

“Sheep meat outlook”

August 2020

- Supply forecast to be tighter with lamb production declining 2% year on year
- Mutton supply to decline 31%
- Growing global demand and reduced available protein to support prices
- Spring supply to see ESTLI at 700 to 550 cents in spring flush
- Continued good season (and no meatworks closures) will see supply come forward in an orderly manner
- China to continue as a strong export destination

Prices & Supply

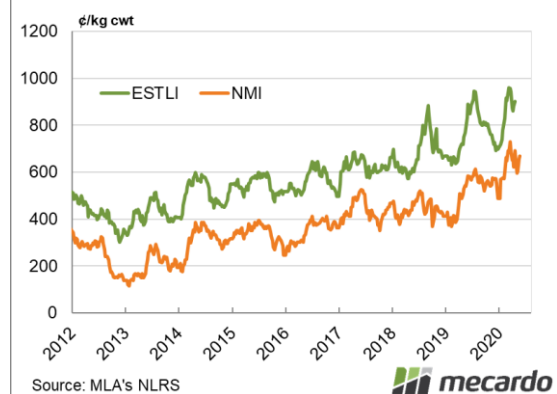
The outlook for prices is strong, notwithstanding the uncertainty in markets as a result of COVID-19.

The peak of spring supply will see the ESTLI find its low point with the forecast of a 700 to 550 cent level. The level will be determined to some degree by the season in NSW. A dry finish will see a lot of lambs come forward at once, overwhelming the market. Continued favourable conditions will see more producers “stagger” their sales into the market, content to increase lamb weights on farm and taking the price pressure of the market. The risk is that meatworks continue to be impacted with closures due to COVID-19.

While this situation has been manageable in the winter, it would cause severe disruption to the market if it were to continue into the peak selling period.

It is noted that the “new seasons” lamb flock is well advanced, the excellent feed availability has meant that ewes have milked well, and lambs are heavier than normal for this time of the year. Mutton has had a stella run and it is expected that the mutton price will track closer than usual to lamb prices in the future; in recent years we have seen a growing demand for mutton that is now well entrenched. It is a product very well suited to the cooking styles of the developing markets where demand has been growing. The NMI could well sit comfortably in the 25 to 35% discount range to the ESTLI, so with a 600 cent ESTLI the NMI could be in the 390 – 450 cent range in Spring.

Eastern States Trade Lamb Indicator & National Mutton



VIC lamb and mutton percentiles (2004-current)

| | ESTLI | Restocker lamb | Light lamb | Trade lamb | Heavy lamb | Merino lamb | Mutton |
|-----|-------|----------------|------------|------------|------------|-------------|--------|
| Min | 232 | 167 | 180 | 252 | 208 | 121 | 29 |
| 10% | 336 | 312 | 313 | 339 | 328 | 278 | 159 |
| 20% | 358 | 337 | 338 | 361 | 354 | 312 | 183 |
| 30% | 394 | 366 | 363 | 403 | 403 | 350 | 205 |
| 40% | 437 | 405 | 400 | 449 | 448 | 402 | 258 |
| 50% | 484 | 474 | 451 | 486 | 482 | 447 | 312 |
| 60% | 513 | 512 | 495 | 522 | 518 | 488 | 360 |
| 70% | 557 | 553 | 544 | 566 | 569 | 530 | 400 |
| 80% | 609 | 628 | 604 | 620 | 613 | 578 | 445 |
| 90% | 673 | 720 | 693 | 693 | 697 | 668 | 503 |
| Max | 966 | 1044 | 980 | 960 | 995 | 909 | 761 |

