Research Rural Wrap

29 August 2024

Signs Of Change in Meat Prices

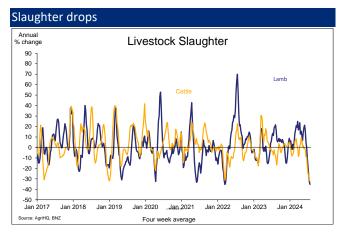
- Beef and lamb prices lift
- As local supply tightens
- China buys smaller share of NZ meat exports
- US, UK demand meat price supportive
- Likewise slowing Australian supply
- · Local prices higher, but still low inflation adjusted

It is no secret that sheep and beef farmers have been facing very challenging economic conditions. But let's start with some positive news. Beef and lamb prices have increased over the past four months, with the former up nearly 16% and the latter up 21%.

We say this not to suggest that prices are strong, far from it in lamb's case, but rather to acknowledge some changing dynamics of late. Rising prices at this time of year is not unusual, but the gains over recent months have been a bit more than normal.

Part of the price gain is on tightening NZ supply, evidence by recent strength in store markets, but there have been some pockets of price improvement offshore too.

In NZ, lamb and cattle slaughter numbers have dropped significantly below year earlier levels, tightening local supply and putting upward pressure on prices. An early kill (especially lamb) has seen slaughter numbers for both lamb and cattle tracking around a third below year earlier levels for some weeks during July.



Despite both beef and lamb prices lifting over recent months, the two are in different positions from a historical perspective. Lamb prices are low and currently about 13% below their 5-year average. Beef prices are at record levels and around 14% above their 5-year average.

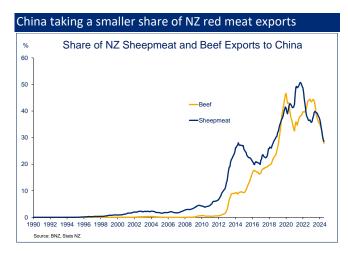
Selling prices are one thing, but costs are another. Costs have lifted over recent years, so any given price isn't what it used to be. Inflation has eroded its purchasing power.

For lamb, this season's average price is likely to finish around 14% below last season's average, which itself was down 15% on the season prior. In real (inflation adjusted) terms, this season's average lamb price will be around 21% down on its 10-year average. That makes for extremely challenging economics.

For beef, this season's average price is shaping up to be marginally higher than last season's average. However, in real (inflation adjusted) terms, this season's average beef price will be around 9% below its 10-year average.

Two key drivers of red meat price weakness over the past year or two has been subdued demand from China and more supply from Australia.

The share of NZ beef and sheepmeat exports bound for China has fallen significantly over the past two years. In the year to June 2024, China's share of NZ beef exports was around 29% which was down from 43% a year earlier. Over the same period, China's share of NZ sheepmeat exports has fallen to 29% from 40% (which was down from a recent peak of over 50% in 2021).



Australian lamb slaughter in Q1 2024 was up 24% on a year earlier, extending the strong supply and associated exports from late last year. This resulted in significant competition in

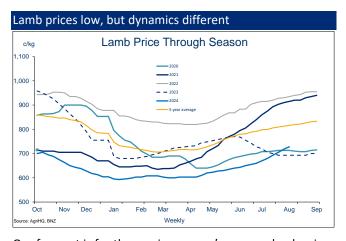
global markets. Industry forecasts show Australian sheepmeat production and export volumes peaking in 2024 before easing in 2025 and 2026. Some pullback in Australian supply increases the chance of improvement in global lamb prices over the coming season or two, demand willing.

Somewhat less Australian supply may occur at the same time as further reduction in NZ lamb supply. Beef + Lamb NZ's latest Stock Number Survey included an estimate for this spring's lamb crop to be down 4.8%, given fewer breeding ewes (on prior drought, land conversion, and profitability) and expectations of a lower lambing percentage.

A reduction in NZ supply is not the best way to achieve higher prices, but its influence is part of the mix. Stronger demand driven price gains are much preferred.

