

PORK Outlook

New Zealand
PORK

JULY 2010

CEO Comment

Conference round-up

First up, thanks to all of the hundred-plus people that attended the recent 'New Zealanders Passionate about Pork' conference in Christchurch. There was certainly excellent interaction with the speakers who provided high quality information. Special thanks to Tony Alexander (BNZ), Hamish Sutherland (Mainland Poultry), Terry O'Connor (Viterra) and Rob van Barneveld (Pork CRC) who all gave generously of their time to address the conference.

For those of you who missed out I'll take the opportunity to provide some of the key messages that came from our speakers.

Zuza Scherer spoke about Generation Y. The reason we asked Zuza to speak is that this group of consumers is a major opportunity for the pork industry and in fact a mandatory group to get consuming more pork as they are 25% of the population and their consumption patterns for life are being set. Here are some characteristics to dwell on:

- They are the largest group of consumers
- They've got different attitudes, mindsets and priorities that drive their behavior
- They influence their parents' buying decisions
- Use technology to build and maintain relationships – this means opinion spreads rapidly – you can't afford to ignore the individual customer
- They also rely heavily on their peers for recommendations – so the best people to recommend products to them are their peers, social and viral marketing avenues are important. This means you have to create channels for communication with them, and increase the interaction to build the relationship, involve them as much as possible, better for you to have a conversation with them to deal with issues, rather than them talk with others about your shortcomings
- They are socially and environmentally conscious in their purchasing; choosing companies friendly to the environment, animals, children etc.
- Self obsessed and very image conscious – their purchasing reflects the image they want to portray of themselves. This means that price is less of an issue; they are willing to pay for something that they believe will reflect well on them
- Love convenience – having information about your product and how to use it needs to be available at their fingertips

The question was raised – are they any different from previous generations? Some of us probably have to cast our minds back further than others to answer that question. I would say that perhaps not, but the key issues they're focused on are different and the way you need to interact with them is very different. If you are to connect with them you've got to be in their space.

Hamish Sutherland (General Manager, Mainland Poultry) spoke about the egg industry and how it had delivered to consumers' welfare concerns – essentially by the industry agreeing to a code of labelling which provided clarity around production systems and gave consumers the ability to make their choice. In essence there are two key groups of consumers. The cage egg buyers are focused on cost and functionality. Focused on how they can provide for their family, how far the dollar will stretch, and the natural goodness, convenience and versatility of the product, they tend to be higher volume consumers. Free range buyers tend to be lower volume but also have greater financial means, their focus is on happy hens mean better eggs and in that regard are highly engaged with the production system including feed and living conditions, the goodness that emanates from that production system, and the goodness they feel themselves for that involvement. Trend is that free range will continue to grow.

Terry O'Connor (Executive Manager, Viterra New Zealand) gave an overview of world grain and proteins situation and Viterra's involvement in NZ. Of note is that Viterra has invested \$80 million in the NZ feed industry over the last two years. Key points about grain were:

- World still awash with wheat and barley, carry-out stocks for wheat and barley still significant
- Current forecast: lower wheat and barley crops in EU, former Soviet Union and Canada, partially offset by larger US crop on record yields
- Demand has not changed significantly
- Australian production looking similar to last year on barley, higher on wheat
- Significant carry-out of feed wheat in South Island (30k plus), also milling wheat. No significant carry over barley or maize due to supply and demand factors
- New season's wheat plant expected to be up, most are unpriced at present but forward wheat milling is \$20-30/t back. Dairy demand may drive up barley plantings
- Soyabean demand and supply fairly evenly matched but it being the key growing time in the Northern Hemisphere things are being closely watched
- China import dependence rising with increasing

demand for proteins – they as always are seen as a tipping point and there is a possibility they may become a meal exporter – watch that space.

Rob van Barneveld introduced the bid for the next Pork Cooperative Research Centre for the period of 2011-2019. NZPork has been a core partner in the CRC since its inception in 2005. The issues being faced by the Australian industry are not dissimilar to our own: welfare, and the interactions between politics, consumers, supermarkets and obviously farmers. Product labelling is also a significant issue spanning pork production systems, Country of Origin labelling and equivalence of imported production standards.

