

# IN FOCUS: LAMB AND SHEEP MEAT

AUGUST 2016



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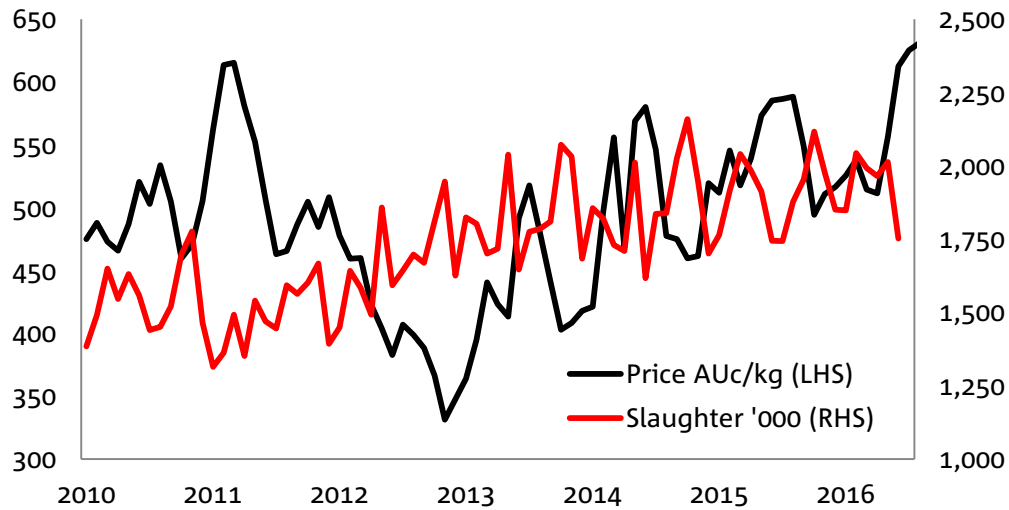


# SUMMARY



## AUSTRALIAN LAMB SLAUGHTER AND PRICE

Price reflects National Trade Lamb Indicator, slaughter monthly



## LAMB AND MUTTON – 2016-17 FORECASTS

	Production	Price (lamb)	Export value
16-17	▼ 5.2%	▲ 0.1%	▼ 7.6%

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Bureau of Statistics and Bloomberg.

The Australian lamb industry has enjoyed broadly favourable conditions of late, and we remain upbeat in our assessment of the industry. Mutton and live sheep has seen somewhat more volatility in export markets and we expect a pull-back in mutton exports with the need to replenish flocks following dry conditions in parts of the country last season.

We see lamb and mutton production falling more than 5% in 2016-17, driven predominantly by a fall in mutton with lamb remaining much more stable.

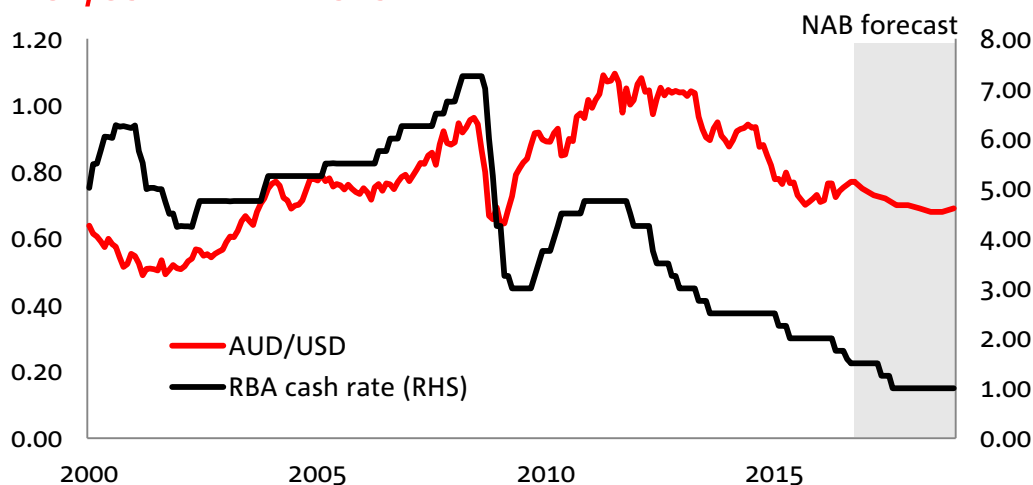
We expect stable to moderately higher prices into next year, continuing a good run since 2013, although the spring lamb flush will as usual see prices fall over the coming months. We place lamb prices at 0.1% higher in 2016-17. Overall, we expect the value of lamb and mutton exports to fall 7.6% in 2016-17, reflecting lower volume.

