



AFFCO EXPRESS

KIWI - TO THE BONE

DECEMBER 2017

Welcome to the December edition of Affco Express – a reminder that the AFFCO Express can be sourced via www.affco.co.nz, the Affco Livestock App, or from your buyer. If you would like to receive your AFFCO Express by post, please forward your details to lcs@affco.co.nz with Affco Express in the subject line – please include your AFFCO supplier number and your preferred postal address.

TOP QUALITY MEAT REMAINS IN NEW ZEALAND FOR SUMMER

While it is well known a large percentage of lamb is exported off shore to meet Christmas demand in the United Kingdom and Europe, it's a little-known fact that the majority of beef cuts right from eye fillets to rump steak, stay here for Kiwis to enjoy over summer.

"Local demand is certainly higher at this time of year when we've come out of long winter period and people just want to put some steak on the barbeque," says AFFCO's New Zealand Sales Manager, Darryl Butson.

"We are a one hundred percent New Zealand-owned company with over 100 years of tradition supplying the best cuts of beef to our local retail and foodservice partners. I'm really proud that our domestic market takes around seventy percent of AFFCO's chilled premium steak cuts every year.

"People around the globe are willing to pay a premium for New Zealand grass fed beef. When you think about it, we're incredibly privileged to have easy access to such high-quality meat in our weekly grocery shop."

With AFFCO's northern hemisphere Christmas lamb programme complete and all United Kingdom and European orders on the water, the best of the new season chilled lamb will also be available through selected domestic retailers during the summer holidays.



Premium beef cuts from eye fillets to rump steak are available at supermarkets throughout New Zealand for Kiwis to enjoy over summer.

AFFCO Livestock Customer Services

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EASTER CHILLED CONTRACT

Our lamb suppliers will be pleased to see AFFCO's latest guaranteed minimum lamb contract. It opens in the last week of January at \$6.60/kg and reduces to \$6.40 in mid-February. This pricing is at record levels and is achievable due to AFFCO's continuous innovation at plants, sales initiatives in emerging markets and having a global sales strategy. This contract is for a limited volume and will be offered in the first instance to loyal supporters of AFFCO.

HOWARD SYMONS RETIREMENT

Howard Symons is retiring. A fair number of you will have met Howard Symons over the last 27 years he has worked for AFFCO. He's hard to miss and is the "big guy" with a million funny stories relating to farmers and farming!

Howard has managed various areas including Northland, Waikato, King Country, Wanganui and Manawatu and leaves AFFCO well positioned going forward with a good team of livestock buyers. Over the last few years, AFFCO has seen a number of its older procurement agents retire and Howard has done a fantastic job in finding new young blood and turning them into effective livestock buyers. In latter times, he has done a huge amount of work through the Waikato and Taranaki regions. There aren't many people that can say they have worked 27 years for one company and this shows Howard's loyalty to AFFCO. His long-suffering wife Ruth will now

have Howard all to herself in the evenings as he won't be on the phone all night. We wish him all the best and expect his handicap to be single digits by the end of 2018.

NEW MANAGEMENT

With Howard Symons retiring, the regions our managers look after have been adjusted. Brett Innes is now managing Northland, Waikato and the King Country. Marcus Henson takes over the Wairarapa and Taranaki and continues to manage the Manawatu and Wanganui areas. Gerald Scantlebury continues with the Bay of Plenty and lower Waikato. Wayne File remains in charge of the East Coast and takes on Taihape – Waimarino, and, finally, Murray Napier continues to look after the South Island. As a supplier these changes will have little impact on you, but you may meet the new regional manager over the course of the season as he gets out and about with his team.

LIVESTOCK APP UPDATE

The new Farmers@AFFCO mobile app is live. Thanks to all those who have tested the app to date – we've had some positive feedback on this smart new tool. The new app will enable you to access and analyse live information, make faster, smarter decisions and keep in touch on the go. It is available free of charge from the App Store or Google Play. Please get in touch with your livestock buyer if you'd like support accessing the new app.

HAPPY HOLIDAYS

A massive thanks to you our suppliers for the support you have provided AFFCO through the last season. We look forward to an ongoing relationship. AFFCO is well positioned as a 100% NZ owned business and continues to invest heavily in plants, people and innovation.