There has been some improvement in lamb demand from the UK, with a decent lift in some prices over the past 12 months. A somewhat lower NZD against the GBP and EUR is supportive. But pricing in China remains generally weak.

Back at home, while current lamb prices are low, they are edging above what they were a year ago. There appears to be better dynamics in play with the balance of supply and demand seeing prices rise from low levels compared to last year when downward pressures prevailed.

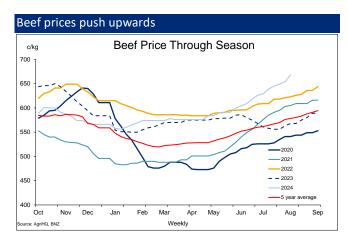


Our forecast is for the coming season's average lamb price to be higher than the current season average (we currently have around a 12% gain pencilled in). While higher than the prior year, if that is how things pan out, it would still see prices meaningfully below average on an inflationadjusted basis.

For beef, there has been a similar dynamic to lamb regarding strong supply out of Australia. However, given Australia has a much bigger share of the global lamb market (around a half) than the global beef market (about a sixth), beef supply from across the Tasman has had less impact on global markets than lamb supply.

Moreover, reasonable US beef demand and a US herd rebuilding phase has offered firm support to beef prices. US beef import prices are up around 24% on a year ago.

At home, beef prices have been hitting record highs influenced by the above conditions offshore and tightening NZ supply.



Our forecast is for the coming season's average beef price to be up around 7% on the current season's average, which would see prices getting closer to average levels on an inflation-adjusted basis.

There are many factors that could cause beef and lamb prices to be different to that forecast. For example, if demand from China and/or supply from Australia and NZ were to deviate significantly from expectations, it would affect price outcomes. Likewise, nothing is a given with tension in the Middle East, the US election, among other global risk events.

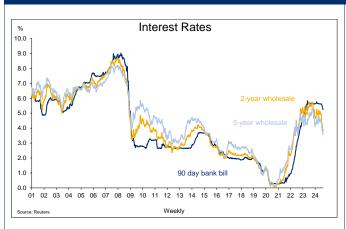
One potential positive for meat pricing ahead is global monetary conditions starting to ease. Many major central banks have started to cut interest rates, with the US Fed giving firm signals it will begin easing from next month. We generally see easing global monetary policy as a positive for NZ exports ahead, as it adds support to confidence, economic activity, and demand. However, to the extent that policy is being eased to protect against softer growth, it need not necessarily provide a strong boost to prices.

Last, but not least, we are also watching the weather with the possibility of La Niña conditions developing this season. La Niña is no guarantee of higher prices, but history shows such conditions tend to be supportive of both beef and lamb prices. It is something to bear in mind as weather projections evolve.

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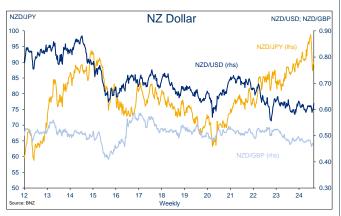
Key Macro Drivers for Commodity Producers

Interest Rates



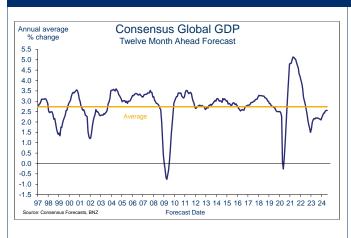
The Reserve Bank cut the cash rate by 25bps to 5.25% at its August Monetary Policy Statement. We expected this move on the day, although we were in the minority. A very weak economy, increasing spare capacity, and falling inflation (expected to be inside the 1% to 3% target band in the current quarter) suggest a further material reduction in the OCR ahead. The RBNZ's modelled projection implies the OCR a bit below 4% by the end of next year. Our OCR forecasts show sequential 25bp cuts at each policy review, taking the cash rate to 3% by the end of 2025. The extent of RBNZ easing already priced by the market will likely limit the downside for fixed rates. Many global central banks are beginning to ease policy. The US Fed has given a strong signal that it intends to start reducing rates next month.

