

WESTPAC MEAT MATTERS

23 May 2023



Nathan Penny, Senior Agri Economist

+64 21 743 579

nathan.penny@westpac.co.nz



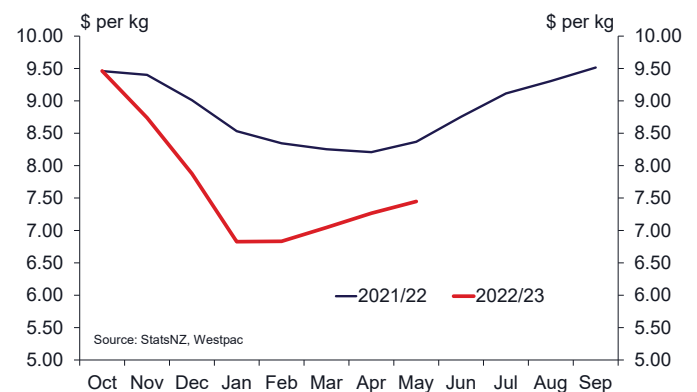
From wild ride to plain sailing.

- Farmgate meat prices have been on a wild ride this season.
- China's Covid-driven absence and then return to our meat export markets has been a key catalyst for the volatility in prices.
- From here, we expect more normal order to resume.
- We expect farmgate beef prices to challenge records highs in the spring on the back of very weak US beef production and a further strengthening in Chinese demand.
- Meanwhile, we expect average lamb and mutton farmgate prices this spring, with strong Australian production capping prices.

Wild ride.

Farmgate meat prices have been on a wild ride. Lamb prices are case in point. After equalling last season's record high (of circa \$9.50/kg) over the spring, prices then plunged, reaching \$6.80/kg by January. More recently prices have rebounded back to around \$7.45/kg and lifted at a time of the season when prices normally fall. This pattern has been repeated for other meat prices, however not necessarily to the same extreme.

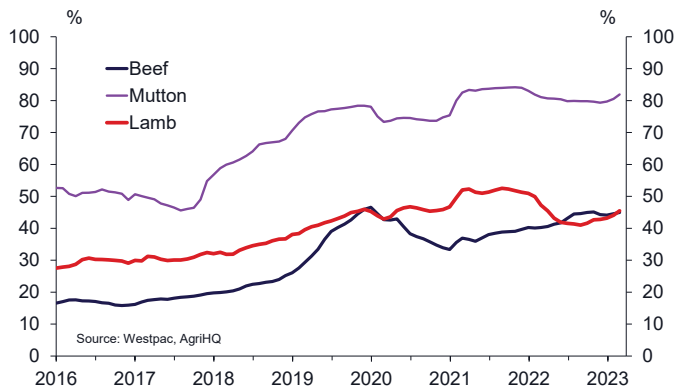
Farmgate lamb prices



A key catalyst for the (lamb and mutton) price fall from last spring was slumping Chinese demand. The severe Covid lockdown saw the Chinese economy slow from 8.4% growth over 2021 to just 3% over 2022. On the back of the weak demand, China's share of our lamb exports fell by 10 percentage points from around 51% in early 2022 to around to

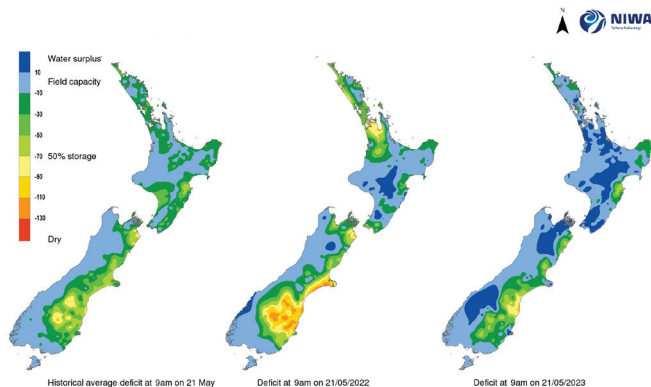
41%. China's share of our mutton exports also fell, dipping by around five percentage points over the same period.

New Zealand meat exports, China share



This short and very sharp price fall then started to reverse from March, with two factors driving the rebound. Firstly, the Chinese economy reopened, and Chinese meat demand began to recover. This has seen the Chinese share of our lamb exports jump back above 45%. At the same time, wet weather has supercharged pastures through later summer and autumn. With ample feed on hand, farmers have held on to stock much longer than they normally would. For example, the number of lamb slaughtered so far this year is running about 23% behind the pre-Covid average.

