

Pelt downturn to hit lamb prices



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STILL POSITIVE: The red-meat outlook is good, Alliance Group marketing general manager Murray Brown says.

THE fall in pelts and other byproduct prices could take about \$8 off the value of a lamb this season, Alliance Group marketing general manager Murray Brown says.

That value would need to be recovered by the meat price. The red-meat outlook was good, but it meant more pressure on returns, he said.

Silver Fern Farms chief executive Keith Cooper has suggested an average value of about \$100 for a 17.5kg lamb this season, slightly down on the \$103 forecast by Beef + Lamb New Zealand in an earlier analysis.

The B+LNZ forecast was based on a forecast average currency of US\$0.78 for the NZ dollar over the season.

Since that report was written in late August the exchange rate has fallen from about US\$0.84 to less than 0.80 at time of writing.

Cooper's estimate was on a current currency basis when the kiwi was at about 0.81.

Brown wasn't putting a figure on the likely price ahead of Alliance presentations to farmer-shareholders next month.

"It's a moving feast," he said.

Prices for skins and pelts have been falling for the past 6-8 weeks, mainly because of tanning plant closures in China, which has

disrupted processing operations.

Issues influencing the lamb meat price this season include the speed at which inventory levels in China fall as the winter "hotpot" season builds.

Inventories have been high following the big volume of sheep meat imported over the past year.

Cooper believes the frozen volume in store will move quickly through the retail system once the hotpot season builds from next month.

Another issue was the rate at which Australia continued to export lamb and other sheep meat, he said. If those levels fell that would tighten world supply and help push prices higher.

Brown said that had not started

yet and so far the level of exports had increased every month for the past nine months.

Australia was a big supplier to the Middle East and north Asian markets NZ was targeting for growth.

An early signal for the NZ season was the Christmas chilled leg market in the United Kingdom, he said.

The outlook for that was good, with prices at good levels, and those were a starting point for standard pricing over the rest of the season.

However, that market was still only about 5% of total NZ lamb trade, he said.

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Kiwis enjoy record burger patty beef prices

PRICES for beef used in United States hamburger patties are likely to hold at elevated levels, after surging to a record in the past year as drought-hidden American farmers rebuild their herds, NZX Agriflex analyst Nick Handley says.

That boded well for New Zealand farmers, Handley said. The price for US imported 95CL bull beef, the raw ingredient for meat patties, had surged 59% to US\$3.18 a pound in the past year, Agriflex data showed.

In NZ dollar terms, the price was at \$8.37 a kilogram, beating the previous record of \$6.60/kg in 2001.

"It has just been rocketing up very sharply. It is well into record territory now," Handley said.

"If prices can stay anywhere near these levels it's extremely positive for NZ, because you expect a lot of that to flow through to NZ processors and NZ farmers."

The US was NZ's largest beef market, accounting for about 43% of the nation's \$2.1 billion in annual exports, he said.

The US beef herd was at its lowest level since 1973 as a result of several years of drought and high feed prices.

Better pasture growth and higher prices were prompting US farmers to start rebuilding their herds, although the US Department of Agriculture estimated local beef production would not start increasing again until 2017.

"The hole in the US market is nearly as big as NZ's total supply."

**Nick Handley
NZX Agriflex**

The US might kill 700,000-800,000 fewer cows this year, almost matching NZ's 900,000 annual kill, Handley said.

"The hole in the US market is nearly as big as NZ's total supply," he said.

"Supply is expected to be low for another couple of years to come. It's not just a short-term spike."

Further bolstering the outlook for NZ beef returns was that Australia, NZ's biggest rival in beef exports, was likely to pull back its export supply when a drought across the Tasman, which had caused more meat to be pushed on to global markets over the past 18 months, ended, he said.

"They have been killing record numbers of cattle and at some point that drought will break.

"When that drought breaks that is going to leave a huge hole in global markets. The hole they will leave is about the size of NZ's total production, so that's another factor that gives us a lot of confidence in the next couple of years.

"When it does break it is a few years worth of rebuilding before their production starts to lift again, so again that's quite a long-term positive."

Helping lift beef prices in the US was the fact that prices of rival meat protein such as pork had also gained, reducing the lure of a cheaper meat substitute for consumers.

US pork prices had jumped as a result of a virus affecting pork production, Handley said.

The high price of prime beef had also prompted many consumers to trade down to the lower-grade

manufactured beef used for meat patties, he said.

Because of the spike in prices, US consumers might be paying for mince now what they paid for steak 12 months ago, Handley said.

"Unless you want to pay a huge amount for prime beef, some people are choosing the ground beef option instead because it is the only really affordable one," he said.

The rise in prices had resulted in higher-value cuts being added to the manufacturing pack, tightening supply for cuts

such as knuckles to markets including Indonesia and Korea, he said.

"Anything that can go manufacturing is going manufacturing. The US is just soaking it all up."

"We are getting close to a point where even a rump might be going into a manufacturing pack, which to a New Zealander is a roast or a steak item but is getting near being worth more to an American in a burger patty."

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