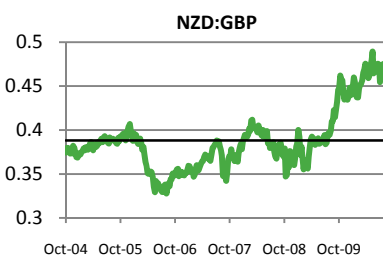
Source: Agrifax, Bloomberg



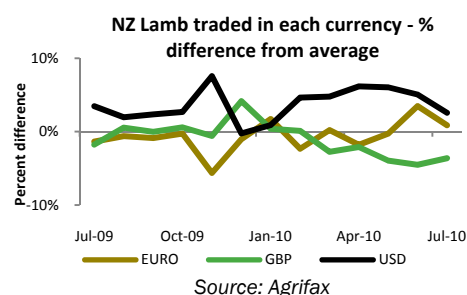
Source: Agrifax, Bloomberg



Source: Agrifax, Bloomberg



Source: Agrifax, Bloomberg



Source: Agrifax

Against the Euro and the British Pound Sterling (GBP), the New Zealand dollar (NZD) has changed little in the past month. Against the Euro, the NZD is trading 7% above its five-year average while against the GBP, its trading at 17% above the five-year average. With very little good economic news coming from these regions, the NZD is expected to trade at similar levels through at least into the peak of the coming New Zealand lamb season early in the New Year. When the two currencies are compared with each other, the GBP has recently been gaining strength against the beleaguered Euro. The GBP is currently buying €1.22 which is at its highest level since late 2008. This time last year the GBP was buying less than €1.20 and was on the decline to its low of €1.09 in October 2009. The improving GBP will be discouraging British domestic lamb producers from exporting to the European continent, reducing the opportunity for New Zealand lamb to fill supply gaps left by the local product.

Lamb

Overseas Markets

This month Last month 6 mths ago Last year

WHOLESALE PRICES

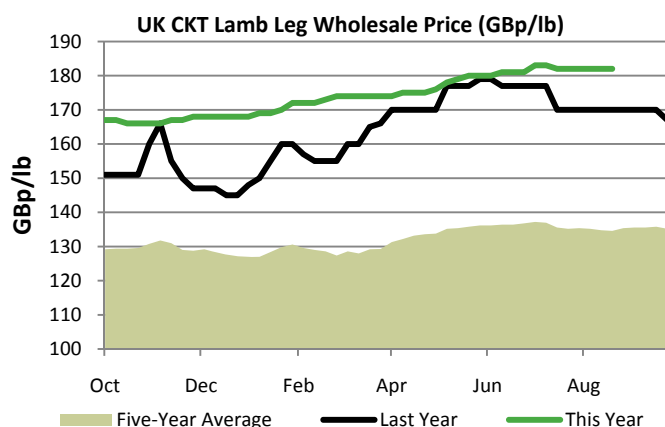
UK CKT Leg	GBP/lb	184	182	174	170
EU FBO/ABO Leg	EURc/kg	548	535	486	-
US French Rack	US\$/lb	657	637	599	-
EU French Rack	EUR/kg	12.26	10.40	9.58	-
Five-Rib Forequarter	NZ\$/kg	5.92	5.92	5.85	-
Flaps	NZ\$/kg	4.72	4.70	4.37	-

As New Zealand's lamb production hits rock bottom for the season, overseas prices for lamb cuts have risen further. The major driver of the higher prices is the lack of available product – particularly frozen lamb cuts. Prices for frozen lamb leg entering the markets of Europe and the UK are at an all time high. Demand for lamb from these markets is expected to continue to outweigh supply as all the major suppliers to the market, both domestically and international, have reduced production this year.

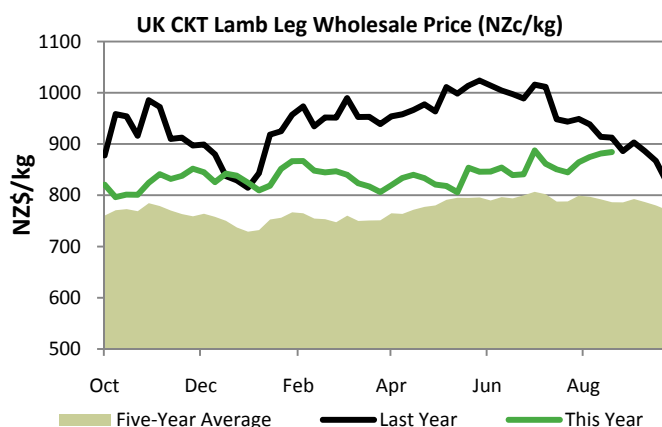
However, exchange rates have continued to limit returns in New Zealand dollar terms. For the season to date, a frozen UK CKT lamb leg, when converted to NZ dollars, has returned an average price of NZ\$8.41/kg, which is 10% less than the average for the 2008/09 season.

Prices for the middle cuts in Europe appear to have returned to what is considered a respectable price. After languishing below €9/kg in 2008, prices have returned to over €12/kg. In North America, these cuts have experienced a similar upswing, surging 14% since January 2010. However, a preference for larger middle cuts in the US means that Australia still dominates this market.

Prices for the cheaper shoulder and flap cuts are also firm. The majority of this product is exported frozen, and as such, the amount in storage both in New Zealand and in the markets is at an all time low. Product destined for China that is held up in Hong Kong is expected to be released in September coinciding with the seasonal decline in Asian sheep meat production. The Middle East is expected to remain a strong market for New Zealand shoulder meat in the coming season.

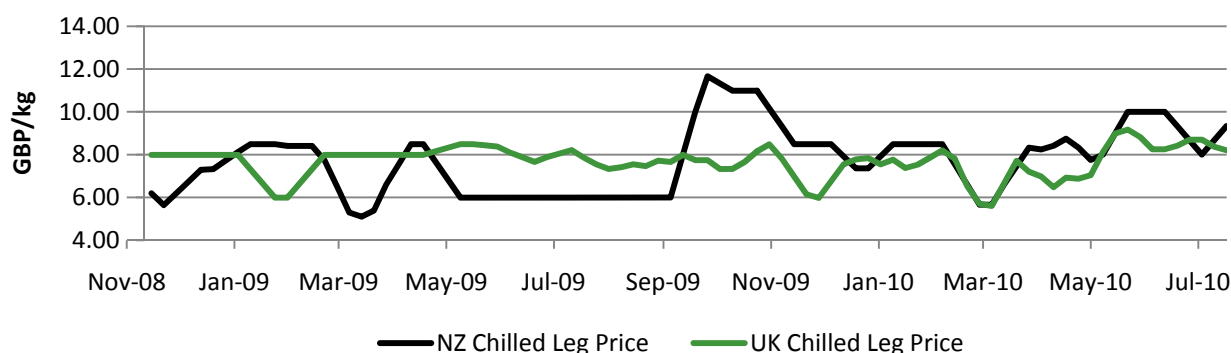


Source: Agrifax



Source: Agrifax

Average Retail Price of a Lamb Leg in the UK



Source: Agrifax

Lamb

New Zealand Exports

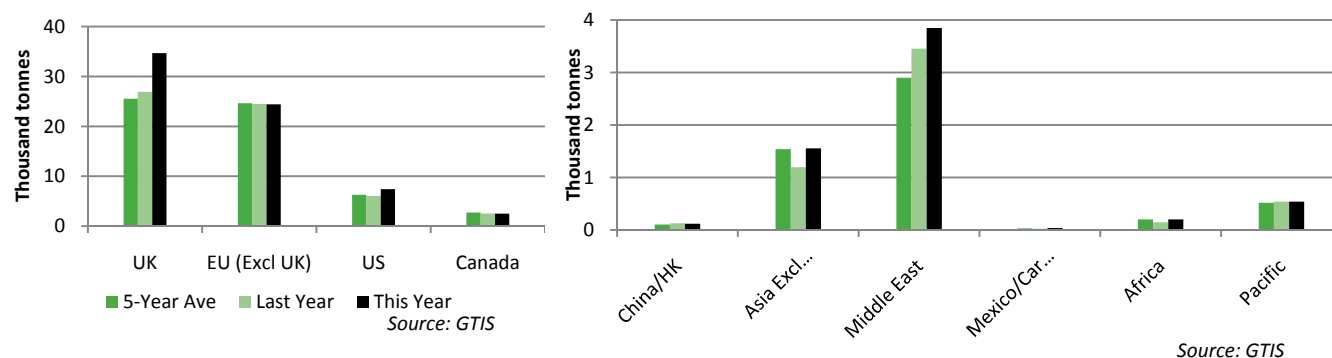
New Zealand's lamb meat exports for the period of May 2010 to July 2010 were just short of 75 thousand tonnes, 10% lower than the same period in 2009. At the end of May 2010, exports for the season to date were at similar levels to last season. However, two months on, total exports for the season to date are now 2 thousand tonnes behind.

Over the past twelve months, and despite greatly reduced production levels, New Zealand increased its supply of lamb into the Middle Eastern and North American markets by 4%. However, total imports to the US for the year to June 2010 have declined 1%. New Zealand has been making up a shortfall in supply from Australia over the past twelve months. New Zealand is expected to continue to gain market share in the US market in the coming season, and this is indicated by some New Zealand meat companies' intentions to target higher weight lambs this coming season.