Export markets for lamb are reasonably diversified, with the US and China accounting for a substantial volume. However, the Middle East remains a very important market, particularly for mutton and live sheep. Steep falls in global oil prices since 2014 has placed pressure on some economies in the region. Offsetting this is the return of previously embargoed Iran to the global lamb and sheep meat market.

# EXCHANGE RATES AND INTEREST RATES



## AUD/USD AND RBA CASH RATE



At its August meeting, the RBA cut the cash rate by 25bps to 1.5% (against our expectations) following a 25bp cut in May. We continue to see a reasonably solid economy in the near-term, however the risks to the outlook going into 2018 are becoming increasingly apparent, as LNG exports flatten off at a high level and the dwelling construction cycle turns down. CPI inflation is expected to remain below the target band for an extended period. While we are not convinced lower rates will have a material impact on inflation, we do expect the RBA will react by providing further support. This will include two more 25bp cuts in May and August 2017 (to a new low of 1%).

The failure of the AUD/USD to show more than a momentary negative reaction to the 3 August RBA Cash Rates cut throws up serious challenges to our previous forecasts for significant falls by the end of 2016. Our revised forecasts are in the table below, although talk of a possible September Fed Funds rate (NAB expect a December hike), risks the AUD/USD undershooting our revised forecast.

## NAB FX STRATEGY TARGETS

	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q2
AUD/USD	0.77	0.75	0.73	0.72	0.70	0.70	0.68
NZD/USD	0.72	0.70	0.68	0.68	0.67	0.67	0.68
USD/JPY	102	105	103	103	102	101	99
EUR/USD	1.13	1.12	1.10	1.09	1.07	1.06	1.07
USD/CNY	6.55	6.70	6.70	6.68	6.65	6.65	6.63
AUD TWI	64.8	64.5	63.3	62.6	60.9	60.8	58.5

