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MUTTON
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AMT (Pty) Ltd

INTERNATIONAL SHEEP MEAT TRENDS

Australia

Australian lamb slaughter is forecast to decline in 2017 on the back of slightly poorer lamb markings and fewer ewes joined, and the result will cascade to lower production and exports. For 2017, lamb slaughter is projected to be 22 million head, down 2% from the estimated 2016 level. While this is a decline year-on-year, 22 million head is still in line with the long-term growth trend observed over the past decade. Breaking the annual processing down to a quarterly basis, it is anticipated that the June and September quarters will be when supplies are the tightest. Lamb availability in the March quarter on the other hand, is likely to benefit from carry-over stocks from the final months of 2016, when extremely wet weather delayed many lambs coming to market. Australian lamb production for 2017 is projected to ease 2% to 492,800 tonnes carcase weight (cwt), and like slaughter, while this is a year-on-year decline, the volume is in the realms of record territory. Breaking down the demand side of the equation, the Australian domestic market is anticipated to remain the largest consumer and account for 48% of production, or 237,000 tonnes cwt, with many encouraging signs coming from the market. For instance, domestic per capita consumption has stabilised in recent years, while at the same time the weighted average retail price has been increasing. To put this in perspective, domestic lamb retail prices in 2016 averaged just 10¢ shy of the record high set in 2011, at $14.51/kg, and per capita consumption is 8% higher now than what it was then. On the export front, Australian lamb shipments are anticipated to ease 4% year-on-year in 2017, to 220,000 tonnes shipped weight (swt). While there are strong demand signals from the domestic market, internationally, signals are mixed. For instance, the lifting of the government subsidy on imported Australian lamb in Bahrain will likely see reduced volumes to the region continue, while at the same time, the UK pound remains low and US cold store volumes of sheep meat are currently down significantly from year-ago levels

Similarly, total Chinese sheep meat imports in 2016 were subdued due to high domestic sheep meat production in China, however, domestic production levels are anticipated to be lower next year. The earlier than usual Chinese New Year in 2017 has reportedly spurred demand more recently, with importers already beginning to build up stock levels. In-market reports suggest that importers are anticipating good demand for sheep meat during the upcoming cooler months. Taking all these elements into account, the Australian sheep and lamb markets are set to benefit from reduced supplies and the apparent resilience from the domestic consumer. Similarly, while there are mixed signals from the major Australian export markets, there are still many willing to procure Australian product and New Zealand (NZ) lamb and mutton exports seem set to fall further. The result may be a fifth consecutive year of higher year-on-year prices, or if not, at least levels similar to those of 2016.

Prices

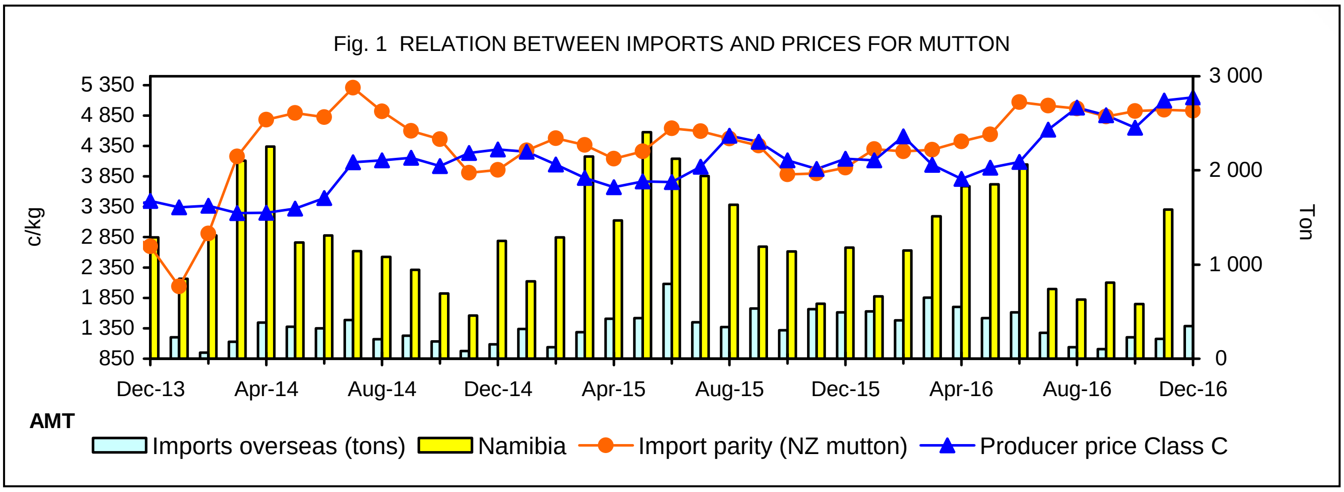
Looking at recent history, it is encouraging for lamb producers that the market remained high in 2014 and 2015, despite Australian sheep meat production exceeding 700,000 tonnes cwt. In 2016, prices have been assisted by a 6% year-on-year fall in sheep meat production. On the supply front, expectations are for Australian sheep meat production to lower again next year, which should instil confidence for producers. This, together with a strong domestic market and some recovery in China's demand, as well as in the US and the Middle East, should result in further rises in Australian lamb prices – which will make the fifth consecutive year. However, factors to keep an eye on are the significant price difference between Australian and NZ lamb prices. While NZ lamb production has been trending lower, the absence of a large domestic market has led to significantly lower prices than here in Australia, increasing competitive pressures from that market. While this is a factor that needs to be monitored, the major limitation for NZ is production levels, which are expected to decline in 2017. Another risk is that, with Australian domestic retail prices approaching previous record highs, there may again be consumer resistance and a resultant lamb price correction. However, the difference this time is that the A$ and production are likely to decline, supporting prices, whereas following the previous record prices, both rose. MLA will continue to monitor production and trade developments, and the 2017 update will be released in April 2017.