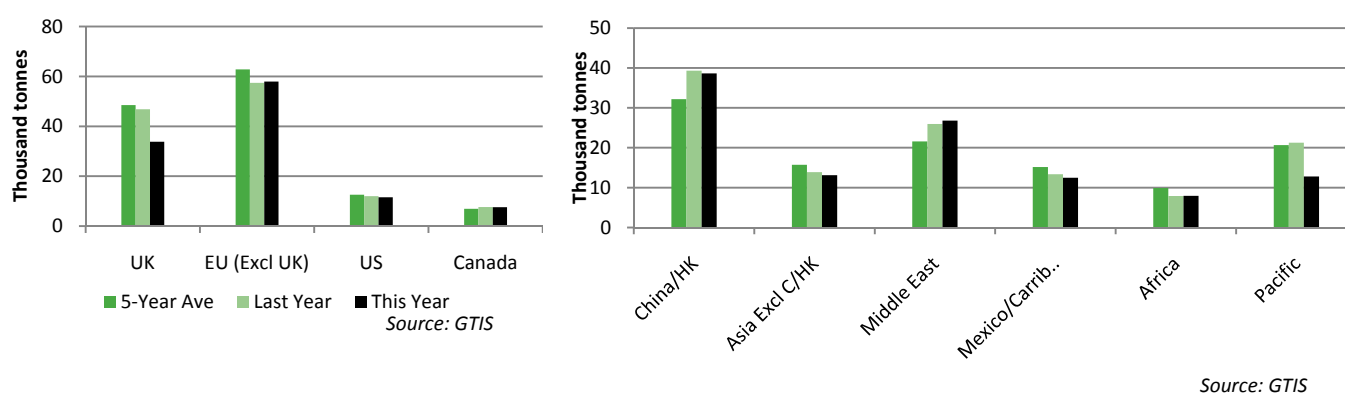
The major global sheep meat importers have all registered reduced imports in the past twelve months. Imports into Europe in the year to May 2010 have declined 8% compared to the same period a year ago. Meanwhile imports to China have declined 17% in the year to July 2010. However, when including Hong Kong, New Zealand and Australia have both increased their exports to the region by 2% and 180% respectively.

With very limited frozen stocks available going into the coming season, exports of frozen product are anticipated to decline, and this will be noticeable into the European market.

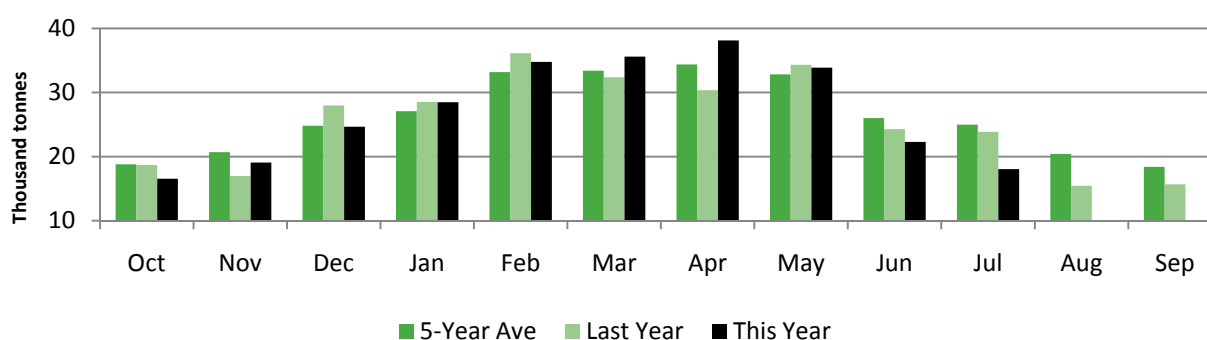
New Zealand Chilled Lamb Exports (12 Months to July 2010)



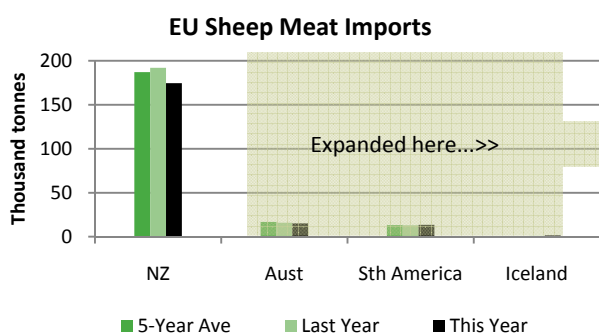
New Zealand Frozen Lamb Exports (12 Months to July 2010)



Total NZ Lamb Exports

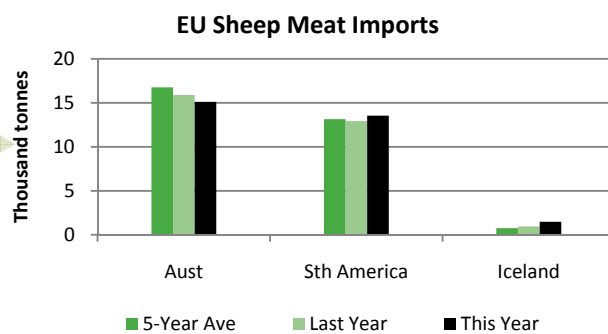


Lamb Global Trade

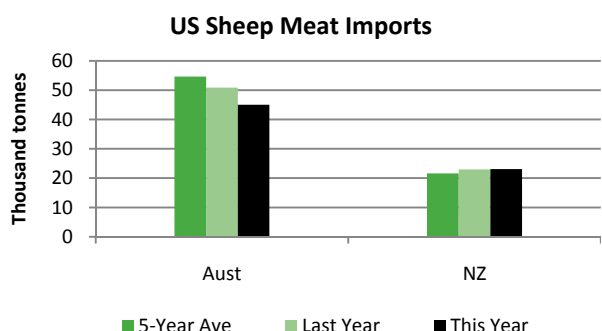


Source: GTIS

*Imports for the 12 months to May 2010

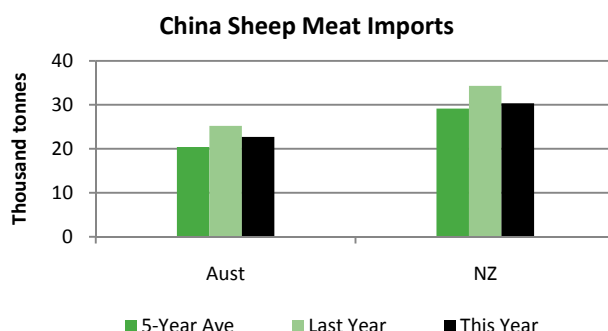


Source: GTIS



Source: GTIS

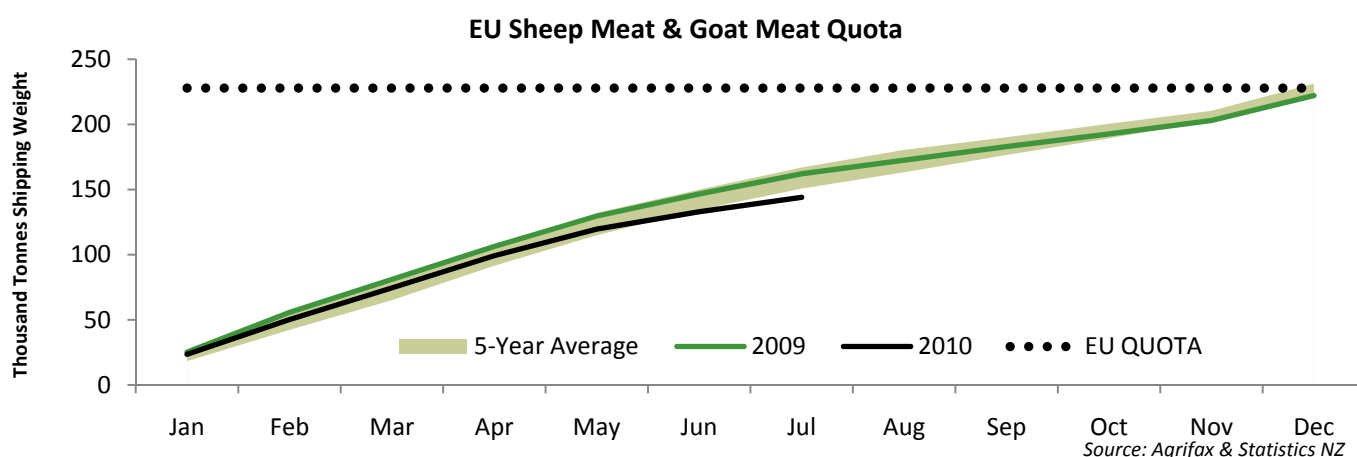
*Imports for the 12 months to July 2010



Source: GTIS

*Imports for the 12 months to July 2010

New Zealand Sheep meat and Goat meat Quota to the European Union



Source: Agrifax & Statistics NZ

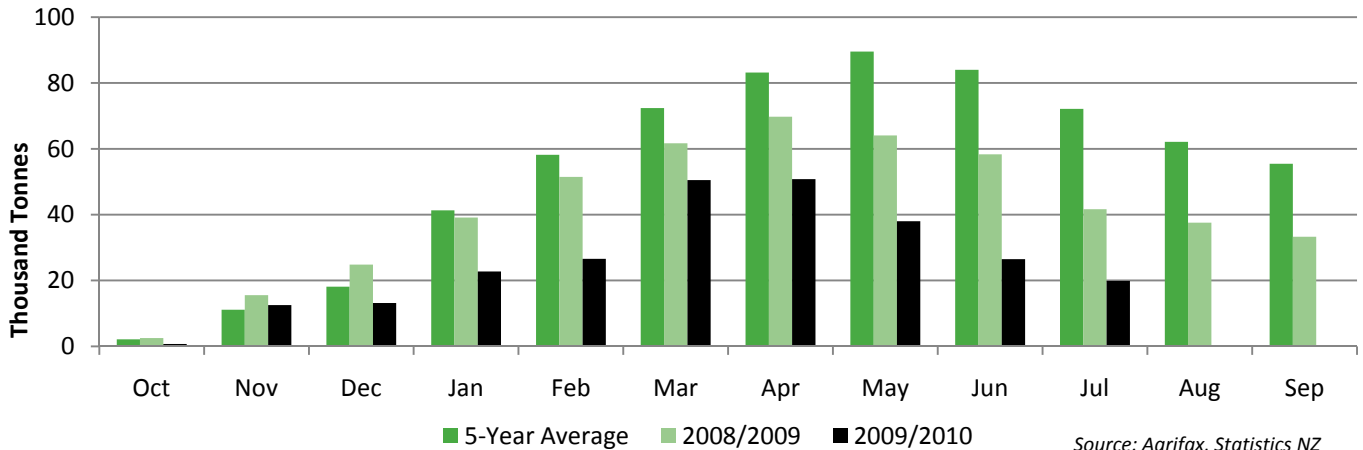
As of the end of July 2010, New Zealand had shipped 144 thousand tonnes (cw) of sheep meat to the European Union. This equates to 63% of the 2010 quota allocation. At the end of July 2009, New Zealand had shipped 71% of its allocation.