Source: NAB

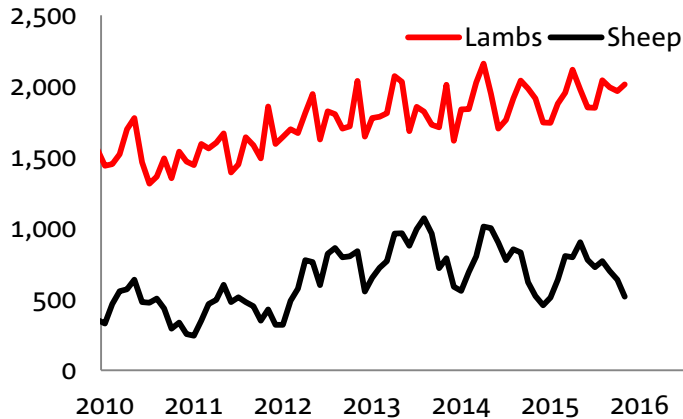


# PRODUCTION



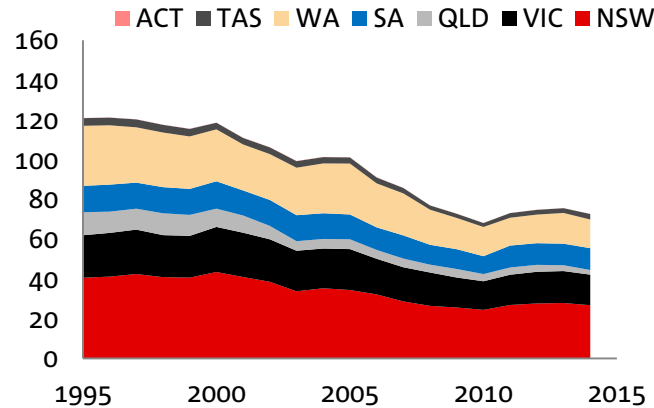
## SHEEP AND LAMB SLAUGHTER

'000 head, monthly



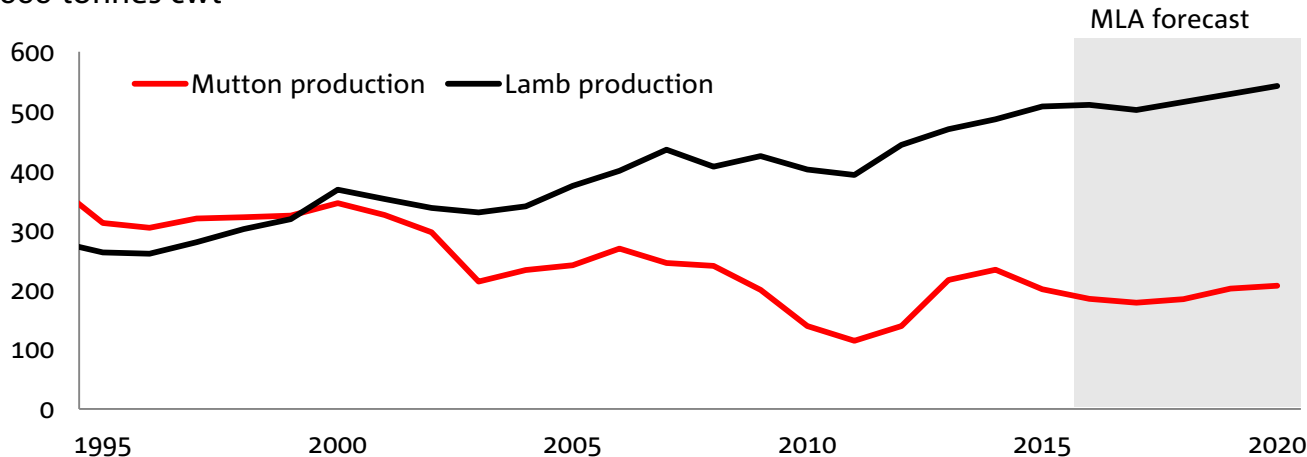
## AUSTRALIAN SHEEP FLOCK

Number, millions



## ANNUAL PRODUCTION INC. MEAT AND LIVESTOCK AUSTRALIA FORECASTS

'000 tonnes cwt



The Australian sheep flock has been falling for decades amid the structural decline of the wool industry following global demand trends and the removal of the reserve price scheme. Since the end of the millennium drought however, numbers have stabilised. Amid these changes in the industry, lamb production has boomed while mutton has tended generally lower.

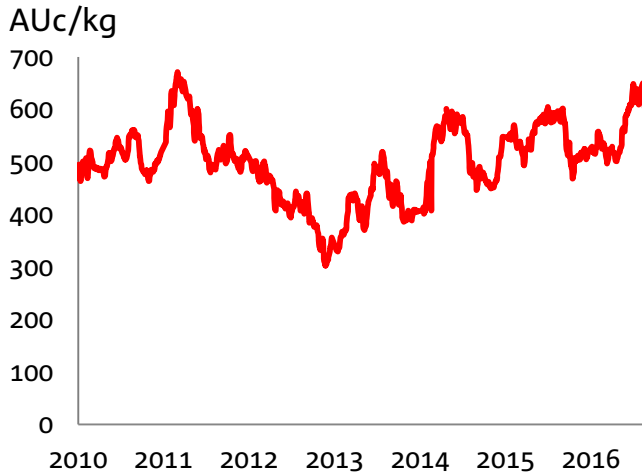
Dryer conditions last year, especially in Victoria and South Australia pushed slaughter levels higher, to levels we ultimately view as unsustainable. Forecasts produced by ABARES and Meat and Livestock Australia both point to a contraction in mutton production and a stabilisation (or slight fall in the case of ABARES) in lamb production this year.

We see lamb and mutton production falling more than 5% in 2016-17, driven predominantly by a fall in mutton with lamb remaining more stable.

Source: Meat and Livestock Australia, Australian Bureau of Statistics, ABARES and NAB Group Economics