MLA Australian Sheep, Industry Projections 2017, January 2017

The domestic Mutton Industry

Imports of Mutton meat

Figure 1 illustrates the relationship between imports and local prices. Imports are based on carcass equivalent.



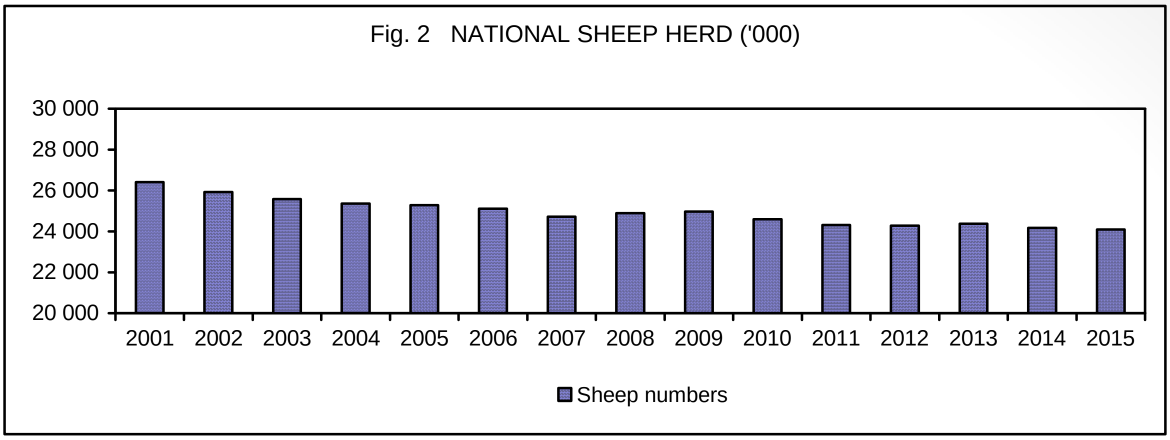
Imports from Namibia are only available till November and overseas till **December 2016.**

- The import of mutton from overseas in the month of December 2016 by 64,0% compared to the previous month and was 29,5% less than the same month in 2015.
- The import of mutton from Namibia in the month of November 2016 was 172,0% more compared to the previous month and 170,6% more year-on-year.
- It seems that import parity price was the main driver in the volume mutton imported from overseas in the period January 2001 to December 2016, with a correlation value of r = -0,6666 followed by the producer price of Class C2/C3 with a correlation of -0,6199.
- In December 2016 year-on-year, the import parity price of Australian mutton increased in total by 24,0% and was 3,2% higher compared to the average price of Class C2/C3.

Outlook

- In December 2016 year-on-year, the South African Rand appreciated in total by 6,5% against the Australian dollar and looking at the performance of the South African economy in the first two months of 2017, the Rand may maintain its relative strong position in the months to come. After the above normal rainfall in the summer grain producing areas of South Africa, a bumper maize crop is expected which will firstly eliminate further imports of maize from May onwards and secondly will earned South Africa foreign currency due to exports, which will stimulate the growth rate of the South African economy.
- The prediction is therefore that the imports of mutton from overseas may increase in the months to come.