Foreign Exchange



The NZD has pushed a bit higher against the USD. Global forces have been in charge, with the USD broadly weaker ahead of the Fed's long-awaited easing cycle. Pricing for US interest rates remains a key driver of NZD direction (more so than the prospect of RBNZ rate cuts). The Fed has given strong signals that it intends to start cutting the Fed Funds rate next month. We have long expected a softer USD to be reflected in a higher NZD. This remains the case with our expectation of a stronger NZD/USD over the coming 18 months. In contrast, we expect the NZD to continue to trend lower against the Yen following the Bank of Japan getting underway with tightening policy — going against the global grain albeit from a significantly lower standing point.

Global Growth



Global economic growth forecasts continue to get revised incrementally higher. The 12-month ahead forecasts are now not far from its long-term average. So not strong but combined with lower global inflation and many major central banks starting to reduce the degree of restrictive policy, it suggests a somewhat more supportive backdrop for primary product prices ahead than has been the case. Some of this relates to the denomination effect of our expectation of a weaker US dollar. However, geopolitical risks remain elevated and could alter global economic conditions abruptly. A weak property market in China remains a concern with associated headwinds apparent for consumers and growth. The US presidential election in November remains on the radar, with the potential for it to alter global risk appetite and the outlook for product prices.

Key Commodities

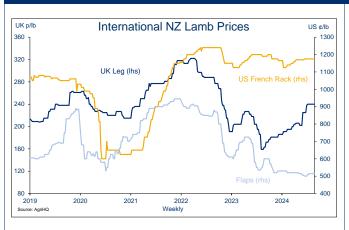
Dairy



The mid-August GDT auction was strong, with a 5.5% gain. The price index is up nearly 35% on a year ago, although exaggerated by last year's extreme weakness. Demand for dairy looks firm, while more question marks are appearing on the supply side with Bluetongue disease in Europe and Avian flu affecting cattle in the US. Early NZ supply indicators have been positive. We had already lifted our forecast for Fonterra's 2024/25 milk price to \$8.50 before the co-op lifted their own mid-point forecast to the same level. There are risks on both sides to that central view, but if GDT prices were to persist around current levels for the rest of the season a milk price around \$9 is possible.

	Current	Month ago	Year ago	Next 12 months
Whole milk powder (US \$/t)	3450	3210	2670	+

Lamb



Lamb price dynamics have changed a bit for the better. A sharp tightening in local supply has seen prices lift by 21% over recent months. Prices may be higher but, in the bigger picture, they are still very low at about 13% below their 5-year average. Markets have been mixed. China has been buying a smaller share of NZ sheepmeat, but there has been price improvement elsewhere like in the UK. Some slowing in Australian lamb supply would be price supportive. We see the coming season's average lamb price higher (around 12%) than the current season's average. If that is how things pan out, it would still see prices meaningfully below average on an inflation-adjusted basis.

	Current	Month ago	Year ago	Next 12 months
Lamb leg (UK p/lb)	240	240	163	→

Beef



US beef prices are about 24% higher than a year ago. Reasonable demand has coincided with US herd rebuilding. Meanwhile, China has been buying a smaller share of NZ exports. At home, beef prices are at record highs influenced by the offshore conditions as well as tightening NZ supply, although prices are still below average on an inflationadjusted basis. Our forecast is for the coming season's average beef price to be up around 7% on the current season's average, which would see prices closer to average levels on an inflation-adjusted basis.

	Current	Month ago	Year ago	Next 12 months
Imported bull (US ¢/lb)	305	305	246	↑

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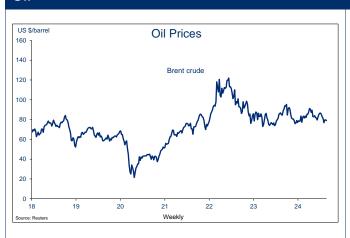
Forestry



Export log prices remain weak with generally subdued economic conditions in China, particularly so in the property market. The domestic activity outlook remains soft following a prolonged decline in residential building consents; it will take some time for lower interest rates to turn activity around. If all that wasn't difficult enough, surging wholesale electricity prices have resulted in production pauses or shutdowns for some local mills as profitability vanished. Local prices have been steady to down, supported somewhat by supply side response in the form of reduced harvesting activity.