In introducing the theme for the next CRC bid Rob focused on high integrity pork. The key outcome sought is: *“The Pork CRC 2011-2019 will revolutionise pork production systems to produce high quality pork for the same financial cost but without collateral costs that impact on animal and social welfare, the production environment or the health and well-being of the consumer – the ultimate in local and global food security”*.

To achieve this there are four key areas of focus:

1. Efficient and ethical production without the need for sow confinement in stalls or crates and reduced use of antibiotic medications;
2. Deliver key nutrients via pork, safely, enhancing the health and well-being of consumers;
3. Utilise revolutionary feed sources and effluent management systems resulting in emissions of less than 1 kg of CO2 equivalents per kg of pork produced, and;
4. Contribute significantly to Australia's economic growth and food security without drawing on the ecological capital of other parts of the world.

Tony Alexander (Chief Economist, BNZ) gave a wide-ranging address on the economy, the recession and prospects; he was smart enough not to have any PowerPoint slides which I could refer back to, but two key points were: expect the labour market to tighten over the next 18 months and expect around 3% rise in floating rate over the next year.

Sam McIvor ■

Feed Grains Update

BARLEY: At a glance – **anticipation of dairy demand dominates market**

This month *porkoutlook* contacts throughout the country describe barley supply as “scarce” or “non-existent”. Growers anticipate solid demand from dairy farmers as the calving season draws closer and are not prepared to release product until after winter.

MAIZE: At a glance – **harvest pretty much complete, yields below expectations**

In Auckland and Waikato *porkoutlook* contacts report the harvest as “nearly finished” with below average yields overall. Maize supply is tight and consequently any dairy demand for maize in the upper North Island is reportedly being met from growers in the lower North Island. The Manawatu harvest is reported as “all but finished” with pretty average yields of 10-12 tonnes per hectare below expectations of 12-14 tonnes per hectare. Commentators attribute the yields to unfortunate weather at the beginning of the crop with not enough sun and heat in January for Manawatu while cool wet conditions early on in Auckland, Waikato and the Hawke's Bay hampered the crop. Manawatu contacts report an increase in the price of maize “dragged along” by the dairy farmers' interest in grains generally.

WHEAT: At a glance – **small movement of grain this month**

In the South Island, *porkoutlook* contacts report the supply of wheat as tight but more freely available than barley. As with barley, growers are anticipating demand from dairy and are reportedly “sitting on grain” waiting for this expected demand to translate into better grain prices. The situation in the North Island is similar; *porkoutlook* contacts report a shortage of wheat with grain from the South Island described as “non-existent” as growers hold grain back.

CEREALS: FREE MARKET PRICES AND TRENDS

Crop	Auckland/Waikato		Manawatu		Canterbury	
	\$/t	Trend *	\$/t	Trend *	\$/t	Trend *
Barley	410-430	+25	375-390	+30	300-330	nc
Maize	355-400	+25	360-375	+15	na	
Wheat	380-415	+15	380-395	+30	300-320	nc

Note: These prices are typical examples for delivery in bulk. GST is not included. They do not represent true averages of the prevailing market. *Change from previous *porkoutlook*. na = not available. nc = no change. nq = not quoted.

Proteins Update

At a glance – **market steady again this month**

porkoutlook contacts report the meat and bone meal and bloodmeal market as “steady” this month. With the kill having “dropped off”, contacts report supply as “okay”. The export market for meat and bone meal is reported as softening. The Chinese are reported as buying less fishmeal which has taken some heat out of the market.

PROTEINS: PRICES AND TRENDS

Protein Type	North Island		South Island	
	\$/tonne	Trend *	\$/tonne	Trend *
Meat & Bone	625 -720	-25	725 - 900	-10
Blood Meal	1200	-87.5	1225 -1350	nc
Fish Meal	2700 -2750	-225	2700	+200
S/Milk Blend	1280	-45	1550	+350
Ext. Soya Meal	730-750	-15	870	+140
Full Fat Soya	na		na	
Soya Oil (full refined)	1350 -1400	nc	1370	-70
Tallow	800 -1000	-60	850 -1100	nc
Lysine \$/kg	3.00	nc	3.15 – 3.30	nc
Methionine \$/kg	7.00-8.00	nc	7.00-10.5	+1.125

Note: na = not available, nc = no change
*Change from previous *porkoutlook*. These prices are typical examples for delivery ex. store in bag, in tonne lots. GST and pallet hire is not included. They do not represent true averages of the prevailing market for all ingredients. Crude protein content may vary.