Production trends



Source: DAFF

Based on the latest information from the National Department of Agriculture, total sheep numbers, which exclude goats, are in the order of 24,06 million in 2015 which is 0,4% lower than in 2014 (Figure 2).

Outlook

- Notwithstanding the favourable wool – and meat prices of the past three years, the high occurrence of organized theft of sheep in South Africa, sheep numbers in South Africa, the present drought is expected to have a negative effect on sheep numbers in 2016.

Table 1 Sheep per province

Province	**2014**	**2015**	**% of total in 2015**
Western Cape	2 810 505	2 812 592	11,7
Northern Cape	6 017 374	6 012 488	25,0
Free State	4 784 747	4 767 120	19,8
Eastern Cape	7 015 162	7 022 817	29,1
KwaZulu-Natal	755 171	737 764	3,1
Mpumalanga	1 761 110	1 738 908	7,2
Limpopo	256 966	254 227	1,1
Gauteng	98 369	100 554	0,4
North West	642 955	649 210	2,7
TOTAL	24 164 598	24 097 428	100

Table 2 shows the number of sheep being stolen over the period 2005/6 to 2010/11.

Table 2 Sheep being stolen

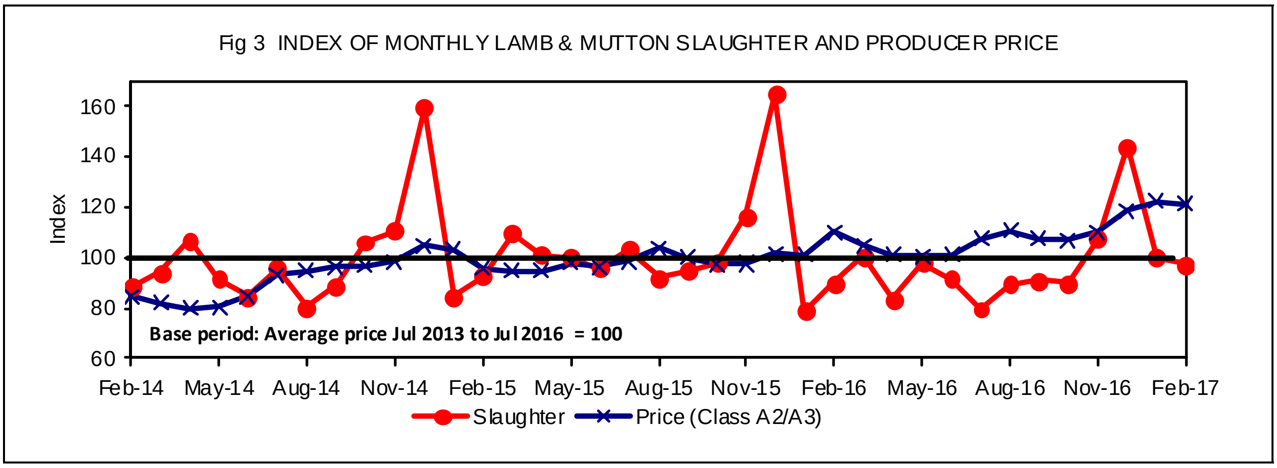
Year stolen	**Stolen**	**Recovered**	**Lost**
2005/6	109 368	25 963	83 405
2006/7	116 058	31 016	85 052
2007/8	113 391	31 230	82 161
2008/9	116 399	28 549	87 850
2009/10	127 647	29 672	97 975
2010/11	127 467	28 619	98 848
2011/12	94 450	23 569	70 881
2012/13	89 100	20 679	68 721

Source: RPO

Since 2012/13, no more information is available on sheep theft.

Theft of sheep in the producing areas is one of the main factors that have a negative effect on the growth of the national herd over the past years from 2005/06 to 2009/10, but since 2009/10 to 2012/13, a decline occurred in the number of sheep being stolen. In 2012/13 the number of sheep stolen decline in total by 5,7% compared to the previous year, and 30,2% compared to 2009/10.