	Current	Month ago	Year ago	Next 12 months
S1/S2 log price (NZ \$/t)	129	128	131	+

Oil

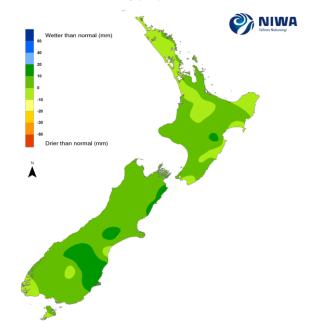


Brent crude oil prices have been chopping around in a roughly \$US75-\$US88/bbl range over recent months. It follows from conflicting directional cues from the likes of upward revisions to world growth but soft growth in China. Or tension in the Middle East to OPEC's earlier decision to return oil supply to the market in October as it phases out earlier production curbs. The oil futures curve remains mildly downward sloping. A softer USD has offered some support to crude prices, but the associated stronger NZD has helped keep a lid on fuel prices at home.

	Current	Month ago	Year ago	Next 12 months
Brent Crude (US \$/b)	80	81	84	Ψ

Weather





Soil moisture maps have changed a lot in the past couple of months or so. From a lot of areas being significantly drier than normal for the time of year, to now generally close to normal soil moistures for the time of year for the country at large. That is not to be confused with hydro lake levels that are well below normal and, along with limited gas supplies, has seen extremely elevated wholesale electricity prices. For those exposed to those prices, it is causing significant issues. Despite projected near normal or above normal rainfall over the August-October period, NIWA note that river flows will recover gradually. For the growing season ahead, some attention is on the potential for La Niña conditions to develop, perhaps in mid to late spring. However, the odds of La Niña developing are about 50/50. La Niña generally brings more north-easterly winds, which tend to bring a bit more moisture to the north-east of the North Island and less moisture to the south and south-west of the South Island. In the near term, soil moisture levels generally look like being benign although they are equally likely to be near normal or below normal in the west of the North Island and north of the South Island.

Quarterly Forecasts

Forecasts as at 29 August 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (production s.a.)	-0.1	0.2	-0.3	-0.3	0.4	0.8	0.9	0.8	0.8	0.7
Retail trade (real s.a.)	-1.8	0.4	-1.2	0.0	0.5	0.8	1.0	1.2	1.1	0.9
Current account (ytd, % GDP)	-6.9	-6.8	-6.7	-6.9	-6.8	-6.4	-6.2	-6.1	-5.9	-5.5
CPI (q/q)	0.5	0.6	0.4	0.8	0.4	0.5	0.5	0.9	0.0	0.5
Employment	0.5	-0.3	0.4	-0.2	-0.1	0.2	0.5	0.6	0.7	0.7
Unemployment rate %	4.0	4.4	4.6	4.9	5.3	5.5	5.5	5.5	5.4	5.3
Avg hourly earnings (ann %)	6.6	4.8	4.0	2.9	3.1	3.7	3.4	3.2	3.0	3.0
Trading partner GDP (ann %)	3.3	3.2	3.0	2.9	2.9	2.9	3.0	3.0	3.1	3.0
CPI (y/y)	4.7	4.0	3.3	2.3	2.2	2.1	2.1	2.2	1.9	1.9
GDP (production s.a., y/y))	-0.2	0.3	-0.5	-0.5	-0.1	0.6	1.7	2.9	3.3	3.2