Market Summary

NUMBERS AND WEIGHT OF PIGS BY CLASS								
Weight range	June 2009			June 2010			% Change	
	Total No.	Total Wt (t)	Av. Wt/pig (kg)	Total No.	Total Wt (t)	Av. Wt/pig (kg)	No.	Total Wt (t)
Under 50kg	3,104	130	41.9	4,041	168	41.6	30.2	28.8
50-65 kg	17,706	1,048	59.2	18,182	1,071	59.1	2.7	2.2
65-75 kg	23,726	1,657	69.8	26,527	1,855	69.9	11.8	11.9
Over 75 kg	12,951	1,054	81.4	11,551	941	81.5	-10.8	-10.7
Choppers	1,386	197	142.1	1,579	225	142.5	13.9	13.9
Total	58,873	4,087	69.4	61,880	4,260	68.8	5.1	4.2

12 MONTH CUMULATIVE KILL				WEEKLY KILL	
	June 2009	June 2010	Difference	w/e 06 June	14,161
Number	700,692	690,101	-10,591 (-1.5%)	13 June	12,971
Tonnes	47,332	46,766	-566 (-1.2%)	20 June	14,236
Ave. Wt. (kg)	67.55	67.77	0.22 (0.3%)	27 June	13,865
				04 July	14,238

IMPORTS BY COUNTRY, MAY 2010 (KG)					12 MONTH CUMULATIVE IMPORTS (t)		
Australia	Canada	USA	Finland	Others	May 09	May 10	Difference
554,024	522,858	677,160	309,813	287,870	40,207	36,836	-3,371
24%	22%	29%	13%	12%			-8.4%

IMPORT TYPE (t)							Proportion of total annual supply
Month	Chilled	Frozen	Processed	Cured	Total	CIF (\$/kg)	
May 10	2	2,314	30	6	2,352	\$4.64	44.2
May 09	32	2,891	22	34	2,979	\$5.23	45.9

Environewz

Proposed effluent spreading rules

Two major regions are due to make decisions on proposed new effluent spreading rules in the upcoming period: ECan and Horizons. In both regions, effluent spreading is identified as a relatively minor contributor to overall water quality issues; but both seek that effluent be applied in accordance with conditions to minimise risks.

In terms of quantifying the risks from spreading effluent, Horizons presented evidence that: "a literature review of NZ data on applying effluent to land has shown that between 2-20% of N applied is either lost as run-off or leached". Noting that 2-20% is a wide range, it is of interest to look more closely at this data to understand the patterns. The data presented in the literature review is summarised below:

- research results from 10 studies were presented, with N leaching values ranging from 2.5-18%
- 4 of the 10 studies had N application rates of 200kg or less; the other 6 application rates were higher than standard farm application rates (400kg (3x), 500kg, 1100kg, 1500kg)
- 8 of the 10 studies had N leaching rates of 10% or less (the other 2 values were 12.5% and 18%)

The three highest values belonged to one body of work, and it is of interest then to look more closely at this research which was undertaken in Taranaki in the late 1990s:

- The research was conducted over 3 years, with 3 treatments (control, urea, effluent)

- The research found that the results from the urea and effluent treatments were the same, when applied at the same rate of N
- The results (summarised in the table below : control = no N applied, 100/200/400 N = urea or dairy effluent) are very interesting:

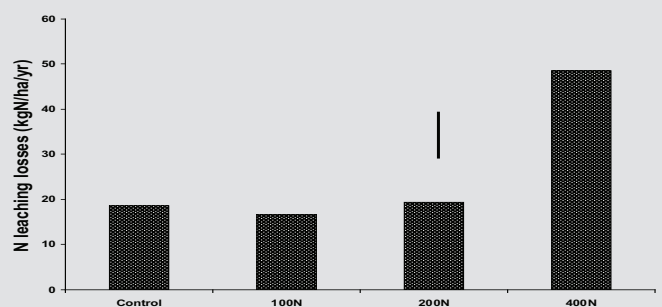


Figure 4 (b) nitrogen leaching losses. Results are average of three years data. Vertical bars are average SED (Roach et al, 2001: "Land application of FDE")

With this information, and the Lincoln data on low leaching rates from pig slurry (even under worst case leaching scenarios) NZPork made submissions to both Horizons and ECan that spreading manure be a permitted activity (with appropriate conditions) as it is for fertiliser. The Horizons decisions are expected in August; and the ECan decisions are expected in October.