Australia has shipped 60% or just over 11,000 tonnes of its 2010 quota allowance of 18,786 tonnes.

For the calendar year to May 2010, the EU has imported less sheep meat from all of its major suppliers. From New Zealand and South America, imports are down 9%. Meanwhile from Australia, imports are down 37%. A weak Euro and British pound are affecting exporters willingness to supply the European market when demand exists for the limited available supply in more favourable markets.

Lamb Production

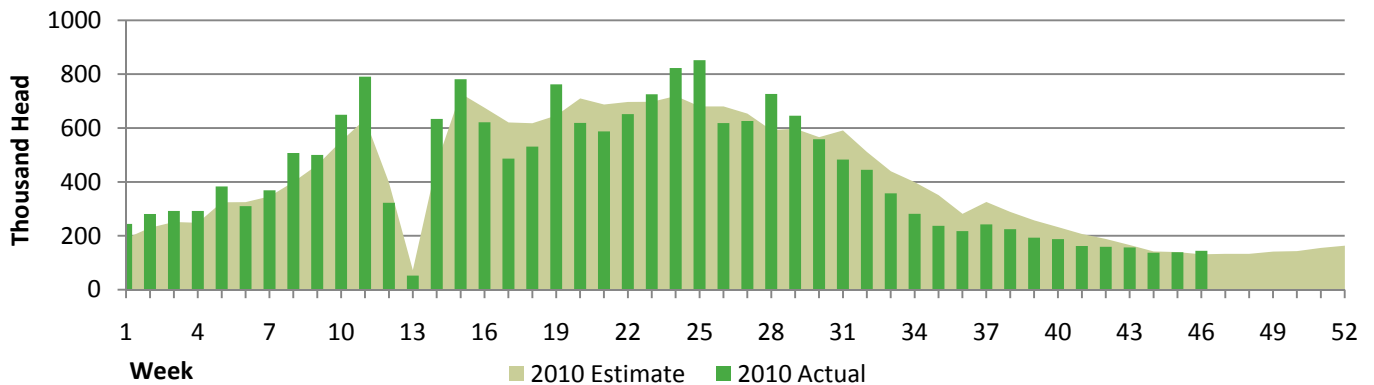
Lamb Product in Storage



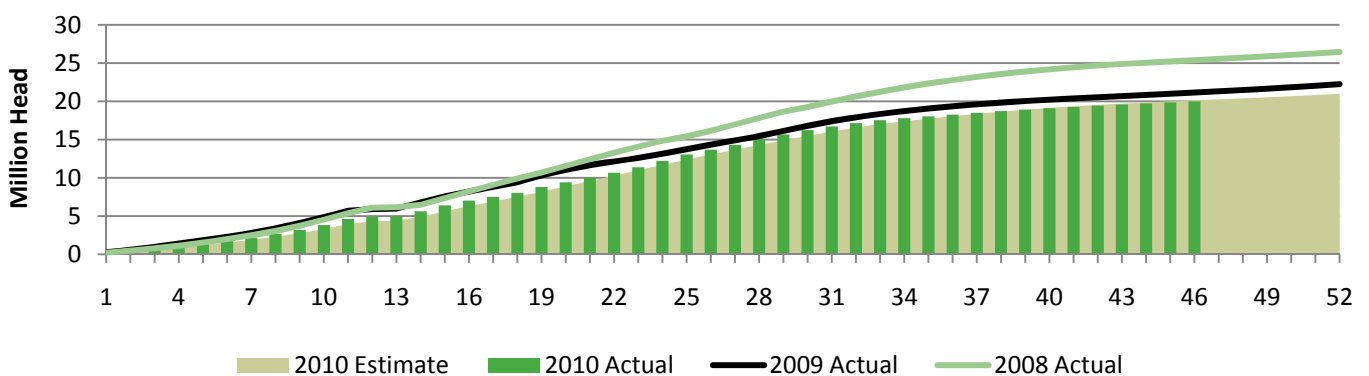
Lamb production volume minus export carcass weight and domestic consumption - starting at zero on 1 October each year.

Slaughter Figures

NZ Lamb Slaughter (Week 1 = beginning of October 2009)



NZ Lamb Slaughter - Cumulative Season Total



With the 2009/2010 season drawing to a close, New Zealand's export lamb slaughter remains over 6% behind last season. August is the seasonal low-point for processing throughput, and this August saw an 8% reduction volumes processed compared to last season. In addition, the South Island experienced its lowest weekly August throughput since 1998, of less than 35 000 head processed. Beef and Lamb New Zealand have announced that they anticipate throughput for the 2010/2011 season to be at similar levels to this season at 21.3 million head.

Lamb

Farm Gate

This month Last month 6 mth ago Last year

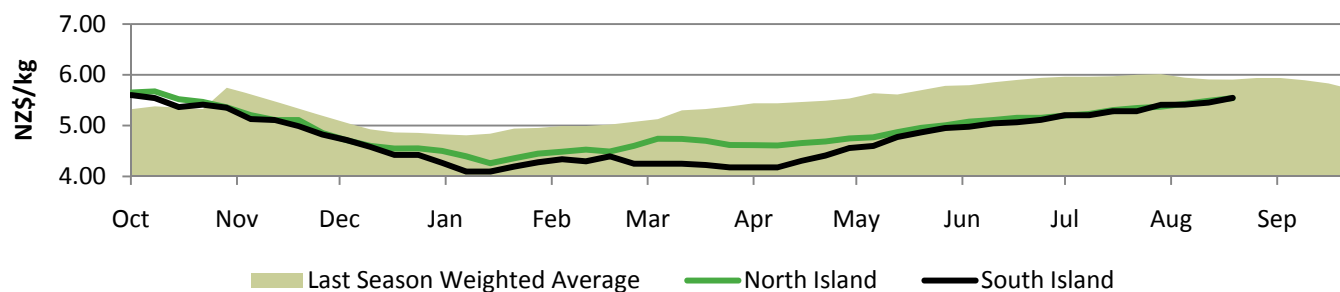
MEAT COMPANY OPERATING PRICES (PER HEAD WEIGHTED AVERAGE)

13kg	55.59	52.20	41.06	60.70
15kg	84.57	80.00	66.74	89.29
17.5kg	97.92	92.61	77.17	103.94
19kg	106.06	100.31	83.53	111.38
21kg	116.82	110.22	91.51	122.33
NZ\$/kg	5.60	5.29	4.41	5.94

STORE PRICES

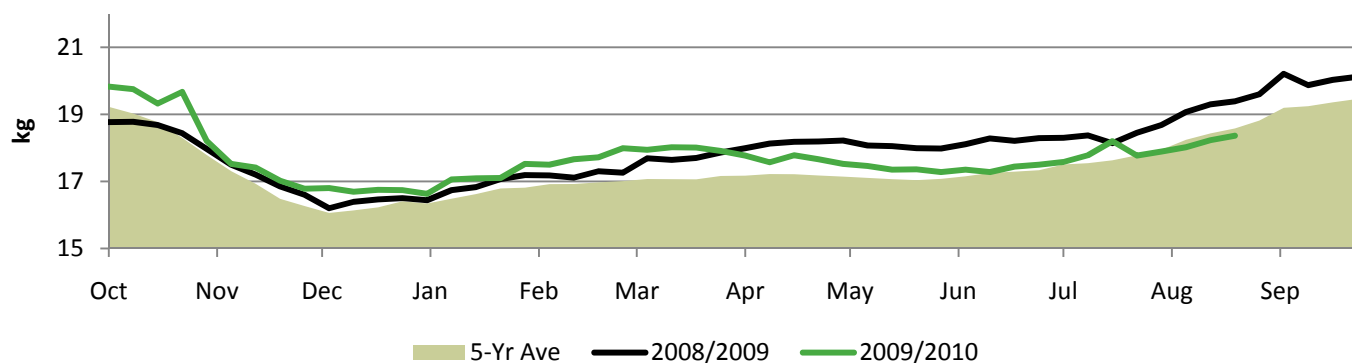
Store Lamb (NZ)	2.79	2.35	2.30	-
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2009/2010 Lamb Schedule Price (17.5kg)



NZ Lamb Average Carcase Weight at Slaughter

Source: Agrifax



Source: Agrifax

Meat company operating prices have been surging towards last seasons' levels in the past month. However, it remains unlikely that prices will reach last season's peak of \$6.00/kg. Currently at \$5.60/kg, prices are 6% behind the same time last year which equates to a \$6 per head difference for a 17.5kg lamb. However, last season, prices were already declining from their seasonal peak. This season we expect old season lamb prices to begin their seasonal decline in early October as is the norm. Contract negotiations for Christmas chilled supply to the northern hemisphere are underway. It is anticipated that demand will outweigh supply and therefore continued strong farm-gate prices will be anticipated. However, foreign exchange rates will continue to hamper returns from this region.