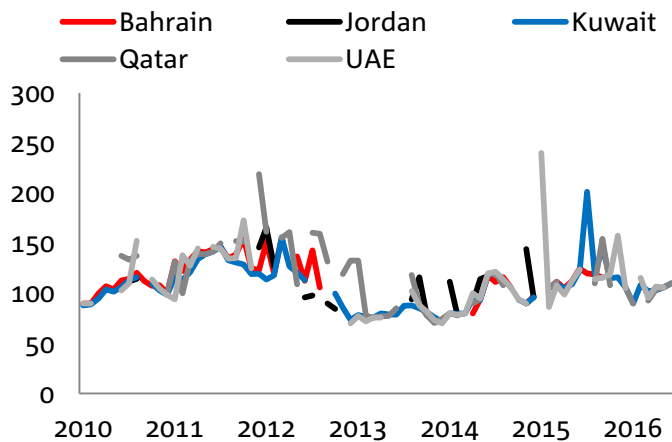


## NATIONAL TRADE LAMB INDICATOR



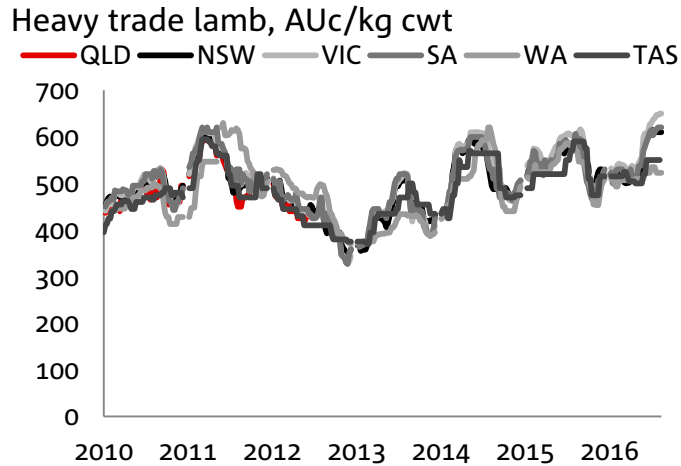
## IMPLIED LIVE SHEEP EXPORT PRICE

AUD/head, monthly, outliers removed

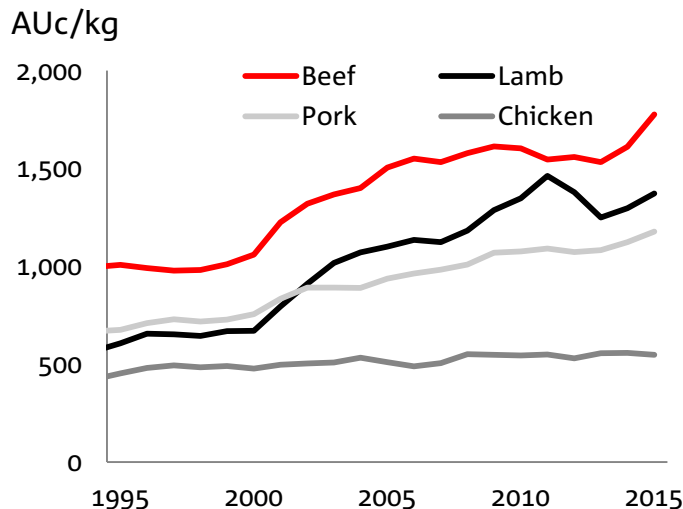


Source: Meat and Livestock Australia, Australian Pork, Australian Bureau of Statistics and NAB Group Economics

## OVER THE HOOKS STATE INDICATORS



## DOMESTIC RETAIL MEAT PRICES



Lamb prices have enjoyed a good run since bottoming out in late 2012. The National Trade Lamb Indicator has been well into the 600s this season and while prices have begun to fall with spring lamb coming into saleyards, producer returns remain broadly favourable. Over the hooks indicators in major lamb regions have broadly followed this trend.

Our forecasts for lamb continue to reflect stable to moderately higher prices into next year, although the spring lamb flush will as usual see prices fall over the coming months. We place lamb prices at 0.1% higher in 2016-17.

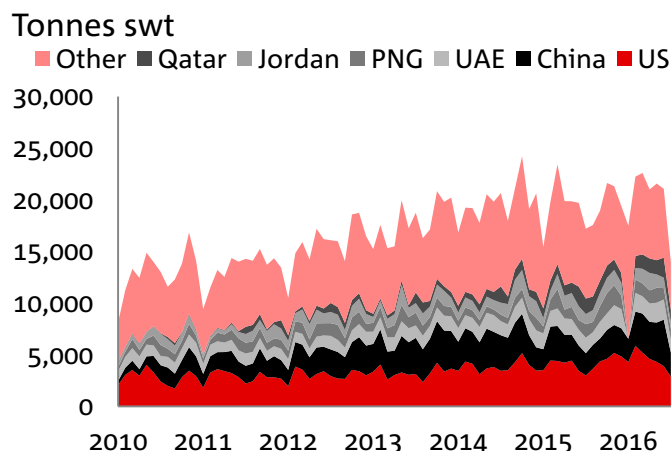
Implied prices for live sheep export to the Middle East have been somewhat steadier, with prices at their nadir in 2013 but staging something of a recovery more recently.

ABARES data for domestic retail meat prices shows rangeland red meats such as lamb and beef becoming steadily more expensive over the last 20 years, while chicken prices have remained stable.