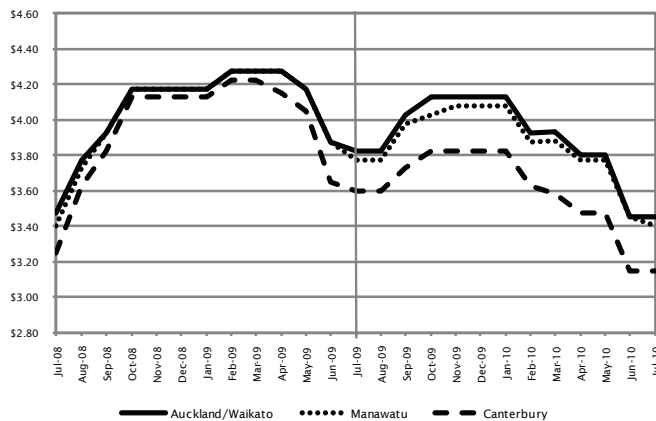
For further information contact Liz ph 06 350 5082 or e.mcgruddy@massey.ac.nz

SCHEDULE PRICES AND TRENDS

Sale Weight	Auckland/Waikato		Manawatu		Canterbury	
	\$/kg	Trend *	\$/kg	Trend *	\$/kg	Trend *
Pork (D1)	3.60-3.80	nc	3.50	-10	3.30-3.35	5
Bacon (H2)	3.45-3.50	nc	3.40	-5	3.15	nc
Choppers #	1.45-1.55	-10	1.45	nc	1.65-1.90	nc

Note: These prices reflect the returns from a number of buyers and are obtained from the same source(s) each month so that trend movements can be observed. Prices are quoted for the D1 schedule (45.1 to 50.0kg carcass weight range, 6 to 9 mm back fat) and the H2 schedule (65.1 to 70.0kg carcass weight range, 10-12mm back fat). The prices do not account for volume or quality premiums that are available from many buyers. *Change from previous *porkoutlook*. #The chopper price variations reflect differences in trading policy, inclusive or exclusive of heads, feet and skins.

AUCKLAND/WAIKATO/CANTERBURY REGION BACON PRICES



Schedule comment

At a glance – schedule soft but holding after last month's falls
porkoutlook contacts report the market as "typically flat" for the school holiday period. The balance of pork supply and demand is described as "closer than where it has been", with less pigs coming onto the market. However, commentators still report a lot of product to shift. *porkoutlook* contacts report that there will be some promotions soon and are hoping to clear product. Competitively priced product from Aussie continues to crowd the marketplace.

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INTERNATIONAL PRICE TRENDS

	NZ equivalent	
	end Jun	end May
Pork	\$/kg	\$/kg
Iowa/Sth Minnesota	2.43	2.57
Australian baconer	3.11	3.25
Feedstuffs	\$/tonne	\$/tonne
Corn no 2 Chicago	174	203
Soya meal 48%	497	469
M&B meal, Chicago	562	495
Barley, \$US/cwt	258	267
Feed wheat, Kansas	251	257
Hog: Corn ratio	24.9	21.5

Event Diary

Sow Housing Seminars

This is a preliminary notice for a series of seminars planned in early September focusing on group housing for gestating sows. Dates: Hamilton Tuesday 07, Palmerston North Wednesday 08, Timaru Thursday 09 and Christchurch Friday 10. Further notices will follow with time and venue details.

Fifth Annual Meat Executive Program, 31 Oct - 05 Nov 2010

Mt Eliza Centre for Executive Education, Victoria, Australia

This program is for emerging leaders in the Australia and New Zealand meat industry. For more information or to register please contact Program Manager, Anita Pike on +61 3 8640 0947 or apike@streamwise.com.au. Registrations close Friday 01 October.

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