Average carcase weights at slaughter are at similar levels to the five-year average for this time of year. However the average carcase weight processed this season, is 17.6kg which is 0.5kg above the five-year average. It is with this in mind that some meat companies are targeting heavier lambs for the coming season. Reduced supply from Australia (which supplies larger lamb carcasses) has provided an opportunity for New Zealand exporters to increase supply into the US market.

Store lamb prices have sky-rocketed in the past month, as early spring growth combines with a shortage of supply. Prices of some animals at sale have touched \$3.00 per kg live-weight.

Lamb

Global Production

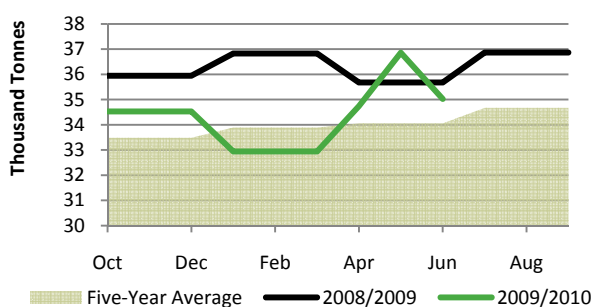
It's been one of the wettest winters across the eastern states of Australia. Consequently, an excellent spring for lamb production is on the way. The recent rain has reduced the volume of lambs available for sale and the resulting tight supplies have seen record prices for lambs at the sale yards. Many producers are taking advantage of increased feed availability and as such, trade lamb prices in Australia are 15% above where they were at the same time last season. However, in the past two months there has been a 24% lift in new season lambs finished compared to last year, which is a signal that lamb producers in Australia are responding to strong prices, by increasing their lamb production.

In Britain, high rates of sheep culling in the past two years and the effects of a harsh winter on lamb supplies, has resulted in an 8% decline in sheep meat production forecast this year. However, the British flock is also in a re-building phase and is expected to experience growth in production by 2012.

A decline in processing throughput in Great Britain of 7% for the past three months has helped end the seasonal decline of the lamb price sooner than normal, with domestic prices rising 9% in the past month.

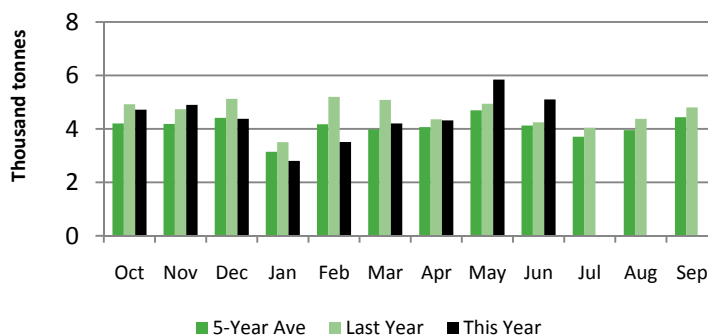
The US and Canada sheep flocks are also on the decline. Totalling 7.94 million head, the flock is down 2% on last year, with 'market sheep and lamb' numbers down 1% from last July and 13% from July 2005.

Australian Lamb Production



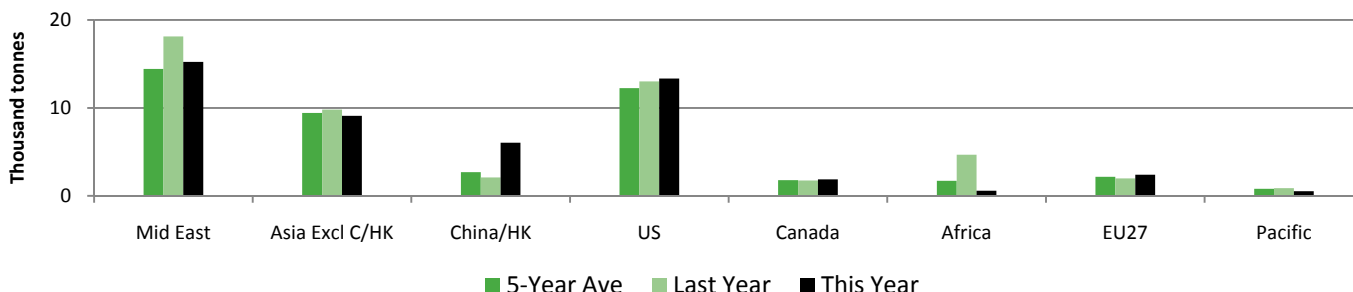
Source: Australian Bureau of Statistics & MLA

Australian Lamb Exports



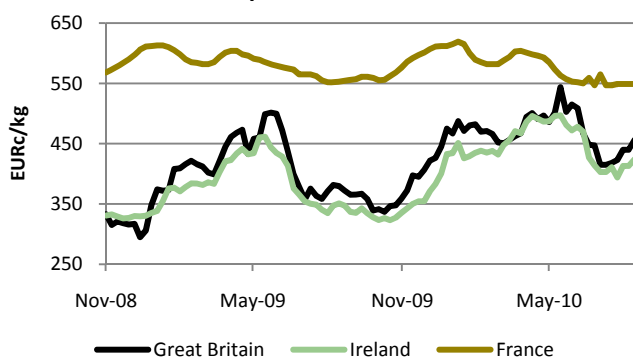
Source: GTIS

Australian Exports of Lamb Meat - 12 Months to June 2010



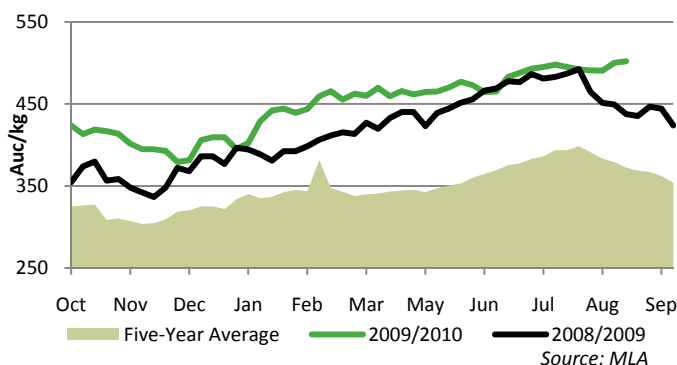
Source: GTIS

European Domestic Lamb Price



Source: Irish Food Board

Australian Lamb Price



Source: MLA

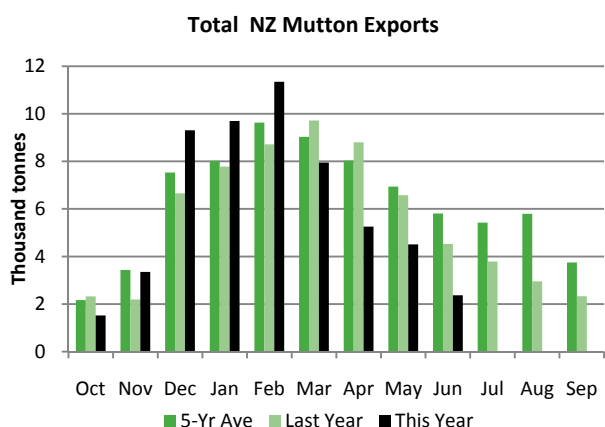
Mutton New Zealand

New Zealand's pre-lambing mutton cull (June -August 2010) saw 5% more animals culled than the same period in 2009 but 28% less than the five-year average. However, total mutton throughput for the 2009/2010 season remains set to be 10% down on 2009 and indicates that the New Zealand sheep flock size is showing signs of stabilising.

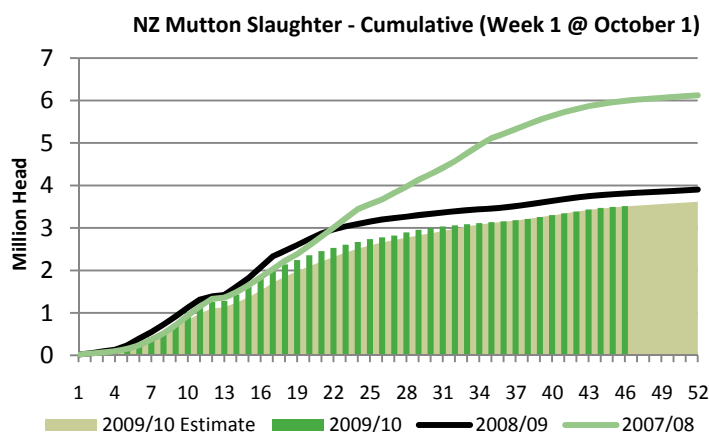
At over \$60 per head, the price of New Zealand mutton is at an all time high and indicates that high overseas prices are being paid for a product that is in serious shortage as most global flocks are being re-built.

New Zealand's mutton exports for the season to date are 6% down on last year. For the year ending June 2010, New Zealand mutton exports to our biggest mutton market the EU, were down 32%. Meanwhile exports to Asia during the same period were up 5%. Taiwan and Malaysia have been the largest Asian markets during this period.