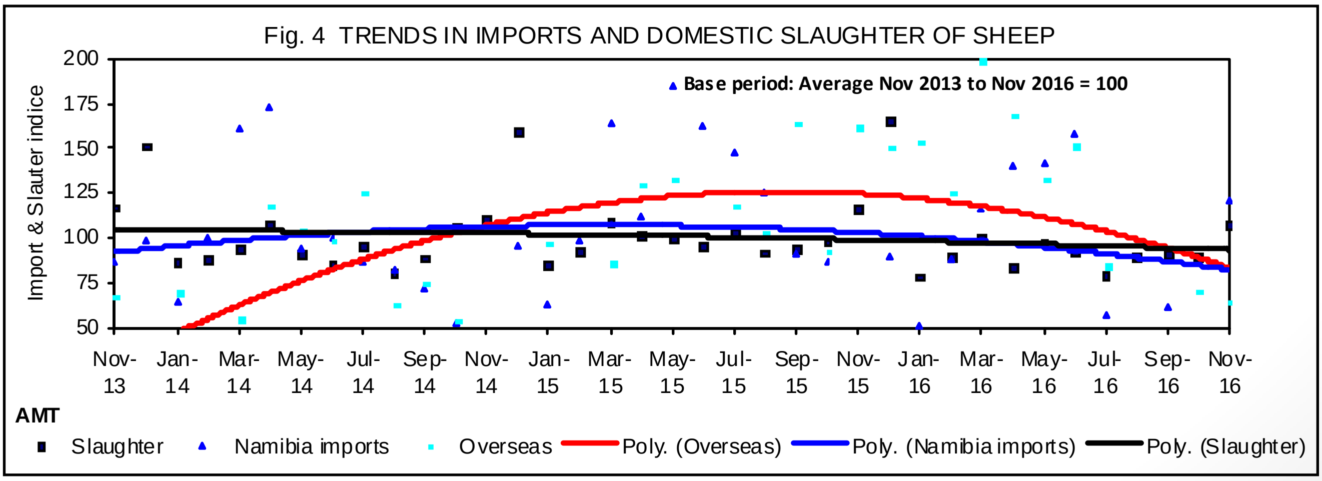
Trends in the slaughter of sheep



- Aggregate slaughter Information received from of Red Meat levy Admin only available till **December 2016** with preliminary slaughter based on information from the Red Meat Abattoir Association for January and February 2017. For the month of January and February we have to rely on percentage change in the total slaughter of the approximately 20 abattoirs which provide the information for the price analysis..
- In February 2017 the number of mutton and lamb slaughtered was 2,6% less compared to the previous month, 8,4% more than in February 2016 and 2,7% less than the average over the period February 2014 to February 2017. (Fig. 3).
- Year-on-year, the average price of mutton (Class A2/A3) increased in total by 10,2% in February 2017.

Slaughter and imports of mutton meat

Figure 4 shows the trends in slaughter and imports over time.



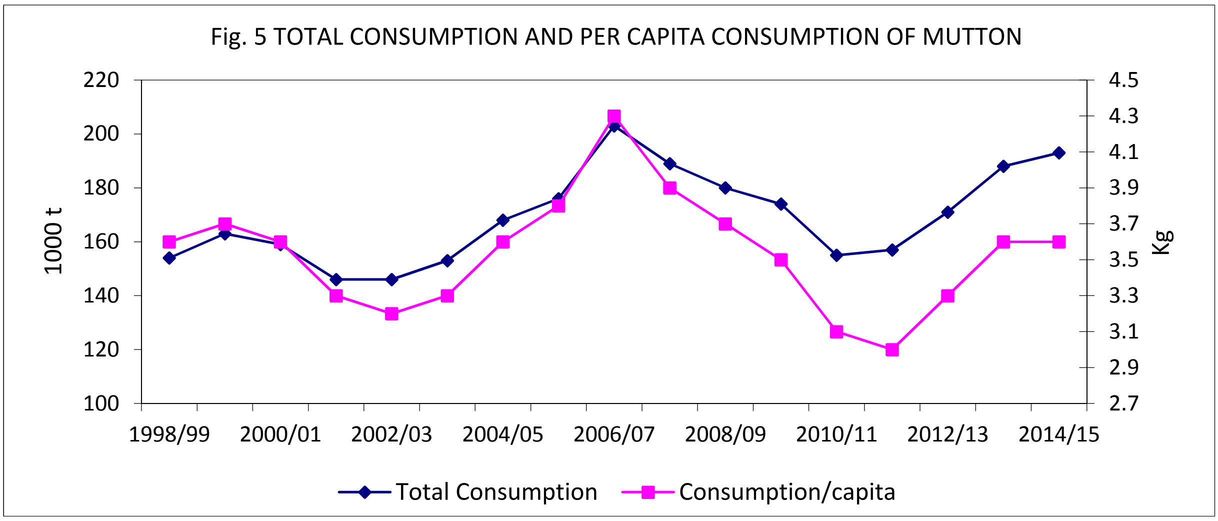
The trend lines in Figure 4 are based on polynomial regression, and show the trends in slaughter sheep, imports from Namibia and from overseas from November 2013 to November 2016.
The regression lines indicate the following:

- The slaughter of sheep in South Africa shows an downward trend from November 2013 to November 2016 (black line).
- Imports from Namibia show a downward trend from November 2014 to November 2016. (blue line).
- Imports from overseas shows a downward trend from December 2015 to February 2016 (red line).