Date: 24/07/2020

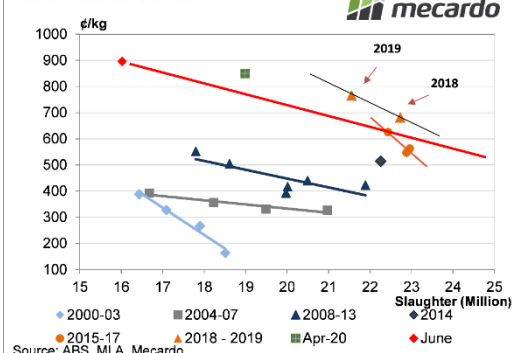
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|------------|-------|-------|-------|-------|-------|-------|-------|
| Price | 747 | 791 | 715 | 727 | 672 | 621 | 591 |
| Percentile | 93.1% | 94.8% | 92.0% | 91.5% | 88.2% | 86.6% | 94.3% |

Source: MLA's NLRS

National mutton indicator discount to ESTLI



Lamb Demand Curves



Flock size & turnoff

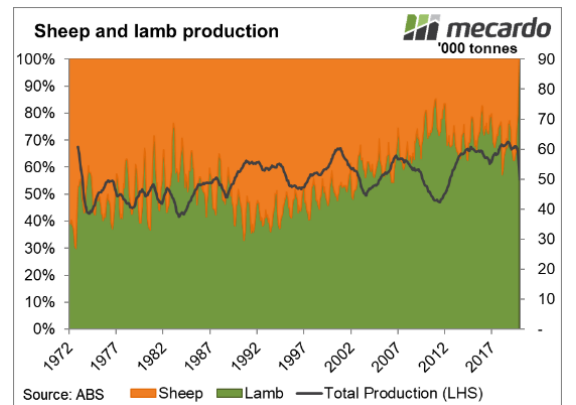
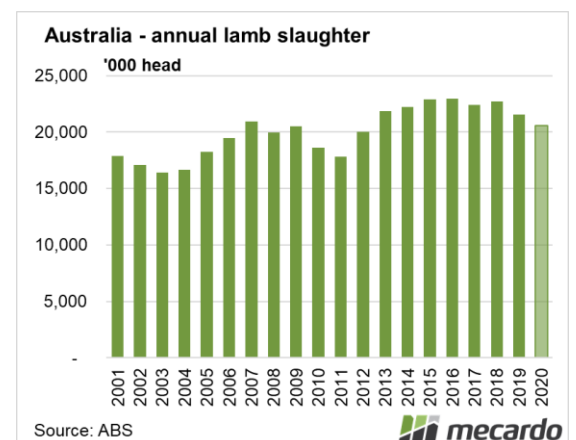
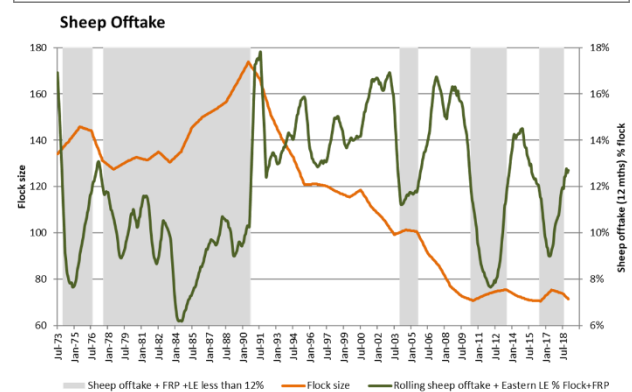
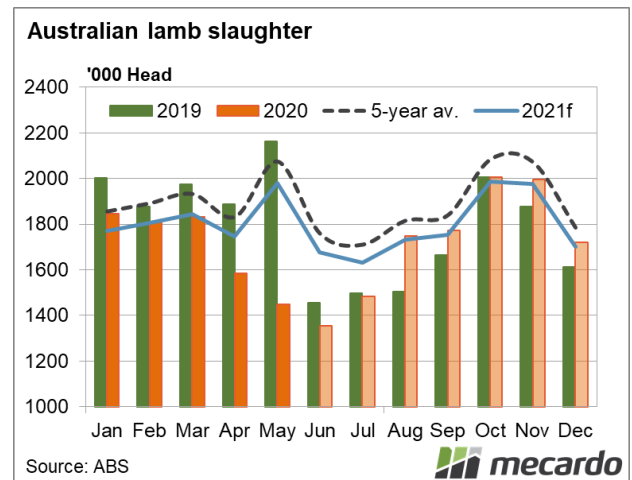
Sheep numbers have been under pressure, firstly beginning in 1990 when the wool market was at a low ebb and sheep producers decided to reduce merino sheep. In recent years this has also been impacted by the East Coast drought keeping the pressure on the flock with the “Sheep Offtake” as a percentage of the flock remaining above the 12% level for an extended period. For the flock to grow the “offtake” percentage needs to fall below 12%.