	This month	Last month	6 mnth ago	Last year	
MEAT COMPANY OPERATING PRICES (WEIGHTED AVERAGE)					
21kg Mutton	NZ\$/head	62.99	57.29	51.09	50.26



Source: GTIS

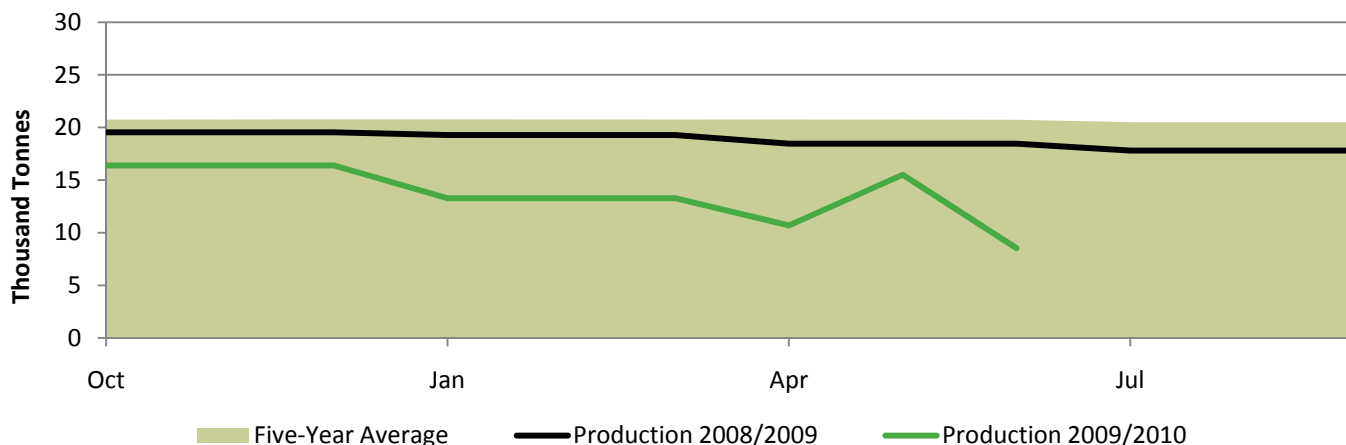


Source: Agrifax

Australia

Australian mutton production for the three months to June 2010 was down 38% on the corresponding period in 2009. Meanwhile actual throughput of animals for the three months to July 2010 was down 63% compared to the same period a year ago. Total mutton production in Australia has been declining for three years in a row. Good growing conditions and an indication from lamb suppliers of their intentions to re-build their breeding flocks, will see Australian mutton production continue to slow over the next twelve months.

Australian Mutton Production



Source: Australian Bureau of Statistics, MLA

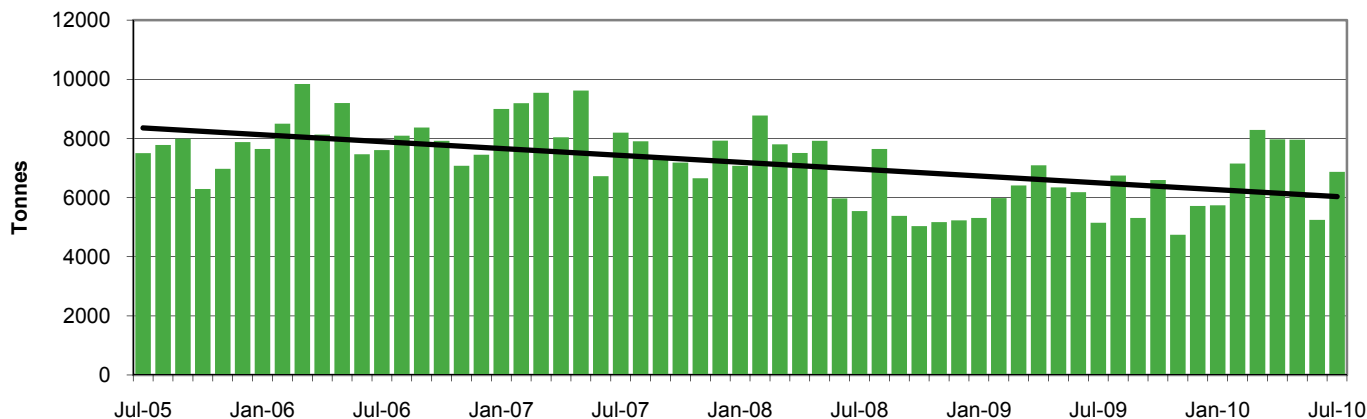
Wool

New Zealand

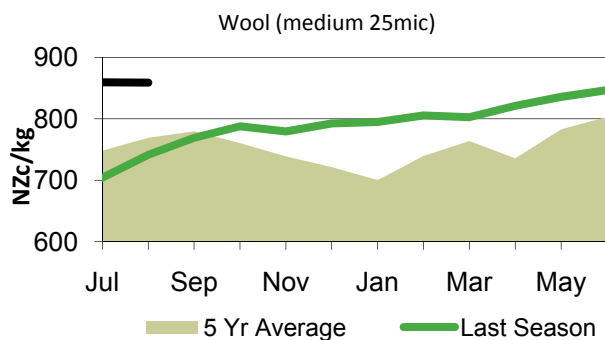
EXPORTS

NZ Clean Wool Exports (major export destinations)

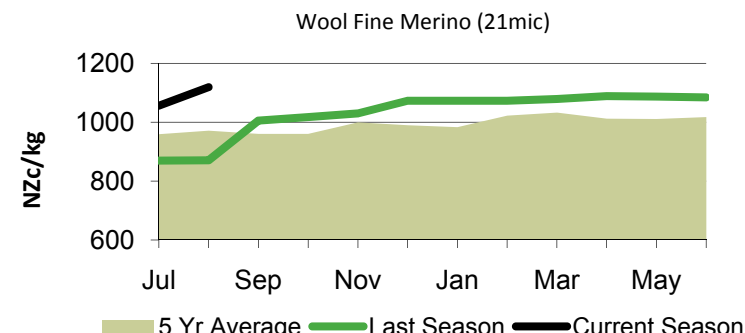
Source: Statistics NZ



New Zealand's July wool exports are down 8% on what they were for the July 2005. However exports are up 33% on July last year, and up 24% on July 2008. Prices have continued to strengthen throughout the year and are now between 11% and 24% higher than in August last year, for fine and course styles respectively. Even as quantities of wool going to auction goes through the seasonal high, prices are improving. Demand from buyers is still strong, with the UK matching China for exports from NZ in July. Each taking 25% of the July export, this has been driven by oversold forward purchases of the UK wool clip and a rush to get wool to fill orders.



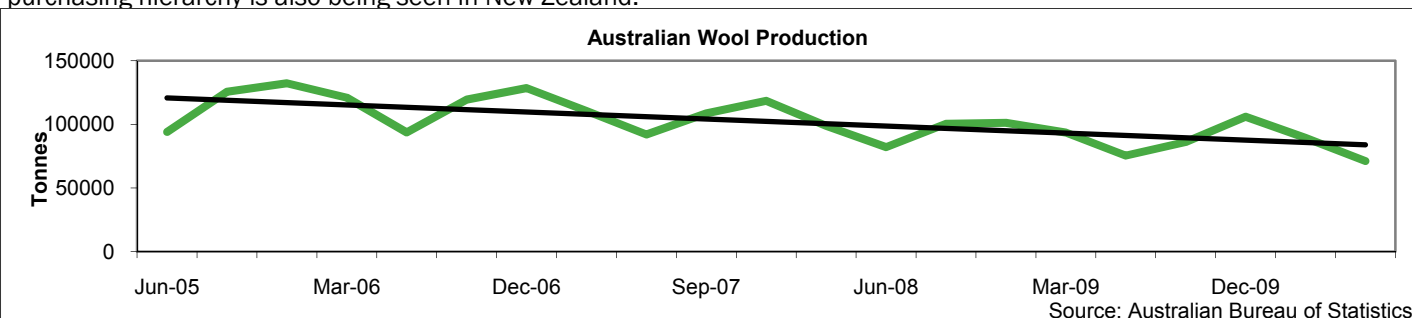
Source: Agrifax



Source: Agrifax

Australia

In Australia, production is down 13% on this time last year, and 24% on 2005 for July. Prices in Australia have improved at their latest auction, for super fine merino clips, and experienced a complete opposite for medium styles. Medium styles have declined as much as fine styles have strengthened. Quantities of wool going to auction in Australia are down 6% on this time last year. Demand for wool is again being dominated by buyers from China, followed by European purchasers. This purchasing hierarchy is also being seen in New Zealand.



Source: Australian Bureau of Statistics

UK and the World

In the UK prices have strengthened 66% since this August last year. With world sheep numbers dropping, demand is seeing buyers act to give stability to the wool prices around the world.