Outlook

- The severe drought in 2016 in the mutton producing areas in the North Western areas of South Africa is having an effect on the National herd and consequently on slaughter numbers.
- From November 2013 to November 2016, slaughter declined in total by 8,0% and the average meat price of lamb increased by 44,9%. The number of lamb and mutton available for slaughter is expected to be still come under pressure for the rest of 2017, due to the rebuilding of the national herd.

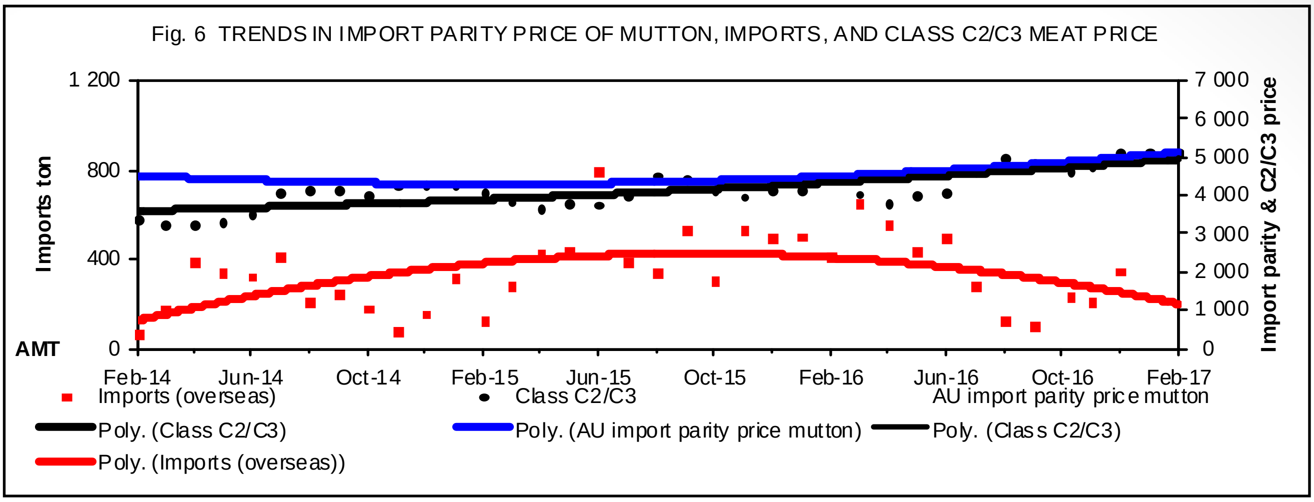
Aggregate and per capita consumption of mutton



Source: Department of Agriculture Forestry and Fisheries

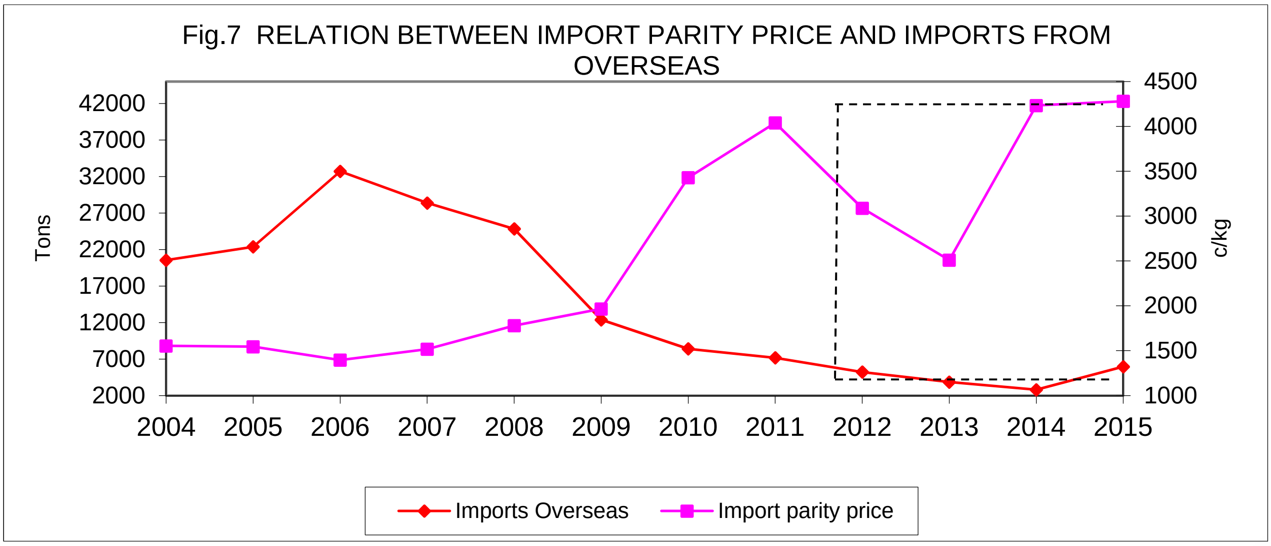
- In 2013/14 year-on-year, total consumption of mutton and the per capita consumption increased in total by 2,7%, and per capita consumption was unchanged.
- Over the 10 years from 2005/06 to 2014/15, total consumption increased in total by 9,7%, but per capita consumption declined in total by 5,3%.