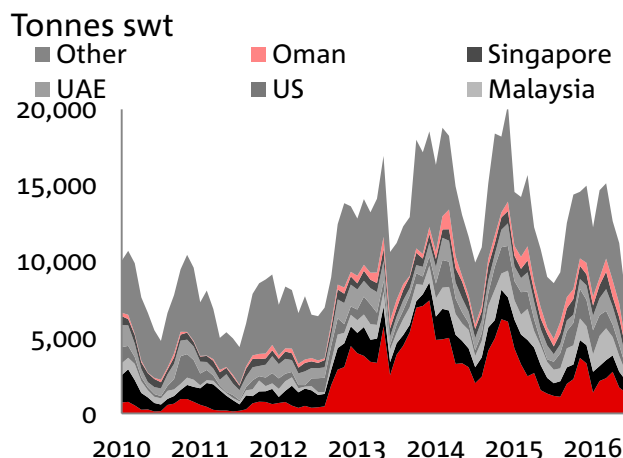
# DOMESTIC CONSUMPTION AND TRADE



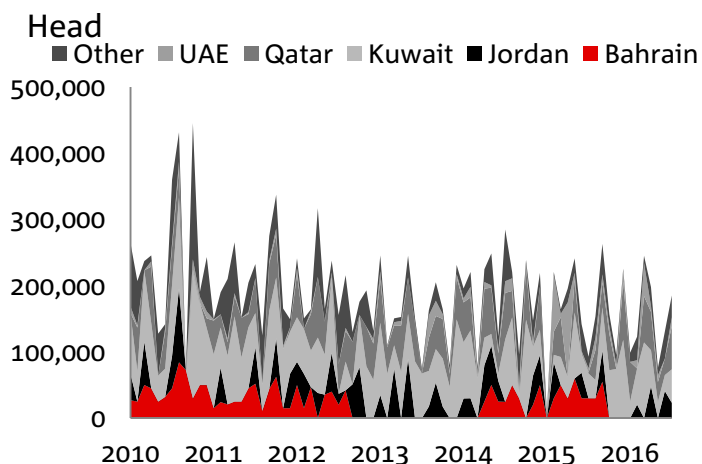
## LAMB EXPORTS BY DESTINATION



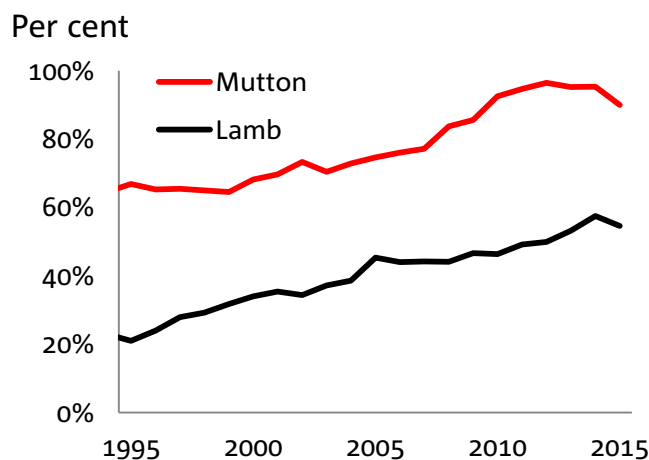
## MUTTON EXPORTS BY DESTINATION



## LIVE SHEEP EXPORTS BY DESTINATION



## SHARE OF PRODUCTION EXPORTED



Reflecting increasing lamb prices, and particularly with chicken prices remaining stable over a long period, Australian domestic consumption of lamb has dropped precipitously. ABARES data show Australians eating around 25kg of lamb per capita per annum in mid-1970s, compared to less than 10kg in 2014. Meanwhile per capita chicken consumption has skyrocketed from 13.4kg per annum in 1974 to 44.8kg in 2014.

With the lamb industry expanding despite domestic consumption falling, most Australian lamb (54.5% in 2015) is now exported. This compares with around one-fifth of lamb being destined for export in the mid-1990s.

The US, China and the Middle East are key lamb export markets, while mutton is more heavily focussed on the Middle East and South-East Asia. Live sheep exports are likewise mostly destined for the Middle East. Dependence on the Middle East carries some risks, especially with global oil prices remaining low since 2014.

Overall, we expect the value of lamb and mutton exports to fall 7.6% in 2016-17, reflecting lower mutton volume.

Source: Meat and Livestock Australia, Australian Bureau of Statistics ABARES and NAB Group Economics