Beef

US Market

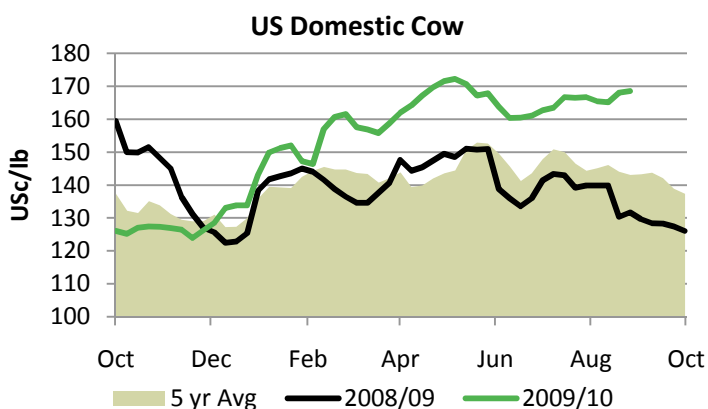
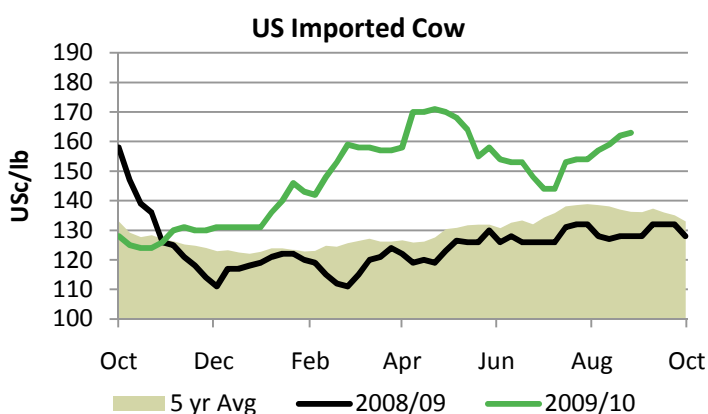
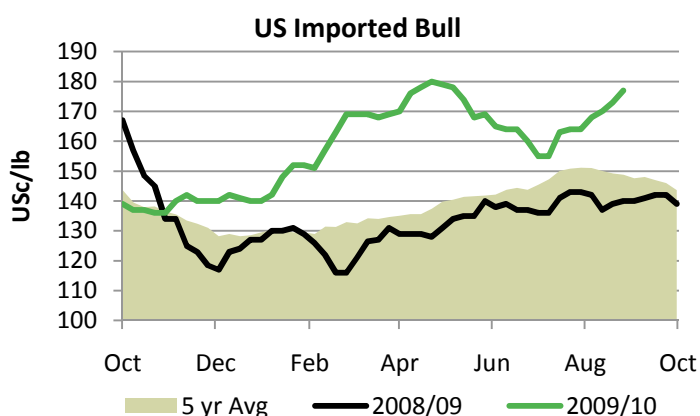
		This mth	Last mth	6 mths ago	Last year	5 year average
US PRICES						
Imported 95CL (Bull)	USc/lb	177	164	169	140	149
Imported 90CL (Cow)	USc/lb	163	154	159	128	136
Domestic 90CL (Cow)	USc/lb	169	168	162	132	143
Domestic 50CL (Trimming)	USc/lb	68	71	89.1	63	61

Over the past month, beef prices in the US market have defied the historical downwards trend, and remained unseasonably firm. The hottest product has been 95CL bull meat, which has climbed steadily to US177c/lb since its slide in value was halted at US155c/lb in mid-July. Imported cow meat has followed the same trend, but has climbed at a slower rate, with 95CL meat trading at a US12-15c/lb premium over the 90CL cow. Buyers who held back from buying product in advance, in anticipation of the seasonal fall in prices, may now be rueing this decision as their gamble doesn't look to have paid off as yet. Many buyers have been forced to resort to domestic product to fill their orders as the US Labour Weekend holiday approaches (September 4-6, 2011).

The main reason that import prices are so firm is simply the supply and demand balance, with lack of supply being the crux of the issue. The unseasonably high domestic cow price is also lending support to its imported counterparts. The five-year average for domestic cow shows that over the past seven weeks, prices typically drop by US7.8c/lb, however, prices have in fact risen by US5c/lb over that period this year. These prices have shown signs of softening in recent times but we are unlikely to see any significant movement until stock levels have been reassessed following Labour Weekend. With the autumn cow kill also just around the corner, an eventual softening of US domestic prices is expected.

The price for US 50CL trimmings is still significantly above the five year average for this time of year but, unlike the lean meats, these prices are steadily trending downwards. Being a large component in meat patties, a lowering of these prices helps manufacturers absorb the higher costs of the lean grinding meats.

The outlook for US imported beef market is largely positive, with many predicting that the high prices are set to continue. Demand for grinding beef is expected to remain sound, and the supply pipeline looks as though it will remain tight, as volumes from New Zealand, Australia and South America remain subdued.



Beef

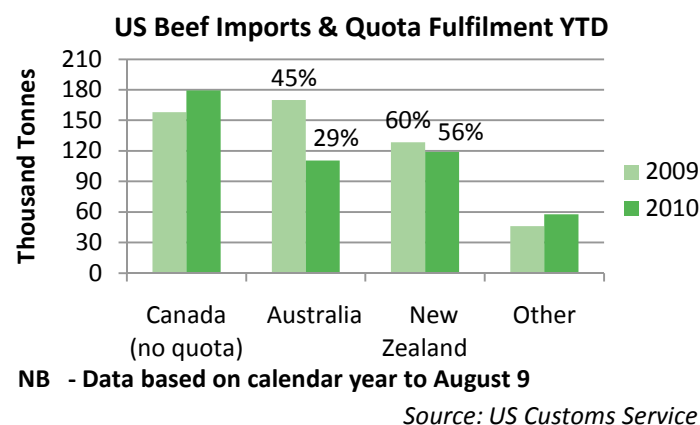
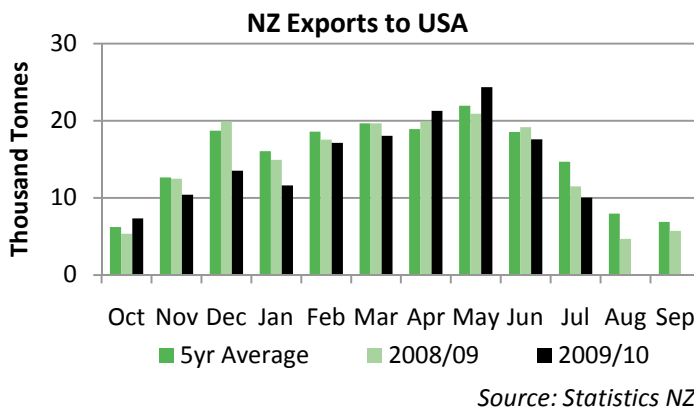
US Imports

New Zealand's exports to the US are well and truly into their seasonal decline. Despite making up some ground in April and May, volumes in June and July have slipped back below both last year's levels and the five year average for these months. The latest data from Statistics New Zealand shows, exports to the US 6.2% behind last year for the season to date and 8.8% below the five year average.

Statistics from the US Customs service released on August 9 reflect this, with New Zealand's quota now 56% full for the calendar year, compared to 60% last year. Australia's beef shipments to the US returned to last year's levels in June and July, resulting in no change to the 16% void between volumes sent this year and last.

Volumes imported from Canada into the US remain high, with shipments in June and July up 18% and 15% on the corresponding months in 2009. This results in beef imports from Canada, for the calendar year to date, up 13.5% on the same time last year.

Imports from Mexico are up 39% for the year to date but volumes remain low, at around 3000 to 4000 tonnes per month.

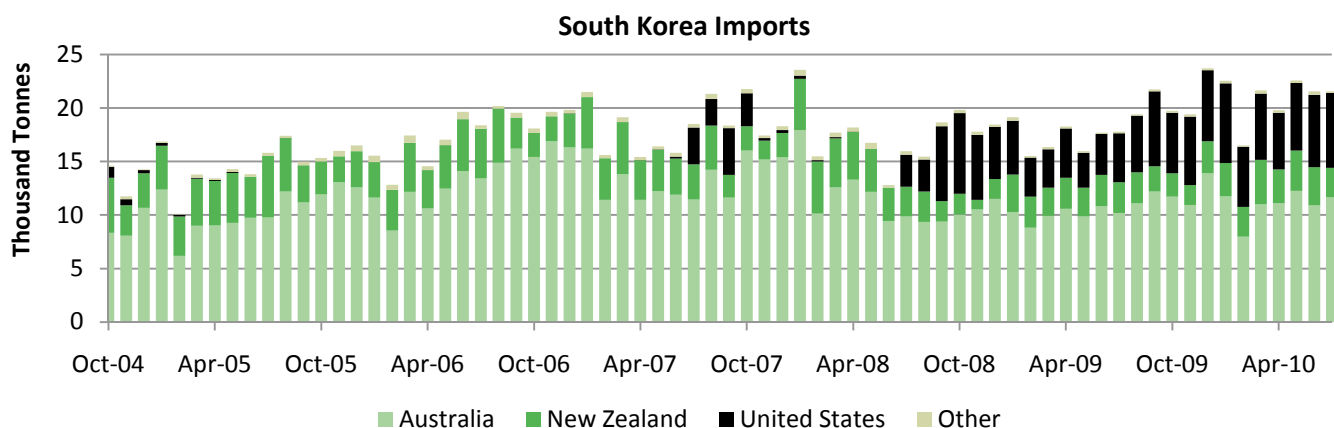


South Korea Imports

The imported beef market has seen some drastic changes in the past two years, with the US making its presence felt and demanding its share of the market. In recent months, South Korea has consistently been importing large volumes of beef. For the calendar year to the end of July 2010, South Korea imported 21% more beef than for the same period in 2009.

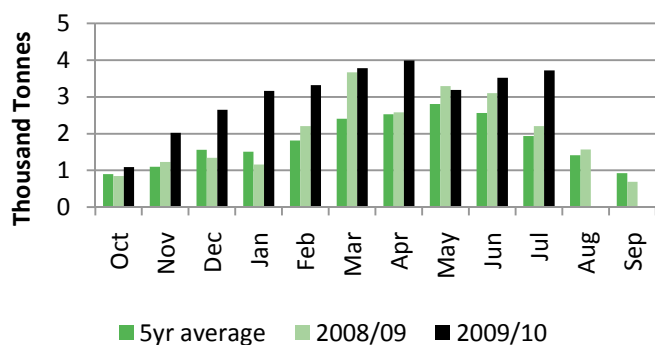
This increase is due to a significant decline in domestic meat production, combined with continued economic development and increasing consumer demand. However, Meat and Livestock Australia (MLA) is predicting an increase in South Korea's domestic beef production in the near-term which will put pressure on this import growth.

The US has accounted for a massive share of this increase, with imports from the US up 56% on last year. Imports for the year to date from New Zealand and Australia are up 14% and 9% respectively. If the import market is to tighten again, competition for market share will certainly heat up.