Import parity price, imports from overseas and Class C2/C3 price



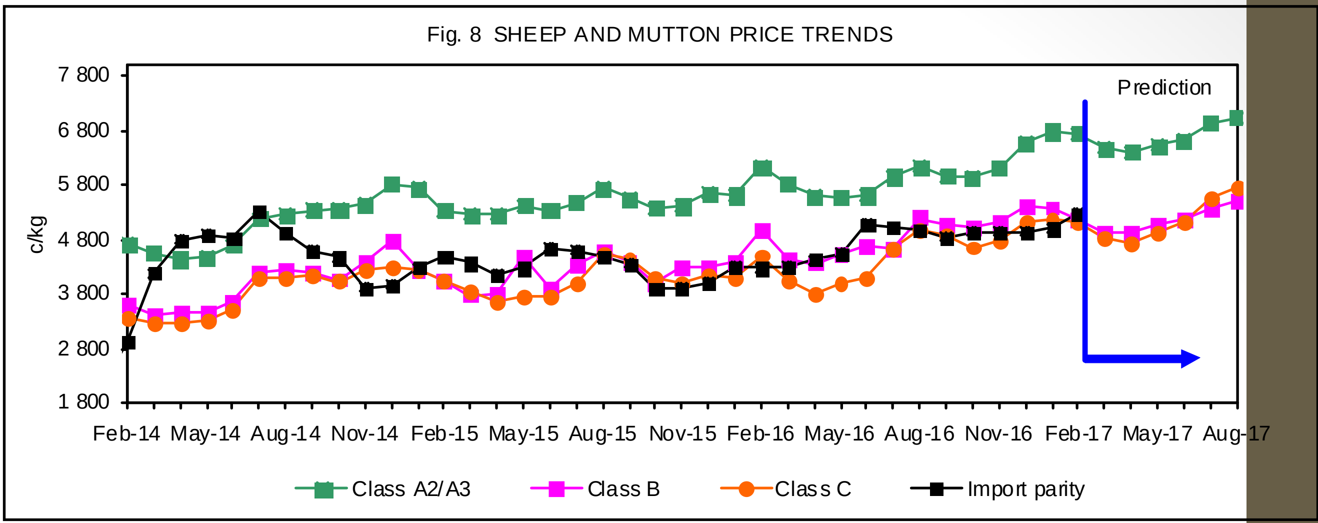
- In the above graph (Figure 6), the trend line of the import parity price (blue line) shows an upward trend from November 2015 to February 2017.
- The trend line of the price of Class C2/C3 (black line) also shows an increasing trend from over the same period.
- The imports from overseas (red line) show also a decreasing trend over the period December 2016 to February 2017.
- Notwithstanding the high level in the world price of mutton, the relative stronger South African Rand against the US-dollar and AU-dollar at present, and the possibility of the South African exchange rate to maintain its present strength in the coming months, imports of mutton may increase over the next six months. Total imports from overseas in the period February 2016 to February 2017 accounted for approximately only 3,8% of total mutton production in South Africa over the above mentioned period, so an increase in imports from overseas should not rock the South African mutton market.

Figure 7 shows the relation between imports from overseas and the import parity price on an annual basis.



In 2013 to 2016, the import parity price started to increase, while the imports from overseas declined over the same period. The import parity price seems to be still on a too high level to have meaningful impact on imports.