As livestock manager I would also like to take the opportunity to thank the livestock team for their dedication. Rain, hail or shine they do a great job out in the field.

Merry Christmas everyone and be safe out there! See you in the New Year.



Tom Young
National Livestock Manager





MARKET UPDATE

LAY OF THE LAND

Global markets remain hungry for our lamb as low supply continues to prevent stocks from building. Average export returns surged in October as a result. Industry estimates are suggesting that this coming season's export production will be lower than 2016/17, implying another year of tight NZ supply. While export prices are likely to again benefit from low production, supply trends in competing markets will be a determining factor in market price direction.



Rachel Agnew
AgriHQ Analyst

Market returns for NZ lamb remain historically high, for both chilled and frozen product. The average export return for October on a per kilo basis lifted 20% on the same month last year, and 12% on the five-year average for October.

Average returns lifted across the board in our key markets. In China, where 32% of October lamb exports were shipped, the average price lifted 16% on last month and close to 40% on last year. Prices in the UK also firmed in October. Average export values lifted 10% on last month and 27% on October last year. Demand from the US market continues to be firm. Average export prices are up 14% on this time last year.

Average export returns will ease as NZ's production peaks in early 2018. However,

industry estimates suggest that we may see another year of low lamb production in 2018.

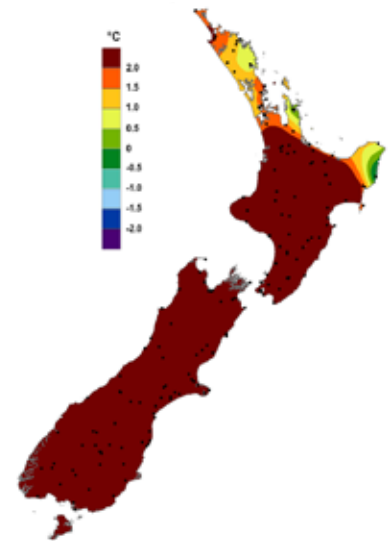
Beef and Lamb NZ have estimated that despite an increase in lambs on the ground in the spring of 2017, lower carcass weights will result in a decline in export production for 2017/18.

Another year of low NZ lamb supply suggests that global markets are going to be kept in a short inventory position, which should again prove beneficial to export returns.

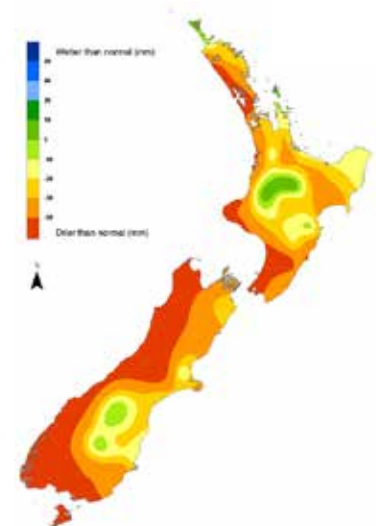
One factor that may separate the coming season from the last in regards to global lamb supplies however, will be competing export production from Australia, and also domestic production trends in markets such as China and UK.

Another year of low NZ lamb supply will also prove challenging for NZ exporters as they manage customer requirements. Both long standing supply relationships and the growth of new markets can be compromised when there is not enough product to go around.

MONTH-TO-DATE TEMPERATURE ANOMALY (OC) ON 07/12/2017



SOIL MOISTURE ANOMALY (MM) 9AM ON 07/12/2017



CURRENCY

NZD vs	This month	Last month	Last year
USD	0.688	0.692	0.710
EUR	0.583	0.593	0.665
AUD	0.909	0.900	0.956
GBP	0.514	0.530	0.564

As at 07/12/2017

The NZD has been hit hard following September's election. The NZD/USD has fallen 6% since the election and NZD/EUR is down over 13% for the year to date. Many economists believe the extent of the decline as a result of political change is overdone, and the currency is likely to rebound from here. Commodity prices are strong, and the

terms of trade index is at 40 year highs. Our trade weighted currency index is highly correlated with our terms of trade. This implies that further downside in currency is not likely. The RBNZ has also recently signaled a more flexible approach to inflation, placing more weight on output, employment and financial stability.