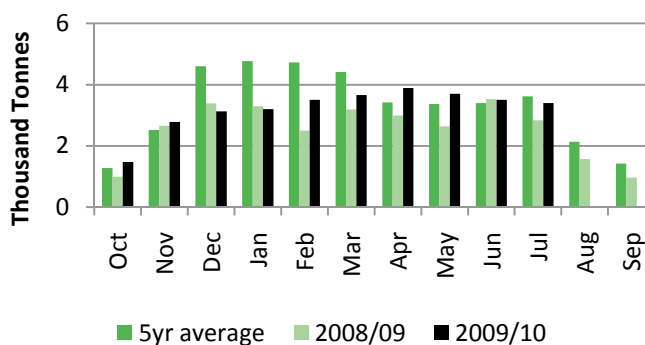


Source: Global Trade Atlas

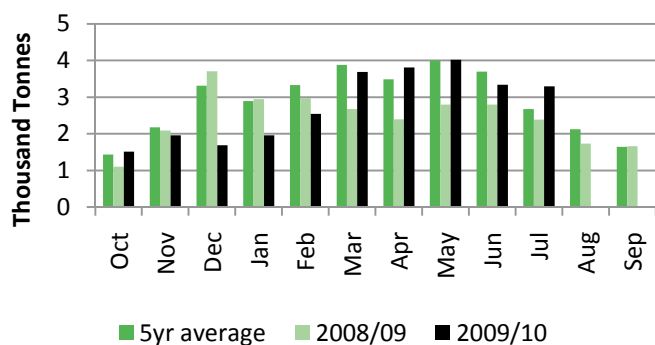
Exports to Indonesia



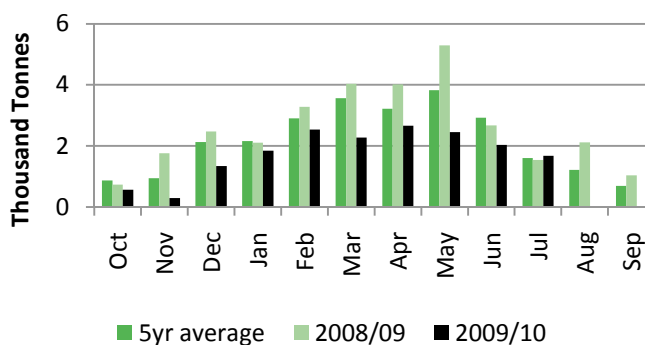
Exports to South Korea



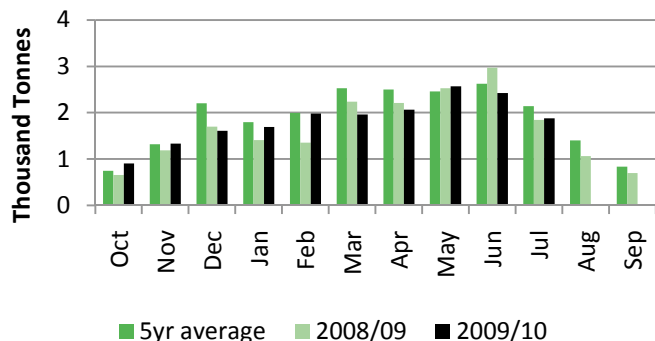
Exports to Japan



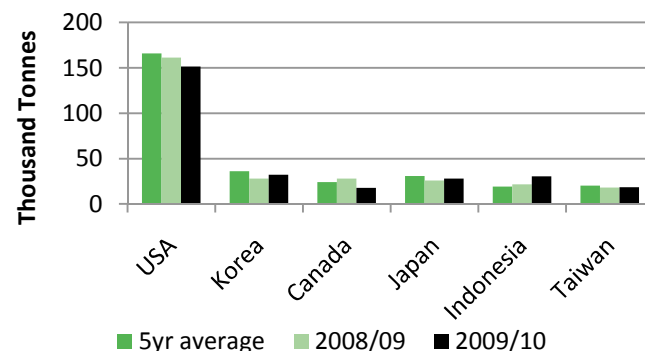
Exports to Canada



Exports to Taiwan



Year to Date



Source: Statistics NZ

Export volumes to Indonesia have remained strong despite markets there having to match the high prices for grinding beef being paid in the US. Exports in July 2010 were up by 69% compared to the same month last year and 92% on the five year average. This leaves export volumes for the season to date 41% higher than in 2009.

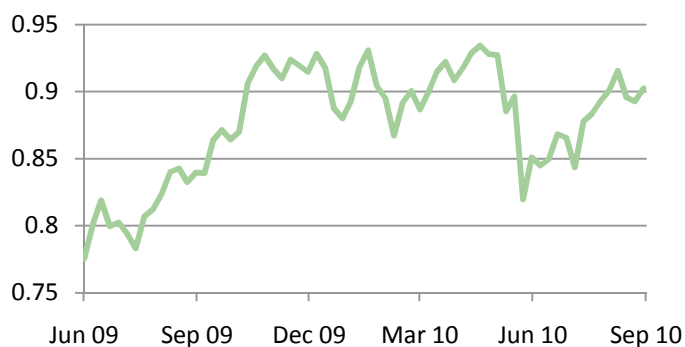
Good volumes have also been sent to Japan but prices currently appear to have softened, and demand decreased, following the Obon festival in mid-August which is a popular time for vacation.

Steady demand from South Korea has seen a continuation of greater than average volumes being sent from New Zealand to this market. Exports in June were virtually the same as last year, but volumes for July were up by 20%.

Although New Zealand itself sends very little product to Russia, increased demand from this country is having a positive influence New Zealand's markets. The effect is being seen in Asia, as other exporting nations are choosing to divert product away from these markets and towards Russia, lured by the strong prices there. The net result is lower beef supply in New Zealand's markets, thus helping to hold up prices

The Australian dollar experienced a dramatic slide in value against the US currency in May, which finally saw some significant volumes of Australian meat being sent to the US. However, in early July the Australian currency commenced a steady climb in value against the greenback, eating away exporter's returns as it went. It is predicted that export volumes from Australia for August will reflect a preference for the Asian markets over the US, once again.

US\$:Aus\$

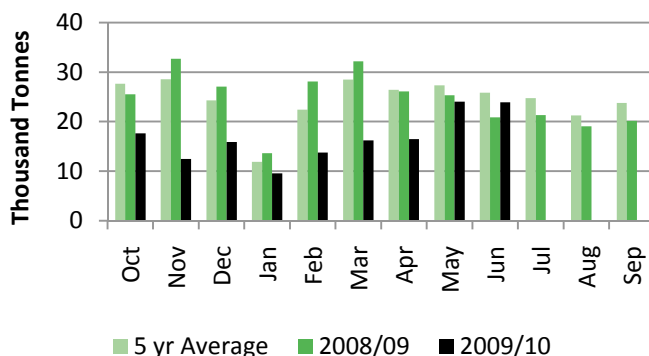


Source: Bloomberg

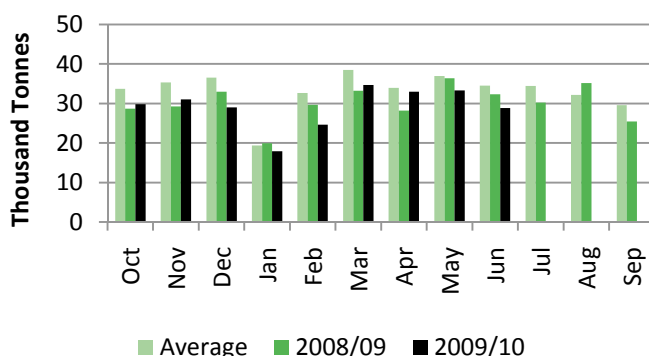
Data from the Australian Bureau of Statistics shows that there is increasing amounts of beef being sent to markets outside the main three nations (Japan, US, South Korea). This year has seen more product heading into Taiwan and the Philippines, but the most significant change has been a 131% increase in export volumes to Russia this calendar year.

The latest slaughter data from Australia shows that numbers have been consistently down on last years levels in recent weeks. Despite this, there is widespread prediction that the coming season will be the best in many years for beef producers, particularly in the eastern states.