Producer price trends

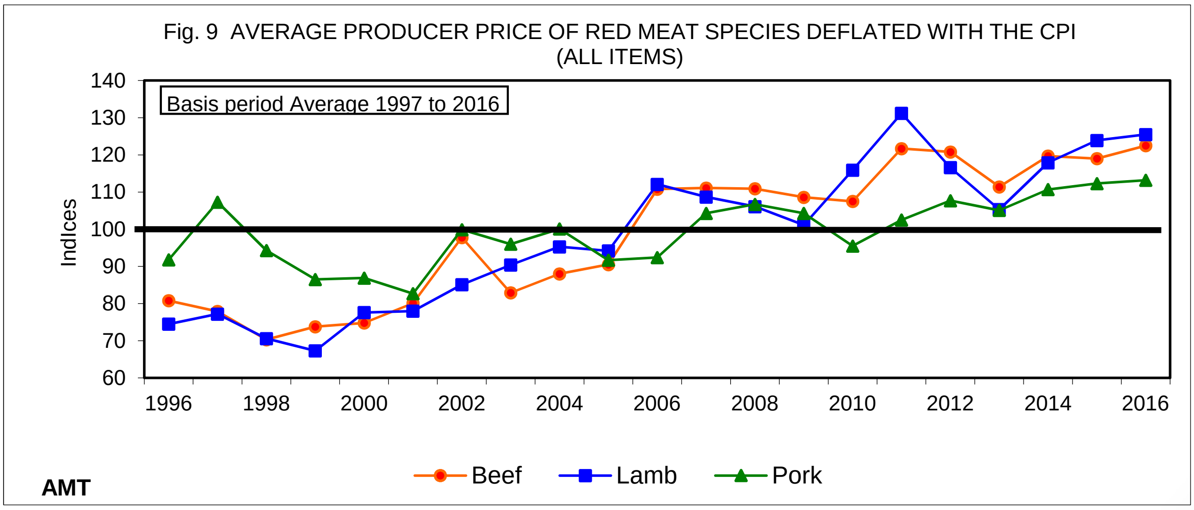


- In February 2017 year-on-year, the average producer price of lamb (Class A2/A3), Class B2/B3 and Class C2/C3 were respectively 10,2%, 3,6% and 13,7% higher. (Figure 8).
- Over the same period the import parity price of Australian mutton increased in total by 24,0%, and the average price of Australian lamb was unchanged.

Outlook

- The prices of lamb and mutton are expected to decline from February to May 2017 and increase from May to August 2017.. Based on expectation that the Rand may continue its present strength position over the next six months, the import parity price of mutton may move more sideways over the next six months.

Comparison in long term trends in the prices of sheep, beef and pork

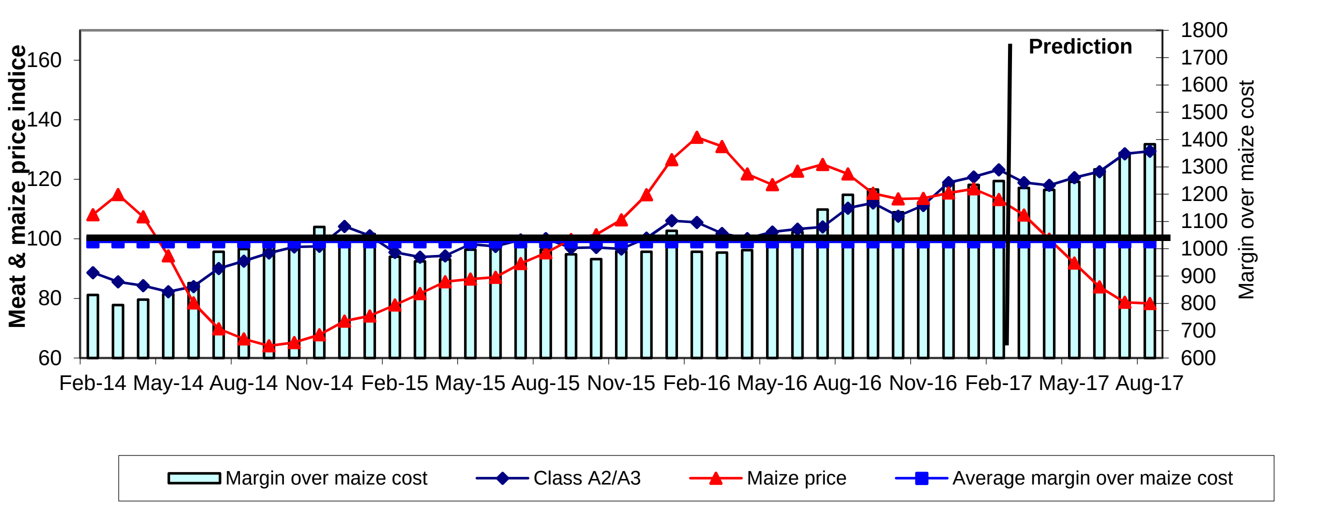


- In 2016 the real price (where the effect of inflation was removed from the time series data) increased in total by 2,9 and 1,3% and for respectively beef, lamb and pork compared to the previous year.
- It is however important to note that the average prices of all three species (beef, lamb and pork) were in real terms above the 100-line, which means that the average prices in 2016 were respectively 22,5%, 25,5% and 13,2% for beef, mutton and pork above the average price over the past 20 years with due allowance for inflation.