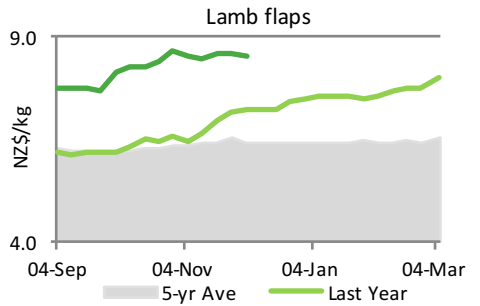
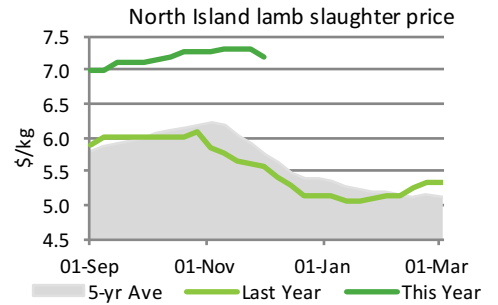
SHEEP

MARKET TRENDS

- NZ lamb production has lifted in recent weeks, however it will take some time before global inventory levels become comfortably stocked, resulting in continuing strong trading conditions.
- There was a lot less product shipped to the UK this Christmas chilled season, with the total share of monthly exports down at 18%, compared with 22-24% in recent years.
- The beginning of the Easter chilled production period in early January will keep frozen markets tight in the short term, supporting prices.
- Chinese prices may ease slightly late in December post the production period for their New Year celebrations, however demand is still expected to be solid.
- Average export returns typically trend down from March, as global inventories build and chilled volumes decline.

WHAT TO EXPECT

Lamb production has lifted in both islands and will continue to build through December. Weather will be a factor in how solid slaughter rates are late December and early 2018, with many regions already showing signs of dry conditions. Farmgate prices will trend downwards through December, however, will remain in the \$6.50-\$7.00/kg range. Easter chilled production in January and early February should support prices in this period also. A sharper downturn in farmgate prices will be expected from late February. Demand for mutton remains solid and farmgate returns historically high, however prices are easing as lambs take priority for killing space at the processors.



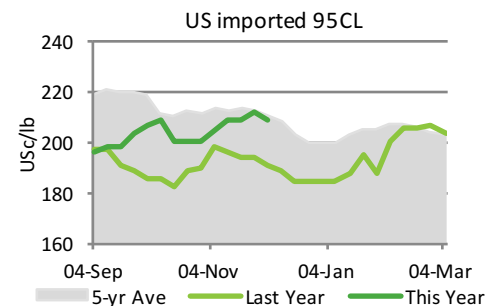
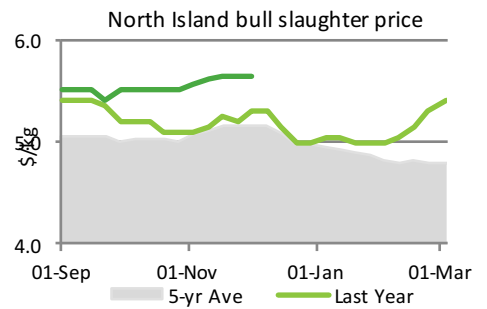
BEEF

MARKET TRENDS

- NZ bull slaughter rates lifted sharply from late November, causing an increase in NZ offers to the market, and a subsequent decline in US imported beef prices.
- Australian export volumes to the US were at an 8 month low in November, with Asia taking a growing proportion of their export production. Combined with low NZ production, this provides support for the imported price rally mid-late November.
- Demand for beef from China to meet Chinese New Year demand was strong, as were prices. Post New Year, there are indications that prices may ease, with some bids already 5-10% lower.
- South American beef continues to pour onto the global market, with export volumes from Brazil, Paraguay, Uruguay and Argentina reaching a decade record level of 180,000 for each of the months of August, September and October.

WHAT TO EXPECT

A lift in cattle slaughter rates from late November has filled processing plants and resulted in a subsequent decline in cattle operating prices (schedule plus premium). Prices held up higher than typical through November, due to the slow start to the processing season. Processors will be looking to recoup some of the margin lost through high procurement rates last month now that slaughter rates have lifted. Dry conditions in many parts of the country are also forcing more cattle to slaughter and killing space is expected to be very tight through December. High slaughter rates combined with an easing in US imported prices will result in a steady decline in farmgate prices from December into early 2018.



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