Interest Rates

Historical data - qtr average		Government Stock			Swaps			US Rate	US Rates	
Forecast data - end quarter	Cash	90 Day Bank Bil	5 Year Is	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	NZ-US Ten year
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.64	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024 Mar	5.50	5.66	4.41	4.64	4.91	4.38	4.40	5.60	4.20	0.44
Jun	5.50	5.62	4.50	4.65	4.98	4.47	4.50	5.60	4.30	0.35
Forecasts										
Sep	5.25	5.00	4.15	4.55	3.85	4.05	4.30	5.40	4.25	0.30
Dec	4.75	4.75	4.05	4.45	3.50	4.00	4.30	5.15	4.10	0.35
2025 Mar	4.50	4.25	3.90	4.40	3.20	3.85	4.25	4.65	4.00	0.40
Jun	4.00	3.75	3.80	4.35	3.05	3.75	4.20	4.40	3.90	0.45
Sep	3.50	3.25	3.70	4.30	2.95	3.65	4.15	4.15	3.80	0.50
Dec	3.00	3.00	3.75	4.25	3.05	3.70	4.10	3.90	3.75	0.50
2026 Mar	2.75	2.90	3.80	4.25	3.30	3.80	4.15	3.65	3.75	0.50

Exchange Rates (End Period)

