

Market Review

FOP's continued their upward climb in March with M2 Bull prices knocking on the door of \$4.70/kg by the end of the month. Increases occurred despite a lift in slaughter rates and took place in the face of strong negative pressure from the strengthening kiwi dollar. The lifts can be attributed to record overseas prices caused by insufficient supplies globally with strong procurement rates also playing a part as meat companies' fight to source more cattle while returns are highly favourable.

a. Overseas demand was mixed in March. The US market remained extremely strong on the back of limited imported supplies and increasing foodservice demand but orders from our main Asian markets dried up. Demand from Japan came to a halt after their earthquake and tsunami while Korea noted lacklustre performance with reports indicating they already had good volumes of product on hand. Solid demand from other markets (Russia, Taiwan, China and the Middle East) has also helped to keep overall prices upbeat, giving suppliers alternative options to the US.

b. Procurement Pressure. Processors put their best foot forward to secure more cattle in March with procurement rates averaging 4% higher than 5yr avg levels. Weekly kill rates are now above average levels but procurement pressure remains high as meat companies attempt to make the most of strong overseas prices while they can.

Overseas Markets

a. NZ Competitors

Australia The strong Aussie currency continues to pressure exporters with a real change in focus eventuating. Developing markets like Russia and the Middle East are becoming more lucrative options so will likely account for a greater proportion of the Aussie beef trade going forward. This is expected to occur at the expense of some of their more traditional markets with exports to the US projected to fall by around 15% in the 2010/11 season. This could create some real opportunities for NZ exporters going forward if our supplies allow.

Brazilian beef producers have come under pressure from rising input costs, soaring land prices and competition from other commodities. This has seen their finished cattle prices surge to well over values in both NZ and Australia (in US dollar terms). This would have been considered a fantasy just a few years ago and has obviously reduced their overall competitiveness in the market. **Argentina** seems intent on limiting beef exports in an effort to curb domestic food inflation.

b. NZ Main Markets

US: US economic growth is forecast to be around 4% in 2011 and the resultant lift in consumer demand for protein will need to be met. High cattle prices and feed costs are depressing domestic beef production efforts while a weaker currency is stimulating export capabilities. New figures from USDA point toward a 5% lift in beef and veal exports in 2011 with production falling around 1%. This in combination with improved consumer demand will certainly support the need for imported product going forward.

Indonesia: The Indonesian ministry of Ag. are again imposing import restrictions on beef as part of a policy aimed at making the domestic industry self sufficient by 2014. This has already seen NZ beef imports for Feb plunge 52% on a year ago levels and does not bode well for trade going forward.

Japan: Damage to infrastructure and radiation fears will limit demand from Japan in the short term but with rising consumer fears about their domestic product there could be an increase in enquiry in the pipeline. This will likely to be for the cheaper beef products so our prime cuts seem destined to be redirected to other markets.

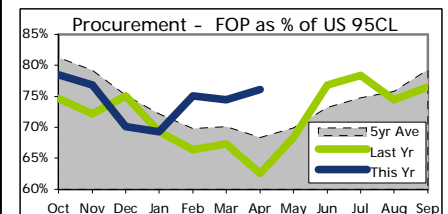
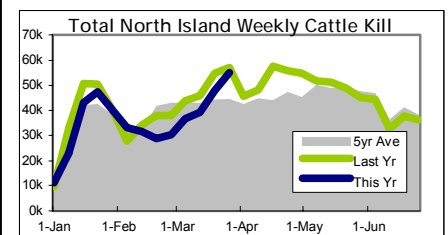
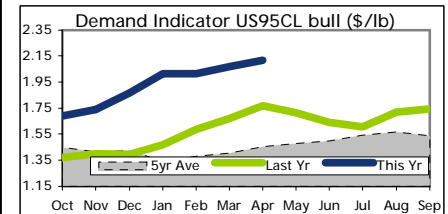
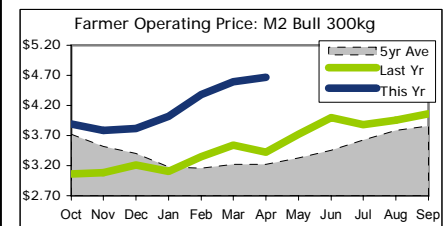
Price Projections

Overseas markets – Global beef prices continue to lift at incredible rates on the back of tight supplies. With no dramatic change in market forces forecast, the outlook remains bright.

US imported prices – US end users would normally have plenty of orders on their books at this time of year so as to avoid buying ahead of Memorial Day demand. This has not been the case this year with most purchasing hand to mouth to this point as a result of incredibly high prices. Many are now in the dicey situation of being very short bought at a time when retail demand is set to peak. This will certainly pressure prices which will already be underpinned by limited imported supplies and strong demand from other markets. The outlook remains strong with some predictions pointing towards US\$2.20/lb for imported 95CL bull within 6wks.

Exchange Rate – The dollar remains volatile. The major banks best guess is for the NZ dollar to be near US76c come Aug.

NZ supplies and procurement – The cattle kill has come to life driven by a surge in the number of cows coming forward for slaughter but the jury is still out on how long this higher kill can be maintained. B&L NZ forecasts point towards a 5% drop in the number of cows available for kill this season but with many already slaughtered during the drought, numbers could be tight. Meat companies are aware of this so procurement pressure should remain upbeat going into winter.



iFarm's beef price projections to September 2011						
	Apr	May	Jun	Jul	Aug	Sep
95CL US\$/lb	\$2.13	\$2.16	\$2.18	\$2.20	\$2.22	\$2.22
\$NZ:US	\$0.77	\$0.77	\$0.76	\$0.76	\$0.76	\$0.76
CIF Price \$NZ/kg	\$6.10	\$6.18	\$6.32	\$6.38	\$6.44	\$6.44
FOP as % of CIF	77%	78%	78%	79%	80%	81%
NZ Operating Price						
Bull 295-320kg	\$4.68	\$4.80	\$4.95	\$5.05	\$5.15	\$5.20
Steer 295-320kg	\$4.71	\$4.85	\$5.00	\$5.10	\$5.25	\$5.30
Cow 195-220kg	\$3.75	\$3.87	\$4.05	\$4.15	\$4.30	\$4.35
Effect of exchange rate on price projections for 300kg Bull						
Exchange Rate	Mar	Apr	May	Jun	Jul	Aug
\$0.65	\$5.54	\$5.69	\$5.79	\$5.90	\$6.02	\$6.08
\$0.67	\$5.38	\$5.52	\$5.61	\$5.73	\$5.84	\$5.90
\$0.69	\$5.22	\$5.36	\$5.45	\$5.56	\$5.67	\$5.73
\$0.70	\$5.15	\$5.28	\$5.37	\$5.48	\$5.59	\$5.65
\$0.71	\$5.08	\$5.21	\$5.30	\$5.41	\$5.51	\$5.57
\$0.72	\$5.01	\$5.13	\$5.23	\$5.33	\$5.44	\$5.49
\$0.73	\$4.94	\$5.06	\$5.15	\$5.26	\$5.36	\$5.41
\$0.75	\$4.80	\$4.93	\$5.02	\$5.12	\$5.22	\$5.27
\$0.77	\$4.68	\$4.80	\$4.89	\$4.98	\$5.08	\$5.13
\$0.79	\$4.56	\$4.68	\$4.76	\$4.86	\$4.95	\$5.00