Feedlot margin over maize cost

- The margin over maize cost per kilogram lamb meat is based on a finishing off ration consisting of 60% concentrates and 40% roughage. The concentrate part of the ration consists of 55% yellow maize. The average intake per lamb per day is 1,5 kilogram of the total ration and the A.D.G is taken as 280 grams per day. It should however be emphasized that feeder-lamb slaughtering represents only a very small part of total lamb slaughtering in South Africa. The graph below is also based on the assumption that the energy portion in the concentrate part in the ratio consists of only maize.

Fig 10 MARGIN OVER MAIZE COST PER LAMB

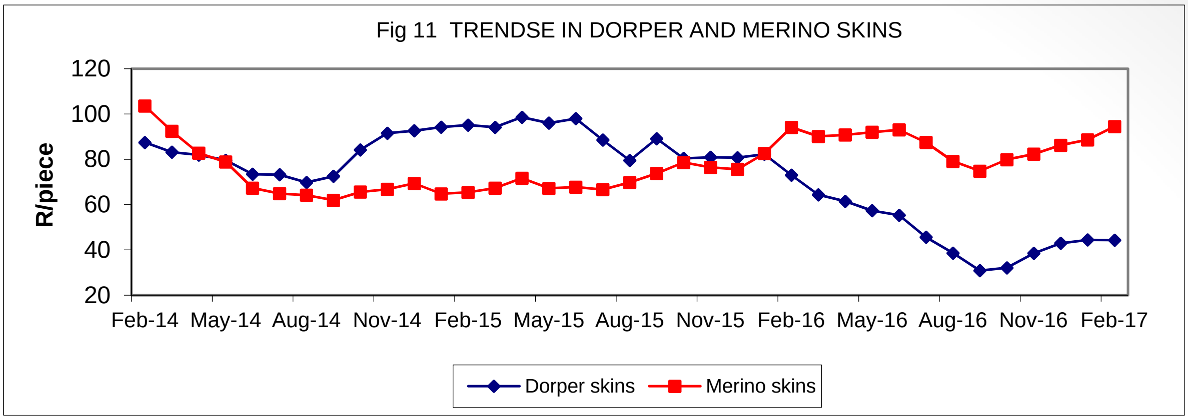


- The margin over maize costs is calculated by subtracting the average maize price of the past three months from the present gross value per lamb. The gross value is calculated by multiplying the average carcass mass with the producer selling price per kilogram carcass mass.
- The 100-line represents the average maize price and the producer selling price of lamb (Class A2/A3) over the period February 2014 to February 2017.
- The horizontal average margin over maize cost line (blue) represents the average margin over maize cost over the period February 2014 to February 2017, and on the above graph it lies below the 100-line.. This is also the line against which each monthly margin over maize cost is being measured. A dip in the producer price of lamb or an upheaval in the price of maize caused logical a decline in the margin.
- In the months where the average meat price drops below the 100-line the average margin over maize cost falls below the average margin over maize cost line (blue line). This happened in the period February 2014 to June 2014.

Outlook

- In the period August 2016 to August 2017, the margin over maize cost is predicted to be well above the average margin over maize (blue line), due to the relative high meat prices and declining maize price. With other words a period of relative high margins over maize costs.
- Compared to February 2017, the average margin over maize cost in August 2017 is predicted to increase in total by 10,8% due to a predicted decline of 30,8% in the price of maize and a predicted increase of 5,0% in the price of A2/A3-beef over the same period.

Trends in skin prices



In February 2017 year on year, the average price of dorper skins declined in total by 39,3% and merino skins increased by 0,4%.

Sources:

- AMT & AMT collaborators
- Australian Bureau of Agricultural and Resource Economics (ABARE)
- South African Meat Industry Company (SAMIC)
- Red meat Abattoir Association (RAA)
- National Department of Agriculture (NDA)
- South African Future Exchange (SAFEX)
- Meat and Livestock Australia (MLA)