The latest estimate is that the national flock is at 63.5 million, its lowest level in more than a century. While there are many traditional sheep properties that now have a significant cropping program, the total lamb exports have increased since 2011 with more ewes mated to terminal sires, as well as Merino wether lambs increasingly heading for slaughter with the improved prices of recent years. National lamb slaughter since 2013 has remained steady above 22 million head, however in the 2019-20 season the impact of the severe drought in NSW dragged the number below 22 million, and MLA is forecasting another 5% decline to 20.6 million for 2020-21. MLA forecast this figure to grow by 1.0 million per year for the following 2 years.

Breeding ewe numbers were reported to be stable on last season, which creates the possibility that available lambs for slaughter may be better than the forecast, and possibly not that far behind last year with the seasonal conditions more favourable. The strong prices as well as a turnaround in the season are both positive for the prospect of lamb turnoff this season with the expectation that lamb producers were incentivised to try to increase lamb numbers following the drought.

The February 2020 MLA/AWI Wool & Sheep survey reported that there were 40.5 million breeding ewes on hand, of which 30.6 million were Merino, making up 75% of the total ewe flock.

Of those Merino ewes, 71% were mated for Merino production and 29% for “other” lamb production. The steadily increasing mating’s to prime lamb sires has meant the slaughter percentage has steadily swung further towards prime lamb production – this trend is likely to continue.



China influence

In some areas there is concern that the rising dominance of China as a sheep meat export destination could see a similar situation to the wool industry evolve, with China the dominant market. This is unlikely to occur. China has become a strong export destination at a time of rising prices indicating that it is their domestic demand that is driving their activities. The other positive is the diverse markets sheepmeats have, US, middle east, Asia, as well as the biggest market still the Australian domestic consumer.

Sheep meat markets are spread across many markets so any individual dominance is unlikely. African Swine Fever (ASF) has had a massive impact on red-meat protein demand. Before the on-set of ASF, China accounted for more than 50% of the world's pigs. Of the 441 million reported in China, the estimation is that the herd will reduce by somewhere between 200 & 240 million by the end of 2020.

This will result in a reduction of available red meat protein of almost 25 million tonnes, and after additional measures to mitigate this problem such as increased imports the net result will still be a 16 mt shortfall. In the longer-term China will recover the pig herd, but the impact short term is considerable.

The total Australian sheep-meat volume is 0.7 mt per annum; Australian Lamb & Mutton does not have the supply to compete directly as a pork replacement. The incentive for China to recover pig numbers will mean that intensive piggeries will replace "back yard" pig holdings, causing a major improvement in the health & bio-security management capacity of the government. How quickly this will occur is not certain, but the Chinese system has a capacity to move quickly so we expect the herd to head back to recovery in the medium term.

Regarding the impact a rebuilt pig herd will have on future lamb demand from China, it should be noted that the increasing level of exports was well set prior to this event, and driven predominately by the emerging middle class.

This suggests that Australian lamb is not considered in the area of "normal" red meat protein purchases, it sits at the "high end" eating market and therefore demand will be more influenced by economic growth in China than a return of China's pig population.

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