USD For	recasts					NZD For	ecasts				
0			EUR/USD			NZD/USD	NZD/AUD		NZD/GBP	NZD/JPY	TWI-17
Current	0.62	0.68	1.12	1.33	144	0.62	0.92	0.56	0.47	90.0	71.6
Sep-24	0.61	0.67	1.09	1.28	146	0.61	0.91	0.56	0.48	89.1	70.6
Dec-24	0.62	0.69	1.11	1.30	143	0.62	0.90	0.56	0.48	88.7	70.9
Mar-25	0.64	0.71	1.13	1.31	140	0.64	0.90	0.56	0.49	88.9	71.9
Jun-25	0.65	0.72	1.14	1.32	137	0.65	0.90	0.57	0.49	89.1	72.8
Sep-25	0.66	0.74	1.16	1.34	134	0.66	0.89	0.57	0.49	88.4	72.9
Dec-25	0.67	0.75	1.17	1.35	131	0.67	0.89	0.57	0.50	87.8	73.5
Mar-26	0.66	0.74	1.18	1.36	129	0.66	0.89	0.56	0.49	85.1	72.5
Jun-26	0.65	0.73	1.18	1.36	129	0.65	0.89	0.55	0.48	83.9	71.7
Sep-26	0.66	0.74	1.20	1.37	125	0.66	0.89	0.55	0.48	82.5	72.1
						TWI Weigh	nts				
						14.5%	17.7%	9.5%	3.4%	5.6%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts		December Years								
as at 29 August 2024	Actu 2022	als 2023	2024	2025	2026	Actu 2021	als 2022	2023	2024	2025
GDP - annual average % change	2022	2020	ZUZŦ	2020	2020	2021	LULL	2020	2024	2020
Private Consumption	6.0	2.7	0.9	1.0	2.7	7.4	3.3	0.6	1.2	2.
Government Consumption	7.9	2.0	0.5	-3.3	0.4	7.8	4.9	-0.8	-2.2	-0.6
Total Investment	10.2	2.1	-1.7	-4.3	3.5	12.0	3.4	-0.9	-4.9	1.9
Stocks - ppts cont'n to growth	0.5	0.0	-1.5	1.2	0.3	1.4	-0.3	-1.4	0.6	0.6
GNE	7.9	2.5	-1.4	0.2	2.7	10.0	3.4	-1.5	-0.2	2.
Exports	2.5	6.0	6.4	1.3	4.8	-2.7	-0.2	9.8	2.2	4.0
Imports	17.3	4.4	-1.2	2.9	4.1	14.8	4.7	-0.5	2.7	3.0
Real Expenditure GDP	4.7	2.7	0.4	-0.1	2.8	5.9	2.3	0.8	-0.2	2.
GDP (production)	4.6	2.7	0.2	-0.1	2.8	5.6	2.4	0.6	-0.2	2.
GDP - annual % change (q/q)	0.6	2.0	0.3	0.6	3.2	2.6	2.2	-0.2	-0.1	3.3
Output Gap (ann avg, % dev)	1.4	2.0	-0.1	-1.3	-0.6	1.6	2.1	0.4	-1.1	-0.8
Nominal Expenditure GDP - \$bn	359	388	409	422	444	353	381	405	418	438
Prices and Employment - annual % change										
CPI	6.0	6.7	4.0	2.1	1.9	5 0	7.2	4.7	2.2	1 (
	6.9 2.5	3.1		0.3	2.5	5.9	1.7	4.7 2.9	-0.2	1.9 2.0
Employment			1.3			3.3				
Unemployment Rate %	3.2	3.4	4.4	5.5	5.3	3.2	3.4	4.0	5.3	5.4
Wages - ahote (private sector)	5.3	8.2	4.8	3.7	3.0	4.1	8.1	6.6	3.1	3.0
Productivity (ann av %)	1.7	0.5	-2.4	-0.2	1.2	3.6	0.2	-2.4	-0.5	1.2
Unit Labour Costs (ann av %)	4.6	6.5	8.5	4.4	1.9	2.4	6.5	9.0	5.2	2.2
House Prices	13.8	-12.1	2.9	1.0	7.7	27.2	-11.1	-0.6	0.0	6.9
External Balance										
Current Account - \$bn	-23.6	-31.8	-27.6	-27.2	-24.5	-20.6	-33.4	-27.9	-28.3	-25.
Current Account - % of GDP	-6.6	-8.2	-6.8	-6.4	-5.5	-5.8	-8.8	-6.9	-6.8	-5.9
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.7	-3.1	-1.9					
Net Core Crown Debt (ex NZS)	35.5	39.3	43.1	43.5	43.0					
Bond Programme - \$bn (Treasury forecasts)	20.0	28.0	38.0	38.0	36.0					
Bond Programme - % of GDP	5.6	7.2	9.3	9.0	8.1					
Financial Variables ⁽¹⁾										
NZD/USD	0.69	0.62	0.61	0.64	0.66	0.68	0.63	0.62	0.62	0.6
USD/JPY	119	134	150	140	129	114	135	144	143	13
EUR/USD	1.10	1.07	1.09	1.13	1.18	1.13	1.06	1.09	1.11	1.1
NZD/AUD	0.93	0.93	0.93	0.90	0.89	0.95	0.94	0.93	0.90	0.8
NZD/GBP	0.52	0.51	0.48	0.49	0.49	0.51	0.52	0.49	0.48	0.5
NZD/EUR	0.62	0.58	0.56	0.56	0.56	0.60	0.60	0.57	0.56	0.5
NZD/YEN	81.5	83.0	91.1	88.9	85.1	77.4	85.6	89.5	88.7	87.
TWI	73.9	71.0	71.2	71.9	72.5	73.0	72.9	72.0	70.9	73.
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	4.50	2.75	0.75	4.25	5.50	4.75	3.0
90-day Bank Bill Rate	1.45	5.16	5.64	4.25	2.90	0.92	4.55	5.63	4.75	3.0
5-year Govt Bond	2.90	4.40	4.60	3.90	3.80	2.20	4.30	4.50	4.05	3.7
10-year Govt Bond	3.20	4.35	4.60	4.40	4.25	2.35	4.25	4.65	4.45	4.2
2-year Swap	3.00	5.15	4.91	3.20	3.30	2.22	5.21	4.93	3.50	3.0
5-year Swap	3.20	4.50	4.40	3.85	3.80	2.56	4.62	4.43	4.00	3.7
US 10-year Bonds	2.10	3.65	4.20	4.00	3.75	1.45	3.60	4.00	4.10	3.7
NZ-US 10-year Spread	1.10	0.70	0.40	0.40	0.50	0.90	0.65	0.65	0.35	0.5
(1) Average for the last month in the quarter				I						

Source: Statistics NZ, BNZ, NZ Treasury

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