Soil moisture deficit (as at 21 May 2023)

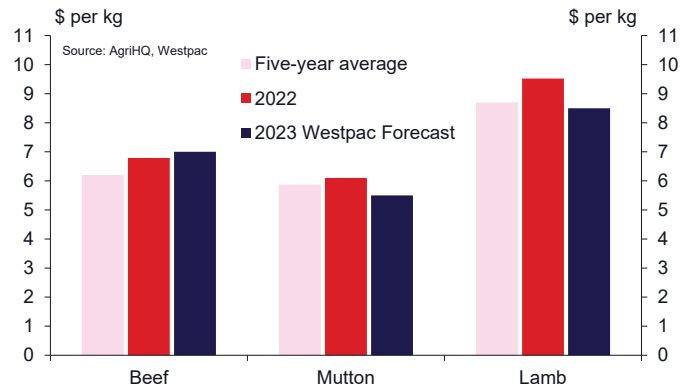


The wild aspect to the price trends over recent months is that prices have bucked the normal pattern over late summer and autumn. That is, farmgate prices for lamb, mutton and beef have lifted at a time of the year when they normally fall (see lamb price chart above for example).

Plain sailing ahead.

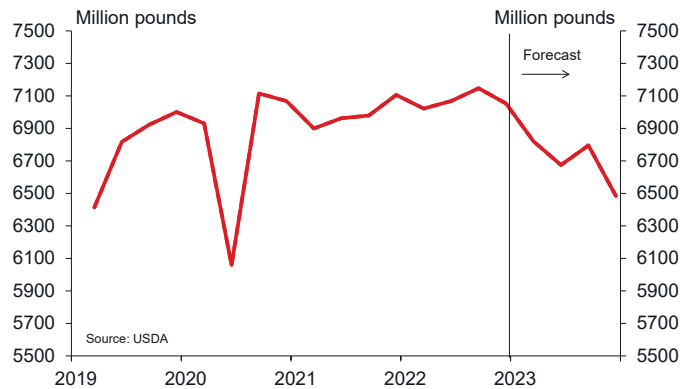
From here, we expect the price rebound to continue across the board. Looking to the spring peak in prices, we expect steer prices to challenge last season's record highs and may even go close to breaking the \$7.00/kg mark. Sheepmeat prices have more ground to make up, although we expect prices to lift to back to around average levels by spring. For the record, we expect farmgate lamb and mutton prices to peak at around \$8.50/kg and \$5.50/kg, respectively (note we have moderated the expected peak in lamb prices from our previous forecast of \$9.00/kg).

Farmgate beef, lamb and mutton forecasts – season peak

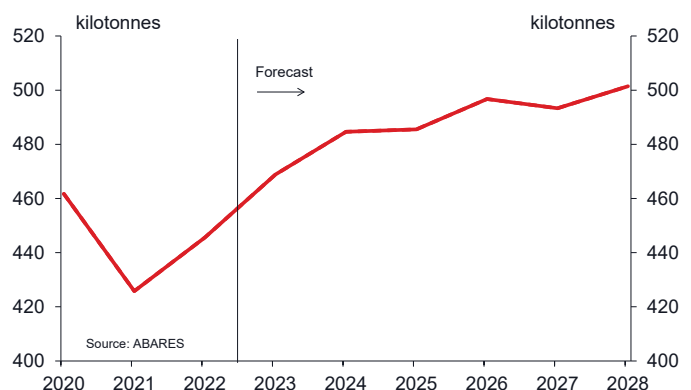


The very strong outlook for beef prices stems from rebounding Chinese meat demand, as discussed above, and crucially, the weak outlook for US beef production. The US is the world's largest beef exporter. And following prolonged drought and the subsequent slaughter of capital stock, the US Department of Agriculture expects US beef production to fall to its lowest level since the start of the Covid pandemic.

US beef production



Australian sheepmeat exports



In contrast, the global supply outlook for sheepmeat is relatively firm. Notably, the Australian Bureau of Agricultural and Resource Economics and Sciences expects Australian meat exports to grow by 3.4% over the 2023/24 year, adding to the 5.2% estimated growth over 2022/23. Curiously, Australian supply is strong following several years of wet weather and supercharged pastures. This strength partially offsets the likely weakness in New Zealand supply and the ongoing rebound in Chinese sheepmeat demand. As such, we expect sheepmeat

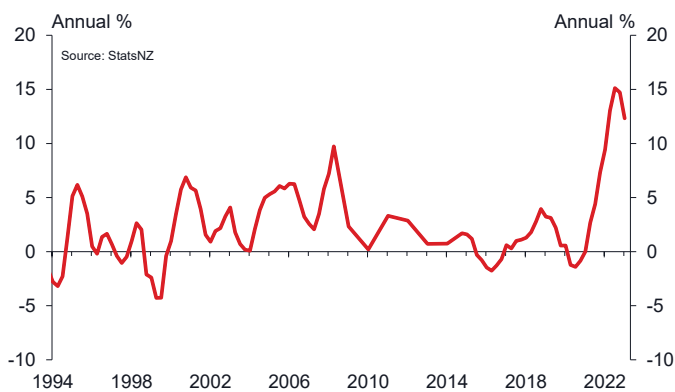
prices to improve, but only back to around their average levels over the past five years.