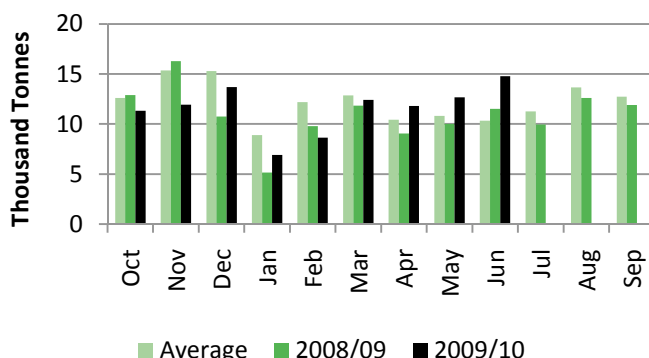
Australian Exports to US



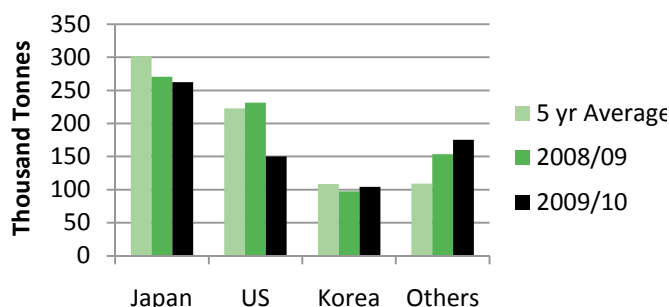
Australian Exports to Japan



Australian Exports to Korea



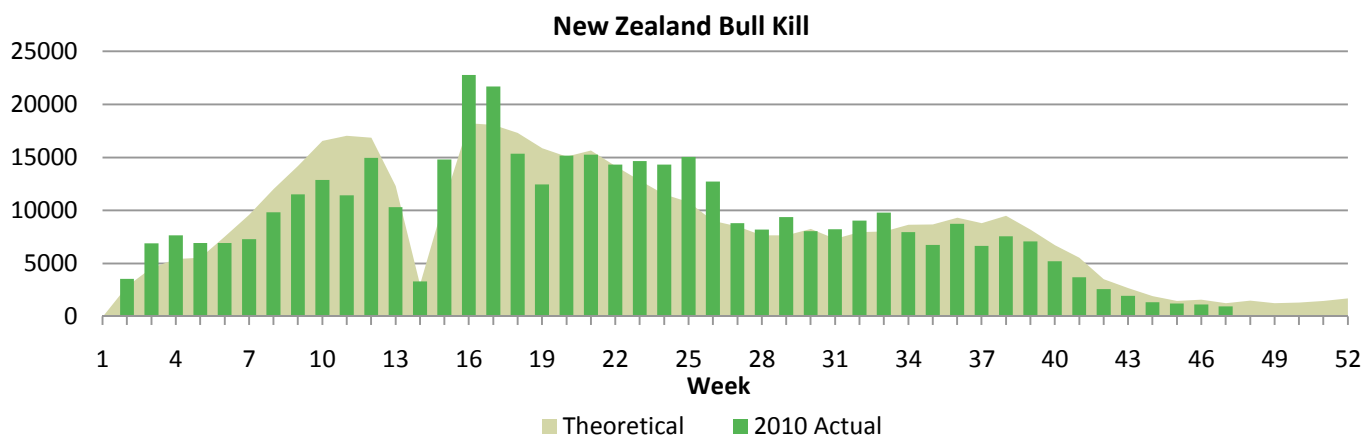
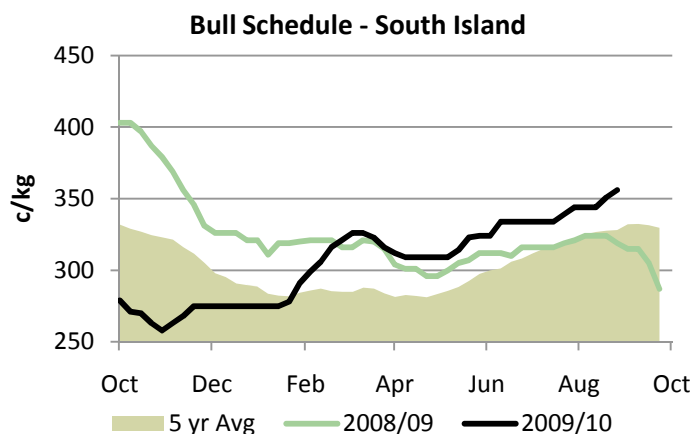
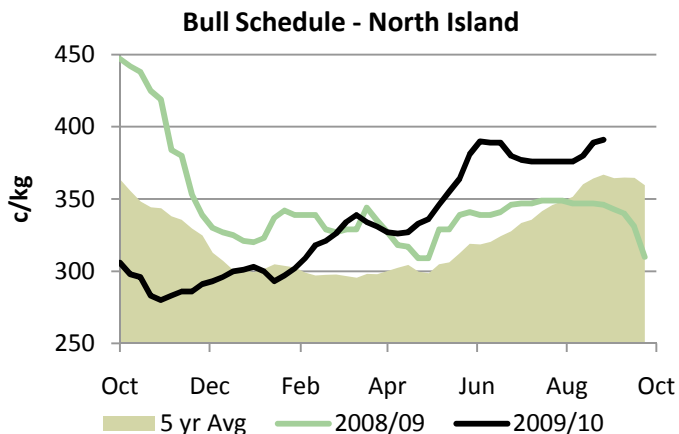
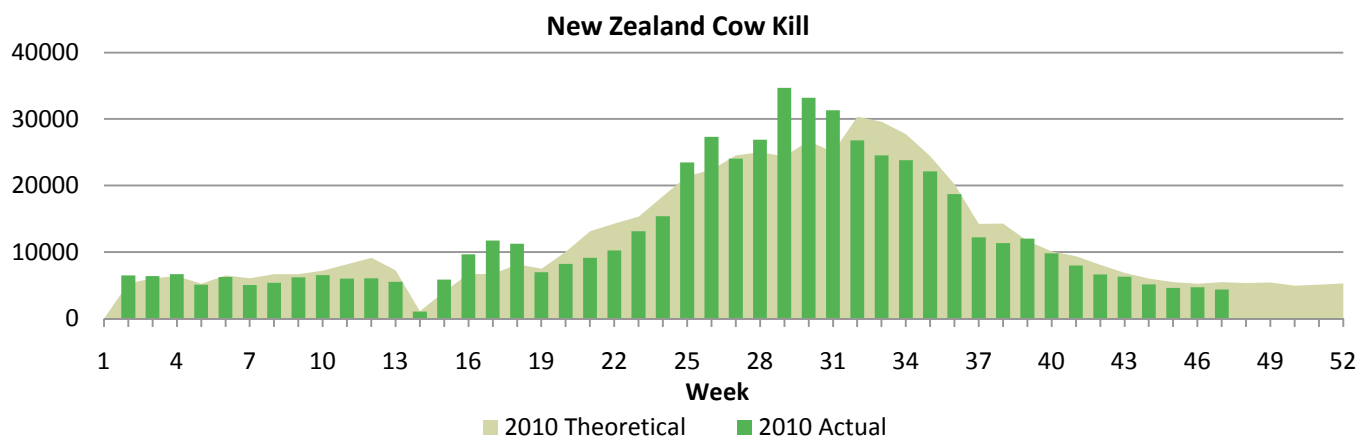
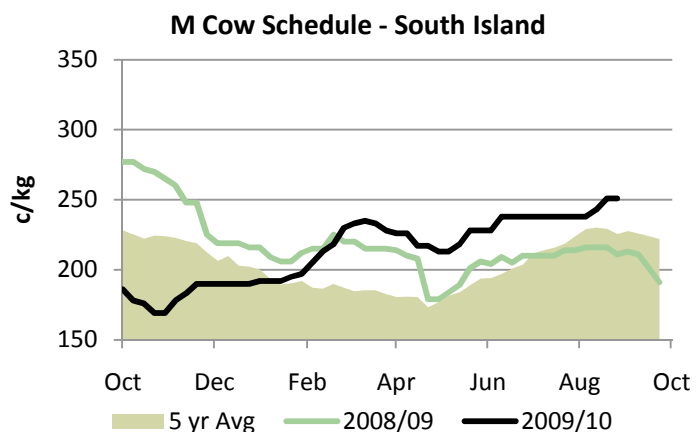
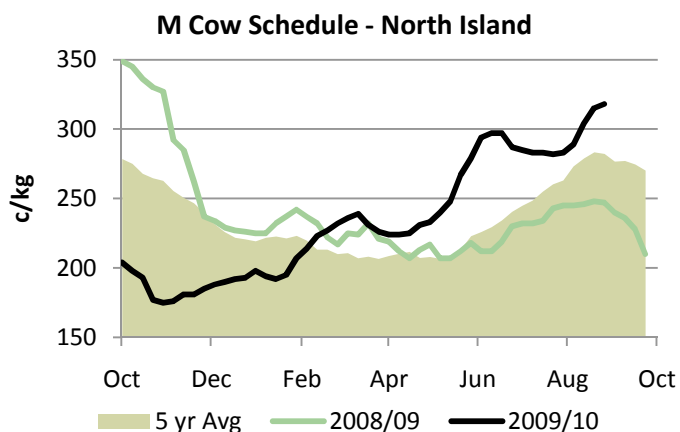
Australian Exports YTD



Source: Australian Bureau of Statistics

Beef

Production & Schedules



Beef

Production & Schedules

		This year	Last year	5 year average	% change from last year	% change from average	Estimated slaughter remaining
Kill for the year to date (Thousand Head)							
Cow	North Island	576	608	534	-6%	7%	27
	South Island	197	209	154	-6%	22%	5
	Total	773	817	689	-6%	11%	32
Bull	North Island	348	383	426	-10%	-22%	6
	South Island	78	86	93	-10%	-19%	1.5
	Total	426	469	519	-10%	-22%	7.5
Steer & Heifer	North Island	669	674	604	-1%	10%	49
	South Island	259	250	234	3%	10%	15
	Total	929	924	838	1%	10%	64

* Year to date figures are as at 21/08/10, for the year beginning in October.

		This mth	1 mth ago	6 mths ago	1 year ago	5 year average
Schedule Prices (c/kg)						
M Cow	North Island	318	283	232	247	282
	South Island	251	238	230	211	225
Bull	North Island	391	376	326	346	367
	South Island	356	344	321	319	328
Steer	North Island	411	383	342	361	384
	South Island	396	367	330	344	363

Strong import prices in the US, combined with a recent dip in the New Zealand currency, have seen schedule prices climbing in recent weeks. Good pasture growth has been experienced across many parts of the country during the past month, largely due to milder than normal temperatures. While the cattle are putting on weight and the schedule prices are trending upwards, farmers are understandably content to hold on to their stock at this stage.

Slaughter numbers have been exceptionally low in recent weeks, with the bull kill being lowest of all. New Zealand's weekly bull kill for the week beginning August 16 was the lowest slaughter over one week since September 1990. It's thought that it will be well into October before the slaughter numbers really start to pick up.

With all the positive news coming from the global markets around shortages in supply, and many major beef producing nation's beef production decreasing, the stronger than average global beef prices look likely to continue. This shines a positive light in the outlook for New Zealand schedule prices, although how positive that turns out to be will very much hinge on the exchange rate.