Spoiler alert.

The main spoiler in play is ongoing on farm cost pressures. Sheep and beef farm annual cost inflation (excluding livestock purchases) was running at red hot 12.3% in the March quarter.

That said, it was down from 15.1% in the September quarter, and we expect further falls over the year. Indeed, as stated in our **Rural cost inflation report**, we expect annual farm cost inflation (for all farm types¹) to fall to 4% by the end of the year. If this proves correct and with farmgate meat prices lifting, then farm margins (and profits) should improve over the new season.

Sheep and beef farm cost inflation



The New Zealand dollar is a second potential spoiler. For now, the NZD/USD is at a supportive level, having tracked in narrow range in the low 60 US cents so far this year.

However, looking over the rest of year and into 2024, we expect the NZD/USD to lift gradually to around US\$0.68 by the start of 2024. If we are correct, this will put some downward pressure on farmgate prices.

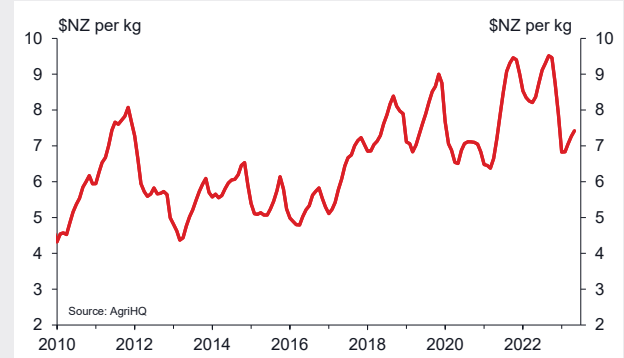
On balance, though, we expect healthy overall farmgate meat prices over the 2023/24 season. And assuming cost inflation falls in line with our expectations, then farm profits should also improve over the season.

Meat unpacked, May.

(Average of the four weeks to date.)

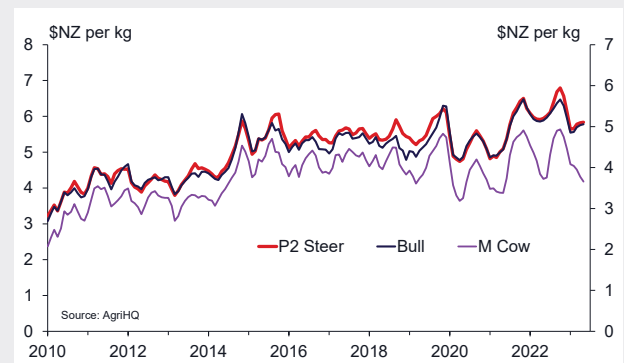
Lamb: 7.45/kg, +2.5% (monthly change), -11.0% (annual change)

Farmgate lamb prices



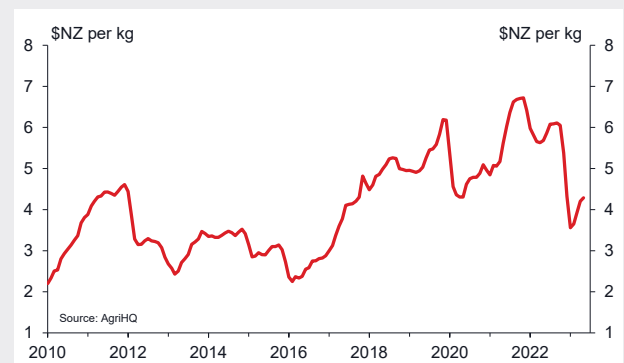
Beef (P2 steer): 5.85/kg, +0.5% (monthly change), -1.6% (annual change)

Farmgate beef prices



Mutton: 4.30/kg, +2.4% (monthly change), -24.3% (annual change)

Farmgate mutton prices



¹ While we don't specifically forecast cost inflation for sheep and beef farms, the magnitude and direction of the change is likely to be similar for sheep and beef farms to the average change across all farm types.

Contact the Westpac economics team

Kelly Eckhold, Chief Economist

+64 9 348 9382

Michael Gordon, Senior Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Paul Clark, Industry Economist

+64 9 336 5656

Any questions email:

economics@westpac.co.nz

Disclaimer

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.